

Haier Electronics Group Co., Ltd.

Audited Financial Statements

2019 and 2018

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Auditing Report

Ernst & Young Hua Ming (2020) Zhuanzi No.60464982_J01
Haier Electronics Group Co., Ltd.

Haier Smart Home Co., Ltd.:

I. Opinion

We have audited the financial statements of Haier Electronics Group Co., Ltd., which comprise the Consolidated balance sheet on 31 December 2019 and 31 December 2018, the Consolidated statement of income, the Consolidated statement of changes in shareholders' equity and the Consolidated statement of cash flows in 2019 and 2018 as well as the relevant notes to the financial statements.

In our opinion, the attached financial statements of Haier Electronics Group Co., Ltd. were prepared in accordance with the basis of preparation as set out in note II to the financial statements in all material aspects.

II. Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing(中国注册会计师审计准则). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of the auditing report. We are independent of Haier Electronics Group Co., Ltd. in accordance with the China Code of Ethics for Certified Public Accountants (中国注册会计师职业道德守则), 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.

III. Emphasis of Matters —Basis of Preparation and Restrictions on Use

We draw the attention of users of the financial statements to the explanation of basis of preparation in note II to the financial statements. Haier Electronics Group Co., Ltd. prepared the financial statements in accordance with the relevant requirements of the *Administrative Measures for Significant Asset Restructuring of Listed Companies* (《上市公司重大资产重组管理办法》) and the *Standards for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 26 – Significant Asset Restructurings of Listed Companies (Revised in 2018)* (《公开发行证券的公司信息披露内容与格式准则第26号——上市公司重大资产重组(2018年修订)》) of the China Securities Regulatory Commission (hereinafter referred to as the “CSRC”) and for purpose of the acquisition of the significant assets of Haier Smart Home Co., Ltd. this time. Therefore, the financial statements may not be suitable for other purposes. This report is only for use by Haier Smart Home Co., Ltd. to deliver and submit the documents to CSRC and Shanghai Stock Exchange and not for use by other institutions and personnel except the above. The content of this paragraph has no effect on the issued audit opinion.

IV. Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of 2019 and 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not issue a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Auditing Report (continued)

Ernst & Young Hua Ming (2020) Zhuanzi No.60464982_J01
Haier Electronics Group Co., Ltd.

IV. Key Audit Matters (continued)

Key Audit Matter:	How our audit addressed the key audit matter:
<i>Impairment of goodwill</i>	
<p>The management of Haier Electronics Group Co., Ltd. and its subsidiaries (“the Group”) tests goodwill for impairment every year. It requires an estimate of the recoverable amount of the relevant asset group containing goodwill. The calculation of the recoverable amount of the asset group involves significant management judgments and estimates, such as the estimated gross profit margin, income growth rate and discount rate, and these judgments and estimate are vulnerable to the future market conditions and the actual operation of the asset group.</p> <p>Relevant disclosures refer to the item 18 in note III, item 34 in note III and item 18 in note V to the financial statements.</p>	<p>Our audit procedures included the assessment of the reasonableness of key assumptions adopted by management, including the income growth rate, estimated gross profit margin and discount rate. When performing the audit procedures, we use independent data from industry indexes as a benchmark with the assistance of internal valuation experts to evaluate the reasonableness of certain applied assumptions, and compare the forecast data with the historical financial data of relevant asset groups.</p>
<i>Recoverability of accounts receivable</i>	
<p>Accounts receivable on 31 December 2019 and 31 December 2018 were material to the financial statements of the Group. When determining the expected credit losses (“ECL”) of the accounts receivable, it involves to the significant management judgments and estimates such as considering the ageing of the accounts receivable, determining the amount in disputes and considering collection patterns and other forward-looking information concerning the forecast economic conditions.</p> <p>Relevant disclosures refer to the item 8 in note III, item 34 in note III and item 3 in note V to the financial statements.</p>	<p>Our audit procedures included the assessment of the key internal controls concerning the credit control and amount collection; assessment of the reasonableness of management’s ECL estimates by examining the information used by management to form such judgments and estimates, including checking the accuracy of the historical information of the accounts receivable which were overdue, evaluating the suitability of the adjustments made to the historical loss rates based on the current economic conditions and forward-looking information. We also evaluated the Group’s ECL of the accounts receivable by reference to the Group’s subsequent collection of the accounts receivable.</p>
<i>Impairment provision of defective and obsolete inventories</i>	
<p>On 31 December 2019 and 31 December 2018, the Group’s inventories were exposed to inventory obsolete and excess risks as a result</p>	<p>We made the evaluation of the inventory impairment policy through inquiry with management and</p>

<p>of the fast technology innovation and macroeconomic challenges. The determination of the impairment provision amount is complex and involves significant judgments and estimates because it depends on the net realizable value of inventories.</p> <p>Relevant disclosures refer to the item 9 in note III, item 34 in note III and item 7 in note V to the financial statements.</p>	<p>checking to the relevant documents. It included: checking to the underlying data, such as the selling prices, subsequent sales, and the estimated selling expenses to assess the net realizable value of inventories on a sample basis; reviewing the inventories' ageing report and performing analysis on the number of turnover days of inventories; reviewing subsequent sales of finished goods and subsequent usage of raw materials.</p>
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Auditing Report (continued)

Ernst & Young Hua Ming (2020) Zhuanzi No.60464982_J01
Haier Electronics Group Co., Ltd.

IV. Key Audit Matters (continued)

Key Audit Matter:	How our audit addressed the key audit matter:
<i>Provision of after-sales warranty fees of products</i>	
<p>The provision of after-sales warranty fees of products shall refer to the sales volume, the probability of occurrence of warranty and the estimated unit cost of the warranty services. The assessment provision amount involves management's assumptions, judgments and estimates. Changes in assumptions may have a significant impact on the provision amount.</p> <p>Relevant disclosures refer to the item 22 in note III, item 34 in note III and item 34 in note V to the financial statements.</p>	<p>Our audit procedures included reviewing the process of providing and estimating after-sale warranty fees of products, checking the relevant data used in the estimation and reviewing the calculation method used by the management on the provision amount of the after-sale warranty fees of products at the end of the year.</p>

V. Management and Governance's Responsibilities for the Financial Statements

The management is responsible for preparing the financial statements in accordance with the basis of preparation as set out in note II to the financial statements, which includes determining that the basis of preparation is acceptable for preparing the financial statements under specific circumstances, and designing, implementing as well as maintaining the necessary internal controls to make the financial statements without significant misstatements due to fraud or errors.

When preparing the financial statements, the management is responsible for assessing the ability to continue as a going concern of Haier Electronics Group Co., Ltd. and disclosing, as applicable, matters related to going concern and using the going concern assumptions unless intending to liquidate, to cease operations or have no realistic alternative but to do so.

The governance is responsible for supervising the financial reporting process of Haier Electronics Group Co., Ltd..

VI. Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditing report that includes our auditing opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards 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 financial statements.

Auditing Report (continued)

Ernst & Young Hua Ming (2020) Zhuanzi No.60464982_J01
Haier Electronics Group Co., Ltd.

VI. Auditor's Responsibilities for the Audit of the Financial Statements (continued)

In the process of conducting the audit work in accordance with the auditing standards, we exercise professional judgement and maintain professional scepticism. Meanwhile, we also:

- (1) Identify and assess the risks of material misstatement of the 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 the auditing 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.
- (2) 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 internal control.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (4) Conclude on the appropriateness of the management's use of the going concern assumptions and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Haier Electronics Group Co., Ltd.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required by the auditing standards to draw attention of the users of these statements in the auditing report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the information obtained up to the date of the auditing report. However, future events or conditions may cause Haier Electronics Group Co., Ltd. to cease to continue as a going concern.
- (5) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Haier Electronics Group Co., Ltd. to express an auditing opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit and remain solely responsible for our audit opinion.

We communicate with the governance 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 those charged with governance 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 the auditing report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Auditing Report (continued)

Ernst & Young Hua Ming (2020) Zhuanzi No.60464982_J01
Haier Electronics Group Co., Ltd.

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Ernst & Young Hua Ming LLP (special general
partnership)

Chinese Certified Public
Accountant: Zhang Junhong
(The engagement partner)

Chinese Certified Public
Accountant: Wang Chong

Beijing China

26 March 2020

Haier Electronics Group Co., Ltd.
Consolidated Balance Sheet
31 December 2019 and 31 December 2018

RMB

<u>Assets</u>	<u>Note V</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Current assets			
Monetary funds	1	15,244,513,835.81	15,451,978,694.09
Financial assets held for trading	2	198,614,361.33	1,567,648,908.00
Accounts receivable	3	2,007,344,183.04	3,638,888,900.69
Financing receivables	4	1,300,172,084.08	1,631,192,932.87
Prepayment	5	1,013,801,153.25	1,185,025,311.24
Other receivables	6	1,299,719,819.52	1,231,424,072.42
Inventories	7	10,066,079,816.33	8,681,532,177.13
Assets held for sale	8	-	144,091,213.39
Other current assets	9	<u>4,402,476,067.09</u>	<u>3,754,134,077.92</u>
Total current assets		<u>35,532,721,320.45</u>	<u>37,285,916,287.75</u>
Non-current assets			
Long-term equity investments	10	5,719,100,822.43	178,072,707.97
Investments in other equity instruments	11	1,847,505,877.49	1,261,664,000.00
Other non-current financial assets	12	371,604,693.05	422,877,583.53
Investment properties	13	26,692,821.54	28,448,578.17
Fixed assets	14	3,649,777,596.94	3,433,904,928.01
Construction in progress	15	1,052,836,165.70	1,912,720,758.61
Right-of-use assets	16	53,872,635.98	-
Intangible assets	17	399,070,190.75	1,306,382,612.62
Goodwill	18	86,473,227.75	351,166,751.73
Long-term prepaid expenses	19	174,661,434.56	49,895,655.06
Deferred income tax assets	20	929,413,395.47	885,650,860.49
Other non-current assets	21	<u>214,166,408.76</u>	<u>739,422,971.56</u>
Total non-current assets		<u>14,525,175,270.42</u>	<u>10,570,207,407.75</u>
Total assets		<u>50,057,896,590.87</u>	<u>47,856,123,695.50</u>

The financial statements are signed by the following person:

Authorised director: Person in charge of accounting function:
Person in charge of accounting department:

The accompanying notes form an integral part of the financial statements.

<u>Liabilities and Shareholders' Equity</u>	<u>Note V</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Current liabilities			
Short-term borrowings	23	68,231,758.92	68,799,098.98
Bills payable	24	385,563,319.57	427,952,556.22
Accounts payables	25	5,060,644,841.47	5,732,817,212.36
Contract liabilities	26	4,081,074,722.25	4,185,915,504.03
Payables for staff's remuneration	27	579,352,811.91	563,983,734.74
Taxes payable	28	1,044,450,247.98	1,079,361,412.94
Other payables	29	4,889,674,045.14	4,677,293,922.70
Liabilities held for sale	8	-	32,362,267.88
Non-current liabilities due within one year	30	742,839,736.09	681,431,902.92
Other current liabilities	31	<u>2,153,966,760.52</u>	<u>1,728,984,137.13</u>
Total current liabilities		<u>19,005,798,243.85</u>	<u>19,178,901,749.90</u>
Non-current liabilities			
Long-term borrowings	32	12,663,597.66	23,574,659.91
Lease liabilities	33	21,001,839.02	-
Estimated liabilities	34	333,963,021.75	363,319,781.54
Deferred income	35	154,682,369.56	207,992,223.12
Deferred income tax liabilities	20	837,271,241.95	98,611,162.85
Other non-current liabilities	36	<u>54,598,203.27</u>	<u>1,798,027,644.47</u>
Total non-current liabilities		<u>1,414,180,273.21</u>	<u>2,491,525,471.89</u>
Total liabilities		<u>20,419,978,517.06</u>	<u>21,670,427,221.79</u>

The financial statements are signed by the following person:

Authorised director: Person in charge of accounting function:
Person in charge of accounting department:

The accompanying notes form an integral part of the financial statements.

<u>Liabilities and Shareholders' Equity</u>	<u>Note V</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Shareholders' equity			
Share capital	37	2,938,050,545.00	2,922,364,320.92
Capital reserve	38	(4,258,937,853.73)	(2,155,768,948.90)
Less: treasury stock	39	(63,149,839.09)	(97,391,024.12)
Other comprehensive income	40	381,248,560.91	290,408,398.55
Undistributed profits	41	<u>30,222,977,117.45</u>	<u>23,050,791,438.91</u>
Total equity attributable to shareholders of the parent company		<u>29,220,188,530.54</u>	<u>24,010,404,185.36</u>
Minority shareholders' interests		<u>417,729,543.27</u>	<u>2,175,292,288.35</u>
Total shareholders' equity		<u>29,637,918,073.81</u>	<u>26,185,696,473.71</u>
Total liabilities and shareholders' equity		<u>50,057,896,590.87</u>	<u>47,856,123,695.50</u>

The financial statements are signed by the following person:

Authorised director: Person in charge of accounting function:
Person in charge of accounting department:

The accompanying notes form an integral part of the financial statements.

Haier Electronics Group Co., Ltd.
Consolidated Statement of Income
2019 and 2018

RMB

	<u>Note</u> <u>V</u>	<u>2019</u>	<u>2018</u>
Operating revenue	42	80,163,616,510.79	85,376,423,035.20
Less: Operating cost		62,828,613,555.21	68,865,247,493.21
Taxes and surcharges	43	516,886,243.42	510,804,247.08
Selling expenses	44	10,313,875,602.21	9,091,242,169.62
Administrative expenses	45	1,364,373,401.07	1,663,076,292.12
R&D expenses	46	1,148,710,375.13	1,077,047,407.56
Financial expenses	47	(208,925,762.01)	(267,053,472.96)
Including: interest expenses		35,514,013.22	10,907,967.26
interest income		319,534,718.50	312,689,696.44
Add: other income	48	406,274,271.55	243,688,463.20
investment income	49	4,277,385,899.47	287,124,957.27
Including: investment income			
of associates		95,992,191.20	(346,303.54)
Income from change in fair			
value	50	6,734,728.55	8,491,646.20
Loss on credit impairment	51	(3,268,697.45)	(2,811,831.68)
Loss on assets impairment	52	(377,397,489.07)	(280,234,997.05)
Gain from disposal of assets	53	<u>491,032,747.74</u>	<u>166,913,924.44</u>
Operating profit		9,000,844,556.55	4,859,231,060.95
Add: non-operating income	54	125,526,750.43	154,019,771.75
Less: non-operating expenses	55	<u>14,331,597.07</u>	<u>25,802,175.47</u>
Total profit		9,112,039,709.91	4,987,448,657.23
Less: income tax expense	57	<u>1,593,972,565.19</u>	<u>889,879,330.43</u>
Net profit		<u>7,518,067,144.72</u>	<u>4,097,569,326.80</u>
Including: Net profit of party being			
acquired prior to business			
combination under common			
control		59,703,867.98	107,463,362.44
Classification by continuous operation			
Net profit from continuous operation		4,205,201,848.38	3,730,303,049.29
Net profit from discontinued operation		3,312,865,296.34	367,266,277.51
Classification by ownership of the			
equity			
Net profit attributable to			
shareholders of the parent			
company		7,350,810,210.62	3,844,497,421.73
Profit or loss attributable to			
minority shareholders		167,256,934.10	253,071,905.07

The financial statements are signed by the following person:

Authorised director: Person in charge of accounting function:
Person in charge of accounting department:

The accompanying notes form an integral part of the financial statements.

	<u>Note V</u>	<u>2019</u>	<u>2018</u>
Other comprehensive income, net of tax		<u>90,840,162.36</u>	<u>225,569,688.58</u>
Other comprehensive income attributable to shareholders of the parent company, net of tax	40	<u>90,840,162.36</u>	<u>225,569,688.58</u>
Other comprehensive income that cannot be reclassified into the profit or loss			
Other comprehensive income that cannot be transferred into profit or loss under equity method		35,290,368.85	18,012,955.00
Changes in fair value of investments in other equity instruments		<u>15,503,146.90</u>	(<u>18,826,123.38</u>)
Other comprehensive income to be reclassified into the profit or loss			
Exchange differences on translation of financial statements denominated in foreign currencies		<u>40,046,646.61</u>	<u>226,382,856.96</u>
Total comprehensive income		<u>7,608,907,307.08</u>	<u>4,323,139,015.38</u>
Including:			
Total comprehensive income attributable to the shareholders of parent company		7,441,650,372.98	4,070,067,110.31
Total comprehensive income attributable to the minority shareholders		167,256,934.10	253,071,905.07
Earnings per share	58		
Basic earnings per share		<u>2.63</u>	<u>1.38</u>
Diluted earnings per share		<u>2.61</u>	<u>1.37</u>

The financial statements are signed by the following person:

Authorised director:	Person in charge of accounting function:	Person in charge of
accounting department:		

The accompanying notes form an integral part of the financial statements.

Haier Electronics Group Co., Ltd.
Consolidated Statement of Changes in Shareholders' Equity
2019 and 2018 **RMB**

2019

	Equity attributable to shareholders of the parent company						Minority equity interests	Total shareholders' equity
	Share capital	Capital reserve	Less:treasury stock	Other comprehensive income	Undistributed profits	Sub-total		
I. Balance at the end of the previous year	2,922,364,320.92	(2,257,270,962.59)	(97,391,024.12)	290,408,398.55	22,914,502,281.11	23,772,613,013.87	1,975,670,700.24	25,748,283,714.11
Add: changes in accounting policies	-	-	-	-	(8,746,608.20)	(8,746,608.20)	(9,228,551.04)	(17,975,159.24)
Business combination under common control	-	101,502,013.69	-	-	136,289,157.80	237,791,171.49	199,621,588.11	437,412,759.60
II. Balance at the beginning of the year	2,922,364,320.92	(2,155,768,948.90)	(97,391,024.12)	290,408,398.55	23,042,044,830.71	24,001,657,577.16	2,166,063,737.31	26,167,721,314.47
III. Increase/decrease for the year	-	-	-	90,840,162.36	7,350,810,210.62	7,441,650,372.98	167,256,934.10	7,608,907,307.08
(I) Total comprehensive income	-	-	-	90,840,162.36	7,350,810,210.62	7,441,650,372.98	167,256,934.10	7,608,907,307.08
(II) Capital injection and reduction by shareholders	-	-	-	-	-	-	-	-
1. Ordinary shares invested by shareholders	-	(5,046,330.97)	-	-	-	(5,046,330.97)	32,244,980.17	27,198,649.20
2. Acquisition of the interests of the minorities	-	(173,588,221.25)	-	-	-	(173,588,221.25)	(30,142,885.75)	(203,731,107.00)
3. Share-based payment included in shareholders' equity	48,112,323.83	(11,396,102.67)	93,061,404.91	-	-	129,777,626.07	1,398,137.83	131,175,763.90
4. Repurchase and cancellation of the shares	(32,426,099.75)	-	-	-	-	(32,426,099.75)	-	(32,426,099.75)
5. Repurchase shares for equity ayment	-	-	(58,820,219.88)	-	-	(58,820,219.88)	-	(58,820,219.88)
6. Others	-	2,372,996.71	-	-	-	2,372,996.71	-	2,372,996.71
(III) Profit distribution	-	-	-	-	-	-	-	-
1. Distribution to shareholders	-	(780,485,424.41)	-	-	(156,078,830.02)	(936,564,254.43)	(40,705,240.02)	(977,269,494.45)
2. Distribution to the original controlling shareholders	-	-	-	-	(13,799,093.86)	(13,799,093.86)	-	(13,799,093.86)
3. Others	-	2,482,084.47	-	-	-	2,482,084.47	-	2,482,084.47
(IV) Others	-	-	-	-	-	-	-	-
1. Business combination under common control	-	(1,107,523,786.00)	-	-	-	(1,107,523,786.00)	-	(1,107,523,786.00)
2. Acquisition of subsidiaries	-	-	-	-	-	-	30,625,500.95	30,625,500.95
3. Disposal of subsidiaries	-	-	-	-	-	-	(1,904,194,256.66)	(1,904,194,256.66)
4. Fair value change on liability under put options	-	(29,984,120.71)	-	-	-	(29,984,120.71)	(4,817,364.66)	(34,801,485.37)
IV. Balance at the end of the year	2,938,050,545.00	(4,258,937,853.73)	(63,149,839.09)	381,248,560.91	30,222,977,117.45	29,220,188,530.54	417,729,543.27	29,637,918,073.81

The financial statements are signed by the following person:

Authorised director:

Person in charge of accounting function:

Person in charge of accounting department:

The accompanying notes form an integral part of the financial statements.

2018

	Equity attributable to shareholders of the parent company						Minority equity interests	Total shareholders' equity
	Share capital	Capital reserve	Less:treasury stock	Other comprehensive income	Undistributed profits	Sub-total		
I.Balance at the end of the previous year	2,995,490,537.57	(1,215,381,453.01)	(158,582,659.46)	64,838,709.97	19,120,060,100.70	20,806,425,235.77	2,224,025,366.21	23,030,450,601.98
Add: Business combination under common control	-	71,502,013.69	-	-	86,670,710.15	158,172,723.84	151,969,871.92	310,142,595.76
II.Balance at the beginning of the year	2,995,490,537.57	(1,143,879,439.32)	(158,582,659.46)	64,838,709.97	19,206,730,810.85	20,964,597,959.61	2,375,995,238.13	23,340,593,197.74
III. Increase/decrease for the year								
(I) Total comprehensive income	-	-	-	225,569,688.58	3,844,497,421.73	4,070,067,110.31	253,071,905.07	4,323,139,015.38
(II) Capital injection and reduction by shareholders								
1.Ordinary shares invested by shareholders	-	179,470,233.97	-	-	-	179,470,233.97	448,381,286.97	627,851,520.94
2. Acquisition of the interests of the minorities	-	(24,764,421.93)	-	-	-	(24,764,421.93)	(6,777,053.06)	(31,541,474.99)
3.Share-based payment included in shareholders' equity	13,098,591.35	(18,808,394.43)	143,504,219.71	-	4,335,993.65	142,130,410.28	4,447,675.68	146,578,085.96
4.Repurchase and cancellation of the shares	(86,224,808.00)	(425,743.97)	-	-	425,743.97	(86,224,808.00)	-	(86,224,808.00)
5.Repurchase shares for equity payment	-	-	(82,312,584.37)	-	-	(82,312,584.37)	-	(82,312,584.37)
6.Others	-	685,484.54	-	-	-	685,484.54	-	685,484.54
(III) Profit distribution								
1.Distribution to shareholders	-	(685,404,866.26)	-	-	-	(685,404,866.26)	(181,641,956.41)	(867,046,822.67)
2.Distribution to the original controlling shareholders	-	-	-	-	(5,198,531.29)	(5,198,531.29)	-	(5,198,531.29)
3.Others	-	3,079,535.34	-	-	-	3,079,535.34	-	3,079,535.34
(IV) Others								
1. Business combination under common control	-	(20,000,000.00)	-	-	-	(20,000,000.00)	-	(20,000,000.00)
2.Acquisition of subsidiaries	-	-	-	-	-	-	(1,163,822.99)	(1,163,822.99)
3.Disposal of subsidiaries	-	-	-	-	-	-	(287,807,561.94)	(287,807,561.94)
4. Grant of put options to the minority shareholders	-	(353,859,851.85)	-	-	-	(353,859,851.85)	(383,511,525.87)	(737,371,377.72)
5.Fair value change on liability under put options	-	(91,861,484.99)	-	-	-	(91,861,484.99)	(45,701,897.23)	(137,563,382.22)
IV. Balance at the end of the year	2,922,364,320.92	(2,155,768,948.90)	(97,391,024.12)	290,408,398.55	23,050,791,438.91	24,010,404,185.36	2,175,292,288.35	26,185,696,473.71

The financial statements are signed by the following person:

Authorised director:

Person in charge of accounting function:

Person in charge of accounting department:

The accompanying notes form an integral part of the financial statements.

Haier Electronics Group Co., Ltd.
Consolidated Statement of Cash Flows
2019 and 2018 RMB

	<u>Note V</u>	<u>2019</u>	<u>2018</u>
I. Cash flow from operating activities:			
Cash received from the sale of goods and rendering services		63,941,499,105.73	73,035,395,449.32
Refunds of taxes		84,405,159.79	131,732,450.25
Other cash received from operating activities	59	<u>965,798,166.63</u>	<u>607,999,008.90</u>
Sub-total of cash inflows from operating activities		<u>64,991,702,432.15</u>	<u>73,775,126,908.47</u>
Cash paid on purchase of goods and services		43,668,538,700.63	52,627,654,238.94
Cash paid to and on behalf of employees		4,988,600,223.89	5,124,555,688.79
Cash paid for all types of taxes		3,443,390,658.75	3,503,006,772.42
Other cash paid to operation activities	59	<u>8,119,980,283.40</u>	<u>8,106,255,807.04</u>
Sub-total of cash outflows from operating activities		<u>60,220,509,866.67</u>	<u>69,361,472,507.19</u>
Net cash flow from operating activities	60	<u>4,771,192,565.48</u>	<u>4,413,654,401.28</u>
II. Cash flow from investing activities:			
Cash received from recovery of investments		3,920,000.00	23,627,301.37
Cash received from return on investments		168,320,802.79	195,878,399.42
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		208,615,797.61	159,178,687.56
Net cash received from disposal of subsidiaries and other operating entities	60	-	632,466,220.70
Other cash received from investment activities	59	<u>10,991,708.16</u>	<u>31,927,948.63</u>
Sub-total of cash inflows from investing activities		<u>391,848,308.56</u>	<u>1,043,078,557.68</u>
Cash paid on purchase of fixed assets, intangible assets and other long-term assets		1,857,066,933.14	2,338,792,765.49
Cash paid for investments		893,995,859.76	2,765,613,582.30
Net cash paid on acquisition of subsidiaries	60	46,027,534.22	103,834,291.99
Net cash outflow from disposal of subsidiaries	60	946,493,596.69	-
Other cash paid on investment activities	59	<u>40,656,466.73</u>	<u>28,003,157.32</u>
Sub-total of cash outflows from investing activities		<u>3,784,240,390.54</u>	<u>5,236,243,797.10</u>
Net cash flow used by investing activities		<u>(3,392,392,081.98)</u>	<u>(4,193,165,239.42)</u>

The financial statements are signed by the following person:

Authorised director: Person in charge of accounting function:
Person in charge of accounting department:

The accompanying notes form an integral part of the financial statements.

	<u>Note V</u>	<u>2019</u>	<u>2018</u>
III. Cash flow from financing activities:			
Cash received from capital injections		26,252,216.38	668,686,771.53
Including: Cash received from minority shareholders' investment by subsidiaries		19,655,080.00	627,851,520.94
Cash received from borrowings		62,234,083.27	133,532,377.94
Other cash received from financing activities	59	<u>2,482,084.47</u>	<u>3,079,534.34</u>
Sub-total of cash inflows from financing activities		<u>90,968,384.12</u>	<u>805,298,683.81</u>
Cash paid on repayment of borrowings		87,199,186.62	258,632,062.31
Cash paid on distribution of dividends, profits or repayment of interest expenses		1,004,985,825.69	894,641,280.98
Including: Dividends and profit paid by subsidiaries to minority shareholders		45,705,240.02	177,096,110.85
Other cash paid on financing activities	59	<u>600,721,495.96</u>	<u>182,010,282.98</u>
Sub-total of cash outflows from financing activities		<u>1,692,906,508.27</u>	<u>1,335,283,626.27</u>
Net cash flow used by financing activities	(	<u>1,601,938,124.15)</u>	<u>(529,984,942.46)</u>
IV. Effect of fluctuations in exchange rates on cash and cash equivalents			
		<u>34,337,370.59</u>	<u>59,402,835.55</u>
V. Net decrease in cash and cash equivalents	(	<u>188,800,270.06)</u>	<u>(250,092,945.05)</u>
Add: balance of cash and cash equivalents at the beginning of the year		15,023,394,029.63	15,273,486,974.68
VI. Balance of cash and cash equivalents at the end of the year	60	<u>14,834,593,759.57</u>	<u>15,023,394,029.63</u>
Less: Cash and cash equivalents classified as held for sale		<u>-</u>	<u>317,327.18</u>
Balance of cash and cash equivalents in the balance sheet at the end of the year		<u>14,834,593,759.57</u>	<u>15,023,076,702.45</u>

The financial statements are signed by the following person:

Authorised director: Person in charge of accounting function:
Person in charge of accounting department:

The accompanying notes form an integral part of the financial statements.

I. Information

Haier Electronics Group Co., Ltd.(the “Company”) is a limited liability incorporated in Bermuda, with registered office located at Claendon House, 2 Church Street, Hamilton HM11, Bermuda. The Shares issued by the Company have listed on the Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”).

The Group principally engaged in:

- the manufacture and sale of washing machines;
- the manufacture and sale of water heaters and water purifiers;
- the sale and distribution of home appliances and other products, and offering after-sale and other customer value-added services;
- providing logistics services which have been classified as discontinued operation in 2019.

The holding company of the Company is Haier Smart Home Co., Ltd, (formally known as Qingdao Haier Co., Ltd.) established in the People’s Republic of China. The ultimate holding company of the Company is Haier Group Corporation (“Haier Corp”) established in the People’s Republic of China.

The financial statements were approved and authorized by the board of the Company on 26 March 2020.

The scope of consolidation in the consolidated financial statements is determined on the basis of control. For the changes during the year, please refer to note VI.

II. The Basis of Preparation of the Financial Statements

According to the relevant requirements of *the Measures for the Administration of the Material Asset Restructuring of Listed Companies* and *Rule No.26 on Content and Format of Information Disclosure by Companies with Securities Issued Publicly-the Material Asset Reorganisations of Listed Companies (amended in 2018)* issued by CSRC, the Company and its subsidiaries (“the Group”) prepared the consolidated financial statements to reflect the basic information of the transaction target for the purpose of the material asset acquisition of Haier Smart Home Co., Ltd..

As financial statements for specific purpose, the management of the Company confirmed that we only prepare consolidated balance sheets as at 31 December 2019 and 31 December 2018, and consolidated income statements, consolidated statements of equity changes and consolidated cash flow statements and notes to the financial statements for 2019 and 2018, without preparing the balance sheets of the Company as at 31 December 2019 and 31 December 2018 and income statements, statements of equity changes and cash flow statements and notes to the financial statements of the Company for 2019 and 2018, and without disclosing the comparative figures for the corresponding period.

The financial statements has been prepared on the going-concern basis, transactions and events actually occurred and accounting policies set out in note III, which have been prepared on *Accounting Standards for Business Enterprises-Basic Standards* promulgated by the Ministry of Finance of the People’s Republic of China and its subsequent promulgation and revision of accounting standards, application appliance, interpretation and other relevant documents(collectively as “Accounting Standards for Business Enterprises”).

The financial statements are prepared at historical cost except for certain financial instruments. Disposal group held for sale shall be reported on the lower of the net of carrying amount and fair value

after deducting selling expenses. If impairment of costs incurred, the provision for impairment would be provided according to relevant requirements.

III. Significant Accounting Policies and Accounting Estimates

The Group has formulated specific accounting policies and accounting estimates according to the characteristics of actual production and operation, which are mainly reflected in the provision for bad debt of receivables, inventory valuation method, fixed assets depreciation, intangible asset amortization, revenue recognition and measurement and installation costs and provision for after-sales warranty fees.

1. Statement of compliance with Accounting Standards for Business Enterprises

The financial statements fulfilled the requirements of Accounting Standards for Business Enterprises, which give a true and complete view of the financial condition as at 31 December 2019 and 31 December 2018, and operating results and cash flows of the Company and the Group for 2019 and 2018.

2. Accounting period

The accounting year of the Group adopts calendar year, which is from 1 January to 31 December every year.

3. Recording currency

The recording currency of the Group and the currency adopted for the preparation of the financial statements are converted into RMB. Unless otherwise specified, all amounts are expressed in Reminbi.

The subsidiaries and joint venture under the Group have determined their recording currency by themselves based on principal economic environment in which they operated and have converted into RMB when preparing the financial statements.

4. Business combination

Business combination are classified as business combination under common control and business combination not under common control.

Business combination under common control

A business combination under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. For business combination under common control, the party that obtains the control over the other parties on the combination date is the acquirer, and other parties involving in the business combination are the transferors. The combination date is the date on which the acquiring party effectively obtains the control over the party being acquired.

Assets and liabilities (including goodwill arising from the acquisition of the transferors by the ultimate controlling party) obtained by the acquirer in a business combination under common control shall be measured at their carrying amounts at the date of combination as recorded by the ultimate controlling party. The difference between the carrying amount of the net assets obtained by the acquirer and the carrying amount of the consideration paid for the combination (or the aggregate par value of shares issued as consideration) shall be adjusted to share premium under capital surplus. If the capital surplus is not sufficient to absorb the difference, any excess shall be adjusted against undistributed profits.

III. Significant Accounting Policies and Accounting Estimates(Continued)

4. Business combination(Continued)

Business combination not under common control

A business combination not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the combination. In a business combination not under common control, the party which obtains control of other combining enterprise on the acquisition date is the acquirer, the other combining enterprises are the acquirees. The acquisition date is the date on which the acquirer actually obtains control of the acquirees.

The acquiree's identifiable assets, liabilities and contingent liabilities acquired by the acquirer in a business combination not under common control that meet the recognition criteria shall be measured at fair value at the acquisition date.

Where the fair value of combination consideration (or the fair value of issued equity securities) and the fair value of the equity interest held in the acquiree prior to the acquisition date exceed the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill, which is subsequently measured at cost less accumulated impairment losses. Where the fair value of combination consideration (or the fair value of issued equity securities) and the fair value of the equity interest held in the acquiree prior to the acquisition date are less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer firstly reassesses the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the fair value of combination consideration (or the fair value of issued equity securities) and the fair value of the equity interest held in the acquiree prior to the acquisition date. If the fair value of combination consideration (or the fair value of issued equity securities) and the fair value of the equity interest held in the acquiree prior to the acquisition date are still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets after the reassessment, the acquirer recognises the difference immediately in profit or loss for the current period.

For a business combination not under common control realized by two or more transactions of exchange, the long-term equity investment held by the acquires before the acquisition date is remeasured at the fair value on the acquisition date and the differences between the fair value and its carrying amount are included in profit and loss for the current period. For the other comprehensive income generated under the equity method from the long-term equity investment which is already held by the acquires before the acquisition date, the same accounting treatment as that for the investee directly disposes of the related assets or liabilities should be used, and changes in shareholders' equity of other than net profit or loss, other comprehensive income and profits distribution shall be transferred to profit or loss for the current period to which the acquisition date belongs. For other equity instrument investments of the acquiree held before the acquisition date, its accumulated changes in fair value in other comprehensive income before the acquisition date are transferred to retained earnings.

5. Preparation of consolidated financial statements

The scope of consolidation in the consolidated financial statements is determined on the basis of control. The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. A subsidiary is an entity (including an entity, a separable part of an investee, and the structural entities controlled by the Company) which is under the control of the Company.

The accounting periods and accounting policies of the Company and subsidiaries are consistent in the preparation of the consolidated financial statements. All assets, liabilities, equity, income, expenses and cash flows arising from intra-group transactions are eliminated on consolidation.

When the amount of loss for the period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of shareholders' equity of the subsidiary, the excess amount is still charged against interests of minority shareholders.

For a subsidiary that is acquired in a business combination involving enterprises not under common control, the operating results and cash flows of the acquiree shall be consolidated into the consolidated financial statements from the date on which the Group takes control of acquiree to the date on which such control ceases. In the preparation of the consolidated financial statements, the financial statements of the subsidiary are adjusted based on the fair value of the subsidiary's identifiable assets, liabilities or contingent liabilities determined as at the acquisition date.

III. Significant Accounting Policies and Accounting Estimates(Continued)

5. Preparation of consolidated financial statements (Continued)

For a subsidiary that is acquired in a business combination under common control, the operating results and cash flows of the transferee shall be incorporated into the consolidated financial statements at the beginning of the current period. In the preparation of the comparative consolidated financial statements, the relative items of the financial statements of the previous period are adjusted as if the report subject formed after the combination is regarded as existing since the ultimate control party begins to implement the control.

If a change in any facts and circumstances gives rise to one or more changes in controlling factors, the Group will reassess whether it controls the investee or not.

Change in interests of minority shareholders that does not result in the loss of control over the subsidiary is accounted for as an equity transaction.

6. Cash and cash equivalents

Cash comprises the Group's cash on hand and deposits that can be used for payment at any time. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

7. Foreign currency businesses and translation of foreign currency statements

The Group's foreign currency transactions are translated and recorded in the respective functional currencies.

Foreign currency transactions are recorded in the functional currency on initial recognition, by applying the exchange rate on the date of transaction. Monetary items denominated in foreign currencies are translated into functional currencies at the rates of exchange ruling at the balance sheet date. All the resulting differences on settlement and monetary item translation are taken to profit or loss in the current period, except for those relating to foreign currency borrowings specifically for construction and acquisition of qualifying assets, which are capitalized in accordance with the principle of capitalization of borrowing costs. Foreign currency non-monetary items measured at historical cost are re-translated at the spot exchange rate on the date of transaction but the amount of the functional currency is not changed. Foreign currency non-monetary items measured at fair value are re-translated at the spot exchange rate on the date the fair values are determined. The difference thus resulted are recognised in profit or loss for the current period or as other comprehensive income based on the nature of the non-monetary items.

For the purpose of preparing the consolidated financial statements, financial statements of a foreign operation are translated from the foreign currency into RMB using the following method: assets and liabilities on the balance sheet are translated at the spot exchange rate at the date of balance sheet; shareholders' equity items except for retained earnings are translated at the spot exchange rates at the dates on which such items arose; income and expenses in profit or loss are translated at the average exchange rates for the period during which the transaction occur. The exchange differences arising on translation of financial statements denominated in foreign currencies are recognised as

other comprehensive income. For disposals of equity interests in foreign operations, the proportionate share of the accumulated exchange differences arising on translation of financial statements in other comprehensive income of foreign operations is transferred to current profit or loss. For partial disposals, the reclassification is determined in proportion to the disposal.

Cash flows arising from a transaction in foreign currency and the cash flows of a foreign subsidiary are translated at the average exchange rate of the transaction period of cash flows. The effect of exchange rate changes on cash and cash equivalents is regarded as a reconciling item and presented separately in the statement of cash flows.

III. Significant Accounting Policies and Accounting Estimates(Continued)

8. Financial instruments

Financial instruments refer to contracts that form the financial assets of one company and form the financial liabilities or equity instruments of other companies.

The recognition and derecognition of financial instruments

The Group recognises a financial asset or financial liability when it becomes a party to a financial instrument contract.

A financial asset (or part of a financial asset, or a portion of a group of similar financial assets) is derecognised and written off from its account and balance sheet, when the following conditions are met:

- (1) The right to receive cash flows from financial assets expires;
- (2) Transferring the right to receive cash flows from financial assets, or under the “hands-on agreement”, the obligation to pay the full amount of cash flows to the third party in full; and (a) substantially transferring the ownership of the financial assets all risks and rewards, or (b) abandoning the control of the financial asset, although it does not substantially transfer or retain almost all of the risks and rewards of ownership of the financial asset.

If the responsibility for a financial liability has been fulfilled or revoked or has expired, the financial liability should be derecognised. If an existing financial liability is replaced by another financial liability of the same creditor on substantially virtually different terms, or if the terms of the existing liability are substantially modified, such replacement or modification is deemed to terminate the recognition of the original liability and to confirm the new disposal of liabilities, the difference is included in the current profit or loss.

The purchases and sales of financial assets in regular ways are recognised and derecognised on a trade date basis. The purchases and sales of financial assets in regular ways refers to the collection or delivery of financial assets within the time limit stipulated by regulations or common practices in accordance with the terms of the contract. The trading day is the date on which the Group commits to buy or sell the financial assets.

The classification and measurement of financial assets

The financial assets of the Group are classified upon the initial recognition based on the business model of the Group's financial asset management and the characteristics of the financial assets' contractual cash flows: financial assets measured at fair value through profit or loss, financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income. If and only if the Group changes the business model for managing financial assets, it will reclassify all affected related financial assets.

Financial assets are measured at fair value on initial recognition. However, if the accounts receivable or receivable notes arising from selling goods and the provision of services do not include significant financing components or do not consider financing components not exceeding one year, the financial assets shall be initially measured at the transaction price.

For financial assets measured at fair value through profit or loss, the related transaction expense is directly included in profit or loss for the current period. The related transaction costs of other types of financial assets are included in their initial recognition amount.

III. Significant Accounting Policies and Accounting Estimates (continued)

8. Financial Instrument(continued)

The classification and measurement of financial assets(continued)

Subsequent measurement of financial assets depends on their classification:

Debt instrument investments measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost if the financial assets meet the following conditions: The Group's business model for managing the financial assets is to collect contractual cash flows; the contractual terms of the financial assets stipulate that cash flows generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount. The effective interest method is used to recognise interest revenue for such financial assets. The gains or losses arising from derecognition, modification or impairment are included in current profit or loss.

Debt instrument investments measured at fair value through other comprehensive income

Financial assets are classified as financial assets measured at fair value through other comprehensive income if the financial assets meet the following conditions: the financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and the interest based on the outstanding principal amount. The financial assets recognise interest income by using the effective interest method. Except the interest income, impairment losses and foreign exchange revaluation are recognised in the current profit or loss, the remaining fair value changes are recognised in other comprehensive income. When the financial asset is derecognised, the accumulated gains or losses previously included in other comprehensive income are transferred from other comprehensive income to the current profit and loss.

Equity instrument investment measured at fair value through other comprehensive income

The Group can elect to classify irrevocably its equity investments which are not held for trading as equity investments designated as financial assets measured at fair value through other comprehensive income. Only the relevant dividend income (excluding the dividend income explicitly recovered as part of the investment cost) is included in the current profit or loss. Subsequent changes in the fair value are included in other comprehensive income, and no provision for impairment is made. When the financial asset is derecognised, the accumulated gains or losses previously included in other comprehensive income are transferred from other comprehensive income to undistributed profit.

Financial assets measured at fair value through the current profit or loss

The financial assets other than the above financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income are classified as financial assets measured at fair value through the current profit or loss. Such financial assets are subsequently measured at fair value with net changes in fair value included in profit or loss.

Only when it is able to eliminate or significantly reduce accounting mismatches, financial assets can only be designated as financial assets measured at fair value through the current profit or loss on the initial measurement.

Once the Company designates a financial asset as a financial asset measured at fair value through the current profit or loss at initial recognition, it cannot be reclassified to other financial assets; other financial assets cannot be reclassified to financial assets measured at fair value through the current profit or loss after initial recognition.

III. Significant Accounting Policies and Accounting Estimates(Continued)

8. Financial Instrument (Continued)

The classification and measurement of financial liabilities

The financial liabilities of the Group, at initial recognition, are classified as financial liabilities measured at fair value through the current profit or loss and other financial liabilities. For financial liabilities measured at fair value through the current profit or loss, the related transaction expense is directly recognised in profit or loss, while the related transaction expense of other financial liabilities is included in the initial recognition amount.

Subsequent measurement of financial liabilities depends on their classification:

Financial liabilities measured at fair value through the current profit or loss

Financial liabilities measured at fair value through the current profit or loss, including financial liabilities held for trading (including derivatives that are financial liabilities) and financial liabilities that are designated as measured at fair value through the current profit or loss. Financial liabilities held for trading, including derivatives that are financial liabilities, shall be subsequently measured at fair value subsequently and the changes in fair value are included in the current profit or loss. Financial liabilities that are designated as measured at fair value through the current profit or loss are subsequently measured at the fair value. The changes of the other fair value are included in the current profit or loss, except that the changes in the fair value of the financial liabilities arising from changes in the Group's own credit risk should be recognised in other comprehensive income. If the recognition of the impact arising from changes in the financial liabilities' own credit risk in other comprehensive income will create or enlarge the accounting mismatch in profit or loss, the Group shall recognise the entire gain or loss of the financial liabilities (including the impact of changes in its own credit risk) in profit or loss for the current period.

If only one of the following conditions is satisfied, financial liabilities can be designated as financial liabilities measured at fair value through the current profit or loss at their initial measurement:

- (1) Accounting mismatches can be eliminated or significantly reduced.
- (2) A formal written document on risk management or investment strategy states that the portfolio of financial instruments is managed, evaluated and reported to key management personnel on a fair value basis.
- (3) A hybrid instrument that includes one or more embedded derivatives, unless the embedded derivative does not significantly change the cash flow of the hybrid instrument, or the embedded derivative is clearly not to be split from the relevant hybrid tools.
- (4) Includes a hybrid instrument with embedded derivatives that need to be split but cannot be separately measured at the time of acquisition or on subsequent balance sheet date.

Once the Company designates a financial liability as a financial liability measured at fair value through the current profit or loss at initial recognition, it cannot be reclassified to other financial liabilities; other financial liabilities cannot be reclassified to financial liabilities measured at fair value through the current profit or loss after initial recognition.

Other financial liabilities

For such financial liabilities, the actual interest rate method is adopted and the subsequent measurement is carried out according to the amortized cost.

III. Significant Accounting Policies and Accounting Estimates(Continued)

8. Financial Instrument (Continued)

The impairment of financial instruments

On the basis of expected credit losses, the Group performs the impairment treatment on financial assets measured at amortized cost and debt instrument investments measured at fair value through other comprehensive income and confirms the loss provision.

For receivables that do not contain significant financing components and contractual assets, the Group uses a simplified measurement method to measure the loss provisions at an amount equal to expected credit losses during the entire duration of the life.

In addition to the abovementioned financial assets other than the simplified measurement method, the Group assesses whether its credit risk has increased significantly since the initial recognition on each of balance sheet dates. If the credit risk has not increased significantly since the initial recognition, it is the first stage. The Group measures the loss provision based on the amount of expected credit loss over the next 12 months, and interest revenue shall be calculated on the basis of the carrying balance and the actual interest rate; if the credit risk has increased significantly since the initial recognition but no credit impairment has occurred, it is in the second stage. The Group shall measure the loss provisions according to the amount equivalent to the expected credit loss in the whole duration, and calculate the interest income according to the carrying amount and the actual interest rate. If credit impairment occurs after the initial recognition, it is in the third stage. The Group shall measure the loss provisions according to the amount equivalent to the expected credit loss in the whole duration, and calculate the interest income according to the amortized cost and the actual interest rate. For financial instruments with low credit risk on the balance sheet date, the Group assumes that their credit risk has not increased significantly since the initial recognition.

The Group assesses the expected credit losses of financial instruments by individual and group. The Group considers the credit risk characteristics of different customers and evaluates the expected credit losses of financial instruments on the basis of the aging portfolio of overdue debts.

Refer to note VIII.2 for the disclosures of the Group's judging criteria of significant increase of credit risk, the definition of the assets that are credit-impaired, and the assumptions underlying the measurement of expected credit losses.

When the Group no longer reasonably expects to be able to fully or partially recover the contractual cash flows of financial assets, the Group directly writes down the carrying balance of the financial assets.

The offsetting of financial instruments

If the following conditions are met at the same time, the financial assets and financial liabilities are presented in the balance sheet at the net amount after offsetting each other: a statutory right to offset the confirmed amount, and the statutory right is currently enforceable; plan to settle with net amount, or realize the financial assets and settle the financial liabilities simultaneously.

Derivative financial instruments

The Group uses derivative financial instruments. Derivative financial instruments are initially measured at fair value on the date on which a derivative transaction contract is entered into and are subsequently remeasured at fair value. Derivatives are recognised as an asset when the fair value is positive and as liabilities when the fair value is negative.

The gain or loss arising from changes in the fair value of the derivative is included directly in profit or loss, except when it is related to hedge accounting.

Transfer of financial assets

The financial asset is derecognised if the Group transfers substantially all the risks and rewards of ownership of the financial asset to transferee; and the financial asset is not derecognised if the Group retains substantially all the risks and rewards of ownership of the financial asset.

III. Significant Accounting Policies and Accounting Estimates(Continued)

8. Financial Instrument (Continued)

Transfer of financial assets (Continued)

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the transaction is accounted for as follows: (i) if the Group has not retained control, the financial asset is derecognised and any resulting assets or liabilities are recognised; or (ii) if the Group has retained control, the financial asset is recognised to the extent of its continuing involvement in the transferred financial asset and an associated liability is recognised.

Continuing involvement that takes the form of a financial guarantee over the transferred asset is recognised at the lower of the carrying amount of the financial asset and the amount of financial guarantee. The amount of financial guarantee means the maximum amount of consideration received that the Group could be required to repay.

9. Inventories

Inventories include raw materials, goods in process and finished goods.

Inventories are initially carried at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other costs. The actual cost of inventories transferred out is determined by using the weighted average method on a monthly basis.

The Group adopts a perpetual inventory system.

On the balance sheet date, the inventories are measured at the lower of the cost and the net realizable value. If the cost is higher than the net realizable value, the provision for the inventories impairment should be recognised in profit or loss for the current period. If the influencing factors of the provision for inventories impairment have been eliminated and the net realizable value of inventories is higher than its carrying amount, the previously deducted amount will be recovered from the amount of provision for inventories impairment accrued previously and the amount should be recognised in profit or loss for the current period.

Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated selling expenses and related taxes necessary to achieve completion. When recognizing the provision for inventories impairment, the raw materials and finished goods are both recognised based on the individual inventory category.

10. Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. Assets which satisfy the following conditions can be classified as held-for-sale: according to the usual practice of selling such assets or disposal groups in similar transactions, they can be sold immediately in the current situation; the sale is highly likely, that is, the Group has made a decision on a sale plan and obtained a definite purchase commitment, and the sale is expected to be completed within one year (If related regulations require pre-approval from the company's related authority or regulatory department for the sale, the sale transaction has been approved). If the control of the subsidiary is lost due to the sale of the investment in the subsidiary, regardless of whether or not part of the equity investment is retained after the sale, if the held-for-sale classification conditions are satisfied, the investment in the subsidiary is classified as a whole in the individual financial statements as the category of held for sale, all assets and liabilities of the subsidiary are classified as held for sale in the Consolidated financial statements.

For non-current assets and disposal groups (other than financial assets and deferred tax assets) classified as held for sale, if the carrying amount is higher than the net amount after the fair value minus the selling expenses, the carrying amount is reduced to the net amount after the fair value minus the selling expenses. The amount of the write-down is recognised as the assets impairment loss and included in the current profit and loss. At the same time, provision for impairment of assets held for

sale is made. Non-current assets held for sale or non-current assets in disposal groups are not depreciated or amortized.

III. Significant Accounting Policies and Accounting Estimates(Continued)

11. Long-term equity investments

Long-term equity investments comprise the equity investments in its subsidiaries as well as its joint ventures and associates.

Long-term equity investment shall be recognised at initial investment cost upon acquisition. For a long-term equity investment acquired through a business combination involving entities under common control, the initial investment cost of the long-term equity investment is the acquiree's share of the carrying value of owner's equity of the party being absorbed at the combination date; for a long-term equity investment through a business combination involving entities not under common control, the initial investment cost of the long-term equity investment is the cost of combination (for a business combination not involving entities under common control achieved in stages that involves multiple exchange transactions, the initial investment cost is carried at the aggregate of the carrying amount of the acquirer's previously held equity interest in the acquiree and the new investment cost incurred on the acquisition date). The cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree. Other comprehensive income that consists of the initial investment cost before the date of acquisition should be reclassified to investment income when the long-term equity investments are being disposed of. For a long-term equity investment acquired otherwise than through a business combination, the initial investment cost is determined as follows: for a long-term equity investment acquired by cash, the initial investment cost is the actual purchase price paid and direct costs, taxes and other necessary expenditures directly attributable to the acquisition of the long-term equity investment; for a long-term equity investment acquired by the issue of equity securities, the initial investment cost is the fair value of the securities issued; for a long-term equity investment acquired through exchange of non-monetary assets, the initial investment cost is determined in accordance with *Accounting Standard for Business Enterprise No.7—Exchange of Non-monetary Assets*;

For a long-term equity investment where the Company can exercise control over the investee, the Company uses the cost accounting method in the Company's financial statements. Control refers to having the power over the investee, the entitlement to variable returns through the participation in the relevant activities of the investee, and the ability to affect the amount of returns by using its power over the investee.

Under the cost method, the long-term equity investment is measured at its initial investment cost. For addition or reduction of investments, the cost of long-term equity investments is adjusted. Cash dividends or profits declared to be distributed by the investee should be recognised as investment income in the current period.

The equity method is adopted in accounting for long-term equity investments when the Group holds joint control, or exercises significant influence on the investee. Joint control is the relevant agreed sharing of control over an arrangement, and relevant activities of such arrangement shall be decided upon the unanimous consent of the parties sharing control. Significant influence is the power to participate in decision making in the financial and operating policies of the investee but is not the power to control or joint control with other parties over preparation of those policies.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the investing enterprise's interest in the fair values of the due investee's identifiable net assets at the acquisition date, such excess is included in the initial investment cost of the long-term equity

investment. Where the initial investment cost is less than the investing enterprise's interest in the fair values of the due investee's identifiable net assets at the acquisition date, the difference is charged to profit or loss for the current period, and the cost of the long-term equity investment is adjusted accordingly.

III. Significant Accounting Policies and Accounting Estimates(Continued)

11. Long-term equity investments (Continued)

Under the equity method, the Group recognises, upon acquisition of the long-term equity investment, its share of the net profits or losses and other comprehensive income made by the investee as investment income or losses and other comprehensive income, and adjusts the carrying amount of the investment accordingly. The Group recognises its share of the investee's net profits or losses, except that the assets invested or disposed of constitute a business, after making appropriate adjustments to the investee's net profits based on the fair value of the investee's identifiable assets on the acquisition date, using the Group's accounting policies and periods, and eliminating the portion of the profits or losses arising from internal transactions with its associates and joint ventures, attributable to the investor according to its share ratio (but impairment losses for assets arising from internal transactions shall be recognised in full). The carrying amount of the long-term equity investment is reduced based on the Group's share of any profit distributions or cash dividends declared by the investee. The Group shall discontinue recognizing its share of the losses of the investee after the carrying amount of the long-term equity investment together with any long-term interests that in substance forms part of the Group's net investment in the investee are reduced to zero, except to the extent that the Group has incurred obligations to assume additional losses. The Group also adjusts the carrying amount of long-term equity investments for other changes in shareholders' equity of the investees (other than the net profits or losses, other comprehensive income and profit allocation of the investee), and includes the corresponding adjustment in equity.

On disposal of a long-term equity investment, the difference between the proceeds actually received and the carrying amount is recognised in profit or loss for the current period. For a long-term equity investment accounted for using the equity method, when the Group discontinues to use the equity method, any other comprehensive income previously recognised is accounted for on the same basis as would have been required for if the investee had directly disposed of the related assets or liabilities. Shareholders' equity, recognised resulting from other changes in shareholders' equity other than net profit or loss, other comprehensive income and profit distribution, is charged to profit or loss in its entirety for the current period. When the Group continues to use the equity method, any other comprehensive income previously recognised is accounted for on the same basis as would have been required for if the investee had directly disposed of the related assets or liabilities and charged to the current period profit or loss on a pro-rata basis. Shareholders' equity, recognised resulting from other changes in shareholders' equity other than net profit or loss, other comprehensive income and profit distribution, is charged to profit or loss for the current period on a pro-rata basis.

12. Investment properties

Investment properties are held to earn rentals or for capital appreciation or both which include leased buildings.

Investment property are measured initially at cost. Subsequent expenditures incurred in relation to an investment property are included in the cost of the investment property when it is probable that the economic benefits associated with such assets will flow to the Group and its cost can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the period in which they are incurred.

The Group adopts the cost model for the subsequent measurement of investment properties. Depreciation is calculated on the straight-line basis to write off the cost to its residual value over its estimated useful life. The useful life, the estimated residual value rate and the annual depreciation rate are as follows:

	Useful life	Estimated net residual value rate	Annual depreciation rate
Buildings	20-25 years	0%	4% - 5%

III. Significant Accounting Policies and Accounting Estimates(Continued)

13. Fixed assets

A fixed asset is recognised only when the economic benefits associated with the asset will probably flow into the Group and the cost of the asset can be measured reliably. Subsequent expenditure incurred for a fixed asset that meets the recognition criteria shall be included in the cost of the fixed asset, and the carrying amount of the component of the fixed asset that is replaced shall be derecognised. Otherwise, such expenditure shall be recognised in profit or loss for the period in which it is incurred.

Fixed assets are initially measured at cost. The cost of a purchased fixed asset comprises the purchase price, relevant taxes and other directly attributable expenditure for bringing the asset to working condition for intended use.

Depreciation of fixed assets is calculated using the straight-line method. The useful lives, estimated net residual value rates and annual depreciation rates of each category of fixed assets are presented as follows:

	Useful life	Estimated net residual value rate	Annual depreciation rate
Houses and buildings	5 - 40 years	3% - 10%	2% - 19%
Machinery and equipment	2 - 20 years	3% - 10%	5% - 50%
Vehicles	3 - 10 years	5% - 10%	9% - 35%
Tools, furniture and fixtures	3 - 10 years	3% - 10%	10% - 33%
Freehold land	Permanent	0%	No depreciation

Where different components of fixed assets have different useful lives or generate profit to enterprises in different ways, and apply to different depreciation rates.

The Group reviews the useful life, estimated net residual value of a fixed asset, and the depreciation method applied at least at each financial year-end, and makes adjustments if necessary.

14. Construction in progress

The cost of construction in progress is determined according to the actual expenditure incurred for the construction, including all necessary construction expenditure incurred during the construction period and other relevant expenses.

Construction in progress is transferred to fixed assets when it reaches the working condition for intended use.

15. Borrowing costs

Borrowing costs are interests and other costs incurred by the Group in connection with the borrowing of funds. Borrowing costs include interests, amortization of discounts or premiums related to borrowings, ancillary costs, and exchange differences arising from foreign currency borrowings.

The borrowing costs that are directly attributable to the acquisition, construction or production of assets that meet the condition for capitalization shall be capitalized. The amounts of other borrowing costs incurred are included in the current profit or loss. Assets that meet the conditions for capitalization refer to fixed assets, investment real estate, inventory and other assets that require a long period of acquisition, construction or production activities to reach the intended use or sale status.

The capitalization of borrowing costs commences when:

- (1) Expenditures for the assets are incurred;
- (2) Borrowing costs are incurred;
- (3) The acquisition, construction or production activities that are necessary to bring the assets to get ready for their intended use or sale have commenced.

III. Significant Accounting Policies and Accounting Estimates(Continued)

15. Borrowing costs (Continued)

Capitalization of borrowing costs ceases when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Any borrowing costs incurred subsequently are included in the current profit or loss.

Within the capitalization period, the amount of capitalized interests for each accounting period are determined by the following methods:

- (1) Special borrowings are determined by the actual interest expenses incurred during the current period, less temporary deposit interest income or investment income.
- (2) Occupied general borrowings are calculated and determined by weighted average number of asset expenditures for the portion of accumulated asset expenditures over special borrowings by the weighted average interest rate of the occupied general borrowings.

Capitalization of borrowing costs is suspended during the period of acquisition, construction or production of assets that meet the conditions for capitalization in which the acquisition or construction of assets is interrupted abnormally other than the procedures necessary to reach the intended use or sale state occur, and the interruption lasts for more than three months. The borrowing costs incurred during the interruption period are recognised as expenses and included in the current profit and loss until the acquisition, construction or production activities of the asset is resumed.

16. Right-of-use assets (applicable since 1 January 2019)

The categories of the Group's right-of-use assets mainly include house and buildings and machinery and equipment.

At the commencement date of the lease, the Group recognises the right of using leased assets within the lease term as right-of-use assets, including: the initial measurement amount of the lease liability; the amount of lease payment paid on or before the commencement date of the lease, the amount of lease incentive already enjoyed shall be deducted if there is a lease incentive; initial direct expenses incurred by the lessee; the costs that the lessee is expected to incur in order to dismantle and remove the leased asset, restore the leased asset to the site or restore the leased asset to the state agreed upon in the lease terms. The Group depreciates right-of-use assets subsequently using the straight-line method. If the Group is reasonably certain that the ownership of the leased asset will be obtained to the Group at the end of the lease term, the Group accrues depreciation during the remaining useful life of the leased assets. Otherwise, the Group accrues depreciation during the shorter period of the lease term and the remaining useful life of the leased assets.

The Group remeasures the lease liability at the present value of the changed lease payments and adjusts the carrying amount of the right-of-use assets accordingly, when the carrying amount of the right-of-use asset is reduced to zero, but there is a further reduction in the lease liability, the Group recognises the remaining amount in the current profit and loss.

17. Intangible assets

Intangible assets are recognised and measured on initial recognition at cost only if it is probable that the related economic benefits will flow into the Group and the costs of which can be measured reliably. However, for an intangible asset acquired in the business combination not involving enterprises under common control should be measured at fair value separately as intangible assets when their fair values can be reliably measured.

The useful lives of intangible assets are assessed based on the period expected to generate economic benefits for the Group. Those intangible assets without foreseeable economic benefit periods for the Group are classified as intangible assets with indefinite useful lives.

III. Significant Accounting Policies and Accounting Estimates(Continued)

17. Intangible assets (Continued)

The useful lives of the each intangible assets are as follows:

	Useful life
Land use rights	50 years
Patent	10 years
Software	2 - 10 years

Land use rights obtained by the Group are usually accounted for as intangible assets.

Intangible assets with finite useful lives are amortized over the useful lives on the straight-line basis. The Group reviews the useful lives and amortization method of intangible assets with finite useful lives at least once at each year-end, and makes adjustments when necessary.

Intangible assets with an indefinite useful life (such as trademark right) is tested for impairment annually, irrespective of whether there is any indication that it may be impaired. Such intangible asset is not amortized, but its useful life is reassessed in each accounting period. If there is evidence indicating that the useful life is finite, it is accounted for using the above accounting policies applicable to intangible assets with finite useful life.

The expenditures for internal research and development projects of the Group were classified as research stage expenditures and development stage expenditures. All research expenditures are charged to profit or loss as incurred. Expenses incurred in the development stage are capitalized only if all of the following conditions are met: the technical feasibility of completing the intangible asset so that it will be available for use or for sale; the intention to complete the intangible asset for use or for sale; how the intangible asset will generate economic benefits, including there is evidence that the products produced by the intangible asset has a market or the intangible asset itself has a market; if the intangible asset is for internal use, there is evidence that there exists usage for the intangible asset; the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; the expenditures attributable to the development stage of the intangible asset could be reliably measured. Development expenditure which does not meet these criteria is recognised in the profit or loss for the current period when incurred.

18. Impairment of assets

Impairment of assets other than inventories, deferred tax, financial assets and held for sale assets is recognised based on the following methods:

The Group assesses at the balance sheet date whether there is any indication that an asset may be impaired. If any indication exists that an asset may be impaired, the Group will estimate the recoverable amount of the asset and perform test for impairment. For goodwill acquired in business combinations and intangible assets with indefinite useful lives, an impairment test is performed at least at the end of each year no matter whether there is any indicator of impairment. Intangible assets that not available for use are also tested for impairment annually.

The recoverable amount is determined by the higher of the asset's fair value less disposal costs and the present value of estimated future cash flows generated from the assets. The Group estimates the recoverable amount on individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the asset belongs. An asset group is recognised based on whether the cash inflows generated by the asset group are independent to those of other assets or asset groups.

When the recoverable amount of an asset or an asset group is less than its carrying amount, the carrying amount is reduced by the Group to its recoverable amount. The reduction amount is recognised in

profit or loss for the current period and a provision for impairment of the asset is recognised accordingly.

III. Significant Accounting Policies and Accounting Estimates(Continued)

18. Impairment of assets (Continued)

For the purpose of impairment testing of goodwill, the carrying amount of goodwill acquired in a business combination is allocated from the acquisition date on a reasonable basis to the related asset groups; if it is difficult to allocate to the related asset groups, it is allocated to the related asset group portfolios. The related asset groups or asset group portfolios is an asset group or asset group portfolios that is able to benefit from the synergies of the business combination and shall not be larger than a reportable segment determined by the Group.

When impairment test is made to the related asset groups or asset group portfolios including goodwill, if there is an indication that the related asset groups or asset group portfolios are prone to impair, the Company shall firstly test for impairment for the asset groups or asset group portfolios excluding goodwill and calculate the recoverable amount and recognise the impairment loss accordingly. The Company shall then test for impairment for the asset groups or asset group portfolios including goodwill. The carrying amount is compared to its recoverable amount. If the recoverable amount is lower than its carrying amount, firstly, the amount of impairment loss shall be reduced and allocated to the carrying amount of goodwill in the asset group or asset group portfolios, then, according to the proportion of the other carrying amount of each asset in the asset group or asset group portfolios excluding goodwill, the other carrying amount of each assets is reduced in proportion.

Once the above asset impairment loss is recognised, it shall not be reversed in the subsequent accounting periods.

19. Long-term prepaid expenses

Long-term prepaid expenses are amortised on a straight-line basis, and the amortised period is as follow:

	Amortised period
Renovation fees	1- 8 years

20. Employee remuneration

Employee remuneration refers to all forms other than share-based payments of remuneration or compensation given by the Group in exchange for services rendered by employee or termination of employment relationship. Employee remuneration include short-term remuneration, post-employment benefits, termination benefits and other long-term employee benefits. The benefits that the Group provides to the spouses, children, dependents of employees, the late employees' family members and other beneficiaries also shall be deemed as employee remuneration.

Short-term remuneration

During the accounting period when employees render services, short-term remuneration that actually recognised as liabilities and included in the profit or loss or relevant assets costs for the current period.

Post-employment benefits (defined contribution scheme)

Employees of the Group participate in endowment insurance and unemployment insurance schemes administrated by local governments as well as enterprise annuity, and the related expenditures are recorded in cost of related assets or current profit or loss when they incurred.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

20. Employee benefits (continued)

Termination benefits

When the Group provides termination benefits to the employee, the employee benefits liabilities arising from the recognition of termination will be recognised in the current profit or loss at the earlier of: (1) when the Group cannot unilaterally withdraw the termination benefits for the release of the labour relationship or the termination proposal; and (2) when the Group recognised relevant costs or expenses associated with the reorganization of the payment of the termination benefits.

21. Lease liabilities (Applicable from 1 January 2019)

On the commencement date of the lease term, the Group recognises the present value of the lease payments that have not been paid as lease liabilities, except for short-term leases and low-value asset leases. In calculating the present value of the lease payments, the Group uses the interest rate implicit in the lease as the discount rate; if the interest rate implicit in the lease cannot be determined, the Group uses the benchmark loan rate published by the People's Bank of China as the discount rate. The Group calculates the interest expense of the lease liabilities for each period of the lease term based on the fixed periodic interest rate and recognises it in current profit or loss, unless otherwise included in relevant asset cost. The variable lease payments that are not included in the measurement of the lease liabilities are included in current profit or loss when incurred, unless otherwise included in relevant asset cost.

After the commencement date of the lease term, when the actual fixed payment amount changes, the expected amount of the guarantee residual value changes, or the index or ratio used to determine the lease payment amount changes, the purchase option, the renewal option or the termination option is evaluated. When the results or actual exercise rights change, the Group re-measures the lease liabilities based on the present value of the changed lease payments.

22. Estimated liabilities

Except for contingent consideration and contingent liabilities arising from business combinations not involving enterprises under common control, contingent liabilities are recognised as provision when the Group has an obligation related to contingent events where all of the following conditions are met:

- (1) it is a present obligation related to a contingency for the Group;
- (2) it is probable that an outflow of economic benefits from the Group will be required to settle the obligation;
- (3) the amount of the obligation can be measured reliably.

Estimated liabilities are initially recognised at the most appropriate estimation of performing relevant obligations by considering relative risks, uncertainties and monetary time value related to contingent events. The carrying amount of a estimated liabilities is reviewed at every balance sheet date. Where there is objective evidence that the carrying amount does not reflect the best estimation of the contingency, the carrying amount would be adjusted according to the best estimated amount.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

23. Share-based payments

Share-based payments consist of equity-settled share-based payments and cash-settled share-based payments. The term “equity-settled share-based payments” refers to a transaction in which the Group grants shares or other equity instruments as a consideration in return for services rendered.

Equity-settled share-based payments made in exchange for services rendered by employees are measured at the fair value of equity instruments granted to employees. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses at the fair value on the date of grant and the capital reserve is credited accordingly. Instruments of which vesting is conditional upon completion of services or fulfillment of performance conditions are measured by recognising services rendered during the period in relevant costs or expenses and crediting the capital reserve accordingly at the fair value on the date of grant according to the best estimates conducted by the Group at each balance sheet date during the pending period based on subsequent information such as latest updates on the change in the number of entitled employees and whether performance conditions have been fulfilled, and etc. The fair value of equity instruments is calculated based on the binomial model or determined with reference to the market price at the grant date of the Company's shares, please refer to note XI

During the period of meeting the performance conditions and service period conditions, the cost or expenses of equity-settled share-based payment shall be confirmed, and capital reserve shall be increased accordingly. Before the exercisable date, the cumulative amount recognised for equity-settled share-based payment on each balance sheet date reflects the portion of the waiting period that has expired and the Group's best estimate of the number of equity instruments with final exercisable rights.

No cost or expense will be recognised for the share payment that ultimately fail to exercise due to failing to meet non-market conditions or service period conditions. If market conditions or non-exercisable rights conditions are stipulated in the share payment agreement, regardless of whether market conditions or non-exercisable rights conditions are met, as long as all other performance conditions and/or service period conditions are met, they are regarded as exercisable rights.

If the terms of the equity-settled share-based payment are amended, the Group shall recognise the services received at least based on the situation before the amendment was made. In addition, amendment resulting in the increase of the fair value of the equity instrument granted or changes that are beneficial to the staff on the amendment date, will be recognised as an increase in the service received.

If the equity-settled share-based payment is cancelled, it will be accounted for as accelerated exercise on the cancellation date and the unrecognised amount will be recognised immediately. Employees and other parties are able to satisfy the non-vesting conditions. If the conditions are not fulfilled during the vesting period, the equity settled share-based payment will be deemed as cancelled. However, if new equity instruments are vested and they are verified at the vesting date of new equity instrument as alternatives vested to cancelled equity instruments, the treatment on the new equity instrument is in conformity with the modified treatment on disposal of equity instrument with the same terms and conditions.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

24. Revenue from contracts with customers

The Group recognised revenue when it has performed the obligations under the contract, that is, when the customer has obtained the control over the relevant product or service. “Having obtained the control

over the relevant product or service” refers to being able to control the use of the product or the provision of the service and obtain sustainably all the economic benefits therefrom.

Contracts on sales of goods

The contracts on sales of goods between the Group and the customer generally contains the obligation of transferring the relevant goods only. The Group generally recognises the revenue when the relevant goods are accepted by the customer, on the basis of taking full consideration of the following factors: the right to collect the goods payment, the transfer of the key risk and return in the goods ownership, the transfer of the goods ownership, the transfer of the physical asset of the goods, and the acceptance of the goods by the customer.

Contracts on rendering of services

The contract on rendering of services between the Group and the customer generally contains the obligations of platform agency services and extended warranty performance. As the customer will obtain and consume the economic benefits generated by the performance of the Group when the Group performs its obligations, and during the contract period, the Group is entitled to receive revenue from the performance completed to date. The Group will recognise revenue according to the performance progress by treating the rendering of services as the obligations within certain period, except that the performance progress cannot be reliably determined. The Group determines the performance progress for rendering of services based on the output method. When the performance progress cannot be reliably determined, but the cost incurred by the Group is expected to be compensated, the revenue will be recognised according to the amount of the incurred cost, until the performance progress can be reliably determined.

Variable consideration

Certain contracts between the Group and its customers contain sales rebate arrangement which will give rise to variable consideration. Where a contract contains variable consideration, the Group determines the best estimates on the variable consideration based on expected values or the most probable amount, provided that transaction prices including variable consideration shall not exceed the cumulative amount of recognised revenue upon the removal of relevant uncertainties in connection with which a significant reversal is highly unlikely.

Consideration payable to a customer

Where consideration is payable by the Group to a customer, such consideration payable shall be deducted against the transaction price, and against current revenue upon the recognition of revenue or the payment of (or the commitment to pay) the consideration to the customer (whichever is later), save for consideration payable to the customer for the purpose of acquiring from the customer other clearly separable products or services.

Return clauses

In connection with sales with a return clause, revenue is recognised according to the amount of consideration it expects to be entitled to for the Transfer to a customer when the customer acquires control of the relevant. Amounts expected to be refunded for the return of sales are recognised as liabilities. At the same time, the balance of the carrying value of the product expected to be returned upon transfer less expected costs for the recall of such product (including impairment loss of the recalled product) shall be recognised as an asset (i.e. cost of return receivables), and the net amount of the carrying value of the transferred product upon the transfer less the aforesaid asset cost shall be transferred to cost. At each balance sheet date, the Group reassessed the future return of sales and remeasured the above assets and liabilities.

Warranty obligations

The Group provides quality assurance for products sold in accordance with contract terms and laws and regulations. The accounting treatment of quality assurance in the form of warranty assuring customers products sold are in compliance with required standards is set out in item 34 in note III. When assessing whether a warranty is rendering a standalone service in addition to providing guarantee to customers that all sold goods are in compliance with required standards, the Group will consider whether or not such warranty is a statutory requirement, the term of the warranty and the nature of the Group’s undertaking to perform its obligations.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

25. Contract liabilities

The Group presents contract liabilities on the balance sheet according to the relationship between contractual performance obligations and customer payments.

Contract liabilities refer to the obligation to transfer products or services to customers for the consideration received or receivable from customers, for example, amounts received prior to the transfer of the promised products or service.

26. Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. The grant is measured as the amount received or receivable where it takes the form of a cash asset, or at fair value where it is not a cash asset. Where the fair value cannot be reliably obtained, it should be measured at the nominal value.

In accordance with the stipulations of the government instruments, government grants applied towards acquisition or the formation of long-term assets in other manners are asset-related government grants; the instruments unspecifically refer to the exercise of judgement based on the basic conditions for receiving the asset-related grant applied towards or the formation of long-term assets in other manners. All other grants are recognised as income-related government grants.

Total amount method is applied for the government grants.

For government grants related to income, where the grant is a compensation for related cost, expenses or losses to be incurred in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss over the current period in which the related costs, expenses or losses are recognised or adjusted against the relevant cost; where the grant is a compensation for related cost, expenses or losses already incurred by the Group, the grant is recognised immediately in profit or loss for the current period or is adjusted against the relevant cost.

Government grants related to assets are adjusted against the carrying amount of the assets or recognised as deferred income and evenly distributed in profit or loss over the useful period of related assets in a reasonable and systematic way. Government grants measured at their nominal amounts shall be recognised immediately in current profit or loss. If the relevant assets are sold, transferred, disposed of or ruined before their useful life ends, the undistributed relevant deferred income shall be transferred to the profit or loss from asset disposal for the current period.

27. Income tax

Income taxes include current and deferred tax. Income taxes are recognised in current period's profit or loss as income tax expense or income tax benefit, except for the adjustment made for goodwill in a business combination and income tax from transactions or items that directly related to equity.

For current period's deferred tax assets and liabilities arising in current and prior periods, the Group measures them at the amount expected to be paid or recovered according to the relevant taxation regulations.

The Group recognises deferred tax assets and liabilities based on temporary differences using balance sheet liability method. Temporary differences are differences between the carrying amount of assets or liabilities in the balance sheet and their tax base on the balance sheet date. Temporary differences also include the differences between the carrying amounts and tax bases of items not recognised as assets or liabilities where the tax base can be calculated according to the relevant tax regulations.

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

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- (1) Where the taxable temporary difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
 - (2) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- (1) Where the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- (2) In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

As at balance sheet date, deferred tax assets and liabilities are measured in accordance with relevant tax laws at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and reflects the tax consequences that would follow the manner in which the Group expects, at the balance sheet date, to recover the assets or settle the carrying amount of its assets and liabilities.

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

When all of the following conditions are satisfied simultaneously, the deferred income tax assets and deferred income tax liabilities are listed as the net amount after offsetting: the Group has a legal right to settle current tax assets and liabilities on a net basis; the deferred taxes are related to the same tax payer within the Group and the same taxation authority, or related to different tax payers but during the period when each of the significant deferred income tax assets and deferred income tax liabilities is reversed and the tax payer involved intends to settle the current income tax asset and current income tax liability on a net basis, or simultaneously obtain assets and pay off the debts.

28. Leases (Applicable from 1 January 2019)

Identification of leases

At inception of a contract, the Group shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset or assets for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset or assets for a period of time the Group assesses whether, throughout the period of use, the customer has the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

Identification of separate leases

Where the contract contains multiple separate leases, the Group will split the contract and separate the leases for accounting treatment. The right to use the identified asset constitutes a separate lease in the contract if the following conditions are met:

- (1) The lessee can profit from using the asset alone or in conjunction with other resources that are readily available;
- (2) The asset does not have a high degree of dependency or a high degree of association with other assets in the contract.

The split of the leased and non-leased parts

If the contract contains both the leased and non-leased parts, the Group, as the lessor and lessee, shall conduct accounting treatment after splitting the leased and non-leased parts.

Assessment of lease term

The lease term is the irrevocable period during which the Group has the right to use the lease asset. The Group has the option to renew the lease, that is, it has the right to choose to renew the lease of the asset, and if it is reasonable to determine that the option will be exercised. The lease term also includes the period covered by the option to renew the lease. The Group has the right to terminate the lease of the asset, but if it is reasonable to determine that the option will not be exercised. The lease term includes the period covered by the termination of the lease option. In the event of a major event or change within the Group's controllable range, and affecting whether the Group reasonably determines that the corresponding option will be exercised, the Group reassesses whether it is reasonable to determine to exercise the option to renew the lease, purchase option or terminate the lease option.

As lessee

For the general accounting treatment of the Group as a lessee, please refer to the item 16 in note III.

Short-term lease and low-value asset lease

The Group recognises the lease whose lease term is not more than 12 months and the lease does not include the purchase option on the commencement date of the lease term as a short-term lease. The Group recognises the leased assets that low-value transportation vehicles and tools, furniture and equipment as a low value lease. If the Group subleases or expects to sublease the leased assets, the original lease is not recognised as a low-value asset lease. The Group chooses not to recognise right-of-use assets and lease liabilities for short-term leases such as houses and buildings, transportation tools, tools, furniture and equipment, and low-value asset leases such as transportation tools, tools, furniture and equipment. During each period of the lease term, the related asset costs or current profit or loss are included by using the straight-line method.

As a lessor

Leases that transfer substantially all of the risks and rewards associated with the ownership of the leased asset on the commencement date of the lease term are finance leases, and all other leases are operating leases.

As an operating lease lessor

Rental income from operating leases is recognised on a straight-line basis over the lease term in current profit or loss and contingent rentals are recognised in current profit or loss when incurred.

29. Leases (Applicable in 2018)

Leases that transfer substantially all of the risks and rewards associated with the ownership of the asset, and all other leases are operating leases.

As lessee of an operating lease

Lease payments under an operating lease are recognised by a lessee on a straight-line basis over each period of the lease term and either included in the cost of the related asset or charged to current profit or loss. Contingent rents are charged to profit or loss in the period in which they arise.

As lessor of an operating lease

Rental income under an operating lease is recognised by a lessor on a straight-line basis over each period of the lease term, through current profit or loss. Contingent rents are charged to current profit or loss which they arise.

30. Discontinued Operations

A discontinued operation is a component of the Group that either has been disposed of or is classified as held for sale, and can be distinguished from other components within the Group:

- (1) the component represents a separate major line of business or an individual geographical area of operations;
- (2) the component is part of a single coordinated plan to disposal of a separate major line of business or an individual geographical area of operations;
- (3) the component is a subsidiary acquired exclusively for the purpose of resale.

31. Repurchase of Shares

Consideration and transaction costs paid for the repurchase of the Company's own equity instruments are charged against shareholders' equity. The issuance (including refinancing), repurchase, sale or cancellation of its own equity instruments is treated as change in equity.

32. Dividend distribution

Cash dividends of the Company are recognised as liabilities after being approved at the general meeting.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

33. Fair value measurement

The Group measures the derivative financial instruments and equity instrument investments at fair value on each balance sheet date. Fair value refers to the price that can be received when disposing of an asset or that should be paid when transferring a liability in an orderly transaction by the market participant on the measurement date. When measuring the relevant asset or liability at fair value, the Group assumes that the orderly transaction for disposing of the asset or transferring the liability is carried out in the primary market for the relevant asset or liability, or the most favorable market for the relevant asset or liability if there is no such primary market. The primary market (or most favorable market) is the transaction market that the Group can enter on the measurement date. The Group adopts the assumptions used by the market participant to maximize the economic benefit when determining the price of the relevant asset or liability.

When non-financial asset is measured at fair value, the capacity of the market participant to use the asset in the best use to generate economic benefit or the capacity to sell the asset to the market participant who can use the asset in the best use to generate economic benefit will be taken into account.

The Group adopts valuation technique applicable in the current situation and supported by adequate available data and other information and gives priority to the use of relevant observable inputs. When relevant observable inputs are not available or feasible, unobservable inputs are adopted.

With respect to the assets and liabilities measured or disclosed at fair value in the financial reports, the level in which fair value measurement is categorized is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement: Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3: unobservable inputs for the asset or liability.

On each balance sheet date, the Group will reassess the assets and liabilities constantly measured at fair value as recognised in the financial reports to check if the level in which fair value measurement is categorised is changed

34. Significant accounting judgments and estimates

The management is required to make judgments, estimates and assumptions for preparing the financial statements. These judgments, estimates and assumptions will affect the presented amount and disclosure of the revenue, expense, asset and liability, as well as the disclosure of the contingent liability on the balance sheet date. The uncertainty of these assumptions and estimates may result in major adjustment of the carrying amount of the affected assets or liabilities in the future.

Judgments

During the application of the accounting policies of the Group, the management made the following judgments that may have significant impact on the amounts recognised in the financial statements:

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

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

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

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

Estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, which may cause significant adjustments to the carrying amounts of assets and liabilities in future accounting periods.

Goodwill Impairments

The Group conducts a goodwill impairment test at least once a year, which needs to estimate the value in use or fair value of the cash-generating unit corresponding to the goodwill less the cost of disposal. In order to evaluate the value in use or fair value less the cost of disposal, the Group needs to estimate the future cash flow and determine an appropriate discount rate to obtain the present value of the cash flow. At 31 December 2019 and 31 December 2018, the carrying amount of goodwill is

RMB86,473,227.75 and RMB351,166,751.73 respectively, For details, please refer to item 18 in note V to the financial statements.

Provision for expected credit losses on accounts receivables

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

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. For details about the ECLs on the Group's accounts receivables, please refer to item 3 in note V to the financial statements.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in item 3 in note IX to the financial statements. The valuation requires the Group to identify comparable listed companies in the same industry and select corresponding the price multiple. In addition, the Group makes estimates about the discount for liquidity and size differences. The Group classifies the fair value of these investments as Level 2 and Level 3. The fair value of the unlisted equity investments at 31 December 2019 and 31 December 2018 were RMB1,847,505,877.49 and RMB1,261,664,000.00, respectively. Further details are set out in item 11 in note V to the financial statements.

Provision for impairment of inventories

Provision for impairment of inventories of the Group is made based on the ageing and estimated net realisable value of inventories. The assessment of the impairment 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 inventories and the impairment charge and reversal in the period in which such estimate has been changed. At 31 December 2019 and 31 December 2018, the carrying amount of inventories was RMB10,066,079,816.33 and RMB8,681,532,177.13 respectively.

Estimated liabilities for after-sales service

The Group determines the estimated liabilities for after-sales service based on the sales volume and the expected unit cost of after-sales service. The assessment of the estimated liabilities involves management 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 estimated liabilities and the provision and reversal for estimated liabilities in the period in which such estimate has been changed. At 31 December 2019 and 31 December 2018, the carrying amount of the estimated liabilities were RMB1,044,632,516.46 and RMB1,044,751,684.46 respectively. For details, please refer to item 34 in note V to the financial statements.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

34. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When the carrying amount of an asset or asset group is higher than its recoverable amount, that is the higher of fair value less costs to sell and the present value of estimated future cash flows, the related asset or asset group is impaired. The fair value less costs to sell of an asset is determined as the contractual price of similar assets in an arm's length transaction, or the observable market price of similar assets, after deducting the additional costs directly attributable to the disposal of this asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

The useful life and residual value of fixed asset

The Group uses accounting estimates to determine the residual value, useful life and related depreciation charge of fixed assets. These estimates are based on the historical experience of the actual residual value and useful life of fixed assets with the same nature and purpose. Due to technological innovation, the reaction of competitors and industry cycle changes, these estimates usually vary greatly. When the residual value and estimated useful life are less than the previous estimate, the Group will increase the depreciation charge for the corresponding period. At the same time, the actual economic life may be quite different from the estimated useful life, and the regular review of the useful life may change the depreciation charge in the future period.

Deferred income tax assets

Deferred income tax assets are recognised to the extent that it is probable that amounts taxable will be available against which the deductible temporary difference and unused credit can be utilized. Significant management judgement is required to determine the amount of deferred income tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies. At 31 December 2019 and 31 December 2018, the carrying amount of deferred income tax assets were RMB929,413,395.47 and RMB885,650,860.49 respectively.

35. Changes in accounting policies and accounting estimates

Changes in accounting policies

New lease standard

In 2018, the Ministry of Finance issued the revised *Accounting Standard for Business Enterprises No. 21-Leasing* (the "New Lease Standard") which adopts the single model similar to the current accounting treatment for finance leases and requires the lessee to recognise the right-of-use asset and lease liabilities for all leases other than short-term and low-value assets leases and recognise depreciation and interest expenses, respectively. Since 1 January 2019, the Group has conducted accounting treatment in accordance with the newly revised lease standard and selected not to reevaluate whether the contracts that have existed before the date of initial implementation are or contain leases. According to the transitional requirements, the information for the comparable period will not be adjusted and retained earnings at the beginning of 2019 will be retrospectively adjusted based on the difference between the New Lease Standard and the current lease standard on the first day of implementation:

- (1) For operating leases subsisting prior to the date of initial application, the Group measure lease liabilities based on the present value of the remaining lease payment discounted using

- incremental borrowing rate, for each leases at an amount equal to the lease liabilities, necessary adjustments are made based on lease prepayments to measures right-of-use assets.
- (2) The Group carried out impairment test for right-of-use assets and applied corresponding accounting treatment according to item 18 in note III.

III. Summary of significant accounting policies and accounting estimates (continued)

35. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

The new lease standard (continued)

The Group's operating leases, which are classified as low-value assets before the first implementation date, or operating leases that will be completed within 12 months, are treated as a simple way, and the right-of-use assets and lease liabilities are not recognised. In addition, the Group has adopted the following simplifications for operating leases prior to the first implementation date:

- (1) When measuring lease liabilities, leases with similar characteristics may use the same discount rate; the measurement of right-of-use assets may not include initial direct costs;
- (2) Where there is a renewal option or the termination of the lease option, the Group determines the lease term based on the actual exercise of the option before the first implementation date and other recent developments;
- (3) As an alternative to the impairment test of the right-of-use assets, the Group assesses whether the contract including the lease is a loss contract before the first implementation date according to Note III.16, and adjusts the right-of-use assets based on the loss provision amount included in the balance sheet before the first implementation date; and
- (4) For lease changes before the first implementation date, the Group performs accounting treatment based on the final arrangement of the lease change.

For the minimum lease payments that have not been paid for the significant operating leases disclosed in the 2018 financial statements, the Group implemented the following adjustment procedures according to the differences between the present value discounted at the benchmark loan rate of the People's Bank of China on 1 January 2019 and the amount of the lease liabilities included in the balance sheet as at 1 January 2019:

Minimum lease payment of significant operating lease on 31 December 2018	1,615,367,327.27
Less: simplified minimum lease payment	437,932,976.45
Include: Short-term leases	375,743,819.59
Leases with a remaining lease term of less than 12 months	62,189,156.86
	1,177,434,350.82
Benchmark loan rate of the People's Bank of China on 1 January 2019	4.75%-4.90%
The present value of the operating lease payment on 1 January 2019	1,038,011,163.28
Amount of lease liabilities on 1 January 2019	<u>1,038,011,163.28</u>

III. Summary of significant accounting policies and accounting estimates (continued)

35. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

The new lease standard (continued)

The impact of the implementation of the new lease standards on the balance sheet project on 1 January 2019 is as follows:

Consolidated balance sheet

	Amounts in the statement	Amounts under the original accounting standard	Impacts
Right-of-use assets	987,733,150.77	-	987,733,150.77
Prepayments	1,183,978,002.67	1,185,025,311.24 (	1,047,308.57)
Deferred income tax assets	891,493,843.35	885,650,860.49	5,842,982.86
Accounts payable	(5,710,690,797.80)(	5,732,817,212.36)	22,126,414.56
Non-current liabilities due within one year	(901,846,663.11)(	681,431,902.92)(	220,414,760.19)
Lease liabilities	(817,596,403.09)	- (	817,596,403.09)
Other payables	(4,671,913,158.28)(	4,677,293,922.70)	5,380,764.42
Undistributed profits	(23,042,044,830.71)(	23,050,791,438.91)	8,746,608.20
Minority equity interests	(2,166,063,737.31)(	2,175,292,288.35)	9,228,551.04
	(34,246,950,593.51)(	34,246,950,593.51)	-

The impact of the implementation of the new lease standard on the financial statements for 2019 is as follows:

Consolidated balance sheet

	Amounts in the statement	Amounts under the original accounting standard	Impacts
Right-of-use assets	53,872,635.98	-	53,872,635.98
Prepayments	1,013,801,153.25	1,023,544,720.08 (	9,743,566.83)
Non-current liabilities due within one year	(742,839,736.09)(	710,669,494.71)(	32,170,241.38)
Lease liabilities	(21,001,839.02)	- (	21,001,839.02)
Other payables	(4,889,674,045.14)(	4,899,253,348.89)	9,579,303.75
Undistributed profits	(30,222,977,117.45)(	30,222,440,824.95)(	536,292.50)
	(34,808,818,948.47)(	34,808,818,948.47)	-

Consolidated profit statement

	Amounts in the statement	Amounts under the original accounting standard	Impacts
Operating cost	(62,828,613,555.21)(	62,852,742,773.36)	24,129,218.15
Selling expenses	(10,313,875,602.21)(	10,317,444,087.11)	3,568,484.90
Administrative expenses	(1,364,373,401.07)(	1,364,557,766.14)	184,365.07
Financial expenses	208,925,762.01	239,194,199.22 (	30,268,437.21)
Income tax expenses	(1,593,972,565.19)(1,594,814,783.26)	842,218.07

(75,891,909,361.67)	(75,890,365,210.65)	(1,544,151.02)
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III. Summary of significant accounting policies and accounting estimates (continued)

35. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

The new lease standard (continued)

In addition, from the first implementation date, the cash paid by the Group for repayment of the principal and interest of the lease liability will be included in the cash flow statement as cash outflows from the financing activities, and the short-term lease payments and low-value asset lease payments that are simplified and variable lease payments not accounted as lease liabilities are still included in cash outflows from operating activities.

IV. Taxation

1. Main categories and rates of taxes:

Value added tax	<ul style="list-style-type: none"> Before 1 May 2018, output tax on revenue from sales of goods was calculated at a 17% tax rate while output tax on taxable transportation and freight forwarding income was calculated at a 11% tax rate and its value-added tax was calculated and levied on the basis of the difference after deducting the input tax allowed to be deducted in the current period; During 1 May 2018 to 1 April 2019, output tax on revenue from sales of goods was calculated at a 16% tax rate while output tax on taxable transportation and freight forwarding income was calculated at a 10% tax rate and its value-added tax was calculated and levied on the basis of the difference after deducting the input tax allowed to be deducted in the current period; Since 1 April 2019, output tax on revenue from sales of goods would be calculated at a 13% tax rate while output tax on taxable transportation and freight forwarding income would be calculated at a 9% tax rate and its value-added tax was calculated and levied on the basis of the difference after deducting the input tax allowed to be deducted in the current period; Output tax on revenue except those generated from transportation and freight forwarding services is calculated at a 6% tax rate while its value-added tax is calculated and levied on the basis of the difference after deducting the input tax allowed to be deducted in the current period.
City maintenance and construction tax	<ul style="list-style-type: none"> It is levied at 7% on the turnover taxes paid.
Education surcharge	<ul style="list-style-type: none"> It is levied at 3% on the turnover taxes paid; local educational surcharge is levied at 2% on the turnover taxes paid.
Corporate income tax	<ul style="list-style-type: none"> Except for the companies mentioned in 2 below, which enjoy preferential income tax policies during the reporting period, other company's income taxes are calculated and paid at the statutory tax

rate of the place where the local/permanent establishment are located.

IV. Taxation(continued)

2. Preferential tax

Preferential taxation policies of VAT refund receivable for software enterprises

According to the *Notice of the State Council on Issuing Several Policies on Further Encouraging the Development of the Software and Integrated Circuit Industries* (No. 4 [2011] of the State Council), Wuhan Haier Water Heater Co., Ltd., Qingdao Haier New Energy Electric Appliance Co., Ltd. and Tianjin Ririxin Assets Management Co., Ltd. enjoy the preferential taxation policies of VAT refund receivable for software enterprises

Preferential taxation policies for high-tech enterprises

Qingdao Haier Washing Machine Co., Ltd.

Qingdao Haier Washing Machine Co., Ltd. applied to Qingdao Municipal Science and Technology Commission, Qingdao Municipal Finance Bureau, Qingdao Provincial Office and Qingdao Local Taxation Bureau in 2008 and was finally recognised as a high-tech enterprise in 2008. It obtained a high-tech enterprise qualification certificate with valid term for three years and received updated high-tech enterprise qualification certificate in 2011 and 2014. Its corporate income tax was levied at a preferential tax rate of 15% from 2008 to 2016.

The Company submitted the high-tech enterprise qualification review materials to the competent authority in 2017, and obtained the updated high-tech enterprise qualification certificate in 2017 with valid term for three years and its corporate income tax was levied at a preferential tax rate of 15% from 2017 to 2019.

Hefei Haier Washing Machine Co., Ltd.:

Hefei Haier Washing Machine Co., Ltd. applied to Department of Science and Technology of Anhui Province, Anhui Provincial Department of Finance, Anhui Provincial Office and Anhui Local Taxation Bureau in 2008 and was finally recognised as a high-tech enterprise in 2008. It obtained a high-tech enterprise qualification certificate with valid term for three years and received updated high-tech enterprise qualification certificate in 2011 and 2014, and its corporate income tax was levied at the preferential tax rate of 15% from 2008 to 2016.

The company submitted the high-tech enterprise qualification review materials to the competent authority in 2017 and obtained the updated high-tech enterprise qualification certificate in 2017 with valid term for three years and its corporate income tax was levied at a preferential tax rate of 15% from 2017 to 2019.

Foshan Shunde Haier Electric Co., Ltd.:

Foshan Shunde Haier Electric Co., Ltd. applied to Department of Science and Technology of Guangdong Province, Department of Finance of Guangdong Province, Guangdong Provincial Office, SAT and Guangdong Local Taxation Bureau in 2009 and was finally recognised as a high-tech enterprise in 2009. It obtained the high-tech enterprise qualification certificate with valid term for three years and renewed its high-tech enterprise qualification certificate in 2015. Its corporate income tax was levied at a preferential tax rate of 15% from 2009 to 2011 and from 2015 to 2017.

The company submitted the high-tech enterprise qualification review materials to the competent authority in 2018 and obtained the updated high-tech enterprise qualification certificate in 2018 with valid term for three years and its corporate income tax will be levied at a preferential tax rate of 15% from 2018 to 2020.

IV. Taxation (continued)

2. Preferential tax (continued)

Preferential taxation policies for high-tech enterprises (continued)

Qingdao Jiaonan Haier Washing Machine Co., Ltd.:

Qingdao Jiaonan Haier Washing Machine Co., Ltd. applied to Qingdao Municipal Science and Technology Commission, Qingdao Municipal Finance Bureau, Qingdao Provincial Office, SAT and Qingdao Local Taxation Bureau in 2008 and was finally recognised as a high-tech enterprise in 2008. It obtained the high-tech enterprise qualification certificate with valid term for three years and received updated high-tech enterprise qualification certificate in 2011 and 2014. Its corporate income tax was levied at a preferential tax rate of 15% from 2008 to 2016.

The company submitted the high-tech enterprise qualification review materials to the competent authority in 2017 and obtained the updated high-tech enterprise qualification certificate in 2017 with valid term for three years and its corporate income tax was levied at a preferential tax rate of 15% from 2017 to 2019.

Qingdao Haier Drum Washing Machine Co., Ltd.:

Qingdao Haier Drum Washing Machine Co., Ltd. applied to Qingdao Municipal Science and Technology Commission, Qingdao Municipal Finance Bureau, Qingdao Provincial Office, SAT and Qingdao Local Taxation Bureau in 2008 and was finally recognised as a high-tech enterprise in 2008. It obtained the high-tech enterprise qualification certificate with valid term for three years and received updated high-tech enterprise qualification certificate in 2011 and 2014. Its corporate income tax was levied at a preferential tax rate of 15% from 2008 to 2016.

The company submitted the high-tech enterprise qualification review materials to the competent authority in 2017 and obtained the updated high-tech enterprise qualification certificate in 2017 with valid term for three years and its corporate income tax was levied at a preferential tax rate of 15% from 2017 to 2019.

Foshan Haier Drum Washing Machine Co., Ltd.:

Foshan Haier Drum Washing Machine Co., Ltd. applied to the Department of Science and Technology of Guangdong Province, Department of Finance of Guangdong Province, Guangdong Provincial Office, SAT and Guangdong Local Taxation Bureau in 2016 and was finally recognised as a high-tech enterprise in 2016. It obtained the high-tech enterprise qualification certificate with valid term for three years and its corporate income tax was levied at a preferential tax rate of 15% from 2016 to 2018.

The company submitted the high-tech enterprise qualification review materials to the competent authority in 2019 and obtained the updated high-tech enterprise qualification certificate in 2019 with valid term for three years and its corporate income tax will be levied at a preferential tax rate of 15% from 2019 to 2021.

Qingdao Economic and Technological Development Zone Haier Water Heater Co., Ltd.:

Qingdao Economic and Technological Development Zone Haier Water Heater Co., Ltd. applied to Qingdao Municipal Science and Technology Commission, Qingdao Municipal Finance Bureau, Qingdao Provincial Office, SAT and Qingdao Local Taxation Bureau in 2008 and was finally recognised as a high-tech enterprise in 2008. It obtained the high-tech enterprise qualification certificate with valid term for three years and received updated high-tech enterprise qualification certificate in 2011 and 2014. Its corporate income tax was levied at a preferential tax rate of 15% from 2008 to 2016.

The company submitted the high-tech enterprise qualification review materials to the competent authority in 2017 and obtained the updated high-tech enterprise qualification certificate in 2017 with valid term for three years and its corporate income tax was levied at a preferential tax rate of 15% from 2017 to 2019.

IV. Taxation (continued)

2. Preferential tax (continued)

Preferential taxation policies for high-tech enterprises (continued)

Wuhan Haier Water Heater Co., Ltd.:

Wuhan Haier Water Heater Co., Ltd. applied to the Science and Technology Department of Hubei Province, Hubei Provincial Department of Finance, Hubei Provincial Office, SAT and Hubei Local Taxation Bureau in 2014 and was finally recognised as a high-tech enterprise in 2014. It obtained the high-tech enterprise qualification certificate with valid term for three years and its corporate income tax was levied at a preferential tax rate of 15% from 2014 to 2016.

The company submitted the high-tech enterprise qualification review materials to the competent authority in 2017 and obtained the updated high-tech enterprise qualification certificate in 2017 with valid term for three years and its corporate income tax was levied at a preferential tax rate of 15% from 2017 to 2019.

Qingdao Haier Strauss Water Equipment Co., Ltd.:

Qingdao Haier Strauss Water Equipment Co., Ltd. applied to the Qingdao Municipal Science and Technology Commission, Qingdao Municipal Finance Bureau and Qingdao Provincial Office, SAT in 2018 and was finally recognised as a high-tech enterprise in 2018. It obtained the high-tech enterprise qualification certificate with valid term for three years and its corporate income tax will be levied at a preferential tax rate of 15% from 2018 to 2020.

Qingdao Lejia Electronics Co., Ltd.:

Qingdao Lejia Electronics Co., Ltd. applied to the Qingdao Municipal Science and Technology Commission, Qingdao Municipal Finance Bureau and Qingdao Provincial Office, SAT in 2019 and was finally recognised as a high-tech enterprise in 2019. It obtained the high-tech enterprise qualification certificate with valid term for three years and its corporate income tax will be levied at a preferential tax rate of 15% from 2019 to 2021.

Qingdao Haier New Energy Electric Appliance Co., Ltd.:

Qingdao Haier New Energy Electric Appliance Co., Ltd. applied to the Qingdao Municipal Science and Technology Commission, Qingdao Municipal Finance Bureau, Qingdao Provincial Office, SAT and Qingdao Local Taxation Bureau in 2016 and was finally recognised as a high-tech enterprise in 2016. It obtained the high-tech enterprise qualification certificate with valid term for three years and its corporate income tax was levied at a preferential tax rate of 15% from 2016 to 2018.

The company submitted the high-tech enterprise qualification review materials to the competent authority in 2019 and obtained the updated high-tech enterprise qualification certificate in 2019 with valid term for three years and its corporate income tax will be levied at a preferential tax rate of 15% from 2019 to 2021.

Tianjin Ririxin Asset Management Co., Ltd. (天津日日新资产管理有限公司):

Tianjin Ririxin Asset Management Co., Ltd. applied to the Tianjin Municipal Science and Technology Bureau, Tianjin Finance Bureau and Tianjin Provincial Office, SAT in 2019 and was finally recognised as a high-tech enterprise in 2019. It obtained the high-tech enterprise qualification certificate with valid term for three years and its corporate income tax will be levied at a preferential tax rate of 15% from 2019 to 2021.

IV. Taxation (continued)

2. Preferential tax (continued)

Qingdao Haier Washing Appliance Co., Ltd.:

Qingdao Haier Washing Appliance Co., Ltd. applied to the Qingdao Municipal Science and Technology Commission, Qingdao Municipal Finance Bureau and Qingdao Provincial Office, SAT in 2018 and was finally recognised as a high-tech enterprise in 2018. It obtained the high-tech enterprise qualification certificate with valid term for three years and its corporate income tax will be levied at a preferential tax rate of 15% from 2018 to 2020.

Qingdao Ririshun Lexin Cloud Technology Co., Ltd.:

Qingdao Ririshun Lexin Cloud Technology Co., Ltd. applied to the Qingdao Municipal Science and Technology Commission, Qingdao Municipal Finance Bureau and Qingdao Provincial Office, SAT in 2018 and was finally recognised as a high-tech enterprise in 2018. It obtained the high-tech enterprise qualification certificate with valid term for three years and its corporate income tax will be levied at a preferential tax rate of 15% from 2018 to 2020.

Hefei Haier Drum Washing Machine Co., Ltd.:

Hefei Haier Drum Washing Machine Co., Ltd. applied to the Department of Science and Technology of Anhui Province, Anhui Provincial Department of Finance and Anhui Provincial Office, SAT in 2018 and was finally recognised as a high-tech enterprise in 2018. It obtained the high-tech enterprise qualification certificate with valid term for three years and its corporate income tax will be levied at a preferential tax rate of 15% from 2018 to 2020.

Preferential taxation policies under the Western Development initiative

According to the Announcement of the Ministry of Finance, the General Administration of Customs, the State Administration of Taxation on Tax Policies in Relation to Further Implementation of the Western Region Development Strategy (CS [2011] No. 58), encouraged industrial enterprises located in the western region are entitled to a reduced corporate income tax rate of 15% from 1 January 2011 to 31 December 2020. Chongqing Haier Washing Machine Co., Ltd., Chongqing Haier Drum Washing Machine Co., Ltd., Chongqing Haier Water Heater Co., Ltd., Chongqing Xin Ririshun Home Appliance Sales Co., Ltd. (重庆新日日顺家电销售有限公司) and its subsidiaries in Chengdu, Kunming, Xi'an, sales branch, Urumqi, Nanning, Lanzhou, Guizhou, Inner Mongolia, Yinchuan and Xining are entitled to preferential taxation policies under the Western Development initiative.

V. Notes to the Major Items of Consolidated Financial Statements

1. Monetary funds

	2019	2018
Cash on hand	9,597.23	239,553.36
Bank deposit	14,834,584,162.34	15,022,837,149.09
Other monetary funds	<u>409,920,076.24</u>	<u>428,901,991.64</u>
	<u>15,244,513,835.81</u>	<u>15,451,978,694.09</u>

On the balance sheet date, the monetary funds with restricted use are as follows:

	2019	2018
Bank acceptance bill deposit	402,691,699.59	397,231,027.75
Letter of guarantee and performance bonds	<u>7,228,376.65</u>	<u>31,670,963.89</u>
	<u>409,920,076.24</u>	<u>428,901,991.64</u>

As at 31 December 2019 and 31 December 2018, the Group's foreign monetary funds were RMB1,156,091,084.48 and RMB2,003,462,867.62 respectively.

The bank demand deposits earn interest income at the bank demand deposit interest rate. The deposit period of term deposits ranges from 1 month to 3 years, depending on the cash requirements of the Group, and interest income is obtained at the corresponding bank term deposit interest rates.

2. Financial assets held for trading

	2019	2018
Financial assets measured at fair value and changes of which included in current profit and loss		
Short-term wealth management products	<u>198,614,361.33</u>	<u>1,567,648,908.00</u>

V. Notes to the Major Items of Consolidated Financial Statements (continued)

3. Accounts receivable

The credit period of accounts receivable is generally 1 to 3 months. The accounts receivable are non-interest-bearing.

The aging analysis of accounts receivable is as follows:

	2019	2018
Within 1 year	1,998,865,620.00	3,602,979,717.40
1 to 2 years	11,151,528.85	50,360,709.30
2 to 3 years	1,110,263.57	7,100,546.95
Over 3 years	<u>2,301,861.65</u>	<u>39,765,633.75</u>
	2,013,429,274.07	3,700,206,607.40
Less: allowance for bad debts of accounts receivable	(<u>6,085,091.03</u>)	(<u>61,317,706.71</u>)
	<u>2,007,344,183.04</u>	<u>3,638,888,900.69</u>

Changes in allowance for bad debts of accounts receivable are as follows:

	2019	2018
Balance at the beginning of the year	61,317,706.71	57,758,943.02
Provision for the year	11,605,687.48	17,000,213.84
Reversal of the year	(7,736,990.03)	(13,738,454.66)
Write-off of the year	(1,886,982.66)	(8,300,092.57)
Acquisition of subsidiaries	-	16,381,442.70
Disposal of subsidiaries	(57,214,330.47)	(7,610,028.21)
Classified as assets held for sale	<u>-</u>	(<u>174,317.41</u>)
Balance at the end of the year	<u>6,085,091.03</u>	<u>61,317,706.71</u>

As at 31 December 2019, the decrease in the allowance for bad debts of accounts receivable was mainly due to the classification of the Group's logistics business as discontinued operations. The carrying amount of its accounts receivable was RMB2,058,635,231.44, and its corresponding allowance for bad debts was RMB57,214,330.47.

As at 31 December 2018, the increase in the allowance for bad debts of accounts receivable was mainly due to (i) the increased carrying amount of accounts receivable from the acquisition of subsidiaries of RMB464,827,478.66, and its corresponding allowance for bad debts of RMB16,381,442.70; (ii) the amount of accounts receivable from the disposal of the subsidiaries of RMB392,855,123.14, and its corresponding allowance for bad debts of RMB7,610,028.21; (iii) the allowance for bad debts of RMB 8,300,092.57 written-off.

2019			
Carrying amount balance		Allowance for bad debts	
Amount	Proportion (%)	Amount	Proportion (%)

Provision for bad debts

made on group basis by credit risk characteristics	<u>2,013,429,274.07</u>	<u>100.00</u>	<u>6,085,091.03</u>	0.30
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V. Notes to the Major Items of Consolidated Financial Statements (continued)

3. Accounts receivable (continued)

	2018			
	Carrying amount balance		Allowance for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Individual provision for bad debts	39,038,338.99	1.06	39,038,338.99	100.00
Provision for bad debts made on group basis by credit risk characteristics	<u>3,661,168,268.41</u>	<u>98.94</u>	<u>22,279,367.72</u>	0.61
	<u>3,700,206,607.40</u>	<u>100.00</u>	<u>61,317,706.71</u>	1.66

As at 31 December 2018, the accounts receivable of individual provision for bad debts are as follows:

	Carrying amount balance	Allowance for bad debts	ECL rate	Reasons for provision
Unit 1	16,890,875.00	16,890,875.00	100.00%	It is expected to be uncollectible
Unit 2	16,108,125.00	16,108,125.00	100.00%	It is expected to be uncollectible
Unit 3	2,740,661.53	2,740,661.53	100.00%	It is expected to be uncollectible
Unit 4	2,653,537.89	2,653,537.89	100.00%	It is expected to be uncollectible
Unit 5	<u>645,139.57</u>	<u>645,139.57</u>	100.00%	It is expected to be uncollectible
	<u>39,038,338.99</u>	<u>39,038,338.99</u>		

The ECL calculated by the Group using the allowance for bad debt matrix is as follows:

	2019		
	Estimated default carrying amount balance	ECL rate (%)	Lifetime ECL
Not past due	1,990,192,266.57	0.23	4,577,028.83
Within 1 year past due	19,232,725.65	0.92	176,601.27
1 to 2 years past due	2,319,400.61	10.61	246,371.44
Over 2 years past due	<u>1,684,881.24</u>	<u>64.39</u>	<u>1,085,089.49</u>
	<u>2,013,429,274.07</u>	<u>0.30</u>	<u>6,085,091.03</u>
	2018		
	Estimated default carrying amount balance	ECL rate (%)	Lifetime ECL

Not past due	3,510,891,584.84	0.08	2,901,110.20
Within 1 year past due	101,284,830.27	7.26	7,356,720.01
1 to 2 years past due	41,810,683.02	19.86	8,302,408.08
Over 2 years past due	<u>46,219,509.27</u>	<u>92.51</u>	<u>42,757,468.42</u>
	<u>3,700,206,607.40</u>	<u>1.66</u>	<u>61,317,706.71</u>

V. Notes to the Major Items of Consolidated Financial Statements (continued)

3. Accounts receivable (continued)

The allowance for bad debts provided in 2019 and 2018 were RMB11,605,687.48 and RMB17,000,213.84 respectively. The allowance for bad debts reversed were RMB7,736,990.03 and RMB13,738,454.66 respectively, and the actual accounts receivable written-off were RMB1,886,982.66 and RMB8,300,092.57 respectively.

As at 31 December 2019 and 31 December 2018, the accounts receivable with carrying amount of RMB10,880,033.25 and RMB14,230,788.52 respectively were used to obtain bank loan mortgage.

As at 31 December 2019, the total amount of accounts receivable of the top five balances was RMB1,542,023,444.26, presenting 76.82% of the total balance of accounts receivable at end of year. As at 31 December 2018, the total amount of accounts receivable of the top five balances was RMB1,788,754,496.40, presenting 49.16% of the total balance of accounts receivable at end of year.

4. Financing receivables

	2019	2018
Commercial acceptance bill	1,220,000,000.00	957,907,228.51
Bank acceptance bill	<u>80,172,084.08</u>	<u>673,285,704.36</u>
	<u>1,300,172,084.08</u>	<u>1,631,192,932.87</u>

among which, pledged financing receivables are as follows:

	2019	2018
Commercial acceptance bill	-	1,500,000.00
Bank acceptance bill	<u>10,218,318.87</u>	<u>33,608,482.00</u>
	<u>10,218,318.87</u>	<u>35,108,482.00</u>

The Group endorses or discounts part of bank acceptance bills in its daily capital management. The business model of managing the above-mentioned bills receivable is both aimed at obtaining contractual cash flow and selling bills receivable. The Group classifies such bills receivable as financial assets measured at fair value and changes of which included in other comprehensive income, and reports it as financing receivables.

V. Notes to the Major Items of Consolidated Financial Statements (continued)

5. Prepayments

The prepayments are presented as follows:

	2019	2018
Prepayments	1,047,185,735.44	1,223,255,881.44
Less: allowance for bad debts of prepayments	(33,384,582.19)	(38,230,570.20)
	<u>1,013,801,153.25</u>	<u>1,185,025,311.24</u>

The aging analysis of prepayments is as follows:

	2019		2018	
	Original carrying amount	Proportion (%)	Original carrying amount	Proportion (%)
Within 1 year	971,407,968.57	92.77%	1,114,790,892.15	91.13%
1 to 2 years	10,870,916.67	1.04%	31,156,725.33	2.55%
2 to 3 years	5,600,286.27	0.53%	38,900,416.78	3.18%
Over 3 years	<u>59,306,563.93</u>	<u>5.66%</u>	<u>38,407,847.18</u>	<u>3.14%</u>
	<u>1,047,185,735.44</u>	<u>100%</u>	<u>1,223,255,881.44</u>	<u>100%</u>

Changes in allowance for bad debts of prepayments are as follows:

	2019	2018
Balance at the beginning of the year	38,230,570.20	39,301,806.60
Provision for the year	-	836,802.78
Reversal of the year	(600,000.00)	(1,509,855.84)
Written-off of the year	(1,994,967.72)	(2,351,718.42)
Acquisition of subsidiaries	-	1,953,535.08
Disposal of subsidiaries	(2,251,020.29)	-
Balance at the end of the year	<u>33,384,582.19</u>	<u>38,230,570.20</u>

As at 31 December 2019, the total amount of prepayments of the top five balances at end of year was RMB929,792,865.93, presenting 88.79% of the total balance of prepayments at end of year. As at 31 December 2018, the total amount of prepayments of the top five balances at end of year was RMB1,009,643,108.64, presenting 82.54% of the total balance of prepayments at end of year.

V. Notes to the Major Items of Consolidated Financial Statements (continued)

6. Other receivables

	2019	2018
Interest receivable	244,938,536.78	221,009,431.89
Other receivables	<u>1,054,781,282.74</u>	<u>1,010,414,640.53</u>
	<u>1,299,719,819.52</u>	<u>1,231,424,072.42</u>

Interest receivable

	2019	2018
Bank deposits	<u>244,938,536.78</u>	<u>221,009,431.89</u>

Other receivables

The aging analysis of other receivables is as follows:

	2019	2018
Within 1 year	1,032,105,038.56	961,347,490.83
1 to 2 years	15,777,605.88	22,979,273.04
2 to 3 years	4,468,350.88	19,691,452.37
Over 3 years	<u>2,683,287.42</u>	<u>11,865,537.51</u>
	1,055,034,282.74	1,015,883,753.75
Less: allowance for bad debts of other receivables	(<u>253,000.00</u>)	(<u>5,469,113.22</u>)
	<u>1,054,781,282.74</u>	<u>1,010,414,640.53</u>

Other receivables are classified by nature as follows:

	2019	2018
Receivables related to long-term assets disposal and relocation	629,099,851.00	281,173,177.61
Freight forwarding receivable	120,576,788.04	275,547,005.35
Tmall service fee rebate receivable	66,982,158.01	37,948,580.34
Temporary deposits on third-party payment platforms	49,301,157.88	97,971,602.04
Guarantee deposits	15,170,853.85	120,703,287.09
Others	<u>173,650,473.96</u>	<u>197,070,988.10</u>
	<u>1,054,781,282.74</u>	<u>1,010,414,640.53</u>

V. **Notes to the Major Items of Consolidated Financial Statements (continued)**

6. **Other receivables (continued)**

Other receivables (continued)

The changes in the allowance for bad debts of other receivables based on 12-month ECL and Lifetime ECL are as follows:

2019	Stage 1 ECL over the next 12 months	Stage 2 Lifetime ECL	Stage 3 Credit-impaired financial assets (Lifetime ECL)	Total
Balance at the beginning of the year	5,469,113.22	-	-	5,469,113.22
Balance at the beginning of the year among current year				
--Transfer to Stage 2	-	-	-	-
--Transfer to Stage 3	-	-	-	-
--Transfer back Stage 2	-	-	-	-
--Transfer back Stage 1	-	-	-	-
Provision for the year	-	-	-	-
Reversal of the year	-	-	-	-
Acquisition of subsidiaries	(5,216,113.22)	-	-	(5,216,113.22)
Balance at the end of the year	<u>253,000.00</u>	<u>-</u>	<u>-</u>	<u>253,000.00</u>
2018	Stage 1 ECL over the next 12 months	Stage 2 Lifetime ECL	Stage 3 Credit-impaired financial assets (Lifetime ECL)	Total
Balance at the beginning of the year	2,933,557.59	-	-	2,933,557.59
Balance at the beginning of the year among current year				
--Transfer to Stage 2	-	-	-	-
--Transfer to Stage 3	-	-	-	-

--Transfer back Stage 2	-	-	-	-
--Transfer back Stage	-	-	-	-
Provision for the year	274,418.10	-	-	274,418.10
Reversal of the year (	51,292.54)	-	-	(51,292.54)
Written-off of the year (	93,715.91)	-	-	(93,715.91)
Acquisition of subsidiaries	2,706,145.98	-	-	2,706,145.98
Classified as assets held for sale	(300,000.00)	-	-	(300,000.00)
Balance at the end of the year	<u>5,469,113.22</u>	<u>-</u>	<u>-</u>	<u>5,469,113.22</u>

V. Notes to the Major Items of Consolidated Financial Statements (continued)

6. Other receivables (continued)

Other receivables (continued)

As at 31 December 2019, the top five other receivables are as follows:

	Balance at the end of the year	Percentage of total other receivables (%)	Nature	Aging	Allowance for bad debts
Natural Resources Bureau of Laoshan District	320,329,851.00	30.36%	Receivables related to long-term assets disposal and relocation	Within one year	-
Haier Group Corporation	215,130,000.00	20.39%	Receivables related to long-term assets disposal and relocation	Within one year	-
Chongqing Haier Electronics Sales Co., Ltd.	106,418,349.00	10.09%	Freight forwarding receivable	Within one year	-
Qingdao Haier Industry and City Innovation Group Co., Ltd.	88,640,000.00	8.40%	Receivables related to long-term assets disposal and relocation	Within one year	-
Zhejiang Tmall Technology Co., Ltd.	66,982,158.01	6.35%	Tmall service fee rebate receivable	Within one year	-
	<u>797,500,358.01</u>	<u>75.59%</u>			-

As at 31 December 2018, the top five other receivables are as follows:

	Balance at the end of the year	Percentage of total other receivables (%)	Nature	Ageing	Allowance for bad debts

Chongqing Haier Electronics Sales Co., Ltd.	262,966,647.92	25.89%	Freight forwarding receivable	Within one year	-
Dongfeng Motor Group Company Limited	211,893,177.61	20.86%	Receivables related to long-term assets disposal and relocation	Within one year	-
Qingdao Haier Industry and City Innovation Group Co., Ltd.	69,280,000.00	6.82%	Receivables related to long-term assets disposal and demolition	Within one year	-
Alipay (China) Network Technology Company Limited	43,869,410.75	4.32%	Temporary deposits on third-party payment platforms	Within one year	-
Bank of Communication Trustee Ltd.	40,225,680.38	3.96%	Others	Within one year	-
	<u>628,234,916.66</u>	<u>61.84%</u>			<u>-</u>

V. Notes to the Major Items of Consolidated Financial Statements (continued)

7. Inventories

	2019			2018		
	Carrying amount balance	Provisions for impairment	Carrying amount	Carrying amount balance	Provisions for impairment	Carrying amount
Raw material	99,689,340.58	1,679,804.43	98,009,536.15	74,230,802.35	1,878,502.18	72,352,300.17
Work in progress	73,763,017.41	-	73,763,017.41	56,843,634.82	-	56,843,634.82
Finished products	10,219,045,494.11	324,738,231.34	9,894,307,262.77	8,797,723,128.24	245,386,886.10	8,552,336,242.14
	<u>10,392,497,852.10</u>	<u>326,418,035.77</u>	<u>10,066,079,816.33</u>	<u>8,928,797,565.41</u>	<u>247,265,388.28</u>	<u>8,681,532,177.13</u>

Changes in provisions for inventory impairment are as follows:

2019

	Balance at the beginning of the year	Provision in the year	Decrease in the year		Balance at the end of the year
			Written-off the year	Reversal of the year	
Raw material	1,878,502.18	-	(198,697.75)	-	1,679,804.43
Finished products	245,386,886.10	312,439,801.51	(233,088,456.27)	-	324,738,231.34
	<u>247,265,388.28</u>	<u>312,439,801.51</u>	<u>(233,287,154.02)</u>	<u>-</u>	<u>326,418,035.77</u>

2018

	Balance at the beginning of the year	Provision in the year	Decrease in the year			Balance at the end of the year
			Written-off the year	Reversal of the year	Disposal of subsidiaries	
Raw material	2,213,728.06	-(95,466.84)	(239,759.04)	-	-	1,878,502.18
Finished products	180,753,503.75	233,870,049.78	(143,639,594.51)	-	(25,597,072.92)	245,386,886.10

182,967,231.81 233,870,049.78 (143,735,061.35) (239,759.04) (25,597,072.92) 247,265,388.28

Inventories are priced at the lower of the cost on the balance sheet date and the net realisable value. The net realisable value is determined based on the net value of the estimated selling price less further processing costs, estimated sales expenses and relevant taxes in daily activities. The written-off provisions for inventory impairment was caused by the disposal of raw materials or the realisation of sales of inventory products.

V. Notes to the Major Items of Consolidated Financial Statements (continued)

8. Assets/liabilities held for sale

In 2018, Qingdao Gooday Logistics Co., Ltd. ("Gooday Logistics"), a subsidiary of the Group, and a non-controlling shareholder of Shengfeng Logistics Co., Ltd. ("Shengfeng Logistics") entered into an equity transfer agreement to sell 58.08% of its equity interest in Shengfeng Logistics at RMB798,354,438.00, of which 50.37% have been sold before 31 December 2018, and the remaining 7.71% have been sold in 2019. The Group classified the remaining equity interest in Shengfeng Logistics held by Gooday Logistics as assets held for sale, and its fair value as at 31 December 2018 was RMB106,009,843.00.

In 2018, Shanghai Grand Logistics Co., Ltd., a subsidiary of the Group, and a non-controlling shareholder of Shanghai Guangfulai Co., Ltd. ("Guangfulai") entered into an equity transfer agreement to sell 67.45% of its equity interest in Guangfulai at RMB5,058,750.01. The transaction was completed in 2019. As at 31 December 2018, the assets and liabilities of Guangfulai's book were accounted for in assets/liabilities held for sale, and their carrying amount were as follows:

	2018
Monetary funds	317,327.18
Accounts receivable	24,775,848.32
Prepayments	4,553,000.00
Other receivables	2,287,022.50
Inventories	5,321,463.95
Other current assets	195,367.87
Investments in other equity instruments	500,000.00
Fixed assets	55,895.62
Intangible assets	<u>75,444.95</u>
Assets held for sale	<u>38,081,370.39</u>
Short-term borrowings	11,106,294.79
Accounts payable	9,763,656.69
Contract liabilities	2,747,152.17
Payables for staff's remuneration	(40,286.30)
Taxes payable	39,728.48
Other payables	<u>8,745,722.05</u>
Liabilities held for sale	<u>32,362,267.88</u>

As Shengfeng Logistics and Guangfulai are classified as assets/liabilities held for sale, the above assets and liabilities are no longer included in the logistics business segment of the operating segment.

V. Notes to the Major Items of Consolidated Financial Statements (continued)

9. Other current assets

	2019	2018
Credit tax available for deduction	1,065,045,328.57	690,187,530.35
Wealth management products measured at amortised cost	3,054,091,021.22	2,814,531,840.90
Returns cost receivable	351,573,566.19	290,019,412.98
Debt investment	-	6,000,000.00
	4,470,709,915.98	3,800,738,784.23
Less: impairment provision of other current assets	(68,233,848.89)	(46,604,706.31)
	<u>4,402,476,067.09</u>	<u>3,754,134,077.92</u>

Changes in the impairment provision of other current assets are as follows:

2019

	Balance at the beginning of the year	Provision for the year	Decrease in the year	Balance at the end of the year
			Reversal Written-off /Written-back	
Impairment provision of credit tax available for deduction	5,489,980.82	-	- (2,213,819.49)	3,276,161.33
Impairment provision of of returns cost receivable	41,114,725.49	64,957,687.56	- (41,114,725.49)	64,957,687.56
	<u>46,604,706.31</u>	<u>64,957,687.56</u>	<u>- (43,328,544.98)</u>	<u>68,233,848.89</u>

2018

	Balance at the beginning of the year	Provision for the year	Decrease in the year	Balance at the end of the year
			Reversal Written-off /Written-back	
Impairment provision of credit tax available for deduction	-	5,489,980.82	-	5,489,980.82
Impairment provision of of returns cost receivable	47,033,440.37	41,114,725.49	- (47,033,440.37)	41,114,725.49
	<u>47,033,440.37</u>	<u>46,604,706.31</u>	<u>- (47,033,440.37)</u>	<u>46,604,706.31</u>

V. Notes to the Major Items of Consolidated Financial Statements (continued)

10. Long-term equity investment

2019

			Changes in the year							Carrying amount at the end of the year	
			Balance at the beginning of the year	Increase in investment	Decrease in investment	Disposal of part of the equity of the subsidiaries converting to associates	Disposal of subsidiaries	Investment profit or loss under the equity method	Other comprehensive income		Other equity changes
Associates											
Guangzhou Heying Investment Partnership (Limited Partnership)			176,064,809.68	-	(3,920,000.00)	-	-	-	47,053,825.13	-	219,198,634.81
Qingdao Home Wow Cloud Network Technology Co., Ltd.			1,216,581.33	-	-	-	-	(420,718.03)	-	2,372,996.68	3,168,859.98
Beijing Cangxiaowei Supply Chain Management Co., Ltd.			791,316.96	-	-	-	(791,316.96)	-	-	-	-
Bingji (Shanghai) Enterprise Management Co., Ltd.			-	-	-	628,497.47	-	2,784.37	-	-	631,281.84
Youjin (Shanghai) Corporate Management Co., Ltd.			-	-	-	628,497.47	-	2,784.37	-	-	631,281.84
Gooday (Shanghai) Investment Company Limited			-	-	-	5,375,661,905.47	-	98,083,513.24	-	-	5,473,745,418.71
BWT Haier Water Technology Co., Ltd.			-	23,401,518.00	-	-	-	(1,676,172.75)	-	-	21,725,345.25
Sub-total			178,072,707.97	23,401,518.00	(3,920,000.00)	5,376,918,900.41	(791,316.96)	95,992,191.20	47,053,825.13	2,372,996.68	5,719,100,822.43

2018

			Changes in the year							Carrying amount at the end of the year
			Balance at beginning of year	Increase in investment	Disposal of subsidiaries	Investment profit or loss under the equity method	Other comprehensive income	Other equity changes	Declaration of cash dividend	
Associates										
Guangzhou Heying Investment Partnership (Limited Partnership)			152,047,535.44	-	-	-	24,017,274.24	-	-	176,064,809.68
Fuzhou Jinan District Shengfeng Guorong Microfinance Co., Ltd.			80,593,520.67	-	(80,593,520.67)	-	-	-	-	-
Fujian Bafang Shengfeng Logistics Co., Ltd.			12,750,823.51	-	(12,622,876.94)	272,053.43	-	-	(400,000.00)	-

Qingdao Home Wow Cloud Network Technology Co., Ltd.	1,755,356.85	-	-	(538,775.52)	-	-	-	1,216,581.33
Beijing Cangxiaowei Supply Chain Management Co., Ltd.	-	<u>185,413.87</u>	-	(79,581.45)	-	<u>685,484.54</u>	-	<u>791,316.96</u>
Sub-total	<u>247,147,236.47</u>	<u>185,413.87</u>	<u>(93,216,397.61)</u>	<u>(346,303.54)</u>	<u>24,017,274.24</u>	<u>685,484.54</u>	<u>(400,000.00)</u>	<u>178,072,707.97</u>

V. Notes to the Major Items of Consolidated Financial Statements (continued)

11. Other equity instruments investments

2019

		Changes in fair value accumulated in other comprehensive income	Fair value	Dividend income for the year	Reason for designating as measured at fair value and changes of which included in other comprehensive income
Sinopec Sales Company Limited	1,282,581,915.63	(39,551,915.63)	1,243,030,000.00	38,549,487.32	It is expected to be strategically held for a long time
Haier Kaaosi IOT Ecosystem Technology Limited	556,000,000.00	40,610,000.00	596,610,000.00	-	It is expected to be strategically held for a long time
China- U.S.Industrial Corporation Offshore Partnership, L.P.	10,626,130.59	(2,760,253.10)	7,865,877.49	-	It is expected to be strategically held for a long time
	<u>1,849,208,046.22</u>	<u>(1,702,168.73)</u>	<u>1,847,505,877.49</u>	<u>38,549,487.32</u>	

2018

		Changes in fair value accumulated in other comprehensive income	Fair value	Dividend income for the year	Reason for designating as measured at fair value and changes of which included in other comprehensive income
Sinopec Sales Company Limited	<u>1,282,581,915.63</u>	<u>(20,917,915.63)</u>	<u>1,261,664,000.00</u>	<u>104,823,078.63</u>	It is expected to be strategically held for a long time

12. Other non-current financial assets

	2019	2018
Financial assets measured at fair value and changes of which included in current profit and loss		
Long-term wealth		
management products	294,547,364.47	327,358,825.57
Derivative financial instruments	<u>77,057,328.58</u>	<u>95,518,757.96</u>
	<u>371,604,693.05</u>	<u>422,877,583.53</u>

V. Notes to the Major Items of Consolidated Financial Statements (continued)

13. Investment properties

The cost model is adopted for subsequent measurement:

Houses and buildings	2019	2018
Original cost		
Balance at the beginning of the year	42,748,879.09	41,505,125.33
Fluctuation of exchange rate	<u>415,651.18</u>	<u>1,243,753.76</u>
Balance at the end of the year	<u>43,164,530.27</u>	<u>42,748,879.09</u>
Accumulated depreciation		
Balance at the beginning of the year	(14,300,300.92)	(12,090,376.30)
Provision	(2,105,412.40)	(2,063,476.78)
Fluctuation of exchange rate	<u>(65,995.41)</u>	<u>(146,447.84)</u>
Balance at the end of the year	<u>(16,471,708.73)</u>	<u>(14,300,300.92)</u>
Carrying amount		
At the end of the year	<u>26,692,821.54</u>	<u>28,448,578.17</u>
At the beginning of the year	<u>28,448,578.17</u>	<u>29,414,749.03</u>

As at 31 December 2019 and 31 December 2018, the investment properties with carrying amount of RMB6,467,412.71 and RMB7,615,351.75, respectively, has not yet processed the title certificate registered in the name of the Company's subsidiaries. Thus, Haier Group Corporation has made a commitment to the Company on related property rights issues. Please refer to item 14 in note V for details.

V. Notes to the Major Items of Consolidated Financial Statements (continued)

14. Fixed assets

2019

	Houses and building s	Machinery equipment	Vehicles	Tools, furniture and fixtures	Freehold land	Total
Original cost						
Balance at the beginning of the year	2,793,379,303.93	1,934,784,698.11	127,720,306.06	182,302,035.84	20,008,070.13	5,058,194,414.07
Acquisition	-	2,550,465.89	159,623.76	1,169,530.11	-	3,879,619.76
Transfer to construction in progress	587,488,003.13	1,494,360,505.60	17,321,258.97	119,981,900.16	-	2,219,151,667.86
Business combinations not under common control	-	-	1,439,385.90	417,374.13	-	1,856,760.03
Disposals or write-off	(163,148,758.81)	(159,604,405.51)	(4,933,120.42)	(11,096,786.04)	-	(338,783,070.78)
Disposal of subsidiaries	(1,728,450,435.79)	(106,405,026.58)	(105,162,355.14)	(24,540,262.86)	-	(1,964,558,080.37)
Other transferring out	(875,915.67)	(192,155,723.05)	-	(170,854.70)	-	(193,202,493.42)
Fluctuation of exchange rate	(1,750,955.50)	(1,574,201.64)	(32,335.48)	(462,976.33)	(178,899.90)	(3,999,368.85)
Balance at the end of the year	<u>1,486,641,241.29</u>	<u>2,971,956,312.82</u>	<u>36,512,763.65</u>	<u>267,599,960.31</u>	<u>19,829,170.23</u>	<u>4,782,539,448.30</u>
Accumulated depreciation						
Balance at the beginning of the year	(768,188,310.23)	(687,637,298.35)	(85,606,674.63)	(82,857,202.85)	-	(1,624,289,486.06)
Provision	(90,198,964.38)	(176,454,043.44)	(10,094,280.74)	(26,319,001.98)	-	(303,066,290.54)
Disposals or write-off	110,358,409.14	115,504,934.21	4,459,577.61	10,206,724.38	-	240,529,645.34
Disposal of subsidiaries	347,223,522.77	62,521,053.60	85,252,337.85	14,229,115.21	-	509,226,029.43
Other transferring out	121,109.39	42,012,518.71	-	62,455.29	-	42,196,083.39
Fluctuation of exchange rate	<u>668,148.83</u>	<u>1,513,068.12</u>	<u>35,289.74</u>	<u>425,660.39</u>	<u>-</u>	<u>2,642,167.08</u>
Balance at the end of the year	<u>(400,016,084.48)</u>	<u>(642,539,767.15)</u>	<u>(5,953,750.17)</u>	<u>(84,252,249.56)</u>	<u>-</u>	<u>(1,132,761,851.36)</u>
Carrying amount						
At the end of the year	<u>1,086,625,156.81</u>	<u>2,329,416,545.67</u>	<u>30,559,013.48</u>	<u>183,347,710.75</u>	<u>19,829,170.23</u>	<u>3,649,777,596.94</u>
At the beginning of the year	<u>2,025,190,993.70</u>	<u>1,247,147,399.76</u>	<u>42,113,631.43</u>	<u>99,444,832.99</u>	<u>20,008,070.13</u>	<u>3,433,904,928.01</u>

V. Notes to the Major Items of Consolidated Financial Statements (continued)

14. Fixed assets(continued)

2018

	Houses and buildings	Machinery equipment	Vehicles	Tools, furniture and fixtures	Freehold land	Total
Original cost						
Balance at the beginning of the year	2,817,897,610.13	1,633,774,078.33	198,022,946.39	155,631,054.45	19,852,567.05	4,825,178,256.35
Acquisition	22,688.68	8,209,011.55	16,054,379.80	2,766,164.83	-	27,052,244.86
Transfer to construction in progress	287,593,334.09	459,627,455.39	23,820,151.15	42,867,776.62	-	813,908,717.25
Business combinations not under common control	-	-	1,708,641.82	1,828,933.42	-	3,537,575.24
Disposals or write-off	(150,483,879.21)	(156,533,686.44)	(19,920,794.67)	(4,469,862.59)	-	(331,408,222.91)
Disposal of subsidiaries	(163,430,690.98)	(11,702,286.08)	(91,934,008.22)	(17,191,941.92)	-	(284,258,927.20)
Classified as held for sale	-	-	(179,974.94)	(39,589.80)	-	(219,564.74)
Fluctuation of exchange rate	<u>1,780,241.22</u>	<u>1,410,125.36</u>	<u>28,106.01</u>	<u>700,153.32</u>	<u>155,503.08</u>	<u>4,074,128.99</u>
Balance at the end of the year	<u>2,793,379,303.93</u>	<u>1,934,784,698.11</u>	<u>127,599,447.34</u>	<u>182,092,688.33</u>	<u>20,008,070.13</u>	<u>5,057,864,207.84</u>
Accumulated depreciation						
Balance at the beginning of the year	(671,382,453.58)	(680,368,526.67)	(91,605,150.66)	(73,417,769.76)	-	(1,516,773,900.67)
Provision	(124,845,723.9)	(145,178,663.60)	(18,337,526.69)	(20,645,471.89)	-	(309,007,386.16)
Disposals or write-off	16,702,401.63	137,622,561.68	16,801,684.45	2,984,598.49	-	174,111,246.25
Disposal of subsidiaries	12,059,900.51	1,637,558.42	7,492,815.23	8,506,623.69	-	29,696,897.85
Classified as held for sale	-	-	153,027.28	10,641.84	-	163,669.12
Fluctuation of exchange rate	(<u>722,434.81</u>)	(<u>1,350,228.18</u>)	<u>9,334.48</u>	(<u>86,477.71</u>)	-	(<u>2,149,806.22</u>)
Balance at the end of the year	(<u>768,188,310.23</u>)	(<u>687,637,298.35</u>)	(<u>85,485,815.91</u>)	(<u>82,647,855.34</u>)	-	(<u>1,623,959,279.83</u>)
Carrying amount						
At the end of the year	<u>2,025,190,993.70</u>	<u>1,247,147,399.76</u>	<u>42,113,631.43</u>	<u>99,444,832.99</u>	<u>20,008,070.13</u>	<u>3,433,904,928.01</u>
At the beginning of the year	<u>2,146,515,156.55</u>	<u>953,405,551.66</u>	<u>106,417,795.73</u>	<u>82,213,284.69</u>	<u>19,852,567.05</u>	<u>3,308,404,355.68</u>

As at 31 December 2019 and 31 December 2018, the houses and buildings with carrying amount of RMB136,569,428.88 and RMB530,905,912.21, respectively, have not yet processed the title certificate registered in the name of the Company's subsidiaries.

For title certificate of houses and buildings, investment property and land use rights that have not been registered in the name of the Company or its subsidiaries, Haier Group has made a commitment to the Company in previous years and agrees to provide other appropriate properties for the Group to ensure that the relevant subsidiaries of the Company operate normally or supplement the related losses of the Group. Due to plant relocation and asset swap, as at 31 December 2019, for buildings without Haier Group's guarantees that have not handled the title certificate, Haier Group guaranteed the houses and buildings with carrying amount of RMB113,786,995.92 without title certificate on 31 December 2018. The Group believes that although it has not obtained the relevant title certificate of houses and buildings, it will not affect the Group's legal possession and use of the above-mentioned houses and buildings.

As at 31 December 2019, RMB45,383,410.68 of houses and buildings and RMB9,367,222.14 of freehold land were used as mortgages to obtain bank loans. As at 31 December 2018, RMB45,853,205.78 of houses and buildings and RMB9,464,188.74 of freehold land were used as mortgages to obtain bank loans. Please refer to item 61 in note V for details.

V. Notes to the Major Items of Consolidated Financial Statements (continued)

15. Construction in progress

	2019	2018
Construction in progress	<u>1,052,836,165.70</u>	<u>1,912,720,758.61</u>

Construction in progress

	2019			2018		
	Carrying amount balance	Provision for impairment	Carrying amount	Carrying amount balance	Provision for impairment	Carrying amount
Washing machine construction upgrade and renovation project	374,847,628.96	-	374,847,628.96	1,121,434,790.33	-	1,121,434,790.33
Water heater construction upgrade and renovation project	626,878,567.23	-	626,878,567.23	221,024,503.84	-	221,024,503.84
Goodymart Logistics warehouse project	-	-	-	522,865,557.84	-	522,865,557.84
Others	<u>51,109,969.51</u>	<u>-</u>	<u>51,109,969.51</u>	<u>47,395,906.60</u>	<u>-</u>	<u>47,395,906.60</u>
	<u>1,052,836,165.70</u>	<u>-</u>	<u>1,052,836,165.70</u>	<u>1,912,720,758.61</u>	<u>-</u>	<u>1,912,720,758.61</u>

The changes in major construction in progress of 2019 are as follows:

	Budget	Balance at the beginning of the year	Increase in the year	Transfer to fixed assets in the year	Balance at the end of the year	Source of funds	Expenditures of budget	percentage of
Washing machine construction upgrade and renovation project	2,261,514,060.75	1,121,434,790.33	1,140,079,270.42	(1,886,666,431.79)	374,847,628.96	Self-funding		100%
Water heater construction upgrade and renovation project	<u>947,457,307.11</u>	<u>221,024,503.84</u>	<u>695,888,700.50</u>	<u>(290,034,637.11)</u>	<u>626,878,567.23</u>	Self-funding		97%

The changes in major construction in progress of 2018 are as follows:

	Budget	Balance at the beginning of the year	Increase in the year	Transfer to fixed assets in the year	Balance at the end of the year	Source of funds	Expenditures percentage of budget
Washing machine construction upgrade and renovation project	1,713,283,175.15	425,970,669.74	1,211,299,765.61	(515,835,645.02)	1,121,434,790.33	Self-funding	96%
Water heater construction upgrade and renovation project	490,785,780.51	29,871,431.86	288,645,876.01	(97,492,804.03)	221,024,503.84	Self-funding	65%
Goodymart Logistic warehouse project	<u>1,273,791,483.78</u>	<u>220,936,821.81</u>	<u>472,163,738.05</u>	<u>(170,235,002.02)</u>	<u>522,865,557.84</u>	Self-funding	54%

V. Notes to the Major Items of Consolidated Financial Statements (continued)

16. Right-of-use assets

2019

	Houses and buildings	Machinery equipment	Total
Cost			
Balance at the beginning of the year	1,380,429,238.65	1,182,772.46	1,381,612,011.11
Addition	305,564,083.58	-	305,564,083.58
Disposal of subsidiaries	(1,209,045,826.53)	-	(1,209,045,826.53)
Balance at the end of the year	<u>476,947,495.70</u>	<u>1,182,772.46</u>	<u>478,130,268.16</u>
Accumulated depreciation			
Balance at the beginning of the year	(393,169,196.86)	(709,663.48)	(393,878,860.34)
Provision	(256,605,774.84)	(149,402.83)	(256,755,177.67)
Disposal of subsidiaries	<u>226,376,405.83</u>	<u>-</u>	<u>226,376,405.83</u>
Balance at the end of the year	<u>(423,398,565.87)</u>	<u>(859,066.31)</u>	<u>(424,257,632.18)</u>
Carrying amount			
At the end of the year	<u>53,548,929.83</u>	<u>323,706.15</u>	<u>53,872,635.98</u>
At the beginning of the year	<u>987,260,041.79</u>	<u>473,108.98</u>	<u>987,733,150.77</u>

V. Notes to the Major Items of Consolidated Financial Statements (continued)

17. Intangible asset

2019

	Land use rights	Trademarks and patents	Software	Total
Original cost				
Balance at the beginning of the year	1,295,371,702.66	74,913,301.35	140,925,616.91	1,511,210,620.92
Acquisition	218,369,334.38	-	36,460,227.68	254,829,562.06
Business combinations not under common control	-	-	2,346,858.39	2,346,858.39
Disposal	(16,900,000.00)	-	-	(16,900,000.00)
Disposal of subsidiaries	(1,168,593,346.59)	(57,800,000.00)	(18,825,663.51)	(1,245,219,010.10)
Fluctuation of exchange rate	-	315,864.14	344,832.91	660,697.05
Balance at the end of the year	<u>328,247,690.45</u>	<u>17,429,165.49</u>	<u>161,251,872.38</u>	<u>506,928,728.32</u>
Accumulated amortization				
Balance at the beginning of the year	(126,809,212.76)	(17,448,700.70)	(50,604,986.88)	(194,862,900.34)
Provision	(18,430,118.08)	(1,957,964.52)	(14,493,783.67)	(34,881,866.27)
Disposal	13,683,813.66	-	-	13,683,813.66
Disposal of subsidiaries	98,877,050.16	7,040,000.00	12,956,802.48	118,873,852.64
Fluctuation of exchange rate	-	(354,499.86)	(351,829.44)	(706,329.30)
Balance at the end of the year	<u>(32,678,467.02)</u>	<u>(12,721,165.08)</u>	<u>(52,493,797.51)</u>	<u>(97,893,429.61)</u>
Provision for impairment				
Balance at the beginning and end of the year	-	-	(9,965,107.96)	(9,965,107.96)
Carrying amount				

At the end of the year	<u>295,569,223.43</u>	<u>4,708,000.41</u>	<u>98,792,966.91</u>	<u>399,070,190.75</u>
At the beginning of the year	<u>1,168,562,489.90</u>	<u>57,464,600.65</u>	<u>80,355,522.07</u>	<u>1,306,382,612.62</u>

V. Notes to the Major Items of Consolidated Financial Statements (continued)

17. Intangible asset (continued)

2018

	Land use rights	Trademarks and patents	Software	Total
Original cost				
Balance at the beginning of the year	1,300,902,141.54	74,223,997.20	78,885,042.04	1,454,011,180.78
Acquisition	164,718,356.11	282,267.85	64,761,536.89	229,762,160.85
Business combinations not under common control	-	-	15,759.00	15,759.00
Disposal	(108,576,175.00)	-	-	(108,576,175.00)
Disposal of subsidiaries	(61,672,619.99)	-	(3,011,861.42)	(64,684,481.41)
Classified as held for sale	-	-	(170,439.00)	(170,439.00)
Fluctuation of exchange rate	-	407,036.30	445,579.40	852,615.70
Balance at the end of the year	<u>1,295,371,702.66</u>	<u>74,913,301.35</u>	<u>140,925,616.91</u>	<u>1,511,210,620.92</u>
Accumulated amortization				
Balance at the beginning of the year	(112,121,050.22)	(14,425,446.88)	(38,137,988.63)	(164,684,485.73)
Provision	(27,315,192.31)	(2,639,832.18)	(12,689,898.31)	(42,644,922.80)
Disposal	7,962,252.82	-	575,182.07	8,537,434.89
Disposal of subsidiaries	4,664,776.95	-	-	4,664,776.95
Classified as held for sale	-	-	94,994.05	94,994.05
Fluctuation of exchange rate	-	(383,421.64)	(447,276.06)	(830,697.70)
Balance at the end of the year	<u>(126,809,212.76)</u>	<u>(17,448,700.70)</u>	<u>(50,604,986.88)</u>	<u>(194,862,900.34)</u>

Provision for impairment

Balance at the beginning and end of the year

- - (9,965,107.96) (9,965,107.96)

Carrying amount

At the end of the year

1,168,562,489.90 57,464,600.65 80,355,522.07 1,306,382,612.62

At the beginning of the year

1,188,781,091.32 59,798,550.32 30,781,945.45 1,279,361,587.09

V. Notes to the Major Items of Consolidated Financial Statements (continued)

17. Intangible asset (continued)

As at 31 December 2019 and 31 December 2018, the Group had no intangible assets formed through internal research and development.

As at 31 December 2018, the carrying amount of the land for which the Group has not handled the title certificate totaled RMB40,940,557.69. Haier Group made a commitment to the Company in previous years and agrees to provide other appropriate properties for the Group to ensure that the relevant subsidiaries of the Company operate normally or supplement the related losses of the Group. The management of the Company believes that the Company has the right to legally and effectively occupy and use the above-mentioned lands, and the management of the Company believes that the aforesaid matters will not have any material adverse impact on the overall financial condition of the Company on 31 December 2018. As at 31 December 2019, the Group had no lands for which the title certificate has not yet been handled.

18. Goodwill

2019

	Balance at the beginning of the year	Increase in the year Business combinations not under common control	Decrease in the year Disposal of subsidiaries	Balance at the end of the year
Peiji Logistics Group Co., Ltd.	161,083,812.46	-	(161,083,812.46)	-
Qingdao Haier Strauss Water Equipment Co., Ltd.	83,174,470.00	-	-	83,174,470.00
Shanghai Boyol New Brothers Supply Chain Management Co.,	68,407,241.86	-	(68,407,241.86)	-

Ltd.					
Shanghai Feisheng International Logistics Co., Ltd.	-	21,085,434.41	(	21,085,434.41)	-
Shanghai Grand Logistics Co., Ltd. Qingdao	29,079,469.66		-	(	29,079,469.66)
Goodaymart Home Furnishing Service Co., Ltd.	6,123,000.00		-	(	6,123,000.00)
GREENoneTEC Solarindustrie GmbH	<u>3,298,757.75</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,298,757.75</u>
	<u>351,166,751.73</u>	<u>21,085,434.41</u>	<u>(</u>	<u>285,778,958.39)</u>	<u>86,473,227.75</u>

V. Notes to the Major Items of Consolidated Financial Statements (continued)

18. Goodwill (continued)

2018

	Balance at the beginning of the year	Increase in the year Business combinations not under common control	Decrease in the year Disposal of subsi diaries	Balance at the end of the year
Shengfeng Logistics Co., Ltd.	317,954,690.69	-	(317,954,690.69)	-
Peiji Logistics Group Co., Ltd.	-	161,083,812.46	-	161,083,812.46
Qingdao Haier Strauss Water Equipment Co., Ltd.	83,174,470.00	-	-	83,174,470.00
Shanghai Boyol New Brothers Supply Chain Management Co., Ltd.	68,407,241.86	-	-	68,407,241.86
Shanghai Grand Logistics Co., Ltd.	29,079,469.66	-	-	29,079,469.66
Qingdao Goodaymart Home Furnishing Service Co., Ltd.	6,123,000.00	-	-	6,123,000.00
GREENoneTEC Solarindustrie GmbH	3,298,757.75	-	-	3,298,757.75
	<u>508,037,629.96</u>	<u>161,083,812.46</u>	<u>(317,954,690.69)</u>	<u>351,166,751.73</u>

The Group acquired Shanghai Feisheng International Logistics Co., Ltd. in June 2019, forming a goodwill of RMB21,085,434.41; in July 2018, the Group acquired Peiji Logistics Group Co., Ltd., forming a goodwill of RMB 161,083,812.46. For the calculation process, please refer to item 1 in note VI.

Since the primary cash flows generated by the aforementioned subsidiaries are independent from other subsidiaries of the Group, and the Group manages the production activities of the aforementioned subsidiaries separately, each subsidiary is an asset group, and the goodwill formed by the merger of enterprises is allocated to the corresponding subsidiaries for impairment test. The goodwill obtained from the merger of enterprises has been allocated to the following asset groups for impairment test:

Peiji Logistics Group Co., Ltd. (“Peiji Logistics”)
 Qingdao Haier Strauss Water Equipment Co., Ltd. (“Haier Strauss”)
 Shanghai Boyol New Brothers Supply Chain Management Co., Ltd. (“Shanghai Boyol”)
 Shanghai Grand Logistics Co., Ltd. (“Shanghai Grand”)
 Qingdao Goodaymart Home Furnishing Service Co., Ltd. (“Home Furnishing Service”)
 GREENoneTEC Solarindustrie GmbH (“GoT”)

V. Notes to the Major Items of Consolidated Financial Statements (continued)

18. Goodwill (continued)

The key parameters of the Group's goodwill impairment test are presented as follows:

Peiji Logistics

The management recognises the recoverable amount based on the present value of the cash flow of the asset group's financial forecast for the next 5 years. The key parameters used by the management in the test are as follows: the revenue growth rate in forecast period is 9%, and the sustainable growth rate is 3%. The rates are mainly based on this Company's average revenue growth rate and the forecast of the future industry scale development trend. The pre-tax discount rate is 16.4%, calculated using the weighted average cost of capital model, and the gross profit margin is determined with reference to the historical gross profit margin in the past three years.

Haier Strauss

The management recognises the recoverable amount based on the present value of the cash flow of the asset group's financial forecast for the next 5 years. The key parameters used by the management in the test are as follows: the revenue growth rate in forecast period is 10% (2018:10%), and the sustainable growth rate is 1% (2018:1%). The rates are mainly based on the Company's average revenue growth rate and the forecast of the future industry scale development trend. The pre-tax discount rate is 11.9% (2018:12.2%), calculated using the weighted average cost of capital model, and the gross profit margin is determined with reference to the historical gross profit margin in the past three years.

Shanghai Boyol

The management recognises the recoverable amount based on the present value of the cash flow of the asset group's financial forecast for the next 5 years. The key parameters used by the management in the test are as follows: the revenue growth rate in forecast period is 19%-27%, and the sustainable growth rate is 3%. The rates are mainly based on the Company's average revenue growth rate and the forecast of the future industry scale development trend. The pre-tax discount rate is 17.1%, calculated using the weighted average cost of capital model, and the gross profit margin is determined with reference to the historical gross margin in the past three years .

Shanghai Grand

The management recognises the recoverable amount based on the present value of the cash flow of the asset group's financial forecast for the next 10 years. The key parameters used by the management in the test are as follows: the revenue growth rate in forecast period is 9%, and the sustainable growth rate is 3%. The rates are mainly based on the Company's average revenue growth rate and the forecast of the future industry scale development trend. The pre-tax discount rate is 15.6%, calculated using the weighted average cost of capital model, and the gross profit margin is determined with reference to the historical gross profit margin in the past three years .

Home Furnishing Service

The management recognises the recoverable amount based on the present value of the cash flow of the asset group's financial forecast for the next 5 years. The key parameters used by the management in the test are as follows: the revenue growth rate in forecast period is 5%-49%, and the sustainable growth rate is 3%. The rates are mainly based on the Company's average revenue growth rate and the forecast of the future industry scale development trend. The pre-tax discount rate is 17.2%, calculated using the weighted average cost of capital model, and the gross profit margin is determined with reference to the historical gross margin in the past three years.

GoT

The management recognises the recoverable amount based on the present value of the cash flow of the asset group's financial forecast for the next 5 years. The key parameters used by the management in the test are as follows: the revenue growth rate in forecast period is 11%-14% (2018:11%-14%), and the sustainable growth rate is 3% (2018:3%). The rates are mainly based on the Company's average revenue growth rate and the forecast of the future industry scale development trend. The pre-tax discount rate is 15.7% (2018:15.7%), calculated using the weighted average cost of capital model, and the gross profit margin is determined with reference to the historical gross profit margin in the past three years.

V. Notes to the Major Items of Consolidated Financial Statements (continued)

19. Long-term prepaid expenses

2019

	Balance at the beginning of the year	Increase in the year	Amortization for the year	Disposal of subsid- iaries	Balance at the end of the year
Renovation costs	<u>49,895,655.06</u>	<u>231,741,824.33</u>	<u>(65,011,069.54)</u>	<u>(41,964,975.29)</u>	<u>174,661,434.56</u>

2018

	Balance at the beginning of the year	Increase in the year	Amortization for the year	Disposal of subsidiaries	Balance at the end of the year
Renovation costs	<u>46,420,734.38</u>	<u>36,107,249.28</u>	<u>(11,484,136.21)</u>	<u>(21,148,192.39)</u>	<u>49,895,655.06</u>

20. Deferred income tax assets / liabilities

The deferred income tax assets and deferred income tax liabilities before elimination are as follows:

	2019		2018	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Deferred income tax assets				
Unrealized earnings in internal transactions	2,186,293,347.18	369,374,506.49	991,241,391.82	206,524,014.10
Accruals	803,628,878.20	169,632,975.07	1,240,316,237.02	237,294,020.34
Other current liabilities	1,351,604,740.39	254,161,151.23	1,101,106,940.23	206,359,925.90
Estimated liabilities				
liabilities	538,452,476.01	110,256,282.82	568,804,418.45	117,404,659.30
Other	<u>276,154,678.87</u>	<u>45,887,446.47</u>	<u>578,468,324.13</u>	<u>118,068,240.85</u>
	<u>5,156,134,120.65</u>	<u>949,312,362.08</u>	<u>4,479,937,311.65</u>	<u>885,650,860.49</u>
	2019		2018	
	Taxable temporary difference	Deferred income tax liabilities	Taxable temporary difference	Deferred income tax liabilities
Deferred income tax liabilities				
Remeasure the fair value profit or loss of the disposal group	3,190,702,632.96	664,918,329.44	-	-
Reserve overseas corporate income tax	1,416,905,323.20	77,190,532.32	1,416,905,323.20	77,190,532.32
Adjustment to fair value of the business combination not under the common control	29,962,557.76	7,490,639.44	46,262,177.10	11,565,544.28
Others	659,872,050.34	107,570,707.36	39,420,345.02	9,855,086.25

<u>5,297,442,564.26</u>	<u>857,170,208.56</u>	<u>1,502,587,845.32</u>	<u>98,611,162.85</u>
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V. Notes to the Major Items of Consolidated Financial Statements (continued)

20. Deferred income tax assets / liabilities (continued)

Deferred tax assets and deferred tax liabilities are presented at the net amount after offsetting:

	2019		2018	
	Offsetting amount	Balance after offsetting	Offsetting amount	Balance after offsetting
Deferred income tax assets	<u>19,898,966.61</u>	<u>929,413,395.47</u>	<u>-</u>	<u>885,650,860.49</u>
Deferred income tax liabilities	<u>19,898,966.61</u>	<u>837,271,241.95</u>	<u>-</u>	<u>98,611,162.85</u>

The deductible temporary difference and deductible loss of the unrecognised deferred tax assets are presented as follows:

	2019	2018
Deductible temporary difference	332,330,602.60	150,223,000.00
Deductible loss	<u>575,160,242.11</u>	<u>583,506,658.14</u>
	<u>907,490,844.71</u>	<u>733,729,658.14</u>

The deductible temporary difference and deductible loss of the unrecognised deferred tax assets will expire in the following years:

	2019	2018
2019	-	134,967,799.67
2020	45,069,939.01	63,634,413.69
2021	15,372,572.03	41,742,620.03
2022	3,450,127.01	51,282,250.48
2023	191,093,345.63	407,826,963.30
2024	618,668,975.82	-
Long-term	<u>33,835,885.21</u>	<u>34,275,610.97</u>
	<u>907,490,844.71</u>	<u>733,729,658.14</u>

As at 31 December 2019 and 31 December 2018, the unrecognised balances of deferred income tax liabilities related to investments in subsidiaries and associates in Mainland China were RMB23,041,451,424.97 and RMB18,338,319,642.67, respectively. The directors believe that such earnings are unlikely to be distributed in the foreseeable future.

21. Other non-current assets

2019	2018
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Prepayments for equipment and land	<u>214,166,408.76</u>	<u>739,422,971.56</u>
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V. Notes to the Major Items of Consolidated Financial Statements (continued)

22. Impairment provision for assets

2019

	Balance at the beginning of the year	Provision for the year	Decrease in the year		Disposal of subsidiar ies	Balance at the end of the year
			Reversal	Written-off/Written- back		
Allowance for bad debts of accounts receivable)	
	61,317,706.71	11,605,687.48 (	7,736,990.03)(	1,886,982.66)(	57,214,330.47 2,251,020.29	6,085,091.03
Allowance for bad debts of prepayments)	
	38,230,570.20	- (	600,000.00)(	1,994,967.72)(	5,216,113.22)	33,384,582.19
Allowance for bad debts of other receivables						
	5,469,113.22	-	-	- (	-	253,000.00
Allowance for impairment of other current assets						
	46,604,706.31	64,957,687.56	- (	43,328,544.98)	-	68,233,848.89
Impairment provision of inventories						
	247,265,388.28	312,439,801.51	- (	233,287,154.02)		326,418,035.77
Allowance for impairment of intangible assets						
	9,965,107.96	-	-	-	-	9,965,107.96

<u>408,852,592.68</u>	<u>389,003,176.55</u>	<u>(8,336,990.03)</u>	<u>(280,497,649.38)</u>	<u>(64,681,463.98)</u>	<u>444,339,665.84</u>
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2018

	Balance at the beginning of the year	Provision for the year	Decrease in the year		Transferring as held for sale	Acquisition in the year	Disposal of subsidiaries	Balance at the end of the year
			Reversal	Written- off/Written- back				
Allowance for bad debts of accounts receivable	57,758,943.02	17,000,213.84	(13,738,454.66)	(8,300,092.57)	(174,317.41	16,381,442.70	(7,610,028.21	61,317,706.71
Allowance for bad debts of prepayments	39,301,806.60	836,802.78	(1,509,855.84)	(2,351,718.42)	-	1,953,535.08	-	38,230,570.20
Allowance for bad debts of other receivables	2,933,557.59	274,418.10	(51,292.54)	(93,715.91)	(300,000.00	2,706,145.98	-	5,469,113.22
Allowance for impairment of other current assets	-	46,604,706.31	-	-	-	-	-	46,604,706.31
Impairment provision of inventories	182,967,231.81	233,870,049.78	(239,759.04)	(143,735,061.35)	-	-	(25,597,072.92	247,265,388.28
Allowance for impairment of intangible assets	9,965,107.96	-	-	-	-	-	-	9,965,107.96
	<u>292,926,646.98</u>	<u>298,586,190.81</u>	<u>(15,539,362.08)</u>	<u>(154,480,588.25)</u>	<u>(474,317.41)</u>	<u>21,041,123.76</u>	<u>(33,207,101.13)</u>	<u>408,852,592.68</u>

V. Notes to the Major Items of Consolidated Financial Statements (continued)

23. Short-term borrowings

	2019	2018
Borrowings - secured by mortgage	68,231,758.92	48,545,413.05
Borrowings - secured by guarantor	-	20,000,000.00
Borrowings - secured by credit	-	253,685.93
	<u>68,231,758.92</u>	<u>68,799,098.98</u>

As at 31 December 2019 and 31 December 2018, the annual interest rates of the above borrowings were 0.50%-2.50% and 0.09%-4.75%, respectively.

As at 31 December 2019 and 31 December 2018, the Group had no overdue short-term loans.

24. Bills payable

	2019	2018
Commercial acceptance notes	385,563,319.57	425,452,556.22
Bank acceptance notes	-	2,500,000.00
	<u>385,563,319.57</u>	<u>427,952,556.22</u>

As at 31 December 2019 and 31 December 2018, the Group had no outstanding bills payable.

25. Accounts payable

Accounts payable are non-interest-bearing and are usually settled within 1 to 6 months.

	2019	2018
Payment for purchasing goods	1,768,183,892.45	1,217,219,926.58
Payment for purchasing raw materials	3,263,794,233.45	2,084,602,250.36
Payment for purchasing services	28,666,715.57	2,430,995,035.42
	<u>5,060,644,841.47</u>	<u>5,732,817,212.36</u>

As at 31 December 2019 and 31 December 2018, the Group had no important accounts payable with an age of more than 1 year.

V. Notes to the Major Items of Consolidated Financial Statements (continued)

26. Contract liabilities

	2019	2018
Relate to sales of goods	4,080,339,989.65	4,116,427,610.26
Related to provision of services	<u>734,732.60</u>	<u>69,487,893.77</u>
	<u>4,081,074,722.25</u>	<u>4,185,915,504.03</u>

27. Payables for staff's remuneration

2019

	Balance at the beginning of the year	Increase in the year	Decrease in the year	Balance at the end of the year
Short-term remuneration	558,951,980.22	4,838,610,545.17	4,820,463,797.57	577,098,727.82
Post-employment benefits (defined contribution plan)	3,283,726.70	175,488,611.61	176,518,254.22	2,254,084.09
Termination benefits	<u>1,748,027.82</u>	<u>11,166,217.70</u>	<u>12,914,245.52</u>	<u>-</u>
	<u>563,983,734.74</u>	<u>5,025,265,374.48</u>	<u>5,009,896,297.31</u>	<u>579,352,811.91</u>

2018

	Balance at the beginning of the year	Increase in the year	Decrease in the year	Balance at the end of the year
Short-term remuneration	523,662,737.99	4,906,081,341.98	4,870,792,099.75	558,951,980.22
Post-employment benefits (defined contribution plan)	7,188,412.85	169,680,595.33	173,585,281.48	3,283,726.70
Termination benefits	<u>2,802,324.50</u>	<u>9,404,937.53</u>	<u>10,459,234.21</u>	<u>1,748,027.82</u>
	<u>533,653,475.34</u>	<u>5,085,166,874.84</u>	<u>5,054,836,615.44</u>	<u>563,983,734.74</u>

V. Notes to Major Items of Consolidated Financial Statements (continued)

27. Payables for staff's remuneration (continued)

Short-term remunerations are as follows:

2019

	Balance at the beginning of the year	Increase in the year	Decrease in the year	Balance at the end of the year
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Salaries, bonus, allowance and subsidies	544,144,055.12	4,563,480,496.75	4,539,901,001.98	567,723,549.89
Employee welfare	7,239,256.29	68,910,157.75	69,091,692.20	7,057,721.84
Social benefit	1,982,687.86	94,728,907.19	95,925,134.12	786,460.93
including: medical insurance fees	1,657,782.82	80,257,066.32	81,257,926.47	656,922.67
occupational injury insurance fees	128,369.82	3,124,070.25	3,238,316.55	14,123.52
maternity insurance fees	196,535.22	11,347,770.62	11,428,891.10	115,414.74
Housing provident fund	3,589,341.92	83,005,147.69	85,163,494.45	1,430,995.16
Union funds and employee education funds	1,996,639.03	28,485,835.79	30,382,474.82	100,000.00
	<u>558,951,980.22</u>	<u>4,838,610,545.17</u>	<u>4,820,463,797.57</u>	<u>577,098,727.82</u>

2018

	Balance at the beginning of the year	Increase in the year	Decrease in the year	Balance at the end of the year
Salaries, bonus, allowance and subsidies	501,384,970.01	4,624,077,267.78	4,581,318,182.67	544,144,055.12
Employee welfare	9,125,775.82	62,606,944.31	64,493,463.84	7,239,256.29
Social benefit	6,872,182.66	107,000,144.57	111,889,639.37	1,982,687.86
including: medical insurance fees	5,880,119.09	89,059,221.54	93,281,557.81	1,657,782.82
occupational injury insurance fees	488,450.90	7,695,607.66	8,055,688.74	128,369.82
maternity insurance fees	503,612.67	10,245,315.37	10,552,392.82	196,535.22
Housing provident fund	4,590,909.61	83,640,938.75	84,642,506.44	3,589,341.92
Union funds and employee education funds	1,688,899.89	28,756,046.57	28,448,307.43	1,996,639.03
	<u>523,662,737.99</u>	<u>4,906,081,341.98</u>	<u>4,870,792,099.75</u>	<u>558,951,980.22</u>

V. Notes to Major Items of Consolidated Financial Statements (continued)

27. Payables for staff's remuneration (continued)

Defined contribution plan are as follows:

2019

	Balance at the beginning of the year	Increase in the year	Decrease in the year	Balance at the end of the year
Basic pension insurance	3,050,222.58	161,420,175.09	162,417,422.13	2,052,975.54
Unemployment insurance	169,736.95	7,878,099.81	7,995,392.19	52,444.57
Enterprise annuity payment	<u>63,767.17</u>	<u>6,190,336.71</u>	<u>6,105,439.90</u>	<u>148,663.98</u>
	<u>3,283,726.70</u>	<u>175,488,611.61</u>	<u>176,518,254.22</u>	<u>2,254,084.09</u>

2018

	Balance at the beginning of the year	Increase in the year	Decrease in the year	Balance at the end of the year
Basic pension insurance	6,569,041.51	162,032,968.68	165,551,787.61	3,050,222.58
Unemployment insurance	432,914.04	6,893,847.73	7,157,024.82	169,736.95
Enterprise annuity payment	<u>186,457.30</u>	<u>753,778.92</u>	<u>876,469.05</u>	<u>63,767.17</u>
	<u>7,188,412.85</u>	<u>169,680,595.33</u>	<u>173,585,281.48</u>	<u>3,283,726.70</u>

28. Taxes payable

	2019	2018
VAT	153,759,345.20	194,996,129.51
Enterprise income tax	800,155,694.54	781,484,780.22
Individual income tax	41,627,287.06	67,004,216.63
The electrical and electronic products waste treatment fund	37,062,671.00	27,048,204.79
Others	<u>11,845,250.18</u>	<u>8,828,081.79</u>
	<u>1,044,450,247.98</u>	<u>1,079,361,412.94</u>

V. Notes to Major Items of Consolidated Financial Statements (continued)

29. Other payables

	2019	2018
Interests payable	-	213,386.41
Dividend payable	7,700,096.18	32,769,481.71
Other payables	<u>4,881,973,948.96</u>	<u>4,644,311,054.58</u>
	<u>4,889,674,045.14</u>	<u>4,677,293,922.70</u>

Interests payable

	2019	2018
Interest of short-term borrowings	<u>-</u>	<u>213,386.41</u>

Dividend payable

	2019	2018
Pingdu Construction Investment Development Co., Ltd.	7,529,715.00	12,529,715.00
GuiZhou PanJiang Investment Holdings (Group) Co., Ltd. (贵州盘江投资控股(集团)有限公司)	-	8,982,000.00
Haier Electric Appliances International Co., Ltd.	-	5,198,531.29
Ningbo Zhongya Taifu Equity Investment Partnership (Limited Partnership)	-	3,742,500.00
Ningbo Songfeng Energy Investment Management Co., Ltd. (宁波松峰能投投资管理有限公司)	-	2,245,500.00
Other minority shareholders	<u>170,381.18</u>	<u>71,235.42</u>
	<u>7,700,096.18</u>	<u>32,769,481.71</u>

Other payables:

	2019	2018
Accrued charges unpaid	3,121,954,848.01	3,070,964,943.16
Amounts for equipment purchases	902,890,521.90	899,812,847.84
Deposits and guarantee	676,303,619.50	655,367,438.58
Amounts due to/from other entities	<u>180,824,959.55</u>	<u>18,165,825.00</u>
	<u>4,881,973,948.96</u>	<u>4,644,311,054.58</u>

30. Non-current liabilities due within one year

	2019	2018
Estimated liabilities due within one year	710,669,494.71	681,431,902.92
Lease liabilities due within one year	<u>32,170,241.38</u>	<u>-</u>

<u>742,839,736.09</u>	<u>681,431,902.92</u>
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V. Notes to Major Items of Consolidated Financial Statements (continued)

31. Other current liabilities

	2019	2018
Sales rebates	1,695,386,813.86	1,357,260,431.80
Refund liabilities	<u>458,579,946.66</u>	<u>371,723,705.33</u>
	<u>2,153,966,760.52</u>	<u>1,728,984,137.13</u>

32. Long-term borrowings

	2019	2018
Mortgage borrowings	<u>12,663,597.66</u>	<u>23,574,659.91</u>

As at 31 December 2019 and 31 December 2018, the annual interest rates of the above borrowings were 2.5%-3.0% and 2.5%-3.0%, respectively.

33. Lease liabilities

	2019
Buildings and constructions	20,817,064.35
Machinery equipment	<u>184,774.67</u>
	<u>21,001,839.02</u>

34. Estimated liabilities

2019

	Balance at the beginning of the year	Increase in the year	Decrease in the year	Balance at the end of the year
Product quality assurance	1,044,751,684.46	1,340,039,876.43	1,340,159,044.43	1,044,632,516.46
Less: non-current liabilities due within one year	<u>681,431,902.92</u>	<u>1,213,937,736.55</u>	<u>1,184,700,144.76</u>	<u>710,669,494.71</u>
Estimated liabilities	<u>363,319,781.54</u>	<u>126,102,139.88</u>	<u>155,458,899.67</u>	<u>333,963,021.75</u>

2018

	Balance at the beginning of the year	Increase in the year	Decrease in the year	Balance at the end of the year
Product quality assurance	1,042,695,181.91	1,118,417,593.41	1,116,361,090.86	1,044,751,684.46
Less: non-current liabilities due within one year	<u>688,219,005.05</u>	<u>905,344,279.73</u>	<u>912,131,381.86</u>	<u>681,431,902.92</u>

Estimated liabilities

354,476,176.86 213,073,313.68 204,229,709.00 363,319,781.54

V. Notes to the major items of consolidated financial statements (continued)

34. Estimated liabilities (continued)

The Group provides customers with installation services and quality assurance of washing machines, water heaters and water purification equipment for a period of three to eight years. Products with problems can be repaired or replaced. The estimated liabilities for quality assurance are estimated based on historical experience of sales volume and the level of installation services, maintenance and returns provided. The estimation basis is continuously checked and revised when appropriates.

35. Deferred income

The liabilities involved in government grants on 31 December 2019 are as follows:

	Balance at the beginning of the year	Additional grants in current year	Included in other income in current year	Disposal of subsidiary	Balance at the end of the year	Related to assets /revenue
Government grants for technical transformation	80,322,004.54	66,249,712.54	(14,042,100.99)	-	132,529,616.09	Related to assets
Government grants for entrepreneurship and innovation fund	20,660,000.00	-	(2,122,966.63)	-	18,537,033.37	Related to assets
Government grants for the construction of e-commerce platform	3,517,520.10	300,000.00	(201,800.00)	-	3,615,720.10	Related to assets
Government grants for the construction of logistics warehouse	103,424,087.20	-	(4,915,704.02)	(98,508,383.18)	-	Related to assets
Others	68,611.28	-	(68,611.28)	-	-	Related to assets
	<u>207,992,223.12</u>	<u>66,549,712.54</u>	<u>(21,351,182.92)</u>	<u>(98,508,383.18)</u>	<u>154,682,369.56</u>	

The liabilities involved in government grants on 31 December 2018 are as follows:

	Balance at the beginning of the year	Additional grants in current year	Included in other income in current year	Disposal of subsidiary	Balance at the end of the year	Related to assets /revenue
Government grants for technical transformation	66,010,921.35	18,268,395.00	(3,957,311.81)	-	80,322,004.54	Related to assets
Government grants for	11,964,100.00	8,945,900.00	(250,000.00)	-	20,660,000.00	

entrepreneurship and fund							Related to assets
Government grants for the construction of e-commerce platform	3,917,120.10		(399,600.00)			3,517,520.10	Related to assets
Government grants for the construction of logistics warehouse	91,125,520.99	34,777,826.09	(12,708,841.64)	(9,770,418.24)		103,424,087.20	Related to assets
Others		68,611.28				68,611.28	Related to assets
	173,017,662.44	62,060,732.37	(17,315,753.45)	(9,770,418.24)		207,992,223.12	

36. Other non-current liabilities

	2019	2018
Contingent consideration	-	5,705,307.28
Put option liabilities	54,598,203.27	1,792,322,337.19
	54,598,203.27	1,798,027,644.47

As at 31 December 2019, the put option liabilities arose from the put option granted to non-controlling shareholders of the Group's subsidiaries to sell their interests in GoT to the Group at prices to be determined based on agreed formulas. It is carried at fair value amounting to RMB54,598,203.27 and categorised in Level 3 of the fair value measurement.

V. Notes to the major items of consolidated financial statements (continued)

36. Other non-current liabilities (continued)

The put option liabilities as at 31 December 2018 arose from the put options granted to non-controlling shareholders of the Group's subsidiaries, namely, GoT, Gooday Logistics and Peiji Logistics, to sell their interests in those entities to the Group at prices to be determined based on agreed formulas, and they are carried at fair values amounting to RMB 55,959,345.87, RMB 1,587,402,991.32 and RMB 148,960,000.00, respectively. Subsequent to the completion of the Asset Swap on 26 July 2019, Gooday Logistics and Peiji Logistics have become associates to the Group. Other than the put option liability attributable to Gooday Logistics which was categorised in Level 2 of the fair value hierarchy, all the put option liabilities were categorised in Level 3 of the fair value measurement.

37. Share capital

2019

	Balance at the beginning of the year	Increase/decrease for the current year		Balance at the end of the year
		Share-based payments	Cancellation of shares	
		Note 1	Note 2	
Share capital	<u>2,922,364,320.92</u>	<u>48,112,323.83</u>	<u>(32,426,099.75)</u>	<u>2,938,050,545.00</u>

2018

	Balance at the beginning of the year	Increase/decrease for the current year		Balance at the end of the year
		Share-based payments	Cancellation of shares	
		Note 1	Note 2	
Share capital	<u>2,995,490,537.57</u>	<u>13,098,591.35</u>	<u>(86,224,808.00)</u>	<u>2,922,364,320.92</u>

Note 1: In 2019 and 2018, 583,455 shares and 1,040,345 shares were issued respectively for share option scheme, and 3,570,500 shares and 4,900,071 shares respectively for restricted share award scheme. See the share-based payment in note XI for details.

Note 2: In 2019 and 2018, 1,737,000 shares and 5,210,000 shares were repurchased and cancelled, respectively.

V. Notes to the major items of consolidated financial statements (continued)

38. Capital reserve

2019

	Closing balance for the previous year before adjustment	Business combination under common control	Balance at the beginning of the year	Increase for the current year	Decrease for the current year	Balance at the end of the year
Capital reserve	780,485,424.41	-	780,485,424.41	-	(780,485,424.41)	-
Capital reduction reserve	(1,758,526,516.25)	-	(1,758,526,516.25)	-	-	(1,758,526,516.25)
Share-based payment	140,220,202.59	-	140,220,202.59	123,180,489.69	(134,576,592.36)	128,824,099.92
Put option reserve	(849,758,729.07)	-	(849,758,729.07)	(29,984,120.71)	875,297,247.71	(4,445,602.07)
Other reserve	(569,691,344.27)	101,502,013.69	(468,189,330.58)	4,855,081.18	(2,161,455,585.93)	(2,624,789,835.33)
	(2,257,270,962.59)	101,502,013.69	(2,155,768,948.90)	98,051,450.16	(2,201,220,354.99)	(4,258,937,853.73)

2018

	Closing balance for the previous year before adjustment	Business combination under common control	Balance at the beginning of the year	Increase for the current year	Decrease for the current year	Balance at the end of the year
Capital redemption reserve	425,743.97	-	425,743.97	-	(425,743.97)	-
Capital reserve	1,465,890,290.67	-	1,465,890,290.67	-	(685,404,866.26)	780,485,424.41
Capital reduction reserve	(1,758,526,516.25)	-	(1,758,526,516.25)	-	-	(1,758,526,516.25)
Share-based payment	159,028,597.02	-	159,028,597.02	131,295,286.65	(150,103,681.08)	140,220,202.59
Put option reserve	(404,037,392.23)	-	(404,037,392.23)	(445,721,336.84)	-	(849,758,729.07)
Other reserve	(678,162,176.19)	71,502,013.69	(606,660,162.50)	213,235,253.85	(74,764,421.93)	(468,189,330.58)
	(1,215,381,453.01)	71,502,013.69	(1,143,879,439.32)	(101,190,796.34)	(910,698,713.24)	(2,155,768,948.90)

V. Notes to the major items of consolidated financial statements (continued)

39. Treasury stock

2019				
	Balance at the beginning of the year	Increase for the current year	Decrease for the current year	Balance at the end of the year
Treasury stock	<u>97,391,024.12</u>	<u>58,820,219.88</u>	<u>(93,061,404.91)</u>	<u>63,149,839.09</u>
2018				
	Balance at the beginning of the year	Increase for the current year	Decrease for the current year	Balance at the end of the year
Treasury stock	<u>158,582,659.46</u>	<u>82,312,584.37</u>	<u>(143,504,219.71)</u>	<u>97,391,024.12</u>

In 2019 and 2018, the Company repurchased shares of RMB 58,820,219.88 and RMB 82,312,584.37, respectively, which were used in the share award scheme for selected employees. In 2019 and 2018, the Group granted treasury stocks of RMB 93,061,404.91 and RMB 143,504,219.71 to selected employees for the exercise of the option for restricted share award scheme, respectively. For relevant information disclosure, please refer to note XI. Share-based payment.

40. Other comprehensive income

Cumulative balance of other comprehensive income attributable to shareholders of the Parent Company in the consolidated balance sheet:

2019

	Balance at the beginning of the year	Increase/decrease	Balance at the end of the year
Exchange differences on translation of financial statements denominated in foreign currencies	291,221,566.93	40,046,646.61	331,268,213.54
Changes in fair value of investments in other equity instruments	(18,826,123.38)	15,503,146.90	(3,322,976.48)
Other comprehensive income that cannot be transferred into profit or loss under equity method	<u>18,012,955.00</u>	<u>35,290,368.85</u>	<u>53,303,323.85</u>
	<u>290,408,398.55</u>	<u>90,840,162.36</u>	<u>381,248,560.91</u>

2018

	Balance at the beginning of the year	Increase/decrease	Balance at the end of the year
Exchange differences on translation of financial statements denominated in foreign currencies	64,838,709.97	226,382,856.96	291,221,566.93
Changes in fair value of investments in other equity instruments	-	(18,826,123.38)	(18,826,123.38)
Other comprehensive income that cannot be transferred into profit or loss under equity method	-	<u>18,012,955.00</u>	<u>18,012,955.00</u>
	<u>64,838,709.97</u>	<u>225,569,688.58</u>	<u>290,408,398.55</u>

V. Notes to the major items of consolidated financial statements (continued)

40. Other comprehensive income (continued)

The amount for the current period of other comprehensive income in the consolidated profit statement:

2019

	Amount before income tax	Less: income tax	Attributable to the shareholders of the Parent Company	Attributable to minority shareholders
Other comprehensive income that cannot be reclassified into the profit or loss				
Changes in fair value of investments in other equity instruments	19,215,746.90	3,712,600.00	15,503,146.90	-
Other comprehensive income that cannot be transferred into profit or loss under equity method	47,053,825.13	11,763,456.28	35,290,368.85	-
Other comprehensive income to be reclassified into the profit or loss				
Exchange differences on translation of financial statements denominated in foreign currencies	<u>40,046,646.61</u>	<u>-</u>	<u>40,046,646.61</u>	<u>-</u>
	<u>106,316,218.64</u>	<u>15,476,056.28</u>	<u>90,840,162.36</u>	<u>-</u>

2018

	Amount before income tax	Less: income tax	Attributable to the shareholders of the Parent Company	Attributable to minority shareholders
Other comprehensive income that cannot be reclassified into the profit or loss				
Changes in fair value of investments in	(20,917,915.63)	(2,091,792.25)	(18,826,123.38)	-

other equity instruments				
Other comprehensive income that cannot be transferred into profit or loss under equity method	24,017,274.24	6,004,319.24	18,012,955.00	-
Other comprehensive income to be reclassified into the profit or loss				
Exchange differences on translation of financial statements denominated in foreign currencies	<u>226,382,856.96</u>	<u>-</u>	<u>226,382,856.96</u>	<u>-</u>
	<u>229,482,215.57</u>	<u>3,912,526.99</u>	<u>225,569,688.58</u>	<u>-</u>

V. Notes to the major items of consolidated financial statements (continued)

41. Undistributed profits

	2019	2018
Undistributed profits at the end of the previous year before adjustment	22,914,502,281.11	19,120,060,100.70
adjustment	<u>127,542,549.60</u>	<u>86,670,710.15</u>
Undistributed profits at the beginning of the year after adjustment	23,042,044,830.71	19,206,730,810.85
Net profit attributable to shareholders of the Parent Company	7,350,810,210.62	3,844,497,421.73
Less: Distributions to shareholders	(156,078,830.02)	-
Distributions to the original controlling shareholder	(13,799,093.86)	(5,198,531.29)
Restricted shares lapse	-	4,335,993.65
Others	<u>-</u>	<u>425,743.97</u>
Undistributed profits at the end of the year	<u>30,222,977,117.45</u>	<u>23,050,791,438.91</u>

Adjustment: The undistributed profits at the beginning of the year was decreased by RMB 8,746,608.20 due to retrospective adjustments of the Accounting Standards for Business Enterprises and related new regulations in 2019; the undistributed profit at the beginning of the year was increased by RMB 136,289,157.80 and RMB 86,670,710.15 respectively, due to changes in the scope of consolidation caused by the business combination under common control in 2019 and 2018.

42. Operating income

Operating income is as follows:

	2019	2018
Primary business	79,958,349,958.91	85,253,929,083.34
Other business	<u>205,266,551.88</u>	<u>122,493,951.86</u>
	<u>80,163,616,510.79</u>	<u>85,376,423,035.20</u>

Operating income is as follows:

	2019	2018
Income generated from contracts with customers	<u>80,163,616,510.79</u>	<u>85,376,423,035.20</u>

V. Notes to the major items of consolidated financial statements (continued)

42. Operating income (continued)

Reportable segments	2019	2018
Main business regions		
Mainland China	77,173,287,363.18	82,709,076,932.73
Other countries or regions	<u>2,990,329,147.61</u>	<u>2,667,346,102.47</u>
	<u>80,163,616,510.79</u>	<u>85,376,423,035.20</u>
Major categories		
Sale of goods	75,620,350,832.13	76,066,278,157.34
Rendering services	<u>4,543,265,678.66</u>	<u>9,310,144,877.86</u>
	<u>80,163,616,510.79</u>	<u>85,376,423,035.20</u>
Timing for income recognition		
Income recognised at some point		
Sale of goods	75,620,350,832.13	76,066,278,157.34
Income recognised during some period		
Rendering services	<u>4,543,265,678.66</u>	<u>9,310,144,877.86</u>
	<u>80,163,616,510.79</u>	<u>85,376,423,035.20</u>

The income recognised for the current year included in the carrying amount of contract liabilities at the beginning of the year is as follows:

	2019	2018
Contracts for sale of goods	4,116,427,610.26	4,028,887,015.86
Contracts for rendering services	<u>68,773,982.63</u>	<u>56,703,688.44</u>
	<u>4,185,201,592.89</u>	<u>4,085,590,704.30</u>

V. Notes to the major items of consolidated financial statements (continued)

43. Taxes and surcharge

	2019	2018
City maintenance and construction tax	150,228,755.23	132,904,221.54
Education surcharge	63,462,039.94	57,328,153.51
Property tax	20,446,509.00	38,123,848.24
Land use tax	13,994,962.90	28,834,821.68
Stamp duty	87,566,703.90	97,328,170.14
The electrical and electronic products waste treatment fund	117,642,718.14	99,494,045.00
Others	63,544,554.31	56,790,986.97
	516,886,243.42	510,804,247.08

44. Selling expenses

	2019	2018
Selling expenses	10,313,875,602.21	9,091,242,169.62

For the year of 2019 and 2018, the selling expenses are mainly advertising and marketing expenses, staff's remuneration, after-sales expenses and warehousing, transportation and port fees, accounting for more than 90% of total selling expenses.

45. Administrative expenses

	2019	2018
Administrative expenses	1,364,373,401.07	1,663,076,292.12

For the year of 2019 and 2018, administrative expenses are mainly labor expenses, conference fees, offices fees, rental fees, depreciation and amortization and software maintenance fees, accounting for more than 80% of the total administrative expenses.

46. R&D expenses

	2019	2018
R&D expenses	<u>1,148,710,375.13</u>	<u>1,077,047,407.56</u>

For the year of 2019 and 2018, R&D expenses are mainly labor expenses, mold fees, design and development fees and patent fees, accounting for more than 80% of the total R&D expenses.

V. Notes to the major items of consolidated financial statements (continued)

47. Financial expenses

	2019	2018
Interest expense	35,514,013.22	10,907,967.26
Less: Interest income	(319,534,718.50)	(312,689,696.44)
Exchange gains and losses	30,710,481.89	(40,319,215.33)
Others	44,384,461.38	75,047,471.55
	(208,925,762.01)	(267,053,472.96)

The aforementioned interest income was derived from monetary funds in 2019 and 2018.

48. Other income

	2019	2018
Industrial support	269,092,025.18	76,434,549.64
VAT refund receivable	83,569,630.66	57,001,943.66
Other tax refund	27,732,432.79	84,028,606.59
Deferred amortization	21,351,182.92	17,315,753.45
Other grants	4,529,000.00	8,907,609.86
	406,274,271.55	243,688,463.20

The above government grants are all related to the daily business activities of the enterprises.

V. Notes to the major items of consolidated financial statements (continued)

49. Investment income

	2019	2018
Long-term equity investments income/ (loss) calculated by the equity method	95,992,191.20	(346,303.54)
Investment income from disposal of long-term equity investments	4,008,552,338.71	79,665,410.99
Investment income from financial assets held for trading during holding period	134,291,882.24	102,982,770.19
Dividends income from other equity instrument investment still held	38,549,487.32	104,823,079.63
	4,277,385,899.47	287,124,957.27

50. Gains on changes in fair value

	2019	2018
Changes in fair value of financial assets held for trading	19,517,116.06	8,491,646.20
Changes in fair value of derivative financial instruments	(12,782,387.51)	-
	6,734,728.55	8,491,646.20

51. Credit impairment loss

	2019	2018
Bad debt losses on accounts receivable	3,868,697.45	3,261,759.18
Bad debt losses on other receivables	-	223,125.56
Reversal of bad debts on prepayment	(600,000.00)	(673,053.06)
	3,268,697.45	2,811,831.68

V. Notes to the Major Items of Consolidated Financial Statements (continued)

52. Loss on assets impairment

	2019	2018
Impairment losses on inventory	312,439,801.51	233,630,290.74
Impairment losses on other current assets	<u>64,957,687.56</u>	<u>46,604,706.31</u>
	<u><u>377,397,489.07</u></u>	<u><u>280,234,997.05</u></u>

53. Gains from disposal of assets

	2019	2018
Gains from disposal of long-term assets (including fixed assets)	<u><u>491,032,747.74</u></u>	<u><u>166,913,924.44</u></u>

54. Non-operating income

	2019	2018	Included in non-recurring profit or loss of 2019	Included in non-recurring profit or loss of 2018
Compensation from supplier due to default	114,161,873.05	117,373,458.88	114,161,873.05	117,373,458.88
Accounts payable without payment	2,800,334.66	24,262,959.08	2,800,334.66	24,262,959.08
Fines	<u>8,564,542.72</u>	<u>12,383,353.79</u>	<u>8,564,542.72</u>	<u>12,383,353.79</u>
	<u><u>125,526,750.43</u></u>	<u><u>154,019,771.75</u></u>	<u><u>125,526,750.43</u></u>	<u><u>154,019,771.75</u></u>

55. Non-operating expenses

	2019	2018	Included in non-recurring profit or loss of 2019	Included in non-recurring profit or loss of 2018
Loss on scrapping of fixed assets	1,426,042.70	1,534,372.86	1,426,042.70	1,534,372.86
Amercement outlay	7,803,788.93	24,257,225.16	7,803,788.93	24,257,225.16
Others	<u>5,101,765.44</u>	<u>10,577.45</u>	<u>5,101,765.44</u>	<u>10,577.45</u>
	<u><u>14,331,597.07</u></u>	<u><u>25,802,175.47</u></u>	<u><u>14,331,597.07</u></u>	<u><u>25,802,175.47</u></u>

V. Notes to the Major Items of Consolidated Financial Statements (continued)

56. Expenses classified by nature

The supplementary information of the Group's operating costs, sales expenses, management expenses, and R&D expenses classified by nature is as follows:

	2019	2018
Raw materials consumed	20,076,238,885.86	17,898,082,577.92
Changes in inventory of finished products and products in progress	(1,671,330,204.73) (	403,459,418.82)
Commodity purchase cost	37,753,389,248.03	40,100,336,853.73
Service cost	4,350,074,594.43	8,833,591,116.17
Staff's remuneration	5,145,086,042.02	5,204,328,332.80
Including: equity incentive expenses	121,371,889.38	125,127,321.62
After-sales expenses	1,211,287,620.28	997,142,035.33
R&D expenses	1,148,710,375.13	1,077,047,407.56
Depreciation and amortization	661,819,816.42	365,199,921.95
Others	6,980,296,556.18	6,624,344,535.87
	<u>75,655,572,933.62</u>	<u>80,696,613,362.51</u>

57. Income tax expenses

	2019	2018
Current income tax expenses	963,709,431.61	837,462,402.70
Deferred income tax expenses	<u>630,263,133.58</u>	<u>52,416,927.73</u>
	<u>1,593,972,565.19</u>	<u>889,879,330.43</u>

V. Notes to the Major Items of Consolidated Financial Statements (continued)

57. Income tax expenses (continued)

The relationship between income tax expenses and total profits is as follows:

	2019	2018
Total profit	9,112,038,709.91	4,987,448,657.23
Income tax expenses calculated pursuant to statutory tax rate(s) (Note)	2,166,006,558.32	1,241,776,936.90
Impact from different tax rates applicable to certain subsidiaries	(522,940,675.06)	(386,939,356.92)
Adjustments to current income tax in previous periods	2,225,923.62	(7,330,430.34)
Profit or loss attributable to joint ventures and associates	(19,497,334.19)	86,575.89
Tax-free income	(12,487,942.53)	(12,005,369.12)
Non-deductible expenses	31,052,950.71	33,907,974.04
The impact of tax rate changes on the opening deferred income tax balance	-	6,010,952.62
Deductible losses from the previous year	(5,414,763.57)	(37,652,113.93)
The impact of unrecognised deductible temporary differences and deductible losses	981,764.97	27,628,792.32
Additional tax deduction on R&D expenses	(45,953,917.08)	(41,104,631.03)
Income tax impact of withholding dividend distribution	-	65,500,000.00
Income tax expense calculated at the actual tax rate of the Group	<u>1,593,972,565.19</u>	<u>889,879,330.43</u>

Note: The Group's income tax is provided based on the estimated taxable income obtained in China and the applicable tax rate. Taxes on taxable income derived from other regions are calculated at the applicable tax rate in accordance with the current laws, announcement of interpretations and practices of the countries/regions where the Group operates.

58. Earnings per share

	2019 RMB per share	2018 RMB per share
Basic earnings per share		
Continuing operations	<u>1.47</u>	<u>1.30</u>
Discontinued operations	<u>1.16</u>	<u>0.08</u>
Diluted earnings per share		
Continuing operations	<u>1.46</u>	<u>1.29</u>
Discontinued operations	<u>1.15</u>	<u>0.08</u>

Basic earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue. The number of newly issued ordinary shares is determined according to the specific terms of the issue contract and calculated from the date of consideration receivable (normally the stock issue date).

V. Notes to the Major Items of Consolidated Financial Statements (continued)

58. Earnings per share (continued)

The numerator of diluted earnings per share shall be confirmed as the net profit in current year owned by ordinary share holders of the Company.

Denominator of diluted earnings per share equals the sum of following two items: (1) weighted average of ordinary shares issued by parent company in basic earnings per share; and (2) weighted average of ordinary share increased due to conversion of dilutive potential ordinary share into ordinary share.

To calculate weighted average of ordinary share increased due to conversion of dilutive potential ordinary share into ordinary share, it is assumed the dilutive potential ordinary shares issued in previous period were converted in the beginning of current period; dilutive potential ordinary share issued in current period are assumed to be converted on the issuance date

The calculation of the basic earnings per share and diluted earnings per share are as follows:

	2019	2018
Earnings		
Net profit for the year attributable to ordinary shareholders of the Company		
Continuing operations	4,099,523,724.50	3,637,898,820.54
Discontinued operations	<u>3,251,286,486.12</u>	<u>206,598,601.19</u>
	<u>7,350,810,210.62</u>	<u>3,844,497,421.73</u>
Shares		
Weighted average number of ordinary shares in issue of the Company		
Dilution effect-weighted average number of ordinary shares	2,798,167,617	2,793,695,434
Share options	854,061	1,204,791
Restricted share options	<u>13,627,232</u>	<u>17,908,344</u>
The weighted average number of ordinary shares in issue of the company after adjustment	<u>2,812,648,910</u>	<u>2,812,808,569</u>

59. Notes to the items in the cash flow statement

	2019	2018
Other cash received from operating activities		
Government grants received	371,923,617.50	160,177,673.27
Interest income	291,150,317.27	272,207,684.81
Non-operating income in addition to government grants	122,227,264.00	153,753,511.75
Deposits and securities received	17,837,833.31	20,129,133.78
Others	<u>162,659,134.55</u>	<u>1,731,005.29</u>
	<u>965,798,166.63</u>	<u>607,999,008.90</u>

V. Notes to the Major Items of Consolidated Financial Statements (continued)

59. Notes to the items in the cash flow statement (continued)

	2019	2018
Other cash paid to operation activities		
Selling expenses	6,619,219,355.27	6,068,701,006.23
Administration expenses	780,538,683.59	1,033,334,908.92
R&D expenses	657,160,923.34	669,212,044.01
Financial expenses	44,384,461.38	74,777,113.13
Non-operating expenses	13,982,083.50	24,384,194.17
Others	<u>4,694,776.32</u>	<u>235,846,540.58</u>
	<u>8,119,980,283.40</u>	<u>8,106,255,807.04</u>
Other cash received from investment activities		
Other monetary funds changes	10,991,708.16	5,918,105.63
Deposits from disposal of assets held for sale	<u>-</u>	<u>26,009,843.00</u>
	<u>10,991,708.16</u>	<u>31,927,948.63</u>
Other cash paid to investment activities		
Cash paid for investment in associates	23,401,518.00	2,450,000.00
Taxes relating to investment activities	<u>17,254,948.73</u>	<u>25,553,157.32</u>
	<u>40,656,466.73</u>	<u>28,003,157.32</u>
Other cash received from financing activities		
Dividend of treasury stock	<u>2,482,084.47</u>	<u>3,079,534.34</u>
	<u>2,482,084.47</u>	<u>3,079,534.34</u>
Other cash paid to financing activities		
Business combination under common control	34,000,000.00	50,000,000.00
Acquisition of minority shareholders' equity in subsidiaries	203,731,107.00	31,541,474.98
Share repurchase	65,901,807.36	100,468,808.00
Lease expense	<u>297,088,581.60</u>	<u>-</u>
	<u>600,721,495.96</u>	<u>182,010,282.98</u>

V. Notes to the Major Items of Consolidated Financial Statements (continued)

60. Supplementary information to the cash flows statement

(1) Supplementary information to the cash flow statement

Net profit adjusted to cash flow of operating activities:

	2019	2018
Net profit	7,518,067,144.72	4,097,569,326.80
Add: impairment provision for assets	380,666,186.52	283,046,828.73
Depreciation of fixed assets	303,066,290.54	309,007,386.16
Depreciation of right-of-use assets	256,755,177.67	-
Amortization of intangible assets	34,881,866.27	42,644,922.80
Depreciation and amortization of investment properties	2,105,412.40	2,063,476.78
Amortization of long-term expenses payable	65,011,069.54	11,484,136.21
Amortization of deferred income	(21,351,182.92)	(17,315,753.45)
Gains on disposal of fixed assets, intangible assets and other long-term assets	(489,606,705.04)	(165,379,551.58)
Gains on change of fair value	(6,734,728.55)	(8,491,646.20)
Financial expenses	35,514,013.22	10,907,967.26
Gains on investments	(4,277,385,899.47)	(287,124,957.27)
Decrease/(increase) in deferred income tax assets	(94,834,591.13)	(117,943,657.78)
Increase/(decrease) of deferred income tax liabilities	724,938,358.72	(77,291,460.20)
Increase in inventories	(1,740,238,570.59)	(507,493,689.94)
Decrease/(increase) of operational account receivables	(799,236,056.86)	810,183,734.16
Increase/(decrease) of operational account payables	2,742,310,323.43	(556,023,911.97)
Share-based payment related expenses	124,578,627.52	135,742,962.33
Others	12,685,829.49	212,180,972.88
Net cash flow generated from operational activities	<u>4,771,192,565.48</u>	<u>4,413,654,401.28</u>

V. Notes to the Major Items of Consolidated Financial Statements (continued)

60. Supplementary information to the cash flows statement (continued)

(1) Supplementary information to the cash flow statement (continued)

Significant investment and financing activities that do not involve cash:

	2019	2018
Increase in right-of-use asses	305,564,083.58	-
Increase in land use rights	191,916,658.74	-
Endorsement of bills for payment of fixed asset purchases	-	14,968,925.28
Transfer of bills through endorsement		
	2019	2018
Endorsement of bank acceptance bill received from the sale of goods and rendering of services		
Transfer	26,350,047,661.06	26,170,737,493.17
Net changes in cash and cash equivalents:		
Cash balance at the end of the year	14,834,593,759.57	15,023,394,029.63
Less: cash balance at the beginning of the year	15,023,394,029.63	15,273,486,974.68
Net decrease in cash and cash equivalents	(188,800,270.06)	(250,092,945.05)

(2) Information on acquisition or disposal of subsidiaries and other operating entities

Information on acquisition of subsidiaries and other operating entities

	2019	2018
Price for acquisition of subsidiaries	2.00	163,144,867.00
Cash and cash equivalents paid for acquisition of subsidiaries	50,656,078.95	114,533,851.00
Less: cash and cash equivalents held by the subsidiaries acquired	4,628,544.73	10,699,559.01
Net cash paid for acquisition of subsidiaries and other operating entities	46,027,534.22	103,834,291.99

V. Notes to the Major Items of Consolidated Financial Statements (continued)

60. Supplementary information to the cash flows statement (continued)

(2) Information on acquisition or disposal of subsidiaries and other operating entities (continued)

Information on disposal of subsidiaries and other operating entities

	2019	2018
Price for disposal of subsidiaries	1,630,523,786.00	725,893,216.04
Cash and cash equivalents received from disposal of subsidiaries	1,000,000.00	703,109,102.64
Less: cash and cash equivalents held by the subsidiaries disposed	<u>947,493,596.69</u>	<u>70,642,881.94</u>
Net cash paid for disposal of subsidiaries and other operating entities	<u>(946,493,596.69)</u>	<u>632,466,220.70</u>

(3) Cash and cash equivalents

	2019	2018
Cash		
Including: cash on hand	9,597.23	239,553.36
Bank deposits always available for payment	<u>14,834,584,162.34</u>	<u>15,023,154,476.27</u>
Balance of cash and cash equivalents at the end of the year	<u>14,834,593,759.57</u>	<u>15,023,394,029.63</u>

61. Assets with restricted ownership or use rights

	2019	2018	
Monetary funds			Note
	409,920,076.24	428,901,991.64	1
Bills receivable			Note
	10,218,318.87	35,108,482.00	1
Accounts receivable			Note
	10,880,033.28	14,230,788.52	2
Fixed assets			Note
	45,383,410.68	45,853,205.78	3
Intangible assets			Note
	<u>9,367,222.14</u>	<u>9,464,188.74</u>	4
	<u>485,769,061.21</u>	<u>533,558,656.68</u>	

V. Notes to the Major Items of Consolidated Financial Statements (continued)

61. Assets with restricted ownership or use rights (continued)

Note 1: On 31 December 2019, the Group acquired bills payable of RMB 385,563,319.57 with bank deposits of RMB 402,691,699.59 as guarantee and bills receivable with a carrying amount of RMB 10,218,318.87 as pledge; on 31 December 2019, the Group had tender and guarantee security deposit of RMB 7,228,376.65 in financial institutions.

On 31 December 2018, the Group acquired bills payable of RMB 427,952,556.22 with bank deposits of RMB 397,231,027.75 as guarantee and bills receivable with a carrying amount of RMB 35,108,482.00 as pledge; on 31 December 2018, the Group had tender and guarantee security deposit of RMB 31,670,963.89 in financial institutions.

Note 2: On 31 December 2019, the Group secured bank borrowing of RMB 31,224,073.81 with bills receivable at carrying amount of RMB 10,880,033.25 as pledge.

On 31 December 2018, the Group secured bank borrowing of RMB 31,547,295.81 with bills receivable at carrying amount of RMB 14,230,788.52 as pledge.

Note 3: On 31 December 2019, the Group secured bank borrowing of RMB 42,645,481.33 with house at carrying amount of RMB 45,383,410.68 as collateral.

On 31 December 2018, the Group secured bank borrowing of RMB 34,132,200.72 with house at carrying amount of RMB 45,853,205.78 as collateral.

Note 4: On 31 December 2019, the Group secured bank borrowing of RMB 7,025,801.44 with fixed assets and freehold land at carrying amount of RMB 9,367,222.14 as pledge.

On 31 December 2018, the Group secured bank borrowing of RMB 4,738,209.42 with fixed assets and freehold land at carrying amount of RMB 9,464,188.74 as pledge.

V. Notes to the Major Items of Consolidated Financial Statements (continued)

62. Monetary items in foreign currency

	2019			2018		
	Original amount	Exchange rate	Equivalent to RMB	Original amount	Exchange rate	Equivalent to RMB
Monetary funds						
EUR	293,163.08	7.8060	2,288,431.03	399,480.66	7.8868	3,150,624.12
USD	105,489,174.31	6.9627	734,489,473.98	277,497,692.33	6.8658	1,905,243,656.03
HKD	733,918,850.53	0.8939	656,050,060.49	65,779,210.91	0.8784	57,780,458.86
GBP	-	-	-	238.98	8.5400	2,040.89
NZD	-	-	-	0.37	4.4324	1.64
AUD	-	-	-	12,152.74	5.6134	68,218.19
JPY	-	-	-	1,070,240.00	0.0600	64,214.43
			<u>1,392,827,965.50</u>			<u>1,966,309,214.16</u>
Accounts receivable						
EUR	1,393,803.90	7.8060	10,880,033.28	1,804,380.54	7.8868	14,230,788.44
USD	-	-	-	2,602,810.29	6.8658	17,870,374.89
			<u>10,880,033.28</u>			<u>32,101,163.33</u>
Accounts payable						
EUR	2,160,647.44	7.8060	16,866,013.89	305,138.12	7.8868	2,406,563.30
USD	13,617,913.18	6.9627	94,817,444.11	18,156,622.20	6.8658	124,659,736.72
HKD	371,771.32	0.8939	332,326.38	371,852.27	0.8784	326,635.03
			<u>112,015,784.38</u>			<u>127,392,935.05</u>
Other receivables						
EUR	118,580.61	7.8060	925,640.24	282,736.40	7.8868	2,229,885.43
USD	859,742.36	6.9627	5,986,128.13	56,460.55	6.8658	387,646.86
HKD	63,175,650.58	0.8939	56,472,714.05	47,658,379.25	0.8784	41,863,120.33
			<u>63,384,482.42</u>			<u>44,480,652.62</u>
Other payables						
USD	35,611.24	6.9627	247,950.37	-	-	-
HKD	12,815,349.78	0.8939	11,455,641.17	30,278,160.01	0.8784	26,596,335.75
			<u>11,703,591.54</u>			<u>26,596,335.75</u>
Short-term borrowings						
EUR	8,740,937.60	7.8060	68,231,758.92	6,155,273.75	7.8868	48,545,413.05
USD	-	-	-	36,949.21	6.8658	253,685.93
			<u>68,231,758.92</u>			<u>48,799,098.98</u>
Long-term borrowings						
EUR	1,622,290.25	7.8060	12,663,597.66	2,989,119.58	7.8868	23,574,659.91

In 2019 and 2018, the Group had no major overseas operating entities.

VI. Changes of consolidation scope

1. Business combination not under common control

2019

On 12 April 2019, the Group made a capital contribution of RMB20,000,000.00 and provided a borrowing of RMB21,633,000.00 to Shanghai Feisheng International Logistics Co., Ltd. to acquire its 51% equity interest. The purchase consideration was a contingent consideration to be adjusted with reference to Shanghai Feisheng International Logistics Co., Ltd.'s operating results from 2019 to 2021, and the fair value of the contingent consideration on acquisition date was RMB52,960,955.82, of which the amount attributable to minority shareholders was RMB25,950,868.35. Shanghai Feisheng International Logistics Co., Ltd. mainly engaged in the logistics service business. The date of combination was determined as 12 April 2019 with reference to the Completion Date.

The fair value and carrying amount of identifiable assets and liabilities of Shanghai Feisheng International Logistics Co., Ltd. on purchase date are as follows:

	12 April 2019 Fair value	12 April 2019 Carrying amount
Monetary funds	4,628,544.73	4,628,544.73
Accounts receivable	58,534,640.84	58,534,640.84
Financing receivables	1,868,857.04	1,868,857.04
Prepayments	4,207,402.80	4,207,402.80
Other receivables	9,655,435.06	9,655,435.06
Other current assets	2,989,330.42	2,989,330.42
Fixed assets	1,856,760.06	1,856,760.06
Intangible assets	2,346,858.39	2,346,858.39
Short-term borrowings	(15,026,666.63)	(15,026,666.63)
Accounts payable	(15,269,603.51)	(15,269,603.51)
Contract liabilities	(2,810,706.25)	(2,810,706.25)
Payables for staff's remuneration	(1,551,221.84)	(1,551,221.84)
Taxes payable	(67,637.73)	(67,637.73)
Other payables	(38,495,776.20)	(38,495,776.20)
Non-current liabilities due within one year	(1,540,316.20)	(1,540,316.20)
Other current liabilities	(1,785,834.44)	(1,785,834.44)
Net assets	<u>9,540,066.54</u>	<u>9,540,066.54</u>
Less: minority equity interests	<u>4,674,632.60</u>	<u>4,674,632.60</u>
Net identifiable assets acquired on purchase date	<u>4,865,433.94</u>	<u>4,865,433.94</u>
Goodwill from acquisition	<u>21,085,434.41</u>	

25,950,868.35 (Note)

Note: The amount was the fair value of the minority equity interests on acquisition date, namely RMB25,950,868.35. The initial amount of contingent consideration recognised was RMB25,950,868.35, which was calculated by using the fair value determined by the Monte-Carlo simulation model within Level 3. The final payment amount is subject to the final amount determined on 31 March 2022.

VI. Changes of consolidation scope (continued)

1. Business combination not under common control (continued)

2018

On 6 July 2018, the Group acquired 60% equity interests of Panjiang Logistics Group Co., Ltd. (贵州盘江物流有限公司)(which was subsequently renamed as Peiji Logistics Group Co., Ltd.) at a cash consideration of RMB163,144,867.00. The date of combination was determined as 6 July 2018 with reference to the Completion Date.

The fair value and carrying amount of identifiable assets and liabilities of Peiji Logistics Group Co., Ltd. on purchase date are as follows:

	6 July 2018 Fair value	6 July 2018 Carrying amount
Monetary funds	10,699,559.01	10,699,559.01
Financing receivables	408,146.00	408,146.00
Accounts receivable	448,446,035.96	448,446,035.96
Other receivables	54,915,966.40	54,915,966.40
Prepayments	30,852,283.68	30,852,283.68
Inventories	23,063,186.17	23,063,186.17
Other current assets	2,063,930.85	2,063,930.85
Fixed assets	3,537,575.24	3,537,575.24
Intangible assets	15,759.00	15,759.00
Deferred income tax assets	4,956,728.75	4,956,728.75
Long-term prepaid expenses	2,460,062.33	2,460,062.33
Short-term borrowings	(165,000,000.00)	(165,000,000.00)
Accounts payable	(314,992,087.95)	(314,992,087.95)
Taxes payable	(18,398,695.99)	(18,398,695.99)
Payables for staff's remuneration	(4,067,745.97)	(4,067,745.97)
Other payables	(72,393,618.42)	(72,393,618.42)
Contract liabilities	(5,669,852.75)	(5,669,852.75)
Net assets	<u>897,232.31</u>	<u>897,232.31</u>
Less: minority equity interests	(1,163,822.24)	(1,163,822.24)
Net identifiable assets acquired on purchase date	<u>2,061,054.55</u>	<u>2,061,054.55</u>
Goodwill from acquisition	<u>161,083,812.45</u>	
	<u>163,144,867.00</u>	

VI. Changes of consolidation scope (continued)

2. Business combinations under common control

2019

On 26 July 2019, the Group acquired 51% equity interests of Qingdao Haishi Water Equipment Co., Ltd. at a equity consideration of RMB1,073,523,786.00, which is a subsidiary of Haier Electric International Co., Ltd. (a subsidiary of our ultimate parent company, Haier Group Corporation). Since the Company and Qingdao Haishi Water Equipment Co., Ltd. were both controlled by Haier Group Corporation before and after the combination, and the control was not temporary, this combination was a business combination under common control. The date of combination was determined as 26 July 2019.

	Period from 1 January to 26 July 2019	2018
Operating revenue	555,339,560.27	1,030,732,895.20
Net profit	59,632,695.06	107,441,598.99
Net cash flow	(90,159,244.21)	102,509,419.64

The carrying amounts of the assets and liabilities of Qingdao Haishi Water Equipment Co., Ltd. at the date of combination and the balance sheet date of the last accounting period are as follows:

	26 July 2019	31 December 2018
Monetary funds	590,482,485.31	674,880,628.00
Financial assets held for trading	112,753,343.84	-
Accounts receivable	134,786,331.59	156,561,674.37
Prepayments	4,000,000.00	-
Other receivables	7,343,848.47	6,638,562.22
Inventories	32,822,791.71	27,054,260.10
Other current assets	17,115,267.62	9,719,655.00
Fixed assets	1,837,503.78	1,775,179.43
Construction in progress	3,092,660.27	-
Intangible assets	33,820,632.52	35,902,739.85
Goodwill	83,174,470.00	83,174,470.00
Deferred income tax assets	4,068,633.12	5,865,306.00
Bills payable	(344,300,615.10)	(342,344,854.05)
Accounts payable	(123,138,625.92)	(116,648,356.25)
Taxes payable	(707,540.96)	(4,700,680.72)
Contract liabilities	(2,315,148.56)	(4,236,615.58)
Payables for staff's remuneration	(8,419,330.56)	(11,785,210.88)
Other payables	(83,812,254.38)	(91,245,239.46)
Estimated liabilities	(6,438,382.31)	(7,021,096.88)
Other current liabilities	(16,199,425.00)	(16,199,425.00)
Total	<u>439,966,645.44</u>	<u>407,390,996.15</u>
Less: minority equity interests	<u>215,583,656.27</u>	<u>199,621,588.11</u>
Combination difference (included in the interest)	<u>849,140,796.83</u>	
Combination consideration	<u>1,073,523,786.00</u>	

VI. Changes of consolidation scope (continued)

2. Business combinations under common control (continued)

2019 (continued)

On 9 September 2019, the Group acquired 100% equity interests of Qingdao RRS Health Industry Development Co., Ltd. (青岛日日顺健康产业发展有限公司) at a cash consideration of RMB34,000,000.00, which is a subsidiary of RRS Internet of Things Co., Ltd. (日日顺物联网有限公司) (a subsidiary of our ultimate parent company, Haier Group Corporation). Since the Company and Qingdao RRS Health Industry Development Co., Ltd. were both controlled by Haier Group Corporation before and after the combination, and the control was not temporary, this combination was a business combination under common control. The date of combination was determined as 9 September 2019.

	Period from 1 January 2019 to 9 September 2019	2018
Operating revenue	-	-
Net profit	71,172.92	21,763.45
Net cash flow	(2,124,933.72)	26,866,137.10

The carrying amounts of the assets and liabilities of Qingdao RRS Health Industry Development Co., Ltd. at the date of combination and the balance sheet date of the last accounting period are as follows:

	9 September 2019	31 December 2018
Monetary funds	24,741,203.38	26,866,137.10
Other receivables	5,359,225.00	3,168,812.50
Other current assets	607.99	485.66
Taxes payable	-	(6,171.81)
Other payables	(8,100.00)	(7,500.00)
Total	<u>30,092,936.37</u>	<u>30,021,763.45</u>
Combination difference (included in the interest)	<u>3,907,063.63</u>	
Combination consideration	<u>34,000,000.00</u>	

VI. Changes of consolidation scope (continued)

2. Business combinations under common control (continued)

2018

On 9 July 2018, the Group acquired 25% equity interests of Qingdao Ju Shang Hui Network Technology Co., Ltd. at a equity consideration of RMB50,000,000.00, and 青岛巨商通管理咨询企业(有限合伙), which held 11% equity interests of Qingdao Ju Shang Hui Network Technology Co., Ltd., had entered into an acting-in-concert agreement the Concert Agreement with the Group. Before this equity acquisition, the Group had already held 24% equity interests of Qingdao Ju Shang Hui Network Technology Co., Ltd., and therefore, the Group obtained the control of Qingdao Ju Shang Hui Network Technology Co., Ltd.. Qingdao Ju Shang Hui Network Technology Co., Ltd. is a subsidiary of Haier Brothers Animation Industry Co., Ltd.(a subsidiary of our ultimate parent company, Haier Group Corporation). Since the Company and Qingdao Ju Shang Hui Network Technology Co., Ltd. were both controlled by Haier Group Corporation before and after the combination, and the control was not temporary, this combination was a business combination under common control. The date of combination was determined as 9 July 2018.

	Period from 1 January 2018 to 9 July 2018	2017
Operating revenue	21,266,455.08	16,383,548.22
Net profit	203,794.51	(7,733,762.20)
Net cash flow	7,709,195.69	(1,759,241.62)

The carrying amounts of the assets and liabilities of Qingdao Ju Shang Hui Network Technology Co., Ltd. at the date of combination and the balance sheet date of the last accounting period are as follows:

	9 July 2018	31 December 2017
Monetary funds	33,030,381.60	25,321,185.91
Accounts receivable	615,908.70	924,226.82
Other receivables	14,048,445.50	10,438,848.22
Inventories	107.44	-
Other current assets	147,107.58	901,871.05
Intangible assets	270,447.69	326,402.37
Fixed assets	22,792.03	45,584.05
Accounts payable	(27,871.78)	(1,818,627.66)
Receipts in advance	-	(391,983.02)
Contract liabilities	(173,368.26)	-
Payables for staff's remuneration	-	(1,787,201.83)
Taxes payable	(33,723.16)	(32,809.36)
Other payables	(23,476,102.87)	(9,707,166.59)
Total	<u>24,424,124.47</u>	<u>24,220,329.96</u>
Less: minority equity interests	<u>18,318,093.35</u>	<u>18,165,247.47</u>
	<u>6,106,031.12</u>	<u>6,055,082.49</u>

Combination difference (included in the interest)	<u>43,893,968.88</u>
Combination consideration	<u>50,000,000.00</u>

VI. Changes of consolidation scope (continued)

3. Disposal of subsidiaries

2019

	Place of incorporation	Nature of Business	Total sharehold ing held by the Group (%)	Total voting right percentage of the Group (%)	Reason for not being subsidiary
Foshan Shunde Haier Intelligent Electronics Co., Ltd.	Foshan	Manufacturing and washing machine parts	100.00	100.00	Note 1
Cixi Yunlian Bailing Logistics Co., Ltd.	Cixi	Logistic service	51.00	51.00	Note 2
Bingji (Shanghai) Enterprise Management Co., Ltd.	Shanghai	Holding compan y	100.00	100.00	Note 3

Note 1: Hefei Haier Washing Machine Co., Ltd., a subsidiary of the Company and the Group, entered into an equity transfer agreement with Haier Kaaosi IOT Ecosystem Technology Limited on 29 June 2019, disposing its 100% equity interests in Foshan Shunde Haier Intelligent Electronics Co., Ltd. at the price of RMB556,000,000.00, and the disposal date was 27 November 2019. Therefore, since 27 November 2019, the Group has no longer included Foshan Shunde Haier Intelligent Electronics Co., Ltd. into the scope of consolidation.

Note 2: Qingdao Gooday Logistics Co., Ltd. (a subsidiary of the Group, and discontinued operation in 26 July 2019), entered into an equity transfer agreement with 北京红通力拓有限公司 on 31 January 2019, disposing its 51% equity interests in Cixi Yunlian Bailing Logistics Co., Ltd. at the price of RMB1,000,000.00, and the disposal date was 31 January 2019. Therefore, since 31 January 2019, the Group has no longer included Cixi Yunlian Bailing Logistics Co., Ltd. into the scope of consolidation.

Note 3: According to the asset swap transactions as detailed in the item1(a) in note XIV, on 26 July 2019, the Group transferred the 55% equity of Bingji (Shanghai) Enterprise Management Co., Ltd (“Bingji”) for swapping the equity of Qingdao Haishi. After the transaction was completed, the Group held 45% equity in Bingji and lost control over Bingji, thus Bingji transformed from an subsidiary to an associate of the Group.

The relevant financial information of Foshan Shunde Haier Intelligent Electronics Co., Ltd. is stated as follows:

	27 November 2019 Carrying amount	31 December 2018 Carrying amount
Current assets	459,260,426.23	379,104,942.31
Non-current assets	23,406,564.95	27,441,185.56
Current liabilities	(111,457,175.21)	(82,986,296.28)
	<u>371,209,815.97</u>	<u>323,559,831.59</u>
Profit or loss from disposal	<u>184,790,184.03</u>	
Disposal consideration	<u>556,000,000.00</u>	

VI. Changes of consolidation scope (continued)

3. Disposal of subsidiaries (continued)

2019 (continued)

The relevant financial information of Foshan Shunde Haier Intelligent Electronics Co., Ltd. is stated as follows (continued):

	Period from 1 January to 27 November 2019
Operating revenue	494,096,079.06
Operating costs	(407,454,619.02)
Net profit	47,649,984.38

The relevant financial information of Cixi Yunlian Bailing Logistics Co., Ltd. is stated as follows:

	31 January 2019	31 December 2018
Current assets	50,850,660.82	50,850,660.82
Non-current assets	660,967.51	660,967.51
Current liabilities	(42,657,866.41)	(42,657,866.41)
	<u>8,853,761.92</u>	<u>8,853,761.92</u>
Minority equity interests	<u>4,338,343.34</u>	<u>4,338,343.34</u>
Profit or loss from disposal	(3,515,418.58)	
Disposal consideration	<u>1,000,000.00</u>	
		Period from 1 January to 31 January 2019
Operating revenue		-
Operating costs		-
Net profit		-

VI. Changes of consolidation scope (continued)

3. Disposal of subsidiaries (continued)

2019 (continued)

The relevant financial information of Bingji (Shanghai) Enterprise Management Co., Ltd. is stated as follows:

	26 July 2019	31 December 2018
Current assets	5,785,011,556.94	6,297,222,503.86
Non-current assets	4,621,469,571.64	3,381,949,710.88
Current liabilities	(3,533,574,627.25)	(3,466,264,856.58)
Non-current liabilities	(2,349,885,474.88)	(248,389,408.21)
	<u>4,523,021,026.45</u>	<u>5,964,517,949.95</u>
Minority equity interests	<u>1,899,855,913.32</u>	<u>1,800,028,547.64</u>
Profit or loss from disposal	<u>3,827,277,573.26</u>	Note
Disposal consideration	<u>6,450,442,686.39</u>	Note

	Period from 1 January to 26 July 2019
Operating revenue	4,907,810,524.82
Operating costs	(4,460,984,371.36)
Net profit	150,506,052.53

Note: The profit or loss from disposal included the gains from disposal of RMB636,574,940.30 from the disposal of equity and revenue of RMB3,190,702,632.96 recognised from the re-measurement of the fair value of the remaining equity. The disposal consideration included the fair value of the received assets of RMB1,073,523,786.00 and the fair value of the remaining equity of RMB5,376,918,900.39.

2018

	Place of incorporation	Nature of business	Total shareholding held by the Group (%)	Total voting right percentage of the Group (%)	Reason for not being subsidiary
Shandong Goodaymart Electric Appliance Co., Ltd.(山东日日顺电器有限公司)	Jinan	Household appliance sales	100.00	100.00	Note 1
Fujian Goodaymart Electric	Fuzhou	Household	71.02	71.02	Note 2

Appliance Co., Ltd.(福建日日顺电器有限公司)		appliance sales			
Fujian Shengfeng Logistics Co., Ltd.	Fuzhou	Logistic s ervice	58.08	58.08	Note 3
Jiangsu Goodaymart Sunflower Supply Chain Management Co. Ltd.(江苏日日顺向日葵供应链管理有限公司)	Huai'an	Logistic s ervice	51.00	51.00	Note 4

VI. Changes of consolidation scope (continued)

3. Disposal of subsidiaries (continued)

2018 (continued)

Note 1: Chongqing Xin Ririshun Electric Sales Co., Ltd.(重庆新日日顺家电销售有限公司), a subsidiary of the Group, entered into an equity transfer agreement with Song Zhongwen(宋忠文, a natural person) on 31 December 2018, disposing its 81% equity interests in Shandong Goodaymart Electric Appliance Co., Ltd. at the price of RMB17,078,925.15, and the disposal date was 31 December 2018. Therefore, since 31 December 2018, the Group has no longer included Shandong Goodaymart Electric Appliance Co., Ltd. into the scope of consolidation.

Note 2: Chongqing Xin Ririshun Electric Sales Co., Ltd., a subsidiary of the Group, entered into an equity transfer agreement with Rong Da Logistic (Fujian) Limited on 31 December 2018, disposing its 71% equity interests in Fujian Goodaymart Electric Appliance Co., Ltd. at the price of RMB5,018,536.53, and the disposal date was 31 December 2018. Therefore, since 31 December 2018, the Group has no longer included Fujian Goodaymart Electric Appliance Co., Ltd. into the scope of consolidation.

Note 3: Qingdao Gooday Logistics Co., Ltd., a subsidiary of the Group, entered into an equity transfer agreement with the non-controlling shareholder of Fujian Shengfeng Logistics Group Company Limited on 30 November 2018, disposing its 58.08% equity interests in Fujian Shengfeng Logistics Group Company Limited at the price of RMB798,354,438.00. Among which, 50.37% equity interests has been disposed in 2018 at the corresponding disposal consideration of RMB692,344,595.00, and the disposal date was 30 November 2018. Therefore, since 30 November 2018, the Group has no longer included Fujian Shengfeng Logistics Group Company Limited into the scope of consolidation.

Note 4: 青島桔橙管理諮詢有限公司, a subsidiary of the Group, entered into an equity transfer agreement with Zhou Yusheng(周玉生) on 30 June 2018, disposing its 51% equity interests in Jiangsu Goodaymart Sunflower Supply Chain Management Co. Ltd.(江苏日日顺向日葵供应链管理有限公司) without any consideration, and the disposal date was 30 June 2018. Therefore, since 30 June 2018, the Group has no longer included Jiangsu Goodaymart Sunflower Supply Chain Management Co. Ltd. into the scope of consolidation.

The relevant financial information of Shandong Goodaymart Electric Appliance Co., Ltd. is stated as follows:

	31 December 2018	31 December 2017
Current assets	110,916,751.53	177,965,354.63
Non-current assets	-	499,205.36
Current liabilities	(90,891,980.00)	(139,564,405.78)
Other comprehensive income	<u>404,546.98</u>	<u>-</u>
	<u>20,429,318.51</u>	<u>38,900,154.21</u>
Minority equity interests	<u>3,069,020.33</u>	<u>3,241,126.02</u>
Profit or loss from disposal	(<u>281,373.03</u>)	
Disposal consideration	<u>17,078,925.15</u>	

Period from 1 January
to 31 December
2018

Operating revenue	494,096,079.06
Operating costs	(407,454,619.02)
Net profit	47,649,984.38

VI. Changes of consolidation scope (continued)

3. Disposal of subsidiaries (continued)

2018 (continued)

The relevant financial information of Fujian Goodaymart Electric Appliance Co., Ltd. is stated as follows:

	31 December 2018	31 December 2017
Current assets	16,106,303.92	14,863,458.57
Current liabilities	(6,812,185.67)	(2,499,706.40)
	<u>9,294,118.25</u>	<u>12,363,752.17</u>
Minority equity interests	<u>1,953,618.86</u>	<u>3,583,015.38</u>
Profit or loss from disposal	(2,321,962.86)	
Disposal consideration	<u>5,018,536.53</u>	
		Period from 1 January to 31 December 2018
Operating revenue		-
Operating costs		-
Net profit		25,490.88

The relevant financial information of Fujian Shengfeng Logistics Group Company Limited is stated as follows:

	30 November 2018	31 December 2017
Current assets	533,633,111.46	578,662,660.97
Non-current assets	452,342,921.77	425,091,439.19
Current liabilities	(309,321,212.42)	(372,874,506.53)
Non-current liabilities	(10,905,417.12)	(10,859,261.85)
	<u>665,749,403.69</u>	<u>620,020,331.78</u>
Minority equity interests	<u>283,017,095.04</u>	<u>270,131,932.27</u>
Add: goodwill	317,954,690.69	
Less: fair value of the remaining	<u>106,009,843.00</u>	

equity

Profit or loss from disposal 79,836,157.88

Disposal consideration 674,513,314.22*

* The disposal consideration agreed in the contract was RMB692,344,595.00, and the difference of RMB 17,831,280.78 was the amount owed to the Group by the counterparty, Shengfeng Logistics' non-controlling shareholder before the transaction and was recovered in this transaction.

VI. Changes of consolidation scope (continued)

3. Disposal of subsidiaries (continued)

2018 (continued)

The relevant financial information of Fujian Shengfeng Logistics Group Company Limited is stated as follows (continued):

	Period from 1 January to 30 November 2018
Operating revenue	1,376,482,167.79
Operating costs	(1,152,332,362.27)
Net profit	37,074,014.76

The relevant financial information of Jiangsu Goodaymart Sunflower Supply Chain Management Co. Ltd. is stated as follows:

	31 December 2018	31 December 2017
Current assets	60,578.45	86,831.69
Non-current assets	217,539.87	220,250.42
Current liabilities	(751,939.31)	(204,538.98)
	(473,820.99)	102,543.13
Minority equity interests	(232,172.29)	50,246.13
Profit or loss from disposal	<u>241,648.70</u>	
Disposal consideration	<u>=====</u>	

Period from 1 January
to 31 December 2018

Operating revenue	(	495,085.18)
Operating costs		-
Net loss	(	576,364.12)

VI. Changes of consolidation scope (continued)

4. Changes of consolidation scope due to other reasons

2019

In February 2019, Qingdao Haier Drum Washing Machine Co., Ltd., a subsidiary of the Company, made a capital contribution to establish a wholly-owned subsidiary, Qingdao Jiaozhou Haier Washing Appliance Co., Ltd.(青岛胶州海尔洗涤电器有限公司).

In January 2019, the Group canceled the registration of Qingdao Goodaymart Haichang Logistic Co., Ltd.(青岛日日顺海昌物流有限公司).

2018

In January 2018, Qingdao Gooday Logistics Co., Ltd. , a subsidiary of the Company, made a capital contribution to establish a wholly-owned subsidiary, Qihe Goodaymart Logistic Co., Ltd.(齐河县日日顺物流有限公司).

In January 2018, Guanmei (Shanghai) Enterprise Management Co., Ltd., a subsidiary of the Company, made a capital contribution to establish a wholly-owned subsidiary, Bingji (Shanghai) Corporate Management Co., Ltd..

In January 2018, Qingdao Haier Electronics Sales Service Co., Ltd., a subsidiary of the Company, made a capital contribution to establish a wholly-owned subsidiary, Ningzhen (Shanghai) Enterprise Management Co., Ltd..

In January 2018, Bingji (Shanghai) Corporate Management Co., Ltd., a subsidiary of the Company, made a capital contribution to establish a wholly-owned subsidiary, Youjin (Shanghai) Enterprise Management Co., Ltd..

In March 2018, the Company made a capital contribution to establish a wholly-owned subsidiary, Qingdao Gooday Information Technology Co., Ltd..

In April 2018, Qingdao Economy and Technology Development Zone Haier Water Heater Co., Ltd., a subsidiary of the Company, made a capital contribution to establish a wholly-owned subsidiary, Zhengzhou Haier New Energy Technology Co., Ltd.

In June 2018, 山东海叹号家居产业园有限公司, a subsidiary of the Company, contributed investment to establish a wholly-owned subsidiary, 淄博海叹号资产运营有限公司.

In October 2018, the Group canceled the registration of Hunan Goodaymart Electric Appliance Co., Ltd..

VII. Interests in other entities

1. Interests in subsidiaries

The main subsidiaries of the Company are as follows:

Name of subsidiaries	Principal place of business	Place of incorporation	Nature of business	Registered capital	Percentage of shares held (%) 2019		Percentage of shares held (%) 2018		Notes
					directly	indirectly	directly	indirectly	
Hefei Haier Washing Machine Co., Ltd.	Hefei	Hefei	Manufacturing	RMB92,046,213.80	-	100.00	-	99.00	Not e1
Foshan Shunde Haier Electric Co., Ltd.	Foshan	Foshan	Manufacturing	RMB48,800,000.00	-	60.00	-	60.00	
Chongqing Haier Washing Machine Co., Ltd.	Chongqing	Chongqing	Manufacturing	RMB25,000,000.00	25.00	75.00	25.00	74.00	
Qingdao Jiaonan Haier Washing Machine Co., Ltd.	Jiaonan	Jiaonan	Manufacturing	RMB10,000,000.00	-	100.00	-	95.00	
Chongqing Haier Drum Washing Machine Co., Ltd.	Chongqing	Chongqing	Manufacturing	RMB250,000,000.00	-	100.00	-	99.00	
Foshan Haier Drum Washing Machine Co., Ltd.	Foshan	Foshan	Manufacturing	RMB150,000,000.00	-	100.00	-	99.00	
Haier Electronics Sales (Hefei) Co., Ltd.	Hefei	Hefei	Wholesale and retail	RMB5,000,000.00	-	100.00	-	100.00	
Qingdao Haier Electronics Sales Service Co., Ltd.	Qingdao	Qingdao	Wholesale and retail	RMB5,000,000.00	-	100.00	-	100.00	
Qingdao Lejia Electronics Co., Ltd.	Qingdao	Qingdao	Wholesale and retail	RMB10,000,000.00	-	96.59	-	96.59	
Chongqing New Goodaymart Electronics Sales Co., Ltd.	Chongqing	Chongqing	Wholesale and retail	RMB5,000,000.00	-	100.00	-	100.00	
Haier Group E-commerce Co., Ltd.	Qingdao	Qingdao	E-commerce	RMB37,500,000.00	-	100.00	-	100.00	
Qingdao Goodaymart Electronics Service Co., Ltd.	Qingdao	Qingdao	Wholesale and retail	RMB20,000,000.00	-	100.00	-	100.00	
Qingdao Haier New Energy Electric Appliance Co., Ltd.	Qingdao	Qingdao	Manufacturing	RMB150,000,000.00	-	100.00	-	100.00	
Qingdao Haier Washing Appliance Co., Ltd.	Qingdao	Qingdao	Manufacturing	RMB300,000,000.00	-	10.00	-	100.00	
Qingdao Ririshun Lexin Cloud Technology Co., Ltd.	Qingdao	Qingdao	Network technical services	RMB20,000,000.00	-	78.47	-	78.47	
Haier International Business Corporation Limited	Hongkong	Hongkong	Export sales of home appliances	HKD10,000,000.00	-	100.00	-	100.00	
Foshan Shunde Haier Intelligent Electronics Co., Ltd.	Foshan	Foshan	Manufacturing	RMB20,000,000.00	-	-	25.00	74.00	Not e2
Shanghai Boyol New Brothers Supply Chain Management Co., Ltd.	Shanghai	Shanghai	Provision of logistic services	RMB42,400,000.00	-	-	-	34.00	Not e2
Guangdong Goodaymart Supply Chain Co., Ltd.	Foshan	Foshan	Provision of logistic services	RMB230,000,000.00	-	-	-	56.00	Not e2
Nanchang Goodaymart Supply Chain Co., Ltd.	Nanchang	Nanchang	Provision of logistic services	RMB150,000,000.00	-	-	-	56.00	Not e2
Luoyang Goodaymart Logistics Co., Ltd.	Luoyang	Luoyang	Provision of logistic services	RMB75,000,000.00	-	-	-	56.00	Not e2
Qingdao Goodaymart Home Furnishing Service Co., Ltd.	Qingdao	Qingdao	Provision of logistic services	RMB9,000,000.00	-	-	-	56.00	Not e2
Qingdao Goodaymart Logistics Co., Ltd.	Wuhan	Wuhan	Provision of logistic services	RMB270,000,000.00	-	-	-	56.00	Not e2
Qingdao Gooday Logistics Ltd.	Qingdao	Qingdao	Provision of logistic services	USD91,641,415.00	-	-	-	56.00	Not e2
Qingdao Goodaymart Supply Chains Co., Ltd.	Qingdao	Qingdao	Provision of logistic services	RMB10,000,000.00	-	-	-	56.00	Not e2
Qingdao Haier Washing Machine Co., Ltd.	Qingdao	Qingdao	Manufacturing	RMB238,610,000.00	-	100.00	-	94.00	
Qingdao Haier Drum Washing Machine Co., Ltd.	Qingdao	Qingdao	Manufacturing	RMB99,345,600.00	-	100.00	-	100.00	
Qingdao Economy and Technology Development Zone Haier Water Heater Co., Ltd.	Qingdao	Qingdao	Manufacturing	RMB120,000,000.00	-	100.00	-	100.00	
Wuhan Haier Water Heater Co., Ltd.	Wuhan	Wuhan	Manufacturing	RMB120,000,000.00	-	100.00	-	100.00	
Chongqing Haier Water Heater Co., Ltd.	Chongqing	Chongqing	Manufacturing	RMB120,000,000.00	-	100.00	-	100.00	

Ltd.										
Qingdao Goodaymart		ng	ing		RMB1,199,199,998.00	-	100.00	-	100.00	Not e3
Chuangzhi Investment		Qingdao	Qingda	Investment						
Management			o	management						
Co., Ltd.										
Tianjin Ririxin Assets		Tianjin	Tianjin	Manufacturing	RMB535,800,000.00	-	100.00	-	94.00	Not e4
Management										
Co., Ltd.										
Qingdao Haier Strauss	Water	Qingdao	Qingda	Wholesale and	RMB12,870,600.00	-	51.00	-	-	Not e5
Equipment Co., Ltd.			o	retail						

Note 1: The company's registered capital in 2018 was RMB92,000,00.00, and the capital increased to RMB92,046,213.80 in 2019.

Note 2: These companies were subsidiaries of the Group in 2018 and were disposed in 2019. For details, please refer to the item 3 in note VI.

Note 3: The company's registered capital in 2018 was RMB199,199,900.00, and the capital increased to RMB1,199,199,998.00 in 2019.

Note 4: The company's registered capital in 2018 was RMB300,000,000.00, and the capital increased to RMB535,800,000.00 in 2019.

Note 5: After the asset swap completed, the company was included into the consolidation scope of the Group in 2019. For details, please refer to the item 1 in note XIV.

VII. Interests in other entities (continued)

2. Interests in associates

	Principal place of business	Place of incorporation	Nature of business	Registered capital	Percentage of shares held (%)	Accounting method
Associates						
Guangzhou Heying Investment Partnership (Limited Partnership)(广州合赢投资合伙企业(有限合伙))	Guangzhou	Guangzhou	Investment holding	RMB320 million	49.00	Equity method
Qingdao Home Wow Cloud Network Technology Co., Ltd.(青岛家哇云网络科技有限公司)	Qingdao	Qingdao	Technology services	RMB7.22 million	23.27	Equity method
Beijing Cangxiaowei Supply Chain Management Co., Ltd.(北京仓小微供应链管理有限公司)	Beijing	Beijing	Supply chain management	RMB 1.11 million	23.93	Equity method
Bingji (Shanghai) Corporate Management Co., Ltd.	Shanghai	Shanghai	Investment holding	RMB1 million	45.00	Equity method
Youjin (Shanghai) Enterprise Management Co., Ltd.	Shanghai	Shanghai	Investment holding	RMB1 million	45.00	Equity method
Gooday (Shanghai) Investment Company Limited	Shanghai	Shanghai	Investment holding	RMB1,029.02 million	45.00	Equity method
BWT Haier Water Technology Co., Ltd.(倍世海尔饮水科技有限公司)	Qingdao	Qingdao	Water equipment manufacturing	RMB24 million	49.00	Equity method

On 26 July 2019, the Group completed the asset swap transaction as detailed in the item 1(a) in note 14. Therefore, Bingji, Youjin (Shanghai) Enterprise Management Co., Ltd. (“Youjin”) and Gooday (Shanghai) Investment Company Limited (“Gooday Shanghai”) have become the associates of the Group. Bingji, Youjin and Gooday Shanghai were mainly engaged in investment holding, of which Bingji held 55% shares of Youjin, Youjin held 55% shares of Gooday Shanghai, and Gooday Shanghai held 56.4% shares of Qingdao Gooday Logistics Co., Ltd., respectively. Based on the above structure, the Group had no control over Gooday Shanghai notwithstanding that the Group actually held 83.36% shares of Gooday Shanghai.

The table below set out the financial information of Gooday Shanghai, which made adjustments on the differences among all the accounting policies and to the carrying amount of the financial statements:

	2019
Current assets	6,377,681,217.05
Including: cash and cash equivalent	1,164,666,491.40
Non-current assets (excluding goodwill)	5,887,187,737.10
Total assets	12,264,868,954.15
Current liabilities	4,583,997,487.62
Non-current liabilities	2,366,425,743.37
Total liabilities	6,950,423,230.99
Minority equity interests	2,381,600,869.71
Equity interest attributable to shareholders of the parent company (excluding	2,932,844,853.45

goodwill)

Share of net assets calculated per shareholding percentage (excluding goodwill)	2,444,819,469.84
Goodwill	3,028,925,948.87
Carrying amount of investment	<u>5,473,745,418.71</u>

VII. Interests in other entities (continued)

2. Interests in associates (continued)

Period from 26 July
2019 to 31 December 20
19

Operating revenue	5,522,458,399.86
Income tax expense	68,565,173.91
Net profit	117,662,563.87
Total comprehensive revenue	<u>117,662,563.87</u>

The following table listed the summarized financial information of associates that were not important to the Group:

	2019	2018
Associates		
Total carrying amount of investment	245,355,403.72	178,072,707.97
Total amount of the following items calculated based on shareholding percentage		
Net loss	(2,091,322.04)	(346,303.54)
Other comprehensive revenue	47,053,825.13	24,017,274.24
Total comprehensive revenue	<u>44,962,503.09</u>	<u>23,670,970.70</u>

Since Qingdao Xiaoshuai Intelligent Technology Co., Ltd.(青岛小帅智能科技股份有限公司) is not liable for additional losses, the net losses of Qingdao Xiaoshuai Intelligent Technology Co., Ltd. shall be recognised to the extent that the carrying amount of the long-term equity investment and any long-term interests which form part of the net investment in Qingdao Xiaoshuai Intelligent Technology Co., Ltd. in substance are reduced to zero. The amount of unrecognised and accumulated unrecognised investment losses of the Group in 2019 were RMB1,523,671.88 and RMB8,359,440.62, respectively. The amount of unrecognised investment revenue and accumulated unrecognised investment losses in 2018 were RMB362,278.25 and RMB 6,835,768.74, respectively.

VIII. Risks related to the financial instruments

1. Classification of financial instruments

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2019

Financial assets

	Financial assets measured at fair value and changes of which included in current profit and loss	Financial assets measu red at amortized costs	Financial assets measured at fair value and changes of which included in other comprehensive income		Total
			Required by standards	Appointed	
Monetary funds	-	15,244,513,835.81	-	-	15,244,513,835.81
Financial assets held for trading	198,614,361.33	-	-	-	198,614,361.33
Accounts receivable	-	2,007,344,183.04	-	-	2,007,344,183.04
Financing receivables	-	-	1,300,172,084.08	-	1,300,172,084.08
Other receivables	-	1,299,719,819.52	-	-	1,299,719,819.52
Other current assets (item 9 in note V)	-	3,054,091,021.22	-	-	3,054,091,021.22
Investments in other equity instruments	-	-	-	1,847,505,877.49	1,847,505,877.49
Other non-current financial assets	371,604,693.05	-	-	-	371,604,693.05
	<u>570,219,054.38</u>	<u>21,605,668,859.59</u>	<u>1,300,172,084.08</u>	<u>1,847,505,877.49</u>	<u>25,323,565,875.54</u>

VIII. Risks related to the financial instruments (continued)**1. Classification of financial instruments (continued)**

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

2019 (continued)

Financial liabilities

	Financial liabilities measured at fair value and changes of which included in current profit and loss		Total
	Required by standards	Financial liabilities measured at amortized costs	
Short-term borrowings	-	68,231,758.92	68,231,758.92
Bills receivable	-	385,563,319.57	385,563,319.57
Accounts payable	-	5,060,644,841.47	5,060,644,841.47
Other payables	-	4,889,674,045.14	4,889,674,045.14
Non-current liabilities within one year (item 30 in note V)	-	32,170,241.38	32,170,241.38
Long-term borrowings	-	12,663,597.66	12,663,597.66
Lease liabilities	-	21,001,839.02	21,001,839.02
Other non-current liabilities	54,598,203.27	-	54,598,203.27
	<u>54,598,203.27</u>	<u>10,469,949,643.16</u>	<u>10,524,547,846.43</u>

VIII. Risks related to the financial instruments (continued)

1. Classification of financial instruments (continued)

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

2018

Financial assets

	Financial assets measured at fair value and changes of which included in current profit and loss	Financial assets measured at amortized costs	Financial assets measured at fair value and changes of which included in other comprehensive income		Total
			Required by standards	Appointed	
Monetary funds	-	15,451,978,694.09	-	-	15,451,978,694.09
Financial assets held for trading	1,567,648,908.00	-	-	-	1,567,648,908.00
Accounts receivable	-	3,638,888,900.69	-	-	3,638,888,900.69
Financing receivables	-	-	1,631,192,932.87	-	1,631,192,932.87
Other receivables	-	1,231,424,072.42	-	-	1,231,424,072.42
Other current assets(item 9 in note V)	-	2,814,531,840.90	-	-	2,814,531,840.90
		-			1,261,664,000.00
Investments in other equity instruments	-	-	-	1,261,664,000.00	
Other non-current financial assets	422,877,583.53	-	-	-	422,877,583.53
	<u>1,990,526,491.53</u>	<u>23,136,823,508.10</u>	<u>1,631,192,932.87</u>	<u>1,261,664,000.00</u>	<u>28,020,206,932.50</u>

VIII. Risks related to the financial instruments (continued)**1. Classification of financial instruments (continued)**

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

2018 (continued)

Financial liabilities

	Financial liabilities measured at fair value and changes of which included in current profit and loss		Financial liabilities measured at amortized costs	Total
	Required by standards			
Short-term borrowings	-		68,799,098.98	68,799,098.98
Bills receivable	-		427,952,556.22	427,952,556.22
Accounts payable	-		5,732,817,212.36	5,732,817,212.36
Other payables	-		4,677,293,922.70	4,677,293,922.70
Long-term borrowings	-		23,574,659.91	23,574,659.91
Other non-current liabilities	1,798,027,644.47		-	1,798,027,644.47
	<u>1,798,027,644.47</u>		<u>10,930,437,450.17</u>	<u>12,728,465,094.64</u>

VIII. Risks related to the financial instruments (continued)

2. Risk of financial instruments

The Group faces various financial instrument risks in its daily activities, mainly including credit risks, liquidity risks and exchange rate risks.

The main financial instruments of the Group include monetary funds, financial assets held for trading, accounts receivable, financing receivables, other receivables, other current assets, investments in other equity instruments, accounts payable and other payables. The risks related to these financial instruments and the risk management strategies adopted by the Group to reduce these risks are as follows.

Credit risks

The Group deals only with recognised and reputable third parties. In accordance with the Group's policies, all customers requiring credit transactions are subject to credit audits. In addition, the Group continuously monitors the balance of accounts receivable to ensure that the Group does not face significant risk of bad debts. For transactions that are not settled in the accounting base currency of the relevant business units, the Group will not provide conditions for credit transactions unless the Group's credit control department specifically approves them.

Since the counterparties of monetary funds, financial assets held for trading, financing receivables, other current assets and other non-current financial assets are financial institutions such as banks with good reputation and high credit ratings, these financial instruments have low credit risks. At the same time, the subject matter of investment in other equity instruments are non-listed entities with good credit, and the credit risk is relatively low.

Other financial assets of the Group include accounts receivable and other receivables, etc. The credit risk of these financial assets originates from the default of the counterparty. The maximum risk exposure is equal to the carrying amount of these instruments.

Maximum credit risk exposure the Group faced at each balance sheet date is the total amount received from customer less impairment provision.

The Group does not require any collateral from the third parties since the Group only deals with the recognised and reputable third parties. The Group manages concentration of credit risks by customers/counterparties. On 31 December 2019 and 31 December 2018, the Group had a specific concentration of credit risk, and 31.69% and 17.04% of the Group's accounts receivable were due to the customer with the largest accounts receivable balance while 76.82% and 49.16% were due to the top five customers of accounts receivable balance. The Group does not hold any collateral or other credit enhancements for the balance of accounts receivable.

Criteria for judging significant increases in credit risk

The Group assesses whether the credit risk of the relevant financial instruments has increased significantly since the initial confirmation at each of the balance sheet date. In determining whether credit risk has increased significantly since the initial recognition, the Group considers that reasonable and valid information, including qualitative and quantitative analysis based on the Group's historical data, external credit risk rating and forward-looking information, can be obtained without undue cost or effort. Based on a single financial instrument or a portfolio of financial instruments with similar credit risk characteristics, the Group compares the risk of default of financial instruments at the balance sheet date with the risk of default on the initial recognition date to determine the change of default risk of financial instruments during the expected lifetime.

When triggering one or more of the following quantitative and qualitative criteria, the Group believes that the credit risk of financial instruments has increased significantly:

-
- (1) Quantitative criteria mainly comprise the circumstance that at the reporting date, the increase in remaining lifetime default probability is considered significant comparing with the one at initial recognition;
 - (2) Qualitative criteria mainly comprise major adverse changes in the debtor's business or financial situation, early warning list of customers, etc.

VIII. Risks related to the financial instruments (continued)

2. Risk of financial instruments

Credit risks (continued)

Definition of credit-impaired assets

In order to determine whether credit impairment occurs, the defining criteria adopted by the Group are consistent with the internal objectives of credit risk management for the relevant financial instruments, taking into account quantitative and qualitative indicators. In assessing whether the debtor has suffered credit impairment, the Group mainly considers the following factors:

- (1) Whether major financial difficulties occur to the issuer or debtor;
- (2) Whether the debtor breaches the contract, such as fail to pay or delay the payment of interests or the principal;
- (3) Whether the creditor gives the debtor concessions in no other case for economic or contractual considerations related to the debtor's financial difficulties;
- (4) Whether the debtor is likely to go bankrupt or undergo other financial restructuring;
- (5) Whether the financial difficulties of the issuer or debtor lead to the disappearance of the active market of the financial assets;
- (6) Whether to purchase and derive a financial asset at a substantial discount, which reflects the fact that credit losses occur.

The occurrence of credit impairment in financial assets may be the result of a combination of multiple events, not necessarily those that can be identified separately.

Parameters for measuring expected credit loss

According to whether the credit risk has significantly increased and whether the credit impairment has occurred, the Group measures impairment provision for different assets with the expected credit loss for 12 months or the whole lifetime, respectively. The key parameters of measuring the expected credit loss include the default probability, default loss rate and default risk exposure. Considering the quantitative analysis and forward-looking information of historical statistical data (such as counterparty ratings, repayment methods), the Group establishes the default probability, default loss rate and default risk exposure model.

The relevant definitions are as follows:

- (1) The default probability refers to the possibility that the debtor will not be able to fulfil its obligation to pay in the next 12 months or throughout the remaining period. The default probability of the Group is adjusted on the basis of the risk matrix model, and forward-looking information is added to reflect the default probability of the debtor under the current macroeconomic environment;
- (2) The default loss rate refers to the Group's expectation for the extent of loss from exposure to default risk. According to the type of counterparties, the way and priority of recourse, the default loss rate of contract is also different. The default loss rate is the percentage of risk exposure loss at the time of default, which is calculated on the basis of the next 12 months or the whole lifetime;
- (3) The default risk exposure is the amount that the Group should be repaid in the event of default in the next 12 months or throughout the remaining period.

The assessment of significant increases in credit risk and the calculation of expected credit losses involve forward-looking information. Through historical data analysis, the Group identifies key economic indicators that affect the credit risk and expected credit loss of various business types.

The impact of these economic indicators on default probability and default loss rate varies with different business types. In this process, the Group applies expert judgment to forecast these economic indicators quarterly based on the results of expert judgment, to determine the impact of these economic indicators on the default probability and default loss rate.

Credit risk exposure

The Group makes provision for impairment of accounts receivable based on the lifetime expected credit losses. For details of the risk matrix model, please refer to the item 3 in note V.

VIII. Risks Related to Financial Instruments (Continued)

2. Financial instrument risk (Continued)

Liquidity risk

The Group manages its risk of deficiency of funds using a recurring liquidity planning tool. This tool considers both the maturity of its financial instruments and expected cash flows from the Group's operations.

The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of bank borrowings and other financing methods.

The following table summarizes the maturity profile of financial liabilities based on the undiscounted contractual cash flows:

2019

	On demand or no fixed terms of repayment	Within one year	More than one year	Total
Short-term borrowings	-	69,184,471.97	-	69,184,471.97
Bills payable	-	385,563,319.57	-	385,563,319.57
Accounts payable	-	5,060,644,841.47	-	5,060,644,841.47
Other payables	4,889,674,045.14	-	-	4,889,674,045.14
Non-current liabilities due within one year	-	33,332,444.44	-	33,332,444.44
Long-term borrowings	-	-	13,237,743.24	13,237,743.24
Lease liabilities	-	-	22,820,694.89	22,820,694.89
Other non-current liabilities	-	-	60,045,049.23	60,045,049.23
	<u>4,889,674,045.14</u>	<u>5,548,725,077.45</u>	<u>96,103,487.36</u>	<u>10,534,502,609.95</u>

2018

	On demand or no fixed terms of repayment	Within one year	More than one year	Total
Short-term borrowings	-	75,328,233.43	-	75,328,233.43
Bills payable	-	427,952,556.22	-	427,952,556.22
Accounts payable	-	5,732,817,212.36	-	5,732,817,212.36
Other payables	4,677,293,922.70	-	-	4,677,293,922.70

Long-term borrowings	-	-	19,093,040.14	19,093,040.14
Other non-current liabilities	-	-	2,027,338,931.86	2,027,338,931.86
	<u>4,677,293,922.70</u>	<u>6,236,098,002.01</u>	<u>2,046,431,972.00</u>	<u>12,959,823,896.71</u>

VIII. Risks Related to Financial Instruments (Continued)

2. Financial instrument risk (Continued)

Exchange rate risk

The Group's exposure to transactional foreign currency risk mainly relates to its sales and purchase valued and settled in foreign currency. About 3.5% (2018: 2.9%) of the amount of the Group's sales is valued in foreign currency, while about 99.7% (2018: 99.8%) of the amount of the Group's cost is valued in functional currency. The Group does not use foreign forward contracts to offset the exposure.

The table below is sensitivity analysis of exchange rate risk, which reflects the impact on net profit or loss (due to changes in the fair value of the monetary assets and monetary liabilities), when there are reasonable and potential changes in US\$ exchange rates, under the presumption that all other variables remain unchanged.

2019

		Increased/(decreased) in US\$ rate %		Increased/(decreased) in net profit or loss		
Depreciation of RMB against US\$		5		27,519,263.11		
Depreciation of RMB against US\$		(5)		(27,519,263.11)		

2018

		Increased/(decreased) in US\$ rate %		Increased/(decreased) in net profit or loss		
Depreciation of RMB against US\$		5		20,373,495.37		
Depreciation of RMB against US\$		(5)		(20,373,495.37)		

VIII. Risks Related to Financial Instruments (Continued)

3. Capital management

The primary objectives of the Group's capital management are to ensure the Group's ability to continue operations and to maintain healthy capital ratios in order to support its business development and maximise shareholders' value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to Shareholders or issue new Shares. The Group is not subject to the externally imposed capital requirements. No changes were made in the objectives, policies or procedures for managing capital in 2019 and 2018.

The Group utilizes a leverage ratio to manage capital, which refers to the ratio of total liabilities and capital. The Group's policy will make the leverage ratio not exceed 50%. Total liabilities refer to short-term borrowings and long-term borrowings, and capital refers to shareholders' equity interests. The Group's leverage ratio at the balance sheet date is as follows:

	2019	2018
Short-term borrowings	68,231,758.92	68,799,098.98
Long-term borrowings	<u>12,663,597.66</u>	<u>23,574,659.91</u>
Total liabilities	<u>80,895,356.58</u>	<u>92,373,758.89</u>
Shareholders' equity interests	<u>29,637,918,073.81</u>	<u>26,185,696,473.71</u>
Leverage ratios	<u>0.3%</u>	<u>0.4%</u>

IX. Disclosure of fair value

1. Assets and liabilities measured at fair value

2019

	Inputs used for fair value measurement			Total
	Quotes in an active market (Level 1)	Important observable input (Level 2)	Important unobservable input (Level 3)	
Continuously measured at fair value				
Investment in other equity instruments	-	596,610,000.00	1,250,895,877.49	1,847,505,877.49
Financing receivables	-	1,300,172,084.08	-	1,300,172,084.08
Financial assets held for trading	-	198,614,361.33	-	198,614,361.33
Other non-current financial assets	-	357,383,728.25	14,220,964.80	371,604,693.05
	-	2,452,780,173.66	1,265,116,842.29	3,717,897,015.95

	Inputs used for fair value measurement			Total
	Quotes in an active market (Level 1)	Important observable input (Level 2)	Important unobservable input (Level 3)	
Continuously measured at fair value				
Other non-current liabilities	-	-	54,598,203.27	54,598,203.27

2018

	Inputs used for fair value measurement			Total
	Quotes in an active market (Level 1)	Important observable input (Level 2)	Important unobservable input (Level 3)	
Continuously measured at fair value				
Investment in other equity instruments	-	-	1,261,664,000.00	1,261,664,000.00
Financing receivables	-	1,631,192,932.87	-	1,631,192,932.87
Financial assets held for trading	-	1,567,648,908.00	-	1,567,648,908.00
Other non-current financial assets	-	376,808,825.57	46,068,757.96	422,877,583.53
	-	3,575,650,666.44	1,307,732,757.96	4,883,383,424.40
Non-continuously measured at fair value				
Financial assets held for sale	-	-	106,009,843.00	106,009,843.00
	-	3,575,650,666.44	1,413,742,600.96	4,989,393,267.40

IX. Disclosure of fair value (continued)

1. Assets and liabilities measured at fair value (continued)

	Inputs used for fair value measurement			Total
	Quotes in an active market (Level 1)	Important observable input (Level 2)	Important unobservable input (Level 3)	
Continuously measured at fair value				
Other non-current liabilities	-	1,587,402,991.32	210,624,653.15	1,798,027,644.47

2. Assets and liabilities disclosed at fair value

2019

	Inputs used for fair value measurement			Total
	Quotes in an active market (Level 1)	Important observable input (Level 2)	Important unobservable input (Level 3)	
Short-term borrowings	-	68,231,758.92	-	68,231,758.92
Long-term borrowings	-	12,347,810.08	-	12,347,810.08
	-	80,579,569.00	-	80,579,569.00

2018

	Inputs used for fair value measurement			Total
	Quotes in an active market (Level 1)	Important observable input (Level 2)	Important unobservable input (Level 3)	
Short-term borrowings	-	68,799,098.98	-	68,799,098.98
Long-term borrowings	-	23,448,148.59	-	23,448,148.59
	-	92,247,247.57	-	92,247,247.57

IX. Disclosure of fair value (continued)

3. Evaluation of fair value

Fair value of financial instruments

The following sets out the comparison between carrying amount and fair value of all categories of financial instruments of the Group excluding financial instruments of insignificant difference in carrying amount and fair value:

	Carrying amount		Fair value	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Financial assets				
Financial assets held for trading	198,614,361.33	1,567,648,908.00	198,614,361.33	1,567,648,908.00
Investment in other equity instruments	1,847,505,877.49	1,261,664,000.00	1,847,505,877.49	1,261,664,000.00
Other non-current financial assets	294,547,364.47	327,358,825.57	294,547,364.47	327,358,825.57
Other non-current assets	77,057,328.58	95,518,757.96	77,057,328.58	95,518,757.96
Financial liabilities				
Short-term borrowings	68,231,758.92	68,799,098.98	68,231,758.92	68,799,098.98
Long-term borrowings	12,663,597.66	23,574,659.91	12,347,810.08	23,448,148.59
Liability under put options	<u>54,598,203.27</u>	<u>1,798,027,644.47</u>	<u>54,598,203.27</u>	<u>1,798,027,644.47</u>

The management has assessed monetary funds, bills receivable and accounts receivable, bills payable and accounts payable, etc., and fair value approximate to carrying amount due to their short maturity terms.

The Group's finance department headed by senior finance manager is responsible for formulating policies and procedures for the fair value measurement of financial instruments. Senior finance manager reports directly to the chief financial officer and the audit committee. On the balance sheet date, finance department analyses the movements in the value of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial statements.

The fair value of financial assets and financial liabilities is determined based on the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate fair value.

The long-term and short-term borrowings, lease liabilities, etc. of the Company is determined on the basis of discounted future cash flow using the market rate of return of other financial instruments with similar contractual terms, credit risk and residual term as the discount rate to ensure that the amount is determined fairly. As at 31 December 2019 and 2018, the Group's own non-performance risk for long-term and short-term borrowings was assessed to be insignificant.

In non-listed equity instrument investment, the fair value of Sinopec Sales Co., Ltd.'s non-listed equity investment is estimated by using the market-based method, and the adopted assumptions is not supported by observable market price or interest rate. The Group determines comparable public companies based on industry, size, leverage and strategy, and calculates appropriate ratio in respect of each identified comparable public companies, such as the ratio of share price to earnings (「P/E」) ratio, and estimates existing liquidity and size differences between the comparable companies. The

IX. Disclosure of fair value (continued)

Below is a summary of the significant unobservable inputs to the fair value measurement of level 3:

13

	discount for lack of marketabilit y would result in increase in fair value by RMB13,810 ,000.00 /(decrease by RMB13,810 ,000.00)
2018: 14%- 16%	1% increase/ (decrease) in the discount for lack of marketabilit y would result in increase in fair value by RMB14,841 ,000.00/(dec rease by RMB14,841 ,000.00)

IX. Disclosure of fair value (continued)

5. Fair value measurement adjustment

Adjustment of continuous fair value measurement of Level 3:

2019

	Balance at the beginning of the year	Total profit or loss for the period		Acquisition	Balance at the end of the year	Change in unrealized profit or loss for the period of assets held at year-end included in profit or loss
		Included in profit or loss	Included in other comprehensive income			
Other equity investments	1,261,664,000.00	-	(21,394,253.10)	10,626,130.59	1,250,895,877.49	-
Other non-current assets	<u>46,068,757.96</u>	<u>(31,847,793.16)</u>	<u>-</u>	<u>-</u>	<u>14,220,964.80</u>	<u>(31,847,793.16)</u>
	<u>1,307,732,757.96</u>	<u>(31,847,793.16)</u>	<u>(21,394,253.10)</u>	<u>10,626,130.59</u>	<u>1,265,116,842.29</u>	<u>(31,847,793.16)</u>

	Balance at the beginning of the year	Total profit or loss for the period		Discontinued operation	Balance at the end of the year	Change in unrealized profit or loss for the period of assets held at year-end included in profit or loss
		Included in profit or loss	Included in other comprehensive income			
Other non-current liabilities	<u>210,624,653.15</u>	<u>(5,679,041.87)</u>	<u>(1,387,408.01)</u>	<u>(148,960,000.00)</u>	<u>54,598,203.27</u>	<u>(5,679,041.87)</u>

2018

	Balance at the beginning of the year	Total profit or loss for the period		Acquisition	Balance at the end of the year	Change in unrealized profit or loss for the period of assets held at year-end included in profit or loss
		Included in profit or loss	Included in other comprehensive income			
Other equity investments	1,282,581,915.63	-	(20,917,915.63)	-	1,261,664,000.00	
Other non-current assets	<u>45,741,914.80</u>	=	<u>326,843.16</u>	-	<u>46,068,757.96</u>	-
	<u>1,328,323,830.43</u>	=	<u>(20,591,072.47)</u>	-	<u>1,307,732,757.96</u>	-
	Balance at the beginning of the year	Total profit or loss for the period		Acquisition	Balance at the end of the year	Change in unrealized profit or loss for the period of assets held at year-end included in profit or loss
		Included in profit or loss	Included in other comprehensive income			
Other non-current liabilities	<u>60,894,796.79</u>	=	<u>769,856.36</u>	<u>148,960,000.00</u>	<u>210,624,653.15</u>	-

X. Relationships And Transactions With Related Parties

1. The criteria for determining the related parties

The related parties of the Company are set out as follows:

- (1) The Company's parent company;
- (2) The Company's subsidiaries;
- (3) Other enterprises under common control with the Company by the same parent company;
- (4) Investors exercising common control over the Company;
- (5) Investors exercising significant influence over the Company;
- (6) The Group's joint ventures;
- (7) The Group's associates;
- (8) Major investors of the Company and their close family members;
- (9) Key management personnel of the Company or the parent company and their close family members;
- (10) Other enterprises individually or jointly-controlled by major investors or key management personnel of the Company or their close family members;
- (11) The enterprise annuity fund established by the Company;
- (12) Minority shareholders of important subsidiaries of the Company and other enterprises controlled by them.

2. Parent and subsidiaries

Parent company	Place of registration	Business nature	Holding proportion over the Company (%)	Voting right proportion over the Company (%)	Share capital (RMB'100 million)
Haier Smart Home Co., Ltd.	Qingdao	Manufacturing industry	45.87	57.87	63.68

The ultimate parent of the Company is Haier Group Corporation.

Please refer to item 1 in note VII for the Company's subsidiaries.

X. Relationships And Transactions With Related Parties (continued)

3. Other related parties that have significant business relationships with the Group

	Relationship with elated parties
Haier Deutschland GmbH	Enterprises controlled by the ultimate parent
Beijing Zero Micro Technology Co., Ltd.	Enterprises controlled by the ultimate parent
Fisher & Paykel Appliances (Qingdao) Co., Ltd.	Enterprises controlled by the ultimate parent
Foshan Haiyongchuang Investment Management Co., Ltd.	Enterprises controlled by the ultimate parent
Foshan Shunde Haier Intelligent Electronics Co., Ltd.	Enterprises controlled by the ultimate parent
Haier Overseas Electric Appliance Co., Ltd.	Enterprises controlled by the ultimate parent
Haier Group Finance Co., Ltd.	Enterprises controlled by the ultimate parent
Haier Group Dalian Electric Industry Co., Ltd.	Enterprises controlled by the ultimate parent
Haier Group Electric Appliance Industry Co., Ltd.	Enterprises controlled by the ultimate parent
Haier Digital Technology (Qingdao) Co., Ltd. (海尔数字科技(青岛)有限公司)	Enterprises controlled by the ultimate parent
Haier Information Technology (Shenzhen) Co, Ltd.	Enterprises controlled by the ultimate parent
Haier Asia R&D Co., Ltd.	Enterprises controlled by the ultimate parent
Hefei Haiyongchuang Enterprise Management Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Dingteng Industrial Technology Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haidarui Procurement Service Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haidayuan Procurement Service Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haier Industry and City Innovation Group Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haier Whole Set Home Appliance Service Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haier Venture & Investment Information Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haier Refrigerator Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haier Multimedia Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haier Industry Intelligence Research Institute Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haier International Travel Agency Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haier International Trading Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haier Robot Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haier Air Conditioning Equipment Co., Ltd.	Enterprises controlled by the ultimate parent

Qingdao Haier Parts Procurement Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haier Moulds Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haier Special Refrigerator Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haier Investment Development Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haier Brothers Animation Industry Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haier Intelligent Electronics Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haier Intelligent Home Appliance Technology Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Harico Microwave Products Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haiyongda Property Management Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Haiyungu Real Estate Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Hao Pin Hai Rui Information Technology Co., Ltd.	Enterprises controlled by the ultimate parent

X. Relationships And Transactions With Related Parties (continued)

3. Other related parties that have significant business relationships with the Group (continued)

	Relationship with related parties
Qingdao Jiaonan Haier Microwave Products Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Oasis Chuangzhi Technology Information Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Goodaymart Electric Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Goodaymart Lejia IoT Technology Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao TAB Robot Technology Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Weixi Smart Technology Co., Ltd.	Enterprises controlled by the ultimate parent
Qingdao Yunshang Yuyi Technology Co., Ltd. (青岛云裳羽衣物联科技有限公司)	Enterprises controlled by the ultimate parent
RRS Internet of Things Co., Ltd.	Enterprises controlled by the ultimate parent
Shanghai Zhiyu Technology Co., Ltd.	Enterprises controlled by the ultimate parent
Wuhan Haier Freezer Co., Ltd.	Enterprises controlled by the ultimate parent
Wuhan Haier Logistics Co., Limited	Enterprises controlled by the ultimate parent
Yantai Goodaymart Lejia IoT Technology Co., Ltd.	Enterprises controlled by the ultimate parent
Chongqing Haier Electrical Appliances Sales Co., Ltd.	Enterprises controlled by the ultimate parent
Chongqing Haier Electronics Sales Co., Ltd.	Enterprises controlled by the ultimate parent

Chongqing Haier Investment Development Co., Ltd.	Enterprises controlled by the ultimate parent
Chongqing Haier Logistics Co., Ltd.	Enterprises controlled by the ultimate parent
Chongqing Haier Property Management Co., Ltd.	Enterprises controlled by the ultimate parent
Chongqing Goodaymart Electric Appliance Sale Co., Ltd	Enterprises controlled by the ultimate parent
Qingdao Haier Goodaymart Logistic Co., Ltd.	Associates*
Qingdao Goodaymart House Service Co., Ltd.	Associates*
Qingdao Goodaymart Supply Chains Co., Ltd.	Associates*
Hongkong Goodaymart Supply Chains Co., Ltd.	Associates*
Shanghai Cotai Supply Chain Management Co., Ltd.	Associates*
Hangzhou Cainiao Supply Chain Management Co., Ltd.	Enterprises controlled by minority shareholders of major subsidiaries [#]
Hangzhou Alimama Software Service Co., Ltd.	Enterprises controlled by minority shareholders of major subsidiaries [#]
Zhejiang Tmall Technology Co., Ltd.	Enterprises controlled by minority shareholders of major subsidiaries [#]

* As the Asset Swap transaction detailed item 1(a) in note XIV, on 26 July 2019, the Group transferred 55% of Bingji's equity to swap Qingdao Haishi's equity. After the completion of the transaction, the Group held 45% of the Bingji's equity and lost control, and Bingji changed from a subsidiary of the Group to an associate. Those companies listed in this part are important subsidiaries of Bingji.

[#] The companies listed here is minority shareholders of Qingdao Haier Goodaymart Logistic Co., Ltd., an important subsidiary of Bingji. As detailed in item 1(a) in note XIV, upon the completion of the Asset Swap transaction and Bingji becoming an associate of the Group, those companies listed in this part are no longer related parties of the Group.

X. Relationships And Transactions With Related Parties (continued)

4. Major transactions between the Group and related parties

(1) Sales of goods to related parties

	Note A	2019 Amount	2018 Amount
Haier Overseas Electric Appliance Co., Ltd.		2,822,313,723.30	2,084,736,818.98
Qingdao Haier International Travel Agency Co., Ltd.		55,599,035.41	18,145,076.33
Goodaymart IoT Co., Ltd.		32,771,630.63	49,170,024.28
Qingdao Haier Intelligent Electronics Co., Ltd.		24,139,239.69	196,717.03
Chongqing Goodaymart Electric Appliance Sale Co., Ltd		14,205,094.84	21,969,069.33
Chongqing Haier Property Management Co., Ltd.		10,315,669.66	5,883,426.38
Chongqing Haier Electrical Appliances Sales Co., Ltd.		7,966,982.66	533,334.86

Qingdao Goodaymart Lejia IoT Technology Co., Ltd.	7,208,688.31	388,966.76
Qingdao Haier Intelligent Home Appliance Technology Co., Ltd.	6,341,799.22	238,378.04
Qingdao Haidayuan Procurement Service Co., Ltd.	5,854,609.75	18.74
Chongqing Haier Electronics Sales Co., Ltd.	4,608,178.65	8,462,387.04
Other related parties	17,281,429.34	35,341,947.61
	<u>3,008,606,081.46</u>	<u>2,225,066,165.38</u>

(2) Purchase of goods from related parties

	Note B	2019 Amount	2018 Amount
Chongqing Haier Electronics Sales Co., Ltd.		32,935,725,841.00	33,562,843,754.13
Qingdao Haidayuan Procurement Service Co., Ltd.		12,917,636,661.47	12,201,579,070.62
Qingdao Haidarui Procurement Service Co., Ltd.		5,280,840,978.31	4,523,430,129.13
Chongqing Haier Electrical Appliances Sales Co., Ltd.		3,898,660,457.87	4,664,537,755.56
Qingdao Hao Pin Hai Rui Information Technology Co., Ltd.		663,105,041.81	435,767,069.15
Qingdao Haier Whole Set Home Appliance Service Co., Ltd.		567,597,865.70	551,636,640.29
Haier Digital Technology (Qingdao) Co., Ltd. (海尔数字科技(青岛)有限公司)		207,294,359.50	125,343,190.92
Qingdao Haier Parts Procurement Co., Ltd.		176,109,973.90	300,493,286.42
Qingdao Haier International Trading Co., Ltd.		174,814,842.52	157,960,777.18
Qingdao Goodaymart Lejia IoT Technology Co., Ltd.		81,861,750.30	-
Qingdao Jiaonan Haier Microwave Products Co., Ltd.		30,862,385.32	-
Haier Information Technology (Shenzhen) Co., Ltd.		30,208,934.32	896,249.99
Qingdao TAB Robot Technology Co., Ltd.		19,645,200.58	14,959,910.64
Shanghai Zhiyu Technology Co., Ltd.		17,074,365.62	-
Qingdao Haier Intelligent Home Appliance Technology Co., Ltd.		16,448,893.81	2,183,621.07
Qingdao Oasis Chuangzhi Technology Information Co., Ltd.		15,828,431.34	-
Qingdao Weixi Smart Technology Co., Ltd.		11,343,669.24	5,056,367.68
Qingdao Dingteng Industrial Technology Co., Ltd.		11,167,052.25	-
Beijing Zero Micro Technology Co., Ltd.		10,900,701.81	6,388,775.87
Other related parties		113,430,639.49	644,262,156.15
		<u>57,180,558,046.16</u>	<u>57,197,338,754.80</u>

(3) Leases with related parties

As a lessee

	Note	Type of leased assets	2019 Rental fee	2018 Rental fee
	C			
Hefei Haiyongchuang Enterprise Management Co., Ltd.		Plant	10,925,215.03	13,027,656.60
Qingdao Haier Investment Development Co., Ltd.		Office	5,347,108.57	1,797,211.44
Qingdao Haiyungu Real Estate Co., Ltd.		Office	5,311,921.82	-
Wuhan Haier Logistics Co., Limited		Plant	4,566,377.35	4,566,377.35
Qingdao Haier Venture & Investment Information Co., Ltd.		Office	4,129,914.69	-
Foshan Haiyongchuang Investment Management Co., Ltd		Manufacturing and production	3,682,659.95	-
Qingdao Haier Air Conditioning Equipment Co., Ltd.		Manufacturing and production	2,442,376.11	1,690,875.78
Other related parties		Others	<u>14,556,680.61</u>	<u>15,157,361.63</u>
			<u>50,962,254.13</u>	<u>36,239,482.80</u>

X. Relationships And Transactions With Related Parties (continued)

4. Major transactions between the Group and related parties (continued)

(4) Other major related transactions

	Note D	2019 Amount	2018 Amount
Enterprises controlled by the ultimate parent	Transport revenue	1,568,889,414.47	2,755,797,238.46
Enterprises controlled by the ultimate parent	Other service fee	517,264,325.17	429,069,094.58
Enterprises controlled by the ultimate parent	After-sales platform agency revenue	217,026,471.85	213,881,747.75
Enterprises controlled by the ultimate parent	R&D expenses	199,630,148.55	190,182,998.24
Enterprises controlled by the ultimate parent	Procurement of fixed assets	190,546,625.10	281,786,136.68
Enterprises controlled by the ultimate parent	Mould fee	189,418,910.05	246,215,126.93
Enterprises controlled by the ultimate parent	Energy cost	131,019,608.83	139,334,709.58
Enterprises controlled by the ultimate parent	Interest income	48,717,415.47	7,608,003.15
Enterprises controlled by the ultimate parent	Export platform service fee	36,025,431.06	31,087,061.24
Enterprises controlled by the ultimate parent	Other financial service fees	26,035,100.54	32,588,305.25
Enterprises controlled by the ultimate parent	interest expense	-	367,879.33
Associates	Transportation cost	831,141,162.59	-
Enterprises controlled by minority shareholders of major subsidiaries	Transport revenue	981,592,584.75	1,942,852,059.63
Enterprises controlled by minority shareholders of major subsidiaries	Transportation cost	100,396,173.53	238,842,606.13
Enterprises controlled by minority shareholders of major subsidiaries	Other service fee	<u>182,817,706.40</u>	<u>322,396,036.65</u>

Note:

A. Sales of goods and materials to related parties

The Group sells goods and materials to the aforementioned companies at a mutually-agreed price.

B. Purchase of goods and materials from related parties

The Group purchases goods and materials from the aforementioned companies at a mutually-agree price.

C. Lease payments are determined at a mutually-agreed price.

D. Other major related transactions

Transport revenue, other service fee, after-sales platform agency revenue, R&D expenses, procurement of fixed assets, mould fee, energy cost, interest income, export platform service fee, other financial service fees, interest expense and transportation cost are determined at a mutually-agreed price.

X. Relationships And Transactions With Related Parties (continued)

4. Major transactions between the Group and related parties (continued)

(5) Other matters

- (a) The Group leased houses to subsidiaries of Haier Group Corporation under operating lease arrangements. The rental income for 2019 and 2018 was RMB 2,331,000.00 and RMB 1,920,000.00, respectively.
- (b) In the previous year, Haier Group Corporation has made commitments to the Group and agreed to provide the Group with other appropriate properties to ensure the uninterrupted operation of the business of certain subsidiaries of the Company and/or indemnify the Group for any losses arising from the improper ownership of the properties. In 2018, the Group reached an agreement with Haier Group Corporation, which agreed to compensate the losses caused by the relocation of the Group's two factories in Qingdao. The compensation amount for 2019 and 2018 was RMB 38,640,000.00 and RMB 99,278,000.00 respectively.
- (c) As at 29 June 2019, the Company and Hefei Haier Washing Machine Co., Ltd., a subsidiary of the Group, signed an equity transfer agreement with Haier Kaaosi IOT Ecosystem Technology Limited, a subsidiary of Haier Group Corporation, to sell its 100% equity in Foshan Shunde Haier Intelligent Electronics Co., Ltd. at the consideration of RMB 556,000,000.00. The transaction was completed on 27 November 2019 and the consideration was determined with reference to the fair value of equity.
- (d) As at 21 December 2018, the Group entered into an acquisition agreement to acquire 6.33%, 0.08% and 0.08% (total 6.49%) equity of Qingdao Haier Washing Machine Co., Ltd. from subsidiaries of Haier Group Corporation (i.e. Qingdao Haier New Economic Consulting Co., Ltd., Qingdao Haier Parts Procurement Co., Ltd. and Qingdao Haier International Trading Co., Ltd.), respectively, and the cash considerations were RMB81,666,857.00, RMB1,032,325.00 and RMB1,032,325.00 respectively (based on a mutually-agreed price). Such transaction was completed on 30 January 2019.
- (e) As at 30 August 2018, Guanmei (Shanghai) Enterprise Management Co., Ltd. ("Guanmei"), an indirect wholly-owned subsidiary of the Company, signed an asset swap agreement with Haier Electric Appliances International Co., Ltd. ("Haier International"), an indirect non-wholly-owned subsidiary of Haier Group Corporation, pursuant to which Guanmei agreed to acquire and Haier International agreed to sell 51% of Qingdao Haishi's equity at a consideration of RMB1,073,523,786.00; Guanmei agreed to transfer 55% equity of Bingji, its wholly-owned subsidiary to Haier International at the same consideration to pay the consideration. Such asset swap transaction was completed on 26 July 2019. For relevant disclosures, please refer to item 1 in note XIV to the financial statements.
- (f) As at 9 July 2018, the Group acquired 25% equity of Qingdao Jushanghui Network Technology Co., Ltd. from Qingdao Haier Animation Brothers Industry Co., Ltd., a subsidiary of Haier Group Corporation, at a consideration of RMB50,000,000.00. Such consideration was completed on 9 July 2018. Please refer to item 2 in note VI item 2 for details.
- (g) Remuneration for key management

	2019 Amount	2018 Amount
Remuneration for key management	<u>35,844,338.74</u>	<u>40,135,773.54</u>
Including: awarded share option fee	<u>26,187,000.00</u>	<u>30,180,000.00</u>

In 2019 and 2018, the total amount of remuneration paid to key management of the Company (including in the form of cash, goods and others) incurred by the Group were RMB35,844,338.74 and RMB40,135,773.54, respectively.

X. Relationships And Transactions With Related Parties (continued)

5. Balance of accounts receivable and accounts payable of related parties

(1) Accounts receivable

	2019		2018	
	Carrying amount balance	Allowance for bad debts	Carrying amount balance	Allowance for bad debts
Haier Overseas Electric Appliance Co., Ltd.	636,274,963.51	144,275.76	462,884,210.87	23,637.61
RRS Internet of Things Co., Ltd.	35,341,768.89	150,138.87	68,707,278.05	109,553.65
Qingdao Haier International Travel Agency Co., Ltd.	26,187,973.25	162,098.66	14,603,252.50	21,925.52
Chongqing Haier Electronics Sales Co., Ltd.	7,979,902.49	-	7,296,100.58	-
Shanghai Zhiyu Technology Co., Ltd.	7,592,608.00	-	-	-
Qingdao Haier Intelligent Home Appliance Technology Co., Ltd.	6,655,483.51	744.31	-	-
青岛日日顺乐家物联科技有限公司	5,449,161.09	9,247.77	563,458.40	-
Other related parties	23,907,434.29	491,416.62	392,140,650.17	721,127.83
Total	749,389,295.03	957,921.99	946,194,950.57	876,244.61

(2) Financing receivables

	2019		2018	
	Carrying amount balance	Allowance for bad debts	Carrying amount balance	Allowance for bad debts
Haier Overseas Electric Appliance Co., Ltd.	1,240,000,000.00	-	890,000,000.00	-
Qingdao Haier Industry and City Innovation Group Co., Ltd.	-	-	30,000,000.00	-
Other related parties	-	-	22,680,830.41	-
Total	1,240,000,000.00	-	942,680,830.41	-

(3) Other receivables

	2019	2018
Haier Group Corporation	215,130,000.00	-
Chongqing Haier Electronics Sales Co., Ltd.	106,418,349.90	262,980,086.92
Qingdao Haier Industry and City Innovation Group Co., Ltd.	88,640,000.00	69,280,000.00
香港日日顺供应链管理有限公司	53,200,000.00	-

Qingdao Haier Multi-media Co., Ltd.	11,783,875.24	8,769,876.23
Qingdao Haier International Travel Agency Co., Ltd.	6,475,600.00	-
Zhejiang Tmall Technology Co., Ltd.	-	37,948,580.34
Other related parties	14,095,897.95	37,441,735.68
Total	495,743,723.09	416,420,279.17

X. Relationships And Transactions With Related Parties (continued)

5. Balance of accounts receivable and accounts payable of related parties (continued)

(4) Interest receivables

	2019	2018
Haier Group Finance Co., Ltd.	32,096,909.78	3,223,334.12

(5) Prepayments

	2019	2018
Chongqing Haier Electronics Sales Co., Ltd.	815,594,288.50	829,116,942.74
Qingdao Haidarui Procurement Service Co., Ltd.	34,993,460.38	2,028,905.22
Haier Group Electric Appliance Industry Co., Ltd.	32,846,613.20	32,216,712.04
Qingdao Haidayuan Procurement Service Co., Ltd.	21,981,753.09	86,443,204.52
Qingdao Haiyongda Property Management Co., Ltd.	18,430,440.00	9,215,220.00
青岛日日顺电器有限公司	5,256,939.80	5,256,939.80
Other related parties	9,685,690.81	89,792,591.82
Total	938,789,185.78	1,054,070,516.14

(6) Other non-current assets

	2019	2018
Qingdao Haier International Trading Co., Ltd.	49,302,742.07	180,217,277.21
Chongqing Haier Investment Development Co., Ltd.	18,500,000.00	18,500,000.00
Qingdao Haier Robot Co., Ltd.	1,492,204.62	9,938,594.49
Other related parties	7,059,823.71	9,559,587.81
Total	76,354,770.40	218,215,459.51

X. Relationships And Transactions With Related Parties (continued)**5. Balance of accounts receivable and accounts payable of related parties (continued)****(7) Accounts payable**

	2019	2018
Qingdao Haidayuan Procurement Service Co., Ltd.	1,991,434,919.42	1,123,265,860.94
Chongqing Haier Electrical Appliances Sales Co., Ltd.	1,061,217,564.30	886,826,705.37
Qingdao Haidarui Procurement Service Co., Ltd.	800,372,958.63	528,372,554.30
Qingdao Hao Pin Hai Rui Information Technology Co., Ltd.	183,334,706.88	77,651,292.32
Foshan Shunde Haier Intelligent Electronics Co., Ltd.	153,217,119.09	-
Qingdao Haier Whole Set Home Appliance Service Co., Ltd.	89,188,716.03	4,909,997.29
Haier Overseas Electric Appliance Co., Ltd.	52,887,451.29	59,765,513.83
Chongqing Haier Logistics Co., Ltd.	50,621,374.15	32,397,841.27
Haier Digital Technology (Qingdao) Co., Ltd. (海尔数字科技(青岛)有限公司)	48,344,757.47	29,106,073.07
Haier Group (Dalian) Electrical Appliances Industry Co., Ltd	21,071,308.44	29,465,871.99
Qingdao Haier Parts Procurement Co., Ltd.	19,508,015.99	9,201,377.35
Qingdao Haier International Trading Co., Ltd.	16,956,988.18	39,739,424.38
Fisher & Paykel Appliances (Qingdao) Co., Ltd.	15,240,612.01	-
Shanghai Zhiyu Technology Co., Ltd.	9,728,968.49	-
Chongqing Haier Electronics Sales Co., Ltd.	8,526,022.60	7,118,640.42
Qingdao Haier Refrigerator Co., Ltd.	6,148,272.18	4,949,500.32
Qingdao Haier Special Refrigerator Co., Ltd.	5,892,556.69	7,743,638.04
Other related parties	44,355,249.84	92,472,884.14
Total	<u>4,578,047,561.68</u>	<u>2,932,987,175.03</u>

(8) Other payables

	2019	2018
Qingdao Haier Brothers Animation Industry Co., Ltd.	274,526,190.97	280,384,097.26
Qingdao Haier Goodaymart Logistic Co., Ltd.	248,802,163.07	-

Qingdao Goodaymart Supply Chains Co., Ltd.	105,588,348.20	-
Chongqing Haier Appliance Sales Co., Ltd.	60,000,000.00	-
Shanghai Cotai Supply Chain Management Co., Ltd.	49,166,722.46	-
Haier Asia R&D Co., Ltd.	37,090,116.48	16,454,267.50
Qingdao Haier Moulds Co., Ltd.	36,876,461.05	50,667,958.72
RRS Internet of Things Co., Ltd.	31,906,323.14	19,409,144.31
Qingdao Haier Robot Co., Ltd.	25,324,742.52	10,134,474.28
Qingdao Harico Microwave Products Co., Ltd.	14,187,396.90	14,187,396.90

X. Relationships And Transactions With Related Parties (continued)

5. Balance of accounts receivable and accounts payable of related parties (continued)

(8) Other payables (continued)

Qingdao Haier Industry Intelligence Research Institute Co., Ltd.	13,391,420.76	1,734,618.63
Foshan Shunde Haier Intelligent Electronics Co., Ltd.	11,077,164.95	-
Haier Deutschland GmbH	7,816,444.71	-
Other related parties	59,959,843.83	236,418,738.74
Total	975,713,339.04	629,390,696.34

(9) Contract liabilities

	2019	2018
Haier Overseas Electric Appliance Co., Ltd.	7,097,039.70	54,510.00
Qingdao Yunshang Yuyi Technology Co., Ltd. (青岛云裳羽衣物联科技有限公司)	1,872,725.10	-
Yantai Ririshun Lejia IoT Technology Co., Ltd.	1,263,483.01	-
Wuhan Haier Freezer Co., Ltd.	1,008,080.00	1,149,826.40
Other related parties	3,559,143.88	5,230,658.33
Total	14,800,471.69	6,434,994.73

6. Deposit monetary funds of related parties

	2019	2018
Haier Group Finance Co., Ltd.	3,946,625,959.99	2,499,770,190.62

In 2019 and 2018, the annual interest rates of the aforementioned deposits were 0.39%-3.20% and 0.30%-3.20%, respectively. As at 31 December 2019 and 31 December 2018, among the above deposits, the monetary funds with restricted use were RMB 399,982,187.47 and RMB 339,378,467.11, respectively.

XI. Share-based payment

1. General information

	2019	2018
Total amount of equity instruments granted	11,509,100	11,649,900
Total amount of equity instruments exercised	9,712,353	14,385,149
Total amount of equity instruments lapsed	2,583,460	912,481
The range of the exercise price for the share options issued at the end of the year	Please refer to XI.2	Please refer to XI.2
The remaining period of the contract for share options issued at the end of the year	Please refer to XI.2	Please refer to XI.2
The range of the exercise price for other equity instruments issued at the end of the year	Please refer to XI.3	Please refer to XI.3
The remaining period of the contract for other equity instruments issued at the end of the year	Please refer to XI.3	Please refer to XI.3

Among them, the equity-settled share payment is as follows:

	2019	2018
The cumulative amount of equity-settled share-based payments included in the capital reserve	128,824,099.92	140,220,202.59
The total amounts confirmed by equity-settled share-based payments	121,371,889.38	125,090,286.16

2. Share option scheme

The Company has implemented a share option scheme (hereinafter referred to as the "Scheme") with the purpose of incentivizing and rewarding those who have contributed to the operation of the Group. Eligible persons include directors of the Company, other employees of the Group, suppliers of the Group, customers of the Group, shareholders of the Company and minority shareholders of subsidiaries. The Scheme would take effect from 8 June 2011 for 10 years, unless otherwise canceled or modified.

The maximum number of unexercised share options that can be granted under the Scheme is equivalent to 10% of the number of shares issued by the Company at the time of exercise. According to the Scheme, the upper limit of the number of shares options granted to each eligible person in any 12-months period is 1% of the Company's shares issued at any time. The grant of share options exceeding this upper limit must be approved by the general meeting.

The share options granted to directors, chief executives, major shareholders of the Company or their related parties shall be subject to approval by independent directors in advance. In addition, in any 12-months period, where the share options granted to major shareholders, independent directors or their related parties exceed 0.1% of the Company's issued shares at any time or the cumulative value exceeds HK\$5,000,000.00 (determined on the basis of the Company's share price at the grant date), such grant shall be subject to prior approval by the general meeting.

The grantee can accept the share option within 28 days from the date of the proposal to grant such share option by paying nominal consideration of RMB 1 or HK\$ 1 in total. The exercise period of the granted share options shall be determined by the board of directors and shall be terminated within 10 years from the date of grant of the share options or the date of expiry of the Scheme, whichever is earlier.

The exercise price of the share option is determined by the board of directors, but it shall not be lower than the highest of the three: the closing price of the Company's stocks on the Hong Kong Stock Exchange at the date of grant of the option, the average closing price of the Company's stocks on the stock exchanges in places where the Company's stocks are listed during the first 5 trading days from the date of grant of the option and the nominal value of the Company's stock.

Share options do not confer holders the right to receive dividends or the right to vote in general meetings.

XI. Share-based payment (continued)

2. Share option scheme (continued)

According to the Scheme, the share options issued in 2019 and 2018 are as follows:

	2019		2018	
	Weighted average exercise price	Number of share options	Weighted average exercise price	Number of share options
	HKD per share		HKD per share	
At the beginning of the year	12.84	2,454,855	12.84	3,495,200
Exercised	12.84	583,455	12.84	1,040,345
At the end of the year	12.84	1,871,400	12.84	2,454,855

The weighted average share prices of the share options exercised in 2019 and 2018 on the exercise date were HK\$21.99 and HK\$26.13, respectively.

As at the balance sheet date, the exercise price and validity period of the share options issued are as follows:

2019

Number of share options	Exercise price * HKD per share	Validity period
<u>1,871,400</u>	12.84	From 10 May 2016 to 10 May 2020

2018

Number of share options	Exercise price * HKD per share	Validity period
<u>2,454,855</u>	12.84	From 10 May 2016 to 10 May 2020

* The exercise price of options may be adjusted when rights or bonus issues or other similar changes in the Company's share capital occur

XI. Share-based payment (continued)

3. Restricted share award scheme

The Company implemented a restricted share award scheme (restricted share award scheme) to motivate employees and optimize the Group's remuneration structure. According to the restricted share award scheme, the Company may purchase shares in the public market and count it as treasury stocks to address the share award scheme for selected employees. The board of directors of the Company may decide to purchase or subscribe for awarded shares at its discretion.

As at 31 December 2019 and 31 December 2018, the number of treasury stocks was 5,353,091 and 7,590,843, respectively and the corresponding amounts were RMB 63,149,839.09 and RMB 97,391,024.12.

According to the Scheme, the restricted shares issued are as follows:

	2019		2018	
	Weighted average exercise price	Number of share options	Weighted average exercise price	Number of share options
	HKD per share		HKD per share	
At the beginning of the year	0.05	20,006,540	0.05	22,613,925
Granted	0.00	11,509,100	0.00	11,649,900
Cancelled	0.00	2,583,460	0.00	337,081
Exercised	0.00	9,128,898	0.00	13,344,804
Expired	0.00	-	0.00	575,400
At the end of the year	0.05	19,803,282	0.05	20,006,540

The weighted average share prices of options for restricted shares exercised in 2019 and 2018 on the exercise date were HK\$19.02 and HK\$24.92, respectively.

As at the balance sheet date, the exercise price and validity period of the share options issued are as follows:

2019

Number of restricted shares	Exercise price* HKD per share	Validity period
<u>148,400</u>	6.42	From 8 July 2016 to 7 July 2020

XI. Share-based payment (continued)

3. Restricted share award scheme (continued)

2019 (Continued)

Number of restricted shares	Exercise price* HKD per share	Vesting period #
138,920	-	From 8 July 2016 to 1 July 2020**
1,441,400	-	From 3 March 2017 to 1 July 2020**
627,078	-	From 5 July 2018 to 1 July 2020
135,800	-	From 12 July to 1 July 2020
5,802,584	-	From 17 September 2018 to 1 July 2020
10,450,000	-	From 9 October 2019 to 1 July 2021
1,059,100	-	From 24 December 2019 to 1 July 2021
19,654,882		

2018

Number of restricted shares	Exercise price* HKD per share	Validity period
148,400	6.42	From 8 July 2016 to 7 July 2020

XI. Share-based payment (continued)

3. Restricted share award scheme (continued)

2018 (Continued)

Number of restricted shares		Exercise price* HKD per share	Vesting period #
			From 8 July 2016 to 7 July 2020
509,160		-	
			From 3 March 2017 to 1 July 2019
7,051,080		-	
			From 29 May 2017 to 1 July 2019
648,000		-	
			From 5 July 2018 to 1 July 2020
916,100		-	
			From 12 July 2018 to 1 July 2020
135,800		-	
			From 17 September 2018 to 1 July 2020
10,598,000		-	
19,858,140			

* The exercise price of option for restricted shares may be adjusted when rights or bonus issues or other similar changes in the Company's share capital occur.

** The vesting period has been extended to 1 July 2020.

The option of restricted shares can be exercised after vesting.

The fair values of the restricted shares granted in 2019 were RMB 192,914,573.30 and RMB 23,165,740.17, respectively, corresponding to RMB 18.46 per share and RMB 21.87 per share respectively, in which, the Company recognised restricted share awarded fee of RMB 35,132,938.43 in 2019. For the restricted shares granted in previous years, the Company recognised restricted share awarded fee of RMB 86,238,950.94 in 2019.

XI. Share-based payment (continued)

3. Restricted share award scheme (continued)

The fair values of the restricted shares granted in 2018 were RMB 18,711,555.75 and RMB 2,756,800.05 and RMB175,442,908.67, respectively, corresponding to RMB 20.43 per share and RMB 20.30 per share and 16.55 per share respectively, in which, the Company recognised restricted share awarded fee of RMB48,046,557.05 in 2018. For the restricted shares granted in previous years, the Company recognised restricted share awarded fee of RMB 77,043,729.11 in 2018.

The fair value of the granted equity-settled restricted shares on the grant date was adjusted with reference to the closing price on the grant date and the present value of expected dividends to be received during the vesting period.

The following table lists the input variables of the model adopted:

	2019	2018
Dividend rate (%)	1.56-1.87	1.21-1.51
Risk-free rate (%)	1.642-1.947	1.670-2.012
Estimated lifetime of share options (years)	0.52-1.73	0.79-1.97
Closing price per share on grant date (HKD)	20.30-24.30	19.24-24.00

In 2019 and 2018, the Company transferred 5,558,398 shares and 8,444,733 shares of treasury stocks to equity awarded targets respectively, while the option for other 3,570,500 shares and 4,900,071 shares were exercised at zero consideration through the issuance of new shares.

XII. Commitments and Contingencies

1. Important commitments

	2019	2018
Contracted but not provided		
Capital commitment	<u>662,957,451.92</u>	<u>1,306,207,698.88</u>

2. Contingencies

As at the balance sheet date, the Group has no contingencies that need to be disclosed.

XIII. Events subsequent to the balance sheet date

In January 2020, the Group entered into an acquisition agreement with a third party to acquire 75.96% equity interest in Qingdao RRS Lejia IoT Technology Co., Ltd. (青岛日日顺乐家物联科技有限公司) for a cash consideration of RMB562,420,000.00. The acquisition was completed on 23 January 2020.

After 31 December 31 2019 and 31 December 2018, share option for 1,258,700 shares and 220,455 shares were exercised at a price of HK\$12.84 per share.

In December 2019, the outbreak of the COVID-19 was first reported. The epidemic has brought more uncertainties to the operating environment of the Group and may affect the operating and financial conditions of the Group. The Group has been paying close attention to the impact of COVID-19 on the Group's business and has taken various measures to mitigate the impact.

XIV. Other important matters

1. Assets swap

- (a) As at 30 August 2018, Guanmei (Shanghai) Corporate Management Co., Ltd (hereinafter referred to as "Guanmei"), an indirect wholly-owned subsidiary of the Company, entered into an asset swap agreement with Haier Electric Appliances International Co., Ltd (hereinafter referred to as 'Haier International'), an indirect non-wholly-owned subsidiary of Haier Group Corporation, pursuant to which, Guanmei has agreed to acquire and Haier International has agreed to sell 51% equity of Qingdao Haishi at a consideration of RMB1,073,523,786.00, and Guanmei has agreed to swap 55% equity of Bingji, a wholly-owned subsidiary of Guanmei, to Haier International at the same consideration as aforementioned. The aforementioned assets swap transaction was completed on 26 July 2019. Qingdao Haishi is principally engaged in the R&D and sale of household water purifying solutions, while Bingji is an investment holding company. Bingji and its subsidiaries (collectively referred to as "Bingji Group") are mainly engaged in the provision of logistics services. After the completion of the assets swap transaction, Qingdao Haishi became an indirect holding subsidiary of the Company. As Qingdao Haishi was controlled by Haier Group Corporation before and after the merger and the control was not temporary, it was a business combination under common control. See item 2 and 3 in notes VI to the financial statements for related disclosures. After the completion of the assets swap transaction, Bingji Group was classified as discontinued operations. For relevant disclosures, please refer to item 4 in note XIV to the financial statements. The equity disposal income from this assets swap transaction was RMB 3,827,277,573.26 and the after-tax income was RMB 3,162,359,243.82.
- (b) As at 29 June 2019, the Company and Hefei Haier Washing Machine Co., Ltd. ("Hefei Washing Machine"), an indirect holding wholly-owned subsidiary of the Company entered into a subscription and sale agreement with Haier Kaaosi IOT Ecosystem Technology Limited ("Kaaosi") and agreed to sell 100% equity in Foshan Shunde Haier Intelligent Electronics Co., Ltd. to Kaaosi at RMB 556,000,000.00, and Kaaosi would issue a registered capital of RMB 110,000,000.00 (equivalent to 9.47% of the enlarged registered capital of Kaaosi after the delivery) to the Company and Hefei Washing Machine to pay the consideration. Such transaction was completed on 27 November 2019. For relevant disclosures, please refer to item 3 in note VI to the financial statements. The asset swap transaction generated equity disposal income of RMB 184,790,184.03 and after-tax income of RMB 110,812,184.03.

2. Discontinued operation

After the completion of the assets swap transaction detailed in item 1(a) in note XIV, Bingji Group is classified as discontinued operation.

The profit or loss on the Bingji Group are as follows:

	From 1 January 2019 to 26 July 2019	2018
Revenue	4,907,810,524.82	10,144,305,216.56
Cost	4,710,367,482.14	9,688,228,315.31
Total profit	197,443,042.68	456,076,901.25
Gains recognised from remeasurement of the fair value of the remaining equity	3,190,702,632.96	-

Gains recognised from the disposal of discontinued operations	<u>636,574,940.30</u>	<u>-</u>
Total profit from discontinued operations	<u>4,024,720,615.94</u>	<u>456,076,901.25</u>
Income tax:		
Related to total profit	46,936,990.15	88,810,623.74
Related to remeasurement of fair value	<u>664,918,329.45</u>	<u>-</u>
Net profit from discontinued operations	<u>3,312,865,296.34</u>	<u>367,266,277.51</u>
Including: net profit from discontinued operations attributable to shareholders of the parent company	3,251,286,486.13	206,598,601.19

XIV. Other important matters (continued)

2. Discontinued operation (continued)

The cash flows of Bingji Group are as follows:

	From 1 January 2019 to 26 July 2019	2018
Net cash flow from operating activities	(160,498,574.34)	182,479,576.60
Net cash flow from investing activities	19,567,060.81	(1,726,012,100.47)
Net cash flow from financing activities	(283,463,745.83)	406,868,319.55

3. Segment Report

Operating segments

For management purposes, the Group is divided into business units based on products and services. The Group has the following 4 reporting segments:

- (1) The washing machine business segment which manufactures and sells washing machines;
- (2) The water heater and water purifier business segment which manufactures and sells water heaters and water purifiers;
- (3) The channel service business segment which sells and distributes home appliances and other products, and provides after-sales and other consumer value-added services;
- (4) The logistics business segment which provides logistics services and discontinued operations in 2019.

Management monitors the results of the Group's operating segments separately for the purpose of decision making on resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted total profit. The adjusted total profit is measured consistently with the Group's total profit except for interest income, borrowing interest expenses, income from investment in associates, dividend income, financial instrument investment income, and fair value change profit or loss and expenses attributable to headquarters.

Segment assets exclude monetary funds, financial assets held for trading, financial assets measured at amortized cost, investments in other equity instruments, long-term wealth management products, deferred income tax assets and assets held for sale as these assets are managed by the Group.

Segment liabilities exclude deferred income tax liabilities, income tax payable, long-term and short-term borrowings and liabilities held for sale as these liabilities are managed by the Group.

The transfer prices among operating segments are determined with reference to fair value of transactions with third parties.

Inter-segment sales and transfers are carried out in accordance with the terms and conditions mutually agreed between the parties.

Haier Electronics Group Co., Ltd.
Consolidated Statement of Cash Flows
2019 and 2018

RMB

XIV. Other important matters (continued)

3. Segment Report (continued)

Operating segments (continued)

2019

	Washing machine business	Water heater and water purifier business	Logistics business	Channel services business	Total
Segment revenue					
Sales to external customers					
Sale of goods	7,927,900,106.91	1,731,956,078.60	-	65,960,494,646.62	75,620,350,832.13
Rendering services	-	<u>2,331,428.57</u>	<u>4,285,735,323.45</u>	<u>255,153,772.64</u>	<u>4,543,220,524.66</u>
	7,927,900,106.91	1,734,287,507.17	4,285,735,323.45	66,215,648,419.26	80,163,571,356.79
Inter-segment sales	15,475,988,027.63	7,021,573,301.00	622,075,201.37	251,249,681.23	23,370,886,211.23
Adjustments:					
Elimination of inter-segment sales					(23,370,886,211.23)
Company and other undistributed revenue					<u>45,154.00</u>
Operating revenue					<u>80,163,616,510.79</u>
Segment results	2,276,213,763.41	1,113,277,776.87	153,631,335.20	1,278,323,393.02	4,821,446,268.50
Adjustments:					
Elimination of inter-segment results					(155,473,342.95)
Interest income					319,534,718.50
Investment income from financial assets					153,808,998.30
Dividend income from other equity instruments					38,549,487.32
Company and other undistributed revenue					4,111,176,846.46
Company and other undistributed cost and others					(171,757,690.21)
Interest expenses on borrowings					(5,245,576.01)
Profit before tax					<u>9,112,039,709.91</u>
Segment assets	8,284,924,377.63	2,936,804,945.55	-	13,585,498,013.96	24,807,227,337.14
Adjustments:					
Elimination of inter-segment Monetary funds					(8,114,849,148.63)
Financial assets held for trading					15,244,513,835.81
Financial assets measured at amortized cost					198,614,361.33
Investments in other equity instruments					3,054,091,021.22
Long-term wealth management products					1,847,505,877.49
Deferred income tax assets					294,547,364.47
Company and other undistributed assets					929,413,395.47
Total assets					<u>11,796,832,546.57</u> <u>50,057,896,590.87</u>
Segment liabilities	4,932,347,787.70	2,810,354,418.75	-	15,731,869,551.00	23,474,571,757.45
Adjustments:					
Elimination of inter-segment Deferred income tax assets					(8,114,849,148.63)
Income tax payables					837,271,241.95
Long-term/short-term borrowings					800,155,694.54
Company and other undistributed liabilities					80,895,356.58
Total liabilities					<u>3,341,933,615.17</u> <u>20,419,978,517.06</u>

XIV. Other important matters (continued)

3. Segment Report (continued)

Operating segments (continued)

2019 (continued)

	Washing machine business	Water heater and water purifier business	Logistics business	Channel services business	Total
Other segment information:					
Investment in associates	-	-	-	-	-
Company and other undistributed amounts					<u>5,719,100,822.43</u>
					5,719,100,822.43
Investment income from associates	-	-	-	-	-
Company and other undistributed amounts					<u>95,992,191.20</u>
					95,992,191.20
After-sales maintenance and installation expenses	755,422,624.10	584,617,252.33	-	-	1,340,039,876.43
Impairment losses on inventory	104,406,837.69	18,767,194.58	-	189,265,769.24	312,439,801.51
Impairment loss on accounts receivable	(3,606,353.03)	2,911,464.30	8,172,165.26	(3,608,579.08)	3,868,697.45
Impairment loss on prepayments and other receivables	-	-	-	(600,000.00)	(600,000.00)
Loss/(gain) from disposal and scrapping of assets	(487,282,897.38)	434,208.84	-	(2,510.99)	(486,851,199.53)
Company and other undistributed amounts					<u>(2,755,505.51)</u>
					(489,606,705.04)
Depreciation and amortization	176,986,082.10	98,399,333.29	291,694,834.44	93,540,762.70	660,621,012.53
Company and other undistributed amounts					<u>1,198,803.89</u>
					661,819,816.42
Capital expenditures	<u>646,986,600.19</u>	<u>610,950,434.42</u>	<u>314,396,000.00</u>	<u>284,733,898.53</u>	<u>1,857,066,933.14</u>

2018

	Washing machine business	Water heater and water purifier business	Logistics business	Channel services business	Total
Segment revenue					
Sales to external customers					
Sale of goods	6,908,465,760.71	1,676,866,086.91	-	67,480,946,309.72	76,066,278,157.34
Rendering services	<u>-</u>	<u>1,920,152.38</u>	<u>9,051,565,849.48</u>	<u>256,429,364.58</u>	<u>9,309,915,366.44</u>
	6,908,465,760.71	1,678,786,239.29	9,051,565,849.48	67,737,375,674.30	85,376,193,523.78
Inter-segment sales	14,580,963,265.47	6,371,608,957.71	1,092,739,367.08	297,700,538.81	22,343,012,129.07
Adjustments:					
Elimination of inter-segment sales					(22,343,012,129.07)
Company and other undistributed revenue					<u>229,511.42</u>
Operating revenue					<u>85,376,423,035.20</u>
Segment results	2,048,032,968.98	1,000,217,214.57	396,849,489.53	1,322,745,093.30	4,767,844,766.38
Adjustments:					
Elimination of inter-segment results					(140,744,736.60)
Interest income					312,689,696.44
Investment income from financial assets					111,474,416.39
Dividend income from other equity instruments					104,823,079.63
Company and other undistributed revenue					229,511.42
Company and other undistributed cost expenses and others					(157,960,109.17)
Interest expenses on borrowings					<u>(10,907,967.26)</u>
Profit before tax					<u>4,987,448,657.23</u>

XIV. Other important matters (continued)

3. Segment Report (continued)

Operating segments (continued)

2018 (continued)

	Washing machine business	Water heater and water purifier business	Logistics business	Channel services b usiness	Total
Segment assets	7,337,829,431.01	2,461,489,822.47	5,897,806,002.81	10,808,615,730.14	26,505,740,986.43
Adjustments:					
Inter-segment elimination					(5,719,158,647.40)
Monetary funds					15,451,978,694.09
Financial assets held for trading					1,567,648,908.00
Financial assets measured at amortized cost					2,814,531,840.90
Investments in other equity instruments					1,261,664,000.00
Other non-current financial assets					327,358,825.57
Deferred income tax assets					885,650,860.49
Assets held for sale					144,091,213.39
Company and other undistributed assets					<u>4,616,617,014.03</u>
Total assets					<u>47,856,123,695.50</u>
Segment liabilities	3,410,379,721.63	2,207,086,773.23	3,550,925,549.19	13,279,290,436.10	22,447,682,480.15
Adjustments:					
Inter-segment elimination					(5,719,158,647.40)
Deferred income tax liabilities					98,611,162.85
Income tax payables					781,484,780.22
Long-term/short-term borrowings					92,373,758.89
Liabilities held for sale					32,362,267.88
Company and other undistributed liabilities					<u>3,937,071,419.20</u>
Total liabilities					<u>21,670,427,221.79</u>
Other segment information:					
Investment in associates	-	-	791,316.95	-	791,316.95
Company and other undistributed amounts					<u>177,281,391.02</u>
Investment income from associates	-	-	192,471.98	-	178,072,707.97
Company and other undistributed amounts					<u>192,471.98</u>
After-sales maintenance and installation expenses	596,344,052.55	522,073,540.86	-	-	(346,303.54)
Impairment losses on inventory	85,066,559.27	23,368,427.51	-	125,195,303.96	1,118,417,593.41
Impairment loss on accounts receivable	8,866,389.16	(3,169,017.87)	1,292,666.74	(3,728,278.85)	233,630,290.74
Impairment loss on prepayments and other receivables	-	-	64,498.36	4,975,554.96	3,261,759.18
Loss/(gain) from disposal and scrapping of assets	(2,469,578.44)	(1,445,633.50)	(161,920,864.19)	452,309.06	5,040,053.32
Company and other undistributed amounts					<u>(165,383,767.07)</u>
Depreciation and amortization	129,455,718.38	83,473,785.31	136,718,877.72	14,353,814.41	<u>4,215.49</u>
Company and other undistributed amounts					<u>(165,379,551.58)</u>
Capital expenditures	1,244,753,394.30	412,558,672.90	627,462,899.26	68,986,724.31	364,002,195.82
					<u>1,197,726.12</u>
					365,199,921.94
					2,353,761,690.77

XIV. Other important matters (continued)

3. Segment Report (continued)

Other information

Product and service information

External transaction revenue

	2019	2018
Sale of goods	75,620,350,832.13	76,066,278,157.34
Rendering services	<u>4,543,265,678.66</u>	<u>9,310,144,877.86</u>
	<u>80,163,616,510.79</u>	<u>85,376,423,035.20</u>

Geographical information

External transaction revenue

	2019	2018
Mainland China	77,173,287,363.18	82,709,076,932.73
Other countries or regions	<u>2,990,329,147.61</u>	<u>2,667,346,102.47</u>
	<u>80,163,616,510.79</u>	<u>85,376,423,035.20</u>

Total non-current assets

	2019	2018
Mainland China	11,234,516,539.43	7,846,250,402.82
Other countries or regions	<u>142,134,764.98</u>	<u>153,764,560.91</u>
	<u>11,376,651,304.41</u>	<u>8,000,014,963.73</u>

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

Major customer information

In 2019 and 2018, the Group's operating revenue of RMB 8,727,686,806.52 and RMB 7,570,445,616.91 respectively were derived from a single customer (including all the entities which are known to be under the control of that customer).

XIV.Other Significant Events (continued)

4. Lease

(1) As a lessor

The Group uses certain houses and buildings for lease with a lease term of 2 to 3 years, forming an operating lease. According to the lease contract, the rent needs to be adjusted every year according to the market rent situation. The Group's income generated from the lease of houses and buildings was RMB 2,376,582.58 in 2019. For rented houses and buildings are listed in investment real estate, please refer to item 13 in note V.

Operating lease

The profit or loss related to operating leases are presented as follows:

	2019
Rental income	<u>2,376,582.58</u>

Under the lease contracts with the lessees, the minimum lease payments for the non-cancellable leases are as follows:

	2019
Within 1 year (including 1 year)	1,579,432.14
1 to 2 years (including 2 years)	<u>571,352.14</u>
	<u>2,150,784.28</u>

XIV.Other Significant Events (continued)

4. Lease (continued)

(2) As a lessee

	2019
Interest expenses on lease liabilities	30,268,437.21
Short-term lease expenses included in the current profit or loss subject to simplified treatment	348,145,489.33
Lease expenses of low-value assets included in the current profit or loss subject to simplified treatment (except for short-term lease)	283,939.92
Variable lease payments not included in the measurement of lease liabilities	93,602,494.86
Total cash outflow related to lease	<u>739,120,505.70</u>

The leased assets leased by the Group include houses and buildings, machinery equipment, vehicles and tools, furniture and fixture used in the business process. Lease term of houses and buildings and machinery equipment is usually 1-10 years. Lease term of vehicles and tools, furniture and fixture is usually 12 months or less and/or some of them are low-value. The lease contract usually stipulates that the Group cannot sublet the lease assets.

Significant operating leases (Only applicable in 2018)

Under the lease contracts with the lessors, the minimum lease payments for the non-cancellable leases are as follows:

			2018
	-		
Within 1 year (including 1 year)			763,748,719.65
1 to 2 years (including 2 years)			437,941,391.38
2 to 3 years (including 3 years)			165,672,774.97
Over 3 years			248,004,441.27
			1,615,367,327.27

Other lease information

For right-of-use assets, please refer to item 16 in note V; for simplified treatment of short-term lease and low-value assets lease, please refer to item 29 in note III and for lease liabilities, please refer to item 33 in note V.

Haier Electronics Group Co., Ltd.
Supplementary Information
31 December 2019 and 31 December 2018

RMB

1. Breakdown of non-recurring profit or loss

	Amounts for 2019	Amounts for 2018
Profit or loss from disposal of long-term assets such as fixed assets	491,032,747.74	166,913,924.44
Profit or loss from disposal of subsidiaries	4,008,552,338.71	79,665,410.99
Government grants included in current profit or loss	322,704,640.89	186,686,519.54
Gains arising from holding financial assets	172,841,369.56	207,805,849.82
Changes in fair value arising from holding financial assets and financial liabilities	6,734,728.55	8,491,646.20
Net current profit or loss of the subsidiaries arising from business combination under common control from the beginning of the period to the combination date	59,703,867.98	107,463,362.44
Non-operating income and non-operating expenses except the aforementioned items	<u>111,195,153.36</u>	<u>128,217,596.28</u>
	5,172,764,846.79	885,244,309.71
Less: impact on income tax	<u>919,646,385.83</u>	<u>147,884,621.54</u>
	4,253,118,460.96	737,359,688.17
Less: impact on minority interest(after tax)	<u>15,302,801.57</u>	<u>80,090,248.44</u>
	<u>4,237,815,659.39</u>	<u>657,269,439.73</u>

The Group's confirmation of non-recurring profit or loss items is implemented in accordance with the provisions of the *Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 - Non-recurring Profit or Losses* (China Securities Regulatory Commission Announcement [2008] No. 43).

For the non-recurring profit or loss items as defined in the definition of non-recurring profit or loss, and non-recurring profit or loss as illustrated in them defined as recurring profit or loss items are as follows:

	Amounts for 2019	Amounts for 2018
VAT refundable	<u>83,569,630.66</u>	<u>57,001,943.66</u>

As recognised software companies, certain subsidiaries of the Group enjoy the preferential policy of VAT refundable for the part of the actual VAT burden of software sales revenue generated from the sales of self-developed software products that exceeds 3%. Such amount of the VAT refunds are closely related to the policy operation of the subsidiaries and in compliance with national policies and regulations. Therefore, the Group classifies the VAT refunds received as recurring profit or loss items.

2. Return rate on net assets and earnings per share

2019

	Weighted average return rate on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	27.58	2.63	2.61
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit or loss	12.51	1.11	1.11

2018

	Weighted average return rate on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	17.14	1.38	1.37
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit or loss	14.53	1.14	1.13

3. Reconciliation of differences between financial statements prepared under the Chinese accounting standards (PRC GAAP) and International Financial Reporting Standards (IFRS)

There is no significant difference between the consolidated financial statements prepared in accordance with the Chinese Accounting Standards for Business Enterprises and the consolidated financial statements prepared in accordance with International Financial Reporting Standards.

Net profit attributable to shareholders of the parent company

	2019	2018
According to Chinese Accounting Standards	7,350,810,210.62	3,844,497,421.73
According to International Financial Reporting Standards	7,350,810,210.62	3,844,497,421.73

Net assets attributable to shareholders of the Parent Company

	At the end of 2019	At the end of 2018
According to Chinese Accounting Standards	29,220,188,530.54	24,010,404,185.36
According to International Financial Reporting Standards	29,220,188,530.54	24,010,404,185.36

Standards					
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The Company's overseas auditor is Ernst & Young.