Haier 海尔

2016
ANNUAL REPORT

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

Stock Code : 01169

* for identification purpose only

Contents

Corporate Profile

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

Founded in 1984, Haier Group is headquartered in Qingdao, Shandong Province, the PRC and is one of the world's leading white goods home appliance manufacturers engaging in the research, development, production and sale of a wide variety of household appliances (including the white goods) and consumer electronic goods in the PRC today. The products of Haier Group are now sold in over 100 countries. In 2017, Haier has once again been named by Euromonitor International as the number one major appliances brand in the world. This is the eighth consecutive year that Haier has received the accolade.

Simplified Business Structure

Corporate Information

BOARD OF DIRECTORS

Executive Director

Mr. ZHOU Yun Jie *(Chairman and Chief Executive Officer)*

Non-executive Directors

Mr. LIANG Hai Shan
Ms. TAN Li Xia
Dr. WANG Han Hua
Mr. ZHANG Yong

Independent Non-executive Directors

Mr. YU Hon To, David
Mrs. Eva CHENG LI Kam Fun
Ms. TSOU Kai-Lien, Rose

Alternate Director

Mr. LI Hua Gang (alternate to Mr. LIANG Hai Shan)

PRINCIPAL BOARD COMMITTEES

Audit Committee

Mr. YU Hon To, David *(Committee Chairman)*
Ms. TAN Li Xia
Mrs. Eva CHENG LI Kam Fun

Remuneration Committee

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

Nomination Committee

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

Strategic Committee

Mr. ZHOU Yun Jie *(Committee Chairman)*
Mr. ZHANG Yong
Ms. TSOU Kai-Lien, Rose
Dr. WANG Han Hua (Observer)

COMPANY SECRETARY

Mr. NG Chi Yin

LEGAL ADVISORS

As to Hong Kong Law

DLA Piper Hong Kong
Jeffrey Mak Law Firm

As to Bermuda Law

Conyers Dill & Pearman

PRINCIPAL BANKER IN HONG KONG

Industrial and Commercial Bank of China (Asia) Limited

PRINCIPAL BANKER IN THE PRC

China Construction Bank Corporation

AUDITORS

Ernst & Young

FINANCIAL CALENDAR

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

Haier Industrial Park
No. 1, Haier Road
Qingdao, the PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Tengis Limited
Level 22 Hopewell Centre
183 Queen's Road East
Hong Kong

TELEPHONE NUMBER

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STOCK CODE

The Stock Exchange of Hong Kong Limited:
01169

WEBSITE

www.haier.hk

INVESTOR RELATIONS CONTACT

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Communications Group
Units 2009–2018, 20/F,
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6–8 Harbour Road,
Wanchai, Hong Kong

Telephone Number	:	(852) 3150 6788
Fax Number	:	(852) 3150 6728
E-mail Address	:	haier-elec@pordahavas.com


Casarte
上筒
爱婴洗
85分
内衣净
63分
柔洗
41分

Haier continued to engage in technological innovation and upgrading of the product mix in its washing machine and water heater segments

Chairman's Letter

In 2016, China's economy stepped into a new normal and experienced industrial upgrading. Under the innovation-driven growth strategy formulated at the beginning of 2016, we recorded a revenue of RMB63.85 billion and a record-high net profit attributable to owners of the company of RMB2.79 billion.

With our efforts in 2016, we witnessed an accelerating growth momentum and strengthened competitiveness across all business segments. Our innovation and endeavor are recognised by customers. I will now present to all shareholders the performance of our business segments:

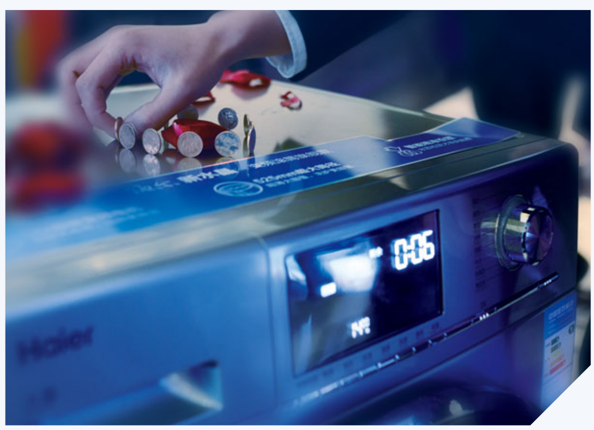
HOME APPLIANCES

Positioning of the Group's home appliances unit, which comprises washing machine and water heater business – Driven by users' customised demands, we are now leading the industry standards and developing IoTs-based mass customization.

For the washing machine business, we successfully set a high standard of silence and gentle washing experience based on our product innovation and reputation building.

Over the past two years, the most common pain point from washing machine users was the noise from washing and spinning. To minimise that, Haier's washing machines have undergone several upgrades of the motors by replacing the belt drive motor with the direct drive motor so as to reduce vibration and reach utmost silence during its course of operation. Furthermore, our new 6-point balanced vibration absorbing system, which was inspired by the suspension system of sport cars, offers users extremely quiet washing experience. After identifying and addressing the "pain points" of users with technological solutions, we have also demonstrated the silence of Haier's washing machines through marketing functions such as "towering coins on spinning machines" and "silence competition" since September 2016, thereby defining an unprecedented standard for silence in consumers' mind.

With the concept of healthy living, more and more Chinese families realised that sharing washing machine to wash underwear, coat and clothes might not be the ideal washing solution. In view of this, Haier launched Haier Twins model, the world's first washing machine with an innovative dual-drum design that allows clothes to be washed in two separate drums simultaneously. The launch of this model realised customers' dream of combining two washing machines into one and has become the priority for high-end consumers.



All of the examples above are a testament to our ability to constantly obtain, and will continue to obtain more market share in Chinese washing machine market.

While maintaining our No.1 position in terms of sales volume in the Chinese electronic water heater market, we strove to develop our gas and new-energy water heater businesses to cater to users' demand on energy-saving and environmental protection. Electronic water heaters are the Group's traditional core products. Our patented "Safe Care" technology has been commonly used in the Chinese water heater industry. Our water heaters have been continuously innovated and upgraded to be equipped with new features such as rapid heating-up, energy-saving and water purification.

In 2016, revenue from gas water heaters increased by more than 40%. The increase was mainly attributable to the Group's deep insight in consumers' pain points and the trust from users with industry leading science and technology practitioners. The Group cooperated with Honeywell and Tsinghua University and jointly developed a CO gas monitoring and warning system. By collaborating University of Science and Technology of China, the Group developed a technology for CO emission reduction, which was granted the Scientific and Technological Progress Award by the China National Light Industry Council. This technology addressed consumers' concerns about emission safety of gas water heaters. The Group has gone further to work together with China Academy of Space Technology (the "CAST"), and apply the advanced technology of aerospace power to develop a highly efficient and energy-saving combustion system.

During the period of National 13th Five-Year Plan, the plan for solar-thermal industry was changed with its development focus shifting from non-connected home appliances to the utilisation of large-scale systems integrating multiple forms of energy. To cater to the solar industry trend, the Group's solar water heater business is positioned as a solar energy service provider with the capabilities of system design, manufacturing and installation to undertake large-scale solar thermal project.

CHANNEL SERVICES BUSINESS

Positioning of the channel services business – firstly, through technology enabled channel management, we supported franchisees in realising the "fast-in-fast-out" business model. Secondly, we eliminated the partitions among the channels and realigned different channels to create end-to-end experience to increase user loyalty and interaction amongst them.

A vast majority of the Group's distribution business is operated under the "Haier" brand name. This business segment conducts online distribution business, which includes the sales of Haier products through B-to-C e-commerce platforms such as Tmall and JD.com and online sales of Haier products through Haier's official website. Apart from online sales, it also conducts offline B-to-B business such as electrical appliance flagship stores and franchise stores.

Since the first half of 2016, we have formulated a plan to unify Haier's distribution business channels, re-structured the channel management team by coordinating product managers and channel managers, and addressed the issues arising from product assortment and pricing in different channels, which contributed to the increase in efficiency of supply chain management and profitability of channel partners. Having streamlined the channel, both of Haier's online and offline distribution businesses recorded a rapid growth. In 2016, sales from Haier's online distribution business for the third and fourth quarters increased by more than 50% and 60% period-on-period, respectively, while the sales from offline distribution business for the third and fourth quarters increased by double digits period-on-period, respectively. This sales performance was achieved along with the optimisation of inventory of our distributors. During 2016, inventory turnover speed of Haier's franchisees doubled.

Leveraging our logistics system and distribution system across the third and fourth tier cities and rural areas in China, we provided our distributors with "fast-in-fast-out" channel management services, including product planning, order management, marketing and promotion, sales and support, membership management, rebate management and transaction settlement. In 2016, capitalising on the Jushanghui (巨商匯) management platform developed by Haier Group, the entire ordering process of our franchisees can now be 100% managed online. Franchisees can place orders and obtain product and marketing resources through the Jushanghui platform. All of their needs can be submitted and fulfilled through the management platform. With its transparent and real-time interactive operational model, management efficiency and satisfactory level of our franchisees have been substantially enhanced. In 2016, the average number of franchisees trading through the Jushanghui platform reached 17,000 per day, and the number of users visiting the platform reached 7.41 million per month.

In the mobile internet era, sales from physical stores of the franchisees experiences certain challenges. As more and more customers opt for searching, comparing price and trading online, there has been a reduced number of customers visiting physical stores. Along with the capital expenditure incurred for opening up a store, our franchisees' businesses are now under unignorable challenge. I believe the solution to this issue is to accelerate the transformation of the operational model of the franchise stores, increase investment in mobile technology, give full support to the distributors for obtaining user resources across all channels, and create, on an ongoing basis, a highly efficient channel for exchange of user experiences and values.

Our self-developed mobile App "Shunguang" (順逛) for channel management system was widely applied in 2016. Shunguang connects the online and offline product databases and enables every single store to sell products that are not kept in the store but within the whole network of distribution warehouses. Shunguang encourages individuals to run their own online shops round-the-clock and turn all of their friends to be sales partners. Shunguang is also a transparent management platform connecting consumers, micro-enterprise owners and partners, and enables consumers to participate in product customisation and interaction. Shunguang amassed 350,000 micro-enterprise owners to date and achieved a trading amount of RMB1.12 billion in 2016.

LOGISTICS BUSINESS

Positioning of Gooday Logistics – we aimed to develop it into a full scale logistics services provider for large-format item, covering full range of products (such as home appliances, sanitary equipment, fitness equipment and riding tools), all kinds of services (such as "front-end first-mile" pick-up, truck-loading, transportation, warehousing, installation, repair and "last mile" interaction), and multi-channels (such as online and offline).

The domestic large-format item logistics market has enormous potential but is highly fragmented and pending to be further consolidated. The end-to-end logistics solutions for large-format items provided by Gooday Logistics is dedicated to advance users' experience. It represents a feasible integration model for the industry in the future. Since the commencement of cooperation with the e-commerce platform, the fulfillment network covered by Gooday Logistics has been further penetrated, which has also led to a decrease in costs. Along with the continuous enhancement of consumer experience and an increasing proportion of round-the-clock orders, Gooday Logistics has become a national-leading brand in terms of logistics of home appliances and other large-format items.

Gooday Logistics has established a 3-tier cloud-based warehouse network based on our 6,000 service spots, we now cover 2,915 districts and counties (from villages to households). It is the only fulfillment network capable of realising extensive coverage in the large-format item logistics industry. Through the cooperation with Tmall platform under Alibaba, Gooday Logistics' "last mile" delivery capacity has been further enhanced. Comparing with year 2014, the first year we started collaboration with Alibaba, Gooday Logistics's dispatched 910,000 orders in the 11.11 Shopping Carnival of 2016, which is 2.5 times as compared to 2014. The number of orders delivered on the same day reached 220,000, which is 3.6 times as compared to 2014.

Benefiting from its extensive network, Gooday Logistics is able to design flexible and customised end-to-end supply chain solutions for merchants of large-format items. For example, we designed an end-to-end solution for a domestic leading fitness equipment enterprise to provide pick-up, warehousing, regional delivery and "last mile" delivery services. Due to our centralised inventory management, optimised delivery routes, assisted manufacturers in inventory improvement, lowered delivery costs and improved consumer experience, Gooday Logistics generated a healthy gross profit.

In 2017, our strategies on marketing, customer development, investment, and human resources will hinge on the following:

1. Focus on young consumers, and develop customer-centric product strategy. We will incorporate all resources available and talents into the Group's innovative product development system, so as to lead and define the industry standards for home appliances and experience and continue to outpace industry's growth.

2. Through integrated channel management, our products will be delivered in the most efficient manner to customers in need. We will establish an interconnected online and offline operations and accomplish channel optimization through unified and synergistic channel management. The goal of this is to further facilitate user interaction and strengthen brand loyalty.

   We will constantly improve the Shunguang platform by utilising information technology, in order to integrate our merchandising and inventory management, and support the back-end management of franchise stores. We will support our franchise stores by making use of the Jushanghui platform to enhance their operation and management efficiency of the distribution business.

3. To build upon the increasing demand from both online and offline for large-format item logistics, we will build the largest nation-wide end-to-end large-format item logistics network with the most extensive coverage and deepest penetration, and make every endeavour to increase our capability in providing supply chain logistics solution so as to improve the efficiency of merchants' supply chain and provide the best consumer experience.

OUTLOOK

Looking into 2017, I remain optimistic about the prospects of the white goods, distribution and logistics businesses.

The domestic consumption market will continue to grow and upgrade. According to the national statistics, nominal and real wage per capita in China grew by 8.4% and 6.3%, respectively, over the past year. Meanwhile, real estate prices in many first and second tier cities in China increased by more than 5 times in the past 10 years, while the consumption amount on home appliances per capita did not record any significant increase. This is expected to be changed because on the demand-side, Chinese consumers' consumption power and willingness to spend on high-quality and smart home appliances are increasing, and on the supply side, there has been an increasing supply of high quality products and well-designed home appliances products sold in China that match or even exceed developed countries' standards. Further, the acceleration of urban-rural integration narrowed the gap between rural and urban area in terms of consumption preferences, with a growing number of rational consumers who prefer higher-quality and branded products.

The positioning of Haier's products is to take advantages of international-leading technology and produce home appliances that exceed customers' expectation. In 2017, our growth would outpace that of the industry's based on our focus on details valued by our customers and our leading position within the industry.

Though the Chinese economic growth is transitioning into a normal rate, the quality growth will bring the industry new opportunities for transformational upgrade. Rules in China have become more transparent and fair, which has created a better business environment for enterprises that pursue industrial upgrading. With the strict implementation of environmental regulations since 2016, enterprises that failed to meet the standards would drop out. Under the new Advertisement Law, false or exaggerated promotion would be strictly prohibited. The implementation of road traffic management by the Ministry of Transportation would strictly prohibit overloading or over-height vehicles from using highway, and so it would facilitate logistics enterprises to compete fairly. As a brand enterprise that has been strictly adhering to regulations, Haier will be a key beneficiary from the industry upgrading.

Haier is a reputable enterprise with three decades of history. In spite of fluctuations of the economic cycle, the Company has grown to be the world's top white goods company. We have stuck to a few business principles over the years. First, as a consumer goods manufacturer, our fate is tied with consumers closely. As quality of our products is defined by users, we therefore designed washing machines that are noise-free and cloth-friendly. The reputation of our logistics and distribution services are also based on users' comments, which we have adopted as the major performance indicator in evaluating the logistics department.

Second, we continue to innovate. Due to the intense competition in China's household appliance industry, we must differentiate ourselves and must not be trapped into any price wars that are commonly seen. Further, we must not follow our competitors' footsteps or engage in competition on homogenous products. Our persistence in innovation is attributable to two spirits. One is self-doubting, meaning that we dare to falsify our business practice that proved to be successful in the past. The second is having an open-mind to collaboration. Our product innovation platform, hope.haier.com, is open to the world, which has established a resource network comprising more than 2 million parties, of which more than 100,000 have already registered on the platform. Through this platform, more than 500 innovative ideas have been generated through communication and interaction every month, and more than 200 innovative items are incubated every year.

Third, we uphold the culture that aligns the interests of the Company and its employees mode and maintain the vitality of the organization. First of all, Haier abandoned the traditional hierarchy whereby employees are promoted based on their seniority and salaries are tied to positions held. In our mind, if one fails to create user value, he/she deserves low-level of compensation from the Company regardless of his seniority. In Haier, the value of employees who establish entrepreneurship internally can be fully recognised. In our organisation, employees who operate a micro-enterprise are no longer passive employees who receive orders, instead, they are entrepreneurs and partners who can mobilise internal resources of the Company for their own use, such as financial resources supports and administrative services. Lastly, we made a breakthrough with regard to the conventional remuneration framework. In Haier, incentives for employees are not limited to basic salary but are completely linked to the value they created. There is no limitation for middle-level management to receive equity interests of the Company. With the above initiatives, the culture that aligns the interests of the Company and its employees will be continually reinforced.

Our upholding of the above-mentioned principles will be crucial for us to balance between long-term development goal and short-term operations, to meet high-level operating standards and to establish a fair assessment system. In 2017 we will continue to stick to the principles, and only by doing so can we continue to succeed and create value for our shareholders.

Directors and Senior Management

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

EXECUTIVE DIRECTOR

Mr. ZHOU Yun Jie, aged 50, has been serving as an Executive Director and general manager of the Company since 12 November 2009. He has been appointed as Chief Executive Officer of the Company since 18 March 2013 and as the Chairman of the Company with effect from 25 June 2013. He is also a member of the remuneration committee, nomination committee and strategic committee of the Company. Mr. Zhou graduated from the Huazhong University of Science and Technology, the PRC with a Bachelor's degree in Engineering in 1988. He has a Master's degree in corporate management from the Ocean University of China, the PRC and has completed his Doctoral courses with a diploma in Management from the Xi'an Jiaotong University, the PRC. He joined the Haier Group Corporation ("Haier Group") in 1988 and has over 20 years of experience in the areas of sales management, enterprise management and international business. Currently, he is the President and Deputy Chairman of the board of Haier Group, and a deputy to the 12th National People's Congress of China. He also serves as a non-executive director of Bank of Qingdao Co., Ltd., a company listed on the Hong Kong Stock Exchange.

Mr. Zhou is also a director of the following Group's subsidiaries: Chongqing Hairi Logistics Co., Ltd., Chongqing New Goodaymart Electronics Sales Co., Ltd., Goodaymart (Shanghai) Investment Co., Ltd., Haier Electronics Sales (Hefei) Co., Ltd., Hefei Goodaymart Logistics Co., Ltd., Qingdao Goodaymart Logistics Co., Ltd. and its certain subsidiaries, Qingdao Lejia Electric Appliance Co., Ltd., Haier Group E-commerce Co., Ltd., Qingdao Goodaymart Electronics Service Co., Ltd., Qingdao Haier Electronics Sales Service Co., Ltd., Qingdao Goodaymart Lejia Jiaju Trading Co., Ltd., HH Retail Limited, and Haier International Business Corporation Limited.

NON-EXECUTIVE DIRECTORS

Mr. LIANG Hai Shan, aged 50, has served as an Executive Director of the Company since December 2001 and has been re-designated as Non-executive Director with effect from 12 November 2009. Mr. Liang was previously mainly responsible for strategic procurement and overall quality control of products of the Group. He is currently responsible for identifying market opportunities and white goods business strategies formulation of the Company. He received a Bachelor's degree of Industry from the Xi'an Jiaotong University, the PRC and has over 20 years of experience in the manufacture of household electrical appliances, particularly in raw material procurement function and white goods business. He is also the Executive President and the Deputy Chairman of the board of Haier Group, the General Manager and Chairman of Qingdao Haier Co., Ltd. (a company listed on the Shanghai Stock Exchange) and a director of the following Group's subsidiaries: Chongqing Haier Drum Washing Machine Co., Ltd., Foshan Haier Drum Washing Machine Co., Ltd., Qingdao Haier New Energy Electronics Co., Ltd., Qingdao Jiaonan Haier Washing Machine Co., Ltd., Hefei Haier Washing Machine Co., Ltd., Foshan Shunde Haier Intelligent Electronics Co., Ltd., and Tianjin Haier Washing Machine Co., Ltd.

Ms. TAN Li Xia, aged 46, has served as a Non-executive Director of the Company since 18 November 2013. Ms. Tan graduated from Central University of Finance and Economics, the PRC and has a Master degree in Business Administration from the China Europe International Business School upon completion of the EMBA program. She is a Fellow of the Chartered Institute of Management Accountants and has been designated as a Chartered Global Management Accountant (CGMA). She joined Haier Group in 1992 and had held the positions as the Head of Department of Overseas Market Development of Haier Group and Head of Department of Financial Management of Haier Group. Currently, she is the Executive Vice President and the Chief Financial Officer of Haier Group. Ms. Tan also holds positions of Deputy Chairman of the Board of directors of Qingdao Haier Co., Ltd. (a company listed on the Shanghai Stock Exchange), non-executive director of Bank of Qingdao Co., Ltd. (a company listed on the Hong Kong Stock Exchange) and director of Fisher & Paykel Appliances Holdings Limited. Ms. Tan was awarded titles such as Model Worker of Shandong Province, Outstanding Entrepreneur of Shandong Province, the China CFO of the Year and China Top Ten Women in Economic Area. Ms. Tan is also a member of the 11th executive committee of the All-China Women's Federation.

NON-EXECUTIVE DIRECTORS (continued)

Dr. WANG Han Hua, aged 52, has served as a Non-executive Director of the Company since 1 June 2013. Dr. Wang obtained his Doctor of Philosophy degree from the University of Nebraska of the United States in 1994. He is the China Managing Director of Sonos Inc, a US based, world leading wireless HiFi producer since April 2014. Prior to this, he took position as the chief executive officer of Allyes Information Technology (Shanghai) Co., Ltd., an internet company providing full digital marketing solutions of data, technology and product to its customers, in December 2012. Prior to this, Dr. Wang had been the president of Amazon (China) Holding Company Limited from May 2005 until November 2012 and was responsible for the sale, marketing, cooperation and the construction of B2C E-commerce ecological chain of Amazon in China. Prior to joining Amazon (China) Holding Company Limited, Dr. Wang served a number of positions with Motorola Mobility Technologies (China) Company Limited Beijing branch company between 1998 and 2005 including as marketing director, director of strategy and corporate planning, vice president of the Asia Pacific region and general manager of the mobile telephone operations of China.

Mr. ZHANG Yong, aged 45, has served as a Non-executive Director of the Company since 25 March 2014. He is also a member of the strategic committee of the Company. Mr. Zhang received a bachelor's degree in finance from Shanghai University of Finance and Economics. Mr. Zhang is currently a director and chief executive officer of Alibaba Group Holding Limited, a company listed on the New York Stock Exchange. He has held top management positions across Alibaba Group since joining in August 2007. Before joining Alibaba Group, Mr. Zhang served as Chief Financial Officer of Shanda Interactive Entertainment Ltd., an online game developer and operator then listed on NASDAQ, from August 2005 to August 2007. From 2002 to 2005, Mr. Zhang was a senior executive of PricewaterhouseCoopers' Audit and Business Advisory Division in Shanghai.

Mr. Zhang is a non-executive director and chairman of Intime Retail (Group) Company Limited, a company listed on the Hong Kong Stock Exchange. He also serves on the board of directors of Weibo Corporation, a company listed on the NASDAQ.

ALTERNATE DIRECTOR

Mr. LI Hua Gang, aged 47, was appointed as the alternate Director to Mr. Liang Hai Shan on 7 June 2014. Mr. Li has served as a Chief Operation Officer of the Company since 12 November 2009, and has served as an Executive Director since 19 April 2010. Mr. Li has resigned as an executive director and relinquished the senior management role of the Company with effect from 26 March 2014. Mr. Li currently also serves as an advisor to the Board. Mr. Li, graduated from the Huazhong University of Science and Technology, the PRC in 1991 with a Bachelor's degree in Economics. He joined the Haier Group in 1991 and has since held a number of senior positions in the sales and marketing functions with his expertise in the sales management in the 3rd and 4th-tier markets of the PRC.

ALTERNATE DIRECTOR (continued)

Mr. Li is also a director of the following Group's subsidiaries: Chongqing Hairi Logistics Co., Ltd., Chongqing New Goodaymart Electronics Sales Co., Ltd., Fujian Goodaymart Electric Appliance Co., Ltd., Goodaymart (Shanghai) Investment Co., Ltd., Haier Electronics Sales (Hefei) Co., Ltd., Haier Electronics Sales (HK) Co., Ltd., Hefei Goodaymart Logistics Co., Ltd., Hunan Goodaymart Electric Appliance Co., Ltd., Shandong Goodaymart Electric Appliance Co., Ltd., Yantai Goodaymart Electric Appliance Co., Ltd., Hefei Goodaymart Electric Appliance Co., Ltd., Suzhou Goodaymart Electric Appliance Co., Ltd., Liaoning Goodaymart Trading Co., Ltd., Jiangsu Subei Goodaymart Electric Appliance Co., Ltd., Wuhan Goodaymart Electric Appliance Co., Ltd., Shanxi Goodaymart Electric Appliance Co., Ltd., HH Retail Limited, Foreland Agents Limited, Coreland Limited, Impressive Holdings Limited, Haier Washing Machines Holdings (BVI) Limited, 365 Goodaymart (CM) Limited and 365 Goodaymart (HK) Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YU Hon To, David, aged 69, was appointed as an Independent Non-executive Director of the Company on 21 June 2007. Mr. Yu is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants. He was formerly a partner of an international accounting firm with extensive experience in corporate finance. He serves as an independent non-executive director of several other companies listed on the Hong Kong Stock Exchange, namely China Renewable Energy Investment Limited, Media Chinese International Limited, One Media Group Limited, Playmates Holdings Limited, Synergis Holdings Limited, China Resources Gas Group Limited, Keck Seng Investments (Hong Kong) Limited, and New Century Asset Management Limited (the manager of New Century Real Estate Investment Trust).

Mrs. Eva CHENG LI Kam Fun, aged 64, was appointed as an Independent Non-executive Director of the Company on 1 June 2013. Mrs. Cheng graduated from the University of Hong Kong with Bachelor of Arts (Hons) and Master of Business Administration degrees. Mrs. Cheng began her career with Amway Hong Kong in 1977. In 2011, she retired from her positions as executive vice president of Amway Corporation and executive chairman of Amway China Co. Ltd. During her 34 years with Amway, Mrs. Cheng's area of responsibilities covered markets in the Greater China and Southeast Asia regions.

INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

Mrs. Cheng's leadership was well recognized in the business community. She was twice named as the "World's 100 Most Powerful Women" by Forbes Magazine in 2008 and 2009. CNBC awarded Mrs. Cheng with the "China Talent Management Award" in its 2007 China Business Leaders Awards. Mrs. Cheng is currently an independent non-executive director of Trinity Limited, a company listed on the Main Board of the Hong Kong Stock Exchange, and Amcor Limited, a company listed on the Australian Securities Exchange. Mrs. Cheng is also an independent non-executive director of Nestle S.A. which is listed on the SIX Swiss Exchange. In the areas of public and community service, Mrs. Cheng is the founding/honorary chairman of the Amway Charity Foundation. In Mainland China, Mrs. Cheng is a member of the executive committee of the All-China Women's Federation, director of China Children and Teenagers Foundation and member of the Chinese People's Political Consultative Conference – Guangdong Commission. In Hong Kong, Mrs. Cheng is an Executive Director of Our Hong Kong Foundation, vice president of the All-China Women's Federation Hong Kong Delegates Association, honorary president of the Hong Kong Federation of Women, and permanent honorary director of The Chinese General Chamber of Commerce.

Ms. TSOU Kai-Lien, Rose, aged 51, has been appointed as an Independent Non-executive Director of the Company since 7 June 2014. Ms. Tsou currently serves as Managing Director and senior vice president of Yahoo! Asia Pacific region, where she is responsible for operations in Hong Kong, Taiwan, Australia, New Zealand, India and Southeast Asia as well as facilitating joint venture operations in Japan. She joined Yahoo! Taiwan in 2000 and held the position of Managing Director from 2001 to 2007, during which she led the acquisition of Kimo, a portal site in Taiwan, which made Yahoo! the largest Internet business in Taiwan after the successful integration of the two companies. In 2007, she led another acquisition of Wretch, a leading blog and photo site in Taiwan, further fortifying Yahoo!'s leading position in Taiwan. In 2008, under Ms. Tsou's leadership, Yahoo! Kimo acquired Taiwan e-commerce company Monday, an important strategic milestone to enabling Yahoo! Taiwan's full capabilities in e-commerce from B2C shopping, C2C auction to online store solution. Ms. Tsou has over 20 years of experience in management, marketing and mass communication. Prior to joining Yahoo!, she was general manager of MTV Taiwan for two years. Ms. Tsou holds a MBA degree from J.L. Kellogg School of Business, Northwestern University and a Master's degree in Mass Communication from Boston University. Ms. Tsou is a director of Gomaji Corp. Ltd. (a company listed in Taiwan).

SENIOR MANAGEMENT

Mr. XIE Ju Zhi, aged 51, graduated from Shandong Economics College in July 1989 specialised in Economics and Management. He has held senior positions in Electrothermal Product division and East China division of Marketing and Promotion Division of the Haier Group, and served as the general manager of the Customer Service Operation Company of the Haier Group since August 2002. He has over 10 years of experience in service management. Currently, he is mainly responsible for the Group's customer service and channel business expansion of community stores in the 1st and 2nd-tier markets. He also serves as the vice chairman of the Subcommittee on Household Electric Appliances Service of National Technical Committee on Household Electric Appliances of Standardization Administration of China, and the vice chairman of the presidium of the China National Household Electric Appliances Service & Maintenance Association.

Mr. HUANG Xiao Wu, aged 39, was appointed as Deputy General Manager of the Company in November 2009. Mr. Huang holds a Master's degree in Business Administration from the University of Hong Kong and a Bachelor's degree in Engineering from the University of Chong Qing. Mr. Huang is responsible for assisting the Chief Executive Officer in implementing the Group's corporate development strategy. Mr. Huang has 19 years of extensive experience in banking, investment and corporate finance. Prior to joining the Group, he had worked with a commercial bank and several investment banking firms.

Mr. ZHAN Bo, aged 37, has served as the Chief Financial Officer of the Company since 12 November 2013. Mr. Zhan holds an Executive Master's degree in Business Administration from University of International Business and Economics and a Bachelor's degree in Economics from Tianjin University of Finance and Economics. He joined the Haier Group in 2002, and has since held a number of senior financial positions in Haier Group finance department, Haier Europe trading company, Haier Group telecommunication business and Haier Global Marketing department. He has extensive experience in financial management.

Mr. SHU Hai, aged 50, has served as the General Manager of washing machine product division of the Company since June 2009. Mr. Shu has a Master's degree in International Trade from Ocean University of China, the PRC. He joined the Haier Group in 1995 and has since held a number of senior positions in the washing machine business. He is currently responsible for the sales, research and development and production management of the washing machine business of the Group.

SENIOR MANAGEMENT (continued)

Mr. SUN Jing Yan, aged 46, has served as an Executive Director of the Company until August 2011 due to the reallocation of appointments within the Haier Group. Mr. Sun has been the General Manager of the Haier Group's Electrothermal Product Division since 2005 and is mainly responsible for the operation of the Group's water heater business. Mr. Sun graduated from Shandong Institute of Light Industry, the PRC in 1993 with a Bachelor in Engineering in Machine Design and Manufacture. He joined the Haier Group in 1993 and has since held a number of senior positions in the Electrothermal Appliance Department of the Haier Group. He has over 20 years of extensive experience in water heater business.

COMPANY SECRETARY

Mr. NG Chi Yin, aged 51, joined the Company on 18 March 2009 as Company Secretary. Mr. Ng graduated from the Faculty of Business Administration of the Chinese University of Hong Kong with a Bachelor's degree in business administration. He is also a fellow member of the Association of Chartered Certified Accountants, and a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. He has over 20 years of experience in auditing, finance and company secretarial matters.

“Goodaymart” brand leveraged on the Group’s three core elements of distribution network, logistics and services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BUSINESS REVIEW

1. Industry Overview

Home appliances

According to the offline retail data from China Market Monitor Co., Ltd. (CMM), the overall retail market size of white goods in 2016 amounted to RMB298 billion, with a year-on-year increase of 1.9%. Performance in the second half of the year was better than that of the first half of the year. Sales of washing machines, refrigerators and air-conditioners fell by 2.9%, 7.8% and 5.8% respectively in the first half of the year, but grew by 2.5%, 5.1% and 28.9% respectively in the second half of the year. The overall recovery of home appliance market is contributed by two factors. One is the growth in China's real estate market. According to National Bureau of Statistics, contracted sales gross floor area (GFA) recorded growth of -7.6%, 6.5% and 22.5% respectively in the last three years. The other factor is the improvement of the inventory building-up of air-conditioners.

During the year, brand concentration in China's home appliance industry continued to rise. In 2016, the overall market share of the top five brands in terms of sales amount, for washing machines, refrigerators and air-conditioners recorded a year-on-year increase of 2.84%, 3.54% and 1.52% respectively. On the other hand, online sales have maintained a rapid growth. According to a report published by Ministry of Industry and Information Technology, the online market size of China's B2C home appliance (inclusive of mobile devices) reached RMB384.6 billion in 2016, with a year-on-year increase of 27.9%.

In recent years, consumption upgrade has become the main theme motivating the growth of home appliance industry from both supply and demand perspectives. From the supply side, technological innovation, in particular in the field of Internet of Things, artificial intelligence and new materials facilitated the popularisation of smart home appliances, which accelerated the replacement of conventional products. According to CMM's forecast, sales of smart white goods in 2017 is expected to rise by 60.1% year-on-year. Meanwhile, Chinese government imposed higher energy-efficiency requirements on home appliances by introducing stricter industry policies, which facilitated the development of environmental-friendly and high efficient products. From the demand side, wealth increase of residents is the foundation of consumption upgrade. Disposable income per capita in 2016 amounted to RMB23,821, with a nominal year-on-year growth of 8.4%. In addition, with post-80s and post-90s consumers gradually becoming the main consumers of home appliance, mainstream consumption mindsets have changed from sensitivity to price to demand on product quality, such as functions, appearance and environmental friendliness.

BUSINESS REVIEW (continued)

1. Industry Overview (continued)

Logistics

From the launching of "Planning on Restructuring and Revitalization of Logistics Industry" in 2009 to the joint issue of the "13th Five-Year Plan of Commercial Logistics Development" by Ministry of Commerce and other government departments in February this year, in which the government put forward the urban and rural logistics network infrastructure project and the commercial logistics standardisation project, the logistics industry is highly regarded by the government. With the introduction of a series of policies, logistics industry's outlook is stable and positive, and has become fundamentally and strategically important to the national economy. According to Armstrong & Associate, China's logistics market size accounted for approximately one fifth of the world's total and ranked first in the globe. Currently, China's logistics market is in the phase of transition from a growth period to a consolidation period. Market demand for professional third party logistics services continues to rise, leading to a further increase in market concentration.

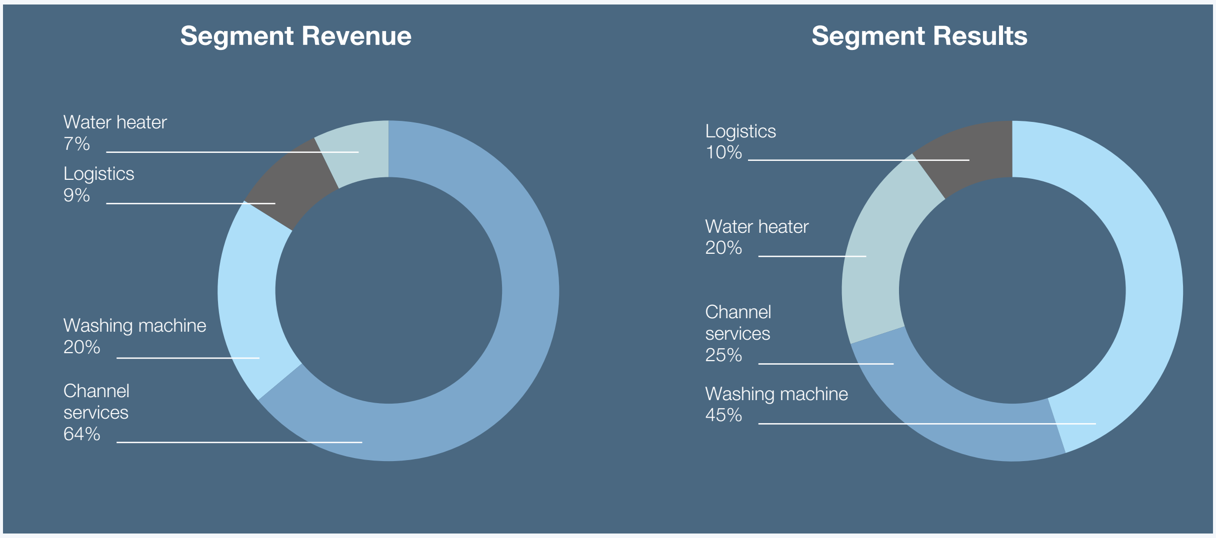
According to China Federation of Logistics & Purchasing, the large-format item logistics market of China has been quickly developing since 2011, and has become a new strategic focus in the logistics market after express delivery. Growth of the online large-format item logistics market has been rapid. Household products such as home appliances, sanitary equipment and furniture that weight between 30 kg and 100 kg accounted for 85% of the market share of B2C e-commerce large-format item industry. Number of large-format products purchased (e.g. bathtub and running machine) per family increased every year. Also, size of these products has tended to increase, for examples, television set larger than 50 inches and washing machines with washing capacity of above 10kg. Growth in the sales of large-format products drives demand for professional large-format item logistics. With the increasing popularity of online shopping and aging population, both the youth and elderly prefer more convenient, swifter and more considerate services.

To brand owners, although a self-built logistics system is an important way of enhancing services and brand image, it also creates numerous challenges. Firstly, the construction of logistics network requires huge capital, and higher logistics cost will certainly push up the unit price of products and lower the competitiveness in case of insufficient orders or uneven order distribution. In addition, brand owners often lack experience and expertise in building logistics network, therefore it could be more costly and time-consuming for them to develop such. One of the ideal solutions is to cooperate with a professional third party logistics company, in particular a logistics supplier with national warehousing and distribution network and capable of providing standardized services effectively.

BUSINESS REVIEW (continued)

2. Business Segment Review

The breakdown of revenue and segment results for 2016 are set out below:



For better understanding of our ICS (Integrated Channel Services) segment and reflecting the way the Company evaluates operational performance and allocates resources, our reporting segments have been amended since 2016. ICS segment is divided into two reportable segments: The (i) Channel services and (ii) Logistics. Channel services mainly comprise online sales of Haier's products, offline retail distribution, and distribution business of other brands. Logistics represents Gooday Logistics developed by the Group and Alibaba, which is a service provider specializing in large-format item logistics, delivery and installation.

The above pie charts are prepared based on the amounts of segment revenue and results, without taking into account any inter-segment eliminations. Inter-segment eliminations represent the revenue generated from sales of washing machines and water heaters to the Group's internal distribution channel, services income generated from after-sales, installation and repair services for washing machines and water heaters provided by the distribution segment, and revenue from the logistics and warehousing services rendered to the washing machine, water heater and distribution businesses. In 2016, the inter-segment elimination of washing machine, water heater, channel and logistics businesses amounted to RMB10.69 billion, RMB4.38 billion, RMB280 million and RMB1.13 billion, respectively. The following table illustrates the segment elimination of year 2016.

		Product/service receivers			
	Segments	Washing machine	Water heater	Channel services	Logistics
Product/service providers	Washing machine	Nil		RMB10.69 bn	Nil
	Water heater	Nil		RMB4.38 bn	Nil
	Channel services	RMB280 mn*		Nil	Nil
	Logistics	RMB970 mn		RMB160 mn**	Nil

* Revenue generated from the after-sales platform management services supplied to home appliance segments by Channel services segment

** Revenue generated from the logistics services supplied to eHaier B2C business by Logistics Segment

BUSINESS REVIEW (continued)

2. Business Segment Review (continued)

Washing Machine Business

In 2016, the Group's washing machine business achieved a sound and stable growth with total revenue of RMB15.92 billion, representing a year-on-year increase of 6.5% from the last year. According to the market research published by CMM, in 2016 the industry growth of China's washing machine industry was 2.4% in terms of sales value. The market share of the Group's washing machine business ranked first in terms of both sales value and sales volume. In terms of sales value and volume, Haier's market share was 27.6% and 26.8%, up by 1.1 and 0.8 percentage points year-on-year, respectively.

During the year, the Group boosted its efforts in the mid-to-high-end products and led the trend towards consumption upgrade. The percentage of sales of front-loading washing machines to the total washing machine revenue increased to 47% compared with 40% in 2015, and the percentage of online sales to the total washing machine revenue continued to increase and reached 15% in 2016, representing a year-on-year increase of 6 percentage points.

The export sales of the Group's washing machines recorded a steady year-on-year growth rate of 12%, accounting for 8.6% of the total revenue from sales of washing machine. In the global export market, sales to Australian and Asian Markets achieved tremendous growths. The sales to Australian market grew by almost 30% year-on-year, primarily contributed by the expansion of local channel after the acquisition of Fisher & Paykel by our parent company. The Asian Market sales achieved a double-digit growth, attributable to the launches of customized models for sales in the local market.

The Group applies multi-brand strategy: (i) Casarte-branded products enable users to enjoy a lifestyle of high-end laundry; (ii) Haier-branded products dominated the mainstream market; and (iii) Leader-branded products target at consumers who pursue a simple life. In this year, sales volume of the high-end "Casarte"-branded washing machines increased by 37% to 162,000 sets. According to CMM offline sales statistics, in the sub-market of washing machines with a selling price of above RMB6,000, the Group's market share has reached 35%, exceeding those of internationally renowned brands.

Noise and vibration of traditional washing machines have been a matter of concern to consumers. With the top-notch global supply chain system and wide application of direct-drive variable-frequency motors of Fisher & Paykel, vibration level of major models of Haier's washing machines was largely reduced. The high-end "Casarte" series washing machine can even stand an egg upright during washing and spinning, which visualises its degree of stability and successfully defines high quality washing machine in consumers' mind.

In order to resolve secondary pollution caused by stains between inner and outer drums of top-loading washing machines, the Group was the first in the industry to launch water-free technology, and applied it to our dual-drum and clean-free series. Noise and vibration were reduced, along with a 30% reduction of water consumption. To resolve cross-contamination issues among clothes, we launched the dual-drum technology. The sales volume of our Casarte Twin Ella series that was launched to the market in 2015 with a retail price of above RMB10,000, doubled in 2016 as compared to the last year.

BUSINESS REVIEW (continued)

2. Business Segment Review (continued)

Washing Machine Business (continued)

For the development of smart home appliances, the Group endeavours to develop smart laundry technology by applying Internet-of-things technology to washing machines so as to enhance laundry quality of washing machines and user experience. The smart laundry function of our smart washing machines is able to automatically compute and recommend the best laundry program for different types and materials of clothes and types of stains on them, and facilitate users on the choice of program.

During the period, a lot of consumption scenes were set up in Haier's retail stores for users to experience Haier's washing machines, with an aim to spread to community the high quality of Haier's washing machines. Since October 2016, we have carried out "coin standing" experiment nationwide to demonstrate the quiet and stable characteristics of Haier's front-loading washing machines. Since then, there has been a trend of coin standing experiment across the nation. In March 2017, Haier's fans set a new Guinness World Record by erecting a 1.882-metre coin tower with 22,500 coins on a high-spinning Haier's washing machine. This campaign did not only switch consumers from a passive role to an active role in getting to know the product and brand, but also generate word-of-mouth marketing.

In 2016, our parent company completed the acquisition of General Electric's (GE) home appliances business and started to integrate. With economies of scale in the procurement of raw materials, the production of certain GE's OEM orders, including the 24" front-loading washing machines, 24" condensation dryers and 24" top-loading washing machines, will be transferred to China and taken up by the Group for mass production in 2017.

Water Heater Business

In 2016, the Group's water heater business continued to grow quickly, realising an annual revenue of RMB5.36 billion, with a year-on-year increase of 16.3%, which is higher than the industry average growth of 11.9% according to the data statistics of CMM. The Group provides different types of water heaters including electric, gas, solar energy and heat pump water heaters, among which electric water heaters contributed most of the revenue generated from water heater business. The growth of revenue from water heaters for the year was primarily due to unit price increase brought by product upgrade and the higher revenue contribution from gas and heat pump water heaters which had comparatively higher average unit prices.

According to the Monthly Retail Monitoring Report released by CMM, the Group's market share of water heater by sales volume still ranked first in China, reaching 18.41%, with a year-on-year increase of 0.77 percentage points. In terms of market share represented by sales volume, the Group's electric water heaters, gas water heaters and solar energy waters accounted for 26.7%, 7.35% and 21.46% of the market share in China respectively.

To satisfy demand of users for healthy bathing, our electric water heaters were upgraded for water purification function. Water quality varies largely with location in China, so for the purpose of consumers' healthier bathing, we introduced the third generation water purifying electric water heaters. We added dirt suppression factors into our original electric water heaters which had already been equipped with water purification function, in order to realise all-rounded waterway dirt suppression from water tank to water pipe. We and China Association for Standardization jointly released a report named "Bath Water Quality Health Standards of China's Water Heater Industry", the first bath water quality safety standard that aimed to rectify the current unclear standards on quality of bathing water.

BUSINESS REVIEW (continued)

2. Business Segment Review (continued)

Water Heater Business (continued)

Gas water heater recorded a year-on-year growth of more than 40%, mainly due to our continuous product innovation. For technological innovation of gas water heaters, the Group enhanced its research and development and promoted civilian use of space technology. Based on the remote control of wave technology used in space exploration, more than 100 telecommunications engineers spent 1,052 days to develop a power carrier wave intelligent control system with the help of power line carrier. The system allows users to adjust water temperature through remote control without leaving the bathroom.

To solve the safety issues relating to gas emissions from carbon monoxide, we cooperated with Honeywell, and Tsinghua University to apply the carbon monoxide conversion technology used in space life monitoring system to gas water heaters, limiting carbon monoxide emissions to merely 1.7% of that of the national emission standards, which is equivalent to emissions from burning one candle. To fully utilise burning power of gas water heaters, we worked together with China Academy of Space Technology to facilitate civilian use of the aerospace propulsion technology and developed oxygen-enriched combustion system, reducing energy consumption by 12.5%.

Revenue of water heaters sold online increased by more than 70% as compared with same period last year, mainly due to effective product assortment, and close cooperation with various e-commerce platforms. We develop consumption scenarios for consumers in different regions, categorised different regions by consumption habit and offered different types of water heaters based on the categorisation. Our successful segmentation of consumers enhanced Haier's market share in both online and offline channels. In 2016, 600 Haier water heater specialty stores were opened across China. For example, water heater franchise stores were set up in construction materials markets, household product stores, hotels and hospitals to promote the commercial use of our water heaters.

Channel Services Business

The Group's channel services business was mainly comprised of Haier's online distribution business, Haier's offline franchise store distribution business, third-party brand distribution and maintenance services business. In 2016, channel distribution business recorded a revenue of RMB51.48 billion, the revenue of the second half achieved a growth of approximately 10%, and making up the decline in the first half of the year. Revenue for 2016 was basically at the same level as compared to 2015.

Haier's online distribution business was mainly comprised of the B2C business of Haier products via its official Tmall flagship store and eHaier official website and the B2B business on JD.com platform. The operation on JD.com is B2B model, however, the Group is responsible for product assortment and digital content on JD.com platform, while the pricing and marketing strategies are collectively formulated by JD.com and the Group. The Group is fully responsible for the operation of the B2C business via Tmall official flagship shop and eHaier official website.

In 2016, revenue from Haier's online distribution business increased by 47% year-on-year, while the increase in the second half of the year recorded approximately 60% growth. On the 11.11 Shopping Carnival, the Group ranked first in terms of sales value for white goods category on Tmall for the fifth time, and the Haier's official flagship shop was awarded champion in terms of sales among Tmall white goods stores. Since August 2016, we have been adopting a full-category layout for online channels. Instead of mainly focusing on low-end products as like before, we gradually increased the proportion of mid-to-high-end products and drove an increase in the average selling price of online products.

BUSINESS REVIEW (continued)

2. Business Segment Review (continued)

Channel Services business (continued)

Offline distribution business provides the "fast-in-fast-out" channel management services to Haier's franchisees and other brick-and-mortar retail stores. Offline distribution revenue recorded a double-digit growth in the second half of 2016, far outpacing the performance in the first half of the year. The growth in offline channels was mainly attributable to: (1) the promotion of channel integration plan under which channels of physical stores, micro-enterprises and e-commerce channels are under Omni-channel management; (2) re-structuring of channel management team, which enhanced the synergy between product managers and channel managers and strengthened capability in channel management; (3)adjustments in product policies by developing customised products for multi-channels and avoiding conflicts among channels.

Amid the mobile internet era, offline distributors need to change their business models. The Group applied mobile internet technology to channels and developed the mobile App "Shunguang" (順逛) for its stores and store employees. On the "Shunguang" platform, databases of online and offline inventory were interconnected, and products available for sale in stores are no longer limited to those displayed in them but extended to those stored within our channels of distribution warehouses. "Shunguang" makes it possible for anyone to become a micro-enterprise owner and a store manager could turn all of his/her friends to be a direct-sale promoter. To date, "Shunguang" has amassed 360,000 micro-enterprise owners. Trading amount on "Shunguang" platform achieved RMB1.12 billion in 2016, which has successfully turned franchise stores into a core channel for user interaction.

Capitalising on Jushanghui (巨商匯), a B2B management platform developed by our parent company, 100% of the ordering management in the distribution channel could now be done online. Distributors can purchase, sell and settle online by way of self-service, which reduced management cost by removing unnecessary distribution layers. Through the data analysis and automated reporting function, distributors' management system was enhanced and the response time within the channel distribution system was shortened, thereby effectively shortening the inventory turnover days by 49 days for the period. In 2016, the average number of franchisees trading through the Jushanghui platform reached 17,000 per day, and the number of users visiting the platform reached 7.41 million/month.

Since 2014, we gradually shifted our business focus in distribution channels by reducing and liquidating regional joint-ventures that failed to meet our expectation. This restructuring process had mainly completed by the end of 2016.

Logistics Business

In 2016, the Group's logistics business grew significantly, and generated a revenue of RMB7.56 billion, representing a year-on-year increase of 14.9%. The revenue from logistics business mainly generated from the logistics services for Haier's business, e-commerce business, household furniture business and contract logistics services for other third parties.

Haier business logistics provides a full-range of supply chain services for the Haier Group, including logistics services for parts and components to production lines, warehousing of finished products, logistics services to distribution channels. Revenue generated from Haier business logistics accounted for about 36% of the total logistics revenue in 2016, representing a year-on-year growth of 1.6%. This segment was relatively sensitive to factory output of the Group's home appliances, which grew at a moderate rate for the year.

BUSINESS REVIEW (continued)

2. Business Segment Review (continued)

Logistics Business (continued)

E-commerce logistics business consisted of logistics services for Tmall, JD.com and eHaier. It was the major driving force for the growth in logistics business. By virtue of its high-standard and efficient services and well-earned reputation, Gooday e-commerce logistics grew by more than 65% year-on-year, accounting for approximately one-fourth of the annual revenue of logistics business. On the Tmall platform, Gooday Logistics was mainly engaged in the delivery of large-format home appliances under multiple brands. In 2016, the number of order delivered increased by more than 80% as compared to the last year, and on-time delivery rate reached 98%.

Building upon the rapid growth of the logistics services for e-commerce home appliances, Gooday Logistics is actively seeking to expand its e-commerce customer base for logistics of goods besides home appliances. Currently, Gooday is serving various sectors on the Alibaba platform, including fitness equipment, bikes and furniture. Products fulfilled by it include treadmills, massage chairs, dynamic bicycles, electric bicycles, and bath tub. Gooday assisted customers to construct canvassing warehouses, provided full-process system support, premium delivery and installation services. It explored another driving force for e-commerce growth besides home appliances.

While diversifying the categories covered by e-commerce logistics business, Gooday also developed and launched end-to-end logistics services for third party customers such as Tmall. These new logistics services included management of warehouses, inspection of defective products in the research and development warehouses, full-channel logistics services to Tmall merchants such as one-stop delivery and installation services and replacement services.

In line with the rapid growth in the number of orders from e-commerce such as Tmall, Gooday Logistics intensified its effort to enhance its capabilities of truck-loading, warehousing, distribution, delivery, installation and information platform. As of now, its warehouse network covers 100 cities and districts across China with a storage area of approximately 3 million square metres and with approximately 90,000 motor vehicles available for use. Gooday Logistics is capable of providing one-stop solution for supply chain management for large-format items with its nationwide coverage.

Gooday Logistics strives to promote information technology upgrade and realises real-time synchronisation of order information along the full-process logistics hubs by constructing a centralised database for data sharing. System upgrade improved the response time for placing an order, enhanced the vehicle scheduling and efficiency of manual operation, digitized dispatch plan of warehouses and increased the speed and accuracy of data analysis and management's decision making. During the peak season on and around the 11.11 Shopping Carnival, speed of order placement and capability for order processing were enhanced, with speed of order placement reaching zero-second level and time for order analysis improving from 1 minute to 10 seconds, which largely improved order throughput during the 11.11 Shopping Carnival.

Furniture industry is an enormous market with numerous brands, but the market of logistics for furniture is in absence of a market leader. Leveraging on its industry knowledge of the furniture industry and sophisticated supply chain management, Gooday established the Gooday furnishing service platform to serve online sales of furniture and entered into investment agreements with strategic partners such as CAINIAO and Yihua Group with an aim to expand rapidly in the large furniture sectors. As at the end of 2016, Gooday's furniture delivery and installation services covered more than 2,800 districts and counties. It currently provides nationwide warehousing, delivery and "last mile" installation services to more than 100 customers.

THE PRINCIPAL RISKS AND UNCERTAINTIES FACING THE COMPANY

Being the largest market and production base for white goods in the world, China is one of the most fiercely contested markets by both international and domestic renowned brands. With respect to mid-to-low end products, certain competitors are engaging in price wars, presenting challenges for the expansion of the Group's market share in the mid-to-low market. As a market leader, Haier is dedicated to innovating new products and developing multi-brands strategy, so as to reduce potential risks to our operation due to such price wars caused by this singular structured selling price.

White goods industry is facing the risks from the increases in raw materials and labour costs. According to the data from www.cailiao.com, the average price of cold rolled coil and hot-dip galvanized sheet, being the basic materials for washing machines, increased significantly in 2016. In addition, wage level in China has been rising over the past few years, and labour costs in China's manufacturing industry may also increase gradually.

The Company will adopt effective means to mitigate any adverse effect created by the potential rise in costs, for example, through change of product structure and increase of products' inherent value to transform the pressure from the rise of costs of raw materials, and through automation and industrial 4.0 to reduce pressure from the rise of labour costs.

The real estate market is subject to a series of restrictions on transaction and mortgage. Its growth will possibly be curbed. Home appliances demand driven by the increase in new residential housing may be adversely affected. The Company will seize the favourable opportunities brought by consumption upgrade and birth rewards for having a second child and spend effort on internet to grow online sales of home appliances.

As a component of our revenue source, export business is facing the change in the international trading policy. Haier will actively respond to the policy instability in certain countries and markets or trade protectionism by capitalising on its extensive experience.

In terms of logistics business, warehousing cost may increase gradually as land cost increases. Apart from this, due to more stringent regulations on overloading and over-height vehicles as the transparency in costs increases, transportation cost may begin to rise. The Company will actively respond to this industry risk by capitalising on its self-built and self-owned warehouses to reduce rental cost pressure and through intermodal logistics to reduce the costs caused by the reliance on the single transport mode.

Financial Review

In 2016, the Group's revenue amounted to RMB63,854,877,000, representing an increase of 1.6% from RMB62,826,119,000 in 2015. The profit attributable to owners of the Company was RMB2,786,219,000, representing an increase of 3.1% from RMB2,702,996,000 in 2015. The basic earnings per share attributable to ordinary equity holders of the Company was RMB100.20 cents, representing an increase of 2.1% from RMB98.12 cents in 2015.

1. ANALYSIS OF REVENUE AND PROFIT

Items	2016 RMB'000	2015 RMB'000	Change %
Revenue			
Washing machine business	**15,920,451**	14,952,303	+6.5%
Water heater business	**5,358,160**	4,607,402	+16.3%
Channel services business	**51,484,998**	51,618,079	–0.3%
Logistics business	**7,562,075**	6,579,347	+14.9%
Inter-segment elimination	**(16,470,807)**	(14,931,012)	+10.3%
Consolidated revenue	**63,854,877**	62,826,119	+1.6%
Adjusted operating profit*	**3,019,339**	2,717,032	+11.1%
Profit attributable to owners of the Company	**2,786,219**	2,702,996	+3.1%
Earnings per share attributable to ordinary equity holders of the Company			
Basic	**RMB100.20 cents**	RMB98.12 cents	+2.1%
Diluted	**RMB98.92 cents**	RMB96.82 cents	+2.2%

* Adjusted operating profit was defined as profit before tax, net of interest incomes and expenses, investment gains and losses (including share of profits and losses of associates), changes of fair value of derivative financial instruments, government grants and impairment of non-financial assets including goodwill.

1. ANALYSIS OF REVENUE AND PROFIT (continued)

The revenue of the Group for 2016 was RMB63,854,877,000, increased by 1.6%, as compared to RMB62,826,119,000 in 2015. The increase of revenue was mainly attributed to the growth of revenue from washing machine, water heater and logistics businesses. Revenue for the first half of 2016 declined by 8.1%, but the revenue for the second half of 2016 increased as compared to the same period in 2015, in particular, single-quarter revenue for the third and fourth quarter of 2016 increased by 5.4% and 17.6%, respectively, as compared to the respective corresponding quarter of 2015, which was mainly attributable to the leading quality and technology of Haier's products and outstanding achievement in transformation of channel retailing.

Revenue from the washing machine business amounted to RMB15,920,451,000, representing an increase of 6.5% as compared to RMB14,952,303,000 in 2015. This was mainly attributable to the product innovation of Haier's washing machines which were well accepted by users and effective implementation of omni-channel sales strategy. With approximately 20% growth in revenue from front-loading washing machines, which accounted for an increased proportion in the revenue from washing machines business, the product mix continues to improve.

Revenue from the water heater business amounted to RMB5,358,160,000, representing an increase of 16.3% as compared to RMB4,607,402,000 in 2015. This was mainly attributable to the ongoing products innovation and enhanced brand image of end-products. In particular, revenue from gas and new-energy water heaters even recorded a rapid growth of more than 40%.

Revenue from the channel services business amounted to RMB51,484,998,000, representing a slight decrease of 0.3% as compared to RMB51,618,079,000 in 2015. The decrease was mainly due to the Group's voluntary exit from certain of the third-party channel services business with low profitability during the year. The retained portion of third-party channel services business, primarily including lifestyle and fitness home appliances with higher profitability, was expected to sustain a stable growth. In addition, revenue from channel services business under Haier brand increased by approximately 7%, in particular, the growth in online sales increased by approximately 47%, which was mainly due to the optimization of the Group's product layout as well as the enhancement of user's experience.

Revenue from the logistics business amounted to RMB7,562,075,000, representing an increase of 14.9% as compared to RMB6,579,347,000 in 2015. The growth was mainly driven by the growth arising from the further deepening in the cooperation with Alibaba in the e-commerce logistics business. In addition, the expansion of logistics services for bulky products such as home appliances and fitness equipment has become a new key growth driver.

Profit attributable to owners of the Company

In 2016, the profit attributable to owners of the Company was RMB2,786,219,000, representing an increase of 3.1% from RMB2,702,996,000 in 2015. The basic earnings per share attributable to ordinary equity holders of the Company was RMB100.20 cents in 2016, representing an increase of 2.1% from RMB98.12 cents in 2015.

1. ANALYSIS OF REVENUE AND PROFIT (continued)

Adjusted Operating Profit

Adjusted operating profit was defined as profit before tax, net of interest incomes and expenses, investment gains and losses (including share of profits and losses of associates), changes of fair value of derivative financial instruments, government grants and impairment of non-financial assets including goodwill. By excluding these items, it is easier for management and investors to compare the Group's financial results over multiple periods and analyze trends in its operations.

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

In 2016, the adjusted operating profit of the Group was RMB3,019,339,000, representing a growth of 11.1% as compared to RMB2,717,032,000 in 2015. The growth in the adjusted operating profit was mainly contributed by the channel transformation of channel services business, increase in operational efficiency and a higher growth in the washing machine and water heater businesses with higher profitability.

Gross Profit Margins

In 2016, the overall gross profit margin of the Group was 17.3%, representing an increase of 1.4 percentage points from 15.9% in 2015. The increase in the overall gross profit margin was mainly due to the increase in gross profit margin of the channel services business and an increased proportion of revenue from the washing machine and water heater businesses which have higher gross profit margins.

The gross profit margin of the washing machine business was 27.5%, representing an increase of 0.2 percentage point from 27.3% in 2015. This was mainly due to higher proportion of high-end products and lower purchasing costs of raw materials by strengthening the supply chain management.

The gross profit margin of the water heater business was 36.9%, representing an increase of 0.3 percentage point from 36.6% in 2015. This was mainly due to optimization of the product mix and lower purchasing costs of raw materials by strengthening the supply chain management.

The gross profit margin of the channel services business was 10.3%, representing an increase of 1.0 percentage point from 9.3% in 2015. This was mainly due to the integration and optimisation of online and offline channels, turning a price war into a value war as well as the increase in gross profit margin capacity.

The gross profit margin of the logistics business was 10.6%, representing an increase of 0.4 percentage point from 10.2% in 2015. This was mainly due to enhanced efficiency in truck-loading, regional distribution and warehousing as well as cost optimization.

1. ANALYSIS OF REVENUE AND PROFIT (continued)

Selling and Distribution Expenses

The ratio of selling and distribution expenses of the washing machine and water heater businesses to its segment revenue increased by 0.5 percentage point from 15.3% in 2015 to 15.8% in 2016, which was mainly due to a stronger marketing focus on the interactive sales with potential customers, marketing efforts to promote new products and increased transportation costs during the year.

The ratio of selling and distribution expenses of the channel services business to its segment revenue increased by 0.9 percentage point from 6.8% in 2015 to 7.7% in 2016, which was mainly due to more expenses incurred for the enhancement of brand image and marketing efforts in order to integrate the multi-channel of online, offline and mobile terminals to enhance user experience.

The ratio of selling and distribution expenses of the logistics business to its segment revenue increased slightly by 0.2 percentage point from 1.3% in 2015 to 1.5% in 2016, which was mainly due to an increase in labour costs resulted from the establishment of sales team.

Administrative Expenses

In 2016, the ratio of administrative expenses of the washing machine and water heater businesses to its segment revenue was 4.8%, representing a decrease of 0.2 percentage point from 5.0% in 2015. The ratio of administrative expenses of the channel services business to its segment revenue was 1.0%, representing a decrease of 0.2 percentage point from 1.2% in 2015. It was mainly due to enhanced cost effectiveness as a result of the improved organizational and operational efficiency.

The ratio of administrative expenses of the logistics business to its segment revenue was 5.5%, representing an increase of 0.2 percentage point from 5.3% in 2015. This was mainly due to the strengthened construction of smart logistics operation system and increase in investment of information technology.

2. FINANCIAL POSITION

Items	2016 RMB'000	2015 RMB'000
Non-current assets	**7,651,630**	7,009,705
Current assets	**28,497,344**	23,287,625
Current liabilities	**17,315,949**	13,001,703
Non-current liabilities	**462,630**	1,573,368
Net assets	**18,370,395**	15,722,259

2. FINANCIAL POSITION (continued)

Cash and Cash Equivalents

In 2016, the Group's cash and cash equivalents balance increased by 23.0% from RMB10,244,492,000 as at 31 December 2015 to RMB12,596,271,000 as at 31 December 2016. The increase was mainly attributable to the significant increase in cash flows from operating activities during the year.

Net assets

In 2016, the Group's net assets increased by 16.8% from RMB15,722,259,000 as at 31 December 2015 to RMB18,370,395,000 as at 31 December 2016. The increase in net assets was mainly attributable to profit contribution of RMB2,810,635,000 for the year.

Working Capital

Trade and Bills Receivables Turnover Days

The bills receivable turnover days of the Group's washing machine and water heater businesses was 48 days at the end of 2016, representing an increase of 7 days as compared to the end of 2015, which was mainly due to an increase in the proportion of settlement by bills as well as the increased sales of the washing machine and water heater businesses during the last quarter of the year.

As at the end of 2016, the trade receivables turnover days of the Group's washing machine and water heater businesses was 17 days, representing a decrease of 2 days as compared to 2015, which was mainly due to the tightened monitoring and control over clients' credit period. The proportion of the bills receivable to the total trade and bills receivables was 73.6% (31 December 2015: 68.9%), most of which were bank's acceptance bills with minimal risk of default.

In the Group's channel services business, the majority of customers of Haier brand in the 3rd and 4th-tier markets are relatively small scale customers, and the sales are generally settled with cash on delivery. Our business model aims at reducing customers' working capital requirements and facilitating cash-settled payment method. The trade receivables turnover days at the end of 2016 was 3 days, representing a decrease of 2 days from the end of 2015. This was mainly due to the Group's voluntary exit from the third-party home appliance distribution business with long credit terms.

As at the end of 2016, the trade receivables turnover days of the Group's logistics business was 69 days, representing an increase of 14 days from the end of 2015, which was mainly due to a significant growth in the logistics volume towards the end of the year and drastic increase in trade receivables as at the end of the year.

Inventory Turnover Days

Under the Group's Just-In-Time policy, the Group has implemented a series of measurements including rolling order forecasts, made-to-order and procured-to-order productions, which helped maintain a relatively low inventory level. At the end of 2016, the inventory turnover days of the washing machine and water heater businesses was 21 days, increased by 3 days as compared to the end of 2015, which was mainly attributed to the increase in inventory of washing machines and water heaters at the end of the year in order to ensure supply capacity for the peak sales before the Chinese Lunar New Year.

At the end of 2016, the inventory turnover days of the channel services business was 37 days, representing an increase of 5 days as compared to the end of 2015. This was mainly due to the reason that the Chinese Lunar New Year in 2017 was 10 days earlier than the previous year and so was the stock preparation by customers, resulting in an increase in the inventory balance.

2. FINANCIAL POSITION (continued)

Working Capital (continued)

Trade Payables Turnover Days

The trade payables turnover days of the Group's washing machine and water heater businesses was 38 days at the end of 2016, representing an increase of 4 days as compared to the end of 2015. This was mainly due to an increase in purchase of the raw materials for stock preparation, resulting in an increase in trade payables as at the year-end.

The trade payables turnover days of the channel services business was 8 days at the end of 2016, representing a decrease of 4 days as compared to the end of 2015, which was mainly due to stocking up of retail channel and accelerated settlement with suppliers.

The trade payables turnover days of the logistics business was 103 days at the end of 2016, representing an increase of 30 days as compared to the end of 2015, which was mainly due to strengthened management over credit terms with suppliers.

3. CASH FLOW ANALYSIS

Items	2016 RMB'000	2015 RMB'000
Cash and cash equivalents as stated in the statement of financial position at beginning of year	**10,244,492**	10,929,888
Net cash flows from operating activities	**3,594,344**	2,529,744
Net cash flows used in investing activities (excluding the changes in time deposits over three months)	**(926,360)**	(2,839,126)
Net cash flows used in financing activities	**(394,012)**	(401,791)
Effect of foreign exchange rate changes, net	**77,807**	25,777
Cash and cash equivalents as stated in the statement of financial position at the end of year	**12,596,271**	10,244,492

3. CASH FLOW ANALYSIS (continued)

The Group's net cash inflow from operating activities increased by 42.1% to RMB3,594,344,000 in 2016 as compared with 2015, which was mainly due to the growth in net cash flows from the profit of the operating activities as well as the improved working capital efficiency as a result of intensified cash management during the year.

Net cash outflow used in investing activities for the year (excluding the changes in time deposits over three months) was RMB926,360,000, representing a decrease of 67.4% as compared with 2015. Cash inflow from investing activities mainly included the cash received for disposal or partial disposal of equity interest in subsidiaries and associates in the amount of RMB241,354,000 and cash dividend received from Sinopec Marketing Co., Ltd in the amount of RMB46,377,000. Cash outflow from investing activities mainly included contingent consideration for acquisition of subsidiaries in previous years in the amount of RMB89,479,000, cash payments of RMB210,371,000 for purchase of wealth management products, cash payments of RMB865,417,000 for capital expenditure items. The capital expenditure was primarily incurred for the construction of logistics warehouses as well as technological upgrade of washing machine and water heater factories for capacity expansion.

Net cash outflow from financing activities was RMB394,012,000 during the year, which mainly included dividends payment of RMB288,685,000, payment of minority shareholders' dividends of RMB45,055,000 and repayment of bank borrowings of RMB116,400,000. Cash inflow from financing activities was mainly newly raised bank borrowings of RMB103,000,000.

LIQUIDITY AND FINANCIAL RESOURCES

The Group focuses on cash flow management and has been able to maintain a healthy financial and liquidity position. The Group recorded a current ratio of 164.6% as at 31 December 2016, representing a decrease of 14.5 percentage points as compared with 179.1% in 2015. As at 31 December 2016, the Group's cash and cash equivalents balance amounted to RMB12,596,271,000 (31 December 2015: RMB10,244,492,000). Bank and other borrowings amounted to RMB73,000,000 (31 December 2015: RMB86,400,000). Shareholder's borrowings amounted to RMB27,883,000 (31 December 2015: RMB26,083,000). The liabilities portion of the convertible and exchangeable bonds was RMB1,223,220,000 (31 December 2015: RMB1,107,735,000). As a result, the Group's net cash balance (cash and cash equivalents balance, net of bank and other borrowings, shareholder's borrowings and the liabilities portion of the convertible and exchangeable bonds) as at 31 December 2016 amounted to RMB11,272,168,000 (31 December 2015: RMB9,024,274,000), representing an increase of 24.9% from 2015.

The Group maintains stable operating cash flows and sources of liquidity in 2016 that are adequate to meet its working capital requirements for the next year, construction of connected factories, intelligent logistics network and the e-commerce platform, as well as to maintain financial flexibility for future strategic investment opportunities.

CAPITAL EXPENDITURE

The Company assesses its capital expenditure and investments in the businesses of the washing machine, water heater and logistics business from time to time. The capital expenditure during the year was RMB865,417,000 (31 December 2015: RMB1,306,055,000), which was mainly used in developing the logistics business, including the construction of warehouse as well as factory equipment modifications for washing machines and water heaters.

GEARING RATIO

As at 31 December 2016, the Group's gearing ratio (defined as total borrowings, including the liabilities portion of convertible and exchangeable bonds, over net assets) was 7.2% (31 December 2015: 7.8%).

TREASURY POLICIES

The Group adopts a prudent approach in its cash management and risk control. Most of the Group's revenues and expenses are denominated in Renminbi. Cash is generally placed in short term deposits denominated either in Renminbi or Hong Kong dollars. Foreign currency risk is largely, though not fully, mitigated, as liabilities in Renminbi will be substantially offset by the Group's revenue, most of which are derived from domestic sales in China and denominated in Renminbi. Only approximately 4.7% of the Group's revenue is derived from export sales and is denominated in other currencies. The Group does not have any significant interest rate risk as it has an overall net cash balance. The Group does not have any financial instrument for hedging purposes.

CAPITAL COMMITMENT

The Group's capital commitments contracted but not yet provided for amounted to RMB223,919,000 as at 31 December 2016 (31 December 2015: RMB217,600,000), which were mainly related to the construction of connected factories as well as warehouses for the logistics business.

CHARGE OF ASSETS

As at 31 December 2016, certain of the Group's buildings and leasehold land with an aggregate net carrying value of RMB30,171,000 (31 December 2015: RMB37,579,000) were pledged to secure certain of the Group's bank loans.

Further, as at 31 December 2016, certain of the Group's bills payable were secured by the pledge of the Group's bank deposits amounting to RMB71,272,000 (31 December 2015: RMB30,369,000) and the Group's bills receivable amounting to RMB60,421,000 (31 December 2015: RMB29,263,000).

At 31 December 2015, the Group's other loans borrowed from Haier Finance Co., Ltd. were secured by floating charges over inventories amounting to RMB30,760,000 and certain of the Group's motor vehicles with a net carrying value of RMB28,992,000 were pledged to secure certain bank loans to the Group.

CONTINGENT LIABILITIES

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

RELATIONSHIP WITH EMPLOYEES AND REMUNERATION POLICY

The Group understands that employees are valuable assets and ensures that the remuneration packages for its employees remain competitive. Its employees are generally remunerated with fixed monthly salaries, which are reviewed annually, along with discretionary performance bonuses, share options and share award schemes. In addition, the Group has a thorough employee training and promotion mechanism to let the employees upgrading themselves continuously.

The total number of employees of the Group decreased by approximately 0.1% to 15,476 as at 31 December 2016 from 15,491 as at 31 December 2015.

RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

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

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

In the Group's channel services business, the majority of customers of Haier brand in the 3rd and 4th-tier markets are relatively small scale customers, and the sales are generally settled with cash on delivery. Our business model aims at reducing the customers' working capital requirements and facilitating the cash-settled payment method.

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

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

DIVIDENDS

The Board has proposed a final dividend of HK17 cents per share in cash to shareholders whose names appear on the register of members of the Company on Thursday, 29 June 2017 for the year ended 31 December 2016. All the dividends will be paid upon approval by shareholders at the Company's forthcoming annual general meeting. The final dividend will be paid on around Friday, 11 August 2017.

This dividend represented approximately 15% of the profit attributable to the owners of the Company for the year, and will be distributed out of the contributed surplus account of the Company. The Group shall retain sufficient cash for maintaining a strong financial position for capturing strategic investments when opportunities arise, and in particular, achieving the financial flexibility in relation to investments in the logistics business. The Company will review the payout ratio in the coming period and will increase that ratio as and when appropriate.

CORPORATE GOVERNANCE PRACTICES

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

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

BOARD OF DIRECTORS

Composition

As at 31 December 2016, the Board currently comprises one Executive Director, four Non-executive Directors and three Independent Non-executive Directors (the "INED(s)").

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

At least one of the INEDs possesses appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Directors are well-versed in respective areas such as accounting and finance, business management and industry knowledge and the Board as a whole has achieved an appropriate balance of skills and experience. The Directors' biographical details, by category of Directors, are set out on pages 14 to 17 of this annual report.

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

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

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

BOARD OF DIRECTORS (continued)

Board diversity policy

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

Delegation by the Board

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

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

The Board is principally responsible for:

1. determining the overall strategy;

2. reviewing all significant policies of the Group;

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

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

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

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

BOARD OF DIRECTORS (continued)

Delegation by the Board (continued)

The Management is principally responsible for:

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

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

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

4. keeping proper written records of its decisions taken which may be inspected by any members of the Board or the Board committees upon request.

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

Chairman and Chief Executive Officer ("CEO")

Under Code Provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separated and should not be performed by the same individual. During the year, Mr. Zhou Yun Jie ("Mr. Zhou"), an Executive Director, had served as the chairman and also the CEO of the Company. After evaluation of the current situation of the Company and taking into account the experience and past performance of Mr. Zhou, the Board is of the opinion that it is appropriate and in the best interests of the Group for Mr. Zhou to hold both positions as the chairman and CEO of the Company at the present stage as it helps to maintain the continuity of the policies and the stability of the operations of the Group. It also helps to promote the efficient formulation and implementation of the Company's strategies which will enable the Group to seize business opportunities efficiently and promptly. The Board comprising a vast majority of non-executive Directors also meets regularly on a quarterly basis to review the operations of the Group and to consider other major matters affecting the business of the Group. Accordingly, the Board believes that this arrangement will not have negative influence on the balance of power and authorizations between the Board and the management of the Company. In addition, through the continuing supervision of the Board and its independent non-executive Directors, checks and balances continue to exist so that the interests of the shareholders are continued to be adequately and fairly represented.

BOARD OF DIRECTORS (continued)

INEDs

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

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

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

Supply of and access to information

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

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

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

Professional development

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

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

(i) In-house training sessions organized by the Company which was conducted by professional on topics including update on corporate governance rules.

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

(iii) Private study of materials relevant to the director's duties and responsibilities.

BOARD OF DIRECTORS (continued)

Professional development (continued)

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

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

Board meetings

During the year ended 31 December 2016, apart from the adhoc meetings and consents obtained by means of written resolutions of all the Board members, the Board had held four scheduled meetings at approximately quarterly intervals to review and approve, among other things, the 2015 annual results and 2016 interim results, the overall Group's strategy, discloseable and connected transactions of the Group. The Company's board meetings (the "Board Meeting(s)") are permitted to be held by means of telephone or other means of electronic communication under the Bye-laws.

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

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

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

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

BOARD OF DIRECTORS (continued)

Board meetings (continued)

The following table shows the attendance of the Directors at the scheduled Board Meetings during the year ended 31 December 2016:

	No. of the scheduled Board meetings attended/held
Executive Director:	
Mr. Zhou Yun Jie *(Chairman)*	4/4
Non-executive Directors:	
Mr. Liang Hai Shan	1/4
Mr. Li Hua Gang *(alternate to Mr. Liang Hai Shan)*	0/4
Ms. Tan Li Xia	1/4
Dr. Wang Han Hua	4/4
Mr. Zhang Yong	2/4
INEDs:	
Mr. Yu Hon To, David	4/4
Mrs. Eva Cheng Li Kam Fun	4/4
Ms. Tsou Kai-Lien, Rose	4/4

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

BOARD OF DIRECTORS (continued)

Model Code for Securities Transactions by Directors

The Company has adopted a Model Code for Securities Transactions by Directors (the "Haier Electronics Model Code") on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules. Upon enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standard as set out in the Haier Electronics Model Code throughout the year ended 31 December 2016.

In addition, the Board has adopted written guidelines (the "Employees' Guidelines for Securities Transactions") for securities transactions by employees (the "Relevant Employees") who are likely to be in possession of unpublished price sensitive information of the Company on no less exacting terms than the Haier Electronics Model Code. Having made specific enquiries of all the Relevant Employees, the Company confirmed that all the Relevant Employees had complied with the required standard as set out in the Employees' Guidelines for Securities Transactions throughout the year ended 31 December 2016.

Board Committees

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

(1) Audit Committee

The Audit Committee currently comprises one Non-executive Director, namely Ms. Tan Li Xia, and two INEDs (Mr. Yu Hon To, David and Mrs. Eva Cheng Li Kam Fun), and is chaired by Mr. Yu Hon To, David. Mr. Yu is a professional accountant and was formerly a partner of an international accounting firm. The terms of reference (revised) of the Audit Committee are available on the respective websites of the Company and the Hong Kong Stock Exchange.

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

During the year ended 31 December 2016, the Audit Committee held three meetings to review the management and accounting principles and practices adopted by the Group and to discuss financial reporting matters including the review of 2015 annual results and 2016 interim results of the Group, review the adequacy of resources, accounting staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function, review of the internal control procedures and the connected transactions and other related issues.

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(1) Audit Committee (continued)

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

The annual results for the year ended 31 December 2016 were also reviewed by the Audit Committee.

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

The following table shows the attendance of members of the Audit Committee during the year ended 31 December 2016:

	No. of Audit Committee meetings attended/held
Non-executive Director:	
Ms. Tan Li Xia	2/3
INEDs:	
Mr. Yu Hon To, David	3/3
Mrs. Eva Cheng Li Kam Fun	3/3

(2) Remuneration Committee

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

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

During the year, apart from consents obtained by means of written resolutions of all the committee members, the Remuneration Committee has held two meetings. At the meeting, members of the Remuneration Committee reviewed and made recommendations to the Board the remuneration proposal of the Directors and senior management by taking into account factors such as remuneration packages and benefits offered by comparable companies, the respective contribution of each of the Directors and senior management to the Group and the business objectives of the Group. The Remuneration Committee also considered the performance-based structure of the remuneration of Executive Director and senior management.

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(2) Remuneration Committee (continued)

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

The following table shows the attendance of members of the Remuneration Committee during the year ended 31 December 2016:

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

(3) Nomination Committee

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

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

Nomination procedures include identification and acknowledgement of qualified individuals by the Nomination Committee and review and approval of such nomination by the Board. The Nomination Committee is to evaluate potential candidates by considering factors such as professional expertise, relevant experience, personal ethics and integrity. It also advises the Board in considering the suitability of the re-election of the Directors who are subject to the retirement by rotation at the AGM in accordance with the Bye-laws.

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(3) Nomination Committee (continued)

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

During the year, the Nomination Committee has held one meeting. At the meeting, members of the Nomination Committee have reviewed the composition of the Board and diversity of the Board, and advised the Board on the suitability of the retirement and re-election of the Directors at the annual general meeting.

The following table shows the attendance of members of the Nomination Committee during the year ended 31 December 2016:

	No. of Nomination Committee meetings attended/held
Executive Director:	
Mr. Zhou Yun Jie	1/1
INEDs:	
Mr. Yu Hon To, David	1/1
Mrs. Eva Cheng Li Kam Fun	1/1

(4) Strategic Committee

The Strategic Committee was formed on 18 October 2011 and currently comprises three members including one Executive Director, namely, Mr. Zhou Yun Jie, one INED, namely, Ms. Tsou Kai-Lien, Rose and one Non-executive Director namely, Mr. Zhang Yong. Dr. WANG Han Hua has also acted as the observer. The Strategic Committee is chaired by Mr. Zhou Yun Jie. The Strategic Committee shall meet four times a year.

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

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

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(4) Strategic Committee (continued)

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

The following table shows the attendance of members of the Strategic Committee during the year ended 31 December 2016:

	No. of Strategic Committee meetings attended/held
Executive Director:	
Mr. Zhou Yun Jie	4/4
Non-executive Director:	
Mr. Zhang Yong	2/4
INED:	
Ms. Tsou Kai-Lien, Rose	4/4

Corporate Governance Function

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

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

During the year, the Board and the board committees have developed and reviewed the Company's corporate governance practices, including the review of the process in upgrading the internal controls and risk management to meet the new regulatory requirements.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

During the year, the Company has held one general meeting (the annual general meeting) in which various resolutions were passed.

The following table shows the attendance of the Directors at the general meeting held during the year ended 31 December 2016:

	No. of the General meetings attended/held
Executive Director:	
Mr. Zhou Yun Jie	1/1
Non-executive Directors:	
Mr. Liang Hai Shan (with Mr. Li Hua Gang as his alternate director)	0/1
Ms. Tan Li Xia	0/1
Dr. Wang Han Hua	1/1
Mr. Zhang Yong	1/1
INEDs:	
Mr. Yu Hon To, David	1/1
Mrs. Eva Cheng Li Kam Fun	1/1
Ms. Tsou Kai-Lien, Rose	1/1

According to the code provision A.6.7 of the Code, non-executive directors (including independent non-executive directors) should attend general meetings. Two of these non-executive directors were unable to attend all the general meetings of the Company due to various work commitments.

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

SHAREHOLDERS' RIGHTS

Procedures by which Shareholders may convene a special general meeting

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

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

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

Procedures by which enquiries may be put to the Board

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

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

E-mail: ir@haier.hk

Procedures for putting forward proposals at a Shareholders' meeting

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

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

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

SHAREHOLDERS' RIGHTS (continued)

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

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

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

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

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

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

INSURANCE

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

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing financial statements of the Group in accordance with relevant statutory requirements and generally accepted accounting principles in Hong Kong and ensuring that the financial statements give a true and fair view of the Group's financial position. In preparing the financial statements of the Group for the year ended 31 December 2016, the Directors have adopted suitable accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and prepared the financial statements on a going concern basis.

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

Control Environment

– The control framework is consistent with that promoted by The COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards;

– Risk awareness and control responsibility are built into the company culture and regard them as the foundation of risk management and internal control systems.

– An effective internal audit function is maintained which is independent from operational management;

– Whistleblowing Guideline of the Company is in place.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Internal Auditing Function

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

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

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

Risk Management

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

A Risk Management Committee has been set up comprising the CEO and senior managers of major business units to weekly review and analyse the key risks associated with achieving the objectives of the Company as well as the individual departments, activities and businesses to provide reasonable assurance that internal controls are both embedded and effective within their areas of accountability. Certain special projects involved more participants' discussion regarding the major potential risks and the controls. Such assessment has been implemented throughout the year to evaluate all major risks associated with the business operations of the forthcoming years.

The Internal Audit Department of the Company plays a significant role of the risk management execution. Major risks of all levels facing the Group are identified and evaluated so that mitigation strategies and plans with respect to each key risk identified are developed and implemented, which include establishing or enhancing internal controls, with regular review and update. The process of the work performed are reported regularly to the Audit Committee and the Board.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Control Process

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

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

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

Review of Control Effectiveness

The Audit Committee reviewed the effectiveness of the risk management and internal control systems by reviewing the work of the Internal Audit Department. The Board has, through the Audit Committee, reviewed and considered that for the year ended 31 December 2016: (i) the Group's risk management and internal control systems were effective and adequate, with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards; (ii) the Group had adopted the necessary control mechanisms to monitor and correct non – compliance.

Inside Information

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

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

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

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

REMUNERATION OF EXTERNAL AUDITORS

The Group's independent external auditors are Ernst & Young, Certified Public Accountants. During the year, the annual audit fees and non-audit fees payable/paid by the Group to Ernst & Young were RMB7,575,000 and RMB2,235,000, respectively. The non-audit services mainly included the performance of agreed-upon procedures in respect of the Group's quarterly, interim financial information and other financial information (RMB1,545,000), review of the continuing connected transactions (RMB120,000), and taxation consultation services (RMB570,000).

This report sets out specific environmental and social issues that contribute to the sustainable development of Haier Electronics Group Co., Ltd. (the "Company" or "Haier Electronics", together with its subsidiaries, the "Group") and are of interest to all of our major stakeholders. The Company is committed to constantly creating value for all major stakeholders by caring and balancing their interests.

This report was compiled in accordance with the requirements set forth in the Environmental, Social and Governance Reporting Guide ("ESG Guide") under Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and covers the Group's major business segments, including the washing machine business, the water heater business, the channel services and logistics business. For the year ended 31 December 2016, the Company has complied with the "comply or explain" provisions set out in the ESG Guide.

ENVIRONMENTAL PROTECTION

The Group recognizes the importance of environmental sustainability against modern ecological challenges. Thus, the Group has introduced the environmental protection concept and elements into various stages such as product design, production process and material usages, and business operations etc, so as to minimize emissions, make efficient use of resources, and mitigate the significant impact of business activities on the environment and natural resources. Haier Electronics has always been in strict compliance with the relevant laws and regulations on environmental protection.

Haier Electronics has consistently adhered to its strategy of "Green Development" by continuously fostering the disclosure and exchange of environmental information, strictly following the relevant laws and regulations, and persistently pushing ahead with clean production. By doing so, the Company has established a sophisticated environmental management system, built up a corporate image of green and intelligent development, and promoted the coordinated development of economic, environmental and social efficiency.

- **Establishment of ISO14000 Environmental Management Systems (EMS)**

  The International Organization for Standardization (ISO) issued the ISO14000 family of environmental management standards, with ISO14001 as the key standard in the EMS. Haier Electronics actively pushed ahead with the construction of ISO14000 EMS, and successfully promoted energy conservation and consumption reduction, cut down the emission level of pollutants, mitigated environmental risks and scaled down environmental costs, leading to remarkable achievements in terms of economic, social and environmental efficiency. The various business segments of Haier Electronics vigorously participated in the construction of ISO14001 EMS and engaged external qualified institutions in monitoring and reviewing the environmental management systems of each business segment every year. In 2016, 7 washing machine factories and 2 water heater factories successfully passed the examination and obtained the ISO14001 EMS Certification.


CCCI
环境管理体系认证证书
兹证明
重庆海尔热水器有限公司
环境管理体系符合标准
GB/T 24001-2004/ISO 14001:2004
认证范围如下：
家用热水器及配件的生产及相关管理活动
2015年4月10日
CNAS
IAF
体系认证
CNAS C021-E


CCCI
环境管理体系认证证书
兹证明
青岛海尔洗衣机有限公司
环境管理体系符合标准
GB/T 24001-2004/ISO 14001:2004
认证范围如下：
家用洗衣机的设计、制造和相关管理活动。
2014年4月1日
CNAS
IAF
体系认证
CNAS C021-E

ENVIRONMENTAL PROTECTION (continued)

- **Green Development Concept**

  Haier Electronics upheld the concept of "Going Green, Innovation, Interaction, Win-win" by constantly enhancing its own environmental management systems and integrating ecological design with intelligent design to provide consumers with more products that are smart, user-friendly, energy efficient and environmentally beneficial. Haier Electronics led the initiative of going green along the whole industry chain with its good environmental practice by applying more environmentally friendly techniques in production. Haier Electronics also ensured that environmental objectives were achieved through in-depth and extensive interaction and win-win solutions with the general public and stakeholders, and adopted practical and effective environmental measures.

Green Design

In the design and production of washing machines and water heaters, we adhere to introducing the concepts and elements of environmental protection. For example, the "clean-free" technology has been continually developed for washing machines during the year. Meanwhile, energy-efficient heat pump water heaters are designed and developed. These products aim to cut down daily consumption of water and energy.

1. Water Heaters with Environmentally friendly and Innovative Design

Haier's water heater business has set up a user-oriented ecosystem open to all parties so as to continuously offer users the best-in-class water solutions. In the research of advanced technologies, the Group has formed extensive research and cooperation partnerships with the Chinese Academy of Sciences, Tsinghua University and the Ocean University of China, resulting in numerous internationally advanced technological achievements.

ENVIRONMENTAL PROTECTION (continued)

Green Design (continued)

1. Water Heaters with Environmentally friendly and Innovative Design (continued)

(1) In January 2016, the Haier KING-series CO_2 heat pump water heater and purified water electric heaters were granted the "China High-End Home Appliance Red-Top Award" (中國高端家電紅頂獎). With its "carbon dioxide cold medium" technology (二氧化碳冷媒技術), Haier's heat pump water heater outstripped ordinary heat pump water heaters in a number of ways, including environmental protection, energy conservation, level of noise and the maximum output temperature, leading the trend for the industry's future development. Through technological innovation, the filter of purified water electric heaters remove sediments and dirt from shower water throughout the whole process as water flows through the heater, and eliminate more than 99% of the residual chlorine and bacteria in the water, thus providing consumers with the authentic experience of showering with purified water.

ENVIRONMENTAL PROTECTION (continued)

Green Design (continued)

1. Water Heaters with Environmentally friendly and Innovative Design (continued)

(2) In March 2016, Haier's solar-air energy water heaters won the "Appliance Environmental Protection Award" (艾普蘭環保獎) for its all-around absorption technology. Haier's solar-air energy water heaters can generate heat with the energy in the air and raindrops, instead of relying on the solar energy as the sole source of energy. All that the user has to do is to set the times of sunrise and sunset in the locality, and let the solar-air energy water heater heat up the water by making use of solar energy, followed by air energy or the heat energy in other objects that the appliance comes in contact with, and electricity, thus not only cutting down costs, but also breaking down the industry barriers arising from the heavy reliance on the weather of solar-powered water heaters, and ensuring the availability of heated water for users all year round.

(3) At the China Water Heater Summit 2016 (2016中國熱水器高峰論壇) convened in April 2016, Haier's water heaters were awarded the title of "Leading Brand of China Healthful Water Heater Ecosystem" (中國健康生態熱水器引領品牌), while Haier's purified water electric heaters and the "Heart of Holy Flame" gas water heaters designed for high-rise buildings were awarded the titles of "Healthful Star" (健康之星) and "Intelligence Star" (智慧之星) respectively.

ENVIRONMENTAL PROTECTION (continued)

Green Design (continued)

2. Washing Machines with Environmentally Friendly and Innovative Design

(1) 15 Models of Washing Machines with Green Design

At the Second Forum for Green Design and Manufacturing 2016 (2016年第二屆綠色產品設計與製造論壇), a total of 15 models of washing machines of Haier Electronics were listed in the catalogue of second batch of products with green design.

強力波洗衣機C801 100U1	電動洗衣機	青島海爾洗衣機有限公司	T/CAGP 0002-2016 T/CAB 0002-2016
強力波洗衣機C802 100U1			T/CAGP 0002-2016 T/CAB 0002-2016
強力波洗衣機C801 85U1			T/CAGP 0002-2016 T/CAB 0002-2016
強力波洗衣機C802 85U1			T/CAGP 0002-2016 T/CAB 0002-2016
強力波洗衣機 MW10018BYD71U1			T/CAGP 0002-2016 T/CAB 0002-2016
強力波洗衣機 MW8518BYD71U1			T/CAGP 0002-2016 T/CAB 0002-2016
分區洗頂開全自動洗衣機 FMS100-B261U1			T/CAGP 0002-2016 T/CAB 0002-2016
分區洗頂開全自動洗衣機 FMS100-B261U1（金）			T/CAGP 0002-2016 T/CAB 0002-2016
滾筒洗乾一體全自動洗衣機 C1HDU8G5		青島海爾滾筒洗衣機有限公司	T/CAGP 0002-2016 T/CAB 0002-2016
滾筒洗乾一體全自動洗衣機 C8HU12G1			T/CAGP 0002-2016 T/CAB 0002-2016
滾筒全自動洗衣機CBU12W1			T/CAGP 0002-2016 T/CAB 0002-2016
滾筒全自動洗衣機CBU12G1			T/CAGP 0002-2016 T/CAB 0002-2016
滾筒全自動洗衣機CBU12W5			T/CAGP 0002-2016 T/CAB 0002-2016
滾筒全自動洗衣機CBU12G5			T/CAGP 0002-2016 T/CAB 0002-2016
滾筒全自動洗衣機 XOG80-BDX14686L			T/CAGP 0002-2016 T/CAB 0002-2016

(2) Haier's "Clean-free" Washing Machines Won the Recognition of the World Trade Green Environmental Protection Agency (WT green)

The "clean-free" washing machines brought to the Group the Healthy Cleaning Technology Award granted by WT green. The "clean-free" washing machines solved the problem of dirt accumulating on the inner drum at its very root, not only representing a major breakthrough in respect of healthy washing, but also preventing various forms of environmental pollution being caused by using conventional washer cleaner in cleaning the inner drum.

Eight core technologies, revolutionise the washing machine industry in the next decade

ENVIRONMENTAL PROTECTION (continued)

Green Design (continued)

2. Washing Machines with Environmentally Friendly and Innovative Design (continued)

(3) Technology for Water-free Cleaning between the Inner Drum and the Outer Drum (內外桶間無水洗滌技術)

The advanced technology discussed in The Study and Application of Water-free Cleaning Technology between the Inner Drum and the Outer Drum in Washing Machines (《內外桶間無水洗滌技術在洗衣機上的研究和應用》) effectively puts an end to the problem of clothes getting soiled by the dirt between the inner drum and outer drum while being washed and saves up to 30% of the water used, thus giving consumers a more healthy and economical option when it comes to doing laundry. The technology obtained the certification issued by the State Scientific and Technological Commission.


成果登记 登记号 2016010
批准日期 20160406

科学技术成果鉴定证书

中轻联科鉴字［2016］第010号

成果名称：内外桶间无水洗涤新技术在洗衣机上的研究和应用

完成单位：青岛海尔洗衣机有限公司

鉴定形式：会议
组织鉴定单位：中国轻工业联合会（盖章）
鉴定日期：2016年3月21日
鉴定批准日期：2016年4月6日

国家科学技术委员会

(4) Two-drum Technology (分區洗雙滾筒技術)

Through the application of Haier's two-drum technology to products, the Group won such honours as the Red-Top Award and the Best Smart Product Award (最佳智能產品獎). The latest Study and Development of Two-drum Washing Machines Compatible with Washing in Separate Drums (《分區洗雙滾筒洗衣機的研究及開發》) obtained the certification of the State Scientific and Technological Commission. In particular, the water reuse technology saves more than 30% of the water in use by attaining the cascade use of water resources through intelligent decision-making.


青岛海尔滚筒洗衣机有限公司

贵公司的C8 U12W1型号的复式滚筒全自动洗衣机在本次"中国首批智能家电产品评价"活动中综合智能特性表现突出，授予该型号产品：

最佳智能家电产品
（家用洗衣机类）

中国质量认证中心
中国家用电器研究院
二零一五年七月


科学技术成果鉴定证书

中轻联科鉴字[2016]第009号

成果名称：分区洗双滚筒洗衣机的研究及开发

完成单位：青岛海尔滚筒洗衣机有限公司

鉴定形式：会议
组织鉴定单位：中国轻工业联合会（盖章）
鉴定日期：2016年3月21日
鉴定批准日期：2016年4月6日

国家科学技术委员会
一九九四年制

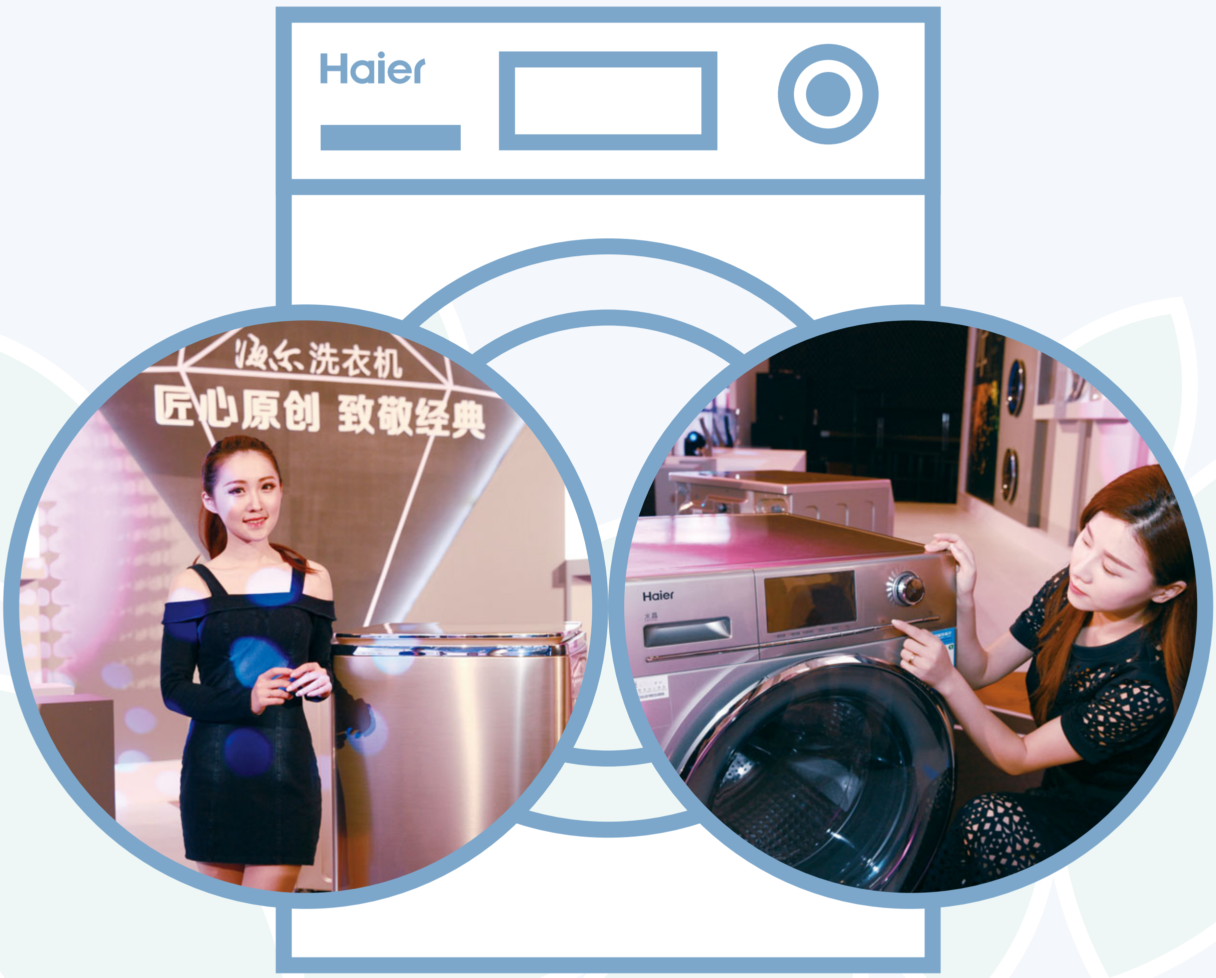
ENVIRONMENTAL PROTECTION (continued)

Green Design (continued)

2. Washing Machines with Environmentally Friendly and Innovative Design (continued)

(5) Virtually Waterless Washing Machine

In November 2016, organized by the China Energy Conservation Association, "Sustainability, Collective Development, Saving Water Resources – China Household Water Conservation Initiatives Ceremony cum the First Water Conservation Forum" was held in Beijing. Haier Electronics officially released the virtually waterless washing machine technology. With the water recycling technology, washing and rinsing can be done with one bucket of water, saving about 70% of water and almost no water is needed. The virtually waterless washing machine demonstrates Haier's achievement in water conservation at the processing stage. Haier will never stop in its exploration of water-saving washing machines. It has undergone four water-saving development stages including water-saving in programming, structure, system and processing, and introduced a series of products which are widely recognized by consumers.



ENVIRONMENTAL PROTECTION (continued)

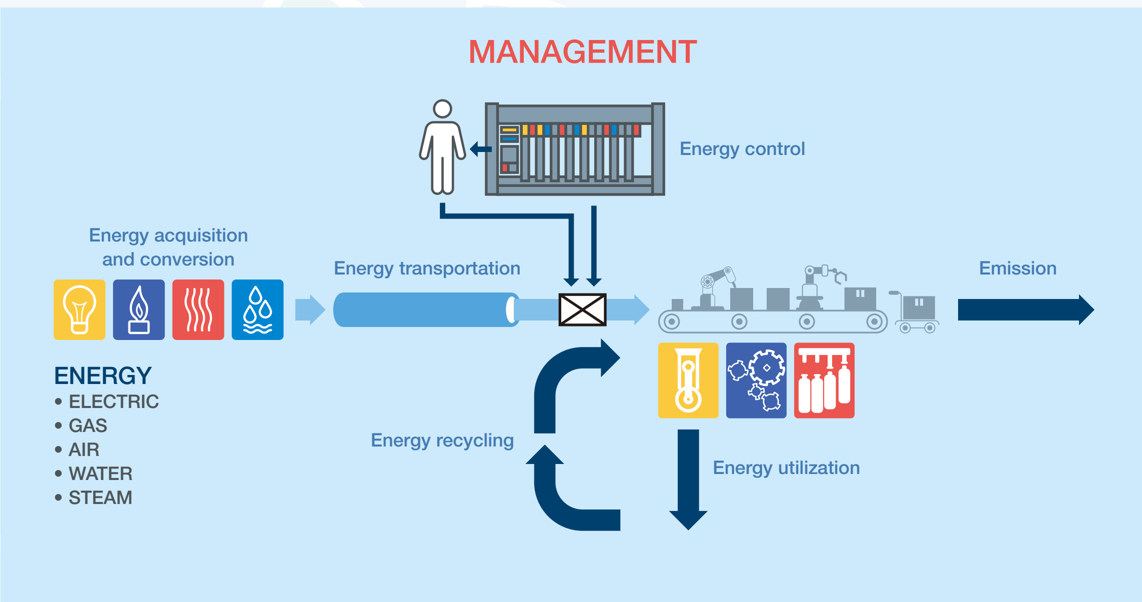
Green Production

In the production process, the Group continued to reduce energy consumption, reduce emissions of wastes and promote recycling to minimize negative environmental impact through technological improvements and process control, an example of which is building smart factory to address personalized demand of users. Early on, the Group has paid close attention to the industrial 4.0 concept. For example, we have built our Qingdao electric water heater factory and Foshan front-loading washing machine factory into smart lights-out factories, where manual labors are replaced by automated equipment and robots, and users' feedback is incorporated during the entire production process. Our production efficiency has significantly enhanced and labor costs have been reduced.

1. Smart Energy Management System

Haier Electronics monitors energy consumption of every production line and every production process through its smart energy data interconnected control centre. It also promoted standardized management of energy and ensured the completion of energy consumption target per unit through the operation of energy management system.

Haier's smart energy data interconnected control centre is a big data analysis system established based on Industry 4.0. Through applying automation, information technologies and centralized management model, Haier maintained centralized, flattening and dynamic monitoring and digital management over the production, transmission and consumption of major energy sources such as electricity, water and gas in a total of 13 washing machine and water heater factories located in 9 industrial parks across the country. By utilizing big data analysis, it exerted influence on energy supply at the production end to lower important energy medium discharges, and to achieve green and low-carbon production.

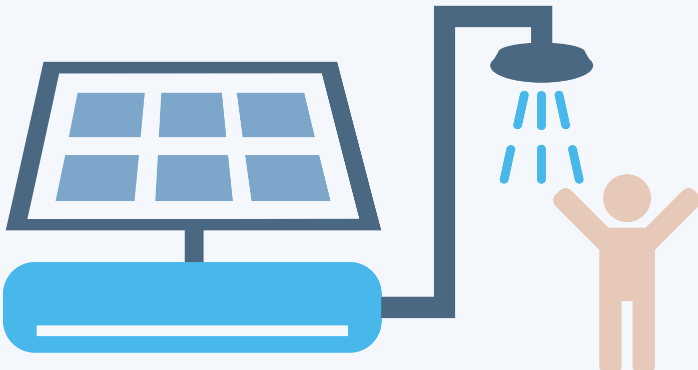


ENVIRONMENTAL PROTECTION (continued)

Green Production (continued)

2. Modification of Solar Energy Water Heating System

In Huangdao Industrial Park, for water pre-heating procedure, steam heating was replaced by solar energy heating, enhancing thermal efficiency and reducing energy expenses. The original shower water heating system in Huangdao Industrial Park has reduced annual steam consumption by 1,574 tonnes after using the solar energy water heating system in replacement of steam heating.



3. Photovoltaic (PV) Power Generation

Solar PV power system is safe and reliable, quiet, non-vibrating, non-polluting and fuel-free, and hence is significant to the mitigation of the shortage of conventional energy and reduction of environmental pollution. Qingdao photovoltaic power generation project is a “Golden Sun Pilot Project” which was initiated by Ministry of Finance, Ministry of Science & Technology, and National Energy Bureau, and the implementation of which is responsible by a third party PV company. Promoting distributed PV power generation can on one hand relieve the problem of excessive capacity in the PV manufacturing industry and on the other hand effectively improve the ecological environment. Currently, patches of solar panels are spreading over the rooftops of Chuangpai Building and Moju Building in Qingdao Haier Industrial Park and certain office and factory buildings adjacent to the factory in Huangdao Industrial Park.

ENVIRONMENTAL PROTECTION (continued)

Green operation

1. Supporting Green Product Strategy with Channel Strategy

Regarding energy-saving and environmentally friendly products such as Casarte washing machines, water heaters and clean-free washing machines, Haier Electronics provides distributors with extra incentives so as to encourage them to focus on promoting energy-saving and environmentally friendly products. Such strategies speeded up upgrade of product structure and facilitated upgrade of consumption structure.

2. Electric Vehicle Rent Rebate

To reduce the negative impact on environment caused by employees driving for work, Haier Electronics encourages its employees to use electric vehicles provided by Haier Group, the mother company, and third parties by renting electric vehicles to its employees at a discounted price and providing recharge posts in the industrial parks. These initiatives promoted green transport, reduced energy consumption and lessened environmental burden.

3. Use of Residual Heat onto Staff Quarters

The Company continually implemented the initiative of heat recovery. Residual heat released by air compressors in the operating room of mould factories is recovered for heating water, so as to ensure provision of hot water in the staff quarters and that staffs' needs for hot water are satisfied.

ENVIRONMENTAL PROTECTION (continued)

Green operation (continued)

4. Continual Implementation of Grey Water Recycling

Sewage processed by Huangdao Industrial Park is used as flushing water in the staff quarters, saving 25,000 cubic meters of water every year.

5. Environmental Friendly Logistics System

Modern logistics is exerting increasing pressure on the environment in the midst of economic growth. Therefore, a friendly logistics system for environment has become essential. Regarding the control over the consumption of petrol in transportation, detailed implementation would cover the timely recording and strict monitoring of the use of petrol by the logistics division on a monthly basis. Training is provided to uplift the level of operational techniques, so that petrol can be saved. A system is also in place to achieve the regular and effective repairing and maintenance of vehicles by drivers and maintenance vendors. Mobile positioning function is available for transmitting signals of the locations of vehicles to the back office, tackling the problem of substantial time and petrol consumption caused by imperfect delivery routing.

6. Environmentally Friendly Strategy for Packaging Materials

Packaging of products and materials is a key segment faced by manufacturers. The overuse or unreasonable use of packaging materials may be materially detrimental to the environment. Environment-friendly packages will instead contribute to reduced pollution. For recycling and reusing packaging materials, and avoiding unnecessary wastage during the course of production, the Group has continually agreed strictly with raw material suppliers that materials for transportation as well as plastic materials shall be recollected by suppliers for the purpose of recycling. Packaging materials for raw materials including paper boxes and foams can be recollected by professional companies for recycling and processing. In selecting packaging materials, we strive for clean materials which can be recycled, with low pollution and non-toxic.

STAFF MOTIVATION AND CARE

Based on the development of Internet era and combined with the maker employees' own characteristics, Haier Electronics strove to assist every single maker employee in achieving their respective development needs in all business segments. Guided by the concept "everyone is a CEO", it encouraged all maker employees to realize their own value and create value for customers, thereby building and creating a Win-Win Ecosystem.

I. A Catalyst for Realizing Employee's Value – Diversified Talent Cultivation System

To enhance the overall quality and capabilities of its employees and to motivate them in realizing their own value, Haier Electronics established a comprehensive talent cultivation environment and system in accordance with requirements under the ISO10015 training management system.

Major means of talent cultivation included:

1. **Tailor-made Training Courses:**
Mainly categorized into three types

Type 1, Open courses for all makers:
Open courses for all maker employees

Type 2, Specialized courses:
Specialized courses to cater to actual job requirements

Type 3, Training camp for makers:
Leadership training

1.1 Open Courses for All Makers:

In 2016, Haier Electronics invited internal and external experts from different sectors to conduct seminars and organized 51 open courses which attracted more than 2,000 internal maker employees and answered questions in relation to the respective sectors from a professional perspective. Themes of the courses covered "entrepreneurial project management", "user-driven innovation" and "perfect e-commerce thinking". These open courses enhanced the entrepreneurial skills of the maker employees to a large extent and elevated their motivation and passion.

STAFF MOTIVATION AND CARE (continued)

I. A Catalyst for Realizing Employee's Value – Diversified Talent Cultivation System (continued)

1. Tailor-made Training Courses (continued)

1.2 Specialized Courses:

To cater to the differentiated demands for enhancement of professional capability of maker employees from all business segments, experiential classes, action learning, tutorials given by both internal and external lecturers and social learning are organized in 2016 to achieve capability training of maker employees and project acceleration.

A total of more than 20 specialized training sessions were organized, covering various major business segments, with more than 600 participants. The training covered project management, investment and finance management, Internet thinking, negotiation skills and micro-enterprises business etiquette. Project management capability, creative thinking and communication skill of maker employees are enhanced.

STAFF MOTIVATION AND CARE (continued)

I. A Catalyst for Realizing Employee's Value – Diversified Talent Cultivation System (continued)

1. Tailor-made Training Courses (continued)

1.3 Training Camp for Micro-enterprise:

To satisfy makers' leadership needs and nurture talents in a perspective manner, in 2016, a training camp was organized to provide different modes of training, including experiential class, tutorial, social learning, optional courses and tailor-made evaluation, facilitating the rapid development of makers.

Each of the aforesaid training modes of this camp was implemented more than 10 times with 42 outstanding maker participants. The training content was in conformity with the actual operation of micro-enterprise and covered topics such as business model, communication impact and managing change. Performance of most of the maker employees was enhanced through this training camp.

The management of Haier Electronics highly valued the importance of such kind of training. Mr. Zhou Yun Jie, the Chairman, visited the camp times and again, spoke to the trainees and gifted outstanding trainees free books as an encouragement.

Mr. Zhou Yun Jie, the Chairman, visited the camp and provided training guidance

Photos taken during the training camp

STAFF MOTIVATION AND CARE (continued)

I. A Catalyst for Realizing Employee's Value – Diversified Talent Cultivation System (continued)

2. Continuing Educational Training

Haier Electronics sends its senior management members to various universities for continuing education twice a year. As of 2016, it has send more than 30 senior management members to attend a variety of continuing educational training courses covering management studies and finance.

3. Case Study

In order to establish interactive learning among maker employees and to set role model, Haier Electronics organized interactive seminars every week to conduct case study.

II. Open Talent System and Ecosystem Establishment

2.1 Open Talent System: Treasuring Talents and Promoting Value Sharing

Haier Electronics attracted first-class entrepreneurial resources and maker resources and hence allow all entrants to fully realize their own value. Such are achieved by establishing the trilateral aggregation of entrepreneurial businesses, resource parties and talents, under an interactive and open talent recruitment platform.

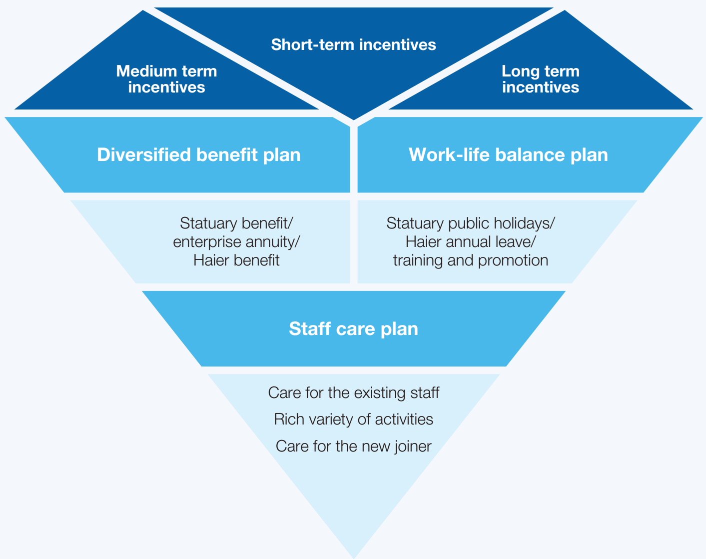
2.2 Construction of an Ecosystem of Trust: Campus Maker Ecosystem

Revolving around the theme of "mass start-ups, innovations by all people", Haier Electronics has built up an open platform, to attract ambitious makers on campus to join. In June 2016, the first "Goodaymart Logistics Maker Training Camp" was launched, reaching 12 universities and attracting more than 1,000 university students who joined in a passionate discussion regarding the theme of "innovation, entrepreneurship and future dream fulfillment" and was highly welcomed by campus makers.

STAFF MOTIVATION AND CARE (continued)

III. Motivated Remuneration and Benefit System

Haier Electronics is committed to providing a comprehensive incentive system which aligns the value created by maker employees. This system is a highly competitive remuneration system which offers short-term, medium-term and long-term incentives, a diversified benefit plan, work-life balance plan and maker employee caring plan featuring Haier's culture. It encouraged all maker employees, regardless of their seniority to incorporate their own individual development into the corporate's long-term development, so as to create a win-win situation in which both Haier Electronics and maker employees achieve healthy development and improvement.



3.1 Competitive Remuneration System

Under the motivated remuneration system, Haier Electronics provided a diversified remuneration system which offers short-term, medium-term, and long-term and super incentives based on the value created by the maker employees, in order to motivate maker employees in realizing their entrepreneurial dreams.

3.2 Diversified Benefits

Haier Electronics offers not only five statutory benefit schemes covering insurance and housing fund, but also supplemental benefits such as enterprise annuity, and additional medical insurance. It also provides its employees with Haier's exclusive benefits including entrepreneur anniversary bonus (創業紀念日獎勵), Spring Festival gifts, birthday gifts, lunch allowance, body check and protective clothing etc.

STAFF MOTIVATION AND CARE (continued)

III. Motivated Remuneration and Benefit System (continued)

3.3 Best Employer Awards

In 2016 Haier Group was awarded "Top 100 Employers in China", "Reformative and Outstanding Employer Award", "Talent Development Outstanding Enterprises Awards" and "Outstanding Enterprise University 2016" by China Human Resource Development Association, and "Best Practices Award 2016" by School of Business of Renmin University of China.

IV. Put Great Emphasis on Staff Care and Safeguard Staff's Rights

In strict compliance with the relevant requirements under labour laws of China, Hong Kong and other applicable jurisdictions, Haier Electronics prohibits child labour or forced labour. During the recruitment process, Haier Electronics absolutely prohibited child labour. Haier Electronics provides various kinds of holidays to its maker employees such as paid annual leave and Haier annual leave on top of statutory holidays, in order to ensure work-life balance of maker employees. Forced labour is strictly prohibited for not prejudicing the interests of maker employees.

By treating every maker employee equally, Haier Electronics has established a team of energetic and committed staff in 2016, laying a sturdy foundation for the sustainable development of the Group.

STAFF MOTIVATION AND CARE (continued)

IV. Put Great Emphasis on Staff Care and Safeguard Staff's Rights (continued)

4.1 Rich Variety of Activities for Maker Employees:

Haier Electronics provides its maker employees with a rich variety of activities to show care for new and existing maker employees. It also provides assistance to its maker employees who are in difficulties, with a view to ensuring a happy and harmonious working environment.

During 2016, Haier Electronics held a diversity of team building activities, such as badminton association and outward bound training, to boost maker employees' morale and build up team spirit; 3.8 International Women's Day activities, such as regimen talk and dart game, to care for physical and mental health of its female maker employees; and 6.1 International Children's Day activities for its maker employees and their kids to spend a memorable family day. It also granted "10-year Gold Award" to all employees who have served the Company for ten years.

4.2 Listen and Care with a Warm Heart:

To promote harmonious labour relations and to listen to its maker employees, Haier Electronics established an open, clear and constructive communication platform. In order to listen to maker employees and receive suggestions, the labour union convened seminars to meet with labour representatives regularly and took up reasonable suggestions. In 2016, Haier Electronics adopted 118 reasonable suggestions from its maker employees involving various aspects such as improvement on accommodation, staff training and activities, in order to effectively safeguard its maker employees' benefits. Haier Electronics has been making a concerted effort to bring warmth to its maker employees through staff care activities by way of promptly receiving information about, showing care and conducting visits to maker employees who are in difficulties, sickness, and maternity or based overseas.

HEALTH AND SAFETY

Haier Electronics is committed to providing a safe and healthy working environment for all employees. We sought to execute safety culture construction and create a safety culture atmosphere in which every employee upholds the concept of 6S interaction platform at all times for all purposes. In 2016, there were no fatal accidents involving employees or contractors of Haier Electronics or significant property damage, fire or non-compliance incidents at its operating locations.

1. Exchange of safety information

Since 2002, Haier Group, of which Haier Electronics is a major subsidiary, has conducted certification audit of OHS18001 occupational safety and health management system every year. In 2016, all production bases of Haier Electronics obtained the OHS18001 certification.

Haier Electronics placed great emphasis on the construction of safety exchange platform, which currently possesses HSE&6S interaction platform (PC terminal) and HSE&6S WeChat interaction circle (mobile terminal). With the WeChat official account "safety micro-encyclopedia"(《安全微百科》), it realized the exchange of safety information and learning as well as interaction of safety knowledge. Haier Electronics has a diversified safety monitoring network, adopting different measures such as safe production monitoring mailbox, reporting hotline, reporting mailbox, WeChat platform, reporting rewards. Through the above measures it strictly monitors violation of laws and regulation in operation and fully utilized the monitoring effect of employees.

2. Safe production technology

Haier Electronics adopted HES6S cloud platform to manage safety controlling factors, realizing numerous functions such as mobile terminal spot check, data enquiry, exchange and analysis, daily settlement record, potential danger investigation and imaging forensics. It exercised control over occupational safety and health for all equipment at all locations in all regions and realized real-time data update and system automatic warning.

3. Safe production environment

Haier Electronics regularly conducts site safety inspection for its operating environment every year, and provides its employees with working environments and conditions fulfilling the national occupational health standards and hygienic standards. For example, logistics warehouses are required to be equipped with ventilation and fire facilities in accordance with the relevant standards so as to ensure employees' safety.

HEALTH AND SAFETY (continued)

3. Safe production environment (continued)

We created occupational health monitoring files for employees who are in contact with hazardous materials, and provided them with body checks before, during and after employment. Monthly occupational health training is also provided to employees.

For the operation of production facilities, persons in charge from the security department and equipment departments conduct safety and improper operation inspections on the facilities within their respective zones every day. Uses of equipment which does not meet safety standards are prohibited. Employees are required to properly wear protective clothings. For example, in areas of dust leakage, employees are required to wear convenient dust proof masks with high filtration capacity and with low breathing resistance, and with periodic replacement.

4. Employees' safety training

To ensure its employees possess sufficient occupational health and safety knowledge and are familiar with emergency measures, Haier Electronics provides occupational health and safety training for all employees in relevant operations. They are required to pass examination and assessment after training before taking up the position. For operations of special tasks and special equipment, the operating personnel are required to possess relevant qualification before taking up the positions.

5. Fire drill

Haier Electronics organizes 'safety month' activity so as to provide fire safety knowledge for its employees. By regularly conducting fire drill activities for different industrial parks, and formulating specific fire extinguishing and emergency evacuation plans, employees' awareness of fire safety and response skills is enhanced.




SUPPLY CHAIN MANAGEMENT

Through participating in a resource exchange tender project on an open platform for global home appliance suppliers to closely connect and interact with users, Haier Electronics obtained first-rate modularized solutions and swiftly allocated resources to meet the personalized demands from users.

All of the parts and components used in the course of production have been sourced from international sub-suppliers across more than 60 countries. Partners in the collaboration over the research and development of new materials and new technologies included more than 300 international enterprises, such as General Electric, Emerson and Baosteel.

A more refined system for managing suppliers has been in place. When it comes to purchasing products or services of the same or similar efficiency, Haier Electronics would give preference to high-quality products or services that are outstanding in environmental friendliness or in the use of renewable resources. Haier Electronics regularly communicated and interacted with its suppliers. Before engaging a supplier, it is necessary for Haier Electronics to conduct inspection on the supplier and sign an undertaking in relation to green and environmental protection prior to cooperation. Supply chain management conferences have been convened every month to review and monitor the purchasing process, in order to ensure whether such process was conducted in accordance with the rules set out in Haier's own *Supply Chain Management Procedures* (《供應鏈管理程序》).

The cooperation with suppliers and application of new technologies have been commenced to enhance the energy-saving and emission-cutting features of existing products or to launch new products capable of substituting for those that are causing environmental pollution. Strategic cooperation relationships have been forged with suppliers while the resources of international-leading suppliers have been integrated. Cutting-edge environmental technologies pioneering the industry in terms of low carbon emission levels, energy saving and noise reduction have been rolled out.

PRODUCT RESPONSIBILITY

With its user-oriented approach, Haier Electronics always provides users with safe, high-quality and innovative products that constantly revolutionise the industry, meeting the needs of people and staying committed to making a better life.

During the reporting year, Haier Electronics, as a brand leader of products manufactured in China, presented China's home appliances with innovative technology at the Lean and Six Sigma Quality Conference (歐洲六西格瑪領域質量大會) held in Europe. The Six Sigma pursues "zero defects" as its objective. In order to reach the Six Sigma standard, an enterprise has to make sure that the defect rate of its products does not exceed 3.4ppm. The quality of our products, which have been benchmarked against user satisfaction, has long since exceeded the Six Sigma standard.

Haier Electronics prioritize user safety. The safety of everyone in a family directly hinges on the safety of the circuits of a washing machine. Compared with the other companies of the same industry, Haier has put in an additional RMB700 million just to ensure the safety of the circuits of its washing machines. When users of our washing machines operate the dashboard and put their hands in the water, they can be sure that they are 100% safe from electric shocks.

PRODUCT RESPONSIBILITY (continued)

In manufacturing its products, Haier Electronics has firmly adhered to the use of high-quality raw materials with RoHS certification, being the mandatory certification in respect of environmental protection imposed on home appliances by the European Union. Haier's washing machines are the only series of products in China that have earned the RoHS certification for all of its washing machines. The most ordinary double-drum washing machines have also met the RoHS standards, even when this means using raw materials with RoHS certification would drive up production costs by more than 20% when compared to using average raw materials.

Consistently implementing the innovative idea of "The Entire World as My R&D Department", Haier Electronics has 10 major research and development centres across the globe, including those in the United States, Europe, Japan, Australia and China, and coordinates operations with a plenty of core and first-rate institutes. Haier Electronics also boasts top-tier hardware research and development capabilities by global standards with its top-notch product testing and user experience centre that occupies an area of more than 20,000 square metres.

With its user-oriented approach, Haier Electronics offers innovative products that revolutionise the industry, and satisfy the cravings and the needs of people. In addition to the demand for high-volume washing solutions in their daily life, users are also looking for a quiet washing environment. Apart from a huge washing capacity of 12 Kg, Haier's washing machines also meet the need of its users for a quiet environment by offering washing machines that function in such a smooth and calm manner that it is even possible to balance a coin on top of a washing machine in use.

Haier Electronics focuses on making life ever easier for people by providing them with products that enhance their quality of life. With its unique and patented water inflow technology and complemented by the triple sterilization technology, Haier's purified water electric heaters prevent stagnant water from being generated by effectively ensuring that 97% of the water in the heaters is constantly flowing. The complementary triple sterilization technology makes sure clean and healthy water is available for the users to take a shower by eliminating 99% of the bacteria in the water through killing and resisting the bacteria under ultra-high temperature, and inhibiting the bacteria with materials.

Respect for Intellectual Property

Haier Electronics was among the first companies in China to set up a specialized department to manage intellectual property. The intellectual property strategy of the Group is centered on safeguarding the global market freedom of Haier Electronics, accumulating core intellectual property assets and building up an intellectual property system enabling the Group to take part in global competition. The intellectual property department of Haier Electronics has a senior management team that includes 15 qualified patent lawyers, a cutting-edge patent database and searching tool (Thomson Innovation) by global standards and an operation and maintenance management system for intellectual property assets. The Group has formulated and implemented a set of trademark and brand management standards, an incentive and reward mechanism for inventors of patents, and a system and a process for intellectual property asset management. In addition to regulating the key intellectual property assets such as patents and trademarks throughout the whole process, Haier Electronics also protected the management and cultural assets of the Company by copyrights and trademarks, enriching the wealth in terms of intellectual property assets owned by the Company.

ANTI-FRAUD/ANTI-CORRUPTION

Haier Electronics has been in strict compliance with the national laws and regulations in relation to bribery, fraud, extortion and money laundering, and has put in place a range of fundamental systems and safeguards as the Group's anti-corruption/anti-fraud initiatives, such as formulating the *Code of Conduct for Staff* (《員工行為規範》) and the *Anti-Fraud Initiatives Manual* (《反舞弊工作章程》). Strict compliance with all the aforementioned laws, regulations and policies is required for all departments and individuals. Haier Electronics has set up an anti-fraud platform as a permanent organization for Haier Electronics to launch its anti-corruption/anti-fraud initiatives. A management system and a staff training mechanism dedicated to anti-fraud initiatives have been put in place to take precautions against risks, cope with risks in the event of fraud, followed by subsequent risk management and monitoring. Haier Electronics has a "zero tolerance" policy towards any form of fraud.

Haier Electronics has set up an open, secure and confidential reporting platform, including a compliance hotline and a reporting mailbox, for reporting fraud online, publicized the platform on the Group's relevant websites and expressly provided for the platform in the contracts with suppliers, service providers and customers. By doing so, Haier Electronics has helped to create a sound business environment of integrity, reduce the loss arising from non-compliance activities, and safeguard the reputation of Haier Electronics. The Company has launched a wide range of anti-fraud awareness campaigns and learning activities with a focus on prevention, and regularly organized learning sessions and tests on the Company's website for the entire staff.

Haier Electronics has contributed to a business environment of integrity by establishing an anti-fraud/anti-corruption prevention and control system both internally and externally. During the reporting year, Haier Electronics was not aware of any significant breach of the relevant anti-fraud/anti-corruption laws and regulations.

SOCIAL AND PUBLIC WELFARE

Haier Electronics believes that a great society forms the basis for building great businesses. Since its set up, the Group has assumed the social responsibility and put effort onto the social and public welfare as a feed back to the society. Haier Electronics has actively contributed to the efforts in such areas as poverty relief, disaster relief and donations. The Group sees education as the foundation for maintaining the long-term, rapid and stable development of China and elevating the quality of Chinese citizens. To this end, Haier Electronics actively took part in the construction of more than 200 Hope Schools with a view to improving the teaching conditions of poverty-stricken regions.

Haier Electronics believes the key to enhancements in the industry lies in outstanding industry talents, who will bring to the table new directions in which the industry could develop. By joining hands with colleges and universities, and integrating their resources, the logistics businesses under the Group have provided students who take an interest in setting up their own business with the opportunity to talk to brilliant entrepreneurs in a smart logistics business and to get an idea of what it is like to start and run a business on the ground. Students also got to identify the underlying problems in a business and in the industry, integrate the resources of colleges and universities and put forward specific solutions through various exercises, such as conducting market investigations and end-point research. Such a positive cycle supplies the industry with more and more talents, hence constantly refining the entire ecosystem of the logistics industry.

Haier Electronics advocates the idea of green and low-carbon living. With the deteriorating natural environment and ever dwindling time for leisure, a healthy body and the company of family are becoming increasingly precious. To this end, the Group encourages more staff members and their family to join the running group the Group has established, as a way of prompting them to reflect on and return to family values and the idea of green and low-carbon living.

Report of the Directors

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

During the year, the Group's subsidiaries continued to be engaged in the manufacture and sale of washing machines and water heaters, sale and distribution of home appliances and other products as well as provision of after-sale services and other value-added consumer services, and provision of logistics services. There were no significant changes in the nature of the Group's principal activities during the year. Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties faced by the Group and an indication of the Group's likely future developments, can be found in the Chairman's letter and Business Review and Financial Review set out on pages 8 to 13 and 22 to 39 of this Annual Report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2016 and the Group's financial position at that date are set out in the financial statements on pages 103 to 215.

The directors of the Company recommend the payment of a final dividend for the year ended 31 December 2016 of HK 17 cents per share (2015: HK12 cents per share).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 216. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE AND EXCHANGEABLE BONDS

Details of movements in the Company's share capital, share options and convertible and exchangeable bonds during the year are set out in notes 37, 39 and 34 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

Month	Number of shares repurchased	Price per share Highest HK$	Price per share Lowest HK$	Total price paid HK$'000
February 2016	1,148,000	11.30	10.86	12,775
September 2016	394,000	12.98	12.70	5,108
October 2016	650,000	13.18	12.62	8,370
	2,192,000			26,253

The issued capital of the Company was reduced by the par value thereof. The premium paid on the purchase of the Company's shares of HK$26,034,000 (2015: HK$8,289,000) has been charged to the share premium account of the Company. An amount equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve. The purchase of the Company's shares during the year was effected by the directors, pursuant to the mandate from shareholders received at the last annual general meeting.

Saved as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2016.

RESERVES

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

DISTRIBUTABLE RESERVES

At 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to RMB1,784,713,000, of which HK$474,653,000 (equivalent to RMB425,248,000) has been proposed as a final dividend for the year. In addition, the amount of RMB2,322,030,000 included in the Company's share premium account may be capitalised and distributed to members in the form of fully paid bonus shares.

ENVIRONMENTAL POLICIES AND PERFORMANCE, AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognizes the importance of environmental sustainability against modern ecological challenges. Thus, the Group has introduced the environmental protection concept and elements into the various aspects of operations. Strategy of "Green Development" has been adhered to production process, product designs, daily operations and material usages etc.

The Group has regularly reviewed its environmental objectives, environmental achievements, material flow analysis and initiatives to reduce emissions and conserve energy thereby establishing a corporate image of green development and eagerness to fulfil its social responsibility.

During the year, the Group has complied with the relevant laws and regulations that have a significant impact on the operations of the Group, such as those on the manufacturing process and product specification and designs.

Further discussion of these activities can be found in the Environmental, Social and Governance Report set out on pages 58 to 80 of this Annual Report.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 85% of the total purchases for the year and purchases from the largest supplier included therein amounted to 48%.

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

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

DIRECTORS

The directors of the Company during the year were:

Executive director:
Mr. Zhou Yun Jie

Non-executive directors:
Mr. Liang Hai Shan
Ms. Tan Li Xia
Dr. Wang Han Hua
Mr. Zhang Yong

Independent non-executive directors:
Mr. Yu Hon To, David
Mrs. Eva Cheng Li Kam Fun
Ms.Tsou Kai-Lien, Rose

Alternate directors:
Mr. Li Hua Gang *(alternate Director to Mr. Liang Hai Shan)*

In accordance with the Bye-Laws of the Company, Ms. Tan Li Xia, Mr. Zhang Yong and Ms.Tsou Kai-Lien, Rose are subject to retirement by rotation at the forthcoming annual general meeting of the Company ("AGM"). All these directors are eligible for re-election at the AGM.

The independent non-executive directors of the Company are not appointed for any specific terms and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-Laws of the Company.

The Company has received an annual confirmation of independence from each of Mr. Yu Hon To, David, Mrs. Eva Cheng Li Kam Fun and Ms. Tsou Kai-Lien, Rose, and, as at the date of this report still considers them to be independent on the basis of such confirmations.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 19 of the annual report.

CHANGES OF INFORMATION OF DIRECTORS

Below are the changes of directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange ("Listing Rules") since the interim report:

Up to the balance sheet date, Mr. Yu Hon To, David has resigned as an independent non-executive Director of Bracell Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 1768);

Mr. Zhou Yun Jie has resigned as a director of Qingdao Goodaymart Supply Chains Co., Ltd., a subsidiary of the Company.

Subsequent to the balance sheet date, Mr. Zhou Yun Jie has resigned as a director of Haier Holdings (BVI) Ltd., and Qingdao Haier Investment and Development Holdings (BVI) Limited, subsidiaries of the Company;

DIRECTORS' SERVICE CONTRACTS

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

PERMITTED INDEMNITY

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors is interested in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2016, the interests and short positions of the directors in the share capital and underlying shares ("Share(s)") of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in shares of the Company:

Name	Number of Shares directly (personal) beneficially owned	Approximate % of issued Shares
Mr. Zhou Yun Jie	6,102,000	0.22
Mr. Yu Hon To, David	360,000	0.01
Mr. Li Hua Gang	230,000	0.01

Apart from above, Mr. Zhou Yun Jie and Mr. Li Hua Gang are also the grantees of 1,220,000 and 44,000 restricted shares of the Company, respectively, in accordance with the Company's Restricted Share Award Scheme under its Directors' Trust comprising Shares purchased from the stock Market.

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

Long positions in underlying Shares of the Company pursuant to share options:

Name	Date of grant of share options	Number of share options granted and not yet exercised	Approximate % of Issued shares upon exercise of share options
Mr. Zhou Yun Jie	15/04/2014	900,000*	0.03
	11/09/2015	1,760,000***	0.06
		2,660,000	
Mrs. Eva Cheng Li Kam Fun	26/06/2013	500,000**	0.02
	11/09/2015	200,000***	0.01
		700,000	
Dr. Wang Han Hua	26/06/2013	450,000**	0.02
	11/09/2015	150,000***	0.01
		600,000	
Mr. Li Hua Gang	15/04/2014	68,000*	0.002
	11/09/2015	270,000***	0.01
		338,000	
Mr. Yu Hon To, David	11/09/2015	220,000***	0.01
Ms.Tsou Kai-Lien, Rose	11/09/2015	150,000***	0.01

Notes:

* The exercise price of each of the above share options is HK$19.37 for subscription of one Share. The exercisable period is from 15 April 2015 to 14 April 2017.

** The exercise price of each of the above share options is HK$12.16 for subscription of one Share. The exercisable period is from 26 June 2014 to 25 June 2017.

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

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

Long positions in shares and underlying shares of Qingdao Haier Co., Ltd ("Qingdao Haier"), the Company's shareholder:

Name	Number of shares held	Approximate % of total registered share capital	Capacity and interest
Mr. Liang Hai Shan	10,079,840	0.17	Directly (personal) beneficially owned
Ms. Tan Li Xia	4,613,360	0.08	Directly (personal) beneficially owned
Mr. Zhou Yun Jie	196,596	0.0032	Directly (personal) beneficially owned

Save as disclosed above, as at 31 December 2016, none of the directors and chief executive officer had any interests or short positions in the shares or underlying shares of the Company or its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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

Share option scheme

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and reward to eligible participants who contribute to the success of the Group's operations. Further details of the Share Option Scheme are disclosed in note 39 to the financial statements.

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

Share option scheme (continued)

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

	Number of share options								
Name or category of participants	At 1 January 2016	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 2016	Date of grant of share options (note 1)	Exercise period of share options	Exercise price of share options (note 2) per share HK$
Executive director									
Mr. Zhou Yun Jie	2,250,000	–	–	1,350,000	–	900,000	15/04/2014	15/04/2015–14/04/2017	19.37
	1,760,000	–	–	–	–	1,760,000	11/09/2015	10/05/2016–10/05/2020	12.84
	4,010,000	–	–	1,350,000	–	2,660,000			
Independent Non-executive directors									
Mr. Yu Hon To, David	220,000	–	–	–	–	220,000	11/09/2015	10/05/2016–10/05/2020	12.84
Mrs. Eva Cheng Li Kam Fun	500,000	–	–	–	–	500,000	26/06/2013	26/06/2014–25/06/2017	12.16
	200,000	–	–	–	–	200,000	11/09/2015	10/05/2016–10/05/2020	12.84
	700,000					700,000			
Ms.Tsou Kai-Lien, Rose	150,000	–	–	–	–	150,000	11/09/2015	10/05/2016–10/05/2020	12.84
	1,070,000	–	–	–	–	1,070,000			
Non-executive directors									
Dr. Wang Han Hua	450,000	–	–	–	–	450,000	26/06/2013	26/06/2014–25/06/2017	12.16
	150,000	–	–	–	–	150,000	11/09/2015	10/05/2016–10/05/2020	12.84
	600,000	–	–	–	–	600,000			
Alternate director									
Mr. Li Hua Gang	170,000	–	–	102,000	–	68,000	15/04/2014	15/04/2015–14/04/2017	19.37
	270,000	–	–	–	–	270,000	11/09/2015	10/05/2016–10/05/2020	12.84
	440,000	–	–	102,000	–	338,000			
Other employees									
In aggregate	20,378,800	–	–	12,690,000	–	7,688,800	15/04/2014	15/04/2015–14/04/2017	19.37
In aggregate	24,850,000	–	–	1,064,000	4,840,000	18,946,000	11/09/2015	10/05/2016–10/05/2020	12.84
	45,228,800	–	–	13,754,000	4,840,000	26,634,800			
	51,348,800	–	–	15,206,000	4,840,000	31,302,800			

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

Share option scheme (continued)

Notes:

1. For share options granted on 26 June 2013, 30%, 30% and 40% of the total share options granted were to be vested on vesting dates of 26 June 2014, 26 June 2015 and 26 June 2016, respectively. For share options granted on 15 April 2014, 40% and 60% of the total share options granted were to be vested on vesting dates of 15 April 2015 and 15 April 2016, respectively. For share options granted on 11 September 2015, 40% and 60% of the total share options granted were to be vested on vesting dates of 10 May 2016 and 10 May 2017, respectively. The vesting period of the share options is from the date of grant until the respective vesting dates.

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

3. The total share options that could be granted under the then available scheme mandate limit as at 31 December 2016 were in respect of 153,890,890 Shares which represented 5.5% of the issued shares of the Company as at 31 December 2016.

As at 31 December 2016, the Company had 31,302,800 share options outstanding under the Share Option Scheme. Should the share options be fully exercised, the Company will receive approximately HK$457,811,000 (before issue expenses). The fair value of these unexercised options measured in accordance with the Group's accounting policy (note 2.4 to the financial statements) amounted to HK$129,780,000.

Restricted shares award scheme

The Company also operate a restricted shares award scheme for optimising the remuneration structure. Further details of this scheme are disclosed in note 38 to the financial statements.

The following table discloses movements in the directors' restricted shares under the Company's restricted share award scheme during the year:

		Number of awarded shares						
Name of participants	At 1 January 2016	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2016	Date of grant of awarded shares	Exercise period of awarded shares	Exercise price of awarded shares per share HK$
Executive director								
Mr. Zhou Yun Jie	2,250,000	–	–	2,190,000	60,000	15/04/2014	15/04/2015–14/04/2018	9.685
	–	840,000	840,000		–	08/07/2016	08/07/2016–07/07/2020	6.42
	–	1,160,000	–	–	1,160,000	17/10/2016	01/07/2017–01/07/2018	–
	2,250,000	2,000,000	840,000	2,190,000	1,220,000			
Alternate director								
Mr. Li Hua Gang	110,000	–	–	110,000	–	15/04/2014	15/04/2015–14/04/2018	9.685
	–	44,000	–	–	44,000	08/07/2016	08/07/2016–07/07/2020	6.42
	110,000	44,000	–	110,000	44,000			

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

CONTRACT OF SIGNIFICANCE

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

EQUITY-LINKED AGREEMENT

The Company has not engaged in any equity-linked agreement during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2016, the following shareholders who have interest in 5% or more of the issued share capital and share options of the Company were recorded in the register of substantial shareholders as required to be kept by the Company pursuant to section 336 of the SFO:

Long positions:

Name of shareholders	Notes	Number of shares interested	Approximate percentage of the Company's issued share capital
Haier Corp	1, 2	1,562,182,592	55.95
Qingdao Haier	2	1,562,182,592	55.95
Haier Shareholdings (Hong Kong) Limited ("Hong Kong Haier")	2	831,762,110	29.79
HCH (HK) Investment Management Co., Limited ("HCH (HK)").	1, 2	336,600,000	12.06
JP Morgan Chase & Co.		140,220,185	5.02

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

Short positions:

Name of shareholders	Number of shares interested	Approximate percentage of the Company's issued share capital
JP Morgan Chase & Co.	2,752,000	0.10

Lending pool:

Name of shareholders	Number of shares interested	Approximate percentage of the Company's issued share capital
JP Morgan Chase & Co.	128,005,207	4.58

Notes:

1. As Qingdao Haier is a non wholly-owned subsidiary of Haier Corp, Haier Corp was deemed to be interested in 1,224,439,592 Shares held by Qingdao Haier pursuant to the SFO.

   Haier Corp was also deemed to be interested in 336,600,000 Shares held by its subsidiary, HCH (HK), and in 1,143,000 Shares held by its another associate.

   Mr. Zhou Yun Jie, executive director of the Company, Mr. Liang Hai Shan and Ms. Tan Li Xia, non-executive directors of the Company, are also the members of the management committee of Haier Corp.

2. Qingdao Haier held 392,677,482 Shares as beneficial owner. Moreover, Qingdao Haier was deemed to be interested in 831,762,110 Shares held by its wholly-owned subsidiary, Hong Kong Haier, pursuant to the SFO.

   Furthermore, HCH (HK) and its another associate have appointed Qingdao Haier to exercise voting in respect of their holding of 336,600,000 Shares and 1,143,000 Shares, respectively.

Save as disclosed above, as at 31 December 2016, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

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

Continuing connected transactions

During the year, the Group had the following material transactions with Haier Affiliates:

	Notes	Cap Amounts 2016 RMB'000	Transaction Amounts 2016 RMB'000	2015 RMB'000
Export sale of products	(i)		**1,417,915**	1,267,002
Export sale expenses	(i)		**(21,277)**	(12,654)
Export sale of products, net	(i)	**1,868,000**	**1,396,638**	1,254,348
Domestic sale of products	(ii)	**565,000**	**44,371**	103,287
Purchase of finished goods	(iii)	**48,120,000**	**29,930,623**	31,560,882
Purchase of equipment	(iv)	**194,000**	**92,618**	72,185
Purchase of raw materials	(v)		**13,672,749**	12,379,566
Printing and packaging fees	(vi)		**14,950**	10,274
Mould charges	(vii)		**163,234**	189,461
		17,500,000	**13,850,933**	12,579,301
Utility service fee expenses	(viii)		**103,902**	114,980
Other service fee expenses	(ix)		**373,433**	456,053
		532,000	**477,335**	571,033
Promotion fee	(x)	**60,000**	**–**	–
Research and development service fees	(xi)	**319,000**	**193,716**	177,024
Interest income	(xii)		**6,638**	6,862
Interest expenses	(xii)		**954**	2,154
Other financial service fees	(xiii)		**12,766**	12,878
Logistics service income	(xiv)	**2,362,000**	**2,081,505**	1,841,190
After-sale service income	(xv)	**310,000**	**205,028**	217,239

CONNECTED TRANSACTIONS (continued)

Continuing connected transactions (continued)

Notes:

(i) The export sale of products were made at prices representing the selling prices of these products for export less a fixed service fee margin for the selling expenses of Haier Overseas Electric Appliances Co., Ltd. which are 1.5% of the selling prices of products.

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

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

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

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

(vi) The printing and packaging fees were charged on terms no less favorable than those offered by independent third parties.

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

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

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

(x) The promotion fee was charged based on the actual costs incurred and shall not be more than 0.6% of the domestic and export sales of the products of the Group.

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

(xii) The interest income and expenses were determined with reference to the standard rates published by the People's Bank of China, and on terms no less favourable than those of the best offered by other listed and national/major independent commercial banks. The maximum balance of bank deposits placed with and the maximum loan balance drawn down from Haier Group Finance Co., Ltd. related to the above interest income and expenses during the year were RMB1,349,882,000 and RMB20,000,000 respectively.

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

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

(xv) The after-sale service income was charged on terms no less favorable than those prevailing in the domestic market for services of similar nature and scale.

CONNECTED TRANSACTIONS (continued)

Continuing connected transactions (continued)

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into:

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

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

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

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

Ernst & Young, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter will be provided by the Company to the Hong Kong Stock Exchange in April 2017.

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

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

AUDITORS

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

On behalf of the Board

Zhou Yun Jie
Chairman

Hong Kong
22 March 2017

EY 安永

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

OPINION

We have audited the consolidated financial statements of Haier Electronics Group Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 103 to 215, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
The management performs impairment test annually for goodwill. This requires an estimation of the net recoverable amount of the cash-generating unit (the "CGU") to which the goodwill was allocated. The calculation of the CGU's net recoverable amount is complex and involves significant management judgements and estimates, such as forecasted cash flows, revenue growth rates and discount rates, which were sensitive to the expected future market conditions and the CGU's actual performance. Relevant disclosures are included in notes 3 and 17 to the financial statements.	Our audit procedures included the assessment of key assumptions, including those related to revenue growth rates and discount rates which were assessed by our internal valuation specialists by benchmarking against independent data from the industry index. We compared the forecasted figures with the historical financial performance of the corresponding CGU.
Recoverability of trade receivables	
Trade receivables as at 31 December 2016 were material to the financial statements of the Group. When determining whether a trade receivable is collectable, significant management judgements are involved, including the ageing of the balance, existence of disputes, recent historical payment patterns and other available information concerning the creditworthiness of the customer. Relevant disclosures are included in notes 3 and 23 to the financial statements.	Our audit procedures included the assessment of the design and testing of the operating effectiveness of the Group's controls over trade receivables. We assessed the recoverability of trade receivables by obtaining direct external confirmations for trade receivable balances and/or reviewing the corresponding sales invoices and good delivery documents on a sample basis, reviewing the debtors' ageing reports, performing analysis on debtors' turnover days, and reviewing subsequent settlements of trade receivable balances.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for inventories	
As at 31 December 2016, the Group's inventories were exposed to inventory obsolete and excess risks as a result of the fast technology innovation and macroeconomic challenges. The determination of the provision amount is complex and involves significant judgements and estimates because it depends on the net realisable value of inventories. Relevant disclosures are included in notes 3, 6, and 22 to the financial statements.	Our audit procedures included the evaluation of the inventory provisioning policy through inquiry with the management and checking to the relevant assessment documentation. We checked to the underlying data, such as the selling prices, subsequent sales, and the estimated selling expenses to assess the net realisable value of inventories on a sample basis. We reviewed the inventories' ageing reports and performed analysis on inventories' turnover days. We reviewed subsequent sales of finished goods and subsequent usage of raw materials.
Product warranty and installation provisions	
Product warranty and installation provisions are made with reference to the sales volume and the expected unit costs for warranties and installation services. The assessment of the provision amount involves management assumptions, judgements and estimates. Changes in the assumptions could have a significant impact on the provision amount. Relevant disclosures are included in notes 3 and 35 to the financial statements.	Our audit procedures included the review of the provision estimation process, the examination of the underlying data of the provision estimation process as well as the review of the computation of the provision amount based on the management's methodology at year end.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22 March 2017

Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**63,854,877**	62,826,119
Cost of sales		**(52,782,910)**	(52,833,427)
Gross profit		**11,071,967**	9,992,692
Other income and gains	5	**678,739**	802,727
Selling and distribution expenses		**(6,091,216)**	(5,348,277)
Administrative expenses		**(2,032,317)**	(1,972,653)
Other expenses and losses		**(62,618)**	(71,692)
Finance costs	7	**(43,022)**	(70,525)
Share of profits and losses of associates		**(27,323)**	11,714
PROFIT BEFORE TAX	6	**3,494,210**	3,343,986
Income tax expense	10	**(683,575)**	(609,489)
PROFIT FOR THE YEAR		**2,810,635**	2,734,497
Attributable to:			
Owners of the Company		**2,786,219**	2,702,996
Non-controlling interests		**24,416**	31,501
		2,810,635	2,734,497
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic		**RMB100.20 cents**	RMB98.12 cents
Diluted		**RMB98.92 cents**	RMB96.82 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR	**2,810,635**	2,734,497
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**39,721**	29,671
Reclassification adjustments for a foreign operation liquidated during the year	**5,267**	–
	44,988	29,671
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**44,988**	29,671
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,855,623**	2,764,168
Attributable to:		
Owners of the Company	**2,831,207**	2,732,667
Non-controlling interests	**24,416**	31,501
	2,855,623	2,764,168

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**3,275,577**	3,107,653
Investment properties	15	**33,142**	11,147
Prepaid land lease payments	16	**1,030,566**	834,982
Goodwill	17	**392,485**	392,485
Other intangible assets	18	**131,156**	138,872
Investments in associates	19	**299,309**	320,148
Available-for-sale investments	20	**1,401,396**	1,290,889
Long-term prepayments		**338,189**	214,704
Deferred tax assets	36	**712,295**	621,480
Other non-current assets	21	**37,515**	77,345
Total non-current assets		**7,651,630**	7,009,705
CURRENT ASSETS			
Inventories	22	**5,183,399**	4,399,479
Trade and bills receivables	23	**5,699,335**	4,971,124
Prepayments, deposits and other receivables	24	**4,486,618**	3,363,463
Due from a fellow subsidiary		**–**	27,000
Other financial assets	25	**460,449**	250,078
Pledged deposits	26	**71,272**	31,989
Cash and cash equivalents	26	**12,596,271**	10,244,492
Total current assets		**28,497,344**	23,287,625
CURRENT LIABILITIES			
Trade and bills payables	27	**4,583,217**	4,089,689
Other payables and accruals	28	**10,224,829**	7,644,594
Interest-bearing borrowings	29	**73,000**	86,400
Finance lease payables	30	**9,338**	10,877
Due to a non-controlling shareholder	31	**27,883**	26,083
Tax payable		**613,045**	561,730
Provisions	35	**545,717**	520,309
Put option liabilities	32	**15,700**	51,621
Share-based payment liabilities	33	**–**	10,400
Convertible and exchangeable bonds	34	**1,223,220**	–
Total current liabilities		**17,315,949**	13,001,703
NET CURRENT ASSETS		**11,181,395**	10,285,922
TOTAL ASSETS LESS CURRENT LIABILITIES		**18,833,025**	17,295,627

	Notes	2016 RMB'000	2015 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**18,833,025**	17,295,627
NON-CURRENT LIABILITIES			
Convertible and exchangeable bonds	34	**–**	1,107,735
Finance lease payables	30	**7,534**	16,917
Deferred income		**88,883**	71,695
Deferred tax liabilities	36	**53,708**	21,039
Provisions	35	**312,505**	312,482
Other non-current liabilities		**–**	43,500
Total non-current liabilities		**462,630**	1,573,368
Net assets		**18,370,395**	15,722,259
EQUITY			
Equity attributable to owners of the Company			
Issued equity	37	**2,876,892**	2,891,084
Shares held for the Restricted Share Award Scheme	38	**(152,984)**	(165,628)
Equity component of convertible and exchangeable bonds	34	**54,838**	54,838
Reserves	40	**14,760,151**	12,062,714
		17,538,897	14,843,008
Non-controlling interests		**831,498**	879,251
Total equity		**18,370,395**	15,722,259

Zhou Yun Jie
Director

Tan Li Xia
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Notes	Issued equity RMB'000	Shares held for the Restricted Share Award Scheme RMB'000	Equity component of convertible and exchangeable bonds RMB'000	Capital reduction reserve RMB'000	Capital reserve RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Awarded share reserve RMB'000	Put option reserve RMB'000	Reserve funds RMB'000	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Other reserves RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to the owners of the Company																
					Reserves													
At 1 January 2016		2,891,084	(165,628)	54,838	(1,758,526)	2,169,594	237	59,582	10,739	(204,791)	830,457	12,221,896	9,969	(1,276,443)	12,062,714	14,843,008	879,251	15,722,259
Profit for the year		-	-	-	-	-	-	-	-	-	-	2,786,219	-	-	2,786,219	2,786,219	24,416	2,810,635
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	-	-	-	39,721	-	39,721	39,721	-	39,721
Reclassification adjustments for a foreign operation liquidated during the year		-	-	-	-	-	-	-	-	-	-	-	5,267	-	5,267	5,267	-	5,267
Total comprehensive income for the year		-	-	-	-	-	-	-	-	-	-	2,786,219	44,988	-	2,831,207	2,831,207	24,416	2,855,623
Issue of shares	37	11,570	-	-	-	-	-	-	-	-	-	-	-	-	-	11,570	-	11,570
Shares repurchased	37	(22,549)	-	-	-	-	188	-	-	-	-	(188)	-	-	-	(22,549)	-	(22,549)
Shares transferred to participants from the Share Award Scheme Trust	37	(3,213)	12,644	-	-	-	-	-	(4,138)	-	-	-	-	-	(4,138)	5,293	-	5,293
Dividend income of shares under the Restricted Share Award Scheme		-	-	-	-	-	-	-	-	-	-	-	-	1,144	1,144	1,144	-	1,144
Equity-settled share option arrangements	39	-	-	-	-	-	-	29,794	-	-	-	-	-	-	29,794	29,794	-	29,794
Restricted Share Award Scheme arrangements	38	-	-	-	-	-	-	-	52,489	-	-	-	-	-	52,489	52,489	-	52,489
Transfer of awarded share reserve upon the forfeiture or expiry of awarded shares		-	-	-	-	-	-	-	(7,347)	-	-	7,347	-	-	-	-	-	-
Changes in fair value of put option liabilities	32	-	-	-	-	-	-	-	-	(5,540)	-	-	-	-	(5,540)	(5,540)	3,620	(1,920)
Disposal of subsidiaries	41	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(24,549)	(24,549)
Liquidation of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(11,086)	(11,086)
Partial disposal of a subsidiary		-	-	-	-	95,910	-	-	-	-	-	-	-	-	95,910	95,910	4,090	100,000
Capital reductions from non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,698)	(2,698)
Acquisition from non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,775)	(3,775)
Dividends paid to non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(37,771)	(37,771)
Deemed disposal of associates		-	-	-	-	-	-	-	-	-	-	-	-	(14,744)	(14,744)	(14,744)	-	(14,744)
Final 2015 dividend		-	-	-	-	(288,685)	-	-	-	-	-	-	-	-	(288,685)	(288,685)	-	(288,685)
		2,876,892	(152,984)	54,838	(1,758,526)	1,976,819	425	89,376	51,743	(210,331)	830,457	15,015,274	54,957	(1,290,043)	14,760,151	17,538,897	831,498	18,370,395

	Notes	Issued equity RMB'000	Shares held for the Restricted Share Award Scheme RMB'000	Equity component of convertible bonds and convertible and exchangeable bonds RMB'000	Capital reduction reserve RMB'000	Capital reserve RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Awarded share reserve RMB'000	Put option reserve RMB'000	Reserve funds RMB'000	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Other reserves RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to the owners of the Company																
					Reserves													
At 1 January 2015		1,863,462	(96,461)	204,087	(1,758,526)	2,422,469	184	52,312	15,304	(206,892)	830,457	9,518,953	(19,702)	(1,335,217)	9,519,342	11,490,430	611,610	12,102,040
Profit for the year		–	–	–	–	–	–	–	–	–	–	2,702,996	–	–	2,702,996	2,702,996	31,501	2,734,497
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	–	–	–	29,671	–	29,671	29,671	–	29,671
Total comprehensive income for the year		–	–	–	–	–	–	–	–	–	–	2,702,996	29,671	–	2,732,667	2,732,667	31,501	2,764,168
Conversion of convertible bonds		938,695	–	(149,249)	–	–	–	–	–	–	–	–	–	–	–	789,446	–	789,446
Issue of shares	37	95,750	–	–	–	–	–	(198)	–	–	–	–	–	–	(198)	95,552	–	95,552
Shares repurchased	37	(6,823)	–	–	–	–	53	–	–	–	–	(53)	–	–	–	(6,823)	–	(6,823)
Restricted Share Award Scheme arrangements	38	–	–	–	–	–	–	–	(4,565)	–	–	–	–	–	(4,565)	(4,565)	–	(4,565)
Shares purchased for the Restricted Share Award Scheme	38	–	(69,167)	–	–	–	–	–	–	–	–	–	–	–	–	(69,167)	–	(69,167)
Dividend income of shares under the Restricted Share Award Scheme		–	–	–	–	–	–	–	–	–	–	–	–	487	487	487	–	487
Equity-settled share option arrangements	39	–	–	–	–	–	–	7,468	–	–	–	–	–	–	7,468	7,468	–	7,468
Changes in fair value of put option liabilities	32	–	–	–	–	–	–	–	–	2,101	–	–	–	–	2,101	2,101	14,950	17,051
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	272,574	272,574
Disposal of subsidiaries	41	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(22,914)	(22,914)
Capital contributions from non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	–	22,555	22,555	22,555	23,946	46,501
Capital reduction from a non-controlling shareholder		–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(882)	(882)
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(51,534)	(51,534)
Deemed disposal of associates		–	–	–	–	–	–	–	–	–	–	–	–	35,732	35,732	35,732	–	35,732
Final 2014 dividend		–	–	–	–	(252,875)	–	–	–	–	–	–	–	–	(252,875)	(252,875)	–	(252,875)
		2,891,084	(165,628)	54,838	(1,758,526)	2,169,594	237	59,582	10,739	(204,791)	830,457	12,221,896	9,969	(1,276,443)	12,062,714	14,843,008	879,251	15,722,259

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**3,494,210**	3,343,986
Adjustments for:			
Finance costs	7	**43,022**	70,525
Share of profits and losses of associates		**27,323**	(11,714)
Bank interest income	5	**(175,932)**	(252,366)
Interest income from other financial assets	5	**(10,293)**	(10,906)
Dividend income from an available-for-sale investment	5	**(26,353)**	(25,000)
Loss/(gain) on disposal of subsidiaries, net	6	**6,302**	(239,553)
Loss on liquidation of subsidiaries	6	**5,765**	–
Gain on disposal of associates	5	**(98,080)**	–
Gain on bargain purchase of associates	5	**(7,544)**	–
Gain on fair value remeasurement of an investment in an associate	5	**–**	(14,542)
Loss/(gain) on disposal of an available-for-sale investment	6	**300**	(24,500)
Fair value adjustment of a contingent consideration		**–**	6,112
Changes in fair value of derivative financial instruments	5	**(1,399)**	855
Loss on disposal/write-off of items of property, plant and equipment, net	6	**16,990**	5,875
Gain on disposal of intangible assets	5	**(2,400)**	–
Depreciation of property, plant and equipment	6	**286,819**	234,152
Depreciation of investment properties	6	**2,121**	1,192
Recognition of prepaid land lease payments	6	**21,606**	12,722
Amortisation of intangible assets	6	**9,889**	11,196
Amortisation of long-term prepayments	6	**4,595**	25,763
Provision for obsolete and slow-moving inventories, net	6	**89,063**	60,733
Provision/(reversal of provision) for impairment of trade receivables, net	6	**(4,540)**	53,314
Provision for impairment of prepayments and other receivables, net	6	**37,801**	12,478
Provision for impairment of an available-for-sale investment	6	**–**	25
Share-based payment credit	6	**(5,580)**	(30,743)
Equity-settled share option expense, net	6	**29,794**	7,468
Equity-settled Restricted Share Award Scheme expense/(credit), net	6	**52,489**	(4,565)

	Notes	2016 RMB'000	2015 RMB'000
		3,795,968	3,232,507
Increase in inventories		**(877,804)**	(872,391)
Decrease/(increase) in trade and bills receivables		**(774,295)**	1,978,068
Increase in prepayments, deposits and other receivables		**(1,144,354)**	(1,311,291)
Increase in trade and bills payables		**554,483**	1,056,341
Increase/(decrease) in other payables and accruals		**2,584,957**	(1,211,004)
Increase/(decrease) in provisions		**25,431**	(4,393)
Increase in deferred income		**18,232**	6,665
Effect of foreign exchange rate changes, net		**(41,109)**	(22,230)
Cash generated from operations		**4,141,509**	2,852,272
Interest received		**143,107**	259,365
Hong Kong profits tax paid		**(5,632)**	(19,263)
Mainland China corporate income tax paid, net of tax refunded		**(684,640)**	(562,630)
Net cash flows from operating activities		**3,594,344**	2,529,744
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(458,216)**	(999,718)
Increase in long-term prepayments		**(282,258)**	(16,754)
Proceeds from disposal of items of property, plant and equipment		**4,274**	9,804
Additions to prepaid land lease payments		**(122,770)**	(282,467)
Additions to intangible assets	18	**(2,173)**	(7,116)
Prepayments for investments		**(48,160)**	–
Acquisition of subsidiaries		**–**	(327,788)
Acquisition of non-controlling interests		**–**	(10,500)
Purchase of an available-for-sale investment		**–**	(1,218,000)
Investments in associates		**(3,500)**	(166,824)
Increase in other non-current assets		**–**	(61,200)
Liquidation of subsidiaries		**(58)**	–
Dividends from an associate		**360**	341
Dividends from an available-for-sale investment		**46,377**	–
Disposal of subsidiaries	41	**9,054**	151,295
Disposal of an available-for-sale investment		**–**	27,000
Disposal of associates		**28,300**	50,000
Partial disposal of a subsidiary		**100,000**	–
Advances received for partial disposals of investments		**104,000**	–
Payment for the contingent consideration		**(89,479)**	(36,606)
Decrease/(increase) in an amount due from a fellow subsidiary		**27,000**	(27,000)
Decrease/(increase) in pledged deposits		**(39,364)**	73,107
Purchases of other financial assets, net		**(210,371)**	(7,606)
Interest received from other financial assets		**10,624**	10,906
Decrease in time deposits with original maturity over three months		**–**	466,150
Net cash flows used in investing activities		**(926,360)**	(2,372,976)

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	745
Proceeds from transfer of shares to participants from the Share Award Scheme Trust	37	**5,293**	–
Repurchases of shares	37	**(22,549)**	(6,823)
Shares purchased for the Restricted Share Award Scheme		**–**	(69,167)
Capital contributions/(reductions) from non-controlling shareholders		**(2,698)**	45,619
Exercise of put options		**(10,050)**	–
New borrowings		**103,000**	928,446
Repayment of borrowings		**(116,400)**	(987,245)
Dividends paid to shareholders		**(288,685)**	(252,818)
Dividends paid to non-controlling shareholders		**(45,055)**	(32,555)
Cash received through sale and finance leaseback arrangements		**–**	17,063
Capital element of finance lease rental payments		**(11,102)**	(29,595)
Interest element of finance lease rental payments		**(1,042)**	(1,078)
Interest paid for borrowings		**(4,724)**	(14,383)
Net cash flows used in financing activities		**(394,012)**	(401,791)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**2,273,972**	(245,023)
Cash and cash equivalents at beginning of year		**10,244,492**	10,463,738
Effect of foreign exchange rate changes, net		**77,807**	25,777
CASH AND CASH EQUIVALENTS AT END OF YEAR		**12,596,271**	10,244,492
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Non-pledged cash and bank balances		**3,598,923**	2,840,947
Time deposits	26	**8,997,348**	7,403,545
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows	26	**12,596,271**	10,244,492

1. CORPORATE AND GROUP INFORMATION

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

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

- manufacture and sale of washing machines
- manufacture and sale of water heaters
- sale and distribution of home appliances and other products as well as provision of after-sale and other value-added consumer services
- provision of logistics services

In the opinion of the directors, as at 31 December 2016, the immediate holding company of the Company is Qingdao Haier Co., Ltd. (“Qingdao Haier”), which is established in the People’s Republic of China (the “PRC”), and the ultimate holding company of the Company is Haier Group Corporation (“Haier Corp”), which is established in the PRC.

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Qingdao Haier Washing Machine Co., Ltd. *	PRC/Mainland China	RMB238,610,000	–	94	Manufacture and sale of washing machines
Foshan Shunde Haier Electric Co., Ltd. *	PRC/Mainland China	RMB48,800,000	–	60	Manufacture and sale of washing machines
Hefei Haier Washing Machine Co., Ltd. *	PRC/Mainland China	RMB92,000,000	–	99	Manufacture and sale of washing machines
Qingdao Jiaonan Haier Washing Machine Co., Ltd. **	PRC/Mainland China	RMB10,000,000	–	95	Manufacture and sale of washing machines
Chongqing Haier Washing Machine Co., Ltd. *	PRC/Mainland China	RMB25,000,000	25	74	Manufacture and sale of washing machines
Foshan Shunde Haier Intelligent Electronics Co., Ltd. *	PRC/Mainland China	RMB20,000,000	25	74	Manufacture and sale of accessories for electrical appliances
Qingdao Goodaymart Lejia Trading Co., Ltd. **	PRC/Mainland China	RMB195,700,000	–	100	Sale of home electric appliances
Qingdao Haier Drum Washing Machine Co., Ltd. ***	PRC/Mainland China	USD12,000,000	–	100	Manufacture and sale of washing machines
Chongqing Haier Drum Washing Machine Co., Ltd. **	PRC/Mainland China	RMB250,000,000	–	99	Manufacture and sale of washing machines

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Qingdao Economy and Technology Development Zone Haier Water Heater Co., Ltd. ***	PRC/Mainland China	RMB120,000,000	–	100	Manufacture and sale of water heaters
Wuhan Haier Water Heater Co., Ltd. ***	PRC/Mainland China	RMB50,000,000	–	100	Manufacture and sale of water heaters
Chongqing Haier Water Heater Co., Ltd. **	PRC/Mainland China	RMB10,000,000	–	100	Manufacture and sale of water heaters
Foshan Haier Drum Washing Machine Co., Ltd. **	PRC/Mainland China	RMB150,000,000	–	99	Manufacture and sale of washing machines
Chongqing New Goodaymart Electronics Sales Co., Ltd. ***	PRC/Mainland China	RMB5,000,000	–	100	Sale of home electric appliances
Haier Electronics Sales (Hefei) Co., Ltd. ***	PRC/Mainland China	RMB5,000,000	–	100	Sale of home electric appliances
Qingdao Haier Electronics Sales Service Co., Ltd. **	PRC/Mainland China	RMB5,000,000	–	100	Sale of home electric appliances
Qingdao Goodaymart Electronics Service Co., Ltd. **	PRC/Mainland China	RMB20,000,000	–	100	Provision of after-sale services

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Shandong Goodaymart Electric Appliance Co., Ltd. **	PRC/Mainland China	RMB20,000,000	–	81	Sale of home electric appliances
Yantai Goodaymart Electric Appliance Co., Ltd. **	PRC/Mainland China	RMB30,000,000	–	81	Sale of home electric appliances
Hefei Haier Home Electric Appliances Sales Co., Ltd.**	PRC/Mainland China	RMB5,000,000	–	100	Sale of home electric appliances
Qingdao Lejia Electric Appliance Co., Ltd. **	PRC/Mainland China	RMB10,000,000	–	97	Sale of home electric appliances
Tianjin Haier Washing Machine Co., Ltd. *	PRC/Mainland China	RMB235,800,000	–	94	Manufacture and sale of washing machines
Haier International Business Corporation Limited	Hong Kong	HK$10,000,000	–	100	Export sale of home electric appliances
Haier Group E-commerce Co., Ltd. **	PRC/Mainland China	RMB37,500,000	–	80	Online sale of Haier brand home electric appliances
Qingdao Haier New Energy Electronics Co., Ltd. ***	PRC/Mainland China	RMB150,000,000	–	100	Manufacture and sale of water heaters
Qingdao New Goodaymart Logistics Service Co., Ltd. ***	PRC/Mainland China	USD49,000,000	–	100	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Boyol New Brothers Supply Chain Management Co., Ltd. **	PRC/Mainland China	RMB42,400,000	–	54	Provision of logistics service
Guangdong Goodaymart Supply Chain Co., Ltd. **	PRC/Mainland China	RMB230,000,000	–	90	Provision of logistics service
Shenyang Goodaymart Logistics Co., Ltd. **	PRC/Mainland China	RMB150,000,000	–	90	Provision of logistics service
Luoyang Goodaymart Logistics Co., Ltd. **	PRC/Mainland China	RMB75,000,000	–	90	Provision of logistics service
Sheng Feng Logistics Group Co., Ltd. **	PRC/Mainland China	RMB189,658,470	–	52	Provision of logistics service
Qingdao Goodaymart Logistics Co., Ltd. **	PRC/Mainland China	USD63,439,000	–	90	Provision of logistics service
Qingdao Goodaymart Supply Chains Co., Ltd. **	PRC/Mainland China	RMB10,000,000	–	90	Provision of logistics service

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

** Registered as domestic limited liability companies under PRC law

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

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

2.1 BASIS OF PREPARATION

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

The financial statements have been prepared on a going concern basis notwithstanding that the Company had net current liabilities of RMB990,925,000 at the balance sheet date. It is because Alibaba Investment Limited has exercised its exchange right to exchange the Company's convertible and exchangeable bonds in the principal amount of HK$1,316,036,000 for all the non-voting rights of Heroic Plan Global Limited, a wholly-owned subsidiary of the Group, subsequent to the balance sheet date, further details of which are set out in note 48 to the financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs

Other than as explained below regarding the impact of amendments to IFRS 11, amendments to IAS 1, amendments to IAS 16 and IAS 38 and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

(a) Amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are applied prospectively. The amendments have had no impact on the Group as there has been no interest acquired in a joint operation during the year.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(c) Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(d) *Annual Improvements to IFRSs 2012-2014 Cycle* issued in September 2014 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in IFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[2]
Amendments to IAS 40	*Transfers of Investment Property*[2]
Annual Improvements 2014-2016 Cycle	Amendments to a number of IFRSs[1/2]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

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

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During 2016, the Group performed a high-level assessment of the impact of the adoption of IFRS 9 but not yet in a position to provide quantified information. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Unquoted equity investments currently measured at cost in accordance with IAS 39 will be measured at fair value at the date of initial application of IFRS 9. Any difference between the previous carrying amount and fair value would be recognised in the opening retained profits of the reporting period that includes the date of initial application.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

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

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

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018. During the year ended 31 December 2016, the Group performed a preliminary assessment on the impact of the adoption of IFRS15 and do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in respective reporting periods.

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption, but not yet in a position to provide quantified information.

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

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

The IASB issued IFRIC 22 *Foreign Currency Transactions and Advance Consideration* on 8 December 2016, in order to address how to determine "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset for non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The Group expects to adopt the amendments from 1 January 2018.

Amendments to IAS 40 clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements 2014–2016 Cycle has amendments to three standards: the amendments to IFRS 12 *Disclosure of Interests in Other Entities* have clarified the scope of the disclosure requirements in IFRS 12; the amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* have deleted short-term exemptions for first-time adopters, and the amendments to IAS 28 *Investments in Associates and Joint Ventures* have clarified that measuring investees at fair value through profit or loss is an investment-by investment choice. These amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

Fair value measurement

The Group measures its derivative financial instruments and certain available-for-sale investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

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

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

Buildings	2% to 19%
Leasehold improvements	10% to 20%
Plant and machinery	5% to 33%
Tools, furniture and fixtures	5% to 33%
Motor vehicles	9% to 24%

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

Intangible assets (other than goodwill)

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

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

Patents, licences and software
Purchased patents, licences and software are stated at cost less any impairment losses and software acquired through business combinations are initially stated at fair value. They are amortised on the straight-line basis over their estimated useful lives of not exceeding 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Management service arrangements
Management service arrangements are initially stated at fair value and subsequently amortised on the straight-line basis over the tenure of management service arrangements of 20 years.

Customer relationships
Customer relationships acquired through business combinations are initially stated at fair value and subsequently amortised on the straight-line basis over their estimated useful lives of not exceeding 10 years.

Trademark
Trademark has an indefinite useful life and is stated at cost, less any identified impairment losses.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

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

When a sale and leaseback transaction results in a finance lease, the transaction in substance is a means whereby the lessor provides finance to the lessee, with the assets as security. An excess/deficit of sales proceeds over/less than the carrying amount of the assets is deferred and amortised over the lease term. The assets will be restated to the lower of its fair value and the present value of the minimum lease payments in exactly the same way as any other assets acquired under a finance lease.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Loans and receivables

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

Available-for-sale financial investments

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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

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

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

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

Assets carried at cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

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

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

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

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

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

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the statement of profit or loss.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Cash and cash equivalents

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

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Provisions

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

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

Provisions for installation services and product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of installation services rendered, repairs or returns, discounted to their present values as appropriate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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

Government grants

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

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

Revenue recognition

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Share-based payments

The Company operates a restricted share award scheme (note 38) and a share option scheme (note 39) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 38 to the financial statements.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payments (continued)

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

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

Pension schemes

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

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

Borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

Foreign currencies

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was RMB392,485,000 (2015: RMB392,485,000). Further details are given in note 17.

Recoverability of trade receivables

The Group maintains an allowance for estimated losses arising from the inability of its debtors to make the required payments. The Group makes its estimates based on the ageing of its receivable balances, debtors' creditworthiness, and historical write-off experience. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance. At 31 December 2016, the carrying amounts of trade and bills receivables and other receivables were RMB5,699,335,000 (2015: RMB4,971,124,000) and RMB1,381,508,000 (2015: RMB881,421,000), respectively.

Provision for inventories

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the inventories and the write-down charge/reversal in the period in which such estimate has been changed. At 31 December 2016, the carrying amount of inventories was RMB5,183,399,000 (2015: RMB4,399,479,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Product warranty and installation provisions

Product warranty and installation provisions are made with reference to the sales volume and the expected unit cost for warranties and installation services. The assessment of the provision amount involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying amount of the product warranty and installation provisions and the provision amount charged/reversed in the period in which such estimate has been changed. At 31 December 2016, the product warranty and installation provisions amounted to RMB858,222,000 (2015: RMB832,791,000).

Impairment of non-financial assets (other than goodwill)

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

Useful lives of items of property, plant and equipment

Management determines the estimated useful lives and related depreciation for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to industry cycles. The depreciation charge will increase when the useful lives are less than the previously estimated useful lives, or management will write off or write down obsolete or non-strategic assets that have been abandoned or sold. At 31 December 2016, the carrying amount of the property, plant and equipment was RMB3,275,577,000 (2015: RMB3,107,653,000).

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at 31 December 2016 was RMB712,295,000 (2015: RMB621,480,000).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable segments as follows:

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

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

(c) the channel services business segment sells and distributes home appliances and other products as well as provision of after-sale and other value-added consumer services; and

(d) the logistics business segment provides logistics services (note).

Note: the logistics business segment is identified as an additional reportable segment from the channel services business segment in current year; and accordingly, segment data in the previous year has been restated for comparative purposes.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, interest income from other financial assets, corporate and other unallocated income and gains, corporate and other unallocated expenses and losses as well as finance costs are excluded from such measurement. As a result of the change in management responsibilities and performance assessment, certain other income and gains were excluded from the channel services business segment and have been reported as corporate and other unallocated income and gains, and the corresponding assets have been included in corporate and other unallocated assets.

Segment assets exclude deferred tax assets, other financial assets, pledged deposits, cash and cash equivalents and corporate and other unallocated assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities, tax payable, interest-bearing borrowings, convertible and exchangeable bonds and corporate and other unallocated liabilities as these liabilities are managed on a group basis.

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

4. OPERATING SEGMENT INFORMATION (continued)

	Washing machine business		Water heater business		Channel services business		Logistics business		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000 (Restated)
Segment revenue:										
Sales to external customers	**5,230,282**	5,121,552	**983,028**	932,837	**51,209,399**	51,350,696	**6,432,168**	5,421,034	**63,854,877**	62,826,119
Intersegment sales	**10,690,169**	9,830,751	**4,375,132**	3,674,565	**275,599**	267,383	**1,129,907**	1,158,313	**16,470,807**	14,931,012
Total	**15,920,451**	14,952,303	**5,358,160**	4,607,402	**51,484,998**	51,618,079	**7,562,075**	6,579,347	**80,325,684**	77,757,131
Reconciliation:										
Elimination of intersegment sales									**(16,470,807)**	(14,931,012)
Segment revenue									**63,854,877**	62,826,119
Segment other income and gains	**195,868**	112,559	**52,661**	27,832	**72,504**	59,746	**48,122**	35,626	**369,155**	235,763
Total segment revenue and other income and gains									**64,224,032**	63,061,882
Segment results	**1,522,306**	1,363,259	**677,994**	563,602	**859,149**	715,044	**323,075**	227,985	**3,382,524**	2,869,890
Reconciliation:										
Elimination of intersegment results									**(28,656)**	7,800
Bank interest income									**175,932**	252,366
Interest income from other financial assets									**10,293**	10,906
Corporate and other unallocated income and gains									**140,121**	299,190
Corporate and other unallocated expenses and losses									**(142,982)**	(25,641)
Finance costs									**(43,022)**	(70,525)
Profit before tax									**3,494,210**	3,343,986

4. OPERATING SEGMENT INFORMATION (continued)

	Washing machine business		Water heater business		Channel services business		Logistics business		Consolidated	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000 (Restated)	2016 RMB'000	2015 RMB'000 (Restated)	2016 RMB'000	2015 RMB'000 (Restated)
Segment assets	**5,335,053**	4,262,011	**1,716,104**	1,577,323	**8,834,850**	7,887,988	**5,275,453**	4,336,263	**21,161,460**	18,063,585
Reconciliation:										
Elimination of intersegment receivables									**(4,164,175)**	(3,399,411)
Deferred tax assets									**712,295**	621,480
Other financial assets									**460,449**	250,078
Pledged deposits									**71,272**	31,989
Cash and cash equivalents									**12,596,271**	10,244,492
Corporate and other unallocated assets									**5,311,402**	4,485,117
Total assets									**36,148,974**	30,297,330
Segment liabilities	**2,490,830**	2,316,148	**1,364,051**	1,000,830	**11,714,437**	8,983,451	**2,963,105**	2,121,489	**18,532,423**	14,421,918
Reconciliation:										
Elimination of intersegment payables									**(4,164,175)**	(3,399,411)
Deferred tax liabilities									**53,708**	21,039
Tax payable									**613,045**	561,730
Interest-bearing borrowings									**73,000**	86,400
Convertible and exchangeable bonds									**1,223,220**	1,107,735
Corporate and other unallocated liabilities									**1,447,358**	1,775,660
Total liabilities									**17,778,579**	14,575,071

4. OPERATING SEGMENT INFORMATION (continued)

	Washing machine business		Water heater business		Channel services business		Logistics business		Consolidated	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000 (Restated)	2016 RMB'000	2015 RMB'000 (Restated)	2016 RMB'000	2015 RMB'000 (Restated)
Other segment information:										
Investments in associates	-	–	-	–	-	–	92,230	91,229	92,230	91,229
Corporate and other unallocated amounts									207,079	228,919
									299,309	320,148
Share of profits and losses of associates	-	–	-	–	-	–	1,361	7,241	1,361	7,241
Corporate and other unallocated amounts									(28,684)	4,473
									(27,323)	11,714
Provision for obsolete and slow-moving inventories, net	34,942	28,465	11,116	6,882	43,005	25,386	-	–	89,063	60,733
Provision/(reversal of provision) for impairment of trade receivables, net	(5,190)	–	-	–	9,882	7,540	(9,232)	45,774	(4,540)	53,314
Provision for impairment of prepayments and other receivables, net	-	88	-	–	37,798	12,390	3	–	37,801	12,478
Provision for impairment of an available-for-sale investment	-	–	-	–	-	25	-	–	-	25
Product warranty and installation provisions	475,704	401,553	385,480	374,506	-	–	-	–	861,184	776,059
Loss/(gain) on disposal/ write-off of items of property, plant and equipment, net	15,404	7,566	677	12	8	534	901	(2,237)	16,990	5,875
Depreciation and amortisation	108,061	92,332	56,187	44,782	12,344	24,602	143,929	120,612	320,521	282,328
Corporate and other unallocated amounts									4,509	2,697
									325,030	285,025
Capital expenditure*	332,909	165,664	54,473	146,890	1,597	4,599	470,854	970,884	859,833	1,288,037
Corporate and other unallocated amounts									5,584	18,018
									865,417	1,306,055

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments and intangible assets.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

Over 90% (2015: over 90%) of the Group's revenue was derived from customers in Mainland China and over 90% (2015: over 90%) of the Group's non-current assets, other than financial instruments and deferred tax assets, are situated in Mainland China.

Information about major customers

During the year, there was no revenue from a single customer (2015: Nil) which individually accounted for 10% or more of the Group's revenue.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, represents the net invoiced value of goods sold, net of value-added tax and after allowances for returns and trade discounts; and the value of services rendered during the year.

An analysis of revenue, other income and gains is as follows:

	Note	2016 RMB'000	2015 RMB'000
Revenue			
Sale of goods		**57,094,548**	56,978,822
Rendering of services		**6,760,329**	5,847,297
		63,854,877	62,826,119
Other income			
Bank interest income		**175,932**	252,366
Interest income from other financial assets		**10,293**	10,906
Government grants*		**237,982**	119,753
Compensation received from suppliers		**85,328**	91,826
Gross rental income		**2,734**	2,016
Dividend income from an available-for-sale investment		**26,353**	25,000
Others		**30,694**	23,120
		569,316	524,987
Gains			
Gain on disposal of subsidiaries	41	**–**	239,553
Gain on disposal of associates		**98,080**	–
Gain on bargain purchase of associates		**7,544**	–
Gain on disposal of an available-for-sale investment		**–**	24,500
Gain on fair value remeasurement of an investment in an associate		**–**	14,542
Gain on disposal of intangible assets		**2,400**	–
Changes in fair value of derivative financial instruments		**1,399**	(855)
		109,423	277,740
		678,739	802,727

* Various government grants have been received for investments in certain regions in Mainland China in which the Company's subsidiaries operate as well as for the Group's technology advancements. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

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

	Notes	2016 RMB'000	2015 RMB'000
Cost of inventories sold		**46,564,744**	47,528,503
Cost of services provided		**5,880,716**	4,967,655
Depreciation of property, plant and equipment	14	**286,819**	234,152
Depreciation of investment properties	15	**2,121**	1,192
Recognition of prepaid land lease payments	16	**21,606**	12,722
Amortisation of intangible assets *	18	**9,889**	11,196
Amortisation of long-term prepayments		**4,595**	25,763
Research and development costs **		**580,894**	592,861
Auditor's remuneration		**7,575**	7,575
Employee benefit expense:			
(including directors' and chief executive officer's remuneration – note 8):			
Wages and salaries		**3,303,937**	3,039,058
Welfare		**58,470**	46,426
Pension scheme contributions		**348,431**	348,876
Share-based payment credit		**(5,580)**	(30,743)
Equity-settled share option expense, net	39	**29,794**	7,468
Equity-settled Restricted Share Award Scheme expense/(credit), net	38	**52,489**	(4,565)
		3,787,541	3,406,520
Minimum lease payments under operating leases in respect of land and buildings		**167,672**	152,460
Provision for obsolete and slow-moving inventories, net***		**89,063**	60,733
Product warranty and installation provisions	35	**861,184**	776,059
Loss on disposal/write-off of items of property, plant and equipment, net#		**16,990**	5,875
Provision/(reversal of provision) for impairment of trade receivables, net#	23	**(4,540)**	53,314
Provision for impairment of prepayments and other receivables, net#	24	**37,801**	12,478
Provision for impairment of an available-for-sale investment	20	**–**	25
Loss/(gain) on disposal of subsidiaries, net#	41	**6,302**	(239,553)
Loss on liquidation of subsidiaries#		**5,765**	–
Loss/(gain) on disposal of an available-for-sale investment#		**300**	(24,500)
Foreign exchange differences, net		**(38,463)**	(22,399)

6. PROFIT BEFORE TAX (continued)

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

** The research and development costs included mould charges of RMB248,387,000 (2015: RMB276,536,000) which are included in "Cost of sales" in the consolidated statement of profit or loss.

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

\# The net provision/(reversal of provision) for impairment of trade receivables, prepayments and other receivables, net loss on disposal/write-off of items of property, plant and equipment, loss on disposal and liquidation of subsidiaries and loss on disposal of an available-for-sale investment are included in "Other expenses and losses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 RMB'000	2015 RMB'000
Interest on borrowings	**4,679**	14,395
Interest on finance leases	**1,042**	1,078
Interest on convertible bonds	**–**	20,850
Interest on convertible and exchangeable bonds (note 34)	**37,301**	34,202
	43,022	70,525

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2016 RMB'000	2015 RMB'000
Fees	**1,205**	1,063
Other emoluments:		
Salaries, allowances and benefits in kind	**936**	1,529
Performance related bonuses	**1,058**	600
Equity-settled share option expense, net	**3,784**	1,336
Equity-settled Restricted Share Award Scheme expense/(credit), net	**4,047**	(2,688)
Pension scheme contributions	**48**	45
	9,873	822
	11,078	1,885

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

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Fees RMB'000	Salaries, allowances benefits in kind RMB'000	Equity-settled share option expense RMB'000	Total RMB'000
2016				
Mr. Yu Hon To, David	**283**	**18**	**347**	**648**
Mrs. Eva Cheng Li Kam Fun	**283**	**18**	**447**	**748**
Ms. Tsou Kai-Lien, Rose	**236**	**9**	**236**	**481**
	802	**45**	**1,030**	**1,877**
2015				
Mr. Yu Hon To, David	268	20	166	454
Mrs. Eva Cheng Li Kam Fun	268	20	548	836
Ms. Tsou Kai-Lien, Rose	224	12	113	349
	760	52	827	1,639

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

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

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

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Equity-settled share option expense, net	Equity-settled Restricted Share Award Scheme expense, net	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2016							
Executive director:							
Mr. Zhou Yun Jie#	–	742	1,058	2,080	3,862	48	7,790
	–	742	1,058	2,080	3,862	48	7,790
Non-executive directors:							
Mr. Liang Hai Shan	–	135	–	–	–	–	135
Mr. Li Hua Gang	–	–	–	319	185	–	504
Dr. Wang Han Hua	236	10	–	355	–	–	601
Ms. Tan Li Xia	116	–	–	–	–	–	116
Mr. Zhang Yong	51	4	–	–	–	–	55
	403	149	–	674	185	–	1,411
	403	891	1,058	2,754	4,047	48	9,201

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

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

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Equity-settled share option expense/ (credit), net	Equity-settled Restricted Share Award Scheme credit, net	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2015							
Executive director:							
Mr. Zhou Yun Jie#	–	1,200	600	(60)	(2,562)	45	(777)
	–	1,200	600	(60)	(2,562)	45	(777)
Non-executive directors:							
Mr. Liang Hai Shan	–	129	–	–	–	–	129
Mr. Li Hua Gang	–	–	–	99	(126)	–	(27)
Ms. Janine Junyuan, Feng*	30	4	–	–	–	–	34
Mr. Gui Zhao Yu**	–	–	–	–	–	–	–
Dr. Wang Han Hua	224	11	–	470	–	–	705
Ms. Tan Li Xia	–	129	–	–	–	–	129
Mr. Zhang Yong	49	4	–	–	–	–	53
	303	277	–	569	(126)	–	1,023
	303	1,477	600	509	(2,688)	45	246

Mr. Zhou Yun Jie is also the chief executive of the Company.

* Ms. Janine Junyuan, Feng retired as an executive director of the Company on 30 June 2015.

** Mr. Gui Zhao Yu was the alternate director to Ms. Jannie Junyuan, Feng and retired as an alternate director on 30 June 2015.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

In prior years, certain directors were granted share options under the share option scheme of the Company, further details of which are set out in note 39 to the financial statements. In the current and prior years, certain directors were granted awarded shares under the Restricted Share Award Scheme, in respect of their services to the Group, further details of which are set out in note 38 to the financial statements. The fair values of these options and awarded shares, which have been recognised in the statement of profit or loss over the vesting period, were determined as at the date of grant and the amounts included in the financial statements for the two years ended 31 December 2016 and 31 December 2015 are included in the above directors' and chief executive's remuneration disclosures.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2015: one director), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2015: four) highest paid non-director employees who are neither a director nor chief executive of the Company are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	**2,747**	3,490
Equity-settled share option expense, net	**1,554**	91
Equity-settled Restricted Share Award Scheme expense/(credit), net	**4,298**	(205)
Pension scheme contributions	**159**	44
	8,758	3,420

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2016	 2015
Nil to RMB1,000,000	**–**	3
RMB1,000,001 to RMB2,000,000	**4**	1
Total	**4**	4

In prior years, share options were granted to these non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are set out in note 39 to the financial statements. In the current and prior years, these non-director and non-chief executive highest paid employees were granted awarded shares under the Restricted Share Award Scheme, in respect of their services to the Group, further details of which are set out in note 38 to the financial statements. The fair values of such options and awarded shares, which have been recognised in the statement of profit or loss over the vesting period, were determined as at the date of grant and the amount included in the financial statements for the two years ended 31 December 2016 and 31 December 2015 are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Tax on profits assessable in Mainland China has been calculated at the applicable PRC corporate income tax ("CIT") rate. Certain subsidiaries of the Group are entitled to a preferential tax treatment of reduction in the CIT rate to 15%.

	2016 RMB'000	2015 RMB'000
Current – Hong Kong		
Charge for the year	**33,141**	27,670
Current – Mainland China		
Charge for the year	**719,340**	624,178
Overprovision in prior years	**(9,988)**	(7,065)
Income tax refund during the year	**–**	(45,908)
Deferred (note 36)	**(58,918)**	10,614
Total tax charge for the year	**683,575**	609,489

10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

2016

	Hong Kong		Mainland China		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	120,152		3,374,058		3,494,210	
Tax at the statutory tax rate	19,825	16.5	843,514	25.0	863,339	24.7
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	–	–	32,270	0.9	32,270	0.9
Adjustments in respect of current tax of previous periods	–	–	(9,988)	(0.3)	(9,988)	(0.3)
Profits and losses attributable to associates	(1,413)	(1.2)	8,972	0.3	7,559	0.2
Income not subject to tax	(7,520)	(6.2)	(317)	–	(7,837)	(0.2)
Expenses not deductible for tax	22,249	18.5	10,584	0.3	32,833	0.9
Tax losses not recognised	–	–	94,055	2.8	94,055	2.7
Lower tax rates enacted by local authorities	–	–	(311,477)	(9.2)	(311,477)	(8.9)
Tax losses utilised from previous periods	–	–	(12,180)	(0.4)	(12,180)	(0.3)
Effect on opening deferred tax of decrease in rates	–	–	5,477	0.2	5,477	0.2
Timing differences not recognised	–	–	(10,476)	(0.3)	(10,476)	(0.3)
Tax charge at the Group's effective rate	33,141	27.6	650,434	19.3	683,575	19.6

10. INCOME TAX (continued)

2015

	Hong Kong RMB'000	%	Mainland China RMB'000	%	Total RMB'000	%
Profit before tax	119,380		3,224,606		3,343,986	
Tax at the statutory tax rate	19,698	16.5	806,152	25.0	825,850	24.7
Adjustments in respect of current tax of previous periods	–	–	(7,065)	(0.2)	(7,065)	(0.2)
Profits and losses attributable to associates	(580)	(0.5)	(1,836)	(0.1)	(2,416)	(0.1)
Income tax refund during the year	–	–	(45,908)	(1.4)	(45,908)	(1.4)
Income not subject to tax	(11,583)	(9.7)	(2,376)	(0.1)	(13,959)	(0.4)
Expenses not deductible for tax	19,583	16.4	3,509	0.1	23,092	0.7
Tax losses not recognised	4	–	78,654	2.4	78,658	2.4
Lower tax rates enacted by local authorities	–	–	(228,091)	(7.1)	(228,091)	(6.8)
Tax losses utilised from previous periods	–	–	(64,128)	(2.0)	(64,128)	(2.0)
Effect on opening deferred tax of decrease in rates	–	–	31,503	1.0	31,503	0.9
Timing differences not recognised	548	0.5	11,405	0.4	11,953	0.4
Tax charge at the Group's effective rate	27,670	23.2	581,819	18.0	609,489	18.2

The share of tax attributable to associates amounting to RMB2,324,000 (2015: RMB3,571,000) is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss.

11. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Proposed final – HK17 cents (2015: HK12 cents) per ordinary share	**425,248**	280,907

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 2,780,520,334 (2015: 2,754,846,230) in issue during the year, as adjusted to exclude the shares issued or repurchased under the Restricted Share Award Scheme in prior years.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible bonds and/or convertible and exchangeable bonds, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2016 RMB'000	2015 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**2,786,219**	2,702,996
Interest on convertible bonds*	**–**	20,850
Interest on convertible and exchangeable bonds	**37,301**	34,202
	2,823,520	2,758,048

	Number of shares 2016	 2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,780,520,334**	2,754,846,230
Effect of dilution – weighted average number of ordinary shares:		
Share options	**45,782**	308,190
Awarded shares under the Restricted Share Award Scheme	**3,835,523**	768,580
Convertible bonds*	**–**	13,815,861
Convertible and exchangeable bonds	**69,855,280**	71,131,564
	73,736,585	86,024,195
Total	**2,854,256,919**	2,840,870,425

* As the diluted earnings per share amount was increased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on the basic earnings per share and were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amount in 2015 was based on the profit of RMB2,737,198,000 and the weighted average number of ordinary shares of 2,827,054,564 in issue.

13. RELATED PARTY TRANSACTIONS

(a) During the year, in addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with Haier Corp and its subsidiaries and/or associates (collectively referred to as "Haier Affiliates") and the Group's associates:

	2016 RMB'000	2015 RMB'000
Haier Affiliates:		
Export sale of products	**1,417,915**	1,267,002
Export sale expenses	**(21,277)**	(12,654)
Export sale of products, net	**1,396,638**	1,254,348
Domestic sale of products	**44,371**	103,287
Purchase of finished goods	**29,930,623**	31,560,882
Purchase of equipment	**92,618**	72,185
Purchase of raw materials	**13,672,749**	12,379,566
Printing and packaging fees	**14,950**	10,274
Mould charges	**163,234**	189,461
Utility service fee expenses	**103,902**	114,980
Other service fee expenses	**373,433**	456,053
Research and development service fees	**193,716**	177,024
Interest income	**6,638**	6,862
Interest expenses	**954**	2,154
Other financial service fees	**12,766**	12,878
Logistics service income	**2,081,505**	1,841,190
After-sale service income	**205,028**	217,239
Associates:		
Domestic sale of products	**–**	7,990
Purchase of raw materials	**634**	–
Purchase of finished goods	**112,126**	133,277
Other service fees expenses	**748**	3,441
Logistics services income	**23,821**	2,703
After-sale services income	**540**	3,506

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

The transactions with Haier Affiliates also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

13. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties

In addition to the outstanding balances with related parties detailed elsewhere in these financial statements, included in the Group's long-term prepayments are amounts due from Haier Affiliates of RMB154,561,000 (2015: RMB37,014,000), which are unsecured, interest-free and repayable on demand.

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

	2016 RMB'000	2015 RMB'000
Short term employee benefits	**7,196**	7,339
Post-employment benefits	**271**	299
Equity-settled share option expense, net	**5,874**	1,783
Equity-settled Restricted Share Award Scheme expenses/(credit), net	**9,864**	(3,630)
Total compensation paid to key management personnel	**23,205**	5,791

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

(d) For the personnel in (c) above, the number of non-director key management personnel whose remuneration fell within the following bands is as follows:

	2016 RMB'000	2015 RMB'000
Nil to RMB500,000	**–**	3
RMB500,001 to RMB1,000,000	**–**	4
RMB1,000,001 to RMB2,000,000	**6**	–
	6	7

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Tools, furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
At 1 January 2016:							
Cost	2,019,266	–	1,376,565	128,464	198,080	571,121	4,293,496
Accumulated depreciation and impairment	(449,829)	–	(633,453)	(35,133)	(67,428)	–	(1,185,843)
Net carrying amount	1,569,437	–	743,112	93,331	130,652	571,121	3,107,653
Cost at 1 January 2016, net of accumulated depreciation and impairment	1,569,437	–	743,112	93,331	130,652	571,121	3,107,653
Additions	1,896	34,480	3,662	8,179	6,918	459,182	514,317
Transfer to investment properties (note 15)	(22,741)	–	–	–	–	–	(22,741)
Disposal of subsidiaries (note 41)	–	–	–	(8)	–	(101)	(109)
Disposals/write-off	(11,548)	–	(18,741)	(4,387)	(2,048)	–	(36,724)
Depreciation provided during the year	(101,979)	(11,120)	(107,658)	(19,014)	(47,048)	–	(286,819)
Transfers	392,129	–	200,745	6,029	3,285	(602,188)	–
Cost at 31 December 2016, net of accumulated depreciation and impairment	1,827,194	23,360	821,120	84,130	91,759	428,014	3,275,577
At 31 December 2016:							
Cost	2,376,634	34,480	1,411,050	134,462	179,789	428,014	4,564,429
Accumulated depreciation and impairment	(549,440)	(11,120)	(589,930)	(50,332)	(88,030)	–	(1,288,852)
Net carrying amount	1,827,194	23,360	821,120	84,130	91,759	428,014	3,275,577

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Tools, furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2015						
At 1 January 2015:						
Cost	1,499,390	1,215,280	62,325	122,250	328,550	3,227,795
Accumulated depreciation and impairment	(368,486)	(629,177)	(23,660)	(71,186)	–	(1,092,509)
Net carrying amount	1,130,904	586,103	38,665	51,064	328,550	2,135,286
Cost at 1 January 2015, net of accumulated depreciation and impairment	1,130,904	586,103	38,665	51,064	328,550	2,135,286
Additions	23,349	2,020	6,792	31,804	956,467	1,020,432
Acquisition of subsidiaries	96,527	7,019	7,325	88,484	11,518	210,873
Disposal of subsidiaries (note 41)	–	–	(1,619)	(81)	–	(1,700)
Disposals/write-off	(2,544)	(10,799)	(278)	(9,465)	–	(23,086)
Depreciation provided during the year	(81,828)	(97,756)	(15,409)	(39,159)	–	(234,152)
Transfers	403,029	256,525	57,855	8,005	(725,414)	–
Cost at 31 December 2015, net of accumulated depreciation and impairment	1,569,437	743,112	93,331	130,652	571,121	3,107,653
At 31 December 2015:						
Cost	2,019,266	1,376,565	128,464	198,080	571,121	4,293,496
Accumulated depreciation and impairment	(449,829)	(633,453)	(35,133)	(67,428)	–	(1,185,843)
Net carrying amount	1,569,437	743,112	93,331	130,652	571,121	3,107,653

14. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2016, certain of the Group's buildings with an aggregate net book value of approximately RMB842,473,000 (2015: RMB1,161,980,000) did not have building ownership certificates registered under the names of the respective subsidiaries of the Company.

With respect to the above properties, the Group's investment properties and prepaid land lease payments, in prior years, Haier Corp issued to the Company three undertakings, pursuant to which Haier Corp agreed to provide other suitable properties to the Group to ensure the operations of certain subsidiaries of the Company are not disrupted and/or indemnify the Group against any losses arising from the above defective property title issue. The aggregate net book value of the Group's buildings indemnified by Haier Corp as at 31 December 2016 amounted to approximately RMB120,428,000 (2015: RMB129,630,000).

In the opinion of the directors, the Group is entitled to lawfully and validly occupy and/or use the buildings and investment properties for its daily operations, notwithstanding the fact that the related building ownership certificates have not yet been obtained.

At 31 December 2016, certain of the Group's buildings with a net carrying amount of approximately RMB17,537,000 (2015: RMB26,146,000) were pledged to secure bank loans granted to the Group (note 29). In addition, at 31 December 2015, certain of the Group's motor vehicles with a net carrying amount of approximately RMB28,992,000 were pledged to secure bank loans granted to the Group (note 29).

As at 31 December 2016, the net carrying amount of the Group's fixed assets acquired through sale and finance leaseback arrangements was approximately RMB11,889,000 (2015: RMB28,216,000).

15. INVESTMENT PROPERTIES

	2016 RMB'000	2015 RMB'000
Cost at 1 January, net of accumulated depreciation	**11,147**	12,339
Transfer from owner-occupied properties (note 14)	**22,741**	–
Depreciation provided during the year	**(2,121)**	(1,192)
Exchange realignment	**1,375**	–
Cost at 31 December, net of accumulated depreciation	**33,142**	11,147
At 31 December:		
Cost	**43,146**	18,894
Accumulated depreciation	**(10,004)**	(7,747)
Net carrying amount	**33,142**	11,147

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

The investment properties are leased to Haier Affiliates under operating leases, further summary details of which are included in the note 43 to the financial statements.

In the opinion of the directors, the fair values of the Group's investment properties erected on land in Mainland China and Hong Kong were approximately RMB13,545,000 (2015: RMB15,072,000) and RMB26,187,000 (2015: Nil), respectively, as at 31 December 2016.

The fair value measurements of the Group's investment properties are categorised within Level 3. The valuation technique is the discounted cash flow method and the significant inputs used in the fair value measurement are the estimated rental value, rent growth and discount rate.

As at 31 December 2016, the Group's investment properties erected on land in Mainland China amounted to RMB9,955,000 (2015: RMB11,147,000) did not have building ownership certificates registered under the names of the respective subsidiaries of the Company. The Group obtained an undertaking from Haier Corp in relation to this defective property title issue, details of which are set out in note 14 to the financial statements.

16. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**853,800**	531,155
Additions	**242,349**	282,467
Acquisition of subsidiaries	**–**	52,900
Disposal of subsidiaries (note 41)	**(20,530)**	–
Recognised during the year	**(21,606)**	(12,722)
Carrying amount at 31 December	**1,054,013**	853,800
Current portion included in prepayments, deposits and other receivables	**(23,447)**	(18,818)
Non-current portion	**1,030,566**	834,982

As at 31 December 2016, certain parcels of the Group's leasehold land with an aggregate carrying amount of approximately RMB108,365,000 (2015: RMB139,232,000) did not have land use right certificates registered under the names of the respective subsidiaries of the Company, of which RMB43,509,000 (2015: RMB44,508,000) was indemnified by Haier Corp. Details of the undertakings granted by Haier Corp to the Company in relation to this defective property title issue are set out in note 14 to the financial statements.

As at 31 December 2016, certain parcels of the Group's leasehold land with an aggregate carrying amount of RMB12,634,000 (2015: RMB11,433,000) were pledged to secure bank loans granted to the Group (note 29).

17. GOODWILL

	2016 RMB'000	2015 RMB'000
Cost at 1 January	**392,485**	74,530
Acquisition of subsidiaries	**–**	317,955
Cost at 31 December	**392,485**	392,485
At 31 December:		
Cost	**392,485**	392,485
Accumulated impairment	**–**	–
Net carrying amount	**392,485**	392,485

17. GOODWILL (continued)

Goodwill acquired through business combinations are allocated to the following cash-generating units for impairment testing, all of which are under the logistics business segment:

- Qingdao Goodaymart Home Furnishing Service Co., Ltd. ("Qingdao Furnishing Service");
- Shanghai Boyol New Brothers Supply Chain Management Co., Ltd. ("Shanghai Beiye Supply Chain"); and
- Sheng Feng Logistics Group Co., Ltd. ("Shengfeng Logistics").

Qingdao Furnishing Service

The recoverable amount of Qingdao Furnishing Service has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 17.2% (2015: 17.5%). The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2015: 3%).

Shanghai Beiye Supply Chain

The recoverable amount of Shanghai Beiye Supply Chain has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 18.5% (2015: 18.2%). The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2015: 3%).

Assumptions were used in the value in use calculation of the cash-generating units for 31 December 2016 and 31 December 2015. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the actual gross margin achieved in the year immediately before the budget year and expected market development.

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

17. GOODWILL (continued)

Shengfeng Logistics

The recoverable amount of Shengfeng Logistics has been determined based on its fair value less cost of disposal categorised in Level 3 using cash flows projections on financial budgets covering a ten-year period approved by senior management. The discount rate applied to the cash flow projections is 14.5% (2015:14.4%). The growth rate used to extrapolate the cash flows beyond the ten-year period is 3% (2015: 3%).

Assumptions were used in the fair value calculation for 31 December 2016 and 31 December 2015. The following describes each key assumption on which management has based its cash flow projections to determine the fair value:

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

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margin in the years immediately before the budget year, increased for expected efficiency improvement and market development.

Turnover days of net working capital – The basis used to determine the value assigned to the turnover days of net working capital is the actual turnover days for the year ended 31 December 2016, decreased for management efficiency improvement.

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

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

	Qingdao Furnishing Service		Shanghai Beiye Supply Chain		Shengfeng Logistics		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of goodwill	**6,123**	6,123	**68,407**	68,407	**317,955**	317,955	**392,485**	392,485

18. OTHER INTANGIBLE ASSETS

	Software RMB'000	Patents and licences RMB'000	Management service arrangements RMB'000 (note i)	Customer relationships RMB'000	Trademark RMB'000 (note ii)	Total RMB'000
31 December 2016						
At 1 January 2016:						
Cost	52,310	2,429	70,000	18,967	45,000	188,706
Accumulated amortisation and impairment	(25,394)	(2,429)	(15,750)	(6,261)	–	(49,834)
Net carrying amount	26,916	–	54,250	12,706	45,000	138,872
Cost at 1 January 2016, net of accumulated amortisation and impairment	26,916	–	54,250	12,706	45,000	138,872
Additions	2,173	–	–	–	–	2,173
Amortisation provided during the year	(3,875)	–	(3,500)	(2,514)	–	(9,889)
Cost at 31 December 2016, net of accumulated amortisation and impairment	25,214	–	50,750	10,192	45,000	131,156
At 31 December 2016:						
Cost	54,483	2,429	70,000	18,967	45,000	190,879
Accumulated amortisation and impairment	(29,269)	(2,429)	(19,250)	(8,775)	–	(59,723)
Net carrying amount	25,214	–	50,750	10,192	45,000	131,156

18. OTHER INTANGIBLE ASSETS (continued)

	Software RMB'000	Patents and licences RMB'000	Management service arrangements RMB'000 (note i)	Customer relationships RMB'000	Trademark RMB'000 (note ii)	Total RMB'000
31 December 2015						
At 1 January 2015:						
Cost	44,405	2,429	70,000	18,967	45,000	180,801
Accumulated amortisation and impairment	(20,212)	(2,429)	(12,250)	(3,747)	–	(38,638)
Net carrying amount	24,193	–	57,750	15,220	45,000	142,163
Cost at 1 January 2015, net of accumulated amortisation and impairment	24,193	–	57,750	15,220	45,000	142,163
Additions	7,116	–	–	–	–	7,116
Acquisition of subsidiaries	939	–	–	–	–	939
Disposal of subsidiaries (note 41)	(150)	–	–	–	–	(150)
Amortisation provided during the year	(5,182)	–	(3,500)	(2,514)	–	(11,196)
Cost at 31 December 2015, net of accumulated amortisation and impairment	26,916	–	54,250	12,706	45,000	138,872
At 31 December 2015:						
Cost	52,310	2,429	70,000	18,967	45,000	188,706
Accumulated amortisation and impairment	(25,394)	(2,429)	(15,750)	(6,261)	–	(49,834)
Net carrying amount	26,916	–	54,250	12,706	45,000	138,872

Notes:

(i) The cost related to the original fair values of the management services agreements acquired by the Group in the prior year amounting to RMB70,000,000, which is amortised over the tenure of the management services agreements. According to the management services agreements, the Group is entitled to receive management fees broadly equal to 2% of the annual purchasing orders (in monetary value) for 2011 to 2018 and 1% for 2019 to 2030 from certain Haier franchise stores.

(ii) The trademark is attributable to Shanghai Beiye Supply Chain cash-generate unit.

19. INVESTMENTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Share of net assets	**286,834**	283,658
Goodwill on acquisition	**12,475**	36,490
	299,309	320,148

The Group's trade and other receivable and payable balances with the associates are disclosed in notes 23, 24, 27 and 28 to the financial statements, respectively.

The associates of the Group are not individually material, and the aggregate financial information of the associates is illustrated in the following table:

	2016 RMB'000	2015 RMB'000
Share of the associates' profits/(losses) for the year	**(27,323)**	11,714
Aggregate carrying amount of the Group's investments in the associates	**299,309**	320,148

The unrecognised share of losses of the above investments in associates for the year and cumulatively as at 31 December 2016 amounted to RMB2,015,000 (2015: Nil).

20. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 RMB'000
Unlisted equity investments, at cost	**1,379,662**	1,290,914
Unlisted equity investments, at fair value	**21,759**	–
Impairment	**(25)**	(25)
	1,401,396	1,290,889

As at the end of the reporting period, certain of the Group's available-for-sale investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of them in the near future.

21. OTHER NON-CURRENT ASSETS

Other non-current assets represent derivative financial instruments arising from the acquisition of investee companies in prior years. They are measured at fair value and are categorised in Level 3 of the fair value measurement.

22. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**35,652**	30,500
Work in progress	**37,741**	19,869
Finished goods	**5,110,006**	4,349,110
	5,183,399	4,399,479

At 31 December 2015, certain inventories with an aggregate carrying amount of RMB30,760,000 were pledged as security for the Group's borrowings, as further detailed in note 29 to the financial statements.

23. TRADE AND BILLS RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade and bills receivables	**5,759,444**	5,049,699
Impairment	**(60,109)**	(78,575)
	5,699,335	4,971,124

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

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Trade receivables:		
Within 1 month	**2,076,686**	1,691,287
1 to 2 months	**420,688**	402,632
2 to 3 months	**133,624**	274,375
Over 3 months	**154,210**	321,884
	2,785,208	2,690,178
Bills receivable	**2,914,127**	2,280,946
	5,699,335	4,971,124

23. TRADE AND BILLS RECEIVABLES (continued)

The movements in provision for impairment of trade receivables are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**78,575**	18,006
Acquisition of subsidiaries	**–**	8,218
Impairment losses recognised (note 6)	**15,402**	61,660
Amount written off as uncollectible	**(13,926)**	(963)
Impairment losses reversed (note 6)	**(19,942)**	(8,346)
As at 31 December	**60,109**	78,575

Included in the above provision for impairment of trade receivables is a provision for impaired trade receivables of RMB60,109,000 (2015: RMB78,575,000) with a carrying amount before provision of RMB160,676,000 (2015: RMB176,274,000).

The impaired trade receivables relate to customers that were in default in principal payments and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade and bills receivables and the corresponding impairment is as follows:

2016	Not impaired	Impaired		Total
		Carrying amount of trade receivables before provision	Provision	
	RMB'000	RMB'000	RMB'000	RMB'000
Not past due	**5,500,623**	**412**	**(412)**	**5,500,623**
Less than 1 year past due	**71,974**	**111,660**	**(18,459)**	**165,175**
1 to 2 years past due	**26,171**	**48,604**	**(41,238)**	**33,537**
	5,598,768	**160,676**	**(60,109)**	**5,699,335**

23. TRADE AND BILLS RECEIVABLES (continued)

2015	Not impaired	Impaired		Total
		Carrying amount of trade receivables before provision	Provision	
	RMB'000	RMB'000	RMB'000	RMB'000
Not past due	4,809,610	12	(12)	4,809,610
Less than 1 year past due	27,628	95,780	(11,416)	111,992
1 to 2 years past due	36,187	80,482	(67,147)	49,522
	4,873,425	176,274	(78,575)	4,971,124

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in the Group's trade and bills receivables are amounts due from Haier Affiliates of RMB1,295,980,000 (2015: RMB829,216,000) and due from associates of RMB16,695,000 (2015: 31,262,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group. Further details of the sales to these related parties are set out in note 13 to the financial statements.

At 31 December 2016, certain of the Group's bills receivable of approximately RMB60,421,000 (2015: RMB29,263,000) were pledged to secure certain of the Group's bills payable (note 27).

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments	**3,064,279**	2,407,366
Deposits	**88,417**	88,437
Other receivables	**1,381,820**	881,439
	4,534,516	3,377,242
Impairment	**(47,898)**	(13,779)
	4,486,618	3,363,463

The movements in provision for impairment of prepayments and other receivables are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**13,779**	4,058
Impairment losses recognised (note 6)	**47,239**	12,802
Amount written off as uncollectible	**(3,033)**	(2,757)
Disposal of subsidiaries	**(649)**	–
Impairment losses reversed (note 6)	**(9,438)**	(324)
As at 31 December	**47,898**	13,779

Except for prepayments and other receivables amounting to RMB47,586,000 (2015: RMB13,761,000) and RMB312,000 (2015: RMB18,000), respectively, none of the above assets is either past due or impaired. Other than the aforementioned impaired prepayments and other receivables, the financial assets included in the above balances relate to prepayments and other receivables for which there was no recent history of default.

Included in the Group's prepayments, deposits and other receivables are amounts due from Haier Affiliates of RMB2,905,104,000 (2015: RMB2,053,226,000) and due from associates of RMB195,000 (2015: RMB1,899,000), respectively, which are unsecured, interest-free and repayable on demand.

25. OTHER FINANCIAL ASSETS

Other financial assets represented financial products with original maturity of within one year when acquired from banks. The principals of these financial products are guaranteed by banks and cannot be withdrawn prior to the maturity date.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**3,670,195**	2,872,936
Time deposits	**8,997,348**	7,403,545
	12,667,543	10,276,481
Less: Deposits pledged for bills payable (note 27)	**(71,272)**	(30,369)
Deposits pledged for the bank guarantee	**–**	(1,620)
	(71,272)	(31,989)
Cash and cash equivalents	**12,596,271**	10,244,492

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB11,647,247,000 (2015: RMB9,125,678,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

Included in the Group's cash and cash equivalents are deposits of approximately RMB1,262,725,000 (2015: RMB1,290,006,000) placed with Haier Group Finance Co., Ltd. ("Haier Finance"), which is a fellow subsidiary of the Group and is a financial institution approved by the People's Bank of China. The interest rate on these deposits ranges from 0.30% to 1.95% per annum. Further details of the interest income attributable to the deposits placed with Haier Finance are set out in note 13 to the financial statements.

27. TRADE AND BILLS PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Trade payables:		
Within 1 month	**3,930,123**	3,640,107
1 to 2 months	**175,503**	176,997
2 to 3 months	**150,387**	76,815
Over 3 months	**213,124**	141,923
	4,469,137	4,035,842
Bills payable	**114,080**	53,847
	4,583,217	4,089,689

The trade and bills payables are non-interest-bearing and are normally settled on credit terms ranging from 30 to 180 days.

Included in the Group's trade payables are amounts due to Haier Affiliates of RMB2,154,999,000 (2015: RMB2,556,062,000) and due to associates of RMB3,486,000 (2015: RMB18,442,000), respectively, which are repayable on credit terms similar to those offered by other similar suppliers of the Group. Further details of the purchases from these related parties are set out in note 13 to the financial statements.

At 31 December 2016, certain of the Group's bills payable are secured by the pledge of the Group's bank deposits amounting to RMB71,272,000 (2015: RMB30,369,000) (note 26) and the Group's bills receivable amounting to RMB60,421,000 (2015: RMB29,263,000) (note 23).

28. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Other payables	**3,595,752**	3,262,646
Accruals	**1,812,312**	1,741,082
Receipt in advance	**4,697,322**	2,575,100
Advances received for partial disposals of investments	**104,000**	51,366
Deferred income	**15,443**	14,400
	10,224,829	7,644,594

Other payables are non-interest-bearing and repayable on demand.

Included in the Group's other payables and accruals are amounts due to Haier Affiliates of RMB843,965,000 (2015: RMB908,434,000) and associates of RMB21,080,000 (2015: RMB16,969,000), respectively, which are unsecured, interest-free and repayable on demand.

29. INTEREST-BEARING BORROWINGS

	2016			2015		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Bank loans – unsecured	**5.50**	**2017**	**50,000**	5.75–7.28	2016	35,000
Bank loans – secured	**5.00**	**2017**	**23,000**	5.00–7.80	2016	31,400
Other loans – secured	**–**	**–**	**–**	5.60	2016	20,000
			73,000			86,400

	2016 RMB'000	2015 RMB'000
Analysed into:		
Borrowings repayable within one year	**73,000**	86,400

All interest-bearing loans are RMB-denominated.

29. INTEREST-BEARING BORROWINGS (continued)

Certain of the Group's bank loans are secured by mortgages over the Group's buildings and prepaid land lease payments, which had an aggregate carrying value at the end of the reporting period of RMB30,171,000 (2015: RMB37,579,000). In addition, certain of the Group's bank loans at 31 December 2015 were secured by mortgages over the Group's motor vehicles, which had an aggregate carrying value of RMB28,992,000.

The Group's other loans at 31 December 2015 were borrowed from Haier Finance and secured by floating charges over certain of the Group's inventories totalling RMB30,760,000. Further details of the interest expenses attributable to the loans borrowed from Haier Finance are set out in note 13 to the financial statements.

30. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles for its logistics business through sale and finance lease back arrangements entered into with independent third parties. The remaining lease terms range from 1 to 2 years, and the effective interest rates range from 5.60% to 6.27%.

At 31 December 2016, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 2016 RMB'000	Minimum lease payments 2015 RMB'000	Present value of minimum lease payments 2016 RMB'000	Present value of minimum lease payments 2015 RMB'000
Amounts payable:				
Within one year	**9,629**	12,145	**9,338**	10,877
In the second year	**8,198**	9,996	**7,534**	9,320
In the third year	**–**	7,827	**–**	7,597
Total minimum finance lease payments	**17,827**	29,968	**16,872**	27,794
Future finance charges	**(955)**	(2,174)		
Total net finance lease payables	**16,872**	27,794		
Portion classified as current liabilities	**(9,338)**	(10,877)		
Non-current portion	**7,534**	16,917		

31. DUE TO A NON-CONTROLLING SHAREHOLDER

The loans borrowed from a non-controlling shareholder are unsecured, interest-free and repayable on demand.

32. PUT OPTION LIABILITIES

In prior years, the Company entered into incentive agreements with the non-controlling shareholders of certain subsidiaries pursuant to which the non-controlling shareholders agreed to meet the prescribed financial and operational performance targets of the non-wholly-owned subsidiaries laid down by the Company and the Company had agreed to grant put options to these non-controlling shareholders in return. In accordance with the terms of the incentive agreements and subject to the fulfilment of the prescribed financial and operational performance targets at the relevant financial year ends during the tenures of the put options, these non-controlling shareholders of subsidiaries would be entitled to exercise the put options to require the Company to purchase part of or the entire equity interests (not already owned by the Group) in the non-wholly-owned subsidiaries at prices to be determined based on the agreed formula.

The put option liabilities are carried at fair value. The fair values as at 31 December 2016 and 31 December 2015 were calculated on the basis of the actual operational performance outcome of the operations for the year ended 31 December 2015 which was the last assessment period during the tenures of the put options and are categorised in Level 2 of the fair value measurements.

33. SHARE-BASED PAYMENT LIABILITIES

In the prior year, the management of Haier Group E-commerce Co., Ltd ("E-commerce") was granted equity interests in E-commerce under certain conditions, including three-year service contracts with E-commerce. Upon the fulfilment of the prescribed financial targets by E-commerce, the E-commerce management has the right to sell their granted equity interests in E-commerce to the Group at prices to be determined based on the agreed formula. The share-based payment liabilities were all settled during the year.

The share-based payment liabilities and the corresponding costs are measured by reference to the fair value of the equity interests granted and are recognised over the period in which the performance and/or service conditions are fulfilled.

34. CONVERTIBLE AND EXCHANGEABLE BONDS

In the prior year, the Group and the Alibaba Group agreed on a strategic collaboration through the Strategic Investments Agreements to further develop the Group's logistics business carried out by Qingdao Goodaymart Logistics Co., Ltd. ("Goodaymart Logistics"), a then indirect wholly-owned subsidiary of the Company. According to the Convertible and Exchangeable Bond Agreement entered into between the Group and the Alibaba Group on 20 March 2014, the Company issued convertible and exchangeable bonds (the "CEB") to Alibaba Group with a principal amount of HK$1,316,036,000 (equivalent to RMB1,055,023,000). The CEB is interest-bearing at a rate of 1.5% per annum and is due to mature on 20 March 2017. The CEB is convertible into ordinary shares of the Company at a conversion price of HK$19.334 per share (the "Conversion Right") or exchangeable into the ordinary shares of Goodaymart Logistics (the "Exchange Right"), at the options of the CEB holders. If the Conversion Right is exercised, all interests accrued up to the date of the conversion will be payable and taken into account in arriving at the number of convertible shares. If the Exchange Right is exercised, no interest will be payable by the Company.

The fair value of the liability component of the CEB amounting to RMB1,000,185,000 was estimated at the issuance date using an equivalent market interest rate for a similar bond without conversion and exchange options.

The components of the CEB on the issuance date were split into as follows:

	2016 **RMB'000**	2015 RMB'000
Liability component	**1,000,185**	1,000,185
Equity component – Conversion Right	**32,034**	32,034
Equity component – Exchange Right (note)	**22,804**	22,804
	1,055,023	1,055,023

Note: With regard to the Company's financial statements, the Exchange Right was recognised as a derivative financial instrument measured at fair value. The subsequent change in fair value is recognised in the statement of profit or loss. The fair value of the derivative financial instrument is determined using valuation techniques and is categorised within Level 3. The carrying amount of the derivative financial instrument as at 31 December 2016 was RMB3,691,000 (2015: RMB24,985,000).

The movement of the liability component of CEB is as follows:

	2016 **RMB'000**	2015 RMB'000
At 1 January	**1,107,735**	1,024,382
Interest expense (note 7)	**37,301**	34,202
Exchange realignment	**78,184**	49,151
At 31 December	**1,223,220**	1,107,735

35. PROVISIONS

		Product warranties and installation	
		2016	2015
	Note	**RMB'000**	RMB'000
At 1 January		**832,791**	837,184
Additions	6	**861,184**	776,059
Amounts utilised during the year		**(835,753)**	(780,452)
At 31 December		**858,222**	832,791
Portion classified as current liabilities		**(545,717)**	(520,309)
Non-current portion		**312,505**	312,482

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

36. DEFERRED TAX

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

Deferred tax assets

			2016		
	Accruals	Provisions	Unrealised profits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	**382,730**	**69,231**	**75,064**	**94,455**	**621,480**
Disposal of subsidiaries (note 41)	**–**	**–**	**–**	**(142)**	**(142)**
Deferred tax credited/(charged) to the statement of profit or loss during the year, net (note 10)	**34,938**	**22,081**	**39,383**	**(5,445)**	**90,957**
At 31 December	**417,668**	**91,312**	**114,447**	**88,868**	**712,295**

36. DEFERRED TAX (continued)

Deferred tax assets (continued)

	2015				
	Accruals RMB'000	Provisions RMB'000	Unrealised profits RMB'000	Others RMB'000	Total RMB'000
At 1 January	421,808	77,825	66,804	57,111	623,548
Acquisition of subsidiaries	–	–	–	6,205	6,205
Deferred tax credited/(charged) to the statement of profit or loss during the year, net (note 10)	(39,078)	(8,594)	8,260	31,139	(8,273)
At 31 December	382,730	69,231	75,064	94,455	621,480

Deferred tax liabilities

	2016			
	Fair value adjustments arising from acquisition of subsidiaries RMB'000	**Withholding taxes RMB'000**	**Others RMB'000**	**Total RMB'000**
At 1 January	**8,275**	**9,127**	**3,637**	**21,039**
Deferred tax charged/(credited) to the statement of profit or loss during the year, net (note 10)	**(854)**	**28,873**	**4,020**	**32,039**
Exchange differences	**–**	**630**	**–**	**630**
At 31 December	**7,421**	**38,630**	**7,657**	**53,708**

36. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

	2015			
	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Withholding taxes RMB'000	Others RMB'000	Total RMB'000
At 1 January	6,882	8,720	–	15,602
Acquisition of subsidiaries	2,689	–	–	2,689
Deferred tax charged/(credited) to the statement of profit or loss during the year, net (note 10)	(1,296)	–	3,637	2,341
Exchange differences	–	407	–	407
At 31 December	8,275	9,127	3,637	21,039

The Group has tax losses arising in Hong Kong of RMB30,849,000 (2015: RMB49,147,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of RMB970,048,000 (2015: RMB690,494,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the Company and subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

As at 31 December 2016, an amount of RMB38,630,000 (2015: RMB9,127,000) has been recognised for withholding taxes for the earnings of the PRC subsidiaries to be remitted in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB15,692,940,000 at 31 December 2016 (2015: RMB12,991,696,000). In the opinion of the directors, it is not probable that such earnings will be distributed in the foreseeable future.

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

37. ISSUED EQUITY

	Issued equity RMB'000
At 1 January 2015	1,863,462
Exercise of share options	943
Conversion of convertible bonds	938,695
Exercise of put options	94,780
Shares issued for the Restricted Share Award Scheme	27
Shares repurchased	(6,823)
At 31 December 2015 and 1 January 2016	2,891,084
Exercise of put options	11,570
Shares transferred to participants from the Share Award Scheme Trust	(3,213)
Shares repurchased	(22,549)
At 31 December 2016	2,876,892

Shares

Company

	2016 HK$'000	2015 HK$'000
Authorised: 30,000,000,000 shares of HK$0.1 each	**3,000,000**	3,000,000

	2016		2015	
	HK$'000	RMB'000 equivalent	HK$'000	RMB'000 equivalent
Issued and fully paid: 2,792,076,768 (2015: 2,793,156,443) shares of HK$0.1 each	**279,208**	**275,153**	279,316	275,246

37. ISSUED EQUITY (continued)

The movements of the Company's issued share capital during the year are as follows:

	Number of shares in issue	Issued share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2015	2,686,806,143	266,732	1,317,021	1,583,753
Exercise of share options	48,000	4	939	943
Conversion of convertible bonds	100,000,000	8,005	930,690	938,695
Exercise of put options	6,610,700	531	94,249	94,780
Shares issued for the Restricted Share Award Scheme	343,600	27	–	27
Shares repurchased	(652,000)	(53)	(6,770)	(6,823)
At 31 December 2015 and 1 January 2016	**2,793,156,443**	**275,246**	**2,336,129**	**2,611,375**
Exercise of put options (note i)	**1,112,325**	**95**	**11,475**	**11,570**
Shares transferred to participants from the Share Award Scheme Trust (note ii)	**–**	**–**	**(3,213)**	**(3,213)**
Shares repurchased (note iii)	**(2,192,000)**	**(188)**	**(22,361)**	**(22,549)**
At 31 December 2016	**2,792,076,768**	**275,153**	**2,322,030**	**2,597,183**

Notes:

(i) During the year, the Company issued 1,112,325 shares for approximately RMB11,570,000 to a non-controlling shareholder of a Group's subsidiary who entered into incentive agreements with the Group and had achieved the prescribed performance targets.

(ii) During the year, the Company transferred 920,000 shares which were held by the Share Award Scheme Trust to participants for a total cash consideration of HK$6,168,000 (equivalent to RMB5,293,000) under the Restricted Share Award Scheme. An amount of RMB4,138,000 was transferred from the awarded share reserve to the share premium account, and an amount of RMB12,644,000 was credited to Shares held for the Restricted Share Award Scheme.

(iii) During the year, the Company repurchased 2,192,000 shares for approximately HK$26,253,000 (equivalent to RMB22,549,000). All of the repurchased shares were cancelled during the year and the issued shares of the Company were reduced by the par value thereof. The premium paid on the repurchases of the Company's shares of HK$26,034,000 (equivalent to RMB22,361,000) has been charged to the share premium account of the Company. An amount equivalent to the par value of the shares cancelled has been transferred from the accumulated losses of the Company to the capital redemption reserve.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 39 to the financial statements.

38. SHARES HELD FOR THE RESTRICTED SHARE AWARD SCHEME

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

As at 31 December 2016, the number of ordinary shares held for the Awarded Scheme was 11,820,600 (2015: 12,740,600) with an aggregate carrying amount of RMB152,984,000 (2015: RMB165,628,000).

The following awarded shares were outstanding under the Award Scheme during the year:

	2016		2015	
	Weighted average exercise price per share HK$	**Number of awarded shares**	Weighted average exercise price per share HK$	Number of awarded shares
At 1 January	**9.685**	**3,990,400**	9.685	4,110,000
Granted during the year	**0.56**	**17,952,000**	–	–
Forfeited/lapsed during the year	**9.685**	**(3,290,000)**	–	(119,600)
Exercised during the year	**6.70**	**(920,000)**	9.685	–
At 31 December	**0.60**	**17,732,400**	9.685	3,990,400

The weighted average share price at the dates of exercise for awarded shares exercised during the year was HK$12.63 per share.

38. SHARES HELD FOR THE RESTRICTED SHARE AWARD SCHEME (continued)

The exercise prices and exercise periods of the awarded shares outstanding as at the end of the reporting period are as follows:

2016			2015		
Number of awarded shares	Exercise price* HK$ per share	Exercise period	Number of awarded shares	Exercise price* HK$ per share	Exercise period
620,400	9.685	15/04/2015–14/04/2018	3,990,400	9.685	15/04/2015–14/04/2018
722,000	6.42	08/07/2016–07/07/2020	–	–	–
16,390,000	–	01/07/2017–01/07/2018	–	–	–
17,732,400			3,990,400		

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

The fair values of the awarded shares granted during the year were approximately RMB6,587,000 and RMB156,663,000 (RMB4.22 and RMB9.56 each), of which the Group recognised a restricted share expense of RMB52,489,000 during the year ended 31 December 2016.

The fair value of equity-settled awarded shares granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the awarded shares were granted.

The following table lists the inputs to the model used:

	2016
Dividend yield (%)	1.06
Historical volatility (%)	39.19-41.36
Risk-free interest rate (%)	0.254-0.556
Contractual life of options (year)	0-1.98
Closing price of a share on the date of grant (HK$ per share)	11.34

The expected volatility is determined based on the historical volatility of the share price of the Company. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the awarded shares granted was incorporated into the measurement of fair value.

38. SHARES HELD FOR THE RESTRICTED SHARE AWARD SCHEME (continued)

During the year, the Company transferred 920,000 shares which were held by the Share Award Scheme Trust to participants for a total cash consideration of HK$6,168,000 (equivalent to RMB5,293,000) under the Restricted Share Award Scheme. As further detailed in note 37 to the financial statements.

Subsequent to the end of the reporting period, on 3 March 2017, a total of 11,090,000 awarded shares of an exercise price of HK$0 per share were granted to employees of the Group under the Restricted Share Award Scheme. The price of the Company's shares at the date of grant was HK$14.5 per share.

At the date of approval of these financial statements, the Company had 28,822,400 awarded shares outstanding under the Award Scheme, which represented approximately 1.03% of the Company's shares in issue as at that date.

39. SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to the eligible participants who contribute to the success of the operations of the Group. Eligible participants of the share option scheme include any employee, executive or officer of the Group (including executive, non-executive and independent non-executive directors of the Company) and any supplier, consultant, agent, adviser, shareholder, customer, partner or business associate who, in the opinion of the board of directors of the Company (the "Board"), have contributed to the Group. The Company's current share option scheme became effective on 8 June 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. As at the date of this report, the share option scheme had a remaining life of around four years.

The maximum number of shares in respect of which options may be granted under the share option scheme is such number of shares, when aggregated with shares subject to any other share option scheme(s) of the Company, must not exceed 10% of the issued share capital of the Company as at the date of adoption of the share option scheme. The maximum number of shares issuable upon exercise of the options granted under the share option scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period is limited to 1% of the shares of the Company in issue as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company (and if required, the holding company) and the shareholders' approval of the Company (and if required, the approval of the shareholders of the holding company) in a general meeting.

Share options granted to a director, chief executive officer or substantial shareholder of the Company, or to any of their respective associates, are subject to the approval in advance by the independent non-executive directors of the Company (and if required, the independent non-executive directors of the holding company), excluding the independent non-executive director(s) of the Company and the holding company who is/are the grantee(s) of the options. In addition, any share option granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue as at the date of grant or with an aggregate value (based on the closing price of the shares of the Company as at the date of grant) in excess of RMB5,000,000, within any 12-month period, is subject to the issue of a circular by the Company (and if required, the holding company) and the shareholders' approval of the Company (and if required, the approval of the shareholders of the holding company) in advance in a general meeting.

39. SHARE OPTION SCHEME (continued)

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of RMB1 or HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the board of directors, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options or the expiry date of the share option scheme, whichever is earlier.

The exercise price of the share options is determinable by the board of directors, but may not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a trading day; (ii) the average of the closing prices of the shares of the Company as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the share option scheme during the year:

	2016		2015	
	Weighted average exercise price HK$ per share	**Number of options**	Weighted average exercise price HK$ per share	Number of options
At 1 January	**15.73**	**51,348,800**	19.11	26,300,000
Granted during the year	**–**	**–**	12.84	27,600,000
Forfeited during the year	**17.45**	**(20,046,000)**	19.37	(2,503,200)
Exercised during the year	**–**	**–**	19.37	(48,000)
At 31 December	**14.63**	**31,302,800**	15.73	51,348,800

No share options were exercised in the current year. The weighted average share price at the date of exercise for share options exercised in 2015 was HK$21.00 per share.

39. SHARE OPTION SCHEME (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2016			2015		
Number of options	Exercise price* HK$ per share	Exercise period	Number of options	Exercise price* HK$ per share	Exercise period
950,000	**12.16**	**26/06/2014–25/06/2017**	950,000	12.16	26/06/2014–25/06/2017
8,656,800	**19.37**	**15/04/2015–14/04/2017**	22,798,800	19.37	15/04/2015–14/04/2017
21,696,000	**12.84**	**10/05/2016–10/05/2020**	27,600,000	12.84	10/05/2016–10/05/2020
31,302,800			51,348,800		

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

In respect of the share options granted in prior years, a share option expense of RMB29,794,000 (2015: RMB7,468,000) was recognised during the year ended 31 December 2016.

At the end of the reporting period, the Company had 31,302,800 share options outstanding under the share option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 31,302,800 additional ordinary shares of the Company and additional share capital of approximately HK$3,130,000 (equivalent to RMB2,804,000) and share premium of approximately HK$454,681,000 (equivalent to RMB407,354,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 31,302,800 share options outstanding under the share option scheme, which represented approximately 1.12% of the Company's shares in issue as at that date.

40. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 107 to 108 of the annual report.

The Group's capital reduction reserve arose from the reduction in the nominal value of each of the issued shares of the Company from HK$0.10 to HK$0.01 by the cancellation of paid-up capital of HK$0.09 on each of the issued shares of the Company effective from 8 March 2007.

The Group's capital reserve originally represented the difference between the credit arising from the capital reduction of HK$1,657,866,000 (equivalent to RMB1,758,526,000) and the amount transferred to eliminate the accumulated losses of the Group of HK$1,196,370,000 (equivalent to RMB1,186,521,000).

The capital redemption reserve arose from the share repurchases during the year and in prior years.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or transferred to retained profits should the related options expire or be forfeited.

The awarded share reserve comprises the fair value of the shares granted under the Restricted Share Award Scheme, which are yet to be exercised as further explained in the accounting policy for Award Scheme shares held for the Restricted Share Award Scheme in note 2.4 to the financial statements.

The put option reserve arose from the Company's incentive agreements with non-controlling shareholders of certain subsidiaries, as further detailed in note 32 to the financial statements.

Other reserves mainly represented reserves arising from acquisitions under common control and disposals of subsidiaries without loss of control, deemed disposal of associates, as well as dividend income from shares under the Restricted Share Award Scheme.

Pursuant to the relevant PRC laws and regulations, certain of the Group's subsidiaries registered in the PRC are required to transfer a portion of their profits to reserve funds. These funds are non-distributable in the form of cash dividends. When determining the appropriations to these funds, the net profits of these subsidiaries are determined in accordance with the applicable financial rules and regulations of the PRC.

41. DISPOSAL OF SUBSIDIARIES

	2016 RMB'000	2015 RMB'000
Net assets disposed of:		
Property, plant and equipment	**109**	1,700
Prepaid land lease payments	**20,530**	–
Other intangible assets	**–**	150
Long-term prepayments	**–**	451
Deferred tax assets	**142**	–
Inventories	**4,821**	81,452
Trade and bills receivables	**50,577**	79,807
Prepayments, deposits and other receivables	**16,643**	87,731
Pledged deposits	**27**	–
Cash and cash equivalents	**8,463**	119,615
Trade payables	**(45,495)**	(195,247)
Other payables and accruals	**(4,963)**	(105,242)
Interest-bearing borrowings	**–**	(10,000)
Tax payable	**(286)**	(6,146)
Non-controlling interests	**(24,549)**	(22,914)
	26,019	31,357
Gain/(loss) on disposal of subsidiaries, net	**(6,302)**	239,553
	19,717	270,910
Satisfied by:		
Cash	**17,517**	270,910
Other receivables	**2,200**	–
	19,717	270,910

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

	2016 RMB'000	2015 RMB'000
Cash consideration received	**17,517**	270,910
Cash and bank balances disposed of	**(8,463)**	(119,615)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**9,054**	151,295

42. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

43. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15 to the financial statements) to Haier Affiliates under operating lease arrangements, with leases negotiated for terms ranging from one to three years.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**2,197**	2,016
In the second to third years, inclusive	**1,234**	3,024
	3,431	5,040

(b) As lessee

The Group leases certain properties under operating lease arrangements. Leases for the properties are negotiated for terms ranging from one to twenty years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**344,823**	354,461
In the second to fifth years, inclusive	**337,280**	478,608
After five years	**141,773**	152,419
	823,876	985,488

44. COMMITMENTS

In addition to the operating lease commitments detailed in note 43(b) above, the Group had the following commitments at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**223,919**	217,600

45. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

31 December 2016

	Financial assets at fair value through profit or loss – designated as such upon initial recognition RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	**–**	**–**	**1,401,396**	**1,401,396**
Other non-current assets	**37,515**	**–**	**–**	**37,515**
Trade and bills receivables	**–**	**5,699,335**	**–**	**5,699,335**
Other receivables (note 24)	**–**	**1,381,508**	**–**	**1,381,508**
Other financial assets	**–**	**460,449**	**–**	**460,449**
Pledged deposits	**–**	**71,272**	**–**	**71,272**
Cash and cash equivalents	**–**	**12,596,271**	**–**	**12,596,271**
	37,515	**20,208,835**	**1,401,396**	**21,647,746**

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets (continued)

31 December 2015

	Financial assets at fair value through profit or loss – designated as such upon initial recognition RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	–	–	1,290,889	1,290,889
Other non-current assets	77,345	–	–	77,345
Trade and bills receivables	–	4,971,124	–	4,971,124
Other receivables (note 24)	–	881,421	–	881,421
Due from a fellow subsidiary	–	27,000	–	27,000
Other financial assets	–	250,078	–	250,078
Pledged deposits	–	31,989	–	31,989
Cash and cash equivalents	–	10,244,492	–	10,244,492
	77,345	16,406,104	1,290,889	17,774,338

Financial liabilities

31 December 2016

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	**–**	**4,583,217**	**4,583,217**
Other payables (note 28)	**–**	**3,595,752**	**3,595,752**
Interest-bearing borrowings	**–**	**73,000**	**73,000**
Finance lease payables	**–**	**16,872**	**16,872**
Due to a non-controlling shareholder	**–**	**27,883**	**27,883**
Put option liabilities	**15,700**	**–**	**15,700**
Convertible and exchangeable bonds	**–**	**1,223,220**	**1,223,220**
	15,700	**9,519,944**	**9,535,644**

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities (continued)

31 December 2015

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	4,089,689	4,089,689
Other payables (note 28)	–	3,262,646	3,262,646
Interest-bearing borrowings	–	86,400	86,400
Finance lease payables	–	27,794	27,794
Due to a non-controlling shareholder	–	26,083	26,083
Put option liabilities	51,621	–	51,621
Share-based payment liabilities	10,400	–	10,400
Convertible and exchangeable bonds	–	1,107,735	1,107,735
Other non-current liabilities	43,500	–	43,500
	105,521	8,600,347	8,705,868

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Available-for-sale Investments*	**21,759**	–	**21,759**	–
Other non-current assets	**37,515**	77,345	**37,515**	77,345
	59,274	77,345	**59,274**	77,345
Financial liabilities				
Finance lease payables	**16,872**	27,794	**16,969**	27,027
Put option liabilities	**15,700**	51,621	**15,700**	51,621
Share-based payment liabilities	**–**	10,400	**–**	10,400
Convertible and exchangeable bonds	**1,223,220**	1,107,735	**1,365,769**	1,114,590
Other non-current liabilities	**–**	43,500	**–**	41,527
	1,255,792	1,241,050	**1,398,438**	1,245,165

* As at 31 December 2016, certain of the Group's available-for-sale investments amounting to RMB1,379,637,000 (2015: RMB1,290,889,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably.

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, other financial assets, trade and bills receivables, other receivables, trade and bills payables, interest-bearing borrowings, amounts due from a fellow subsidiary and due to a non-controlling shareholder and other payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of unlisted available-for-sale equity investments and other non-current assets have been estimated using a discounted cash flow valuation model and/or Monte Carlo Simulation model, based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the shares. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair values of finance lease payables and other non-current liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The fair values of the liability component of the CEB are estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar bond without conversion options and exchange right.

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2016 and 2015:

31 December 2016:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Available-for-sale investments	Discounted cash flow method	Long term growth rate for cash flows	2.5% to 3.5%	0.5% increase (decrease) in growth rate would result in increase (decrease) in fair value by RMB1,472,000 (RMB1,346,000)
		Long term operating margin	1.345% to 1.545%	0.1% increase (decrease) in operating margin would result in increase (decrease) in fair value by RMB2,018,000 (RMB2,018,000)
		Weighted average cost of capital (WACC)	13.6% to 14.6%	0.5% increase (decrease) in WACC would result in decrease (increase) in fair value by RMB2,632,000 (RMB2,909,000)
		Discount for lack of marketability	35% to 45%	5% increase (decrease) in discount would result in decrease (increase) in fair value by RMB1,113,000 (RMB1,113,000)
Available-for-sale investments	Discounted cash flow method	Long term growth rate for cash flows	2.5% to 3.5%	0.5% increase (decrease) in growth rate would result in increase (decrease) in fair value by RMB439,000 (RMB398,000)
		Long term operating margin	4.552% to 4.752%	0.1% increase (decrease) in operating margin would result in increase (decrease) in fair value by RMB537,000 (RMB537,000)
		Weighted average cost of capital (WACC)	12.7% to 13.7%	0.5% increase (decrease) in WACC would result in decrease (increase) in fair value by RMB739,000 (RMB827,000)
		Discount for lack of marketability	9% to 19%	5% increase (decrease) in discount would result in decrease (increase) in fair value by RMB493,000 (RMB493,000)

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

31 December 2016 (continued):

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Other non-current assets	Monte Carlo Simulation	Median volatility of comparable companies	2016: 20.31% to 40.31% (2015: 42.8% to 62.8%)	10% (2015:10%) increase (decrease) in the median volatility of comparable companies would result in increase (decrease) in fair value by RMB944,000 (RMB461,000) (2015: RMB3,800,000 (RMB3,100,000))
		Risk-free interest rate	2016: 1.66% to 3.66% (2015: 1.37% to 3.37%)	1% (2015:1%) increase (decrease) in the risk-free interest rate would result in increase (decrease) in fair value by RMB7,000 (RMB72,000) (2015: RMB2,000,000 (RMB990,000))
Other non-current assets	Discounted cash flow method	Long term growth rate for cash flows	2.5% to 3.5%	0.5% increase (decrease) in growth rate would result in increase (decrease) in fair value by RMB1,033,000 (RMB937,000)
		Long term operating margin	4.552% to 4.752%	0.1% increase (decrease) in operating margin would result in increase (decrease) in fair value by RMB1,263,000 (RMB1,263,000)
		Weighted average cost of capital (WACC)	12.7% to 13.7%	0.5% increase (decrease) in WACC would result in decrease (increase) in fair value by RMB1,740,000 (RMB1,946,000)
		Discount for lack of marketability	9% to 19%	5% increase (decrease) in discount would result in decrease (increase) in fair value by RMB1,161,000 (RMB1,161,000)

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

31 December 2015:

	Valuation techniques	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Other non-current assets	Monte Carlo Simulation	Median volatility of comparable companies	19.13% to 39.13%	10% increase (decrease) in the median volatility of comparable companies would result in increase (decrease) in fair value by RMB273,000 (RMB320,000)
		Risk-free interest rate	1.86% to 3.86%	1% increase (decrease) in the risk-free interest rate would result in increase (decrease) in fair value by RMB211,000 (RMB340,000)

Assets measured at fair values:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Available-for-sale investments	**–**	**–**	**21,759**	**21,759**
Other non-current assets	**–**	**–**	**37,515**	**37,515**
	–	**–**	**59,274**	**59,274**

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Other non-current assets	–	–	77,345	77,345

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities measured at fair values:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Put option liabilities	**–**	**15,700**	**–**	**15,700**

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Put option liabilities	–	51,621	–	51,621
Share-based payment liabilities	–	10,400	–	10,400
	–	62,021	–	62,021

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities for which fair values are disclosed:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Finance lease payables	–	–	16,969	16,969
Convertible and exchangeable bonds	–	–	1,365,769	1,365,769
	–	–	1,382,738	1,382,738

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Finance lease payables	–	–	27,027	27,027
Convertible and exchangeable bonds	–	–	1,114,590	1,114,590
Other non-current liabilities	–	–	41,527	41,527
	–	–	1,183,144	1,183,144

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing borrowings, finance lease payables, amount due to a non-controlling shareholder, CEB and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. These exposures mainly arise from sales or purchases by the Group's operating units in Mainland China and Hong Kong in currencies other than the units' functional currencies (i.e., RMB or the Hong Kong dollar). The Group does not enter into any hedging transactions in an effort to reduce the Group's exposure to foreign currency risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar exchange rates with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no significant impact on other components of the Group's equity.

	Increase/ (decrease) in exchange rates %	Increase/ (decrease) in profit before tax RMB'000
31 December 2016		
If RMB strengthens against the United States dollar	**5**	**(25,781)**
If RMB weakens against the United States dollar	**(5)**	**25,781**
If RMB strengthens against the Hong Kong dollar	**5**	**(14,125)**
If RMB weakens against the Hong Kong dollar	**(5)**	**14,125**
31 December 2015		
If RMB strengthens against the United States dollar	5	(41,519)
If RMB weakens against the United States dollar	(5)	41,519

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits, other financial assets and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk(continued)

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing borrowings. It is the Group's policy to renew its loan agreements with Haier Finance or major local banks in Mainland China upon the maturity of the Group's short term bank loans and other borrowings when funding is needed.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

31 December 2016

	On demand or no fixed terms of repayment RMB'000	Within one year RMB'000	Over one year RMB'000	Total RMB'000
Trade and bills payables	–	4,583,217	–	4,583,217
Other payables (note 28)	3,595,752	–	–	3,595,752
Interest-bearing borrowings	–	76,050	–	76,050
Finance lease payables	–	9,629	8,198	17,827
Due to a non-controlling shareholder	27,883	–	–	27,883
Put option liabilities	–	15,700	–	15,700
Convertible and exchangeable bonds	–	1,223,220	–	1,223,220
	3,623,635	5,907,816	8,198	9,539,649

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

31 December 2015

	On demand or no fixed terms of repayment RMB'000	Within one year RMB'000	Over one year RMB'000	Total RMB'000
Finance lease payables	–	12,145	17,823	29,968
Interest-bearing borrowings	–	88,927	–	88,927
Trade and bills payables	–	4,089,689	–	4,089,689
Other payables (note 28)	3,262,646	–	–	3,262,646
Due to a non-controlling shareholder	26,083	–	–	26,083
Put option liabilities	–	51,621	–	51,621
Share-based payment liabilities	–	10,400	–	10,400
Convertible and exchangeable bonds	–	–	1,152,579	1,152,579
Other non-current liabilities	–	–	43,500	43,500
	3,288,729	4,252,782	1,213,902	8,755,413

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

The Group monitors working capital using a gearing ratio, which is total debt divided by total equity. The Group's policy is to maintain the gearing ratio not exceeding 50%. Total debt includes interest-bearing borrowings, financial lease payables, amount due to a non-controlling shareholder and CEB. The gearing ratios as at the end of the reporting periods were as follows:

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

	2016 RMB'000	2015 RMB'000
Financial lease payables	**16,872**	27,794
Interest-bearing borrowings	**73,000**	86,400
Due to a non-controlling shareholder	**27,883**	26,083
Convertible and exchangeable bonds	**1,223,220**	1,107,735
Total debt	**1,340,975**	1,248,012
Total equity	**18,370,395**	15,722,259
Gearing ratio	**7%**	8%

48. EVENTS AFTER THE REPORTING PERIOD

(a) On 3 January 2017, the Company received an exchange notice from Alibaba Investment Limited, a wholly-owned subsidiary of the Alibaba Group, for the exercise of the Exchange Right under the CEB to exchange all the CEB in the principal amount of HK$1,316,036,000 for all the non-voting rights of Heroic Plan Global Limited, a wholly-owned subsidiary of the Group which in turn holds 24.10% interest in Goodaymart Logistics through Partner Century Holdings Limited, a wholly-owned subsidiary of the Group. The Company also received an option notice from Alibaba Investment Limited for the exercise of the call option under the CEB to acquire the voting rights of Heroic Plan Global Limited at the exercise price of HK$5.

Upon the completion of the above transactions, all the non-voting and voting shares of Heroic Plan Global Limited have been transferred to Alibaba Investment Limited and therefore the Alibaba Group currently holds a 24.10% interest in Goodaymart Logistics through Alibaba Investment Limited. In addition, as disclosed in the Company's announcement dated 9 December 2013, the Alibaba Group holds a further equity interest of 9.90% in Goodaymart Logistics through Taobao China Holding Limited, a wholly-owned subsidiary of the Alibaba Group. Accordingly, the Alibaba Group indirectly holds an aggregate of 34% of the equity interest of Goodaymart Logistics.

(b) On 3 March 2017, 11,090,000 awarded shares were granted to certain employees of the Group, as further detailed in note 38 to the financial sentiments.

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**3,569,669**	3,327,905
Other intangible assets	**50,750**	54,250
Due from subsidiaries	**1,908,093**	1,773,646
Total non-current assets	**5,528,512**	5,155,801
CURRENT ASSETS		
Prepayments, deposits and other receivables	**5,311**	3,912
Cash and cash equivalents	**255,190**	530,596
Total current assets	**260,501**	534,508
CURRENT LIABILITIES		
Other payables and accruals	**28,206**	381,517
Convertible and exchangeable bonds	**1,223,220**	–
Total current liabilities	**1,251,426**	381,517
NET CURRENT ASSETS/(LIABILITIES)	**(990,925)**	152,991
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,537,587**	5,308,792
NON-CURRENT LIABILITIES		
Due to subsidiaries	**61,664**	60,031
Convertible and exchangeable bonds	**–**	1,107,735
Derivative financial instruments	**3,691**	24,985
Total non-current liabilities	**65,355**	1,192,751
Net assets	**4,472,232**	4,116,041
EQUITY		
Issued capital	**275,153**	275,246
Shares held for the Restricted Share Award Scheme	**(152,984)**	(165,628)
Equity component of convertible bonds	**–**	–
Equity component of convertible and exchangeable bonds	**32,034**	32,034
Reserves (note)	**4,318,029**	3,974,389
Total equity	**4,472,232**	4,116,041

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Contributed surplus RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Awarded share reserve RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Other reserve RMB'000	Total reserve RMB'000
At 1 January 2015	1,317,021	2,497,460	184	52,312	15,304	(396,057)	(407,872)	–	3,078,352
Total comprehensive income for the year	–	–	–	–	–	(64,734)	191,346	–	126,612
Issue of shares	95,188	–	–	(198)	–	–	–	–	94,990
Conversion of convertible bonds	930,690	–	–	–	–	–	–	–	930,690
Equity-settled share option arrangements	–	–	–	7,468	–	–	–	–	7,468
Dividend income on shares under the Restricted Share Award Scheme	–	–	–	–	–	–	–	487	487
Restricted Share Award Scheme arrangement	–	–	–	–	(4,565)	–	–	–	(4,565)
Shares repurchased	(6,770)	–	53	–	–	(53)	–	–	(6,770)
Final 2014 dividend	–	(252,875)	–	–	–	–	–	–	(252,875)
At 31 December 2015 and 1 January 2016	**2,336,129**	**2,244,585**	**237**	**59,582**	**10,739**	**(460,844)**	**(216,526)**	**487**	**3,974,389**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**282,498**	**284,637**	**–**	**567,135**
Issue of shares	**11,475**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11,475**
Shares repurchased	**(22,361)**	**–**	**188**	**–**	**–**	**(188)**	**–**	**–**	**(22,361)**
Shares transferred to participants from Share Award Scheme Trust	**(3,213)**	**–**	**–**	**–**	**(4,138)**	**–**	**–**	**–**	**(7,351)**
Dividend income of shares under the Restricted Share Award Scheme	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,144**	**1,144**
Equity-settled share option arrangements	**–**	**–**	**–**	**29,794**	**–**	**–**	**–**	**–**	**29,794**
Transfer of awarded share reserve upon forfeiture or expiry of restricted shares award	**–**	**–**	**–**	**–**	**(7,347)**	**7,347**	**–**	**–**	**–**
Restricted Share Award Scheme arrangement	**–**	**–**	**–**	**–**	**52,489**	**–**	**–**	**–**	**52,489**
Final 2015 dividend	**–**	**(288,685)**	**–**	**–**	**–**	**–**	**–**	**–**	**(288,685)**
At 31 December 2016	**2,322,030**	**1,955,900**	**425**	**89,376**	**51,743**	**(171,187)**	**68,111**	**1,631**	**4,318,029**

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders subject to the Companies Act 1981 of Bermuda (as amended) and bye-laws of the Company.

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2017.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out below.

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	**63,854,877**	62,826,119	67,133,962	62,263,162	55,615,047
Cost of sales	**(52,782,910)**	(52,833,427)	(57,292,029)	(53,125,613)	(46,673,866)
Gross profit	**11,071,967**	9,992,692	9,841,933	9,137,549	8,941,181
Other income and gains	**678,739**	802,727	390,762	203,942	106,250
Selling and distribution costs	**(6,091,216)**	(5,348,277)	(4,704,728)	(4,403,956)	(4,569,519)
Administrative expenses	**(2,032,317)**	(1,972,653)	(2,245,444)	(2,221,437)	(2,152,495)
Other expenses and losses	**(62,618)**	(71,692)	(20,647)	(9,924)	(16,651)
Finance costs	**(43,022)**	(70,525)	(95,961)	(68,334)	(64,504)
Share of profits and losses of associates	**(27,323)**	11,714	–	–	–
PROFIT BEFORE TAX	**3,494,210**	3,343,986	3,165,915	2,637,840	2,244,262
Income tax expense	**(683,575)**	(609,489)	(650,813)	(547,527)	(537,285)
PROFIT FOR THE YEAR	**2,810,635**	2,734,497	2,515,102	2,090,313	1,706,977
Attributable to:					
Owners of the Company	**2,786,219**	2,702,996	2,446,605	2,036,882	1,695,122
Non-controlling interests	**24,416**	31,501	68,497	53,431	11,855
	2,810,635	2,734,497	2,515,102	2,090,313	1,706,977

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**36,148,974**	30,297,330	27,515,274	21,881,163	18,213,266
TOTAL LIABILITIES	**(17,778,579)**	(14,575,071)	(15,413,234)	(13,823,499)	(12,373,038)
NON-CONTROLLING INTERESTS	**(831,498)**	(879,251)	(611,610)	(336,636)	(300,502)
	17,538,897	14,843,008	11,490,430	7,721,028	5,539,726

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