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

INTERIM REPORT **2017**

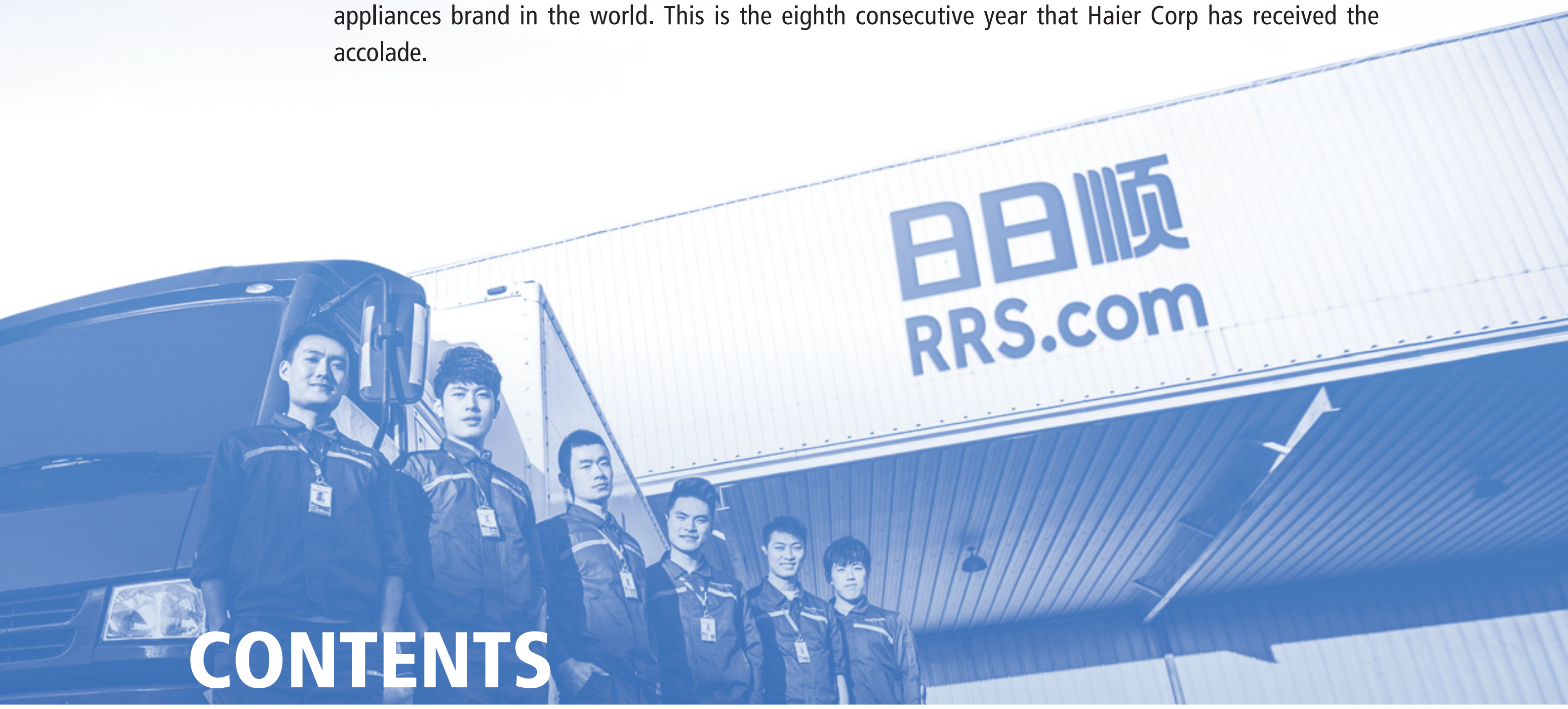
Stock Code ： 01169

* for identification purpose only

CORPORATE PROFILE

Haier Electronics Group Co., Ltd. (Stock code: 01169) (the "Company"), a subsidiary of Haier Group Corporation ("Haier Corp"), 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 Corp brands ("Haier", "Casarte" and "Leader"); the distribution of electronics products of Haier Corp 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 Corp 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 Corp 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 Corp has received the accolade.



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. ZHOU Yun Jie *(Chairman)*
Mr. SUN Jing Yan
(appointed with effect from 28 April 2017)

Non-executive Directors

Mr. LIANG Hai Shan
Ms. TAN Li Xia
Dr. WANG Han Hua
Mr. YIN Jing
(appointed with effect from 21 June 2017)
Mr. ZHANG Yong
(retired with effect from 21 June 2017)

Independent Non-executive Directors

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

Alternative Director

Mr. LI Hua Gang (alternate to Mr. LIANG Hai Shan)
(ceased to act with effect from 24 August 2017)

CHIEF EXECUTIVE OFFICER

Mr. LI Hua Gang
(appointed with effect from 25 August 2017)
Mr. ZHOU Yun Jie
(ceased to act with effect from 25 August 2017)

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
(ceased to act with effect from 21 June 2017)
Ms. TSOU Kai-Lien, Rose
Dr. WANG Han Hua (Observer)
Mr. YIN Jing
(appointed with effect from 21 June 2017)

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
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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
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Qingdao, the PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
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BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG
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INTERIM RESULTS

The Board of Directors (the "Board") of Haier Electronics Group Co., Ltd. (the "Company") hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017 together with comparative figures for the corresponding period in 2016. This condensed consolidated interim financial information has not been audited, but has been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

		For the six months ended 30 June	
		2017	2016
	Notes	**RMB'000**	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	3	**35,859,899**	28,792,552
Cost of sales		**(30,164,791)**	(24,250,075)
Gross profit		**5,695,108**	4,542,477
Other income and gains	4	**265,057**	302,267
Selling and distribution expenses		**(3,160,314)**	(2,448,286)
Administrative expenses		**(994,421)**	(890,707)
Other expenses and losses		**(12,255)**	(28,768)
Finance costs	5	**(2,961)**	(21,127)
Share of profits and losses of associates		**7,664**	(15,172)
PROFIT BEFORE TAX	6	**1,797,878**	1,440,684
Income tax expense	7	**(347,533)**	(293,621)
PROFIT FOR THE PERIOD		**1,450,345**	1,147,063
Attributable to:			
Owners of the Company		**1,362,712**	1,130,186
Non-controlling interests		**87,633**	16,877
		1,450,345	1,147,063
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic		**RMB49.02 cents**	RMB40.65 cents
Diluted		**RMB48.65 cents**	RMB40.27 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	For the six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	**1,450,345**	1,147,063
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(56,395)**	19,121
Reclassification adjustments for a foreign operation disposed of during the period	**1,118**	—
	(55,277)	19,121
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**(55,277)**	19,121
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,395,068**	1,166,184
Attributable to:		
Owners of the Company	**1,306,361**	1,149,307
Non-controlling interests	**88,707**	16,877
	1,395,068	1,166,184

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**3,577,133**	3,275,577
Investment properties		**31,373**	33,142
Prepaid land lease payments		**1,072,811**	1,030,566
Goodwill		**395,784**	392,485
Other intangible assets		**134,817**	131,156
Investments in associates		**306,611**	299,309
Available-for-sale investments	10	**1,359,639**	1,401,396
Long-term prepayments		**353,866**	338,189
Deferred tax assets		**778,034**	712,295
Other non-current assets		**43,713**	37,515
Total non-current assets		**8,053,781**	7,651,630
CURRENT ASSETS			
Inventories		**5,269,931**	5,183,399
Trade and bills receivables	11	**5,075,784**	5,699,335
Prepayments, deposits and other receivables		**2,974,919**	4,486,618
Other financial assets		**1,038,876**	460,449
Pledged deposits		**71,197**	71,272
Cash and cash equivalents		**13,721,727**	12,596,271
Total current assets		**28,152,434**	28,497,344
CURRENT LIABILITIES			
Trade and bills payables	12	**4,691,584**	4,583,217
Other payables and accruals		**8,179,696**	10,224,829
Interest-bearing borrowings		**168,499**	73,000
Finance lease payables		**7,363**	9,338
Due to a non-controlling shareholder		**23,242**	27,883
Tax payable		**538,376**	613,045
Dividend payable		**415,019**	—
Provisions	13	**571,884**	545,717
Put option liabilities		**—**	15,700
Convertible and exchangeable bonds		**—**	1,223,220
Total current liabilities		**14,595,663**	17,315,949
NET CURRENT ASSETS		**13,556,771**	11,181,395
TOTAL ASSETS LESS CURRENT LIABILITIES		**21,610,552**	18,833,025

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		**21,610,552**	18,833,025
NON-CURRENT LIABILITIES			
Interest-bearing borrowings		**31,559**	—
Finance lease payables		**3,946**	7,534
Deferred income		**132,501**	88,883
Deferred tax liabilities		**93,320**	53,708
Put option liabilities		**55,862**	—
Provisions	13	**329,922**	312,505
Other non-current liabilities	16	**5,617**	—
Total non-current liabilities		**652,727**	462,630
Net assets		**20,957,825**	18,370,395
EQUITY			
Equity attributable to owners of the Company			
Issued equity	14	**2,891,039**	2,876,892
Shares held for the Restricted Share Award Scheme		**(165,022)**	(152,984)
Equity component of convertible and exchangeable bonds		**—**	54,838
Reserves		**16,219,068**	14,760,151
		18,945,085	17,538,897
Non-controlling interests		**2,012,740**	831,498
Total equity		**20,957,825**	18,370,395

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to the owners of the Company																
				Reserves													
	Issued equity RMB'000 (Unaudited)	Shares held for the Restricted Share Award Scheme RMB'000 (Unaudited)	Equity component of convertible and exchangeable bonds RMB'000 (Unaudited)	Capital reduction reserve RMB'000 (Unaudited)	Capital reserve RMB'000 (Unaudited)	Capital redemption reserve RMB'000 (Unaudited)	Share option reserve RMB'000 (Unaudited)	Awarded share reserve RMB'000 (Unaudited)	Put option reserve RMB'000 (Unaudited)	Reserve funds RMB'000 (Unaudited)	Retained profits RMB'000 (Unaudited)	Exchange fluctuation reserve RMB'000 (Unaudited)	Other reserves RMB'000 (Unaudited)	Total reserves RMB'000 (Unaudited)	Total RMB'000 (Unaudited)	Non-controlling interests RMB'000 (Unaudited)	Total equity RMB'000 (Unaudited)
At 1 January 2017	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
Profit for the period	–	–	–	–	–	–	–	–	–	–	1,362,712	–	–	1,362,712	1,362,712	87,633	1,450,345
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	–	–	–	(57,469)	–	(57,469)	(57,469)	1,074	(56,395)
Reclassification adjustments for a foreign operation disposed of during the period	–	–	–	–	–	–	–	–	–	–	–	1,118	–	1,118	1,118	–	1,118
Total comprehensive income for the period	–	–	–	–	–	–	–	–	–	–	1,362,712	(56,351)	–	1,306,361	1,306,361	88,707	1,395,068
Issue of shares	14,147	–	–	–	–	–	(3,973)	–	–	–	–	–	–	(3,973)	10,174	–	10,174
Shares purchased for the Restricted Share Award Scheme	–	(12,038)	–	–	–	–	–	–	–	–	–	–	–	–	(12,038)	–	(12,038)
Transfer of share option reserve upon the expiry of share options	–	–	–	–	–	–	(37,672)	–	–	–	37,672	–	–	–	–	–	–
Equity-settled share option arrangements	–	–	–	–	–	–	(27,243)	–	–	–	–	–	–	(27,243)	(27,243)	–	(27,243)
Restricted share award scheme arrangements	–	–	–	–	–	–	–	89,503	–	–	–	–	–	89,503	89,503	764	90,267
Exchange of convertible and exchangeable bonds	–	–	(54,838)	–	–	–	–	–	–	–	–	–	528,788	528,788	473,950	749,270	1,223,220
Changes in fair value of put option liabilities	–	–	–	–	–	–	–	–	(6,277)	–	–	–	–	(6,277)	(6,277)	5,227	(1,050)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(7,598)	(7,598)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	7,426	–	–	–	–	7,426	7,426	–	7,426
Dividends paid to non- controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(15,977)	(15,977)
Capital contributions from non- controlling shareholders	–	–	–	–	(95,910)	–	–	–	–	–	–	–	114,938	19,028	19,028	352,372	371,400
Transfer of put option reserve upon the expiry of incentive agreements with non-controlling shareholders	–	–	–	–	–	–	–	–	216,608	–	–	–	(216,608)	–	–	–	–
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(39,677)	(39,677)	(39,677)	8,477	(31,200)
Final 2016 dividend declared	–	–	–	–	(415,019)	–	–	–	–	–	–	–	–	(415,019)	(415,019)	–	(415,019)
At 30 June 2017	2,891,039	(165,022)	–	(1,758,526)	1,465,890	425	20,488	141,246	7,426	830,457	16,415,658	(1,394)	(902,602)	16,219,068	18,945,085	2,012,740	20,957,825

	Attributable to the owners of the Company																
				Reserves													
	Issued equity RMB'000 (Unaudited)	Shares held for the Restricted Share Award Scheme RMB'000 (Unaudited)	Equity component of convertible and exchangeable bonds RMB'000 (Unaudited)	Capital reduction reserve RMB'000 (Unaudited)	Capital reserve RMB'000 (Unaudited)	Capital redemption reserve RMB'000 (Unaudited)	Share option reserve RMB'000 (Unaudited)	Awarded share reserve RMB'000 (Unaudited)	Put option reserve RMB'000 (Unaudited)	Reserve funds RMB'000 (Unaudited)	Retained profits RMB'000 (Unaudited)	Exchange fluctuation reserve RMB'000 (Unaudited)	Other reserves RMB'000 (Unaudited)	Total reserves RMB'000 (Unaudited)	Total RMB'000 (Unaudited)	Non-controlling interests RMB'000 (Unaudited)	Total equity RMB'000 (Unaudited)
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 period	—	—	—	—	—	—	—	—	—	—	1,130,186	—	—	1,130,186	1,130,186	16,877	1,147,063
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	—	—	—	19,121	—	19,121	19,121	—	19,121
Total comprehensive income for the period	—	—	—	—	—	—	—	—	—	—	1,130,186	19,121	—	1,149,307	1,149,307	16,877	1,166,184
Issue of shares	11,570	—	—	—	—	—	—	—	—	—	—	—	—	—	11,570	—	11,570
Shares transferred to participants from Share Award Scheme Trust	562	672	—	—	—	—	—	(582)	—	—	—	—	—	(582)	652	—	652
Shares repurchased	(10,768)	—	—	—	—	97	—	—	—	—	(97)	—	—	—	(10,768)	—	(10,768)
Equity-settled share option arrangements	—	—	—	—	—	—	18,607	—	—	—	—	—	—	18,607	18,607	—	18,607
Changes in fair value of put option liabilities	—	—	—	—	—	—	—	—	(1,363)	—	—	—	—	(1,363)	(1,363)	1,373	10
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(4,911)	(4,911)
Liquidation of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(8,479)	(8,479)
Deemed disposal of associates	—	—	—	—	—	—	—	—	—	—	—	—	(5,053)	(5,053)	(5,053)	—	(5,053)
Dividends paid to a non-controlling shareholder	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(4,348)	(4,348)
Final 2015 dividend declared	—	—	—	—	(287,277)	—	—	—	—	—	—	—	—	(287,277)	(287,277)	—	(287,277)
At 30 June 2016	2,892,448	(164,956)	54,838	(1,758,526)	1,882,317	334	78,189	10,157	(206,154)	830,457	13,351,985	29,090	(1,281,496)	12,936,353	15,718,683	879,763	16,598,446

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**1,797,878**	1,440,684
Adjustments for:		
Finance costs	**2,961**	21,127
Share of profits and losses of associates	**(7,664)**	15,172
Bank interest income	**(104,273)**	(85,848)
Interest income from other financial assets	**(11,128)**	(5,052)
Dividend income from an available-for-sale investment	**(21,466)**	(9,344)
Loss on disposal of subsidiaries, net	**2,147**	7,640
Gain on disposal a business	**(23,586)**	—
Loss on liquidation of subsidiaries	**—**	3,982
Gain on disposal of an associate	**—**	(49,037)
Depreciation of property, plant and equipment	**153,432**	142,565
Depreciation of investment properties	**1,070**	596
Recognition of prepaid land lease payments	**12,233**	11,355
Amortisation of intangible assets	**5,181**	4,410
Amortisation of long-term prepayments	**1,361**	—
Provision for obsolete and slow-moving inventories, net	**81,270**	40,231
Provision for impairment of trade receivables, net	**4,961**	11,063
Provision for impairment of prepayments and other receivables, net	**43**	5,634
Loss on disposal/write off of items of property, plant and equipment, net	**5,104**	426
Gain on disposal of intangible assets	**—**	(2,400)
Equity-settled share option expense/(credit), net	**(27,243)**	18,607
Equity-settled restricted share award scheme expense, net	**90,267**	—
Share-based payment credit	**—**	(5,580)
	1,962,548	1,566,231
Decrease/(increase) in inventories	**(170,291)**	456,500
Decrease in trade and bills receivables	**615,334**	94,914
Decrease in prepayments, deposits and other receivables	**1,556,965**	883,914
Increase/(decrease) in trade and bills payables	**115,717**	(574,879)
Decrease in other payables and accruals	**(1,983,803)**	(950,738)
Increase in provisions	**39,384**	606
Increase/(decrease) in deferred income	**37,527**	(9,111)
Effect of foreign exchange rate changes, net	**17,390**	(13,281)

	For the six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Cash generated from operations	**2,190,771**	1,454,156
Interest received	**91,225**	92,695
Hong Kong profits tax paid	**—**	(8,425)
Mainland China corporate income tax paid, net of tax refunded	**(444,182)**	(413,536)
Net cash flows from operating activities	**1,837,814**	1,124,890
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(352,438)**	(328,366)
Decrease/(increase) in long-term prepayments	**(105,995)**	51,154
Proceeds from disposal of items of property, plant and equipment	**2,599**	3,147
Additions to prepaid land lease payments	**(8,987)**	(89,077)
Additions to intangible assets	**(803)**	(436)
Acquisition of a subsidiary	**(52,336)**	—
Disposal of subsidiaries	**5,916**	(3,819)
Liquidation of subsidiaries	**—**	(149)
Investments in an associate	**—**	(3,500)
Acquisition from non-controlling interests	**(3,040)**	—
Advance from the partial disposal of a subsidiary	**—**	104,000
Dividends from an associate	**360**	360
Dividends from an available-for-sale investment	**19,215**	34,344
Advances to a fellow subsidiary	**(20,000)**	27,000
Purchases of other financial assets	**(578,427)**	(10,449)
Interest received from other financial assets	**10,475**	10,449
Decrease/(increase) in pledged deposits	**75**	(9,227)
Net cash flows used in investing activities	**(1,083,386)**	(214,569)

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	**10,174**	655
Shares purchased for the Restricted Share Award Scheme	**(12,038)**	(10,768)
Capital contributions from non-controlling shareholders	**371,400**	—
Contributions to restricted share award scheme arrangements	**7,544**	—
New borrowings	**40,000**	30,000
Repayment of borrowings	**(2,404)**	(43,000)
Dividends paid to non-controlling shareholders	**(3,899)**	(12,777)
Repayment of advances from a non-controlling shareholder	**(3,929)**	—
Capital element of finance lease rental payments	**(5,874)**	(5,035)
Interest element of finance lease rental payments	**(346)**	(574)
Interest paid for borrowings	**(2,570)**	(2,215)
Net cash flows from/(used in) financing activities	**398,058**	(43,714)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,152,486**	866,607
Cash and cash equivalents at beginning of period	**12,596,271**	10,244,492
Effect of foreign exchange rate changes, net	**(27,030)**	25,580
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**13,721,727**	11,136,679
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Non-pledged cash and bank balances	**5,854,727**	3,190,863
Time deposits	**7,867,000**	7,945,816
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows	**13,721,727**	11,136,679

1. CORPORATE 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.

In the opinion of the directors, as at 30 June 2017, the 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.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are described in note 3 "Operating segment information" to the condensed consolidated interim financial information.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board. This financial information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The condensed consolidated interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial statements for the year ended 31 December 2016.

The accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial information are the same as those used in the annual financial statements for the year ended 31 December 2016, except in relation to the following revised International Financial Reporting Standards ("IFRSs") that affect the Group and are adopted for the first time for the current period's financial information.

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Annual Improvements 2014-2016 Cycle	Amendments to a number of IFRSs

The adoption of the revised IFRSs have had no significant effect on the condensed consolidated financial information.

3. 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 has been identified as an additional reportable segment from the channel services business segment during the year ended 31 December 2016; and accordingly, segment data in the previous period 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, finance lease payables, 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.

3. OPERATING SEGMENT INFORMATION (continued)

For the six months ended

	Washing machine business		Water heater business		Channel services business		Logistics business		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Restated)	**(Unaudited)**	(Restated)	**(Unaudited)**	(Restated)
Segment revenue:										
Sales to external customers	**2,656,746**	2,325,795	**542,880**	460,863	**29,102,024**	23,185,314	**3,558,249**	2,820,580	**35,859,899**	28,792,552
Intersegment sales	**5,109,155**	3,975,658	**2,156,844**	1,884,722	**123,422**	150,744	**468,082**	499,074	**7,857,503**	6,510,198
Total	**7,765,901**	6,301,453	**2,699,724**	2,345,585	**29,225,446**	23,336,058	**4,026,331**	3,319,654	**43,717,402**	35,302,750
Reconciliation:										
Elimination of intersegment sales									**(7,857,503)**	(6,510,198)
Segment revenue									**35,859,899**	28,792,552
Segment other income and gains	**25,969**	91,187	**19,742**	9,336	**24,788**	36,599	**57,343**	11,786	**127,842**	148,908
Total segment revenue and other income and gains									**35,987,741**	28,941,460
Segment results	**668,287**	554,024	**323,077**	282,959	**512,245**	384,148	**236,413**	115,630	**1,740,022**	1,336,761
Reconciliation:										
Elimination of intersegment results									**(11,494)**	25,643
Bank interest income									**104,273**	85,848
Interest income from other financial assets									**11,128**	5,052
Corporate and other unallocated income and gains									**26,827**	62,138
Corporate and other unallocated expenses and losses									**(69,917)**	(53,631)
Finance costs									**(2,961)**	(21,127)
Profit before tax									**1,797,878**	1,440,684

3. OPERATING SEGMENT INFORMATION (continued)

	Washing machine Business		Water heater business		Channel services business		Logistics business		Consolidated	
	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)	**30 June 2017 RMB'000 (Unaudited)**	31 December 2016 RMB'000 (Audited)	**30 June 2017 RMB'000 (Unaudited)**	31 December 2016 RMB'000 (Audited)	**30 June 2017 RMB'000 (Unaudited)**	31 December 2016 RMB'000 (Audited)	**30 June 2017 RMB'000 (Unaudited)**	31 December 2016 RMB'000 (Audited)
Segment assets	**5,117,444**	5,335,053	**1,263,717**	1,716,104	**6,942,318**	8,834,850	**5,375,921**	5,275,453	**18,699,400**	21,161,460
Reconciliation:										
Elimination of intersegment receivables									**(3,841,689)**	(4,164,175)
Deferred tax assets									**778,034**	712,295
Other financial assets									**1,038,876**	460,449
Pledged deposits									**71,197**	71,272
Cash and cash equivalents									**13,721,727**	12,596,271
Corporate and other unallocated assets									**5,738,670**	5,311,402
Total assets									**36,206,215**	36,148,974
Segment liabilities	**2,731,463**	2,490,830	**1,226,658**	1,364,051	**10,110,859**	11,714,437	**2,904,789**	2,946,233	**16,973,769**	18,515,551
Reconciliation:										
Elimination of intersegment payables									**(3,841,689)**	(4,164,175)
Deferred tax liabilities									**93,320**	53,708
Tax payable									**538,376**	613,045
Interest-bearing borrowings									**200,058**	73,000
Finance lease payables									**11,309**	16,872
Convertible and exchangeable bonds									**—**	1,223,220
Corporate and other unallocated liabilities									**1,273,247**	1,447,358
Total liabilities									**15,248,390**	17,778,579

4. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other income		
Bank interest income	**104,273**	85,848
Interest income from other financial assets	**11,128**	5,052
Government grants*	**38,517**	84,623
Compensation received from suppliers	**51,556**	48,912
Gross rental income	**1,324**	1,008
Dividend income from an available-for-sale investment	**21,466**	9,344
Others	**13,207**	16,043
	241,471	250,830
Gains		
Gain on disposal of a business	**23,586**	—
Gain on disposal of an associate	**—**	49,037
Gain on disposal of intangible assets	**—**	2,400
	23,586	51,437
	265,057	302,267

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

5. FINANCE COSTS

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on convertible and exchangeable bonds	**—**	18,196
Interest on borrowings	**2,615**	2,357
Interest on finance leases	**346**	574
	2,961	21,127

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**153,432**	142,565
Depreciation of investment properties	**1,070**	596
Recognition of prepaid land lease payments	**12,233**	11,355
Amortisation of intangible assets	**5,181**	4,410
Amortisation of long-term prepayments	**1,361**	—
Provision for obsolete and slow-moving inventories, net	**81,270**	40,231
Loss on disposal/write-off of items of property, plant and equipment, net	**5,104**	426
Loss on disposal of subsidiaries, net	**2,147**	7,640
Loss on liquidation of subsidiaries	**—**	3,982
Provision for impairment of trade receivables, net	**4,961**	11,063
Provision for impairment of prepayments and other receivables, net	**43**	5,634
Equity-settled share option expense/(credit), net	**(27,243)**	18,607
Equity-settled restricted share award scheme expense, net	**90,267**	—

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current — Hong Kong		
Charge for the period	**13,582**	20,048
Current — Mainland China		
Charge for the period	**364,977**	274,642
Underprovision/(overprovision) in prior years	**1,104**	(2,326)
Deferred	**(32,130)**	1,257
Total tax charge for the period	**347,533**	293,621

8. 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 period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 2,779,698,881 (2016: 2,780,280,996) in issue during the period.

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible and exchangeable bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**1,362,712**	1,130,186
Interest on convertible and exchangeable bonds	**—**	18,196
	1,362,712	1,148,382

	Number of shares for the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**2,779,698,881**	2,780,280,996
Effect of dilution — weighted average number of ordinary shares:		
Share options	**4,880,571**	31,874
Awarded shares under the Restricted Share Award Scheme	**16,247,278**	365,788
Convertible and exchangeable bonds	**—**	71,131,564
Total	**2,800,826,730**	2,851,810,222

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred construction costs for production plants and warehouses and purchased items of property, plant and equipment at a total cost of RMB295,217,000 (2016: RMB269,264,000) and disposed of items of property, plant and equipment with a total net carrying amount of RMB7,703,000 (2016: RMB27,796,000).

10. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Unlisted equity investments, at cost	**1,337,905**	1,379,662
Unlisted equity investments, at fair value (note 21)	**21,759**	21,759
Impairment	**(25)**	(25)
	1,359,639	1,401,396

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 management is of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of them in the near future.

11. TRADE AND BILLS RECEIVABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade and bills receivables	**5,140,438**	5,759,444
Impairment	**(64,654)**	(60,109)
	5,075,784	5,699,335

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.

11. TRADE AND BILLS RECEIVABLES (continued)

An ageing analysis of the trade receivables (net of impairment) as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade receivables:		
Within 1 month	1,960,468	2,076,686
1 to 2 months	332,390	420,688
2 to 3 months	114,076	133,624
Over 3 months	181,782	154,210
	2,588,716	2,785,208
Bills receivable	2,487,068	2,914,127
	5,075,784	5,699,335

At 30 June 2017, certain of the Group's bills receivable of approximately RMB24,201,000 (31 December 2016: RMB60,421,000) were pledged to secure certain of the Group's bills payable (note12).

12. 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:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade payables:		
Within 1 month	3,856,122	3,930,123
1 to 2 months	212,658	175,503
2 to 3 months	151,324	150,387
Over 3 months	388,452	213,124
	4,608,556	4,469,137
Bills payable	83,028	114,080
	4,691,584	4,583,217

12. TRADE AND BILLS PAYABLES (continued)

The trade and bills payables are non-interest-bearing and are normally settled on credit terms ranging from 30 to 180 days.

At 30 Jun 2016, certain of the Group's bills payable are secured by the pledge of the Group's bank deposits amounting to RMB71,197,000 (31 December 2016: RMB71,272,000) and the Group's bills receivable amounting to RMB24,201,000 (31 December 2016: RMB60,421,000) (note11).

13. PROVISIONS

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 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.

14. ISSUED EQUITY

	Issued equity RMB'000 (Unaudited)
At 1 January 2017	2,876,892
Issue of shares	14,147
At 30 June 2017	2,891,039

The subscription rights attaching to 950,000 share options were exercised during the period, resulting in the issue of 950,000 shares of HK$0.1 each for a total cash consideration of HK$11,552,000 (equivalent to RMB10,174,000). An amount of RMB3,973,000 was transferred from the share option reserve to the issued equity upon the exercise of the share options.

15. RELATED PARTY TRANSACTIONS

(a) 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 and non-controlling shareholders (and their affiliates) during the period:

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Haier Affiliates:		
Export sale of products	**921,291**	689,468
Export sale expenses	**(13,787)**	(10,141)
Export sale of products, net	**907,504**	679,327
Domestic sale of products	**34,881**	27,582
Purchase of finished goods	**17,612,745**	13,735,245
Purchase of raw materials	**5,831,399**	5,580,518
Purchase of equipment	**294**	12,583
Printing and packaging fees	**—**	10,831
Mould charges	**42,969**	82,023
Utility service fee expenses	**55,888**	45,382
Other service fee expenses	**166,035**	210,406
Research and development service fees	**93,586**	79,339
Interest income	**2,124**	2,668
Interest expenses	**—**	1,008
Other financial service fees	**14,878**	5,590
Logistics service income	**1,144,725**	923,727
After-sale service income	**94,791**	82,700
Associates:		
Domestic sale of products	**—**	30
Purchase of finished goods	**1,223**	33,111
Other service fee expenses	**20**	—
After-sale service income	**—**	951
Non-controlling shareholders:		
Logistics service income	**819,400**	—
Logistics service fees	**45,884**	—
General service fees	**98,793**	—

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

The transactions with Haier Affiliates and non-controlling shareholders (and their affiliates) also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

15. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties:

(i) During the period, the Group disposed of its certain channel services businesses to a fellow subsidiary of the Group at a consideration of RMB25,000,000 and recognised a disposal gain of RMB23,586,000.

(ii) The Group leases its investment properties to Haier Affiliates under operating lease arrangements, and the rental income is RMB1,101,000 during the period (six months ended 30 June 2016: RMB1,097,000). Further details of the operating lease arrangements are set out in note 19 to the condensed consolidated interim financial information.

(c) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short term employee benefits	**3,611**	3,576
Post-employment benefits	**151**	—
Equity-settled share option expense/(credit), net	**(2,882)**	3,632
Equity-settled Restricted Share Award Scheme expense	**15,005**	—
Total compensations paid to key management personnel	**15,885**	7,208

15. RELATED PARTY TRANSACTIONS (continued)

(d) The Group had the following material outstanding balances with Haier Affiliates and the Group's associates and non-controlling shareholders (and their affiliates) at the end of the reporting period:

	Notes	**30 June 2017 RMB'000 (Unaudited)**	31 December 2016 RMB'000 (Audited)
Haier Affiliates:			
Cash and cash equivalents	(i)	**1,277,971**	1,262,725
Trade and bills receivables	(ii)	**1,888,012**	1,295,980
Trade and bills payables	(ii)	**2,404,051**	2,154,999
Prepayments, deposits and other receivables	(iii)	**1,822,562**	2,905,104
Other payables and accruals	(iii)	**789,385**	843,965
Associates:			
Trade and bills receivables	(ii)	**463**	16,695
Trade and bills payables	(ii)	**442**	3,486
Prepayments, deposits and other receivables	(iii)	**819**	195
Other payables and accruals	(iii)	**13,930**	21,080
Non-controlling shareholders:			
Prepayments, deposits and other receivables	(iii)	**21,607**	—
Other payables and accruals	(iii)	**5,256**	—

Notes:

(i) The balances represent deposits placed with Haier Finance Co., Ltd., a subsidiary of Haier Corp and a financial institution approved by the People's Bank of China.

(ii) The Group's trade balances with related parties are on similar credit terms to those offered to/by the similar unrelated customers/suppliers of the Group.

(iii) The balances are unsecured, interest free and repayable on demand.

16. BUSINESS COMBINATION

On 17 May 2017, the Group acquired 51% equity interest in GREENoneTEC Solarindustrie GmbH ("GoT"), which is engaged in the manufacturing and sale of water heaters. The acquisition was made as part of the Group's strategy to further develop its water heaters business.

The purchase consideration was in the form of cash which comprised (i) a lump-sum payment of EUR7,000,000 (equivalent to RMB52,359,000); and (ii) a contingent consideration to be determined with reference to GoT's annual operating results from 2017 to 2019. As part of the purchase agreement, the Group is granted a call option to purchase from the seller the remaining 49% equity interest in GoT (the "Call Option") which is valid until and as long as the seller still holds any equity interest in GoT; while the seller is granted a put option to sell to the Group the remaining 49% equity interest in GoT (the "Put Option") which is valid no later than 31 December 2027. The Call Option and the Put Option are included in "other non-current assets" and "put option liabilities", respectively, in the condensed consolidated statement of financial position.

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

16. BUSINESS COMBINATION (continued)

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

	Fair value recognised on acquisition RMB'000
Property, plant and equipment	167,906
Other intangible assets	7,928
Deferred tax assets	1,696
Long-term prepayments	271
Inventories	29,245
Trade and bills receivables	33,536
Prepayments, deposits and other receivables	14,743
Cash and cash equivalents	23
Trade and bill payables	(10,655)
Other payables and accruals	(29,936)
Interest-bearing borrowings	(86,767)
Provisions	(4,200)
Deferred income	(3,712)
Deferred tax liabilities	(8,311)
Total identifiable net assets at fair value	111,767
Non-controlling interests	(54,766)
	57,001
Goodwill on acquisition	3,299
	60,300
Satisfied by:	
Cash consideration	52,359
Other non-current liabilities	5,617
Other non-current assets	(6,198)
Put option liabilities	8,522
	60,300

16. BUSINESS COMBINATION (continued)

The Group incurred transaction costs of RMB2,350,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the condensed consolidated statement of profit or loss.

The initial amount of contingent consideration recognised was RMB5,617,000, which was determined using the Monte Carlo Simulation model and is within Level 3 fair value measurement. The consideration is due for final measurement and payment to the seller in 2020. At the date of approval of these financial statements, no further significant changes to the consideration are expected.

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

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

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

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

	RMB'000
Cash consideration paid during the period	(52,359)
Cash and bank balances acquired	23
Net outflow of cash and cash equivalents included in cash flows from investing activities	(52,336)
Transaction costs of the acquisition included in cash flow from operating activities	—
	(52,336)

Since the acquisition, GoT contributed RMB47,282,000 to the Group's turnover and RMB2,926,000 to the consolidated profit for the period.

Had the combination taken place at 1 January 2017, the revenue from the Group and the profit of the Group for the period would have been RMB35,923,494,000 and RMB1,447,893,000, respectively.

17. DISPOSAL OF SUBSIDIARIES

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net assets disposed of:		
Property, plant and equipment	**4**	4
Inventories	**36,792**	—
Trade and bills receivables	**31,734**	50,459
Prepayments, deposits and other receivables	**27,975**	9,035
Cash and cash equivalents	**2,903**	3,819
Trade and bills payables	**(18,005)**	(45,897)
Other payables and accruals	**(51,434)**	(1,233)
Tax payable	**(8,257)**	(68)
Non-controlling interests	**(7,598)**	(8,479)
	14,114	7,640
Exchange fluctuation reserve	**(1,118)**	—
	12,996	7,640
Loss on disposal of subsidiaries	**(2,147)**	(7,640)
	10,849	—
Satisfied by:		
Cash	**8,819**	—
Other receivables	**2,030**	—
	10,849	—

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries during the period is as flows:

	RMB'000
Cash consideration received	8,819
Cash and bank balances disposed of	(2,903)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	5,916

18. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

19. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties 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 has total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within one year	**2,197**	2,197
In the second to third years, inclusive	**136**	1,234
	2,333	3,431

(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:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within one year	**321,251**	344,823
In the second to fifth years, inclusive	**375,147**	337,280
After five years	**161,577**	141,773
	857,975	823,876

20. COMMITMENTS

In addition to the operating lease commitments detailed in note 19 above, the Group had the following commitments at the end of the reporting period:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	383,511	223,919

21. FAIR VALUE

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	
	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Financial assets				
Available-for-sale investments (note10)	21,759	21,759	21,759	21,759
Other non-current assets	43,713	37,515	43,713	37,515
	65,472	59,274	65,472	59,274

	Carrying amounts		Fair values	
	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Financial liabilities				
Finance lease payables	11,309	16,872	11,374	16,969
Put option liabilities	55,862	15,700	55,862	15,700
Other non-current liabilities	5,617	—	5,617	—
Convertible and exchangeable bonds	—	1,223,220	—	1,365,769
	72,788	1,255,792	72,853	1,398,438

21. FAIR VALUE (continued)

The above available-for-sale investments, other non-current assets, put option liabilities and other non-current liabilities are measured at fair values at the end of the reporting period. Their fair values are categorised within Level 3 and are determined using either Monte Carlo Simulation or discounted cash flow methods (31 December 2016: all were categorised within Level 3 except for the put option liabilities were categorised within Level 2).

The finance lease payables are measured at amortised cost at the end of the reporting period and their disclosed fair values are categorised within Level 3 (31 December 2016: Level 3).

22. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, a total of 1,409,400 share options with the exercise price of HK$12.84 per share were exercised.

The Company transferred 6,059,535 shares which were held by the Share Award Scheme Trust to participants for a total cash consideration of HK$0 (equivalent to RMB0) under the Restricted Share Award Scheme.

23. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

The interim financial information was approved and authorised for issue by the board of directors on 24 August 2017.

1. INDUSTRY OVERVIEW

Home Appliances Business

According to the online and offline extrapolated data for the first half of 2017 from China Market Monitor Co., Ltd (CMM), the growth of the three major product categories of washing machine, refrigerator and water heater in domestic market were 10.3%, 4.8% and 8%, respectively. Air-conditioner product category had strong end demand, with growth of retail sales reaching 31.9%. The market share of China's white goods further concentrated towards domestic leading brands. According to the offline market data from CMM, in the first half of the year, in terms of sales value, the total market shares of the three largest domestic brands of washing machine, water heater, refrigerator and air-conditioner product categories were 52%, 37%, 50% and 73%, respectively, representing a year-on-year increase of 2.8, 2.0, 3.0 and 3.8 percentage points, respectively. Meanwhile, in the first half of the year, the average selling price (ASP) of all domestic home appliance products increased, especially for some mid-to-high end products which realized both price increase and volume growth, like washing machine with ASP above RMB3,300 and water heater with ASP above RMB2,800.

According to the data and analysis from institutions such as Ali Research Institute and the Economist Intelligence Unit, in the next five years, China's consumer market will have a growth of USD1.8 trillion, equivalent to the consumer market size of the United Kingdom in 2021. It is expected that the number of upper middle class (with monthly disposable income of RMB12,000 to RMB22,000) and wealthy families (with monthly disposable income of over RMB22,000) will double to over 100 million, which will impel consumption growth of 75% in the next five years. Meanwhile, in the next five years, the compound growth rate of the consumption of the Chinese new generation born after the 1980s will reach 11%, and their contribution to consumption growth will reach 69%. The industry research report from OMD shows that, currently, young people born in the 1990s account for 17% of China's total population. Differing from the previous generation, they often solely enjoy family's affections and material life, with a forward-looking consumption value. They pay attention to individuality and self-awareness, with very high expectations to technologies and brands. Under the general trend of consumption upgrade, brands focusing on product quality and actively promoting brand upgrade will continue to gain benefits in the future.

According to the data from the National Bureau of Statistics, in the first half of 2017, total national online sales broke through RMB3 trillion for the first time, representing a year-on-year growth rate of 33.4%, which was higher than the growth rate of 10.4% of total sales of social consumer goods. In 2025, the penetration rate of smartphones in Chinese cities will reach 95%, and the proportion of shopping involving one or more stages of digital management will increase to 90% or above. Omni-channel sales integrating online and offline is the future retail trend. For example, consumers can compare and select products in offline stores, and then order products online. They can also browse product information through the internet and make reference to shopping reviews before completing purchases in physical stores. Consumers can purchase any products that they want at any time in any places. At the same time, vast information resources and fragmented purchase behaviors also enhance selection costs. Therefore, the satisfaction of consumer demand in every aspect and the offering of online-and-offline integrated digital experience have become essential. For instance, to adopt unified price management for the same product selling on different channels, to provide seamless experience before, during and after transaction through omni-channel retail, and helping consumers to make effective purchase decisions through installing smart terminals in physical stores, etc.

Logistics Business

At the beginning of the year, 11 departments including the National Development and Reform Commission and the General Administration of Quality Supervision, Inspection and Quarantine of the P.R.C. jointly issued the "Guidance Opinion on Promoting the Work on Improving Logistics Services Quality" (《關於推動物流服務質量提升工作的指導意見》). It pointed out that, in 2020, an essential quality system for modern logistics services will largely be established, and a group of internationally competitive large local logistics enterprises and renowned logistics services brands will be cultivated. A sound logistics services quality standard system will be established, and logistics services quality certifications will be broadly implemented. The national government will implement supporting measures and improve institutional environment, meanwhile, emphasize the leading role of enterprises, in order to promote the merit-based system of the logistics industry. As one of the standard-makers of large-format logistics industry, Gooday Logistics will respond to the call, as well as actively participate in and strive to promote the continuous enhancement of service quality of large-format logistics industry.

Along with the continuous increase in the online penetration rate of large-format household products, the development of the large-format logistics services market has gradually become matured. For the United States market, currently, furniture is one of the fastest growing categories of the Amazon platform. According to the estimates by Wayfair, a household e-commerce giant of the United States, the total online sales of furniture in the United States will reach USD48 billion in 2020, with online penetration rate of 15%, and is expected to increase to 25% in 2025. In order to adapt to this trend, various logistics companies have launched professional large-format logistics business, comprising the whole process such as warehousing, packaging, transportation and return handling, meeting the demand of e-commerce businesses from continuous growth of online transactions.

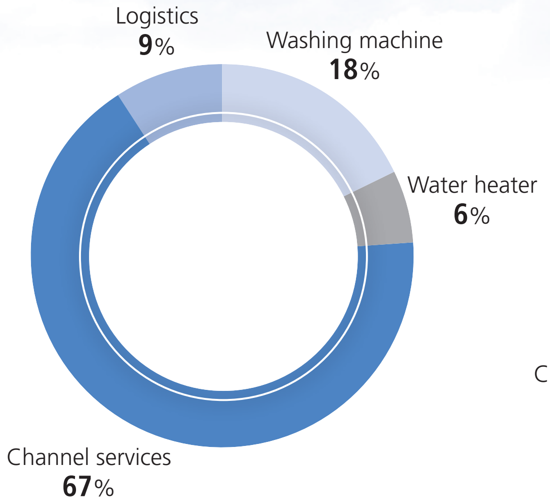
Chinese consumers' demand of large-format logistics services has also gradually increased. The large-format household goods industry research report issued by Ebrun Research Institute in May this year indicated that outstanding large-format logistics service providers should be able to achieve a higher on-time delivery rate, with full network coverage and transparent tracking system, as well as the capacity of providing large-format logistics services quality in the aspect of warehousing, line-haul transportation, last-mile delivery and installation, etc. Along with the development of the e-commerce industry, logistics companies with the capability of integrating warehousing and delivery will make rapid progress. Research reports show that, in 2020, warehousing and delivery system will have nearly 10 times of room for expansion, with daily delivery volume reaching 40 million receipts. Due to the complication of the management of warehouses, transportation and loading, the requirement for integration of warehousing and delivery of large-format goods is higher as compared with courier. Front warehouses can help the Company to enhance delivery efficiency. Replacing long-haul express delivery fee with deploying routes between warehouses can significantly reduce the logistics expense. The development and improvement of the integrated service system of warehousing and delivery can foster the enhancement of quality of the large-format item services industry.

2. SEGMENT RESULTS REVIEW

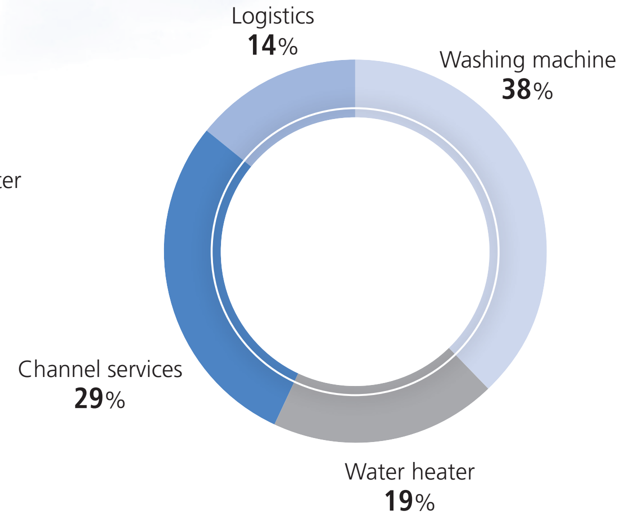
In the first half of 2017, the Group remained committed to deepen customer interaction and then win customer to drive growth. The Group strengthened the research and development and marketing effort on mid-to-high-end products, while continuously optimizing product structure. Through Shunguang, the omni-channel tool and Jushanghui, the mobile based ERP, we ensure considerable growth of both offline and online channels as well as minimizing channel conflicts, and make the shopping experience seamless. For logistics, leveraging on the rapid growth of e-commerce fulfillment orders, we vigorously enhanced the capability of integrating warehousing, transportation and last-mile delivery, provided customized and nationwide logistics solutions for customers. During the period, the Group's revenue was RMB35.86 billion, representing a year-on-year increase of 24.5%, and net profit attributable to owners of the Company was RMB1.36 billion, representing a year-on-year increase of 20.6%.

The breakdown of segment revenue and results for the first half of 2017 is set out below:

Proportion of segment revenue to revenue before consolidated eliminations



Proportion of segment results to results before consolidated eliminations



The pie charts above are prepared based on the total amounts of segment revenue and results, without taking into account any inter-segment eliminations of revenue and results. Inter-segment eliminations represent the revenue generated from sales of washing machines and water heaters to the Group's internal distribution channel, service fee revenue generated from after-sales installation and repair services for washing machines and water heaters of the distribution segment, and revenue under logistics segment generated from warehousing and transportation services of washing machine, water heater and distribution businesses. In the first half of 2017, the inter-segment eliminations of washing machine, water heater, distribution and logistics businesses amounted to RMB5.109 billion, RMB2.157 billion, RMB123 million and RMB468 million, respectively. The following table illustrates the inter-segment eliminations of the first half of 2017:

		Product/Service receiver			
	Business segments	**Washing machine**	**Water heater**	**Channel services**	**Logistics**
Product/Service provider	Washing machine	Nil		RMB5.109 bn	Nil
	Water heater	Nil		RMB2.157 bn	Nil
	Channel services	RMB123 mn*		Nil	Nil
	Logistics	RMB460 mn		RMB8 mn**	Nil

* Revenue generated from the provision of after-sales services platform management to the home appliances segment by the channel services segment

** Revenue generated from the provision of logistics services to channel customers such as eHaier by the logistics segment

Washing Machine Business

In the first half of 2017, the Group's washing machine business recorded a total revenue of RMB7.77 billion, representing a year-on-year increase of 23.2%. According to a market research report published by CMM, in the first six months of 2017, the domestic washing machine industry grew by 10.3%, and the Group's washing machine business maintained the highest market share in terms of both sales value and sales volume. Our market share was 28.96%, representing a year-on-year increase of 2.04 percentage points by sales value, and 26.64%, representing a year-on-year increase of 0.17 percentage points by sales volume according to CMM's offline statistics.

In the first half of the year, there were two trends exhibiting in China's domestic washing machine industry. Firstly, currently leading brands continue to gain market share and the market became more concentrated. According to CMM's offline monthly statistics, in the first half of the year, the market share of the top three brands reached 60% in terms of increased by 2.25 percent points as compared with the same period last year. Secondly, consumption upgrade has become more prominent, evidenced by that the growth of high-end and large-capacity washing machines was significantly higher than that of average models. According to CMM's offline statistics, in the first half of the year, unit volume of front-loading washing machines, which are mainly mid-to-high-end products, increased by 5.23%, while unit volume of top-loading washing machines, mainly targeting mid-to-low-end products, decreased by 4.70%. In the first half of the year, the market share in terms of revenue of washing machines with capacity of over 8kg increased by 22.6%.

Catering to the consumption upgrading trend of consumers, during the period, the Group implemented serial marketing initiatives to promote mid-to-high-end products, which significantly improved product mix. Sales of front-loading washing machines has been lifted to more than 50% of overall washing machine business for the first time. According to CMM's offline statistics, the market share of the Group's washing machines with retail price above RMB6,300 reached 40%, far ahead of other players. During the period, the sales volume of Casarte branded washing machines, which was distinguished by offering high-end lifestyle washing experience and smart laundry solutions, increased by over 68%, and its proportion in overall revenue of washing machine business increased from 4.8% for the corresponding period last year to 7.3% this year.

Walking away from simply comparing prices, Chinese online consumers are becoming wiser, among which a larger portion of online consumers now attach more weight over first-tier brands with outstanding quality. The Group captured this opportunity and adjusted product rollout plan, gradually making more mid-end large-capacity products, such as direct drive variable-frequency products, as the mainstream online category. We increased online user's traffic through authorizing more retail partners to open Tmall stores within their region and broaden our product portfolios on Haier official flagship store. During the period, the washing machine sales from e-commerce channel continued to grow rapidly, achieving a year-on-year growth rate of 108% (according to CMM online data).

Compared with same period last year, overseas export business of the Group's washing machines grew by 35%, and export business accounted for 12% of overall sales of washing machines. In the global export market, we achieved high growth in Australian, Central African and European markets. The year-on-year growth of sales of Central Africa exceeded 100% through co-marketing with P&G and offering customized services. Leveraging on the channel network of Fisher & Paykel owned by the parent company, our products entered into the Good Guy channel for sale, while products of the high-end Twin series have obtained Australian home appliance certification, and the year-on-year growth of sales of Australian market exceeded 40%. The growth rate of European market also reached double digits, benefiting from the launch of core products such as Twin Ella and New Crystal.

The Group made significant progress to develop smart high-end washing machines. During the period, the Group launched Xianjian (纖見), the first fiber-class washing machine in the world which can identify the materials of clothing through the RFID information of clothing, and select the best laundry solution through cloud on the IOT (internet of things), providing automatic matching of clothing, washing program and laundry liquid for users. Through installing variable-frequency direct drive motor, the accuracy of the rotation angle of drums is improved to 2 degrees. It can give perfect washes for fabrics such as wool and silk. In experiments, it successfully washed peeled eggs, which are more fragile than fabrics, without breaking the shell. It has successfully addressed user's concern that high end fabrics cannot be washed at home.

During the period, Haier's washing machines continued to enhance customer experience, and build up the high-quality reputation through scenario marketing and user interaction. We launched "towering coins" on spinning machines around the country. In March 2017, Haier fans used 22,500 coins to build a 1.882m coin tower on a high-speed spinning Haier washing machine and made a Guinness World Record. In order to give users a better understanding of the stability of Haier's spinning washing machines, we established 29 coins community in the country, transforming marketing campaign into community activities. In the first half of the year, we organized thousands of "cutting belts" activities around the country, allowing consumers to observe directly on-site and distinguish the differences between ordinary washing machine motors and direct drive variable-frequency motors.

In 2016, our parent company completed the acquisition of GE home appliances and gradually reaped integration synergy. Economy of scale began to come into effect in terms of raw material procurement, which was shared between GE home appliances and the Group. In 2017, some OEM orders of GE home appliances were transferred to China and manufactured by the Group. The research and development capability of GE home appliances will also help the Group to plan the next generation of washing machine models.

Water Heater Business

The Group provides a full range of water heaters, including electric, gas, solar energy and heat pump water heaters. In the first half of 2017, the Group's water heater business continued to grow rapidly, achieving revenue of RMB2.70 billion, representing a year-on-year increase of 15.1%. In the first half of the year, growth in revenue of water heaters was attributable to the increase in both unit volume and ASP brought by product upgrades.

According to an offline retail monitoring report published by CMM, in terms of sales volume, the market share of the Group's water heaters maintained the highest in the country, reaching 18.38%, representing a year-on-year increase of 0.09 percentage point, while in terms of revenue, the market share was 16.56%, representing a year-on-year increase of 1.24 percentage points.

In the first half of 2017, revenue of electric water heaters increased by 10%, driven by products mix upgrade. Chinese Consumer has increased their willingness to pursue high quality product features in water heater segment, such as shorter waiting period, stable temperature and healthy water quality, etc. The electric water heater department has launched series of products such as Instantaneous Heating (瞬熱洗) and Water Purifying (淨水洗) to cater to user's demands, in which the Smart Time model has been successfully certified as the first Grade-one smart water heater in China by China Household Electric Appliance Research Institute.

Various advanced technologies were applied in the new generation of Haier electric water heaters. Dealing with the problem of long waiting time of electric water heaters, the new instantaneous heating technology can shorten pre-heating waiting time from 75 minutes to 5 minutes. Caring on skin allergy caused by impurities and bacteria in water, we upgraded water purifying technology with anti-bacterial function which can remove over 99% of impurities such as sediment, rust and heavy metals as well as 99.9% of bacteria.

Sales of gas water heaters increased by over 30% as compared with the corresponding period last year, which was mainly attributable to the continuous product innovation and the popularization of natural gas water heaters stimulated by the government's coal-to-gas policy. In terms of the technological innovation of gas water heaters, the Group strengthened research and development effort. Through NOCO technology, the new generation gas water heaters ensure flames to burn in rich oxygen environment through adding catalyst, thereby enhancing heating efficiency as well as lowering carbon monoxide emissions. Through matching the amount of water consumption and improving temperature control precision, we created the first water temperature zero-fluctuation thermostat system in China, solving the user's concern of water temperature fluctuation and exhaust gas emissions during bathing.

We analyzed consumption patterns of consumers around the country, categorizing different regions according to consumption habits in order to offer different types of water heaters. Through improving store layout, we have established 608 core stores in primary and secondary markets to keep our leading position and image. At the same time, we have focused on developing distribution channels in home improvement markets, and have correspondingly established a total of 730 stores.

In order to enhance the Group's competitiveness in the solar thermal industry, in the first half of the year, we acquired 51% equity interest of Austria's GREENoneTEC Solarindustrie GmbH (GoT), the largest solar thermal power plants manufacturer in the world. GoT has extensive experience and technological reserves in the fields of solar thermal power plants and large-scale multi-source water heating systems. In the future, Haier will co-develop new products with GoT, enriching the domestic water heater product portfolio, and seeking new opportunity in commercial thermosiphon systems industry. Through the extensive marketing network of the parent company, the Group will also cooperate with GoT to expand in the global market.

Channel Services Business

The Group's channel services business is mainly comprised of the online sales business of Haier products, franchisee store distribution of Haier business and distribution business of third-party home appliance. In the first half of 2017, the Group's overall channel services business recorded revenue of RMB29.23 billion, representing a year-on-year increase of 25.2%. The growth of channel business was mainly driven by the high growth of e-commerce business and rapid development of Haier franchisee stores' sales.

With the continuous development of E-commerce, the online penetration rate of China's large home appliances industry has further increased. Home appliance brands have been actively exploring high potential online channels to capture new sale force. Nevertheless, facing cannibalization impact of online platform, participants of offline channels cannot outperform by separately managing offline channel. The winning formula is to create purchasing scenarios catering to consumers, provide quality products and services, and optimize channel collaboration, so that they can stay ahead in the new competition.

During the period, the Group's channel business delivered promising results, driven by both online and offline contributions. For online business, the Group's revenue increased by 65% when compared with the first half of 2016. During the 618 (1st to 20th June) shopping festival period, Haier realized online GMV of RMB3.29 billion, which increased by 112% as compared with that of last year. The unit price of products also increased by 14% as compared with that of the corresponding period last year. Leading the industry, market share of Haier's fridge, washing machine and freezer all ranked first online.

The rapid growth of online business was mainly attributable to the Group's efforts in improving the cooperation with major e-commerce platforms as well as optimizing the online full-category layout and focusing on mid-to-high-end products. At the same time, the Group strengthened content marketing through cooperating with third party content operators. By content creation for special products and further promoting in online communities, the click-through and conversion rates largely increased. The storytelling promotion of Leader's products has successfully been featured in products collection on Taobao platform during the "618 shopping festival", which has significantly boosted the sales volume of the product.

During the period, Haier's offline channels had achieved fast growth as well, with growth of revenue exceeding 20%. Meanwhile, we had significantly reduced franchise stores' inventory turnover days as compared with the same period last year. The product mix has been upgraded, and unit price of products also went up. Such development was attributable to the colorful consumption scenarios of offline channels, pleasant shopping experience and personalized services provided, which strongly helped building the new retail model integrating online and offline channels.

The offline growth was achieved by the Group's deepened reform, which strives to develop diversified consumption scenarios and build boutique stores catering to users' needs from daily life. As users in new residential communities tend to purchase home appliances nearby, the Group built community stores where we made a set of each samples and implemented interactive screens for more selection online. The community stores launched promotion activities such as bakery and free laundry in order to attract user traffic, increase sales and build Haier store's image of 'a good neighbor, that you see every day'. Meanwhile, as high proportion of home appliances purchase occur with new home decoration or renovation, the Group has set up brand promotions and sales areas through joint marketing with home renovation companies, and train designers as sales representatives for Haier, so that to increase touch points to users and improve sales.

The Group has also enhanced management and operational efficiency through information technology tools. The Group has established smart cloud-stores by adopting interactive screens. Consumers can browse the full-category and select through the terminals and complete purchase at the physical stores. Currently, there are more than 60,000 cloud-store terminals installed all over the country, which have significantly reduced layout cost of physical inventories and enhanced sales efficiency. Meanwhile, Jushanghui, a mobile-based ERP system, has helped merchants realize 100% whole-process online order management, which has significantly reduced operational costs and strengthened the inventory management for merchants. Through Yilihuo, a merchants' management system for towns and villages stores, the stores can directly order from county stores, and the latter can achieve precise management and control over stores at towns and villages.

Lastly, the Group has continuously promoted the integration of online and offline omni-channels to achieve the tri-network integration of Shunguang, online shopping malls and offline Haier stores. Shunguang has connected online and offline inventory, enabling the scope of products sold in a single store to expand to distribution warehouses of all channels. Store staffs have also become micro-merchants who connect with mass users through mobile internet. Through the tri-network integration model of Shunguang micro-business, offline Haier stores and online shopping malls, we successfully acquired customers from multi-channels' leading to enhanced sales conversion rate. Currently, Shunguang platform has amassed over 450,000 micro-store owners, while the number of self-built user groups has exceeded 15,000. In the first half of the year, Shunguang's GMV reached RMB1.26 billion, representing a year-on-year increase of 264%.

Logistics Services Business

In the first half of 2017, the business of Gooday Logistics continued to grow solidly, with revenue of RMB4.03 billion, representing a year-on-year increase of 21.3%. Among which, e-commerce sector and household furniture sector both realized rapid growth. At the same time, the profit growth from logistics business was significantly higher than the revenue growth, and this was due to the enhancement of logistics network efficiency, optimization of organizations and improvement in subsidiary' earnings. According to the *Top 100 Overall Competitiveness of Domestic Logistics Enterprises* published by China Internet Weekly and eNet in 2017, Gooday Logistics earned the sixth place with its good services, reputation and operation.

E-commerce logistics sector mainly provides the warehousing and delivery services to Tmall platform's large-format home appliances, as well as the delivery business of Haier products on JD.com shopping malls and Haier's own online shopping websites. E-commerce sector maintained a rapid growth, with revenue increased 56%, which was attributable to the continuous growth of online home appliances' sales and uplift of Gooday Logistics' capacity for providing quality services. During the '618 e-commerce shopping festival', Gooday Logistics' on-time delivery rate even reached 99%, which was higher than the industry average of 97.5%.

At the same time, e-commerce sector actively expanded to other industries by means of engaging in the business of other large-format items, such as fitness equipment like running machines and entertainment facilities like automatic Mahjong tables. As a new developed category, fitness equipment business even maintained a 3-digit growth, thanks to quality services and relatively high customers' acceptance. In respect of service value chain of the e-commerce sector, the Group has actively explored and promoted supply-chain one-stop solutions, enhancing value-adding businesses such as one-stop delivery and installation services, reverse logistics and household repair and maintenance, so that to further explore customers value, enhance customer loyalty and boost operational efficiency.

Furniture logistics has an enormous online market, which is fragmented and lacks industry leader. Leveraging on our edges in large-format home appliances sector, with the support of the strategic investors Cainiao and Yihua Group from their referred orders, and while actively expanding end network coverage, Gooday Logistics recorded a revenue growth exceeding 60% in the online furniture sector in the first half of the year. At the same time, in respect of the furniture sector, we will utilize the existing delivery and installation resources with the goal of providing customers with omni-channels one-stop services. Meanwhile, we have also strengthened the service capability in developing and researching household professional techniques such as moving furniture upstairs, aiming at being a leading whole-process furniture logistics services provider.

During the period, Gooday Logistics continuously enhanced its transportation network, actively planning for smart and automatic warehouses to establish itself as a role model for large-format logistics industry. Currently, the total area of the Group's warehouses amounts to 3.57 million square meters, in which the total area of self-owned warehouses amounts to 1.05 million square meters, accounting for 30% of the total area of warehouses. The Group will continue to strengthen its capability in providing one-stop warehousing and distribution services and through upgrading to iWMS system to support warehousing management of multi-product types. The Group will also actively explore automated sorting system in warehouses and build industry smart pilot warehouses, setting up the industry standard for large-format logistics.

Gooday Logistics will continuously strengthen its capability for end user and constantly invest in the last mile network coverage. The Group plans to build 5,000 branded service stores in phases, providing delivery, pick-up, indoor repair and maintenance services, at the aim of improving Gooday logistics brand image and user loyalty. Meanwhile, through whole-process tracking system and timely customer evaluation, Gooday Logistics will continue to enhance customer experience, and strengthen our leading position in the last-mile delivery.

Outlook for the second half of the year

The Group is confident on the development of white goods, channel services and logistics business for the second half of 2017.

The white goods business will continue to focus on the innovation of product development, and to meet the ongoing trend of consumption upgrade. The Group will increase its investment in new products to further drive the product mix upgrade and keep healthy gross profit margin. In respect of manufacturing, with the COSMO system being the core, we will enhance the whole-process production coordination system and lead the standard of home appliances industry in China. The advanced products and technologies as well as the focus on user experience will enable us to continue to achieve a growth beyond the industry level in the second half of the year.

The high growth in channel services proves the strategic logic of our past organization restructuring efforts. In the future, we will continue to deepen reform, optimize end-user experience and enhance the operational efficiency by leveraging omni-channel model and big data management. We will strengthen the investment in channel marketing through enhancing store image, strengthening on-site user interaction and increasing the number of Shunguang micro-enterprises, so that to increase user traffic and conversion rate which will bring in sustained solid revenue growth.

For logistic service, we will provide supply-chain integration solutions for more customers, and provide customized logistics products for key clients. Through enhancing operational efficiency and service standard, we will provide ideal last-mile delivery experience for users. In addition, it is expected that the solid growth of the logistics sector will continue in the second half of the year.

FINANCIAL REVIEW

1. Analysis of Revenue and Profit

Items	For the six months ended 30 June **2017** **RMB'000** **(Unaudited)**	2016 RMB'000 (Unaudited)	Change %
Revenue			
Washing machine business	**7,765,901**	6,301,453	+23.2%
Water heater business	**2,699,724**	2,345,585	+15.1%
Channel services business	**29,225,446**	23,336,058	+25.2%
Logistics business	**4,026,331**	3,319,654	+21.3%
Intersegment elimination	**(7,857,503)**	(6,510,198)	+20.7%
Consolidated revenue	**35,859,899**	28,792,552	+24.5%
Adjusted operating profit*	**1,596,352**	1,254,701	+27.2%
Profit attributable to owners of the Company	**1,362,712**	1,130,186	+20.6%
Earnings per share attributable to ordinary equity holders of the Company			
Basic	**RMB49.02 cents**	RMB40.65 cents	+20.6%
Diluted	**RMB48.65 cents**	RMB40.27 cents	+20.8%

* 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.

Revenue

In the first half of 2017, the revenue of the Group was RMB35,859,899,000, representing an increase of 24.5% from RMB28,792,552,000 in the first half of 2016.

The revenue from washing machine business increased by 23.2% from RMB6,301,453,000 in the first half of 2016 to RMB7,765,901,000 in the first half of 2017. During the period, on the basis of leading product technologies and enhancing user experience, washing machine business achieved rapid growth in both online and offline channels. Among which, front-loading washing machines recorded revenue growth of approximately 50%, with product structure continuously optimized.

The revenue from water heater business increased by 15.1% from RMB2,345,585,000 in the first half of 2016 to RMB2,699,724,000 in the first half of 2017. The growth was mainly contributed by the continuous innovation of products, development of distribution channels in home improvement markets as well as brand image upgrade of end stores. Among which, the revenue of gas and new energy heat pump water heaters recorded rapid growth of over 30%.

The revenue from channel services business increased by 25.2% from RMB23,336,058,000 in the first half of 2016 to RMB29,225,446,000 in the first half of 2017, which was mainly attributable to the rapid growth of online and offline Haier brand products of the Group. Among which, the increase of offline self-channel was over 20%. Such increase was mainly attributable to the Group's enhancement of service spots layout of offline channel, which provided better consumption scenarios and shopping experience for users. Online channel recorded an increase of over 60%. Such increase was mainly attributable to the Group's optimization of product layout on e-commerce platforms, which strengthened brand publicity, enhanced service standard, and comprehensively enhanced users' consumption experience.

The revenue from logistics business increased by 21.3% from RMB3,319,654,000 in the first half of 2016 to RMB4,026,331,000 in the first half of 2017. The increase was mainly contributed by the steady growth of Haier's home appliances business, as well as the rapid growth of online logistics business for bulky items such as bulky home appliances, furniture and fitness equipments.

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 the first half of 2017, the adjusted operating profit of the Group was RMB1,596,352,000, representing a growth of 27.2% as compared with RMB1,254,701,000 in the first half of 2016. The growth in the adjusted operating profit was mainly contributed by the steady growth in washing machine and water heater businesses as well as the improvement in the operational efficiency of channel services business and logistics business.

Profit attributable to owners of the Company

In the first half of 2017, the profit attributable to owners of the Company was RMB1,362,712,000, representing an increase of 20.6% from RMB1,130,186,000 in the first half of 2016. The basic earnings per share attributable to ordinary equity holders of the Company was RMB49.02 cents in the first half of 2017, representing an increase of 20.6% from RMB40.65 cents in the first half of 2016.

The increase of 20.6% in profit attributable to owners of the Company was lower than the increase of 27.2% in adjusted operating profit, which was mainly attributable to the decrease in Qingdao Goodaymart Logistics Co.,'s profit attributable to owners of the Company as a result of Alibaba Group's exchange of convertible and exchangeable bonds to 24.1% equity interest of Qingdao Goodaymart Logistics Co., during the period.

Gross Profit Margins

In the first half of 2017, the overall gross profit margin of the Group was 15.9%, slightly increased by 0.1 percentage point as compared with 15.8% in the first half of 2016.

In the first half of 2017, the gross profit margin of washing machine business was 25.7%, representing a decrease of 0.5 percentage points from 26.2% in the first half of 2016. Although the price of raw materials fell during the period, it was still higher than that of the corresponding period last year. In addition, the proportion of export business (which has relatively low gross profit) increased, which lowered the level of gross profit margin. At the same time, through the continuous launch of new products, the Group constantly optimized product structure, which increased the average unit price of products, and basically offset the effect of the above factors on the gross profit margin.

In the first half of 2017, the gross profit margin of water heater business was 35.9%, representing a decrease of 0.3 percentage points from 36.2% in the first half of 2016. Meanwhile, although the price of raw materials fell during the period, it was still higher than that of the corresponding period, which resulted in the rise of costs of materials. In addition, the growth of heat pump water heater was higher than that of gas water heater (which has relatively low gross profit margin), which lowered the overall level of gross profit margin. At the same time, through the continuous launch of new products, the Group constantly optimized product structure, which increased the average unit price of products, and basically offset the effect of the above factors on the gross profit margin.

In the first half of 2017, the gross profit margin of channel services business was 9.8%, representing an increase of 0.1 percentage point from 9.7% in the first half of 2016.

In the first half of 2017, the gross profit margin of logistics business was 11.2%, representing an increase of 0.5 percentage points from 10.7% in the first half of 2016. The growth in the gross profit margin of logistics business was mainly attributable to the increase in the proportion of the e-commerce sector (which has relatively high gross profit margin) and the improvement in the operational efficiency.

Selling and distribution expenses

In the first half of 2017, the proportion of selling and distribution expenses of washing machine and water heater businesses to their respective segment revenue decreased by 0.4 percentage points from 15.4% in the first half of 2016 to 15.0%, which was mainly attributable to the enhancement of expense efficiency resulted from the Group's strengthening of interactive marketing.

In the first half of 2017, the proportion of selling and distribution expenses of channel services business to its segment revenue slightly increased by 0.1 percentage point from 7.1% in the first half of 2016 to 7.2%, which was mainly attributable to the Group's strengthening of channel network construction, enhancement of end stores image and increase in market expenses, in order to drive the rapid growth of revenue.

In the first half of 2017, the proportion of selling and distribution expenses of logistics business to its segment revenue decreased by 0.5 percentage points from 1.5% in the first half of 2016 to 1.0%, which was mainly attributable to the enhancement of operational efficiency as a result of Gooday Logistics' restructuring of staff and organization.

Administrative expenses

In the first half of 2017, the proportion of administrative expenses of washing machine and water heater businesses to their segment revenue decreased by 0.9 percentage points from 5.1% in the first half of 2016 to 4.2%. The decrease in proportion was mainly attributable to the scale effect brought by the growth of revenue and the increase in organizational operational efficiency.

In the first half of 2017, the proportion of administrative expenses of channel services business to its segment revenue slightly decreased by 0.1 percentage point from 1.0% in the first half of 2016 to 0.9%. The decrease in proportion was mainly attributable to the scale effect brought by the growth of revenue and the increase in organizational operational efficiency.

In the first half of 2017, the proportion of administrative expenses of logistics business to its segment revenue slightly increased by 0.1 percentage point from 5.7% in the first half of 2016 to 5.8%. The slight increase was the net effect of the increase in IT investments in order to strengthen the construction of logistics operational system, the enhancement of the organizational operational efficiency as well as the scale effect brought by the growth of the revenue.

2. Financial Position

Items	**30 June 2017 RMB'000 (Unaudited)**	31 December 2016 RMB'000 (Audited)
Non-current assets	**8,053,781**	7,651,630
Current assets	**28,152,434**	28,497,344
Current liabilities	**14,595,663**	17,315,949
Non-current liabilities	**652,727**	462,630
Net assets	**20,957,825**	18,370,395

Cash and cash equivalents

In the first half of 2017, the Group's cash and cash equivalents balance increased by 8.9% from RMB12,596,271,000 as at 31 December 2016 to RMB13,721,727,000 as at 30 June 2017. The increase was mainly contributed by the increase in net cash inflow from operating activities during the period.

Net assets

The Group's net assets increased by 14.1% from RMB18,370,395,000 as at 31 December 2016 to RMB20,957,825,000 as at 30 June 2017.

Working Capital

Trade and Bills Receivables Turnover Days

In the first half of 2017, bills receivables turnover days of washing machine and water heater businesses was 41 days, representing a decrease of 7 days as compared with 48 days at the end of 2016, which was mainly attributable to the increase in the proportion of settlement by bills of payment to suppliers.

In the first half of 2017, trade receivables turnover days of washing machine and water heater businesses was 13 days, representing a decrease of 4 days as compared with 17 days at the end of 2016, which was mainly attributable to the active payment from customers as a result of their improvements in retail sales. The proportion of bills receivables to total trade and bills receivables of washing machine and water heater businesses was 75.9% (31 December 2016: 73.6%), which were mainly bank's acceptance bills with minimal risk of default.

Within the Group's channel services business, the majority of customers of Haier's brand business in third and fourth-tier markets are small scale customers, and the sales are generally settled with cash on delivery. It aims to achieve the Group's business model of quick sales and increase customer's liquidity efficiency. In the first half of 2017, trade receivables turnover days of channel services business was 2 days, representing a slight decrease of 1 day from 3 days at the end of 2016.

In the first half of 2017, bills receivables turnover days of logistics business was 3 days, which was the same as compared with that of the end of 2016. In the first half of 2017, trade receivables turnover days of logistics business was 69 days, which was the same as compared with that of the end of 2016.

Inventory Turnover Days

Under the Just-In-Time Inventory policy, the Group has implemented a series of reform measures including rolling order forecasts, made-to-order and procured-to-order productions, in order to maintain a relatively low inventory level. In the first half of 2017, inventory turnover days of washing machine and water heater businesses was 32 days, representing an increase of 11 days as compared with that of the end of 2016, which was mainly attributable to the stock up inventory for peak sales in the second half of the year.

In the first half of 2017, inventory turnover days of channel services business was 30 days, representing a decrease of 7 days as compared with that of the end of 2016. As stated in the 2016 annual report, such decrease was mainly due to the reason that the Chinese Lunar New Year in 2017 was 10 days earlier than the previous year and hence the home appliance had been stocked up by the retail partners at the end of 2016, resulting in a relatively high inventory balance. During the period, sales increased significantly, with active delivery to customers and healthy inventory turnover.

Trade Payables Turnover Days

In the first half of 2017, trade payables turnover days of washing machine and water heater businesses was 40 days, representing an increase of 2 days as compared with that of the end of 2016, which was mainly attributable to the increase in procurement of materials stock up for peak sales of washing machine business.

In the first half of 2017, trade payables turnover days of channel services business was 8 days, which was the same as compared with that of the end of 2016 and still maintained a relatively low level.

In the first half of 2017, trade payables turnover days of logistics business was 96 days, representing a decrease of 7 days as compared with that of the end of 2016, which was mainly attributable to the higher payable balance as at 31 December 2016 due to "11.11 online shopping festival".

3. Cash Flow Analysis

Items	For the six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Cash and cash equivalents as stated in the statement of financial position at the beginning of the period	**12,596,271**	10,244,492
Net cash flows from operating activities	**1,837,814**	1,124,890
Net cash flows used in investing activities	**(1,083,386)**	(214,569)
Net cash flows from/(used in) financing activities	**398,058**	(43,714)
Effect of foreign exchange rate changes, net	**(27,030)**	25,580
Cash and cash equivalents as stated in the statement of financial position at the end of the period	**13,721,727**	11,136,679

In the first half of 2017, the Group's net cash inflow from operating activities was RMB1,837,814,000, representing an increase of 63.4% as compared with that of the first half of 2016, which was mainly attributable to the increase in net cash flows from earnings of principal operating activities as well as the enhancement of working capital efficiency as a result of intensified capital management during the period.

In the first half of 2017, the Group's net cash outflow from investing activities was RMB1,083,386,000, representing an increase of 404.9% as compared with RMB214,569,000 in the first half of 2016. Cash inflow from investing activities mainly included cash dividend received from Sinopec Sales Company Limited of RMB19,215,000. Cash outflow from investing activities mainly included consideration for acquisition of a subsidiary of RMB52,336,000, cash payments for purchase of wealth management products of RMB578,427,000 and cash payments for capital expenditure items of RMB453,443,000. Capital expenditure items mainly include the investments in the construction of self-built warehouses for logistics business, construction of smart factories for washing machine and water heater businesses as well as equipment upgrade of factories.

In the first half of 2017, the Group's net cash inflow from financing activities was RMB398,058,000. Among which, cash outflow from financing activities was mainly the expenditure for repurchases of shares of RMB12,038,000. Cash inflow from financing activities mainly included capital contribution of RMB340,000,000 from Alibaba Group to Gooday Logistics, introduction of investment of RMB31,400,000 by a subsidiary under Gooday Logistics, increased bank borrowings of RMB40,000,000 of joint ventures and increase of equity due to the exercise of share options of RMB10,174,000.

LIQUIDITY AND FINANCIAL RESOURCES

Items	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Cash and cash equivalents	13,721,727	12,596,271
Interest-bearing borrowings	200,058	73,000
Shareholders' borrowings	23,242	27,883
The liabilities portion of convertible and exchangeable bonds	—	1,223,220
Finance lease payables	11,309	16,872
Net cash balance	13,487,118	11,255,296

The Group focuses on cash flow management and has been able to maintain a healthy financial and liquidity position. As at 30 June 2017, the Group had a current ratio of 192.9% (31 December 2016: 164.6%). As at 30 June 2017, the Group's net cash balance (cash and cash equivalents balance, net of interest-bearing borrowings, shareholders' borrowings, the liabilities portion of convertible and exchangeable bonds and finance lease payables) amounted to RMB13,487,118,000 (31 December 2016: RMB11,255,296,000), representing an increase of 19.8% as compared with that of the end of last year.

For operating activities in 2017, the Group will maintain sufficient and stable liquidity to meet its working capital requirements for the next year, invest in connected factories, construct smart logistics network and construct e-commerce platform, as well as to maintain financial flexibility for future strategic investment opportunities.

CAPITAL EXPENDITURE

The Group assesses its capital expenditure and investments in washing machine, water heater and integrated channel services businesses from time to time. During the period, capital expenditure amounted to RMB453,443,000 (30 June 2016: RMB366,725,000), which was mainly used in the construction of self-built warehouses for logistics business, as well as the upgrade of factory equipment of washing machine and water heater businesses for capacity expansion.

CAPITAL COMMITMENT

As at 30 June 2017, the Group's capital commitment contracted but not yet provided for amounted to RMB383,511,000 (31 December 2016: RMB223,919,000), which was mainly related to the construction of the Group's connected factories and self-built warehouses for logistics business.

GEARING RATIO

The Group's gearing ratio (defined as total interest-bearing liabilities over net assets; the interest-bearing liabilities therein are defined as finance lease payables, interest-bearing borrowings, shareholders' borrowings and convertible and exchangeable bonds) was only 1.1% (31 December 2016: 7.3%). As at 30 June 2017, the Group's interest-bearing liabilities was RMB234,609,000 (which was mainly the balance of borrowings of joint ventures), representing a significant decrease of RMB1,106,366,000 from interest-bearing liabilities of RMB1,340,975,000 as at 31 December 2016. Such decrease was mainly attributable to the exercise of convertible and exchangeable bonds from Alibaba Group.

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 and Hong Kong dollars. 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 4.1% of the Group's revenue is derived from export sales and is denominated in other currencies. The Group does not have any material interest rate risk as it has an overall net cash balance. The Group does not have any financial instrument for hedging purposes.

CHARGE OF ASSETS

As at 30 June 2017, the Group's certain buildings, leasehold land and machinery and equipment with an aggregate net carrying value of approximately RMB155,947,000 (31 December 2016: RMB30,171,000) were pledged to secure the Group's certain bank borrowings.

In addition, as at 30 June 2017, the Group's certain bills payables were secured by the Group's bank deposits of RMB71,197,000 (31 December 2016: RMB71,272,000) and the Group's bills receivables of RMB24,201,000 (31 December 2016: RMB60,421,000).

CONTINGENT LIABILITIES

As at the balance sheet date, the Group had no significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

The total number of employees of the Group decreased by approximately 1.4% to 15,267 as at 30 June 2017 from 15,476 as at 31 December 2016. The Group ensures that the remuneration packages for its employees remain competitive, and its employees are generally remunerated with fixed monthly salaries, along with discretionary performance bonuses. Remuneration packages are generally reviewed annually. In addition, the Group has a thorough employee training and promotion mechanism.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There were no significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the reporting period under review. There was no plan authorised by the Board for other material investments or additions of capital assets at the date of this interim report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Save for the purchase of 1,013,000 shares of the Company on the open market for an aggregate consideration of HK$13,523,060 pursuant to the Company's Restricted Share Award Scheme as announced by the Company on 15 April 2014, neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2017.

DIVIDENDS

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

CORPORATE GOVERNANCE PRACTICES

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

The Company has complied with the code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the period from 1 January 2017 to 30 June 2017, except for the following deviations:

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 period, Mr. Zhou Yun Jie ("Mr. Zhou"), an executive director, had served as the chairman of the Company and also the CEO of the Company. After evaluation of the 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 during the period for Mr. Zhou to hold both positions as the chairman and CEO of the Company 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 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.

With effect from 25 August 2017, Mr. Zhou Yun Jie will no longer perform the roles of the chairman of the Board and the CEO at the same time. Mr. Li Hua Gang will be appointed as the CEO with effect from the same date. The Company will from then on comply with the Code provision A.2.1 set out in the Code on Corporate Practices under Appendix 14 to the Listing Rules regarding that the roles of Chairman and CEO should be separated.

Under Code provision A.4.1, non-executive directors should be appointed for specific terms, subject to re-election. Currently, all the 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 in accordance with the Company's Bye-laws and their appointment will be reviewed when they are due for re-election.

According to the Code provision A.6.7 of the Code, non-executive directors (including independent non-executive directors) should attend general meetings. Four of these non-executive directors were unable to attend the general meeting of the Company during the period due to various work commitments. The Company had reminded all non-executive directors to attend the general meetings in order to develop a balanced understanding of views of the shareholders.

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 as set out in Appendix 10 to the Listing Rules. Upon specific enquiry by the Company, all directors had confirmed that they had complied with the required standard as set out in the Haier Electronics Model Code throughout the period for the six months ended 30 June 2017.

CHANGES OF INFORMATION OF DIRECTORS UNDER RULE 13.51B(1) OF THE LISTING RULES

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

Up to the balance sheet date, Mr. Zhou Yun Jie has resigned as directors of Chongqing Hairi Logistics Co., Ltd., Hefei Goodaymart Logistics Co., Ltd., Qingdao Goodaymart Electronics Service Co., Ltd., and Qingdao Goodaymart Lejia Jiaju Trading Co., Ltd., subsidiaries of the Group;

Mr. Sun Jing Yan has been appointed as a director of Goodaymart (HK) Limited, a subsidiary of the Group;

Mr. Li Hua Gang has resigned as or ceased to be directors of Chongqing Hairi Logistics Co., Ltd., Hefei Goodaymart Logistics Co., Ltd., Suzhou Goodaymart Electric Appliance Co., Ltd., subsidiaries of the Group;

Ms. Tsou Kai-Lien, Rose has been appointed as the Head of Oath APAC business upon the acquisition of Yahoo by Oath. Ms. Tsou has also resigned as a director of Gomaji Corp. Ltd., a company listed in Taiwan.

Subsequent to the balance sheet date, Mr. Liang Hai Shan has resigned and Mr. Sun Jing Yan has been appointed as a director of Qingdao Haier New Energy Electronics Co., Ltd, a subsidiary of the Group;

Mr. Zhou Yun Jie will relinquish his role as the CEO of the Company with effect from 25 August 2017, and Mr. Li Hua Gang will be appointed as the CEO with effect from same date.

AUDIT COMMITTEE

The Company has established an audit committee comprising two independent non-executive directors and a non-executive director of the Company. The audit committee had reviewed, with no disagreement, with the management the accounting principles and practices adopted by the Group, and discussed financial reporting matters including the review of the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2017, and discussed with internal audit department on internal controls.

APPRECIATION

I would like to take this opportunity to thank all my fellow directors and staff for their dedicated services, contributions and support during the period.

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

Hong Kong, 24 August 2017

DISCLOSURE OF INTERESTS

(I) DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY

Save as disclosed below, as at 30 June 2017, none of the directors and the chief executive of the Company and their respective associates had any interest and short position in the shares, debentures or underlying shares ("Share(s)") of the Company and its associated corporation (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept under section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors adopted by the Company:

(a) Long position in shares of the Company

Name	Number of shares directly (personal) beneficially owned	Approximately % of issued shares*
Mr. Zhou Yun Jie	6,102,000	0.22
Mr. Yu Hon To, David	240,000	0.01
Mr. Li Hua Gang	230,000	0.01

Apart from above, the following directors are also the grantees of the restricted shares of the Company, in accordance with the Company's Restricted Share Award Scheme under its Directors' Trust comprising shares purchased from the stock market.

Name	Outstanding restricted shares	Approximately % of issued shares*
Mr. Zhou Yun Jie	2,180,000	0.08
Mr. Sun Jing Yan	686,000	0.02
Dr. Wang Han Hua	30,000	0.001
Mr. Yu Hon To, David	50,000	0.002
Mrs. Eva Cheng Li Kam Fun	40,000	0.001
Ms. Tsou Kai-Lien, Rose	30,000	0.001
Mr. Li Hua Gang	44,000	0.002

Note:

* The percentage is calculated on the basis of 2,793,026,768 shares in issue of the Company as at 30 June 2017.

(I) DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY (Continued)

(b) Long position 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	11/09/2015	704,000	0.03
Mr. Sun Jing Yan	11/09/2015	84,000	0.003
Dr. Wang Han Hua	11/09/2015	150,000	0.01
Mr. Yu Hon To, David	11/09/2015	220,000	0.01
Mrs. Eva Cheng Li Kam Fun	11/09/2015	200,000	0.01
Ms. Tsou Kai-Lien, Rose	11/09/2015	150,000	0.01
Mr. Li Hua Gang	11/09/2015	108,000	0.004

Note:

* 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.

The percentage is calculated on the basis of 2,793,026,768 shares in issue of the Company as at 30 June 2017.

(c) Long position in shares of Qingdao Haier

Name	Type of interest	Capacity	Number of shares	Percentage of total registered share capital
Mr. Liang Hai Shan	Personal	Directly beneficially owned	10,079,840	0.17
Ms. Tan Li Xia	Personal	Directly beneficially owned	4,613,360	0.08
Mr. Zhou Yun Jie	Personal	Directly beneficially owned	196,596	0.003

(II) SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 June 2017, the directors and the chief executive of the Company were not aware of any other shareholders interested in 5% or more of the interests and short positions in shares and underlying shares of the Company or any person (other than a Director or chief executive of the Company) which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as otherwise recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in Shares:

Name of shareholder	Notes	Number of Shares interested	Approximate percentage of the Company's issued shares*
Haier Corp	1, 2	1,562,182,592	55.93
Qingdao Haier	2	1,562,182,592	55.93
Haier Shareholdings (Hong Kong) Limited ("Hong Kong Haier")	2	831,762,110	29.78
HCH (HK) Investment Management Co., Limited ("HCH (HK)")	1, 2	336,600,000	12.05

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.

* The percentage is calculated on the basis of 2,793,026,768 shares in issue of the Company as at 30 June 2017.

(I) 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. 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.

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

	Number of share options								
Name or category of participants	At 1 January 2017	Granted during the period	Exercised during the period (note 3)	Cancelled/ Forfeited during the period	Lapsed/ Expired during the period	At 30 June 2017	Date of grant of share options (note 1)	Exercise period of share options	Exercise price of share options per share (note 2) HK$
Executive directors									
Mr. Zhou Yun Jie	900,000	—	—	—	900,000	—	15/04/2014	15/04/2015–14/04/2017	19.37
	1,760,000	—	—	1,056,000	—	704,000	11/09/2015	10/05/2016–10/05/2020	12.84
	2,660,000	—	—	1,056,000	900,000	704,000			
Mr. Sun Jing Yan	84,000	—	—	—	—	84,000	11/09/2015	10/05/2016–10/05/2020	12.84
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	—	500,000	—	—	200,000			
Ms. Tsou Kai-Lien, Rose	150,000	—	—	—	—	150,000	11/09/2015	10/05/2016–10/05/2020	12.84
Non-executive director									
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	—	450,000	—	—	150,000			

(I) SHARE OPTION SCHEME (Continued)

Name or category of participants	At 1 January 2017	Granted during the period	Exercised during the period (note 3)	Cancelled/ Forfeited during the period	Lapsed/ Expired during the period	At 30 June 2017	Date of grant of share options (note 1)	Exercise period of share options	Exercise price of share options per share (note 2) HK$
	Number of share options								
Alternate director									
Mr. Li Hua Gang	68,000	—	—	—	68,000	—	15/04/2014	15/04/2015–14/04/2017	19.37
	270,000	—	—	162,000	—	108,000	11/09/2015	10/05/2016–10/05/2020	12.84
	338,000	—	—	162,000	68,000	108,000			
Other employees									
In aggregate	7,688,800	—	—	—	7,688,800	—	15/04/2014	15/04/2015–14/04/2017	19.37
In aggregate	18,862,000	—	—	12,006,000	—	6,856,000	11/09/2015	10/05/2016–10/05/2020	12.84
	26,550,800	—	—	12,006,000	7,688,800	6,856,000			
	31,302,800	—	950,000	13,224,000	8,656,800	8,472,000			

Notes:

1. For share options granted on 26 June 2013, 30%, 30% and 40% of the total share options granted were 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 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 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 weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK$17.94 per share.

4. The total share options that could be granted under the then available scheme mandate limit as at 30 June 2017 were in respect of 153,890,890 shares which represented 5.5% of the issued shares of the Company as at 30 June 2017.

As at 30 June 2017, the Company had 8,472,000 share options outstanding under the Share Option Scheme. Should the share options be fully exercised, the Company will receive approximately HK$108,780,000 (before issue expenses). The fair value of these unexercised options measured in accordance with the Group's accounting policy amounted to HK$28,879,000.

The particulars regarding dilution effect of the share options are set out in Note 8 of Notes to Condensed Consolidated Interim Financial Information.

(II) 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.

The following table discloses movements in the Company's restricted shares under the Award Scheme during the period:

Name of participants	Number of awarded shares: At 1 January 2017	Granted during the period (note 2)	Exercised during the period	Cancelled /Forfeited during the period	Lapsed/ Expired during the period	At 30 June 2017	Date of grant of awarded shares	Exercise period of awarded shares	Exercise price of awarded shares per share (note 1) HK$
Executive directors									
Mr. Zhou Yun Jie	60,000	—	—	—	—	60,000	15/04/2014	15/04/2015–14/04/2018	9.685
	1,160,000	—	—	—	—	1,160,000	17/10/2016	01/07/2017–01/07/2018	—
	—	960,000	—	—	—	960,000	29/05/2017	01/07/2018–01/07/2019	—
	1,220,000	960,000	—	—	—	2,180,000			
Mr. Sun Jing Yan	56,000	—	—	—	—	56,000	08/07/2016	08/07/2016–07/07/2020	6.42
	358,000	—	—	—	—	358,000	08/07/2016	01/07/2017–01/07/2018	—
	—	272,000	—	—	—	272,000	03/03/2017	01/07/2018–01/07/2019	—
	414,000	272,000	—	—	—	686,000			
Non-executive director									
Dr. Wang Han Hua	—	30,000	—	—	—	30,000	29/05/2017	01/07/2018–01/07/2019	—
Independent Non-executive directors									
Mr. Yu Hon To, David	—	50,000	—	—	—	50,000	29/05/2017	01/07/2018–01/07/2019	—
Mrs. Eva Cheng Li Kam Fun	—	40,000	—	—	—	40,000	29/05/2017	01/07/2018–01/07/2019	—
Ms. Tsou Kai-Lien, Rose	—	30,000	—	—	—	30,000	29/05/2017	01/07/2018–01/07/2019	—
Alternate director									
Mr. Li Hua Gang	44,000	—	—	—	—	44,000	08/07/2016	08/07/2016–07/07/2020	6.42
Other employees									
In aggregate	560,400	—	—	—	—	560,400	15/04/2014	15/04/2015–14/04/2018	9.685
In aggregate	622,000	—	—	—	—	622,000	08/07/2016	08/07/2016–07/07/2020	6.42
In aggregate	14,872,000	—	—	596,940	—	14,275,060	08/07/2016	01/07/2017–01/07/2018	—
In aggregate	—	10,818,000	—	—	—	10,818,000	03/03/2017	01/07/2018–01/07/2019	—
	16,054,400	10,818,000	—	596,940	—	26,275,460			
	17,732,400	12,200,000	—	596,940	—	29,335,460			

(II) RESTRICTED SHARE AWARD SCHEME (Continued)

Notes:

1. 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.

2. The closing price of the Company's share immediately before the grant dates of the awarded shares were HK$14.70 and HK$19.70 per share.

As at 30 June 2017, the number of ordinary shares held for the Awarded Scheme was 12,833,600 (31 December 2016: 11,820,600) with an aggregate carrying amount of RMB165,022,000 (31 December 2016: RMB152,984,000).

The fair values of the awarded shares granted during the period were approximately HK$158,200,000 and HK$21,370,000 (HK$14.27 and HK$19.25 each), of which the Group recognised a restricted share expense of HK$30,182,000 during the period ended 30 June 2017.

At the date of approval of these financial statements, the Company had 23,275,925 awarded shares outstanding under the Award Scheme, which represented approximately 0.83% of the Company's shares in issue as at that date.

The particulars regarding dilution effect of the awarded shares under the Restricted Share Award Scheme are set out in Note 8 of Notes to Condensed Consolidated Interim Financial Information.