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

Stock Code ： 01169
* for identification purpose only

ANNUAL REPORT 2017

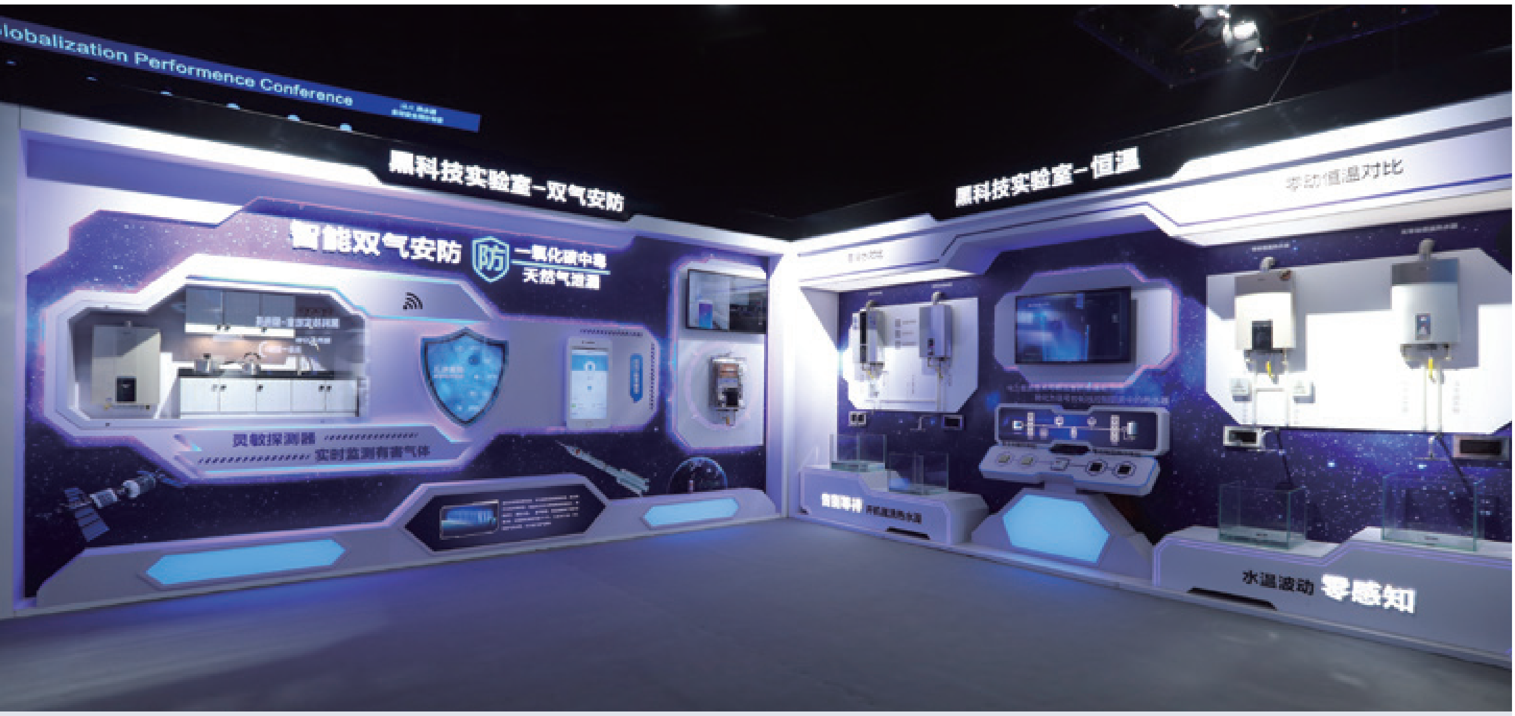
Contents

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 2018, Haier has once again been named by Euromonitor International as the number one major appliances brand in the world. This is the ninth consecutive year that Haier Corp has received the accolade.

Simplified Business Structure



Haier 海尔

Haier Electronics Group Co., Ltd.

- White Goods Manufacturing and Sales
  - Water Heater
  - Washing Machine
- Logistics
- Channel Services

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
Mr. YIN Jing
(appointed with effect from 21 June 2017)
Dr. WANG Han Hua (Observer)

COMPANY SECRETARY

Mr. NG Chi Yin

LEGAL ADVISORS

As to Hong Kong Law

DLA Piper Hong Kong
Jeffrey Mak Law Firm

As to Bermuda Law

Conyers Dill & Pearman

PRINCIPAL BANKER IN HONG KONG

Industrial and Commercial Bank of China (Asia) Limited

PRINCIPAL BANKER IN THE PRC

China Construction Bank Corporation

AUDITORS

Ernst & Young

FINANCIAL CALENDAR

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

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STOCK CODE

The Stock Exchange of Hong Kong Limited:
01169

WEBSITE

www.haier.hk

INVESTOR RELATIONS CONTACT

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Communications Group
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Admiralty Centre Tower II,
18 Harcourt Road,
Admiralty, Hong Kong

Telephone Number	:	(852) 3150 6788
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Chairman's Letter

During the past year, the home appliance market became exciting. The proportion of online shopping of home appliances has reached 26.5% (《2017家電網購分析報告》) of total sales of home appliances; the market share of our high-end "Casarte"-branded washing machines has achieved over 40% of the Chinese high-end market; and our self-developed "Shunguang" platform recorded RMB4.5 billion in turnover. We are delighted to have achieved record results in terms of our revenue and profit for the 2017 financial year. Our shareholders' value has increased by 76% for the year, reaching HK$60 billion by the end of 2017 and breaking through HK$80 billion on 20 March 2018.

However, as mentioned in the annual report of the previous year, despite the evolving industry and customer demand, we adhere to innovating ourselves continuously and upholding shareholders' value, enabling Haier to contribute as a Chinese worldwide brand for consumers around the world and as a global enterprise for China after thirty years of development.

2017, AN ENTHUSIASTIC YEAR

Our four business segments all achieved rapid growth, primarily attributable to the following growth strategies:

INNOVATION DRIVES GROWTH

Our growth rate is far higher than the industry average rate, all attributable to our focus on innovation, valuing customer as the boss and perseverance on investment in research and development.

Three years after its launch, our original duplex two-drum "Ella" (雲裳) series accounted for over 80% share of the industry's twin drum washing machines, and so far no one can imitate its unique upper-lower drums design. The high-end "Ella" series has established an industry leading position for Haier washing machines, raising the competition bar for the high-end washing machine market and attracting many supporters and publicity for Haier and Casarte brands. Furthermore, caring for users' high-end clothing, Haier developed the "Fiber Care" (織見) series. Its original air-washing function provides fiber-class washes for high-end fabrics, addressing the problem of damage from washing in water and chemical residue from dry-cleaning. The demand for these innovative products has helped Haier washing machines to outperform other foreign brands and capture the highest market share in Shanghai, the most developed city of China with the most competitive home appliance market.

We also constantly upgrading our service standard to address users' needs. In 2017, Gooday Logistics developed various customized services. To address the inventory stocking problem of high-end and long-tail goods, we have set up seven warehouses for goods delivery throughout the country. In response to the requirements of quick feedback for users of e-merchants' promotion, the lead time of front-line warehouses has been further shortened to 24 hours. We have also established 17 service centres to provide value-added services such as damage verification and return and exchange of goods for users and merchants.

INVESTING FOR THE LONG RUN

In 2017, we established a factory adopting the leading standard for the era of Internet of Things with the COSMOPlat as the core. The COSMOPlat of Haier Group is the first industrial internet platform in the world to introduce whole-process user experience, which is also certified as a demonstration platform of smart-manufacturing integrated application based on industrial internet approved by the National Development and Reform Commission. The connected factory is characterized by the adoption of a large number of automation technologies, implementing lean manufacturing processes, real-time connection with module parts, machine, research and development, logistics and service providers with big data platform as the core, while providing the full support on mass customization based on the customized demand of users.

The growth potential of the water heater business will be mainly from gas water heaters and solar energy water heaters. The Group's revenue from gas water heaters achieved a year-on-year growth of over 45% in 2017. The Group has made extensive development effort and used new technologies in gas water heaters, including the application of oxyfuel blue flame technology originated from the combustion of rocket boosters, carbon monoxide active elimination safety technology originated from the exhaust gas detection of space capsules and zero-fluctuation thermostat technology originated from the life temperature control system. In the high-end market of gas water heaters priced over RMB3,200, the growth of Haier gas water heaters reached 100%. In May 2017, the Group acquired more than half of the equity interests of GreenOneTEC, the largest solar thermal power plants manufacturer in the world. Combining the leading solar technology of Europe and the market demand of China, the Group will provide whole-process solar energy services such as system design, manufacturing, installation, operation and maintenance to household and commercial customers.

ESTABLISHMENT OF A WIN-WIN ECOSYSTEM

In the era of Internet of Things, we are establishing an innovative alliance of sharing and collaboration with our suppliers and distribution partners through technology to jointly create and share user value.

The closed-end research and development approach based on internal corporate resources in the past is no longer suitable for the ever-changing Internet era. Based on the Hope platform of Haier Group, enterprises, users and suppliers have been attracted to a completely open and interactive ecosystem, where users can publish technical requirements and the Hope platform can automatically match the requirements through big data or even automatically deliver the requirements to internal makers, speeding up product innovation. The open innovation ecosystem we promoted can effectively integrate innovative resources around the world and realize remarkable potentials.

The Shunguang (順逛) platform we have been vigorously promoting since 2016 is now an important network for our interaction with consumers, where consumers can engage in product customization and interaction. Shunguang is also an effective enabler to support the operation of omni-channel user resources of distributors, facilitating the sharing of inventory between micro-stores of mobile terminal and physical stores and helping physical stores to reach users without out-of-store marketing. In 2017, the Shunguang platform has amassed over 800 thousand micro-store owners, with a significant 109% increase in turnover.

In 2017, taking advantage of the Jushanghui (巨商匯) system developed by Haier Group, the entire ordering process of our franchisees can be entirely managed online. Distributors can place orders and the platform can process orders automatically. In 2017, the average number of online franchisees trading through the Jushanghui platform reached 17 thousand per day, and the number of customers visiting the platform reached 7.9 million per month. The Yilihuo (易理貨) system, developed after Jushanghui, provides a digitized decision-making tool for distributors. Distributors can manage their offline stores digitally, and the operational productivity and management efficiency of traditional stores can be significantly enhanced. With the significant optimization of omni-channel inventory turnover through the comprehensive application of customer management system of the mobile era, the inventory turnover of distributors increased by 11%.

OUTLOOK

On the path to promising next chapter

Consumer market in China continues to upgrade, and consumers have increasingly higher expectations in terms of product quality and product customization. Particularly, the population born after 1980s has become the mainstream consumers of China home appliances market and they are more willing to invest in high quality household consumption. After 20 years of strenuous efforts, Haier has not only brought globalized design standard, but also products that satisfy the requirements of domestic customers. The brand image and service reputation of Haier are strongly endorsed by Chinese consumers.

As the Hong Kong listing flagship of Haier Group, the Group's home appliances business targets strategic opportunities arise from creating an appealing environment for water usage in smart homes for consumers through providing washing machines, water heaters, water purifiers and water solutions for the entire house. The environment we served has been represented in a significant part of the daily household life and is closely related to consumers' life quality and even their whole family's health.

In the process of transforming from a product company to a service solution company, we are incorporating various technologies such as sensors, internet capability, clean energy, water treatment in order to create an appealing environment of healthy and smart water usage. In addition to the products, in such consumption environment, ecosystem resources such as detergent, washing products, bathroom peripheral product will also be taken into consideration to create a caring, customized and seamless users' experience.

I believe that the Group's brand premium, leading position in high-end products and customization capability will largely protect us from price wars in the future, allowing us to achieve growth that outpace the industrial average and to maintain a healthy profit margin.

In response to ever-changing customers' demands, we must develop a distribution platform that integrates online and offline businesses, reaches and responds to customers' demand at all times. In addition to providing traditional services, it also forms a touchpoint network connecting the users.

The Group's distribution business has two strategies. The first is to optimize channel management by matching the products and users, to share the network with both online and offline franchisees in terms of inventory management and logistics, and to achieve seamless interaction with users. The second is to continually provide support to franchisee partners throughout the country and make every endeavour to maintain the competitiveness of the franchise platform based on the jointly creating and sharing of the social ecosystem. The Group manages a network covering villages and towns which has been established by Haier Group after over 30 years of effort and is well recognized and trusted by users, comprising more than 30 thousand Haier specialty stores, 800 thousand micro-enterprises, more than 1,400 cloud stores and community service points. In the future, we will continue to promote the integration of physical stores, cloud stores and micro-enterprises. Based on the existing distribution channels, we will strengthen our effort in community interaction and our service capability, and realize the ecosystem value of the "Shunguang" platform.

Uphold the culture of "Individual-Goal Combination（Ren Dan He Yi）" and maintain the vitality of the organization

The home appliances industry in the Chinese market is fiercely competitive, and we can only survive through persistent innovation. We need an effective organization to enable and encourage the culture of innovation in the enterprise in order to pursue our strategy of innovation. After many years of practicing the "Individual-Goal Combination", it is well proven that the merging of values of "individual" (staff) and "goal" (users) can fully stimulate passion and creativity of our staff, making staff realize self-value and become the Group's internal entrepreneurs and partners in achieving the common goal. In the future, I believe that the "Individual-Goal Combination" will have more interaction with Internet of Things which emphasizes customization, and hence potential synergy can be fully captured.

Benefit from economic prosperity with China

In 2017, the gross domestic product (GDP) of China has reached around 15% of world's economy and has been growing rapidly. While China is entering the development stage which is consumption-based, consumption through upgrading of appliance product has continued to stimulate China's home appliances market. The growth of mid-to-high-end home appliances market will be faster than low-end market, and there is room for the average selling price to continue to rise in the long-run.

China's home appliances brands led by Haier originate from China and are gradually expanding internationally. The Group fully utilizes globalized research and development and innovative resources of the parent company, and transforms its global experience into developing a local competitive edge while focusing on China's home appliances market, the largest home appliances market in the world, for better fulfilment of the demand of Chinese users toward a high quality life and the upgrade of consumer products.

Chinese economy sustains rapid growth. The focus of the growth is turning to high quality growth, and sustainable development philosophy such as energy saving, emission reduction and environmental protection can be implemented through policies. The enhancement of growth quality will bring opportunities of industry transformation and upgrades. Chinese enterprises' business environment at micro-level continues to optimize and creates a favourable environment for the Group which focuses on industrial innovation and long-term social responsibility.

The Chinese government aims to revitalize the economy of villages and attempts to narrow the gap between urban and rural areas. The deep penetration and good word of mouth in the third and fourth tier market will help the Group to seize the chance of the rapid growing low-tier market.

Being grateful for our partners

In August 2017, I hand over the CEO position to Mr. Li Hua Gang and continue to serve as the chairman of the Board. I am very honoured to work jointly with the management team and makers of our Group. Having the belief in aiming at our goals and challenging ourselves, the determination of getting things done and the capability to adapt to the new dynamics, our team must be able to stand out in this great dynamic era. I will also continually support the growth of the Company from the strategic perspective.

For our shareholders, thank you for your trust despite the volatile capital market in the past. We are confident that we can maintain rapid income and profit growth, continue to strengthen our market position and create greater customer value. We will strive continually to establish Haier Electronics' platform and to take us to the next level and enhance the shareholder value.

Directors and Senior Management

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

EXECUTIVE DIRECTORS

Mr. ZHOU Yun Jie ("Mr. Zhou"), aged 51, has been serving as an Executive Director and general manager of the Company since 12 November 2009. He has also been appointed as the chairman of the Company with effect from 25 June 2013. He is also a member of the remuneration committee and nomination committee of the Company, and is the chairman of the strategic committee of the Company. Mr. Zhou was the chief executive officer of the Company from 18 March 2013 to 25 August 2017. Mr. Zhou graduated from the Huazhong University of Science and Technology, the People's Republic of China (the "PRC") with a Bachelor's degree in Engineering in 1988. He has a Master's degree in corporate management from the Ocean University of China, the PRC and has completed his Doctoral courses with a diploma in Management from the Xi'an Jiaotong University, the PRC. He joined the Haier Group Corporation ("Haier Group") in 1988 and has had over 20 years of experience in the areas of sales management, enterprise management and international business. Currently, he is the President and Deputy Chairman of the board of Haier Group, and also he is a deputy to the 13th National People's Congress of China. He also serves as a non-executive director of Bank of Qingdao Co., Ltd., a company listed on the Hong Kong Stock Exchange.

Mr. Zhou is also a director of the following Group's subsidiaries: Goodaymart (Shanghai) Investment Co., Ltd., Qingdao Goodaymart Logistics Co., Ltd. and its certain subsidiaries, Haier Group E-commerce Co., Ltd., and Haier International Business Corporation Limited.

Mr. SUN Jing Yan ("Mr. Sun"), aged 47, has served as an Executive Director of the Company since 28 April 2017. Mr. Sun joined the Haier Group in 1993 and has since then held a number of senior positions in the Electrothermal Appliance Department of the Haier Group. Currently, he is the General Manager of the Water Heater Division of the Group. He is also the General Manager of Kitchen and Sanitary Wares Business of Haier Group, and serves concurrently as the Vice President of Haier Group. Mr. Sun graduated from Shandong Institute of Light Industry, the PRC in 1993 with a Bachelor in Engineering in Machine Design and Manufacture. He has over 20 years of extensive experience in water heater business.

Mr. Sun is a director of the following Group's subsidiaries: Haier Electrical Appliances Fourth Holdings (BVI) Limited, Haier Water Heaters Holdings (BVI) Limited, Qingdao Economy and Technology Development Zone Haier Water Heater Co., Ltd., Wuhan Haier Water Heater Co., Ltd., Chongqing Haier Water Heater Co., Ltd., Qingdao Haier New Energy Electronics Co., Ltd., Qingdao Lejia Electric Appliances Co., Ltd. and Goodaymart (HK) Limited.

NON-EXECUTIVE DIRECTORS

Mr. LIANG Hai Shan ("Mr. Liang"), aged 51, has served as an Executive Director of the Company since December 2001 and has been re-designated as a Non-executive Director with effect from 12 November 2009. Mr. Liang was previously mainly responsible for strategic procurement and overall quality control of products of the Group. He is currently responsible for identifying market opportunities and white goods business strategies formulation of the Company. He received a Bachelor's degree of Industry from the Xi'an Jiaotong University, the PRC and has over 20 years of experience in the manufacture of household electrical appliances, particularly in raw material procurement function and white goods business. He is also the Executive President and the Deputy Chairman of the board of Haier Group, the General Manager and Chairman of Qingdao Haier Co., Ltd. (a company listed on the Shanghai Stock Exchange).

Ms. TAN Li Xia ("Ms. Tan"), aged 47, has served as a Non-executive Director of the Company since 18 November 2013. She is also a member of the audit committee of the Company. Ms. Tan graduated from Central University of Finance and Economics, the PRC and has a master degree in Business Administration from the China Europe International Business School upon completion of the EMBA program. She is a Fellow of the Chartered Institute of Management Accountants and has been designated as a Chartered Global Management Accountant (CGMA). She joined Haier Group in 1992 and had held the positions as the Head of Department of Overseas Market Development of Haier Group and Head of Department of Financial Management of Haier Group. Currently, she is the Executive Vice President and the Chief Financial Officer of Haier Group. Ms. Tan also holds positions of Deputy Chairman of the Board of directors of Qingdao Haier Co., Ltd. (a company listed on the Shanghai Stock Exchange), non-executive director of Bank of Qingdao Co., Ltd. (a company listed on the Hong Kong Stock Exchange), and director of Fisher & Paykel Appliances Holdings Limited. Ms. Tan was awarded titles such as Model Worker of Shandong Province (山東省勞動模範), Outstanding Entrepreneur of Shandong Province (山東省優秀企業家), the China CFO of the Year (中國總會計師年度人物) and China Top Ten Women in Economic Area (中國十大經濟女性年度人物). Ms. Tan is also a member of the 11th executive committee of the All-China Women's Federation.

Dr. WANG Han Hua ("Dr. Wang"), aged 53, has served as a Non-executive Director of the Company since 1 June 2013. He is also the observer of the remuneration committee and strategic committee of the Company. Dr. Wang obtained his Doctor of Philosophy degree from the University of Nebraska of the United States in 1994. He is the China Managing Director of Sonos Inc, an US based world leading wireless HIFi producer since April 2014. Prior to this, he took position as the chief executive officer of Allyes Information Technology (Shanghai) Co. Ltd. (好耶信息技術(上海)有限公司), an internet company providing full digital marketing solutions of data, technology and product to its customers, in December 2012. Prior to this, Dr. Wang had been the president of Amazon (China) Holding Company Limited from May 2005 until November 2012 and was responsible for the sale, marketing, cooperation and the construction of B2C E-commerce ecological chain of Amazon in China. Prior to joining Amazon (China) Holding Company Limited, Dr. Wang served a number of positions with Motorola Mobility Technologies (China) Company Limited Beijing branch company (摩托羅拉移動技術(中國)有限公司北京分公司) between 1998 and 2005 including as marketing director, director of strategy and corporate planning, vice president of the Asia Pacific region and general manager of the mobile telephone operations of China.

NON-EXECUTIVE DIRECTORS (continued)

Mr. YIN Jing ("Mr. Yin"), aged 35, has served as a Non-Executive Director of the Company since 21 June 2017. He is also a member of the strategic committee of the Company. Mr. Yin serves as the Assistant to CEO of Alibaba Group since March 2018, where he is responsible for the global initiatives. Prior to his current position, Mr. Yin was the President of Tmall Home Business Group of Alibaba Group. Mr. Yin joined Alibaba Group in 2013 and prior to that, he served as Head of Supply Chain of Amazon Web Services (AWS), the Amazon.com cloud computing business unit based in Seattle, Washington State of USA. Mr. Yin received his bachelor's degree in Electrical Engineering from George Fox University and holds a master's degree in International Management specialized in Global Supply Chain Management from Portland State University. He was a member of Institute of Electrical and Electronics Engineer (IEEE). He also had served as the Vice President of Program and the Advisory Council member of the Council of Supply Chain Management Professionals (CSCMP).

Mr. ZHANG Yong ("Mr. ZHANG"), aged 46, has served as a Non-executive Director of the Company since 25 March 2014. He is also a member of the strategic committee of the Company. Mr. Zhang retired as a Non-executive Director and a member of the strategic committee of the Company with effect from 21 June 2017. Mr. Zhang received a bachelor's degree in finance from Shanghai University of Finance and Economics. Mr. Zhang is currently a director and chief executive officer of Alibaba Group Holding Limited, a company listed on the New York Stock Exchange. He has held top management positions across Alibaba Group since joining in August 2007. Before joining Alibaba Group, Mr. Zhang served as Chief Financial Officer of Shanda Interactive Entertainment Ltd., an online game developer and operator then listed on NASDAQ, from August 2005 to August 2007. From 2002 to 2005, Mr. Zhang was a senior executive of PricewaterhouseCoopers' Audit and Business Advisory Division in Shanghai.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Mrs. Eva CHENG Li Kam Fun ("Mrs. Cheng"), aged 65, was appointed as an Independent Non-executive Director of the Company on 1 June 2013. She is also a member of the audit committee and nomination committee of the Company and the chairman of the remuneration committee of the Company. Mrs. Cheng graduated from the University of Hong Kong with Bachelor of Arts (Hons) and Master of Business Administration degrees. Mrs. Cheng began her career with Amway Hong Kong in 1977. In 2011, she retired from her positions as executive vice president of Amway Corporation and executive chairman of Amway China Co. Ltd. During her 34 years with Amway, Mrs. Cheng's area of responsibilities covered markets in the Greater China and Southeast Asia regions.

INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

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

Ms. TSOU Kai-Lien, Rose ("Ms. Tsou"), aged 52, has been appointed as an Independent Non-executive Director of the Company since 7 June 2014. She is also a member of the strategic committee of the Company. Ms. Tsou currently is Head of Oath APAC business, where she is responsible for managing Oath's businesses in Japan, Hong Kong, Taiwan, Southeast Asia and India as well as chairing the board at the Oath's joint venture operations in Australia and New Zealand. Ms. Tsou joined Oath through its acquisition of Yahoo where she served as Managing Director and Senior Vice President of Yahoo APAC, she was responsible for revenue growth in users services, ad business and e-commerce. Ms. Tsou served as managing director of Yahoo Taiwan for 7 years. During her tenure, she successfully grew the e-commerce business and established Yahoo as a brand synonymous with the internet in Taiwan. Under her leadership, Yahoo Auction became a successful auctioneer in the market. She led strategic acquisitions, partnerships and company initiatives to establish Yahoo Taiwan's market leading position in e-commerce, B2C shopping, C2C auction, and online store solutions. Prior to Yahoo, Rose was General Manager of MTV Taiwan. Earlier in her career, she held marketing positions at UFO/Warner Music, Procter & Gamble Taiwan and Ogilvy & Mather Taiwan. Ms. Tsou is currently an independent non-executive director of Sercomm Corporation, a company listed on Taiwan Stock Exchange.

Ms. Tsou holds an MBA from J.L. Kellogg School of Management, Northwestern University, as well as a Master's of Mass Communication from Boston University.

CHIEF EXECUTIVE OFFICER

Mr. LI Hua Gang ("Mr. Li"), aged 48, has been appointed as the Chief Executive Officer of the Company with effect from 25 August 2017. Mr. Li graduated from the Huazhong University of Science and Technology, the PRC in 1991 with a Bachelor's degree in Economics, and graduated from China Europe International Business School in 2014 with a Master's degree in EMBA. Mr. Li currently serves as the Vice President of Haier Group. He joined Haier Group in 1991 and has since then held a number of senior positions in the sales and marketing functions of Haier Group with his expertise in the sales management of the PRC market. Mr. Li has served as the Chief Operating Officer of the Company from 2009 to 2014 and has been re-designated as the China Chief Marketing Officer of Haier Group after that. Mr. Li was the alternate Director to Mr. LIANG Hai Shan from 7 June 2014 to 24 August 2017. Serving as the China Chief Marketing Officer of Haier Group, Mr. Li vigorously promoted brand upgrade and channel optimization strategy, leading to the growths of revenue for online business and offline domestic business of Haier Group. Mr. Li is a manager with broad vision and rich business experience. Since 2015, in the transformation process of creating value for customers while realizing employees' own value, Mr. Li undertook challenges and participated in the frontline operation of the market, which enhanced the brand image of Haier Group and strengthened the strategic collaboration of online and offline channels. With his outstanding performance and excellent leadership, Mr. Li has won the trust from the management and staff of the Group.

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

SENIOR MANAGEMENT

Mr. XIE Ju Zhi, aged 52, graduated from Shandong Economics College in July 1989 specialised in Economics and Management. He has held senior positions in Electrothermal Product division and East China division of Marketing and Promotion Division of the Haier Group, and served as the general manager of the Customer Service Operation Company of the Haier Group since August 2002. He has over 10 years of experience in service management. Currently, he is mainly responsible for the Group's customer service and channel business expansion of community stores in the 1st and 2nd-tier markets. He also serves as the vice chairman of the Subcommittee on Household Electric Appliances Service of National Technical Committee on Household Electric Appliances of Standardization Administration of China, and the vice chairman of the presidium of the China National Household Electric Appliances Service & Maintenance Association.

SENIOR MANAGEMENT (continued)

Mr. HUANG Xiao Wu ("Mr. Huang"), aged 40, was appointed as Deputy General Manager of the Company in November 2009. Mr. Huang holds a Master's degree in Business Administration from the University of Hong Kong and a Bachelor's degree in Engineering from the University of Chong Qing. Mr. Huang is responsible for assisting the Chairman and Chief Executive Officer in implementing the Group's corporate development strategy. Mr. Huang has 20 years of extensive experience in banking, investment and corporate finance. Prior to joining the Group, he had worked with a commercial bank and several investment banking firms.

Mr. ZHAN Bo ("Mr. Zhan"), aged 38, has served as the Chief Financial Officer of the Company since 12 November 2013. Mr. Zhan holds an Executive Master's degree in Business Administration from University of International Business and Economics and a Bachelor's degree in Economics from Tianjin University of Finance and Economics. He is a Fellow of the Chartered Institute of Management Accountants (FCMA) and has been designated as a Chartered Global Management Accountant (CGMA). He joined the Haier Group in 2002, and has since held a number of senior financial positions in Haier Group finance department, Haier Europe trading company, Haier Group telecommunication business and Haier Global Marketing department. He has extensive experience in financial management.

Mr. SHU Hai ("Mr. Shu"), aged 51, has served as the General Manager of washing machine product division of the Company since June 2009. Mr. Shu has a Master's degree in International Trade from Ocean University of China, the PRC. He joined the Haier Group in 1995 and has since held a number of senior positions in the washing machine business. He is currently responsible for the sales, research and development and production management of the washing machine business of the Group.

COMPANY SECRETARY

Mr. NG Chi Yin ("Mr. Ng"), aged 52, joined the Company on 18 March 2009 as Company Secretary. Mr. Ng graduated from the Faculty of Business Administration of the Chinese University of Hong Kong with a Bachelor's degree in business administration. He is also a fellow member of the Association of Chartered Certified Accountants, and a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. He has over 20 years of experience in auditing, finance and company secretarial matters.

Business Review

BUSINESS REVIEW

Industry Analysis

In 2017, despite the cost pressure on the home appliances industry as a whole resulting from the substantial increase in raw material prices, consumption on upgraded products still significantly drove the home appliances industry, especially for mid-to-high end home appliances brands and home appliances with low market penetration rate. According to the online and offline extrapolated data from China Market Monitor Co., Ltd. (CMM), the overall size of the home appliances market in 2017 had a year-on-year increase of 9.0%, in which the washing machine market increased by 11.4% and the water heater market increased by 9.7%, while products with higher growth rate such as air-conditioners, water purifiers and air purifiers all increased by around 30%. The market share of major home appliances further concentrated on leading brands.

According to the *2017 Chinese High-end Home Appliances Products Consumer Survey Report* (《2017中國高端家電產品消費者調查報告》) published by the Organizing Committee of the Red-Top Award (紅頂獎), an increasing number of families and individuals are willing to purchase high-end home appliances products to improve their quality of life. Members of the high-end consumer group (with monthly disposable income of over RMB30,000 for families in first-tier cities and over RMB15,000 for families in other cities) have had consumed high-end home appliances at least once during the last six months or year. They attach great importance to health products and services, and pay attention to quality instead of prices. In addition to product quality and brands, the high-end consumer group also attaches great importance to the artistic aspect, environmental-friendliness and customization capability of home appliances.

According to the data from the *2017 Home Appliances Online Shopping Analysis Report* (《2017家電網購分析報告》) published by CCID Research Institute of the Ministry of Industry and Information Technology, the scale of Chinese B2C home appliances online shopping market reached approximately RMB500 billion in 2017, representing a year-on-year increase of 27.6%, in which the growth of washing machine, refrigerator, air-conditioner and television markets was over 50%. During the past year, the online sale of home appliances showed the trends of the younger user base, rise of high-end products and increase in popularity of new domestic products. The proportion of users born in the 1980s and 1990s accounted for more than 71% of the consumer base of home appliances online shopping, and their spending power and taste have been driving the rapid growth and rise of high-end products of the home appliances online shopping market. According to the report, there was a significant increase in average price of online home appliances products, in which air-conditioner, washing machine and refrigerator products' increased by 12%, 15% and 20%, respectively, which were substantially higher than offline products'. Leveraging on their outstanding innovation capability and higher price-performance ratio as compared with foreign high-end brands, some of the domestic companies have become the representative brands on new domestic products. In 2017, domestic brands accounted for more than half in terms of sales amount for air conditioner, mobile phone, flat panel TV, kitchen appliance and refrigerator sold on Tmall platform, among which, Haier ranked top in terms of sales of refrigerator and washing machine.

BUSINESS REVIEW (continued)

Industry Analysis (continued)

In 2017, the penetration rate of home appliances online shopping reached 26.5%. As the user acquisition cost continued to rise, benefits from online traffic have gradually diminished. In contrast, as an important place to establish emotional connections with consumers, offline stores maintain their distinct advantages in aspects such as consumer communication, pre-sales experience and after-sales services, and the gap between youngsters' consumption willingness through online and offline channels is gradually narrowing.

Premium products are always the core of consumers' demand, therefore, it is crucial for the upstream supply chain to be upgraded following the upgrade of the offline market and to bring breakthroughs to the traditional supply chain structure. Through the collection of mass data on consumption, our online sales have accumulated vast experience in aspects such as consumer behaviour and product recognition. Based and leveraged on its existing strengths, our offline channel will fully use its advantages on channel integration by creating the digital and interactive customer experience.

As the entire logistics industry has gradually matured, different types of market participants have joined the industry and triggered increasingly fierce competition in various segments of logistics. Apart from their existing sectors, logistics market participants are currently seeking new opportunities and aiming to compete in other market segments by developing multi-business across different logistics segments. In courier delivery industry, domestic names like Shunfeng, STO, YTO, ZTO and Yunda strove to leverage their competitive strengths to enter into the less-than-truck-load sector, so as to achieve synergy in terms of resources utilization and cost reduction. E-commerce giants are also transforming their self-developed logistics arms into third-party logistics platforms. Take JD.com for instance, after the establishment of its nationwide warehouse and delivery system, it started to provide services to third-party customers in 2016 and tried to transform its logistics arm into an independent brand and platform.

The transformation of logistics companies into supply chain management companies has become a significant trend. In October 2017, the General Office of the State Council published the *Guiding Opinion on Vigorously Advancing the Innovation on and Application of Supply Chain* (《關於積極推進供應鏈創新與應用的指導意見》), which guided traditional logistics enterprises to transform into supply chain services enterprises, and proposed basically to form an intelligent supply chain system covering the key industries of China by 2020, with the upstream and downstream industry chain gradually being transformed from a discrete activity to cross-sector integration, in order to meet the increasingly higher consumer demand in service quality and timeliness. New retail gave rise to new logistics, and the logistics industry is also under rapid evolution to adapt to changing business models. In the future, along with the further development of logistics industry, warehousing and delivery networks will penetrate to lower-tier market, and the demand for timeliness of distribution will become higher, therefore, the ability to offer last-mile delivering and after-sales services is becoming more important. At the same time, logistics enterprises need to upgrade their comprehensive capability to meet the customization demand from customers, such as intermodal transportation, cold chain delivering capability, and the end-to-end order management ability.

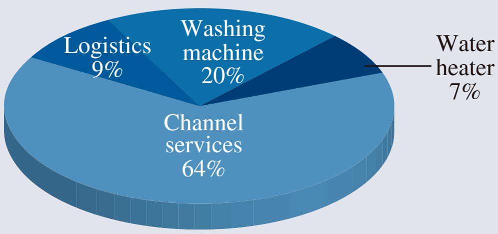
BUSINESS REVIEW (continued)

Industry Analysis (continued)

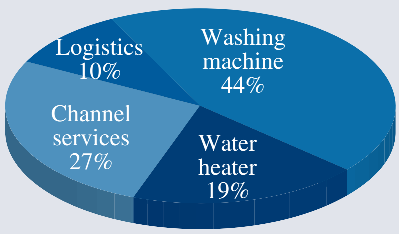
In 2017, the Group recorded a revenue of RMB78.8 billion, representing a year-on-year increase of 23.4%, and a net profit attributable to parent of RMB3.36 billion, representing a year-on-year increase of 20.6%. Each of our white goods business, channel services business and logistics business recorded rapid growth, which was attributable to attracting devotion on creating value for customers and attracting loyal users through first-class products, user experience and services. For the white goods sector, we enhanced our product mix by launching high-quality products to seize the general trend of consumption upgrade. For our channel services business, we increased user's touchpoint network through the Shunguang (顺逛) and smart cloud stores (智慧雲店) and enhanced the conversion rate of stores through experiential marketing. For our logistics business, while fulfilling the demand from the rapid growth of e-commerce orders, we vigorously developed our range of services encompassing new categories such as delivering household furniture to drive growth.

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

Proportion of segment revenue to revenue before consolidated eliminations



Proportion of segment profit to profit before consolidated eliminations



BUSINESS REVIEW (continued)

Industry Analysis (continued)

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 channel services segment, and revenue under logistics segment generated from warehousing and transportation services for washing machine, water heater and distribution businesses. In 2017, the inter-segment eliminations of washing machine, water heater, distribution and logistics businesses are shown as below:

		Product or service receiver			
	Business segments	Washing machine	Water heater	Channel services	Logistics
Product or service provider	Washing machine	N/A		¥13.09 billion	N/A
	Water heater	N/A		¥5.37 billion	N/A
	Channel services	¥0.26 billion*		N/A	¥0.02 billion
	Logistics	¥1.10 billion		¥0.01 billion	N/A

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

Washing Machine Business

In 2017, the Group's washing machine business maintained rapid growth and recorded a total revenue of RMB19.55 billion, representing a year-on-year increase of 22.8%. According to Euromonitor International, the global market share of the sales of Haier washing machines in 2017 was 14.6%, ranking first in the world for the ninth consecutive year. According to a market research report published by CMM, in 2017, the domestic washing machine industry grew by 11.4% in terms of sales revenue, and the Group's washing machine business remained to have the largest market share in terms of both sales revenue and sales volume. Our market share by sales revenue was 29.9%, representing a year-on-year increase of 2.3 percentage points, and 27.6% by sales volume, representing a year-on-year increase of 0.8 percentage points according to CMM's offline statistics.

To keep pace with the trend of consumption upgrade, washing machine manufacturers upgraded their products and increased average selling price in 2017. According to CMM's offline monitoring statistics that in the washing machine industry, sales of smart front-loading washing machines had a year-on-year increase of 79.7%, and the average selling price of washing machines increased by 11% compared with last year. Brands competed fiercely among themselves while the market is dominated by the leading ones. Taking Haier for instance, its online and offline market share of washing machine products increased by 5.6 and 2.3 percentage points respectively in 2017, according to CMM.

BUSINESS REVIEW (continued)

Washing Machine Business (continued)

As the domestic market leader, Haier washing machines has committed to product innovation over the years and have been leading technological innovation of the Chinese washing machine market. Combining the unique FPA's direct-drive variable-frequency motors and our strong and dedicated research and development capability, we developed various market-leading product series such as Fiber Care (纖見) and Twin Ella, and successfully developed "Casarte air wash", a new washing method, targeting at the high-end application scenario for washing machines in 2017.

Since we launched Ella, the only upper-lower two-drum washing machine model in the world, "Casarte" brand has been representing Haier in the high end market and continued to seize market share. The annual sales amount of Casarte washing machines increased by 50.8%, and accounted for 7% of the total revenue of washing machines, representing a year-on-year increase of 1.2 percentage points. According to CMM's offline statistics, the Group has captured 41.5% of the total market share of washing machines with retail prices exceeding RMB6,300.

We continuously innovate our products with a focus to tackle consumers' pain points. Targeting families whose varieties of clothes may not be compatible with a single washing method, we designed the single-unit two-drum Twin series based on the pioneer 100 times/second dynamic automatic compensation algorithm. According to CMM's offline statistics, for separate washing of household clothes, Haier's separate-drum washing machines brand "Ella" accounted for 92% of the total retail revenue of separate-drum washing machines in 2017. Up to now our Twin Ella, the production of which consists of 78 patents, is still a product inimitable by others.

We firmly believe that the ultimate value of high-end washing machines comes from the profound understanding of the relationship between washing and fabrics. We placed more than 40 washing machines operating 24 hours daily in a laboratory for seven years to collect information of the condition of various fabrics under different machine washing parameters, and finally formulated professional machine wash programs for different types of fabrics. Through the precise control of spinning speed of direct drive motor and the temperature sensing technology of 1,000 times/second of the Fiber Care model, we finally created "Casarte air wash", a groundbreaking laundry method. The new laundry method can erase smell and mold on high-end clothing such as mink and cashmere and also restore fabric fiber to its original elasticity.

The most sought-after products need to go to market in a customized way, and so we enhanced social marketing during the year. To promote the "air wash" laundry model, we launched free laundry activities for users in 15,000 offline stores. To let users directly understand the stability of direct drive variable-frequency motors, our washing machines participated in various displays and competitions of balancing technique, in which masters in balancing piled up leaves, coins and chairs etc. on our high-speed spinning washing machines. Our washing machines made two Guinness World Records during the year — a 1.882m coin tower and a 5.045m chair tower were towered on our washing machines which were spinning at high speed. Our users established balancing technique societies of Haier washing machines around the country. These users and societies turned into promoters of Haier washing machines.

BUSINESS REVIEW (continued)

Washing Machine Business (continued)

Export of the Group's washing machines had a year-on-year growth of 28.9%, accounting for 9.1% of the overall sales of washing machines. In the global export market, we achieved high growth in Australian, Asian and other markets. Leveraging on the channel network of Fisher & Paykel, our products entered into the Good Guy channel for sale while highly differentiated products such as the Twin Ella were also launched in Australia, resulting in a year-on-year sales growth of 22.4%. In the South Asian market, we vigorously developed e-commerce network to promote Haier products, and strengthened the after-sale services capability of local market. Growth rate in the European market also reached double digits, mainly attributable to the launch of differentiated products suitable for the local consumption group, the domestic direct sales model and the use of display counters.

In 2017, we upgraded our products as well as our manufacturing technology. We constructed new washing machine factories in Huangdao, Qingdao and Tianjin in 2017 to expand our production capacity, it is expected that our capacity of front-load washing machine will increase by 51% after the new factories put into use. We continuously invested in the automation and intelligentization of production line. Our factories have immensely applied advanced technologies such as 3D simulation, RFID, visual recognition and automatic noise detection to achieve automatic sensing for manufacturing nodes and unmanned production line for inner drum and container.

During the year, the gross margin of washing machine increased by 0.4 percentage points, due to our effort on cost control, enhancement of the design and simplification of functions of mid-to-low end products, and upgrading of our products towards mid-to-high end class.

Water Heater Business

The Group's water heater business is committed to developing a full range of competitive products, including four types of water heaters, namely electric, gas, solar and heat pump water heater, to provide consumers with comfortable bath solutions. In 2017, the Group's water heater business continued to grow rapidly, achieving revenue of RMB6.44 billion, representing a year-on-year increase of 20.1%. In 2017, growth in revenue of water heaters was mainly attributable to the increase in market share and average selling price brought by product upgrades.

According to a monthly retail monitoring report published by CMM, the Group maintained its leading position with a market share 18.77% in terms of sales volume, representing a year-on-year increase of 0.23 percentage points, and 16.96% in terms of sales revenue, representing a year-on-year increase of 1.26 percentage points.

As a traditional type of water heater, electric water heater has a wide range of applicability and is particularly popular in northern China. Electric water heaters are mainly water tank water heater, with the merits of high water temperature and good thermostat effect. On the other hand, long waiting period, large space requirement and easily affected by bacteria and feculence have long been their weaknesses. According to CMM's retail monitoring, in 2017, Haier electric water heaters continued to lead the market with a revenue increase of more than 10% and a market share of 25.91% in terms of sales volume, representing a year-on-year increase of 0.2 percentage points.

BUSINESS REVIEW (continued)

Water Heater Business (continued)

The success of electric heating stems from our constant investment in product research and development. The electric protection wall technology led by Haier has even been recognised as China's national standard. In 2017, with an aim to tackle the 'pain points' of electric water heaters, we launched the Smart series, the first Grade-one smart water heater certified by the China Household Electric Appliance Research Institute. This new product requires only five minutes of pre-heating to support a 15 minutes shower or bath based on the 3D instantaneous heating technology. In order to safeguard user's health during bathing, we released the double-effect feculence inhibition technology and three-level purification technology to effectively inhibit the generation of feculence in water heaters and conduct three levels of purification to bathing water, effectively removing harmful substances such as sediment, rust, residual chlorine and bacteria in water.

As compared with electric water heater, gas water heater has the advantages of higher heating efficiency, smaller space requirement and instant heating, thus is more popular in southern China where bathing frequency is higher. Due to the high barriers on gas technology, high requirements on safety and significant variance in the degree of popularization of natural gas in the regions, product users experiences have long varied. The large number of brands in the market has resulted in fierce competition and a low unit profit margin in spite of high unit price.

Through differentiated technologies, Haier gas heaters placed superior customer showering and bathing experience and safety protection of users as priority. In 2017, sales amount of gas water heaters increased by more than 45%, representing a year-on-year increase of 1.3 percentage points and accounting for 8% of the market share. Through the launch of the smart double gas safety protection system and NOCO safety system, our products have eased the worries over in-house natural gas and carbon monoxide emissions. And the launch of thermostat and zero-cold-water products has solved the problem of water temperature variation during users' bathing. To enhance heating efficiency and reduce emissions, we developed the patented rich-oxygen blue flame combustion technology, which was a pioneer in China's heat-generation industry and has obtained 13 national patents. Its exhaust emission is only 30% of the national standard. It was awarded the China Patent Excellence Award by the Patent Protection Association of China in December 2017, and was the sole technology patent that has won such an award within the industry.

Solar water heater, which is more environmental friendly than electric and gas water heaters, uses solar energy as the heat source, and for some accompanied by electricity as a backup energy source. There are many participants in the solar water heater industry, but it is common for small and medium brands which adopt traditional technologies and low-end in nature. Leveraging on its advanced technology and innovative products, the Group achieved more than 20% growth in the sales of solar energy products during the year. Our solar water heaters ranked first in terms of sales volume with 32% of the total market share, according to CMM's offline monitoring data.

BUSINESS REVIEW (continued)

Water Heater Business (continued)

To strengthen our competitive advantages in the solar thermal and photovoltaic industries, in May 2017, the Group acquired 51% equity interest in GREENoneTEC Solarindustrie GmbH (GoT), the largest solar thermal power plants manufacturer in the world located in Austria. GoT has advanced technology and facilities in the fields of solar thermal power plants and large-scale multi-source water heating systems. This acquisition has enlarged our technological reserves in power plants and thermosiphon. In the second half of 2017, we localized the technology of GoT, enhanced the heating efficiency of solar water heater products, and explored domestic opportunities in new industries such as the large-scale thermosiphon system industry.

Air energy heat pump water heater uses energy generated by air compression to heat water, and is the most energy-efficient and safest water heater. Heat pump water heater has the advantages of large water storage capacity and provision of hot water for a whole house 24 hours a day with low costs, but ordinary heat pump water heater has a relatively strict restriction on the working environment temperature and the output temperature. The energy saving and water temperature control of Haier heat pump water heaters are far beyond the industry level. Commercial models can operate at an ultra-low temperature of -35°C, and the temperature of water heated by heat pump can reach 90°C. The Tianmu (天沐) series, a household model, adopts the direct drive variable-frequency technology, and its energy consumption level is nine grades higher than the national Grade 1 energy consumption standard. Haier's air energy sector has five technologies being certified as "international leading" by the China Light Industry Council, predominantly leading the air energy heat pump industry with its technological innovation. The Group's heat pump water heater also achieved rapid growth in 2017, with a year-on-year sales growth of more than 50%.

The channel distribution of water heater business is slightly different from other white goods businesses. As users usually purchase water heaters during the period of bathroom renovation, the water heater channel focuses more on the building materials and home improvement channel. In 2017, we upgraded the water heater stores, and promoted mid-to-high end and complete water solutions in flagship stores in commercial centers and CBDs. We embellished the store display in home improvement markets of third and fourth-tier channels to increase users' access to products during the early stage of consumers' decision-making process.

While focusing on its products, the water heater department also pays attention to the build-up of ecosystem. We have formulated smart network solutions for bathrooms together with a number of sanitary ware industry brands and bathroom smart hardware products, and jointly developed new whole-house smart water system solutions with the water purification industry, providing the best whole-house smart experience in aspects such as water heating, water purification, soft water and hot water.

In 2017, we expanded the production capacity and upgraded the technological production line of our water heater business. We added a new automatic pre-treatment line for electric water heaters in Wuhan, and developed the automatic elastic core project equipment, which is expected to be mass produced in the first half of 2018. We digitally upgraded the assembly lines of heat pump and gas water heaters in Jiaonan and Chongqing. In 2018, we will establish new factories in Huangdao and Zhengzhou to enlarge the production capacity of new energy water heaters.

BUSINESS REVIEW (continued)

Channel Services Business

The channel services segment achieved sales revenue of RMB63.7 billion in 2017, with a year-on-year increase of 23.7%. Revenue from online channel amounted to RMB14.7 billion, accounting for 23% of channel services segment revenue, with a year-on-year increase of 62%. For Haier's online channel only, sales through JD, Tmall, ehaier and Shunguang were about 46%, 37%, and 15% of total online sales respectively. During the period of 11.11 from 1 November 2017 to 11 November 2017, the market share of the Group's home appliances sold online amounted to 18.2%, ranking the first on the internet, with the year-on-year increase of sales on e-commerce platforms like Tmall and JD.com surpassing 50%. While the sales grew rapidly, the percentage of mid-to-high end online products also increased. During the period of 11.11, the average selling price of our products recorded a year-on-year increase of 35%, which is more than twice of the industry average. Meanwhile, the satisfaction level of customers also improved and was higher than the industry average.

Haier branded products achieved sales revenue of RMB45.3 billion through offline channels, with a year-on-year increase of 21%. The product mix continued to optimize and the retail partner's inventory turnover efficiency was further enhanced. Taking Haier specialty stores and multi-brands stores as examples, the average selling price increased by 16% during 2017 while the retail partner's inventory amount decreased by 10%, and the gross profit margin of retailers increased significantly.

Following the high-end brand strategy of the Group since the end of 2015, channel reorganization continued towards optimizing product mix and profit margin of our customers, namely the retailers. In 2017, the Group's channel services department strove to help our customers to maintain the competitiveness in five aspects, namely gross profit margin, average selling price, inventory turnover, retail sales amount and market share. Sales target on customers has been turned into Haier's motivation to provide services to customers while "customers' performance ratio" has been aligned with "Haier's performance ratio". Specifically, our performance can be analyzed from three aspects:

Firstly, we increased sales points and attracted more customers to the stores. Taking online channels as an example, apart from official multi-product flagship stores and single product flagship stores set up by the Group itself, the store owners of Haier's specialty stores were encouraged to open online specialty stores and "Shunguang" (順逛) mobile app stores, with the support of policy and resources provided by the Group in respect of products and marketing. For offline channel, more single-brand specialty stores were established according to the location of business districts. For example, we opened Casarte brand stores in first-tier and second-tier cities. Meanwhile, we turned other existing channels into Haier's offline stores such as adding intelligent cloud-stores in supermarkets and community service stations to increase overall sales with lower store expanding costs and more flexibility in store types. Since the fourth quarter of 2017, the Group has designed asset-light store types based on the principle of "small but smart". We set up smart cloud-stores in various locations such as communities, renovation markets, building materials markets, shopping centres and grocery stores in counties and villages and connected a single offline contact point to product-cloud and service-cloud of the Group, maximizing users' choices at a minimum cost. In 2017, we have built more than 1,400 smart cloud-stores in total and have increased our sales by approximately RMB200 million. We planned to open more than 20,000 smart cloud-stores in 2018.

BUSINESS REVIEW (continued)

Channel Services Business (continued)

Secondly, we increased store conversion rate by paying great attention to details and improving the offline purchasing experiences of customers. Service proposals that accommodate the daily needs are adopted to transform places of selling into places of experiencing. Through bringing all-rounded perceptions to customers, we fully explored their demand. By combining Haier Group's strengths in various brand composition and comprehensive product categories and by providing customized design and one-stop solution, we helped customers to make purchase decision efficiently. In order to help offline stores enhance their sales conversion rate and per customer transaction amount, the Group provided the store sales teams training services to help them become the master of "full-range immersive sales" ("成套實景銷售") with its in-depth understanding of customers' demand and rich marketing experiences. In 2017, among the approximate 900 stores which adopted full-range immersive sales model, the products sold in set have exceeded 30%.

Thirdly, we enhanced the brand reputation of offline specialty stores through interaction with communities. "Haier's specialty store" is not only a store that sells products but also a brand that carries warmth and social responsibilities. In 2017, the Group set up a free video conference network covering the whole country that allow the "left-behind children" and their parents in China to chat with each other through the interconnected screens system in more than 30,000 of Haier stores. A campaign ""Achievable dream, Boundless love" young dreamer"(《"助夢前行•愛無止境"少年夢想家》) was launched throughout the country. Cooperating with local hope primary schools, we have helped more than 8,000 students to realize their dreams in stages and built charity libraries for more than 100 hope primary schools. Haier specialty stores aim at becoming the good and warm neighbour of consumers by providing professional and yet considerate shopping experience as well as giving consumers real sense of sincerity and friendliness.

Logistics Services Business

During the year, the business of Gooday Logistics continued to grow solidly, with revenue of RMB9.0 billion, representing a year-on-year increase of 19.0%. Among which, e-commerce logistics and household furniture logistics both achieved rapid growth. According to the Top 100 Overall Competitiveness of Domestic Logistics Enterprises published by China Internet Weekly and eNet in 2017, Gooday Logistics ranked sixth overall among various high-quality logistics enterprises with its good services, reputation and operation.

BUSINESS REVIEW (continued)

Logistics Services Business (continued)

The e-commerce logistics sector provides warehousing, line-haul transportation and last-mile delivery and installation services to Tmall platform, JD.com platform and Haier's online shopping mall. In 2017, the e-commerce sector maintained a rapid growth, with revenue increased by more than 30%. While providing customers with integrated supply chain solutions, we also enhanced the capability in value-added businesses such as reverse logistics and maintenance. During the 11.11 Shopping Carnival, Gooday Logistics' on-time delivery rate even reached 92.7%, which was higher than the industry average.

Leveraging on the advantage in the field of bulky home appliances and the understanding of the household furniture industry by Boyol New Brothers, a subsidiary of Gooday Logistics, Gooday Logistics actively expanded the service capability in household product logistics, and our revenue of online household furniture sector increased by more than 40% in 2017. We developed our nationwide household furniture delivery and installation network through franchises, standardized our service process and provided training for the network, and planned to set up household furniture logistics centers in Guangdong to provide warehousing and collection services for customers at the household furniture distribution areas.

Shanghai Boyol New Brothers recorded a growth of 18.4% in revenue during the year. Along with the increase in orders from its existing major customers such as IKEA and Kohler, Boyol New Brothers also actively expanded its customer base in household furniture, household chemicals and nutritional product industries. During the year, the Group completed its investment in Shanghai Grand Logistics Co., Ltd. and realized a controlling shareholding. We also further developed its cold chain logistics and fresh food supply chain businesses. Shanghai Grand Logistics Co., Ltd. focuses on third-party cold chain logistics services, and provides cold chain storage and B2B distribution services for food industry customers through its well-developed intracity distribution service network.

During the year, Gooday Logistics also actively arranged its warehousing and transportation platforms, and tested automatic sorting warehouses for bulky items such as home appliance products. By the end of 2017, the total area of the warehouses managed by the Group amounted to 3.60 million square meters, in which the total area of self-owned warehouses amounted to 1.215 million square meters, accounting for 33.8% of the total area of warehouses. Targeting on the bulky home appliances market, Gooday Logistics is exploring the automated warehouse in the country, in order to have differentiated competitiveness in the aspects of smart equipment, smart management and smart services and set up the industry standards for bulky goods logistics.

BUSINESS REVIEW (continued)

Principal Risks and Uncertainties the Company Exposed to

The Group is impacted by various types of risks including external risks, strategic risk, financial risk and operational risks. The Group monitors and minimizes key risks in a proactive manner.

The fluctuation of the prices of raw materials and labor costs are the main factors affecting the gross profit margin of manufacturing industry. In the past two years, the prices of raw materials, mainly cold rolled coil, hot-dip galvanized sheet, copper and PP plastic, have been increasing steadily, and raw materials and components account for more than 90% of the production costs of washing machines and water heaters. Any potential rise in the costs of raw materials in the future may impose pressure on the gross profit margin of the manufacturing industry. However, we will mitigate the impact of the rise in raw material costs on the gross profit margin through improving production processes and optimizing the product mix.

The market share of the Group's washing machine business and water heater business both ranked first in terms of sales volume. In order to further enhance the market share and brand image, we have been optimizing product mix by production innovation and multi-branding strategy. As an important part of our product innovation, we have our own unique patents and components as our technical barrier in high-end components. However, there are competitors in the industry who are also developing high-end electrical motors and models, and they may poach our technical professionals by paying higher compensation or may quickly copy our technology by duplicating our technical documents. Therefore, we have to establish sustainable and systematic innovation system based on the customers' demand, to develop supreme products and constantly keep upgrading so as to maintain our competitiveness in products.

The Group has always been implementing the branding strategy in oversea markets without carrying out OEM production. The oversea export business of the Group mainly involves 9.1% of washing machine business of the Group. Haier is still not a leading brand in some oversea markets as the Group's oversea channels are not as comprehensive as those in the Chinese market. It is a painstaking process to build up branding overseas; and wars, political changes, fluctuation in currencies or trade wars may all bring uncertainties for oversea export revenue and gross profit margin in the future.

BUSINESS REVIEW (continued)

Principal Risks and Uncertainties the Company Exposed to (continued)

As smart production and smart products have been popularized gradually, we rely on information technologies to improve and monitor our production processes, improve management efficiency, collect demand data from customers and ensure our financial effectiveness and accuracy. The malfunction of information system, including the mistakes by information system provider, would disrupt our normal production and sales, delay the product delivery time and reduce user satisfaction for in short term. We have recruited a professional team to upgrade and maintain the information system, and prepared backup servers in order to reduce significantly the occurrence of the above mentioned risks.

Mass customization production requires a provider with various types of components. We have stringent quality control and sourcing procedures towards suppliers. Since the purchase of some components is limited to a small number of providers, under extreme cases, there might be risks of insufficient capacity of the components provider or price fluctuation. If so, it may affect our product delivery time and bring fluctuation to the gross profit margin of our products.

The distribution structure of China's home appliances market has been changing significantly. Ecommerce platforms like Tmall and JD have become the new growth engine instead of Gome and Suning. Other offline distributors are also facing fierce competition from online. We may lose online market share in such course of change if we cannot build capabilities in distribution channel management, establish professional teams and master various online marketing tools. Meanwhile, the Group's distribution business may be adversely affected if we sacrifice offline market share to support the fast growth of online market. Therefore, the Group is endeavored to enhance the management abilities across channels by carrying out various measures, such as adopting same price for same product strategy online and offline, develop Shunguang APP to support offline franchisees and co-develop Jushanghui platform with Haier Group to increase the operational efficiency and management abilities of the franchisees.

Logistics services for bulky goods have special requirements for warehousing, transportation and last mile delivery, which set up a high entry barrier for those who try to enter this industry. With the increasingly fierce competition in the logistics industry, many express delivery and courier service companies and third-party contractual logistics companies try to expand their service area to bulky goods. The competition may lead to the risks of price war or losing customers if the service has no differentiation. Since Gooday Logistics has the "last mile" delivery capability and the advantage of professionalism in household furniture, we will develop more differentiated value-added services in order to avoid the pricing competition pressure.

The development of e-commerce showed us new opportunities of channel and logistics business, in particular, the orders from e-merchants have become the major growth drive for the growth of Gooday Logistics. While benefiting from the rapid growth of e-commerce, we also face new requirements on the delivery coverage and service quality. We will increase the investment of Gooday Logistics in its coverage and operating capability. However, in areas with insufficient orders, our initial costs which would not match with investment and income are likely to occur, and impose pressure on the margin of our logistics business.

BUSINESS REVIEW (continued)

Principal Risks and Uncertainties the Company Exposed to (continued)

In order to speed up the expansion of our logistics business, we have carried out acquisition, strategic investment and set up joint ventures. For example, we have acquired a number of companies such as Sheng Feng Logistics Group Co., Ltd., Shanghai Boyol New Brothers Logistics Co., Ltd. and Shanghai Grand Logistics Co., Ltd. in order to enhance our expansion on types of logistics services. Although we conducted the necessary business, financial and legal due diligence on the acquired companies during the early stage of investments, there would be always integration risk caused by cultural conflicts and business model differences. We will invest specific resources to focus on post investment management and accelerate the cultural identity of Gooday Logistics by the acquired companies.

High-end manufacturing industry and omni-channel retail business require talents with leadership to achieve corporate development. To seek for and train talents suitable for corporate strategic development is a major task for every company. Through updated business philosophy, practical talent strategy and incentive system for micro makers, we ensure an high-performing team for the Group and actively train future talents.

We emphasize the liquidity of assets, and usually adopt cash before delivery as the way of payment for our channel customers and internal settlement. For external settlement, we grant credit period to account receivables of certain third-party customers. Although we conduct strict credit assessment on these customers, we cannot ensure that every customer can pay in full on time with frequent transactions especially under the fluctuating Chinese business environment.

Financial Review

In 2017, the Group's revenue amounted to RMB78,798,324,000, representing an increase of 23.4% from RMB63,854,877,000 in 2016. The profit attributable to owners of the Company was RMB3,358,297,000, representing an increase of 20.6% from RMB2,785,356,000 (restated) in 2016. The basic earnings per share attributable to ordinary equity holders of the Company was RMB1.21, representing an increase of 21.0% from RMB1.00 (restated) in 2016.

1. ANALYSIS OF REVENUE AND PROFIT

Items	2017 RMB'000	2016 RMB'000 (Restated)	Change %
Revenue			
Washing machine business	**19,552,870**	15,920,451	+22.8%
Water heater business	**6,437,119**	5,358,160	+20.1%
Channel services business	**63,663,430**	51,484,998	+23.7%
Logistics business	**9,000,435**	7,562,075	+19.0%
Inter-segment elimination	**(19,855,530)**	(16,470,807)	+20.5%
Consolidated revenue	**78,798,324**	63,854,877	+23.4%
Adjusted operating profit*	**3,669,142**	3,018,471	+21.6%
Profit attributable to owners of the Company	**3,358,297**	2,785,356	+20.6%
Earnings per share attributable to ordinary equity holders of the Company			
Basic	**RMB1.21**	RMB1.00	+21.0%
Diluted	**RMB1.20**	RMB0.99	+21.2%

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

1. ANALYSIS OF REVENUE AND PROFIT (continued)

Revenue

The revenue of the Group for 2017 was RMB78,798,324,000, representing an increase of 23.4% as compared to RMB63,854,877,000 in 2016. The increase of revenue was mainly attributable to the growth of revenue from washing machine, water heater, channel services and logistics businesses.

The revenue from the washing machine business amounted to RMB19,552,870,000 in 2017, representing an increase of 22.8% as compared to RMB15,920,451,000 in 2016. This was mainly attributable to the continuous advancement and innovation of products and technology of Haier's washing machines, significant upgrade in the development of brand, marketing and channels, resulting in significant growth in both online and offline channels. With a 40% growth in sales of front-loading washing machines, its contribution to the overall sales of washing machines business increased significantly, indicating that the product mix continues to improve.

The revenue from the water heater business amounted to RMB6,437,119,000 in 2017, representing an increase of 20.1% as compared to RMB5,358,160,000 in 2016. This was mainly attributable to the technological advancement and product upgrade, expansion and development of distribution channels in home improvement markets, and brand image upgrade of end stores. Among which, the revenue of gas and new energy heat pump water heaters recorded rapid growth of over 40% and 50%, respectively.

The revenue from the channel services business amounted to RMB63,663,430,000 in 2017, representing an increase of 23.7% as compared to RMB51,484,998,000 in 2016. The increase was mainly attributable to the rapid growth of online and offline Haier brand products of the Group under the "tri-network integration" strategy. Among which, the increase of Haier brand's offline distribution channel was over 20%. Such increase was mainly attributable to the Group's enhancement of service spots of offline channel, which provided better consumption scenarios and more convenient service experience for users. Haier brand's online distribution channel recorded an increase of over 60%. Such increase was mainly attributable to the Group's strengthening of brand publicity on e-commerce platforms, comprehensive enhancement of user experience and awareness through interactive marketing as well as upgrade of reputation through enhancement of service capacity.

The revenue from the logistics business amounted to RMB9,000,435,000 in 2017, representing an increase of 19.0% as compared to RMB7,562,075,000 in 2016. The increase was mainly attributable to the steady growth of our core whole-process home appliances business, gradual increase in industry influence in the household furniture sector as well as the breakthrough in businesses such as fitness equipment and cold chain.

1. ANALYSIS OF REVENUE AND PROFIT (continued)

Profit attributable to owners of the Company

In 2017, the profit attributable to owners of the Company was RMB3,358,297,000, representing an increase of 20.6% from RMB2,785,356,000 (restated) in 2016. The basic earnings per share attributable to ordinary equity holders of the Company was RMB1.21 in 2017, representing an increase of 21.0% from RMB1.00 (restated) in 2016.

Adjusted Operating Profit

Adjusted operating profit was defined as profit before tax, net of interest income 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 its business trends that may be obscured by the net effect of realized capital gains and losses, fair value changes on derivative financial instruments, gains and losses on disposition of operations and adjustments for other significant non-recurring or unusual items.

In 2017, the adjusted operating profit of the Group was RMB3,669,142,000, representing an increase of 21.6% as compared to RMB3,018,471,000 (restated) in 2016. The increase in the adjusted operating profit was mainly contributed by the steady growth in business as well as the continuous improvement in the operational efficiency of the Group.

Gross Profit Margins

In 2017, the overall gross profit margin of the Group was 17.5%, representing an increase of 0.2 percentage points from 17.3% in 2016. The increase in the overall gross profit margin was mainly attributable to the increase in gross profit margins of the washing machine and channel services businesses.

The gross profit margin of the washing machine business was 27.9%, representing an increase of 0.4 percentage points from 27.5% in 2016. This was mainly attributable to the continuous optimization of product mix brought by the strong growth of high end products such as Casarte.

The gross profit margin of the water heater business was 36.6%, representing a decrease of 0.3 percentage points from 36.9% in 2016. The decrease in gross profit margin of the water heater business was mainly due to the lower gross profit margin of the products operated by the newly-acquired GOT company as compared with the domestic water heater business.

The gross profit margin of the channel services business was 10.4%, representing an increase of 0.1 percentage point from 10.3% in 2016.

1. ANALYSIS OF REVENUE AND PROFIT (continued)

Gross Profit Margins (continued)

The gross profit margin of the logistics business was 10.1%, representing a decrease of 0.5 percentage points from 10.6% in 2016. Such decrease was mainly due to the increase in investment in the construction of household furniture services network in 2017 to support the development of online household furniture quick installation business.

Selling and Distribution Expenses

The ratio of selling and distribution expenses of the washing machine and water heater businesses to its segment revenue increased by 0.4 percentage points from 15.8% in 2016 to 16.2% in 2017, which was mainly due to the increase in investment in brand advertisement as well as scenario and community marketing.

The ratio of selling and distribution expenses of the channel services business to its segment revenue was 7.7%, which was the same as that of 2016.

The ratio of selling and distribution expenses of the logistics business to its segment revenue decreased by 0.5 percentage points from 1.5% in 2016 to 1.0% in 2017, which was mainly due to the enhancement of operational efficiency as a result of the staff and organizational reorganization of Gooday Logistics.

Administrative Expenses

In 2017, the ratios of administrative expenses of the washing machine and water heater businesses, channel services business and logistics business to their segment revenues were 4.5%, 0.9% and 5.3%, respectively, representing a decrease of 0.3 percentage points, 0.1 percentage point and 0.2 percentage points from 4.8%, 1.0% and 5.5% in 2016, respectively.

Such decrease was mainly due to the economy of scale brought by the increase in revenue and enhancement of organizational and operational efficiency.

2. FINANCIAL POSITION

Items	2017 RMB'000	2016 RMB'000 (Restated)
Non-current assets	**8,860,055**	7,692,438
Current assets	**34,581,341**	28,575,328
Current liabilities	**18,702,334**	17,407,166
Non-current liabilities	**1,646,469**	462,630
Net assets	**23,092,593**	18,397,970

Cash and Cash Equivalents

In 2017, the Group's cash and cash equivalents balance increased by 18.5% from RMB12,673,095,000 (restated) as at 31 December 2016 to RMB15,015,303,000 as at 31 December 2017. The increase was mainly attributable to the increase in net cash flows from earnings of principal operating activities.

Net assets

The Group's net assets increased by 25.5% from RMB18,397,970,000 (restated) as at 31 December 2016 to RMB23,092,593,000 as at 31 December 2017. The increase in net assets was mainly attributable to profit contribution for the year and exercise of convertible and exchangeable bonds by Alibaba.

Working Capital

Trade and Bills Receivables Turnover Days

The bills receivable turnover days of the Group's washing machine and water heater businesses was 35 days as at the end of 2017, representing a decrease of 13 days as compared to the end of 2016, which was mainly attributable to an increase in the proportion of settlement by bills at payment.

As at the end of 2017, the trade receivables turnover days of the Group's washing machine and water heater businesses was 14 days, representing a decrease of 3 days as compared to the end of 2016, which was mainly attributable to the active recovery of receivables from customers as a result of improvement in retail of traditional channels. The proportion of the bills receivable to the total trade and bills receivables was 70.6% (31 December 2016: 73.6%), most of which were bank's acceptance bills with minimal risk of default.

In the Group's channel services business, the majority of customers of Haier brand in the 3rd and 4th-tier markets are relatively small scale customers, and the sales are generally settled with payment in advance of delivery. Our business model aims at achieving rapid sales. The trade receivables turnover days as at the end of 2017 was 2 days, representing a decrease of 1 day from the end of 2016.

As at the end of 2017, the trade receivables turnover days of the Group's logistics business was 76 days, representing an increase of 7 days from the end of 2016, which was mainly due to the significant increase in trade receivables at the end of the year as a result of the significant growth in freight volumes near the end of the year.

2. FINANCIAL POSITION (continued)

Working Capital (continued)

Inventory Turnover Days

Under the Group's Just-In-Time policy, the Group has implemented a series of measurements including rolling order forecasts, made-to-order and procured-to-order productions, which helped maintain a relatively low inventory level. As at the end of 2017, the inventory turnover days of the washing machine and water heater businesses was 24 days, increased by 3 days as compared to the end of 2016, which was mainly attributable to the increase in inventory of washing machines and water heaters at the end of the year in order to ensure adequate supply for peak sales.

As at the end of 2017, the inventory turnover days of the channel services business was 50 days, representing an increase of 13 days as compared to the end of 2016. This was mainly attributable to the earlier stock preparation of air-conditioner products.

Trade Payables Turnover Days

The trade payables turnover days of the Group's washing machine and water heater businesses was 57 days as at the end of 2017, representing an increase of 19 days as compared to the end of 2016. This was mainly due to an increase in purchase of the raw materials for stock preparation, resulting in an increase in trade payables as at the end of the year.

The trade payables turnover days of the channel services business was 4 days as at the end of 2017, representing a decrease of 4 days as compared to the end of 2016, which was mainly due to the decrease in trade payables balance as a result of our exit from third party distributor.

The trade payables turnover days of the logistics business was 113 days as at the end of 2017, representing an increase of 10 days as compared to the end of 2016, which was mainly due to continuous optimization in management over credit terms with suppliers.

3. CASH FLOW ANALYSIS

Items	**2017** **RMB'000**	2016 RMB'000 (Restated)
Cash and cash equivalents as stated in the statement of financial position at beginning of year	**12,673,095**	10,245,006
Net cash flows from operating activities	**4,172,756**	3,594,154
Net cash flows used in investing activities	**(2,537,546)**	(917,878)
Net cash flows from/(used in) financing activities	**772,060**	(325,994)
Effect of foreign exchange rate changes, net	**(65,062)**	77,807
Cash and cash equivalents as stated in the statement of financial position at the end of year	**15,015,303**	12,673,095

3. CASH FLOW ANALYSIS (continued)

The Group's net cash inflow from operating activities increased by 16.1% to RMB4,172,756,000 in 2017 as compared with 2016, which was mainly due to the growth in net cash flows from the profit of the operating activities.

Net cash outflow from investing activities for the year was RMB2,537,546,000, representing an increase of 176.5% as compared with 2016. Cash inflow from investing activities mainly included the cash received for disposal of equity interest in subsidiaries and associates in the amount of RMB212,017,000, cash dividend received from Sinopec Marketing Co., Ltd in the amount of RMB40,956,000 and the government grant received in relation to long-term asset acquisition in the amount of RMB89,770,000. Cash outflow used in investing activities mainly included equity investment of RMB82,372,000, cash payment of RMB1,514,366,000 for purchase of wealth management products, cash payment of RMB1,287,827,000 for capital expenditure items.

Net cash inflow from financing activities was RMB772,060,000 during the year. Cash outflow used in financing activities mainly included dividend payment of RMB415,019,000, payment of minority shareholders' dividend of RMB12,418,000 and net cash outflow of borrowings of RMB60,849,000. Cash inflow from financing activities was mainly attributable to the attraction of investment by Gooday Logistics, including the increase in investment of RMB340,000,000 from Alibaba and investment of RMB924,485,000 from other external investors.

LIQUIDITY AND FINANCIAL RESOURCES

The Group focuses on cash flow management and has been able to maintain a healthy financial and liquidity position. The Group recorded a current ratio of 184.9% as at 31 December 2017, representing an increase of 20.7 percentage points as compared with 164.2% (restated) as at 31 December 2016.

Items	**2017 RMB'000**	2016 RMB'000 (Restated)
Cash and cash equivalents	**15,015,303**	12,673,095
Less:		
Interest-bearing borrowings	**192,624**	73,000
Shareholders' borrowings	**–**	27,883
The liabilities portion of convertible and exchangeable bonds	**–**	1,223,220
Interest-bearing put option liabilities	**861,428**	–
Finance lease payables	**–**	16,872
Net cash balance	**13,961,251**	11,332,120

The Group's net cash balance as at 31 December 2017 amounted to RMB13,961,251,000 (31 December 2016: RMB11,332,120,000 (restated)), representing an increase of 23.2% from 2016.

LIQUIDITY AND FINANCIAL RESOURCES (continued)

The Group continues to maintain stable operating cash flows in 2017 to ensure the meeting of its working capital requirements for the next year, to construct connected factories, intelligent logistics network and the e-commerce platform, as well as to maintain financial flexibility for future strategic investment opportunities.

CAPITAL EXPENDITURE

The Company assesses its capital expenditure and investments in the washing machine, water heater and logistics businesses from time to time. The capital expenditure during the year was RMB1,332,094,000 (2016: RMB876,935,000 (restated)), in which RMB563,865,000 (2016: RMB470,854,000) was used in developing the logistics business including the construction of warehouse, and RMB768,229,000 (2016: RMB406,081,000 (restated)) was used in new factory construction and equipment modifications for washing machines and water heaters businesses.

GEARING RATIO

As at 31 December 2017, the Group's gearing ratio (defined as total borrowings, including the liabilities portion of convertible and exchangeable bonds, interest-bearing put option liabilities and finance lease payables, over net assets) was 4.6% (31 December 2016: 7.3% (restated)).

TREASURY POLICIES

The Group adopts a prudent approach in its cash management and risk control. Most of the Group's revenues and expenses are denominated in Renminbi. Cash is generally placed in short term deposits denominated either in Renminbi, Hong Kong dollars or United States 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 3.9% of the Group's revenue is derived from export sales and is denominated in other currencies. The Group does not have any significant interest rate risk as it has an overall net cash balance. The Group does not have any financial instrument for hedging purposes.

CAPITAL COMMITMENT

The Group's capital commitments contracted but not yet provided for amounted to RMB735,691,000 as at 31 December 2017 (31 December 2016: RMB352,305,000 (restated)), which were mainly related to the construction of connected factories as well as warehouses for the logistics business.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no plan authorised by the Board for other material investments or additions of capital assets at the date of this report.

CHARGE OF ASSETS

As at 31 December 2017, certain of the Group's buildings and leasehold land with a net carrying value of RMB117,952,000 (31 December 2016: RMB30,171,000), land with a net carrying value of RMB9,367,000 (31 December 2016: Nil) and trade receivables with a net carrying value of RMB53,670,000 (31 December 2016: Nil) were pledged to secure certain of the Group's bank loans.

In addition, as at 31 December 2017, the Group's other short-term loans were secured by the pledge of the Group's trade receivables amounting to RMB3,533,000 (31 December 2016: Nil) in total.

Furthermore, as at 31 December 2017, certain of the Group's bills payable were secured by the pledge of the Group's bank deposits amounting to RMB112,365,000 (31 December 2016: RMB71,272,000) and the Group's bills receivable amounting to RMB14,235,000 (31 December 2016: RMB60,421,000).

CONTINGENT LIABILITIES

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

RELATIONSHIP WITH EMPLOYEES AND REMUNERATION POLICY

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

The total number of employees of the Group reduced by approximately 1.5% to 15,241 as at 31 December 2017 from 15,476 as at 31 December 2016.

RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

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

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

In the Group's channel services business, the majority of customers in the 3rd and 4th-tier markets are relatively small scale customers, and the sales are generally settled with cash before delivery. Our business model aims at achieving rapid sales.

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

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

MATERIAL ACQUISITIONS

In order to expand our technological reserve in solar thermal power plants and photovoltaics, during the year, the Group acquired 51% equity interest of Austria's GREENoneTEC Solarindustrie GmbH, the largest solar thermal power plants manufacturer in the world, with a consideration of EUR7,000,000 (approximately RMB52,359,000) and upon other conditions.

DIVIDENDS

The Board has proposed a final dividend of HK29 cents per share in cash to shareholders whose names appear on the register of members of the Company on Thursday, 5 July 2018 for the year ended 31 December 2017. All the dividends will be paid upon approval by shareholders at the Company's forthcoming annual general meeting. The final dividend will be paid on around Friday, 10 August 2018.

This dividend represented approximately 20% of the profit attributable to the owners of the Company for the year, and will be distributed out of the contributed surplus account of the Company. The Group shall retain sufficient cash for maintaining a strong financial position for capturing strategic investments when opportunities arise.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

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

BOARD OF DIRECTORS

Composition

As at 31 December 2017, the Board currently comprises two Executive Directors, four Non-executive Directors and three Independent Non-executive Directors (the "INED(s)").

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

At least one of the INEDs possesses appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Directors are well-versed in respective areas such as accounting and finance, business management and industry knowledge and the Board as a whole has achieved an appropriate balance of skills and experience. The Directors' biographical details, by category of Directors, are set out on pages 12 to 15 of this annual report.

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

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

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

BOARD OF DIRECTORS (continued)

Board diversity policy

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

Delegation by the Board

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

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

The Board is principally responsible for:

1. determining the overall strategy;

2. reviewing all significant policies of the Group;

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

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

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

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

BOARD OF DIRECTORS (continued)

Delegation by the Board (continued)

The Management is principally responsible for:

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

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

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

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

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

Chairman and Chief Executive Officer ("CEO")

Under Code Provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separated and should not be performed by the same individual. Up to 25 August 2017, Mr. Zhou Yun Jie ("Mr. Zhou"), an Executive Director, had served as the chairman and also the CEO of the Company. The Board has continued reviewing the separation of chairman and CEO. With effect from 25 August 2017, Mr. Zhou Yun Jie has no longer performed the role of the CEO, and Mr. Li Hua Gang has been appointed as the CEO with effect from the same date. The Company has from then on complied with the Code Provision A.2.1 regarding the separation of the roles of chairman and CEO.

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 that period up to 25 August 2017 for Mr. Zhou to hold both positions as the chairman and CEO of the Company as it helped to maintain the continuity of the policies and the stability of the operations of the Group. It also helped to promote the efficient formulation and implementation of the Company's strategies which enabled the Group to seize business opportunities efficiently and promptly. The Board comprising a vast majority of non-executive Directors also meets regularly on a quarterly basis to review the operations of the Group and to consider other major matters affecting the business of the Group. Accordingly, the Board believes that this arrangement did not have negative influence on the balance of power and authorizations between the Board and the Management. In addition, through the continuing supervision of the Board and its independent non-executive Directors, checks and balances continue to exist so that the interests of the shareholders are continued to be adequately and fairly represented.

BOARD OF DIRECTORS (continued)

INEDs

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

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

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

Supply of and access to information

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

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

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

Professional development

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

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

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

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

BOARD OF DIRECTORS (continued)

Professional development (continued)

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

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

Board meetings

During the year ended 31 December 2017, apart from the adhoc meetings and consents obtained by means of written resolutions of all the Board members, the Board held four scheduled meetings at approximately quarterly intervals to review and approve, among other things, the 2016 annual results and 2017 interim results, the overall Group's strategy, discloseable and connected transactions of the Group. The Company's board meetings (the "Board Meeting(s)") are permitted to be held by means of telephone or other means of electronic communication under the Bye-laws.

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

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

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

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

BOARD OF DIRECTORS (continued)

Board meetings (continued)

The following table shows the attendance of the Directors at the scheduled Board Meetings during the year ended 31 December 2017:

	No. of the scheduled Board Meetings attended/ held
Executive Directors:	
Mr. Zhou Yun Jie *(Chairman)*	4/4
Mr. Sun Jing Yan (appointed on 28 April 2017)	1/3
Non-executive Directors:	
Mr. Liang Hai Shan	1/4
Mr. Li Hua Gang *(alternate to Mr. Liang Hai Shan up to 24 August 2017)*	1/3
Ms. Tan Li Xia	2/4
Dr. Wang Han Hua	4/4
Mr. Yin Jing (appointed on 21 June 2017)	3/3
Mr. Zhang Yong (retired on 21 June 2017)	0/1
INEDs:	
Mr. Yu Hon To, David	4/4
Mrs. Eva Cheng Li Kam Fun	4/4
Ms. Tsou Kai-Lien, Rose	3/4

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

BOARD OF DIRECTORS (continued)

Model Code for Securities Transactions by Directors

The Company has adopted a Model Code for Securities Transactions by Directors (the "Haier Electronics Model Code") on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules. Upon enquiry by the Company, all Directors of the Company have confirmed that they have complied with the required standards as set out in the Haier Electronics Model Code throughout the year ended 31 December 2017.

In addition, the Board has adopted written guidelines (the "Employees' Guidelines for Securities Transactions") for securities transactions by employees (the "Relevant Employees") who are likely to be in possession of unpublished price sensitive information of the Company on no less exacting terms than the Haier Electronics Model Code. Having made specific enquiries of all the Relevant Employees, the Company confirmed that all the Relevant Employees had complied with the required standards as set out in the Employees' Guidelines for Securities Transactions throughout the year ended 31 December 2017.

Board Committees

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

(1) Audit Committee

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

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

During the year ended 31 December 2017, the Audit Committee held three meetings to review the management and accounting principles and practices adopted by the Group and to discuss financial reporting matters including the review of 2016 annual results and 2017 interim results of the Group, review the adequacy of resources, accounting staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions, review of the internal control procedures and the connected transactions and other related issues.

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(1) Audit Committee (continued)

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

The annual results for the year ended 31 December 2017 were also reviewed by the Audit Committee.

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

The following table shows the attendance of members of the Audit Committee during the year ended 31 December 2017:

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

(2) Remuneration Committee

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

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

During the year ended 31 December 2017, apart from consents obtained by means of written resolutions of all the committee members, the Remuneration Committee held two meetings. At the meetings, members of the Remuneration Committee reviewed and made recommendations to the Board on the remuneration proposal of the Directors and senior management by taking into account factors such as remuneration packages and benefits offered by comparable companies, the respective contribution of each of the Directors and senior management to the Group and the business objectives of the Group. The Remuneration Committee also considered the performance-based structures of the remuneration of Executive Director and senior management.

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(2) Remuneration Committee (continued)

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

The following table shows the attendance of members of the Remuneration Committee during the year ended 31 December 2017:

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

(3) Nomination Committee

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

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

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

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(3) Nomination Committee (continued)

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

During the year ended 31 December 2017, the Nomination Committee held two meetings. At the meetings, members of the Nomination Committee have identified and recommended qualified individuals to the Board for the appointment of directors, reviewed the composition of the Board and diversity of the Board, and advised the Board on the suitability of the retirement and re-election of the Directors at the annual general meeting.

The following table shows the attendance of members of the Nomination Committee during the year ended 31 December 2017:

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

(4) Strategic Committee

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

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

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

BOARD OF DIRECTORS (continued)

Board Committees (continued)

(4) Strategic Committee (continued)

During the year ended 31 December 2017, the Strategic Committee held four meetings. At the meetings, members of the Strategic Committee have discussed the strategies and the development plans of the channel services business and logistic business and made recommendations to the Board. The strategic transactions, such as the mergers and acquisitions, were reviewed.

The following table shows the attendance of members of the Strategic Committee during the year ended 31 December 2017:

	No. of Strategic Committee meetings attended/held
Executive Director:	
Mr. Zhou Yun Jie	4/4
Non-executive Directors:	
Mr. Yin Jing (appointed on 21 June 2017)	3/3
Mr. Zhang Yong (retired on 21 June 2017)	0/1
INED:	
Ms. Tsou Kai-Lien, Rose	3/4

Corporate Governance Function

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

During the year ended 31 December 2017, the Company held one general meeting (the annual general meeting) in which various resolutions were passed.

The following table shows the attendance of the Directors at the general meeting held during the year ended 31 December 2017:

	No. of the General meetings attended/held
Executive Directors:	
Mr. Zhou Yun Jie	1/1
Mr. Sun Jing Yan (appointed on 28 April 2017)	1/1
Non-executive Directors:	
Mr. Liang Hai Shan (with Mr. Li Hua Gang as his alternate director up to 24 August 2017)	0/1
Ms. Tan Li Xia	0/1
Dr. Wang Han Hua	1/1
Mr. Yin Jing (appointed on 21 June 2017)	0/0
Mr. Zhang Yong (retired on 21 June 2017)	0/1
INEDs:	
Mr. Yu Hon To, David	1/1
Mrs. Eva Cheng Li Kam Fun	1/1
Ms. Tsou Kai-Lien, Rose	0/1

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 all the general meetings of the Company 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.

During the year ended 31 December 2017, there have been no changes in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS

Procedures by which Shareholders may convene a special general meeting

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

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

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

Procedures by which enquiries may be put to the Board

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

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

E-mail: ir@haier.hk

Procedures for putting forward proposals at a Shareholders' meeting

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

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

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

SHAREHOLDERS' RIGHTS (continued)

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

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

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

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

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

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

INSURANCE

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

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing financial statements of the Group in accordance with relevant statutory requirements and generally accepted accounting principles in Hong Kong and ensuring that the financial statements give a true and fair view of the Group's financial position. In preparing the financial statements of the Group for the year ended 31 December 2017, the Directors have adopted suitable accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and prepared the financial statements on a going concern basis.

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

Control Environment

- The control framework is consistent with that promoted by The COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards;
- Risk awareness and control responsibility are built into the company culture and are regarded as the foundation of risk management and internal control systems.
- An effective internal audit function is maintained which is independent from operational management;
- Whistleblowing Guideline of the Company is in place.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Internal Auditing Function

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

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

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

Risk Management

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Control Process

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

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

The Internal Audit Department establishes an annual internal control review plan for major internal control systems covering areas including operational control, financial control and compliance control (including review of controls on continuing connected transactions). The review tasks on various internal controls are prioritized in accordance with the risk level assessed or where significant changes have been. During the year ended 31 December 2017, the Internal Audit Department has conducted a review of the effectiveness of Group's internal control system's procedures on the major business and operational processes, particularly on those divisions and businesses which were newly set up, such as the newly acquired logistics joint ventures and new businesses. Recommendations for further improvements have been reported to the Audit Committee as well as Board, together with its findings. Such recommendations have been or are being implemented by the Management with regular review.

Review of Control Effectiveness

The Audit Committee reviewed the effectiveness of the risk management and internal control systems by reviewing the work of the Internal Audit Department. The Board has, through the Audit Committee, reviewed and considered that for the year ended 31 December 2017: (i) the Group's risk management and internal control systems were effective and adequate, with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards; (ii) the Group had adopted the necessary control mechanisms to monitor and rectify any non-compliance of regulations.

Inside Information

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Review of Control Effectiveness (continued)

Inside Information (continued)

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

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

REMUNERATION OF EXTERNAL AUDITORS

The Group's independent external auditors are Ernst & Young, Certified Public Accountants ("Ernst & Young"). During the year ended 31 December 2017, the annual audit fees and non-audit fees payable/paid by the Group to Ernst & Young were RMB8,200,000 and RMB3,593,000, respectively. The non-audit services mainly included the performance of agreed-upon procedures in respect of the Group's quarterly, interim financial information and other financial information (RMB1,680,000), review of the continuing connected transactions (RMB160,000), taxation consultation services (RMB935,000) and other services fee (RMB818,000).

21 March 2018

Report of The Directors

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

During the year, the Group's subsidiaries continued to be engaged in the manufacture and sale of washing machines and water heaters, sale and distribution of home appliances and other products, providing after-sale services and other value-added consumer services, and providing logistics services. There were no significant changes in the nature of the Group's principal activities during the year. Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties faced by the Group and an indication of the Group's likely future developments, can be found in the Chairman's letter and Business Review and Financial Review set out on pages 6 to 11 and 18 to 40 of this Annual Report. Such information forms part of the Report of The Directors.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and the Group's financial position as at that date are set out in the financial statements on pages 83 to 207.

The Directors of the Company recommend the payment of a final dividend for the year ended 31 December 2017 of HK29 cents per share (2016: HK17 cents per share).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 208. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year ended 31 December 2017 are set out in notes 14 and 15 to the financial statements, respectively.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE AND EXCHANGEABLE BONDS

Details of movements in the Company's share capital and share options during the year ended 31 December 2017 are set out in notes 33 and 35 to the financial statements.

In relation to the convertible and exchangeable bond (the "CEB") issued to Alibaba Group in prior year, on 3 January 2017, the Company received an exchange notice from Alibaba Investment Limited, a wholly-owned subsidiary of Alibaba Group, for the exercise of the exchange right under the CEB to exchange all the CEB in the principal amount of HK$1,316,036,000 for all the non-voting rights of Heroic Plan Global Limited, a then wholly-owned subsidiary of the Group which in turn indirectly holds 24.10% economic interest in Qingdao Goodaymart Logistics Co., Ltd., (an indirect subsidiary of the Company). The Company also received an option notice from Alibaba Investment Limited for the exercise of the call option under the CEB to acquire the voting rights of Heroic Plan Global Limited at the exercise price of HK$5.00. Upon the completion of above transactions, all the non-voting and voting shares of Heroic Plan Global Limited were transferred to Alibaba Investment Limited. Therefore, through the above transactions, Alibaba Group holds 24.10% economic interest in Qingdao Goodaymart Logistics Co., Ltd. through Alibaba Investment Limited.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Saved 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 a restricted share award scheme (the "Restricted Share Award Scheme") as announced by the Company on 15 April 2014, and the receipt of 1,067,426 shares of the Company from the Directors and employees as substitution of their individual income tax for exercising awarded shares which amounted to HK$21,491,000 during the year, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2017.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 48 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to RMB1,485,124,000, of which HK$812,679,000 (equivalent to RMB676,866,000) has been proposed as a final dividend for the year. In addition, RMB2,439,748,000 in the Company's share premium account may be capitalised and distributed to members in the form of fully paid bonus shares.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

Further discussions of these activities are in the Environmental, Social and Governance Report which will be issued separately within the period as required by the Listing Rules.

COMPLIANCE WITH LAWS AND REGULATIONS

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

Apart from the laws and rules applicable to the Company as a listed company, laws and regulations in other jurisdictions also apply to and have a significant impact on the non-Hong Kong operations of the Group, such as those relevant to the manufacturing process, product specification and design, labour, and environmental protection in respect of the Group's manufacture, channel services and logistic services operations in China.

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

During the year ended 31 December 2017, the Group has complied with the relevant laws and regulations that have a significant impact on the operations of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 20% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 88% of the total purchases for the year and purchases from the largest supplier included therein amounted to 54%.

During the year ended 31 December 2017, Haier Group Corporation ("Haier Corp"), the substantial shareholders of the Company, had beneficial interests in one of the Group's five largest customers and all of the Group's five largest suppliers.

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

DIRECTORS

The Directors of the Company during the year were:

Executive directors:
Mr. Zhou Yun Jie
Mr. Sun Jing Yan
(appointed on 28 April 2017)

Non-executive directors:
Mr. Liang Hai Shan
Ms. Tan Li Xia
Dr. Wang Han Hua
Mr. Yin Jing
(appointed on 21 June 2017)
Mr. Zhang Yong
(retired on 21 June 2017)

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

Alternate director:
Mr. Li Hua Gang
(alternate Director to Mr. Liang Hai Shan up to 24 August 2017)

Mr. Zhang Yong retired as a Non-executive Director of the Company with effect from the conclusion of the 2017 AGM on 21 June 2017 and he did not offer himself for re-election at the 2017 AGM. Mr. Zhang had taken this decision due to his other personal commitments and business objectives.

In accordance with the Bye-laws, Mr. Zhou Yun Jie, Mr. Yu Hon To, David and Mrs. Eva Cheng Li Kam Fun are subject to retirement by rotation at the forthcoming AGM. All these Directors are eligible for re-election at the AGM.

The INEDs are not appointed for any specific terms and are subject to retirement by rotation and re-election at the AGM in accordance with the Bye-laws.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 12 to 17 of the annual report.

CHANGES OF INFORMATION OF DIRECTORS

Below are the changes of Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the report date of the Company's interim report for the period ended 30 June 2017:

Up to the balance sheet date, Mr. Zhou Yun Jie has resigned as directors of Chongqing New Goodaymart Electronics Sales Co., Ltd., Haier Electronics Sales (Hefei) Co., Ltd., Qingdao Lejia Electric Appliances Co., Ltd., and Qingdao Haier Electronics Sales Service Co., Ltd., subsidiaries of the Group.

Mr. Sun jing Yan has resigned as directors of Chongqing New Goodaymart Electronics Sales Co., Ltd., and Haier Electronics Sales (Hefei) Co., Ltd., subsidiaries of the Group. Mr. Sun has also been appointed as director of Qingdao Lejia Electric Appliances Co., Ltd., a subsidiary of the Group.

Mr. Liang Hai Shan has resigned as directors of Chongqing Haier Drum Washing Machine Co., Ltd., Foshan Haier Drum Washing Machine Co., Ltd., Qingdao Jiaonan Washing Machine Co., Ltd., Hefei Haier Washing Machine Co., Ltd., Foshan Shunde Haier Intelligent Electronics Co., Ltd., and Tianjin Haier Washing Machine Co., Ltd., subsidiaries of the Group.

Mr. Li Hua Gang has resigned as directors of Impressive Holdings Limited, Coreland Limited and Foreland Agents Limited, subsidiaries of the Group. Mr. Li has also been appointed as a director of Qingdao Haier Electronics Sales Service Co., Ltd., a subsidiary of the Group.

Ms. Tsou Kai-Lien, Rose has been appointed as an independent non-executive director of Sercomm Corporation, a company listed on Taiwan Stock Exchange.

Subsequent to the balance sheet date, Mr. Yu Hon To, David has resigned as an independent non-executive director of Synergis Holdings Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 2340), with effect from 1 January 2018.

DIRECTORS' SERVICE CONTRACTS

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

PERMITTED INDEMNITY

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2017, the interests and short positions of the Directors and chief executive in the share capital and underlying shares ("Share(s)") of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in shares of the Company:

Name	Number of Shares directly (personal) beneficially owned	Approximate % of issued Shares*
Mr. Zhou Yun Jie	7,330,000	0.26
Mr. Sun Jing Yan	96,117	0.003
Dr. Wang Han Hua	150,000	0.01
Mr. Yu Hon To, David	460,000	0.02
Mrs. Eva Cheng Li Kam Fun	200,000	0.01
Ms. Tsou Kai-Lien, Rose	150,000	0.01
Mr. Li Hua Gang	230,000	0.01

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

Apart from above, the following Directors and chief executive 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 awarded Shares	Approximate % of issued Shares*
Mr. Zhou Yun Jie	1,656,000	0.06
Mr. Sun Jing Yan	486,800	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

* The percentage is calculated on the basis of 2,802,340,407 shares in issue of the Company as at 31 December 2017.

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

Name	Date of grant of share options	Number of share options granted and not yet exercised*	Approximate % of issued shares upon exercise of share options#
Mr. Sun Jing Yan	11/09/2015	84,000	0.003
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 2,802,340,407 shares in issue of the Company as at 31 December 2017.

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

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

Name	Number of shares held	Approximate% of total registered share capital	Capacity and interest
Mr. Liang Hai Shan	10,904,065	0.18	Directly (personal) beneficially owned
Ms. Tan Li Xia	5,272,740	0.09	Directly (personal) beneficially owned
Mr. Zhou Yun Jie	196,596	0.003	Directly (personal) beneficially owned

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executive had any interests or short positions in the shares or underlying shares of the Company or its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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

Share Option Scheme

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and reward to eligible participants who contribute to the success of the Group's operations. Further details of the Share Option Scheme are disclosed in note 35 to the financial statements.

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

Share Option Scheme (continued)

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

	Number of share options								
Name or category of participants	At 1 January 2017	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 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	–	704,000	1,056,000	–	–	11/09/2015	10/05/2016–10/05/2020	12.84
	2,660,000	–	704,000	1,056,000	900,000	–			
Mr. Sun Jing Yan	84,000	–	–	–	–	84,000	11/09/2015	10/05/2016–10/05/2020	12.84
	2,744,000	–	704,000	1,056,000	900,000	84,000			
Independent Non-executive directors									
Mr. Yu Hon To, David	220,000	–	220,000	–	–	–	11/09/2015	10/05/2016–10/05/2020	12.84
Mrs. Eva Cheng Li Kam Fun	500,000	–	500,000	–	–	–	26/06/2013	26/06/2014–25/06/2017	12.16
	200,000	–	200,000	–	–	–	11/09/2015	10/05/2016–10/05/2020	12.84
	700,000	–	700,000	–	–	–			
Ms. Tsou Kai-Lien, Rose	150,000	–	150,000	–	–	–	11/09/2015	10/05/2016–10/05/2020	12.84
	1,070,000	–	1,070,000	–	–	–			
Non-executive 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	–	600,000	–	–	–			
Chief executive									
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	–	3,214,000	12,006,000	338,800	3,303,200	11/09/2015	10/05/2016–10/05/2020	12.84
	26,550,800	–	3,214,000	12,006,000	8,027,600	3,303,200			
	31,302,800	–	5,588,000	13,224,000	8,995,600	3,495,200			

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

Share Option Scheme (continued)

Notes:

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

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

3. The weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK$20.07 per share.

4. The total share options that could be granted under the then available scheme mandate limit as at 31 December 2017 were in respect of 153,890,890 shares which represented 5.5% of the issued shares of the Company as at 31 December 2017.

As at 31 December 2017, the Company had 3,495,200 share options outstanding under the Share Option Scheme. Should the share options be fully exercised, the Company will receive approximately HK$44,878,000 (before issue expenses). The fair value of these unexercised options measured in accordance with the Group's accounting policy (note 2.4 to the financial statements) amounted to HK$11,778,000.

The particulars regarding dilution effect of the share options are set out in note 12 to the financial statements.

Restricted Share Award Scheme

The Company operates a Restricted Share Award Scheme, which aims at providing incentives to employees and optimising the remuneration structure of the Group. According to the Restricted Share Award Scheme, the Company may purchase the scheme shares in the open market and hold the purchased shares in the Share Award Scheme Trust for the relevant selected employees until such shares vest or issue and allot new scheme shares to the trustee. The Board has discretion to decide whether the awarded shares are to be purchased or subscribed. Further details of this scheme are disclosed in note 34 to the financial statements.

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

Restricted Share Award Scheme (continued)

The following table discloses movements in the Company's awarded shares under the Company's Restricted Share Award Scheme during the year:

Name of participants	Number of awarded shares At 1 January 2017	Granted during the year (note 2)	Exercised during the year	Cancelled during the year	At 31 December 2017	Date of grant of awarded shares	Exercise period of awarded shares	Exercise price of awarded shares per share (note1) 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	–	464,000	–	696,000	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	524,000	–	1,656,000			
Mr. Sun Jing Yan	56,000	–	56,000	–	–	08/07/2016	08/07/2016–07/07/2020	6.42
	358,000	–	143,200	–	214,800	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	199,200	–	486,800			
	1,634,000	1,232,000	723,200	–	2,142,800			
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	–
	–	120,000	–	–	120,000			
Chief executive								
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	–	517,600	–	104,400	08/07/2016	08/07/2016–07/07/2020	6.42
In aggregate	14,872,000	–	5,480,735	596,940	8,794,325	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	5,998,335	596,940	20,277,125			
	17,732,400	12,200,000	6,721,535	596,940	22,613,925			

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

Restricted Share Award Scheme (continued)

Notes:

1. The exercise price of the awarded shares is subject to adjustment(s) 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 31 December 2017, the number of ordinary shares held for the Restricted Share Awarded Scheme was 11,855,130 (31 December 2016: 11,820,600) with an aggregate carrying amount of RMB158,583,000 (31 December 2016: RMB152,984,000).

The fair values of the awarded shares granted during the year were approximately HK$158,267,000 and HK$21,355,000 (HK$14.27 and HK$19.24 each), of which the Group recognised a restricted share expense of HK$82,011,000 during the year.

At the date of approval of these financial statements, the Company had 22,613,925 awarded shares outstanding under the Restricted Share Award Scheme, which represented approximately 0.81% 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 12 to the financial statements.

Save as the options and restricted shares granted to the Directors, at no time during the year ended 31 December 2017 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CONTRACT OF SIGNIFICANCE

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

EQUITY-LINKED AGREEMENT

The Company has not engaged in any equity-linked agreement during the year ended 31 December 2017.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2017, the following shareholders who have interest in 5% or more of the issued share capital and share options of the Company were recorded in the register of substantial shareholders as required to be kept by the Company pursuant to section 336 of the SFO:

Long positions:

Name of shareholders	Notes	Number of shares interested	Approximate percentage of the Company's issued share capital
Haier Corp	1	1,562,182,592	55.75
Qingdao Haier	2	1,562,182,592	55.75
Haier Shareholdings (Hong Kong) Limited ("Hong Kong Haier")	2	831,762,110	29.68
Haier (HK) Investment Co., Limited ("Haier (HK) Investment")	3	336,600,000	12.01
HCH (HK) Investment Management Co., Limited ("HCH (HK)").	3	336,600,000	12.01

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

Short positions:

Name of shareholders	Notes	Number of shares interested	Approximate percentage of the Company's issued share capital
Haier Corp	1, 4	242,424,242	8.65
Qingdao Haier	2, 4	242,424,242	8.65
Hong Kong Haier	2, 4	242,424,242	8.65

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, and also deemed to have short positions in 242,424,242 shares held by Hong Kong Haier, a wholly-owned subsidiary of Qingdao Haier, pursuant to 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, an 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, and deemed to have short positions in 242,424,242 shares held by 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.

3. HCH (HK) is a wholly-owned subsidiary of Haier (HK) Investment, and Haier (HK) Investment was deemed to be interested in 336,600,000 shares held by HCH (HK) pursuant to the SFO.

4. Exchangeable bonds exchangeable into fully paid ordinary shares of the Company were issued by a subsidiary of Qingdao Haier on 21 November 2017. The underlying shares of the above exchangeable bonds are 242,424,242 shares of the Company currently owned by Hong Kong Haier.

Save as disclosed above, as at 31 December 2017, no person, other than the Directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year ended 31 December 2017, the Group had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Continuing connected transactions

During the year ended 31 December 2017, the Group had the following material transactions with Haier Affiliates:

		Cap Amounts	Transaction Amounts	
		2017	2017	2016
	Notes	RMB'000	RMB'000	RMB'000
Export sale of products	(i)		1,811,425	1,417,915
Export sale expenses	(i)		(27,046)	(21,277)
Export sale of products, net	(i)	2,185,000	1,784,379	1,396,638
Domestic sale of products	(ii)	626,000	95,368	44,371
Purchase of finished goods	(iii)	56,200,000	41,161,645	29,930,623
Purchase of equipment	(iv)	316,000	103,018	92,618
Purchase of raw materials	(v)		16,517,153	13,672,749
Printing and packaging fees	(vi)		—	14,950
Mould charges	(vii)		231,207	163,234
		19,950,000	16,748,360	13,850,933
Utility service fee expenses	(viii)		139,101	103,902
Other service fee expenses	(ix)		299,228	373,433
		601,000	438,329	477,335
Promotion fee	(x)	67,000	—	—
Research and development service fees	(xi)	358,000	161,454	193,716
Interest income	(xii)		6,215	6,638
Interest expenses	(xii)		290	954
Other financial service fees	(xiii)		33,000	12,766
Logistics service income	(xiv)	2,598,000	2,364,627	2,081,505
After-sale service income	(xv)	341,000	207,635	205,028

During the year, the Group had the following material transactions with non-controlling shareholders:

Logistic services income	(xiv)	2,400,000	1,888,955	—
Logistic services fees	(xvi)	330,000	153,155	—
General services fees	(xvii)	300,000	264,332	—

CONNECTED TRANSACTIONS (continued)

Continuing connected transactions (continued)

Notes:

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

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

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

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

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

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

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

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

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

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

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

(xii) The interest income and expenses were determined with reference to the standard rates published by the People's Bank of China, and on terms no less favourable than those of the best offered by other listed and national/major independent commercial banks. The maximum balance of bank deposits placed with and the maximum loan balance drawn down from Haier Group Finance Co., Ltd. related to the above interest income and expenses during the year were RMB1,348,586,000 and RMB40,000,000 respectively.

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

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

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

(xvi) The Logistic services fees shall be fair and reasonable and no less favourable than terms offered by independent third parties in respect of the same or similar services.

(xvii) The general service fees were charged at prices no less favorable than those prices and terms obtained by independent third parties in respect of the same or similar services.

CONNECTED TRANSACTIONS (continued)

Continuing connected transactions (continued)

The INEDs have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into:

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

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

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

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

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter will be provided by the Company to the Hong Kong Stock Exchange in April 2018.

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 46 to the financial statements.

AUDITORS

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

On behalf of the Board

Zhou Yun Jie
Chairman

Hong Kong
21 March 2018

Independent Auditor's Report

EY 安永

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

OPINION

We have audited the consolidated financial statements of Haier Electronics Group Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 83 to 207, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill	
The management performs impairment test annually for goodwill. This requires an estimation of the net recoverable amount of the cash-generating unit (the "CGU") to which the goodwill was allocated. The calculation of the CGU's net recoverable amount is complex and involves significant management judgements and estimates, such as forecasted cash flows, revenue growth rates and discount rates, which were sensitive to the expected future market conditions and the CGU's actual performance. Relevant disclosures are included in notes 3 and 17 to the financial statements.	Our audit procedures included the assessment of key assumptions, including those related to revenue growth rates and discount rates which were assessed by our internal valuation specialists by benchmarking against independent data from the industry index. We compared the forecasted figures with the historical financial performance of the corresponding CGU.
Recoverability of trade receivables	
Trade receivables as at 31 December 2017 were material to the financial statements of the Group. When determining whether a trade receivable is collectable, significant management judgements are involved, including the ageing of the balance, existence of disputes, recent historical payment patterns and other available information concerning the creditworthiness of the customer. Relevant disclosures are included in notes 3, 6 and 23 to the financial statements.	Our audit procedures included the assessment of the design and testing of the operating effectiveness of the Group's controls over trade receivables. We assessed the recoverability of trade receivables by obtaining direct external confirmations on the trade receivable balances and/or reviewing the corresponding sales invoices and good delivery documents on a sample basis, reviewing the debtors' ageing reports, performing analysis on the number of turnover days, and reviewing subsequent settlements of trade receivable balances.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for inventories	
As at 31 December 2017, the Group's inventories were exposed to inventory obsolete and excess risks as a result of the fast technology innovation and macroeconomic challenges. The determination of the provision amount is complex and involves significant judgements and estimates including the estimation on the net realisable value of inventories. Relevant disclosures are included in notes 3, 6 and 22 to the financial statements.	Our audit procedures included the evaluation of the inventory provisioning policy through inquiry with the management and checking to the relevant assessment documentation. We checked to the underlying data, such as the selling prices, subsequent sales, and the estimated selling expenses to assess the net realisable value of inventories on a sample basis. We reviewed the inventories' ageing report and performed analysis on the number of turnover days. We reviewed subsequent sales of finished goods and subsequent usage of raw materials.
Product warranty and installation provisions	
Product warranty and installation provisions are made with reference to the sales volume and the expected unit costs for warranties and installation services. The assessment of the provision amount involves management assumptions, judgements and estimates. Changes in the assumptions could have a significant impact on the provision amount. Relevant disclosures are included in notes 3 and 31 to the financial statements.	Our audit procedures included the review of the provision estimation process, the examination of the underlying data of the provision estimation process as well as the review of the computation of the provision amount at year end.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21 March 2018

Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	**2017 RMB'000**	2016 RMB'000 (Restated)
REVENUE	5	**78,798,324**	63,854,877
Cost of sales		**(64,974,005)**	(52,782,910)
Gross profit		**13,824,319**	11,071,967
Other income and gains	5	**814,741**	678,744
Selling and distribution expenses		**(7,876,752)**	(6,091,216)
Administrative expenses		**(2,351,755)**	(2,033,185)
Other expenses and losses		**(51,977)**	(62,618)
Finance costs	7	**(11,121)**	(43,022)
Share of profits and losses of associates		**2,947**	(27,323)
PROFIT BEFORE TAX	6	**4,350,402**	3,493,347
Income tax expense	10	**(825,427)**	(683,575)
PROFIT FOR THE YEAR		**3,524,975**	2,809,772
Attributable to:			
Owners of the Company		**3,358,297**	2,785,356
Non-controlling interests		**166,678**	24,416
		3,524,975	2,809,772
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic		**RMB1.21**	RMB1.00
Diluted		**RMB1.20**	RMB0.99

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	2017 RMB'000	2016 RMB'000 (Restated)
PROFIT FOR THE YEAR	**3,524,975**	2,809,772
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(114,594)**	39,721
Reclassification adjustments for a foreign operation liquidated/disposed during the year	**(1,118)**	5,267
	(115,712)	44,988
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(115,712)**	44,988
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,409,263**	2,854,760
Attributable to:		
Owners of the Company	**3,241,511**	2,830,344
Non-controlling interests	**167,752**	24,416
	3,409,263	2,854,760

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**4,087,817**	3,294,239
Investment properties	15	**29,415**	33,142
Prepaid land lease payments	16	**1,161,400**	1,061,516
Goodwill	17	**424,863**	392,485
Other intangible assets	18	**88,533**	131,156
Investments in associates	19	**252,659**	299,309
Available-for-sale investments	20	**1,283,082**	1,401,396
Long-term prepayments	24	**485,005**	329,385
Deferred tax assets	32	**1,001,539**	712,295
Other non-current assets	21	**45,742**	37,515
Total non-current assets		**8,860,055**	7,692,438
CURRENT ASSETS			
Inventories	22	**8,414,473**	5,183,399
Trade and bills receivables	23	**5,815,924**	5,699,335
Prepayments, deposits and other receivables	24	**3,240,961**	4,487,778
Other financial assets	25	**1,974,815**	460,449
Pledged deposits	26	**119,865**	71,272
Cash and cash equivalents	26	**15,015,303**	12,673,095
Total current assets		**34,581,341**	28,575,328
CURRENT LIABILITIES			
Trade and bills payables	27	**6,088,616**	4,583,217
Other payables and accruals	28	**10,936,032**	10,316,046
Interest-bearing borrowings	29	**162,082**	73,000
Finance lease payables		**–**	9,338
Due to a non-controlling shareholder		**–**	27,883
Tax payable		**841,207**	613,045
Provisions	31	**674,397**	545,717
Put option liabilities	30	**–**	15,700
Convertible and exchangeable bonds		**–**	1,223,220
Total current liabilities		**18,702,334**	17,407,166
NET CURRENT ASSETS		**15,879,007**	11,168,162
TOTAL ASSETS LESS CURRENT LIABILITIES		**24,739,062**	18,860,600

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**24,739,062**	18,860,600
NON-CURRENT LIABILITIES			
Interest-bearing borrowings	29	**30,542**	—
Finance lease payables		**—**	7,534
Deferred income		**160,743**	88,883
Deferred tax liabilities	32	**178,385**	53,708
Put option liabilities	30	**916,938**	—
Provisions	31	**354,476**	312,505
Other non-current liabilities		**5,385**	—
Total non-current liabilities		**1,646,469**	462,630
Net assets		**23,092,593**	18,397,970
EQUITY			
Equity attributable to owners of the Company			
Issued equity	33	**2,995,491**	2,876,892
Shares held for the Restricted Share Award Scheme	34	**(158,583)**	(152,984)
Equity component of convertible and exchangeable bonds		**—**	54,838
Reserves	36	**18,044,012**	14,785,936
		20,880,920	17,564,682
Non-controlling interests		**2,211,673**	833,288
Total equity		**23,092,593**	18,397,970

Zhou Yun Jie
Director

Sun Jing Yan
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

		Attributable to the owners of the Company																
					Reserves													
	Notes	Issued equity RMB'000	Shares held for the Restricted Share Award Scheme RMB'000	Equity component of convertible and exchangeable bonds RMB'000	Capital reduction reserve RMB'000	Capital reserve RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Awarded share reserve RMB'000	Put option reserve RMB'000	Reserve funds RMB'000	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Other reserves RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016																		
As previously reported		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
Effect of business combination		–	–	–	–	–	–	–	–	–	–	(1,562)	–	46,856	45,294	45,294	3,144	48,438
As restated		2,891,084	(165,628)	54,838	(1,758,526)	2,169,594	237	59,582	10,739	(204,791)	830,457	12,220,334	9,969	(1,229,587)	12,108,008	14,888,302	882,395	15,770,697
Profit for the year (restated)		–	–	–	–	–	–	–	–	–	–	2,785,356	–	–	2,785,356	2,785,356	24,416	2,809,772
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	–	–	–	39,721	–	39,721	39,721	–	39,721
Reclassification adjustments for a foreign operation liquidated during the year		–	–	–	–	–	–	–	–	–	–	–	5,267	–	5,267	5,267	–	5,267
Total comprehensive income for the year		–	–	–	–	–	–	–	–	–	–	2,785,356	44,988	–	2,830,344	2,830,344	24,416	2,854,760
Issue of shares	33	11,570	–	–	–	–	–	–	–	–	–	–	–	–	–	11,570	–	11,570
Shares repurchased	33	(22,549)	–	–	–	–	188	–	–	–	–	(188)	–	–	–	(22,549)	–	(22,549)
Shares transferred to participants from the Share Award Scheme Trust	33	(3,213)	12,644	–	–	–	–	–	(4,138)	–	–	–	–	–	(4,138)	5,293	–	5,293
Dividend income of shares under the Restricted Share Award Scheme		–	–	–	–	–	–	–	–	–	–	–	–	1,144	1,144	1,144	–	1,144
Equity-settled share option arrangements	35	–	–	–	–	–	–	29,794	–	–	–	–	–	–	29,794	29,794	–	29,794
Restricted Share Award Scheme arrangements	34	–	–	–	–	–	–	–	52,489	–	–	–	–	–	52,489	52,489	–	52,489
Transfer of awarded share reserve upon the expiry of awarded shares		–	–	–	–	–	–	–	(7,347)	–	–	7,347	–	–	–	–	–	–
Changes in fair value of put option liabilities		–	–	–	–	–	–	–	–	(5,540)	–	–	–	–	(5,540)	(5,540)	3,620	(1,920)
Disposal of subsidiaries	38	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(24,549)	(24,549)
Liquidation of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(11,086)	(11,086)
Partial disposal of a subsidiary		–	–	–	–	95,910	–	–	–	–	–	–	–	–	95,910	95,910	4,090	100,000
Deemed distributions to holding company		–	–	–	–	–	–	–	–	–	–	–	–	(18,646)	(18,646)	(18,646)	(1,354)	(20,000)
Capital reduction from non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(2,698)	(2,698)
Acquisition from non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(3,775)	(3,775)
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(37,771)	(37,771)
Deemed disposal of associates		–	–	–	–	–	–	–	–	–	–	–	–	(14,744)	(14,744)	(14,744)	–	(14,744)
Final 2015 dividend		–	–	–	–	(288,685)	–	–	–	–	–	–	–	–	(288,685)	(288,685)	–	(288,685)
		2,876,892	(152,984)	54,838	(1,758,526)	1,976,819	425	89,376	51,743	(210,331)	830,457	15,012,849	54,957	(1,261,833)	14,785,936	17,564,682	833,288	18,397,970

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

		Attributable to the owners of the Company																
					Reserves													
	Notes	Issued equity RMB'000	Shares held for the Restricted Share Award Scheme RMB'000	Equity component of convertible and exchangeable bonds RMB'000	Capital reduction reserve RMB'000	Capital reserve RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Awarded share reserve RMB'000	Put option reserve RMB'000	Reserve funds RMB'000	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Other reserves RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017																		
As previously reported		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
Effect of business combination		–	–	–	–	–	–	–	–	–	–	(2,425)	–	28,210	25,785	25,785	1,790	27,575
As restated		2,876,892	(152,984)	54,838	(1,758,526)	1,976,819	425	89,376	51,743	(210,331)	830,457	15,012,849	54,957	(1,261,833)	14,785,936	17,564,682	833,288	18,397,970
Profit for the year		–	–	–	–	–	–	–	–	–	–	3,358,297	–	–	3,358,297	3,358,297	166,678	3,524,975
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	–	–	–	(115,668)	–	(115,668)	(115,668)	1,074	(114,594)
Reclassification adjustments for a foreign operation disposed during the year		–	–	–	–	–	–	–	–	–	–	–	(1,118)	–	(1,118)	(1,118)	–	(1,118)
Total comprehensive income/(loss) for the year		–	–	–	–	–	–	–	–	–	–	3,358,297	(116,786)	–	3,241,511	3,241,511	167,752	3,409,263
Issue of shares	33	123,435	–	–	–	–	–	(17,457)	(45,210)	–	–	–	–	–	(62,667)	60,768	–	60,768
Exchange of convertible and exchangeable bonds		–	–	(54,838)	–	–	–	–	–	–	–	–	126,668	474,880	601,548	546,710	676,510	1,223,220
Shares purchased/received for the Restricted Share Award Scheme		–	(30,531)	–	–	–	–	–	–	–	–	–	–	–	–	(30,531)	–	(30,531)
Shares transferred to participants from the Share Award Scheme Trust	33	(4,836)	24,932	–	–	–	–	–	(16,525)	–	–	–	–	–	(16,525)	3,571	–	3,571
Dividend income of shares under the Restricted Share Award Scheme		–	–	–	–	–	–	–	–	–	–	–	–	1,731	1,731	1,731	–	1,731
Equity-settled share option arrangements	35	–	–	–	–	–	–	(27,243)	–	–	–	–	–	–	(27,243)	(27,243)	–	(27,243)
Restricted Share Award Scheme arrangements	34	–	–	–	–	–	–	–	154,501	–	–	–	–	–	154,501	154,501	–	154,501
Share-based payment expense		–	–	–	–	–	–	–	8,500	–	–	–	–	–	8,500	8,500	5,399	13,899
Transfer of share option reserve upon the expiry of share options		–	–	–	–	–	–	(38,656)	–	–	–	38,656	–	–	–	–	–	–
Changes in fair value of put option liabilities		–	–	–	–	–	–	–	–	24,906	–	–	–	–	24,906	24,906	(2,323)	22,583
Acquisition of subsidiaries	37	–	–	–	–	–	–	–	–	7,426	–	–	–	–	7,426	7,426	2,115	9,541
Disposal of subsidiaries	38	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(12,077)	(12,077)
Liquidation of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,565	1,565
Transfer of put option reserve upon the forfeiture or expiry of incentive agreements with non-controlling shareholders		–	–	–	–	–	–	–	–	216,608	–	–	–	(216,608)	–	–	–	–
Disposal of an associate		–	–	–	–	–	–	–	–	–	–	–	–	(20,988)	(20,988)	(20,988)	–	(20,988)
Deemed distributions to holding company		–	–	–	–	–	–	–	–	–	–	–	–	(33,532)	(33,532)	(33,532)	(2,561)	(36,093)
Capital contributions from non-controlling shareholders		–	–	–	–	(95,910)	–	–	–	(442,646)	–	–	–	372,160	(166,396)	(166,396)	568,082	401,686
Acquisition from non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	(39,677)	(39,677)	(39,677)	8,477	(31,200)
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(34,554)	(34,554)
Transfer to reserve funds		–	–	–	–	–	–	–	–	–	88,871	(88,871)	–	–	–	–	–	–
Final 2016 dividend		–	–	–	–	(415,019)	–	–	–	–	–	–	–	–	(415,019)	(415,019)	–	(415,019)
		2,995,491	(158,583)	–	(1,758,526)	1,465,890	425	6,020	153,009	(404,037)	919,328	18,320,931	64,839	(723,867)	18,044,012	20,880,920	2,211,673	23,092,593

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,350,402**	3,493,347
Adjustments for:			
Finance costs	7	**11,121**	43,022
Share of profits and losses of associates		**(2,947)**	27,323
Bank interest income	5	**(228,608)**	(175,937)
Interest income from other financial assets	5	**(45,853)**	(10,293)
Dividend income from an available-for-sale investment	5	**(41,053)**	(26,353)
Gain on disposal of a business	5	**(23,585)**	—
Loss on disposal of subsidiaries, net	6	**1,480**	6,302
Loss/(gain) on liquidations of subsidiaries	5,6	**(14)**	5,765
Gain on disposal of associates	5	**(132,512)**	(98,080)
Gain on bargain purchase of associates	5	**—**	(7,544)
Loss/(gain) on disposal of an available-for-sale investment	5,6	**(1,007)**	300
Changes in fair value of derivative financial instruments	5	**—**	(1,399)
Loss on disposal/write-off of items of property, plant and equipment, net	6	**6,818**	16,990
Loss/(gain) on disposal/write-off of intangible assets	6	**34,467**	(2,400)
Loss on impairment of intangible assets	6	**9,966**	—
Depreciation of property, plant and equipment	6	**319,464**	286,819
Depreciation of investment properties	6	**2,134**	2,121
Recognition of prepaid land lease payments	6	**28,454**	22,277
Amortisation of intangible assets	6	**12,160**	9,889
Amortisation of long-term prepayments	6	**1,877**	4,595
Provision for obsolete and slow-moving inventories, net	6	**171,879**	89,063
Provision/(reversal of provision) for impairment of trade receivables, net	6	**3,533**	(4,540)
Provision/(reversal of provision) for impairment of prepayments and other receivables, net	6	**(4,287)**	37,801
Share-based payment expense/(credit)	6	**13,899**	(5,580)
Equity-settled share option expense/(credit), net	6	**(27,243)**	29,794
Equity-settled Restricted Share Award Scheme expense	6	**154,501**	52,489

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
		4,615,046	3,795,771
Increase in inventories		**(3,405,473)**	(877,804)
Increase in trade and bills receivables		**(128,339)**	(774,295)
Decrease/(increase) in prepayments, deposits and other receivables		**1,315,868**	(1,144,354)
Increase in trade and bills payables		**1,497,627**	554,483
Increase in other payables and accruals		**677,639**	2,584,959
Increase in provisions		**166,451**	25,431
Increase/(decrease) in deferred income		**(23,481)**	18,232
Effect of foreign exchange rate changes, net		**44,536**	(41,109)
Cash generated from operations		**4,759,874**	4,141,314
Interest received		**169,200**	143,112
Hong Kong profits tax paid		**(38,663)**	(5,632)
Mainland China corporate income tax paid, net of tax refund		**(717,655)**	(684,640)
Net cash flows from operating activities		**4,172,756**	3,594,154
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(939,024)**	(469,734)
Increase in long-term prepayments		**(181,660)**	(282,258)
Receipt of government grants for property, plant and equipment		**89,770**	—
Proceeds from disposal of items of property, plant and equipment		**13,072**	4,274
Additions to prepaid land lease payments		**(162,984)**	(122,770)
Additions to intangible assets		**(4,159)**	(2,173)
Prepayments for investments		**—**	(28,160)
Acquisition of subsidiaries	37	**(49,332)**	—
Acquisition of non-controlling interests		**(3,040)**	—
Investments in associates		**—**	(3,500)
Increase in other non-current assets		**(30,000)**	—
Liquidation of subsidiaries		**(13)**	(58)
Dividends from an associate		**360**	360
Dividends from an available-for-sale investment		**40,956**	51,530
Mainland China corporate income tax paid on investing activities		**(4,096)**	(5,153)
Disposal of subsidiaries	38	**23,619**	9,054
Disposal of an available-for-sale investment		**14,400**	—
Disposal of associates		**150,413**	28,300
Disposal of a business		**23,585**	—
Partial disposal of a subsidiary		**—**	100,000
Advances received for partial disposals of investments		**—**	104,000
Payment for the contingent consideration		**—**	(89,479)
Decrease in an amount due from a fellow subsidiary		**—**	27,000
Increase in pledged deposits		**(48,597)**	(39,364)
Purchases of other financial assets, net		**(1,514,366)**	(210,371)
Interest received from other financial assets		**43,550**	10,624

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
Net cash flows used in investing activities		**(2,537,546)**	(917,878)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	33	**60,768**	—
Proceeds from transfer of shares to participants from the Share Award Scheme Trust		**3,571**	5,293
Shares purchased for the Restricted Share Award Scheme		**(12,039)**	—
Repurchase of shares	33	**—**	(22,549)
Contributions to share-based incentive arrangements of subsidiaries		**7,544**	—
Capital contributions/(reductions) from non-controlling shareholders		**1,264,485**	(2,698)
Exercise of put options		**—**	(10,050)
New borrowings		**496,506**	191,018
Repayment of borrowings		**(557,355)**	(116,400)
Dividends paid to shareholders		**(415,019)**	(288,685)
Dividends paid to non-controlling shareholders		**(12,418)**	(45,055)
Deemed distributions to holding company		**(36,093)**	(20,000)
Capital element of finance lease rental payments		**(16,800)**	(11,102)
Interest element of finance lease rental payments		**(464)**	(1,042)
Interest paid for borrowings		**(10,626)**	(4,724)
Net cash flows from/(used in) financing activities		**772,060**	(325,994)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**2,407,270**	2,350,282
Cash and cash equivalents at beginning of year		**12,673,095**	10,245,006
Effect of foreign exchange rate changes, net		**(65,062)**	77,807
CASH AND CASH EQUIVALENTS AT END OF YEAR		**15,015,303**	12,673,095
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Non-pledged cash and bank balances		**4,206,778**	3,675,747
Time deposits	26	**10,808,525**	8,997,348
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows	26	**15,015,303**	12,673,095

Notes to Financial Statements

31 December 2017

1. CORPORATE AND GROUP INFORMATION

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

In the opinion of the directors, as at 31 December 2017, the holding company of the Company is Qingdao Haier Co., Ltd. ("Qingdao Haier"), established in the People's Republic of China (the "PRC"), and the ultimate holding company of the Company is Haier Group Corporation ("Haier Corp"), established in the PRC.

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

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

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Qingdao Haier Washing Machine Co., Ltd. *	PRC/Mainland China	RMB238,610,000	–	94	Manufacture and sale of washing machines
Foshan Shunde Haier Electric Co., Ltd. *	PRC/Mainland China	RMB48,800,000	–	60	Manufacture and sale of washing machines
Hefei Haier Washing Machine Co., Ltd. *	PRC/Mainland China	RMB92,000,000	–	99	Manufacture and sale of washing machines
Qingdao Jiaonan Haier Washing Machine Co., Ltd. **	PRC/Mainland China	RMB10,000,000	–	95	Manufacture and sale of washing machines
Chongqing Haier Washing Machine Co., Ltd. *	PRC/Mainland China	RMB25,000,000	25	74	Manufacture and sale of washing machines
Qingdao Haier Drum Washing Machine Co., Ltd. ***	PRC/Mainland China	USD12,000,000	–	100	Manufacture and sale of washing machines
Chongqing Haier Drum Washing Machine Co., Ltd. **	PRC/Mainland China	RMB250,000,000	–	99	Manufacture and sale of washing machines
Foshan Haier Drum Washing Machine Co., Ltd. **	PRC/Mainland China	RMB150,000,000	–	99	Manufacture and sale of washing machines
Tianjin Haier Washing Machine Co., Ltd. *	PRC/Mainland China	RMB235,800,000	–	94	Manufacture and sale of washing machines

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Qingdao Haier Washing Electric Appliance Co., Ltd. **	PRC/Mainland China	RMB300,000,000	–	100	Construction of production facilities for washing machines
Tianjin Ririxin Assets Management Co., Ltd. ** (note)	PRC/Mainland China	RMB300,000,000	–	94	Construction of production facilities for washing machines
Foshan Shunde Haier Intelligent Electronics Co., Ltd. *	PRC/Mainland China	RMB20,000,000	25	74	Manufacture and sale of accessories for electrical appliances
Chongqing Haier Water Heater Co., Ltd. **	PRC/Mainland China	RMB120,000,000	–	100	Manufacture and sale of water heaters
Qingdao Economy and Technology Development Zone Haier Water Heater Co., Ltd. ***	PRC/Mainland China	RMB120,000,000	–	100	Manufacture and sale of water heaters
Wuhan Haier Water Heater Co., Ltd. ***	PRC/Mainland China	RMB50,000,000	–	100	Manufacture and sale of water heaters
Qingdao Haier New Energy Electronics Co., Ltd. ***	PRC/Mainland China	RMB150,000,000	–	100	Manufacture and sale of water heaters
Qingdao Goodaymart Lejia Trading Co., Ltd. **	PRC/Mainland China	RMB195,700,000	–	100	Sale of home electric appliances
Qingdao Lejia Electric Appliance Co., Ltd. **	PRC/Mainland China	RMB10,000,000	–	97	Sale of home electric appliances
Chongqing New Goodaymart Electronics Sales Co., Ltd. ***	PRC/Mainland China	RMB5,000,000	–	100	Sale of home electric appliances

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Haier Electronics Sales (Hefei) Co., Ltd. ***	PRC/Mainland China	RMB5,000,000	–	100	Sale of home electric appliances
Qingdao Haier Electronics Sales Service Co., Ltd. **	PRC/Mainland China	RMB5,000,000	–	100	Sale of home electric appliances
Haier International Business Corporation Limited	Hong Kong	HK$10,000,000	–	100	Export sale of home electric appliances
Haier Group E-commerce Co., Ltd. **	PRC/Mainland China	RMB37,500,000	–	96	Online sale of Haier brand home electric appliances
Shanghai Boyol New Brothers Supply Chain Management Co., Ltd. **	PRC/Mainland China	RMB42,400,000	–	36	Provision of logistics services
Guangdong Goodaymart Supply Chain Co., Ltd. **	PRC/Mainland China	RMB230,000,000	–	60	Provision of logistics services
Shenyang Goodaymart Logistics Co., Ltd. **	PRC/Mainland China	RMB150,000,000	–	60	Provision of logistics services
Luoyang Goodaymart Logistics Co., Ltd. **	PRC/Mainland China	RMB75,000,000	–	60	Provision of logistics services
Qingdao Goodaymart Household Service Co., Ltd.**	PRC/Mainland China	RMB9,000,000	–	60	Provision of logistics services
Qingdao Goodaymart Wuhan Logistics Co., Ltd. **	PRC/Mainland China	RMB270,000,000	–	60	Provision of logistics services
Sheng Feng Logistics Group Co., Ltd. **	PRC/Mainland China	RMB189,658,470	–	35	Provision of logistics services

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Qingdao Goodaymart Logistics Co., Ltd. *	PRC/Mainland China	USD86,800,773	–	60	Provision of logistics services
Qingdao Goodaymart Supply Chains Co., Ltd. **	PRC/Mainland China	RMB10,000,000	–	60	Provision of logistics services
Qingdao Goodaymart Electronics Service Co., Ltd. **	PRC/Mainland China	RMB20,000,000	–	100	Provision of after-sale services
Qingdao Goodaymart Lexinyun Technology Co., Ltd. **	PRC/Mainland China	RMB20,000,000	–	78	Provision of after-sale services
Qingdao Goodaymart Chuangzhi Investment Management Co., Ltd. ***(formerly known as Qingdao New Goodaymart Logistics Service Co., Ltd.)	PRC/Mainland China	USD49,000,000	–	100	Investment holding

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

** Registered as domestic limited liability companies under PRC law

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

Note: During the year, Qingdao Haier Washing Machine Co., Ltd., a 94%-owned subsidiary of the Company, acquired a 100% interest in Tianjin Ririxin Assets Management Co., Ltd. ("Tianjin Ririxin") at a cash consideration of RMB56,093,000 (the "Acquisition"), of which RMB20,000,000 and RMB36,093,000 were paid in 2016 and 2017, respectively. Tianjin Ririxin was an indirect wholly-owned subsidiary of Haier Corp and is currently engaged in the construction of production facilities for the Group's washing machines.

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

2.1 BASIS OF PREPARATION

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

Merger accounting for business combinations under common control

Pursuant to the Acquisition, the Company became an indirect holding company of Tianjin Ririxin. Since the Company and Tianjin Ririxin were ultimately controlled by Haier Corp both before and after the completion of the Acquisition, the Acquisition was accounted for using the principles of merger accounting.

The consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the years ended 31 December 2017 and 2016 include the results, changes in equity and cash flows of all companies then comprising the Group and Tianjin Ririxin, as if the corporate structure of the Group immediately after the completion of the Acquisition had been in existence throughout the years ended 31 December 2017 and 2016, or since their respective dates of acquisition, incorporation or registration, where this is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2016 has been prepared to present the state of affairs of the Group and Tianjin Ririxin as if the corporate structure of the Group immediately after the completion of the Acquisition had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the individual companies attributable to the Company as at 31 December 2016.

2.1 BASIS OF PREPARATION (continued)

Merger accounting for business combinations under common control (continued)

The operating results previously reported by the Group for the year ended 31 December 2016 have been restated to include the operating results of Tianjin Ririxin as set out below:

	The Group (as previously reported) RMB'000	Tianjin Ririxin RMB'000	Elimination RMB'000	The Group (combined) RMB'000
Revenue	63,854,877	—	—	63,854,877
Profit/(loss) before tax	3,494,210	(863)	—	3,493,347
Profit/(loss) for the year	2,810,635	(863)	—	2,809,772

The financial position previously reported by the Group at 31 December 2016 has been restated to include assets and liabilities of Tianjin Ririxin as set out below:

	The Group (as previously reported) RMB'000	Tianjin Ririxin RMB'000	Elimination RMB'000	The Group (combined) RMB'000
Non-current assets	7,651,630	60,808	(20,000)	7,692,438
Current assets	28,497,344	77,984	—	28,575,328
Current liabilities	17,315,949	91,217	—	17,407,166
Non-current liabilities	462,630	—	—	462,630
Total equity	18,370,395	47,575	(20,000)	18,397,970

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

The nature and the impact of the amendments are described below:

(a) Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 39(b) to the financial statements.

(b) Amendments to IAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to IFRS 12 clarify that the disclosure requirements in IFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group has no disposal group held for sale as at 31 December 2017.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 19	*Employee Benefits*[3]
Amendments to IAS 28	*Investments in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28[1]
Annual Improvements 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below. Of those standards, IFRS 9 and IFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have an impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

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

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Unquoted equity investments currently measured at cost in accordance with IAS 39 will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

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

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has determined that the provision for impairment will have no significant changes upon the initial adoption of the standard.

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

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt IFRS 15 from 1 January 2018 and plans to adopt the full retrospective approach. During 2017, the Group has performed a detailed assessment on the impact of the adoption of IFRS 15.

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

The Group's principal activities consist of the manufacture and sale of washing machines and water heaters, the sale and distribution of home appliances and other products as well as providing after-sale and other value-added consumer services and providing logistics services. The expected impacts arising from the adoption of IFRS 15 on the Group are summarised as follows:

(a) Sale of washing machines and water heaters with installation services

The Group provides installation services for the sale of washing machines and water heaters. Currently, when installation services are bundled together with the sale of washing machines and water heaters, revenue from the sale of washing machines and water heaters is recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods, and the installation cost is provided as expense estimated based on the sales volume. Upon the adoption of IFRS 15, revenue from the sale of washing machines and water heaters will continue to be recognised at the point in time when control of the asset is transferred to the customer. The Group has preliminary assessed that the installation services bundled together with the sale of washing machines and water heaters could be distinct. According IFRS 15, such distinct service are considered as separate performance obligations and the corresponding revenue recognised over the period that the services are provided. The Group has preliminary estimated that, when it adopts IFRS 15, the installation service revenue for 2017 could be deferred and recognized upon the completion of installation services, and the corresponding adjustment is yet to be finalised.

(b) Variable consideration on the sale and distribution of home appliances

The Group provides a right of return, trade discounts or volume rebates for some of the sales contracts of home appliances with customers. Currently, the Group recognises revenue from the sale of goods measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. If revenue cannot be reliably measured, revenue recognition is deferred until the uncertainty is resolved. Under IFRS 15, a transaction price is considered variable if a customer is provided with a right of return, trade discounts or volume rebates. The Group is required to estimate the amount of consideration to which it will be entitled in the sale of its home appliances and the estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group has decided to use the expected value method to estimate the goods that will be returned as this method better predicts the amount of variable consideration to which the Group will be entitled. The Group has estimated that, when it adopts IFRS 15, its revenue and the related cost of sales for 2017 will be adjusted after taking into consideration of the expected sales return, and the corresponding adjustment is yet to be finalised. The Group will present a refund liability and an asset for the right to recover products from customers separately in the consolidated statement of financial position upon the adoption of IFRS 15.

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

(c) Presentation and disclosure

The presentation and disclosure requirements in IFRS 15 are more detailed than those under the current IAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by IFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

IFRS 16, issued in January 2016, replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease,* SIC 15 *Operating Leases — Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 41(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB973,184,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

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

IFRS 17, issued in May 2017, replaces IFRS 4, which was brought in as an interim standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values — instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 19, issued in February 2018, require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements, but do not address the accounting for 'significant market fluctuations' in the absence of a plan amendment, curtailment or settlement. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 28, issued in October 2017, clarify that companies account for long-term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying this standard. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 40, issued in December 2016, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

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

IFRIC 22, issued in December 2016, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

Business combinations and goodwill

As explained in note 2.1 above, the acquisition of subsidiaries under common control has been accounted for using the merger method of accounting. The acquisition method of accounting is used to account for business combinations not under common control.

Under the merger method of accounting, the net assets of the combining entities or businesses are combined using their existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of the acquirers' interest in the net fair value of acquires' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination. The consolidated statement of profit or loss include the results of each of the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations not under common control

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations not under common control (continued)

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

Fair value measurement

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

A freehold land with an indefinite useful life is tested individually for impairment annually and is not depreciated. Except for this, depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

Intangible assets (other than goodwill)

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

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

Patents, licences and software

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

Management service arrangements

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

Customer relationships

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Trademarks

Trademarks have indefinite useful lives and are stated at cost, less any identified impairment losses.

Research and development costs

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

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

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

Leases

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Loans and receivables

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

Available-for-sale financial investments

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost **(continued)**

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

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

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

Assets carried at cost

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

Available-for-sale financial investments

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments **(continued)**

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

***Financial liabilities at fair value through profit or loss* (continued)**

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

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

Loans and borrowings

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

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

Convertible bonds

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

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

Inventories

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Provisions

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

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

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

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

Government grants

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

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

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

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

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

Employee benefits

Share-based payments

The Company operates a restricted share award scheme (note 34) and a share option scheme (note 35) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 34 to the financial statements.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payments **(continued)**

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

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

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

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

Pension schemes

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was RMB424,863,000 (2016: RMB392,485,000). Further details are given in note 17.

Recoverability of trade receivables

The Group maintains an allowance for estimated losses arising from the inability of its debtors to make the required payments. The Group makes its estimates based on the ageing of its receivable balances, debtors' creditworthiness, and historical write-off experience. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance. At 31 December 2017, the carrying amounts of trade and bills receivables and other receivables were RMB5,815,924,000 (2016: RMB5,699,335,000) and RMB1,689,282,000 (2016: RMB1,382,668,000 (restated)), respectively.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision of inventories

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the inventories and the write-down charge/reversal in the period in which such estimate has been changed. At 31 December 2017, the carrying amount of inventories was RMB8,414,473,000 (2016: RMB5,183,399,000).

Product warranty and installation provisions

Product warranty and installation provisions are made with reference to the sales volume and the expected unit cost for warranties and installation services. The assessment of the provision amount involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying amount of the product warranty and installation provisions and the provision amount charged/reversed in the period in which such estimate has been changed. At 31 December 2017, the product warranty and installation provisions amounted to RMB1,028,873,000 (2016: RMB858,222,000).

Impairment of non-financial assets (other than goodwill)

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

Useful lives of items of property, plant and equipment

Management determines the estimated useful lives and related depreciation for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to industry cycles. The depreciation charge will increase when the useful lives are less than the previously estimated useful lives, or management will write off or write down obsolete or non-strategic assets that have been abandoned or sold. At 31 December 2017, the carrying amount of the property, plant and equipment was RMB4,087,817,000 (2016: RMB3,294,239,000 (restated)).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at 31 December 2017 was RMB1,001,539,000 (2016: RMB712,295,000).

4. OPERATING SEGMENT INFORMATION

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

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

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

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

(d) the logistics business segment provides logistics services.

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.

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

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

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

4. OPERATING SEGMENT INFORMATION (continued)

	Washing machine business		Water heater business		Channel services business		Logistics business		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Restated)
Segment revenue:										
Sales to external customers	**6,458,087**	5,230,282	**1,064,082**	983,028	**63,384,144**	51,209,399	**7,892,011**	6,432,168	**78,798,324**	63,854,877
Intersegment sales	**13,094,783**	10,690,169	**5,373,037**	4,375,132	**279,286**	275,599	**1,108,424**	1,129,907	**19,855,530**	16,470,807
Total	**19,552,870**	15,920,451	**6,437,119**	5,358,160	**63,663,430**	51,484,998	**9,000,435**	7,562,075	**98,653,854**	80,325,684
Reconciliation:										
Elimination of intersegment sales									**(19,855,530)**	(16,470,807)
Segment revenue									**78,798,324**	63,854,877
Segment other income and gains	**184,600**	195,873	**64,618**	52,661	**34,882**	72,504	**82,144**	48,122	**366,244**	369,160
Total segment revenue and other income and gains									**79,164,568**	64,224,037
Segment results	**1,876,536**	1,521,438	**790,089**	677,994	**1,138,315**	859,149	**432,651**	323,075	**4,237,591**	3,381,656
Reconciliation:										
Elimination of intersegment results									**(174,405)**	(28,656)
Bank interest income									**228,608**	175,937
Interest income from other financial assets									**45,853**	10,293
Corporate and other unallocated income and gains									**175,508**	140,121
Corporate and other unallocated expenses and losses									**(151,632)**	(142,982)
Finance costs									**(11,121)**	(43,022)
Profit before tax									**4,350,402**	3,493,347

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4. OPERATING SEGMENT INFORMATION (continued)

	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 (Restated)	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000 (Restated)
Segment assets	**5,945,689**	5,377,021	**1,509,232**	1,716,104	**10,880,636**	8,834,850	**6,079,775**	5,275,453	**24,415,332**	21,203,428
Reconciliation:										
Elimination of intersegment receivables									**(5,295,645)**	(4,164,175)
Deferred tax assets									**1,001,539**	712,295
Other financial assets									**1,974,815**	460,449
Pledged deposits									**119,865**	71,272
Cash and cash equivalents									**15,015,303**	12,673,095
Corporate and other unallocated assets									**6,210,187**	5,311,402
Total assets									**43,441,396**	36,267,766
Segment liabilities	**3,897,607**	2,582,047	**1,801,037**	1,364,051	**12,540,198**	11,714,437	**3,436,952**	2,963,105	**21,675,794**	18,623,640
Reconciliation:										
Elimination of intersegment payables									**(5,295,645)**	(4,164,175)
Deferred tax liabilities									**178,385**	53,708
Tax payable									**841,207**	613,045
Interest-bearing borrowings									**192,624**	73,000
Convertible and exchangeable bonds									**–**	1,223,220
Corporate and other unallocated liabilities									**2,756,438**	1,447,358
Total liabilities									**20,348,803**	17,869,796

4. OPERATING SEGMENT INFORMATION (continued)

	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 (Restated)	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000 (Restated)
Other segment information:										
Investments in associates	**–**	–	**–**	–	**–**	–	**93,344**	92,230	**93,344**	92,230
Corporate and other unallocated amounts									**159,315**	207,079
									252,659	299,309
Share of profits and losses of associates	**–**	–	**–**	–	**–**	–	**1,475**	1,361	**1,475**	1,361
Corporate and other unallocated amounts									**1,472**	(28,684)
									2,947	(27,323)
Product warranty and installation provisions	**548,485**	475,704	**451,665**	385,480	**–**	–	**–**	–	**1,000,150**	861,184
Provision for obsolete and slow-moving inventories, net	**71,889**	34,942	**14,757**	11,116	**85,233**	43,005	**–**	–	**171,879**	89,063
Provision/(reversal of provision) for impairment of trade receivables, net	**766**	(5,190)	**2,266**	–	**96**	9,882	**405**	(9,232)	**3,533**	(4,540)
Provision/(reversal of provision) for impairment of prepayments and other receivables, net	**74**	–	**14**	–	**(6,510)**	37,798	**2,135**	3	**(4,287)**	37,801
Loss on impairment of intangible assets	**–**	–	**–**	–	**9,966**	–	**–**	–	**9,966**	–
Loss/(gain) on disposal/write-off of items of property, plant and equipment, net	**4,304**	15,404	**2,241**	677	**(4)**	8	**277**	901	**6,818**	16,990
Loss/(gain) on disposal/write-off of intangible assets	**–**	–	**–**	–	**34,467**	(2,400)	**–**	–	**34,467**	(2,400)
Depreciation and amortisation	**116,407**	108,732	**76,020**	56,187	**13,913**	12,344	**156,507**	143,929	**362,847**	321,192
Corporate and other unallocated amounts									**1,242**	4,509
									364,089	325,701
Capital expenditure*	**645,789**	344,427	**116,529**	54,473	**5,911**	1,597	**563,865**	470,854	**1,332,094**	871,351
Corporate and other unallocated amounts									**–**	5,584
									1,332,094	876,935

* Capital expenditure consists of additions to property, plant and equipment, long-term prepayments, prepaid land lease payments, and intangible assets through cash payment of RMB1,287,827,000 (2016: RMB876,935,000 (restated)) and endorsement of bills receivable of RMB44,267,000 (2016: Nil).

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

The Group's revenue derived from customers in Mainland China amounted to RMB75,589,860,000 (2016: RMB60,877,319,000) during the year, and as at 31 December 2017, the Group's non-current assets, other than financial instruments and deferred tax assets situated in Mainland China amounted to RMB6,368,082,000 (2016: RMB5,516,909,000 (restated)). The above amounts accounted for over 90% of the Group's total revenue and total non-current assets.

Information about major customers

During the year, there was no revenue from a single customer (2016: Nil) which individually accounted for 10% or more of the Group's revenue.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2017 RMB'000	2016 RMB'000 (Restated)
Revenue		
Sale of goods	**70,649,457**	57,094,548
Rendering of services	**8,148,867**	6,760,329
	78,798,324	63,854,877
Other income		
Bank interest income	**228,608**	175,937
Interest income from other financial assets	**45,853**	10,293
Government grants*	**218,282**	237,982
Compensation received from suppliers	**91,556**	85,328
Gross rental income	**2,352**	2,734
Dividend income from an available-for-sale investment	**41,053**	26,353
Others	**29,919**	30,694
	657,623	569,321
Gains		
Gain on liquidation of subsidiaries	**14**	—
Gain on disposal of associates	**132,512**	98,080
Gain on disposal of an available-for-sale investment	**1,007**	—
Gain on bargain purchase of associates	**—**	7,544
Gain on disposal of a business	**23,585**	—
Gain on disposal of intangible assets	**—**	2,400
Changes in fair value of derivative financial instruments	**—**	1,399
	157,118	109,423
	814,741	678,744

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

6. PROFIT BEFORE TAX

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

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
Cost of inventories sold		**57,277,613**	46,564,744
Cost of services provided		**7,215,757**	5,880,716
Depreciation of property, plant and equipment	14	**319,464**	286,819
Depreciation of investment properties	15	**2,134**	2,121
Recognition of prepaid land lease payments	16	**28,454**	22,277
Amortisation of intangible assets*	18	**12,160**	9,889
Amortisation of long-term prepayments		**1,877**	4,595
Research and development costs**		**626,466**	580,894
Auditor's remuneration		**8,200**	7,575
Employee benefit expense: (including directors' and chief executive's remuneration — note 8):			
Wages and salaries		**3,660,160**	3,303,937
Welfare		**60,566**	58,470
Pension scheme contributions		**359,330**	348,431
Share-based payment expense/(credit)***		**13,899**	(5,580)
Equity-settled share option expense/(credit), net	35	**(27,243)**	29,794
Equity-settled Restricted Share Award Scheme expense	34	**154,501**	52,489
		4,221,213	3,787,541
Minimum lease payments under operating leases in respect of land and buildings		**155,332**	167,672
Product warranty and installation provisions	31	**1,000,150**	861,184
Provision for obsolete and slow-moving inventories, net#		**171,879**	89,063
Provision/(reversal of provision) of impairment of trade receivables, net##	23	**3,533**	(4,540)
Provision/(reversal of provision) of impairment of prepayments and other receivables, net##	24	**(4,287)**	37,801
Loss on disposal/write-off of items of property, plant and equipment, net##		**6,818**	16,990
Loss on disposal/write-off of intangible assets##		**34,467**	—
Loss on impairment of intangible assets##	18	**9,966**	—
Loss on disposal of subsidiaries, net##	38	**1,480**	6,302
Loss on liquidation of subsidiaries##		**—**	5,765
Loss on disposal of an available-for-sale investment##		**—**	300
Foreign exchange differences, net		**26,075**	(38,463)

6. PROFIT BEFORE TAX (continued)

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

** The research and development costs included mould charges of RMB308,756,000 (2016: RMB248,387,000) which are included in "Cost of sales" in the consolidated statement of profit or loss.

*** The management of certain subsidiaries of the Group has been granted equity interests in the respective subsidiaries under certain vesting conditions. The share-based payment expense is measured by reference to the fair value of the equity interests at the date of grant and is recognised over the period in which the performance and/or service conditions are fulfilled.

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

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017	2016
	RMB'000	RMB'000
Interest on borrowings	**10,657**	4,679
Interest on finance leases	**464**	1,042
Interest on convertible and exchangeable bonds	**–**	37,301
	11,121	43,022

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2017 **RMB'000**	2016 RMB'000
Fees	**1,516**	1,205
Other emoluments:		
Salaries, allowances and benefits in kind	**1,746**	936
Performance related bonuses	**1,343**	1,058
Equity-settled share option expense/(credit), net	**(3,363)**	3,784
Equity-settled Restricted Share Award Scheme expense	**16,954**	4,047
Pension scheme contributions	**124**	48
	16,804	9,873
	18,320	11,078

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

(a) Independent non-executive directors

The remuneration paid to independence non-executive directors during the year were as follows:

	Fees RMB'000	Salaries, allowances benefits in kind RMB'000	Equity-settled share option expense RMB'000	Equity-settled Restricted Share Award Scheme expense RMB'000	Total RMB'000
2017					
Mr. Yu Hon To, David	**287**	**18**	**96**	**325**	**726**
Mrs. Eva Cheng Li Kam Fun	**287**	**18**	**87**	**260**	**652**
Ms. Tsou Kai-Lien, Rose	**239**	**6**	**66**	**195**	**506**
	813	**42**	**249**	**780**	**1,884**
2016					
Mr. Yu Hon To, David	283	18	347	–	648
Mrs. Eva Cheng Li Kam Fun	283	18	447	–	748
Ms. Tsou Kai-Lien, Rose	236	9	236	–	481
	802	45	1,030	–	1,877

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

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

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity-settled share option expense/(credit),net RMB'000	Equity-settled Restricted Share Award Scheme expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2017							
Executive directors:							
Mr. Zhou Yun Jie #	218	742	840	(2,826)	12,483	53	11,510
Mr. Sun Jing Yan**	146	497	263	(418)	3,496	53	4,037
	364	1,239	1,103	(3,244)	15,979	106	15,547
Non-executive directors:							
Mr. Liang Hai Shan	–	142	–	–	–	–	142
Dr. Wang Han Hua	239	9	–	66	195	–	509
Ms. Tan Li Xia	–	142	–	–	–	–	142
Mr. Yin Jing	26	10	–	–	–	–	36
Mr. Zhang Yong	26	–	–	–	–	–	26
	291	303	–	66	195	–	855
Chief executive:							
Mr. Li Hua Gang*	48	162	240	(434)	–	18	34
	703	1,704	1,343	(3,612)	16,174	124	16,436

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

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

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

Mr. Zhou Yun Jie had been the chief executive of the Company since 18 March 2013 and relinquished his role as the chief executive with effect from 25 August 2017.

* Mr. Li Hua Gang was appointed as the chief executive with effect from 25 August 2017.

** Mr. Sun Jing Yan was appointed as an executive director of the Company with effect from 28 April 2017.

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

In current and prior years, certain directors were granted share options and/or awarded shares in respect of their services to the Group under the share option scheme and/or the Restricted Share Award Scheme of the Company, further details of which are set out in notes 35 and 34 to the financial statements. The fair values of these options and awarded shares, which have been recognised in the statement of profit or loss over the vesting period, were determined as at the date of grant and the amounts included in the financial statements for the current year are included in the above directors' and chief executive's remuneration disclosures.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2016: one director), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2016: four) highest paid non-director employees who are neither a director nor chief executive of the Company are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	**1,842**	2,747
Equity-settled share option expense/(credit), net	**(1,253)**	1,554
Equity-settled Restricted Share Award Scheme expense	**8,918**	4,298
Pension scheme contributions	**159**	159
	9,666	8,758

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

	Number of employees 2017	 2016
RMB1,000,001 to RMB2,000,000	**–**	4
RMB2,000,001 to RMB3,000,000	**1**	–
RMB3,000,001 to RMB4,000,000	**2**	–
Total	**3**	4

In current and prior years, share options and/or awarded shares were granted to these non-director and non-chief executive highest paid employees in respect of their services to the Group under the share option scheme and the Restricted Share Award Scheme of the Company, further details of which are set out in note 35 and 34 to the financial statements. The fair values of these options and awarded shares, which have been recognised in the statement of profit or loss over the vesting period, were determined as at the date of grant and the amounts included in the financial statements for the current year are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

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

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

	2017 **RMB'000**	2016 RMB'000
Current		
Charge for the year	**1,007,626**	752,481
Overprovision in prior years	**(11,679)**	(9,988)
Deferred (note 32)	**(170,520)**	(58,918)
Total tax charge for the year	**825,427**	683,575

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

	2017 **RMB'000**	2016 RMB'000 (Restated)
Profit before tax	**4,350,402**	3,493,347
Tax at the statutory tax rate	**1,086,946**	863,124
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**123,748**	32,270
Adjustments in respect of current tax of previous periods	**(11,679)**	(9,988)
Profits and losses attributable to associates	**212**	7,559
Income not subject to tax	**(954)**	(7,837)
Expenses not deductible for tax	**34,085**	32,833
Tax losses not recognised	**18,748**	94,270
Adjustments in respect of deferred tax of previous periods	**(26,835)**	—
Lower tax rates enacted by local authorities	**(319,077)**	(311,477)
Tax losses utilised from previous periods	**(93,151)**	(12,180)
Effect on opening deferred tax of decrease in rates	**1,811**	5,477
Timing differences not recognised	**11,573**	(10,476)
Tax charge at the Group's effective rate	**825,427**	683,575

The share of tax attributable to associates amounting to RMB147,000 (2016: RMB2,324,000) is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss.

11. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Proposed final — HK29 cents (2016: HK17 cents) per ordinary share	**676,866**	425,248

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 2,784,235,089 (2016: 2,780,520,334) in issue during the year, as adjusted to exclude the shares issued or repurchased under the Restricted Share Award Scheme.

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

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

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

	2017 RMB'000	2016 RMB'000 (Restated)
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**3,358,297**	2,785,356
Interest on convertible and exchangeable bonds	**—**	37,301
	3,358,297	2,822,657

	Number of shares 2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,784,235,089**	2,780,520,334
Effect of dilution — weighted average number of ordinary shares:		
Share options	**3,414,062**	45,782
Awarded shares under the Restricted Share Award Scheme	**16,942,647**	3,835,523
Convertible and exchangeable bonds	**—**	69,855,280
	20,356,709	73,736,585
Total	**2,804,591,798**	2,854,256,919

13. RELATED PARTY TRANSACTIONS

(a) During the year, in addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with Haier Corp and its subsidiaries and/or associates (collectively referred to as "Haier Affiliates") and the Group's associates and non-controlling shareholders (and their affiliates):

	2017 RMB'000	2016 RMB'000
Haier Affiliates:		
Export sale of products	**1,811,425**	1,417,915
Export sale expenses	**(27,046)**	(21,277)
Export sale of products, net	**1,784,379**	1,396,638
Domestic sale of products	**95,368**	44,371
Purchase of finished goods	**41,161,645**	29,930,623
Purchase of raw materials	**16,517,153**	13,672,749
Purchase of equipment	**103,018**	92,618
Printing and packaging fees	**—**	14,950
Mould charges	**231,207**	163,234
Utility service fee expenses	**139,101**	103,902
Research and development service fees	**161,454**	193,716
Other service fee expenses	**299,228**	373,433
Interest income	**6,215**	6,638
Interest expenses	**290**	954
Other financial service fees	**33,000**	12,766
Logistics service income	**2,364,627**	2,081,505
After-sale service income	**207,635**	205,028
Associates:		
Domestic sale of products	**2,202**	—
Purchase of raw materials	**—**	634
Purchase of finished goods	**32,080**	112,126
Other service fee expenses	**12,531**	748
Logistics services income	**6,146**	23,821
After-sale services income	**—**	540
Non-controlling shareholders:		
Logistics service income	**1,888,955**	—
Logistics service fees	**153,155**	—
General service fees	**264,332**	—

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 continuing connected transactions as defined in Chapter 14A of the Listing Rules.

13. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties:

(i) The Group leases its investment properties to Haier Affiliates under operating lease arrangements, and the rental income was RMB2,199,000 during the year (2016: RMB2,197,000). As at the end of the reporting period, the lease commitments with related parties is approximately RMB1,227,000 (2016: RMB3,431,000). Further details of the operating lease arrangements are set out in note 41 to the financial statements.

(ii) During the year, the Group disposed of its certain channel services businesses to a fellow subsidiary of the Group at a cash consideration of RMB25,000,000 and recognised a disposal gain of RMB23,585,000.

(iii) During the year, the Group acquired a 100% interest in Tianjin Ririxin from a fellow subsidiary of the Group at a cash consideration of RMB56,093,000. Further details of the acquisition are included in note 2.1 to the financial statements.

(iv) During the year, the Group acquired a 2.17% interest in Qingdao Goodaymart Lejiawulian Technology Co., Ltd ("Lejiawulian") and a call option to purchase a 43.76% indirect interest in Lejiawulian at a pre-determined exercise price from Qingdao Goodaymart investment Co., Ltd, a fellow subsidiary of the Group, at cash consideration of RMB30,000,000 and RMB9,800,000, respectively.

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

13. RELATED PARTY TRANSACTIONS (continued)

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

	2017 RMB'000	2016 RMB'000
Short term employee benefits	**8,182**	7,196
Post-employment benefits	**315**	271
Equity-settled share option expense/(credit), net	**(5,178)**	5,874
Equity-settled Restricted Share Award Scheme expense	**29,714**	9,864
Total compensation paid to key management personnel	**33,033**	23,205

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

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

	2017	2016
RMB1,000,001 to RMB2,000,000	**—**	6
RMB2,000,001 to RMB3,000,000	**3**	—
RMB3,000,001 to RMB4,000,000	**2**	—
	5	6

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Freehold land RMB'000	Leasehold improve-ments RMB'000	Plant and machinery RMB'000	Tools, furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017								
At 1 January 2017 (as restated):								
Cost	2,376,634	–	34,480	1,411,050	134,462	179,789	446,676	4,583,091
Accumulated depreciation and impairment	(549,440)	–	(11,120)	(589,930)	(50,332)	(88,030)	–	(1,288,852)
Net carrying amount	1,827,194	–	23,360	821,120	84,130	91,759	446,676	3,294,239
Cost at 1 January 2017, net of accumulated depreciation and impairment	1,827,194	–	23,360	821,120	84,130	91,759	446,676	3,294,239
Additions	1,225	–	7,700	2,345	4,886	12,333	910,466	938,955
Acquisition of subsidiaries (note 37)	118,221	19,297	14,368	22,742	6,746	7,345	1,165	189,884
Disposal of subsidiaries (note 38)	–	–	–	–	(22)	(4)	(1,245)	(1,271)
Disposals/write-off	(5,110)	–	–	(8,210)	(4,822)	(1,748)	–	(19,890)
Depreciation provided during the year	(121,027)	–	(12,909)	(126,908)	(22,509)	(36,111)	–	(319,464)
Transfers	321,887	–	12,064	241,838	10,802	32,898	(619,489)	–
Exchange realignment	4,124	556	–	481	149	(55)	109	5,364
Cost at 31 December 2017, net of accumulated depreciation and impairment	2,146,514	19,853	44,583	953,408	79,360	106,417	737,682	4,087,817
At 31 December 2017:								
Cost	2,817,898	19,853	68,613	1,633,777	150,056	198,022	737,682	5,625,901
Accumulated depreciation and impairment	(671,384)	–	(24,030)	(680,369)	(70,696)	(91,605)	–	(1,538,084)
Net carrying amount	2,146,514	19,853	44,583	953,408	79,360	106,417	737,682	4,087,817

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'000	Leasehold improve-ments RMB'000	Plant and machinery RMB'000	Tools, furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016 (as restated)							
At 1 January 2016:							
Cost	2,019,266	–	1,376,565	128,464	198,080	572,555	4,294,930
Accumulated depreciation and impairment	(449,829)	–	(633,453)	(35,133)	(67,428)	–	(1,185,843)
Net carrying amount	1,569,437	–	743,112	93,331	130,652	572,555	3,109,087
Cost at 1 January 2016, net of accumulated depreciation and impairment	1,569,437	–	743,112	93,331	130,652	572,555	3,109,087
Additions	1,896	34,480	3,662	8,179	6,918	476,410	531,545
Transfer to investment properties (note 15)	(22,741)	–	–	–	–	–	(22,741)
Disposal of subsidiaries (note 38)	–	–	–	(8)	–	(101)	(109)
Disposals/write-off	(11,548)	–	(18,741)	(4,387)	(2,048)	–	(36,724)
Depreciation provided during the year	(101,979)	(11,120)	(107,658)	(19,014)	(47,048)	–	(286,819)
Transfers	392,129	–	200,745	6,029	3,285	(602,188)	–
Cost at 31 December 2016, net of accumulated depreciation and impairment	1,827,194	23,360	821,120	84,130	91,759	446,676	3,294,239
At 31 December 2016:							
Cost	2,376,634	34,480	1,411,050	134,462	179,789	446,676	4,583,091
Accumulated depreciation and impairment	(549,440)	(11,120)	(589,930)	(50,332)	(88,030)	–	(1,288,852)
Net carrying amount	1,827,194	23,360	821,120	84,130	91,759	446,676	3,294,239

14. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2017, certain of the Group's buildings with an aggregate net book value of approximately RMB873,811,000 (2016: RMB842,473,000) did not have building ownership certificates registered under the names of the respective subsidiaries of the Company.

With respect to the above properties, the Group's investment properties and prepaid land lease payments, in prior years, Haier Corp issued to the Company three undertakings, pursuant to which Haier Corp agreed to provide other suitable properties to the Group to ensure that the operations of certain subsidiaries of the Company are not disrupted and/or indemnify the Group against any losses arising from the above property title issue. The aggregate net book value of the Group's buildings indemnified by Haier Corp as at 31 December 2017 amounted to approximately RMB116,782,000 (2016: RMB120,428,000).

In the opinion of the directors, the Group is entitled to lawfully and validly occupy and/or use the buildings and investment properties for its daily operations, notwithstanding the fact that the related building ownership certificates have not yet been obtained.

At 31 December 2017, certain of the Group's buildings with an aggregate carrying amount of approximately RMB112,555,000 (2016: RMB17,537,000) and certain of the Group's freehold land with a net carrying amount of approximately RMB9,367,000 (2016: Nil) were pledged to secure bank loans granted to the Group (note 29).

15. INVESTMENT PROPERTIES

	2017 **RMB'000**	2016 RMB'000
Cost at 1 January, net of accumulated depreciation	**33,142**	11,147
Transfer from owner-occupied properties (note 14)	**—**	22,741
Depreciation provided during the year	**(2,134)**	(2,121)
Exchange realignment	**(1,593)**	1,375
Cost at 31 December, net of accumulated depreciation	**29,415**	33,142
At 31 December:		
Cost	**41,505**	43,146
Accumulated depreciation	**(12,090)**	(10,004)
Net carrying amount	**29,415**	33,142

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

The investment properties are leased to Haier Affiliates under operating leases, further summary details of which are included in note 41 to the financial statements.

15. INVESTMENT PROPERTIES (continued)

In the opinion of the directors, the fair values of the Group's investment properties erected on land in Hong Kong and Mainland China were approximately RMB22,273,000 (2016: RMB26,187,000) and RMB11,946,000 (2016: RMB13,545,000), respectively, as at 31 December 2017.

The fair value measurements of the Group's investment properties are categorised within Level 3. The valuation technique is the discounted cash flow method and the significant inputs used in the fair value measurement are the estimated rental value, rent growth and discount rate.

As at 31 December 2017, the Group's investment properties erected on land in Mainland China with an aggregate carrying amount of approximately RMB8,763,000 (2016: RMB9,955,000) did not have building ownership certificates registered under the names of the respective subsidiaries of the Company. The Group obtained an undertaking from Haier Corp in relation to this property title issue, details of which are set out in note 14 to the financial statements.

16. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000 (Restated)
Carrying amount at 1 January	**1,085,635**	886,093
Additions	**144,838**	242,349
Disposal of subsidiaries (note 38)	**(13,238)**	(20,530)
Recognised during the year	**(28,454)**	(22,277)
Carrying amount at 31 December	**1,188,781**	1,085,635
Current portion included in prepayments, deposits and other receivables	**(27,381)**	(24,119)
Non-current portion	**1,161,400**	1,061,516

As at 31 December 2017, certain parcels of the Group's leasehold land with an aggregate carrying amount of approximately RMB120,541,000 (2016: RMB108,365,000) did not have land use right certificates registered under the names of the respective subsidiaries of the Company, of which RMB41,439,000 (2016: RMB43,509,000) was indemnified by Haier Corp. Details of the undertakings granted by Haier Corp to the Company in relation to this property title issue are set out in note 14 to the financial statements.

As at 31 December 2017, certain of the Group's leasehold lands with an aggregate carrying amount of RMB5,397,000 (2016: RMB12,634,000) were pledged to secure bank loans granted to the Group (note 29).

17. GOODWILL

	2017 RMB'000	2016 RMB'000
Cost at 1 January	**392,485**	392,485
Acquisition of subsidiaries (note 37)	**32,378**	—
Cost at 31 December	**424,863**	392,485
At 31 December:		
Cost	**424,863**	392,485
Accumulated impairment	**—**	—
Net carrying amount	**424,863**	392,485

Goodwill acquired through business combinations are allocated to the following cash-generating units for impairment testing, all of which are under the logistics business segment, except for GREENoneTEC Solarindustrie GmbH which is under the water heater segment:

- Qingdao Goodaymart Wisdom Union Co,Ltd. ("Qingdao Furnishing Service");
- Shanghai Boyol New Brothers Supply Chain Management Co., Ltd. ("Shanghai Beiye Supply Chain");
- Shanghai Grand Logistics Co., Ltd. ("Grand Logistics");
- GREENoneTEC Solarindustrie GmbH. ("GoT"); and
- Sheng Feng Logistics Group Co., Ltd. ("Shengfeng Logistics").

Qingdao Furnishing Service

The recoverable amount of Qingdao Furnishing Service has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 17.2% (2016: 17.2%). The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2016: 3%).

17. GOODWILL (continued)

Shanghai Beiye Supply Chain

The recoverable amount of Shanghai Beiye Supply Chain has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 18.5% (2016: 18.5%). The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2016: 3%).

Grand Logistics

The recoverable amount of Grand Logistics has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15.8%. The growth rate used to extrapolate the cash flows beyond the five-year period is 3%.

GoT

The recoverable amount of GoT has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15.7%. The growth rate used to extrapolate the cash flows beyond the five-year period is 3%.

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

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the actual gross margin achieved in the year immediately before the budget year and expected market development.

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

17. GOODWILL (continued)

Shengfeng Logistics

The recoverable amount of Shengfeng Logistics has been determined based on its fair value less cost of disposal categorised in Level 3 using cash flow projections based on financial budgets covering a ten-year period approved by senior management. The discount rate applied to the cash flow projections is 14.7% (2016: 14.5%). The growth rate used to extrapolate the cash flows beyond the ten-year period is 3% (2016: 3%).

Assumptions were used in the fair value calculation for 31 December 2017 and 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to determine the fair value:

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

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margin in the years immediately before the budget year, increased for expected efficiency improvement and market development.

Turnover days of net working capital — The basis used to determine the value assigned to the turnover days of net working capital is the actual turnover days for the year ended 31 December 2017, decreased for management efficiency improvement.

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

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

	Qingdao Furnishing Service		Shanghai Beiye Supply Chain		Grand Logistics		GoT		Shengfeng Logistics		Total	
	2017	2016	**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	**RMB'000**	RMB'000
Carrying amount of goodwill	**6,123**	6,123	**68,407**	68,407	**29,079**	–	**3,299**	–	**317,955**	317,955	**424,863**	392,485

18. OTHER INTANGIBLE ASSETS

	Software RMB'000	Patents and licences RMB'000	Management service arrangements RMB'000 (note i)	Customer relationships RMB'000	Trademarks RMB'000 (note ii)	Total RMB'000
31 December 2017						
At 1 January 2017:						
Cost	54,483	2,429	70,000	18,967	45,000	190,879
Accumulated amortisation and impairment	(29,269)	(2,429)	(19,250)	(8,775)	–	(59,723)
Net carrying amount	25,214	–	50,750	10,192	45,000	131,156
Cost at 1 January 2017, net of accumulated amortisation and impairment	25,214	–	50,750	10,192	45,000	131,156
Additions	17,308	–	–	–	–	17,308
Acquisition of subsidiaries (note 37)	1,471	4,178	–	3,652	–	9,301
Amortisation provided during the year	(5,295)	(771)	(3,500)	(2,594)	–	(12,160)
Disposals/write-off	–	–	(47,250)	–	–	(47,250)
Impairment during the year	(9,966)	–	–	–	–	(9,966)
Exchange realignment	3	141	–	–	–	144
Cost at 31 December 2017, net of accumulated amortisation and impairment	28,735	3,548	–	11,250	45,000	88,533
At 31 December 2017						
Cost	65,929	10,638	–	22,619	45,000	144,186
Accumulated amortisation and impairment	(37,194)	(7,090)	–	(11,369)	–	(55,653)
Net carrying amount	28,735	3,548	–	11,250	45,000	88,533

18. OTHER INTANGIBLE ASSETS (continued)

	Software RMB'000	Patents and licences RMB'000	Management service arrangements RMB'000 (note i)	Customer relationships RMB'000	Trademarks RMB'000 (note ii)	Total RMB'000
31 December 2016						
At 1 January 2016:						
Cost	52,310	2,429	70,000	18,967	45,000	188,706
Accumulated amortisation and impairment	(25,394)	(2,429)	(15,750)	(6,261)	–	(49,834)
Net carrying amount	26,916	–	54,250	12,706	45,000	138,872
Cost at 1 January 2016, net of accumulated amortisation and impairment	26,916	–	54,250	12,706	45,000	138,872
Additions	2,173	–	–	–	–	2,173
Amortisation provided during the year	(3,875)	–	(3,500)	(2,514)	–	(9,889)
Cost at 31 December 2016, net of accumulated amortisation and impairment	25,214	–	50,750	10,192	45,000	131,156
At 31 December 2016:						
Cost	54,483	2,429	70,000	18,967	45,000	190,879
Accumulated amortisation and impairment	(29,269)	(2,429)	(19,250)	(8,775)	–	(59,723)
Net carrying amount	25,214	–	50,750	10,192	45,000	131,156

Notes:

(i) The cost related to the original fair values of the management service arrangements acquired by the Group in the prior year amounting to RMB70,000,000, and is amortised over the tenure of the management service arrangements. According to the management service arrangements, the Group is entitled to receive management fees broadly equal to 2% of the annual purchasing orders (in monetary value) for 2011 to 2018 and 1% for 2019 to 2030 from certain Haier franchise stores.

During the year, the Group and the franchise store owners reached an agreement to terminate the management service arrangements pursuant to which the franchise store owners agreed to return 740,158 shares of the Company for approximately HK$15,348,000 (equivalent to RMB12,783,000) to the Company as a compensation of early termination of management services agreements.

(ii) The trademarks are attributable to the cash-generating unit of Shanghai Beiye Supply Chain.

19. INVESTMENTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Share of net assets	**252,659**	286,834
Goodwill on acquisition	**–**	12,475
	252,659	299,309

The Group's trade and other receivable and payable balances with the associates are disclosed in notes 23, 24, 27 and 28 to the financial statements, respectively.

The associates of the Group are not individually material, and the aggregate financial information of the associates is illustrated in the following table:

	2017 RMB'000	2016 RMB'000
Share of the associates' profits/(losses) for the year	**2,947**	(27,323)
Aggregate carrying amount of the Group's investments in the associates	**252,659**	299,309

The unrecognised share of losses of the above investments in associates for the year and accumulatively as at 31 December 2017 amounted to RMB12,828,000 (2016: RMB2,015,000).

20. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000	2016 RMB'000
Unlisted equity investments, at cost	**1,283,107**	1,379,662
Unlisted equity investments, at fair value	**–**	21,759
Impairment	**(25)**	(25)
	1,283,082	1,401,396

The Group does not intend to dispose of the available-for-sale investments in the near future.

21. OTHER NON-CURRENT ASSETS

Other non-current assets represent derivative financial instruments arising from the acquisition of investee companies. They are measured at fair value and are categorised in Level 3 of the fair value measurement.

22. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	**133,534**	35,652
Work in progress	**56,072**	37,741
Finished goods	**8,224,867**	5,110,006
	8,414,473	5,183,399

23. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade and bills receivables	**5,873,683**	5,759,444
Impairment	**(57,759)**	(60,109)
	5,815,924	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. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2017 RMB'000	2016 RMB'000
Trade receivables:		
Within 1 month	**2,579,109**	2,076,686
1 to 2 months	**408,106**	420,688
2 to 3 months	**101,091**	133,624
Over 3 months	**184,173**	154,210
	3,272,479	2,785,208
Bills receivable	**2,543,445**	2,914,127
	5,815,924	5,699,335

23. TRADE AND BILLS RECEIVABLES (continued)

The movements in provision for impairment of trade receivables are as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	60,109	78,575
Acquisition of subsidiaries	2,458	—
Disposal of subsidiaries	(1,176)	—
Impairment losses recognised (note 6)	12,261	15,402
Amount written off as uncollectible	(7,165)	(13,926)
Impairment losses reversed (note 6)	(8,728)	(19,942)
As at 31 December	57,759	60,109

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB57,759,000 (2016: RMB60,109,000) with a carrying amount before provision of RMB128,868,000 (2016: RMB160,676,000).

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

The ageing analysis of the trade and bills receivables and the corresponding impairment are as follows:

2017	Not impaired	Impaired		Total
		Carrying amount of trade receivables before provision	Provision	
	RMB'000	RMB'000	RMB'000	RMB'000
Not past due	5,675,217	110	(110)	5,675,217
Less than 1 year past due	62,211	69,182	(11,611)	119,782
1 to 2 years past due	7,387	59,576	(46,038)	20,925
	5,744,815	128,868	(57,759)	5,815,924

23. TRADE AND BILLS RECEIVABLES (continued)

2016	Not impaired	Impaired		Total
		Carrying amount of trade receivables before provision	Provision	
	RMB'000	RMB'000	RMB'000	RMB'000
Not past due	5,500,623	412	(412)	5,500,623
Less than 1 year past due	71,974	111,660	(18,459)	165,175
1 to 2 years past due	26,171	48,604	(41,238)	33,537
	5,598,768	160,676	(60,109)	5,699,335

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in the Group's trade and bills receivables are amounts due from Haier Affiliates of RMB1,591,400,000 (2016: RMB1,295,980,000), due from associates of RMB1,836,000 (2016: RMB16,695,000) and due from non-controlling shareholders (and their affiliates) of RMB476,742,000 (2016: RMB139,123,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group. Further details of the sales to these related parties are set out in note 13 to the financial statements.

At 31 December 2017, certain of the Group's bills receivable of approximately RMB14,235,000 (2016: RMB60,421,000) were pledged to secure certain of the Group's bills payable (note 27).

At 31 December 2017, certain of the Group's trade receivables of approximately RMB57,203,000 (2016: Nil) were pledged to secure loans granted to the Group (note 29).

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000 (Restated)
Current		
Prepayments	**1,505,176**	3,064,279
Deposits	**85,805**	88,417
Other receivables	**1,692,216**	1,382,980
	3,283,197	4,535,676
Impairment	**(42,236)**	(47,898)
	3,240,961	4,487,778
Non-current		
Long-term prepayments	**485,005**	329,385
	3,725,966	4,817,163

The movements in provision for impairment of prepayments and other receivables are as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	**47,898**	13,779
Acquisition of subsidiaries	**795**	—
Disposal of subsidiaries	**—**	(649)
Impairment losses recognised (note 6)	**2,530**	47,239
Amount written off as uncollectible	**(2,170)**	(3,033)
Impairment losses reversed (note 6)	**(6,817)**	(9,438)
As at 31 December	**42,236**	47,898

Except for prepayments and other receivables amounting to RMB39,302,000 (2016: RMB47,586,000) and RMB2,934,000 (2016: RMB312,000), respectively, none of the above assets is either past due or impaired. Other than the aforementioned impaired prepayments and other receivables, the financial assets included in the above balances relate to prepayments and other receivables for which there was no recent history of default.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Included in the Group's prepayments, deposits and other receivables are amounts due from Haier Affiliates of RMB1,474,373,000 (2016: RMB2,905,104,000), due from associates of RMB760,000 (2016: RMB195,000) and due from non-controlling shareholders (and their affiliates) of RMB48,540,000 (2016: RMB7,678,000), respectively, which are unsecured, interest-free and repayable on demand.

Included in the Group's long-term prepayments are advances made to Haier Affiliates relating to the Group's property, plant and equipment and prepaid land lease payments with an aggregate amount of RMB229,672,000 (2016: RMB154,561,000). The amounts are unsecured, interest-free and repayable on demand.

25. OTHER FINANCIAL ASSETS

Other financial assets represent financial products with original maturity of within one year when acquired from banks. The principal amounts of these financial products are guaranteed by banks and cannot be withdrawn prior to the maturity date.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 **RMB'000**	2016 RMB'000 (Restated)
Cash and bank balances	**4,326,643**	3,747,019
Time deposits	**10,808,525**	8,997,348
	15,135,168	12,744,367
Less: Deposits pledged for bills payable (note 27)	**(112,365)**	(71,272)
Deposits pledged for bank guarantees	**(7,500)**	—
	(119,865)	(71,272)
Cash and cash equivalents	**15,015,303**	12,673,095

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB13,928,986,000 (2016: RMB11,724,071,000 (restated)). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

Included in the Group's cash and cash equivalents are deposits of approximately RMB1,203,063,000 (2016: RMB1,339,249,000 (restated)) placed with Haier Corp Finance Co., Ltd. ("Haier Finance"), which is a fellow subsidiary of the Group and is a financial institution approved by the People's Bank of China. The interest rate on these deposits ranges from 0.30% to 1.95% per annum. Further details of the interest income attributable to the deposits placed with Haier Finance are set out in note 13 to the financial statements.

27. TRADE AND BILLS PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017 **RMB'000**	2016 RMB'000
Trade payables:		
Within 1 month	**5,291,611**	3,930,123
1 to 2 months	**396,369**	175,503
2 to 3 months	**71,930**	150,387
Over 3 months	**222,301**	213,124
	5,982,211	4,469,137
Bills payable	**106,405**	114,080
	6,088,616	4,583,217

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

Included in the Group's trade payables are amounts due to Haier Affiliates of RMB3,244,557,000 (2016: RMB2,154,999,000) and due to associates of RMB1,773,000 (2016: RMB3,486,000), respectively, which are repayable on credit terms similar to those offered by other similar suppliers of the Group. Further details of the purchases from these related parties are set out in note 13 to the financial statements.

At 31 December 2017, certain of the Group's bills payable are secured by the pledge of the Group's bank deposits amounting to RMB112,365,000 (2016: RMB71,272,000) (note 26) and the Group's bills receivable amounting to RMB14,235,000 (2016: RMB60,421,000) (note 23).

28. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000 (Restated)
Other payables	**4,076,167**	3,790,969
Accruals	**2,714,461**	1,812,312
Receipt in advance	**4,131,817**	4,697,322
Deferred income	**13,587**	15,443
	10,936,032	10,316,046

Other payables are non-interest-bearing and repayable on demand.

Included in the Group's other payables and accruals are amounts due to Haier Affiliates of RMB758,377,000 (2016: RMB931,982,000 (restated)), due to associates of RMB12,050,000 (2016: RMB21,080,000) and due to non-controlling shareholders (and their affiliates) of RMB9,236,000 (2016: Nil), respectively, which are unsecured, interest-free and repayable on demand.

29. INTEREST-BEARING BORROWINGS

	2017			2016		
	Effective interest rate %	Maturity	RMB'000	Effective interest rate %	Maturity	RMB'000
Current						
Bank loans — unsecured	2.73	2018	287	5.50	2017	50,000
Bank loans — secured	0.50–12.00	2018	158,262	5.00	2017	23,000
Other loans — secured	10.00	2018	3,533	—	—	—
			162,082			73,000
Non-current						
Bank loans — secured	2.50–3.00	2020–2024	30,542	—	—	—
			192,624			73,000
Analysed into:						
Bank loans repayable:						
Within one year or on demand			158,549			73,000
In the third to fifth years, inclusive			24,935			—
Beyond five years			5,607			—
			189,091			73,000
Other borrowings repayable:						
Within one year or on demand			3,533			—
			192,624			73,000

Certain of the Group's bank loans are secured by:

(i) mortgages over the Group's buildings, which had an aggregate carrying amount at the end of the reporting period of approximately RMB112,555,000 (2016: RMB17,537,000) and certain of the Group's freehold land with a net carrying amount of approximately RMB9,367,000 (2016: Nil).

(ii) mortgages over the Group's prepaid land lease payments, which had an aggregate carrying value at the end of the reporting period of RMB5,397,000 (2016: RMB12,634,000).

(iii) pledge of the Group's trade receivables totally approximately RMB53,670,000 (2016: Nil).

29. INTEREST-BEARING BORROWINGS (continued)

The Group's other loans are secured by the pledge of the Group's trade receivables totally approximately of RMB3,533,000 (2016: Nil).

As at 31 December 2017, the interest-bearing borrowings denominated in Euros, United States dollars and RMB amounted to EUR11,527,000, USD44,000 and RMB102,362,000, respectively. As at 31 December 2016, all interest-bearing borrowings were denominated in RMB.

30. PUT OPTION LIABILITIES

During the year, as part of the purchase agreement in relation to the Group's acquisition of a 51% interest in GoT, the seller, which has then become the non-controlling shareholder of GoT, was granted a put option to sell the remaining 49% interest in GoT, to the Group at a price to be determined based on an agreed formula. The put option liability is carried at fair value of approximately RMB55,510,000 as at 31 December 2017, and is categorised in Level 3 of the fair value measurement.

During the year, as part of the joint venture agreement in relation to the capital contribution to Qingdao Goodaymart Logistics Co., Ltd. ("Goodaymart Logistics"), the new investors, which have then become the non-controlling shareholders of Goodaymart Logistics, were granted put options to sell their interest in Goodaymart Logistics to the Group at prices to be determined based on an agreed formula. The put option liabilities are carried at fair value of approximately RMB861,428,000 as at 31 December 2017, and is categorised in Level 2 of the fair value measurement.

The put option liabilities in the prior year were extinguished upon the exercise of the corresponding put options during the year ended 31 December 2017.

31. PROVISIONS

		Product warranties and installation	
		2017	2016
	Notes	**RMB'000**	RMB'000
At 1 January		**858,222**	832,791
Acquisition of subsidiaries	37	**4,200**	—
Additional provision	6	**1,000,150**	861,184
Amounts utilised during the year		**(833,699)**	(835,753)
At 31 December		**1,028,873**	858,222
Portion classified as current liabilities		**(674,397)**	(545,717)
Non-current portion		**354,476**	312,505

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

32. DEFERRED TAX

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

Deferred tax assets

	Accruals RMB'000	Provisions RMB'000	2017 Unrealised profits RMB'000	Others RMB'000	Total RMB'000
At 1 January	417,668	91,312	114,447	88,868	712,295
Acquisition of subsidiaries (note 37)	—	—	—	1,696	1,696
Disposal of subsidiaries (note 38)	—	—	—	(50)	(50)
Deferred tax charged to the statement of profit or loss during the year, net (note 10)	164,694	22,235	42,984	57,661	287,574
Exchange differences	—	—	—	24	24
At 31 December	582,362	113,547	157,431	148,199	1,001,539

	Accruals RMB'000	Provisions RMB'000	2016 Unrealised profits RMB'000	Others RMB'000	Total RMB'000
At 1 January	382,730	69,231	75,064	94,455	621,480
Disposal of subsidiaries (note 38)	—	—	—	(142)	(142)
Deferred tax credited/(charged) to the statement of profit or loss during the year, net (note 10)	34,938	22,081	39,383	(5,445)	90,957
At 31 December	417,668	91,312	114,447	88,868	712,295

32. DEFERRED TAX (continued)

Deferred tax liabilities

	2017			
	Fair value adjustments arising from acquisition of subsidiaries RMB'000	**Withholding taxes RMB'000**	**Others RMB'000**	**Total RMB'000**
At 1 January	**7,421**	**38,630**	**7,657**	**53,708**
Acquisition of subsidiaries (note 37)	**8,311**	**—**	**—**	**8,311**
Deferred tax charged/(credited) to the statement of profit or loss during the year, net (note 10)	**(923)**	**123,748**	**(5,771)**	**117,054**
Exchange differences	**—**	**(688)**	**—**	**(688)**
At 31 December	**14,809**	**161,690**	**1,886**	**178,385**

	2016			
	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Withholding taxes RMB'000	Others RMB'000	Total RMB'000
At 1 January	8,275	9,127	3,637	21,039
Deferred tax charged/(credited) to the statement of profit or loss during the year, net (note 10)	(854)	28,873	4,020	32,039
Exchange differences	—	630	—	630
At 31 December	7,421	38,630	7,657	53,708

32. DEFERRED TAX (continued)

The Group has tax losses arising in Hong Kong of RMB31,261,000 (2016: RMB30,849,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of RMB512,601,000 (2016: RMB970,048,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the Company and subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

As at 31 December 2017, an amount of RMB161,690,000 (2016: RMB38,630,000) has been recognised for withholding taxes for the earnings of the PRC subsidiaries to be remitted in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB15,738,518,000 at 31 December 2017 (2016: RMB15,692,940,000). In the opinion of the directors, it is not probable that such earnings will be distributed in the foreseeable future.

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

33. ISSUED EQUITY

	Issued equity RMB'000
At 1 January 2016	2,891,084
Exercise of put options	11,570
Shares transferred to participants from the Share Award Scheme Trust	(3,213)
Shares repurchased	(22,549)
At 31 December 2016 and 1 January 2017	2,876,892
Exercise of share options	78,225
Exercise of awarded shares	45,210
Shares transferred to participants from the Share Award Scheme Trust	(4,836)
At 31 December 2017	2,995,491

Shares

Company

	2017 HK$'000	2016 HK$'000
Authorised: 30,000,000,000 shares of HK$0.1 each	**3,000,000**	3,000,000

	2017 HK$'000	**RMB'000 equivalent**	2016 HK$'000	RMB'000 equivalent
Issued and fully paid: 2,802,340,407 (2016: 2,792,076,768) shares of HK$0.1 each	**280,234**	**276,034**	279,208	275,153

33. ISSUED EQUITY (continued)

The movements of the Company's issued share capital during the year are as follows:

	Number of shares in issue	Issued share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2016	2,793,156,443	275,246	2,336,129	2,611,375
Exercise of put options	1,112,325	95	11,475	11,570
Shares transferred to participants from the Share Award Scheme Trust	—	—	(3,213)	(3,213)
Shares repurchased	(2,192,000)	(188)	(22,361)	(22,549)
At 31 December 2016 and 1 January 2017	**2,792,076,768**	**275,153**	**2,322,030**	**2,597,183**
Exercise of share options (note i)	**5,588,000**	**478**	**77,747**	**78,225**
Exercise of awarded shares (note ii)	**4,675,639**	**403**	**44,807**	**45,210**
Shares transferred to participants from the Share Award Scheme Trust (note iii)	**—**	**—**	**(4,836)**	**(4,836)**
At 31 December 2017	**2,802,340,407**	**276,034**	**2,439,748**	**2,715,782**

Notes:

(i) The subscription rights attaching to 5,588,000 share options were exercised during the year, resulting in the issue of 5,588,000 shares of HK$0.1 each for a total cash consideration of HK$71,104,000 (equivalent to RMB60,768,000). An amount of RMB17,457,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(ii) The subscription rights attaching to 4,675,639 awarded shares were exercised during the year, resulting in the issue of 4,675,639 shares of HK$0.1 each with no cash consideration. An amount of RMB45,210,000 was transferred from the awarded share reserve to the share premium account upon the exercise of the awarded shares.

(iii) During the year, the Company transferred 2,045,896 shares which were held by the Share Award Scheme Trust to participants for a total cash consideration of HK$4,264,000 (equivalent to RMB3,571,000) under the Restricted Share Award Scheme. An amount of RMB16,525,000 was transferred from the awarded share reserve to the share premium account, and an amount of RMB24,932,000 was credited to shares held for the Restricted Share Award Scheme.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 35 to the financial statements.

34. SHARES HELD FOR THE RESTRICTED SHARE AWARD SCHEME

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

As at 31 December 2017, the number of ordinary shares held for the Restricted Share Award Scheme was 11,855,130 (2016: 11,820,600) with an aggregate carrying amount of RMB158,583,000 (2016: RMB152,984,000).

The following awarded shares were outstanding under the Restricted Share Award Scheme during the year:

	2017		2016	
	Weighted average exercise price per share HK$	**Number of awarded shares**	Weighted average exercise price per share HK$	Number of awarded shares
At 1 January	**0.60**	**17,732,400**	9.685	3,990,400
Granted during the year	**0.00**	**12,200,000**	0.56	17,952,000
Forfeited/lapsed during the year	**0.00**	**(596,940)**	9.685	(3,290,000)
Exercised during the year	**0.63**	**(6,721,535)**	6.70	(920,000)
At 31 December	**0.28**	**22,613,925**	0.60	17,732,400

The weighted average share price at the dates of exercise for awarded shares exercised during the year was HK$20.11 (2016: HK$12.63) per share.

34. SHARES HELD FOR THE RESTRICTED SHARE AWARD SCHEME (continued)

The exercise prices and exercise periods of the awarded shares outstanding as at the end of the reporting period are as follows:

2017			2016		
Number of awarded shares	**Exercise price* HK$ per share**	**Exercise period**	Number of awarded shares	Exercise price* HK$ per share	Exercise period
560,400	**9.685**	**15/04/2015–14/04/2018**	620,400	9.685	15/04/2015–14/04/2018
148,400	**6.42**	**08/07/2016–07/07/2020**	722,000	6.42	08/07/2016-07/07/2020
9,705,125	**–**	**01/07/2017–01/07/2018**	16,390,000	–	01/07/2017–01/07/2018
1,110,000	**–**	**01/07/2018–01/07/2019**	–	–	–
11,090,000	**–**	**01/07/2018–01/07/2019**	–	–	–
22,613,925			17,732,400		

* The exercise price of the awarded shares is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the awarded shares granted during the year were approximately RMB140,056,000 and RMB18,666,000 (RMB12.63 and RMB16.82 each) (2016: RMB6,587,000 and RMB156,663,000, RMB4.22 and RMB9.56 each), of which the Group recognised a Restricted Share Award Scheme expense of RMB71,125,000 (2016: RMB52,489,000) during the year ended 31 December 2017.

In respect of the awarded shares granted in the prior years, a Restricted Share Award Scheme expense of RMB83,376,000 (2016: Nil) was recognised during the year ended 31 December 2017.

The fair value of equity-settled awarded shares granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the awarded shares were granted.

34. SHARES HELD FOR THE RESTRICTED SHARE AWARD SCHEME (continued)

The following table lists the inputs to the model used:

	2017	2016
Dividend yield (%)	**0.62–0.83**	1.06
Expected volatility(%)	**34.80–40.29**	39.19–41.36
Historical volatility (%)	**34.80–40.29**	39.19–41.36
Risk-free interest rate (%)	**0.583–1.217**	0.254–0.556
Contractual life of options (year)	**1.09–2.33**	0–1.98
Closing price of a share on the date of grant (HK$ per share)	**14.50–19.44**	11.34

The expected volatility is determined based on the historical volatility of the share price of the Company. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the awarded shares granted was incorporated into the measurement of fair value.

During the year, the Company transferred 2,045,896 (2016: 920,000) shares which were held by the Share Award Scheme Trust to participants for a total cash consideration of HK$4,264,000 (equivalent to RMB3,571,000) (2016: HK$6,168,000, equivalent to RMB5,293,000) under the Restricted Share Award Scheme, and the subscription rights attaching to 4,675,639 awarded shares were exercised, resulting in the issue of 4,675,639 shares of HK$0.1 each with no cash consideration, as further detailed in note 33 to the financial statements.

At the date of approval of these financial statements, the Company had 22,613,925 awarded shares outstanding under the Restricted Share Award Scheme, which represented approximately 0.81% of the Company's shares in issue as at that date.

35. SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to the eligible participants who contribute to the success of the operations of the Group. Eligible participants of the share option scheme include any employee, executive or officer of the Group (including executive, non-executive and independent non-executive directors of the Company) and any suppliers, consultants, agents, advisers, shareholders, customers, partners or business associates who, in the opinion of the board of directors of the Company (the "Board"), have contributed to the Group. The Company's current share option scheme became effective on 8 June 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. As at the date of this report, the share option scheme had a remaining life of around three years.

35. SHARE OPTION SCHEME (continued)

The maximum number of shares in respect of which options may be granted under the share option scheme is such number of shares, when aggregated with shares subject to any other share option scheme(s) of the Company, must not exceed 10% of the issued share capital of the Company as at the date of adoption of the share option scheme. The maximum number of shares issuable upon exercise of the options granted under the share option scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period is limited to 1% of the shares of the Company in issue as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company (and if required, the holding company) and the shareholders' approval of the Company (and if required, the approval of the shareholders of the holding company) in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to the approval in advance by the independent non-executive directors of the Company (and if required, the independent non-executive directors of the holding company), excluding the independent non-executive director(s) of the Company and the holding company who is/are the grantee(s) of the options. In addition, any share option granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue as at the date of grant and with an aggregate value (based on the closing price of the shares of the Company as at the date of grant) in excess of HKD5,000,000, within any 12-month period, is subject to the issue of a circular by the Company (and if required, the holding company) and the shareholders' approval of the Company (and if required, the approval of the shareholders of the holding company) in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of RMB1 or HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the board of directors, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options or the expiry date of the share option scheme, whichever is earlier.

The exercise price of the share options is determinable by the board of directors, but may not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of the Hong Kong Stock Exchange on the date of grant, which must be a trading day; (ii) the average of the closing prices of the shares of the Company as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

35. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the share option scheme during the year:

	2017		2016	
	Weighted average exercise price HK$ per share	**Number of options**	Weighted average exercise price HK$ per share	Number of options
At 1 January	**14.63**	**31,302,800**	15.73	51,348,800
Forfeited during the year	**12.84**	**(13,224,000)**	17.45	(20,046,000)
Lapsed during the year	**19.12**	**(8,995,600)**	—	—
Exercised during the year	**12.72**	**(5,588,000)**	—	—
At 31 December	**12.84**	**3,495,200**	14.63	31,302,800

The weighted average share price at the date of exercise for share options exercised during the year was HK$20.30 per share (2016: no share options were exercised).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2017			2016		
Number of options	**Exercise price* HK$ per share**	**Exercise period**	Number of options	Exercise price* HK$ per share	Exercise period
–	**12.16**	**26/06/2014–25/06/2017**	950,000	12.16	26/06/2014–25/06/2017
–	**19.37**	**15/04/2015–14/04/2017**	8,656,800	19.37	15/04/2015–14/04/2017
3,495,200	**12.84**	**10/05/2016–10/05/2020**	21,696,000	12.84	10/05/2016–10/05/2020
3,495,200			31,302,800		

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

35. SHARE OPTION SCHEME (continued)

In respect of the share options granted in prior years, a share option credit of RMB27,243,000 (2016: expense of RMB29,794,000) was recognised during the year ended 31 December 2017.

The 5,588,000 share options exercised during the year resulted in the issue of 5,588,000 ordinary shares of the Company and new share capital of HK$71,104,000 (equivalent to RMB60,768,000) (before issue expense), as further detailed in note 33 to the financial statements.

At the end of the reporting period, the Company had 3,495,200 share options outstanding under the share option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 3,495,200 additional ordinary shares of the Company and additional share capital of HK$350,000 (equivalent to RMB291,000) and share premium of HK$44,529,000 (equivalent to RMB37,087,000) (before issue expenses).

Subsequent to the end of the reporting period, a total of 655,545 share options with the exercise price of HK$12.84 per share were exercised.

At the date of approval of these financial statements, the Company had 2,839,655 share options outstanding under the share option scheme, which represented approximately 0.10% of the Company's shares in issue as at that date.

36. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 87 to 88 of the annual report.

The Group's capital reduction reserve arose from the reduction in the nominal value of each of the issued shares of the Company from HK$0.10 to HK$0.01 by the cancellation of paid-up capital of HK$0.09 on each of the issued shares of the Company effective from 8 March 2007.

The Group's capital reserve originally represented the difference between the credit arising from the capital reduction of HK$1,657,866,000 (equivalent to RMB1,758,526,000) and the amount transferred to eliminate the accumulated losses of the Group of HK$1,196,370,000 (equivalent to RMB1,186,521,000).

The capital redemption reserve arose from the share repurchases in prior years.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or transferred to retained profits should the related options expire.

The awarded share reserve comprises the fair value of the awarded shares granted under the Restricted Share Award Scheme as well as the fair value of equity interests of certain subsidiaries of the Group granted to their employees, which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements.

36. RESERVES (continued)

The put option reserve arose from the Group's incentive agreements with non-controlling shareholders of certain subsidiaries, as further detailed in note 30 to the financial statements.

Other reserves mainly represent reserves arising from acquisitions under common control and disposals of subsidiaries without loss of control, deemed disposal of associates, exercise of convertible and exchangeable bonds, put option reserve for the forfeiture or expiry of incentive agreements with non-controlling shareholder, capital contribution from non-controlling interest as well as dividend income from shares under the Restricted Share Award Scheme.

Pursuant to the relevant PRC laws and regulations, certain of the Group's subsidiaries registered in the PRC are required to transfer a portion of their profits to reserve funds. These funds are non-distributable in the form of cash dividends. When determining the appropriations to these funds, the net profits of these subsidiaries are determined in accordance with the applicable financial rules and regulations of the PRC.

37. BUSINESS COMBINATIONS

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

The purchase consideration was in the form of cash which comprised (i) a lump-sum payment of 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, which is included in the "other non-current liabilities" in the consolidated statement of financial position. As part of the purchase agreement, the Group was granted a call option to purchase from the seller the remaining 49% interest in GoT which is valid until and as long as the seller still holds any equity interest in GoT; while the seller was granted a put option to sell to the Group the remaining 49% interest in GoT which is valid no later than 31 December 2027. The call option and the put option are included in "other non-current assets" and "put option liabilities", respectively, in the consolidated statement of financial position.

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

37. BUSINESS COMBINATIONS (continued)

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

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	14	167,906
Other intangible assets	18	7,928
Deferred tax assets	32	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 bills payables		(10,655)
Other payables and accruals		(29,936)
Interest-bearing borrowings		(86,767)
Provisions	31	(4,200)
Deferred income		(3,712)
Deferred tax liabilities	32	(8,311)
Total identifiable net assets at fair value		111,767
Non-controlling interests		(54,766)
		57,001
Goodwill on acquisition	17	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

37. BUSINESS COMBINATIONS (continued)

The fair values of the trade and bills receivables and other receivables as at the date of acquisition amounted to RMB33,536,000 and RMB3,532,000, respectively. The gross contractual amounts of trade and bills receivables and other receivables amounted to RMB34,929,000 and RMB3,532,000, respectively, of which trade and bills receivables of RMB1,393,000 are expected to be uncollectible.

The Group incurred transaction costs of RMB5,737,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

The initial amount of contingent consideration recognised was RMB5,617,000, which was determined using the Monte Carlo Simulation model and is categorised in Level 3 of the fair value measurement, as further detailed in note 44 to the financial statements. The consideration is due for final measurement and payment to the seller in 2020.

Significant unobservable valuation inputs for the fair value measurement of 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 year	(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 flows used in operating activities	(5,737)
	(58,073)

Since the acquisition, GoT contributed RMB143,718,000 to the Group's revenue and loss of RMB1,098,000 to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at 1 January 2017, the revenue of the Group and the profit of the Group for the year would have been RMB78,861,919,000 and RMB3,522,523,000, respectively.

37. BUSINESS COMBINATIONS (continued)

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

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

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

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	14	21,978
Other intangible assets	18	1,373
Available-for-sale investments		500
Inventories		131
Trade and bills receivables		39,477
Prepayments, deposits and other receivables		18,092
Cash and cash equivalents		3,004
Trade and bills payables		(32,883)
Other payables and accruals		(16,286)
Interest-bearing borrowings		(34,300)
Total identifiable net assets at fair value		1,086
Non-controlling interests		(2,115)
		(1,029)
Goodwill on acquisition	17	29,079
		28,050
Satisfied by:		
Available-for-sale investments		8,366
Other non-current assets		19,684
		28,050

37. BUSINESS COMBINATIONS (continued)

The fair values of the trade and bills receivables and other receivables as at the date of acquisition amounted to RMB39,477,000 and RMB14,981,000, respectively. The gross contractual amounts of trade and bills receivables and other receivables amounted to RMB40,477,000 and RMB15,445,000, respectively, of which trade and bills receivables and other receivables of RMB1,000,000 and RMB464,000, respectively, are expected to be uncollectible.

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

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

	RMB'000
Cash consideration paid during the year	—
Cash and bank balances acquired	3,004
Net inflow of cash and cash equivalents included in cash flows from investing activities	3,004
Transaction costs of the acquisition included in cash flows from operating activities	(724)
	2,280

Since the acquisition, Grand Logistics contributed RMB67,330,000 to the Group's revenue and loss of RMB8,497,000 to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB78,933,832,000 and RMB3,520,744,000, respectively.

38. DISPOSAL OF SUBSIDIARIES

	Notes	2017 RMB'000	2016 RMB'000
Net assets disposed of:			
Property, plant and equipment	14	**1,271**	109
Prepaid land lease payments	16	**13,238**	20,530
Long-term prepayments		**35**	—
Deferred tax assets	32	**50**	142
Inventories		**31,896**	4,821
Trade and bills receivables		**36,963**	50,577
Prepayments, deposits and other receivables		**36,052**	16,643
Pledged deposits		**4**	27
Cash and cash equivalents		**11,156**	8,463
Trade payables		**(18,472)**	(45,495)
Other payables and accruals		**(53,684)**	(4,963)
Tax payable		**(8,059)**	(286)
Exchange fluctuation reserve		**(1,118)**	—
Non-controlling interests		**(12,077)**	(24,549)
		37,255	26,019
Loss on disposal of subsidiaries, net	6	**(1,480)**	(6,302)
		35,775	19,717
Satisfied by:			
Cash		**34,775**	17,517
Other receivables		**1,000**	2,200
		35,775	19,717

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

	2017 RMB'000	2016 RMB'000
Cash consideration received	**34,775**	17,517
Cash and bank balances disposed of	**(11,156)**	(8,463)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**23,619**	9,054

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group purchased property, plant and equipment by endorsing bills receivable with an aggregate carrying amount of RMB44,267,000 (2016: Nil).

(b) Changes in liabilities arising from financing activities

	Other payables and accruals RMB'000	Interest-bearing borrowings RMB'000	Finance lease payables RMB'000	Due to a non-controlling shareholder RMB'000	Put option liabilities RMB'000	Convertible and exchangeable bonds RMB'000
At 1 January 2017	97,396	73,000	16,872	27,883	15,700	1,223,220
Changes from financing cash flows	(103,517)	31,014	(17,264)	(3,846)	—	—
Foreign exchange movement	—	(1,857)	—	(1,775)	(352)	—
Exchange of convertible and exchangeable bonds	—	—	—	—	—	(1,223,220)
Exempt from a non-controlling shareholder	—	—	—	(22,262)	—	—
Acquisition of subsidiaries	—	90,467	—	—	55,862	—
Changes in fair value of put option liabilities	—	—	—	—	(23,632)	—
Capital contributions from non-controlling shareholders	—	—	—	—	885,060	—
Exercise of put options	—	—	—	—	(15,700)	—
Shares purchased/received for the Restricted Share Award Scheme	18,492	—	—	—	—	—
Interest expense	10,657	—	464	—	—	—
Taxes from finance leases	—	—	(72)	—	—	—
Disposal of subsidiaries	(13,223)	—	—	—	—	—
Dividends paid to non-controlling shareholders	34,554	—	—	—	—	—
At 31 December 2017	44,359	192,624	—	—	916,938	—

40. CONTINGENT LIABILITIES

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

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15 to the financial statements) to Haier Affiliates under operating lease arrangements, with leases negotiated for terms ranging from one to three years.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017	2016
	RMB'000	RMB'000
Within one year	**13,183**	2,197
In the second to fifth years, inclusive	**10,739**	1,234
	23,922	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 eighteen 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:

	2017	2016
	RMB'000	RMB'000
Within one year	**421,229**	344,823
In the second to fifth years, inclusive	**427,348**	337,280
After five years	**124,607**	141,773
	973,184	823,876

42. COMMITMENTS

In addition to the operating lease commitments detailed in note 41(b) above, the Group had the following commitments at the end of the reporting period:

	2017 RMB'000	2016 RMB'000 (Restated)
Contracted, but not provided for:		
Property, plant and equipment	735,691	352,305

43. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

31 December 2017

	Financial assets at fair value through profit or loss — designated as such upon initial recognition RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	—	1,283,082	1,283,082
Other non-current assets	45,742	—	—	45,742
Trade and bills receivables	—	5,815,924	—	5,815,924
Other receivables	—	1,689,282	—	1,689,282
Other financial assets	—	779,265	1,195,550	1,974,815
Pledged deposits	—	119,865	—	119,865
Cash and cash equivalents	—	15,015,303	—	15,015,303
	45,742	23,419,639	2,478,632	25,944,013

43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets (continued)

31 December 2016

	Financial assets at fair value through profit or loss — designated as such upon initial recognition RMB'000	Loans and receivables RMB'000 (Restated)	Available-for-sale financial assets RMB'000	Total RMB'000 (Restated)
Available-for-sale investments	—	—	1,401,396	1,401,396
Other non-current assets	37,515	—	—	37,515
Trade and bills receivables	—	5,699,335	—	5,699,335
Other receivables	—	1,382,668	—	1,382,668
Other financial assets	—	460,449	—	460,449
Pledged deposits	—	71,272	—	71,272
Cash and cash equivalents	—	12,673,095	—	12,673,095
	37,515	20,286,819	1,401,396	21,725,730

Financial liabilities

31 December 2017

	Financial liabilities at fair value through profit or loss RMB'000	**Financial liabilities at amortised cost RMB'000**	**Total RMB'000**
Trade and bills payables	**—**	**6,088,616**	**6,088,616**
Other payables (note 28)	**—**	**4,076,167**	**4,076,167**
Interest-bearing borrowings	**—**	**192,624**	**192,624**
Put option liabilities	**916,938**	**—**	**916,938**
Other non-current liabilities	**5,385**	**—**	**5,385**
	922,323	**10,357,407**	**11,279,730**

43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities (continued)

31 December 2016

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000 (Restated)	Total RMB'000 (Restated)
Trade and bills payables	—	4,583,217	4,583,217
Other payables (note 28)	—	3,790,969	3,790,969
Interest-bearing borrowings	—	73,000	73,000
Finance lease payables	—	16,872	16,872
Due to a non-controlling shareholder	—	27,883	27,883
Put option liabilities	15,700	—	15,700
Convertible and exchangeable bonds	—	1,223,220	1,223,220
	15,700	9,715,161	9,730,861

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Available-for-sale investments*	**—**	21,759	**—**	21,759
Other non-current assets	**45,742**	37,515	**45,742**	37,515
	45,742	59,274	**45,742**	59,274
Financial liabilities				
Finance lease payables	**—**	16,872	**—**	16,969
Put option liabilities	**916,938**	15,700	**916,938**	15,700
Interest-bearing borrowings	**192,624**	73,000	**192,458**	73,000
Convertible and exchangeable bonds	**—**	1,223,220	**—**	1,365,769
Other non-current liabilities	**5,385**	—	**5,385**	—
	1,114,947	1,328,792	**1,114,781**	1,471,438

* Certain of the Group's available-for-sale investments amounting to RMB1,283,082,000 (2016: RMB1,379,637,000) were stated at cost less impairment.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, other financial assets, trade and bills receivables, other receivables, trade and bills payables, an amount due to a non-controlling shareholder and other payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of other non-current assets have been estimated using the Black-Scholes model, discounted cash flow valuation model and/or Monte Carlo Simulation model, based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of equity interests. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair values of interest-bearing borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing borrowings as at 31 December 2017 was assessed to be insignificant.

The fair values of put option liabilities have been measured by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, or the discounted cash flow model and the Monte Carlo Simulation model, based on assumptions that are not supported by observable market prices or rates.

The fair values of other non-current liabilities have been measured using the discounted cash flow model and the Monte Carlo Simulation model, based on assumptions that are not supported by observable market prices or rates.

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2017 and 2016:

31 December 2017:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Other non-current assets	Monte Carlo Simulation	Median volatility of comparable companies	10.40% to 12.40%	1% increase (decrease) in the median volatility of comparable companies would result in increase (decrease) in fair value by RMB23,000 (RMB820,000)
		Risk-free interest rate	0.34% to 2.34%	1% increase (decrease) in the risk-free interest rate would result in decrease (increase) in fair value by RMB148,000 (RMB117,000)
Other non-current assets	Black-Scholes	Median volatility of comparable companies	33.27% to 53.27%	10% increase (decrease) in the median volatility of comparable companies would result in increase (decrease) in fair value by RMB9,856,000 (RMB6,588,000)
		Risk-free interest rate	2.83% to 4.83%	1% increase (decrease) in the risk-free interest rate would result in decrease (increase) in fair value by RMB308,000 (RMB394,000)

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

31 December 2017 (continued):

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Put option liabilities	Monte Carlo Simulation	Median volatility of comparable companies	10.40% to 12.40%	1% increase (decrease) in the median volatility of comparable companies would result in increase (decrease) in fair value by RMB351,000 (RMB991,000)
		Risk-free interest rate	0.34% to 2.34%	1% increase (decrease) in the risk-free interest rate would result in decrease (increase) in fair value by RMB780,000 (RMB343,000)
Other non-current liabilities	Monte Carlo Simulation	Risk-free interest rate	0.34% to 2.34%	1% increase (decrease) in the risk-free interest rate would result in decrease (increase) in fair value by RMB89,000 (RMB45,000)

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

31 December 2016:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Available-for-sale investments	Discounted cash flow method	Long term growth rate for cash flows	2.5% to 3.5%	0.5% increase (decrease) in growth rate would result in increase (decrease) in fair value by RMB1,472,000 (RMB1,346,000)
		Long term operating margin	1.345% to 1.545%	0.1% increase (decrease) in operating margin would result in increase (decrease) in fair value by RMB2,018,000 (RMB2,018,000)
		Weighted average cost of capital (WACC)	13.6% to 14.6%	0.5% increase (decrease) in WACC would result in decrease (increase) in fair value by RMB2,632,000 (RMB2,909,000)
		Discount for lack of marketability	35% to 45%	5% increase (decrease) in discount would result in decrease (increase) in fair value by RMB1,113,000 (RMB1,113,000)

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

31 December 2016 (continued):

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Available-for-sale investments	Discounted cash flow method	Long term growth rate for cash flows	2.5% to 3.5%	0.5% increase (decrease) in growth rate would result in increase (decrease) in fair value by RMB439,000 (RMB398,000)
		Long term operating margin	4.552% to 4.752%	0.1% increase (decrease) in operating margin would result in increase (decrease) in fair value by RMB537,000 (RMB537,000)
		Weighted average cost of capital (WACC)	12.7% to 13.7%	0.5% increase (decrease) in WACC would result in decrease (increase) in fair value by RMB739,000 (RMB827,000)
		Discount for lack of marketability	9% to 19%	5% increase (decrease) in discount would result in decrease (increase) in fair value by RMB493,000 (RMB493,000)

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

31 December 2016 (continued):

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Other non-current assets	Monte Carlo Simulation	Median volatility of comparable companies	20.31% to 40.31%	10% increase (decrease) in the median volatility of comparable companies would result in increase (decrease) in fair value by RMB944,000 (RMB461,000)
		Risk-free interest rate	1.66% to 3.66%	1% increase (decrease) in the risk-free interest rate would result in increase (decrease) in fair value by RMB7,000 (RMB72,000)

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

31 December 2016 (continued):

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Other non-current assets	Discounted cash flow method	Long term growth rate for cash flows	2.5% to 3.5%	0.5% increase (decrease) in growth rate would result in increase (decrease) in fair value by RMB1,033,000 (RMB937,000)
		Long term operating margin	4.552% to 4.752%	0.1% increase (decrease) in operating margin would result in increase (decrease) in fair value by RMB1,263,000 (RMB1,263,000)
		Weighted average cost of capital (WACC)	12.7% to 13.7%	0.5% increase (decrease) in WACC would result in decrease (increase) in fair value by RMB1,740,000 (RMB1,946,000)
		Discount for lack of marketability	9% to 19%	5% increase (decrease) in discount would result in decrease (increase) in fair value by RMB1,161,000 (RMB1,161,000)

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair values:
As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Other non-current assets	**—**	**—**	**45,742**	**45,742**

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments	—	—	21,759	21,759
Other non-current assets	—	—	37,515	37,515
	—	—	59,274	59,274

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair values:
As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Put option liabilities	–	861,428	55,510	916,938
Other non-current liabilities	–	–	5,385	5,385
	–	861,428	60,895	922,323

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Put option liabilities	–	15,700	–	15,700

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: Nil).

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed:
As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Interest-bearing borrowings	**—**	**192,458**	**—**	**192,458**

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Finance lease payables	—	—	16,969	16,969
Interest-bearing borrowings	—	73,000	—	73,000
Convertible and exchangeable bonds	—	—	1,365,769	1,365,769
	—	73,000	1,382,738	1,455,738

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing borrowings, finance lease payables, amount due to a non-controlling shareholder, convertible and exchangeable bonds and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. These exposures mainly arise from sales or purchases by the Group's operating units in Mainland China and Hong Kong in currencies other than the units' functional currencies (i.e., RMB or the Hong Kong dollar). The Group does not enter into any hedging transactions for reducing the Group's exposure to foreign currency risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar and Hong Kong dollar exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no significant impact on other components of the Group's equity.

	Increase/(decrease) in exchange rates %	Increase/(decrease) in profit before tax RMB'000
31 December 2017		
If RMB strengthens against the United States dollar	**5**	**(46,187)**
If RMB weakens against the United States dollar	**(5)**	**46,187**
If RMB strengthens against the Hong Kong dollar	**5**	**(3,658)**
If RMB weakens against the Hong Kong dollar	**(5)**	**3,658**
31 December 2016		
If RMB strengthens against the United States dollar	5	(25,781)
If RMB weakens against the United States dollar	(5)	25,781
If RMB strengthens against the Hong Kong dollar	5	(14,125)
If RMB weakens against the Hong Kong dollar	(5)	14,125

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits, other financial assets and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing borrowings. It is the Group's policy to renew its loan agreements with Haier Finance or major local banks in Mainland China upon the maturity of the Group's short and long term borrowings when funding is needed.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

31 December 2017

	On demand or no fixed terms of repayment RMB'000	**Within one year RMB'000**	**Over one year RMB'000**	**Total RMB'000**
Trade and bills payables	**—**	**6,088,616**	**—**	**6,088,616**
Other payables (note 28)	**4,076,167**	**—**	**—**	**4,076,167**
Interest-bearing borrowings	**—**	**169,424**	**24,251**	**193,675**
Put option liabilities	**—**	**—**	**1,235,668**	**1,235,668**
Other non-current liabilities	**—**	**—**	**6,888**	**6,888**
	4,076,167	**6,258,040**	**1,266,807**	**11,601,014**

31 December 2016

	On demand or no fixed terms of repayment RMB'000 (Restated)	Within one year RMB'000	Over one year RMB'000	Total RMB'000 (Restated)
Trade and bills payables	—	4,583,217	—	4,583,217
Other payables (note 28)	3,790,969	—	—	3,790,969
Interest-bearing borrowings	—	76,050	—	76,050
Finance lease payables	—	9,629	8,198	17,827
Due to a non-controlling shareholder	27,883	—	—	27,883
Put option liabilities	—	15,700	—	15,700
Convertible and exchangeable bonds	—	1,223,220	—	1,223,220
	3,818,852	5,907,816	8,198	9,734,866

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Group monitors working capital using a gearing ratio, which is total debt divided by total equity. The Group's policy is to maintain the gearing ratio not exceeding 50%. Total debt includes interest-bearing borrowings, finance lease payables, an amount due to a non-controlling shareholder and convertible and exchangeable bonds and interest-bearing put option liabilities. The gearing ratios as at the end of the reporting periods were as follows:

	2017 **RMB'000**	2016 RMB'000 (Restated)
Finance lease payables	**–**	16,872
Interest-bearing borrowings	**192,624**	73,000
Due to a non-controlling shareholder	**–**	27,883
Convertible and exchangeable bonds	**–**	1,223,220
Interest-bearing put option liabilities	**861,428**	–
Total debt	**1,054,052**	1,340,975
Total equity	**23,092,593**	18,397,970
Gearing ratio	**5%**	7%

46. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, a total of 655,545 share options with the exercise price of HK$12.84 per share were exercised.

47. COMPARATIVE AMOUNTS

As further explained in note 2.1 to the financial statements, due to the application of merger accounting for business combinations under common control, the comparative amounts have been restated.

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**2,232,107**	3,569,669
Other intangible assets	**–**	50,750
Due from subsidiaries	**1,608,557**	1,908,093
Total non-current assets	**3,840,664**	5,528,512
CURRENT ASSETS		
Prepayments, deposits and other receivables	**20,669**	5,311
Cash and cash equivalents	**251,004**	255,190
Total current assets	**271,673**	260,501
CURRENT LIABILITIES		
Other payables and accruals	**51,491**	28,206
Convertible and exchangeable bonds	**–**	1,223,220
Total current liabilities	**51,491**	1,251,426
NET CURRENT ASSETS/(LIABILITIES)	**220,182**	(990,925)
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,060,846**	4,537,587
NON-CURRENT LIABILITIES		
Due to subsidiaries	**61,664**	61,664
Derivative financial instruments	**–**	3,691
Total non-current liabilities	**61,664**	65,355
Net assets	**3,999,182**	4,472,232
EQUITY		
Issued capital	**276,034**	275,153
Shares held for the Restricted Share Award Scheme	**(158,583)**	(152,984)
Equity component of convertible and exchangeable bonds	**–**	32,034
Reserves (note)	**3,881,731**	4,318,029
Total equity	**3,999,182**	4,472,232

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Contributed surplus RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Awarded share reserve RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Other reserves RMB'000	Total reserve RMB'000
At 1 January 2016	2,336,129	2,244,585	237	59,582	10,739	(460,844)	(216,526)	487	3,974,389
Total comprehensive income for the year	–	–	–	–	–	282,498	284,637	–	567,135
Issue of shares	11,475	–	–	–	–	–	–	–	11,475
Shares repurchased	(22,361)	–	188	–	–	(188)	–	–	(22,361)
Shares transferred to participants from the Share Award Scheme Trust	(3,213)	–	–	–	(4,138)	–	–	–	(7,351)
Dividend income on shares under the Restricted Share Award Scheme	–	–	–	–	–	–	–	1,144	1,144
Equity-settled share option arrangements	–	–	–	29,794	–	–	–	–	29,794
Transfer of awarded share reserve upon the expiry of awarded shares	–	–	–	–	(7,347)	7,347	–	–	–
Restricted Share Award Scheme arrangements	–	–	–	–	52,489	–	–	–	52,489
Final 2015 dividend	–	(288,685)	–	–	–	–	–	–	(288,685)
At 31 December 2016 and 1 January 2017	**2,322,030**	**1,955,900**	**425**	**89,376**	**51,743**	**(171,187)**	**68,111**	**1,631**	**4,318,029**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**76,774**	**(297,602)**	**–**	**(220,828)**
Issue of shares	**122,554**	**–**	**–**	**(17,457)**	**(45,210)**	**–**	**–**	**–**	**59,887**
Exchange of convertible and exchangeable bonds	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**32,034**	**32,034**
Shares transferred to participants from the Share Award Scheme Trust	**(4,836)**	**–**	**–**	**–**	**(16,525)**	**–**	**–**	**–**	**(21,361)**
Dividend income of shares under the Restricted Share Award Scheme	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,731**	**1,731**
Equity-settled share option arrangements	**–**	**–**	**–**	**(27,243)**	**–**	**–**	**–**	**–**	**(27,243)**
Transfer of share option reserve upon the expiry of share options	**–**	**–**	**–**	**(38,656)**	**–**	**38,656**	**–**	**–**	**–**
Restricted Share Award Scheme arrangements	**–**	**–**	**–**	**–**	**154,501**	**–**	**–**	**–**	**154,501**
Final 2016 dividend	**–**	**(415,019)**	**–**	**–**	**–**	**–**	**–**	**–**	**(415,019)**
At 31 December 2017	**2,439,748**	**1,540,881**	**425**	**6,020**	**144,509**	**(55,757)**	**(229,491)**	**35,396**	**3,881,731**

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders subject to the Companies Act 1981 of Bermuda (as amended) and Bye-laws of the Company.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2018.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out below.

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)	(Restated)	(Restated)
RESULTS					
REVENUE	**78,798,324**	63,854,877	62,826,119	67,133,962	62,263,162
Cost of sales	**(64,974,005)**	(52,782,910)	(52,833,427)	(57,292,029)	(53,125,613)
Gross profit	**13,824,319**	11,071,967	9,992,692	9,841,933	9,137,549
Other income and gains	**814,741**	678,744	802,729	390,766	203,963
Selling and distribution expenses	**(7,876,752)**	(6,091,216)	(5,348,277)	(4,704,728)	(4,403,956)
Administrative expenses	**(2,351,755)**	(2,033,185)	(1,973,472)	(2,246,187)	(2,221,478)
Other expenses and losses	**(51,977)**	(62,618)	(71,692)	(20,647)	(9,924)
Finance costs	**(11,121)**	(43,022)	(70,527)	(95,962)	(68,334)
Share of profits and losses of associates	**2,947**	(27,323)	11,714	—	—
PROFIT BEFORE TAX	**4,350,402**	3,493,347	3,343,167	3,165,175	2,637,820
Income tax expense	**(825,427)**	(683,575)	(609,489)	(650,813)	(547,527)
PROFIT FOR THE YEAR	**3,524,975**	2,809,772	2,733,678	2,514,362	2,090,293
Attributable to					
Owners of the Company	**3,358,297**	2,785,356	2,702,177	2,445,865	2,036,862
Non-controlling interests	**166,678**	24,416	31,501	68,497	53,431
	3,524,975	2,809,772	2,733,678	2,514,362	2,090,293

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)	(Restated)	(Restated)
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**43,441,396**	36,267,766	30,345,767	27,564,530	21,931,168
TOTAL LIABILITIES	**(20,348,803)**	(17,869,796)	(14,575,071)	(15,413,234)	(13,823,524)
NON-CONTROLLING INTERESTS	**(2,211,673)**	(833,288)	(879,251)	(611,610)	(336,636)
	20,880,920	17,564,682	14,891,445	11,539,686	7,771,008

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