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

Stock Code ： 01169

INTERIM REPORT **2018**

* for identification purpose only

CORPORATE PROFILE

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

Founded in 1984, Haier Corp is headquartered in Qingdao, Shandong Province, the PRC and is one of the world's leading white goods home appliance manufacturers engaging in the research, development, production and sale of a wide variety of household appliances (including the white goods) and consumer electronic goods in the PRC today. The products of Haier Corp are now sold in over 100 countries. Haier has once again been named by Euromonitor International in 2018 as the number one major appliances brand in the world. This is the ninth consecutive year that Haier Corp has received the accolade.

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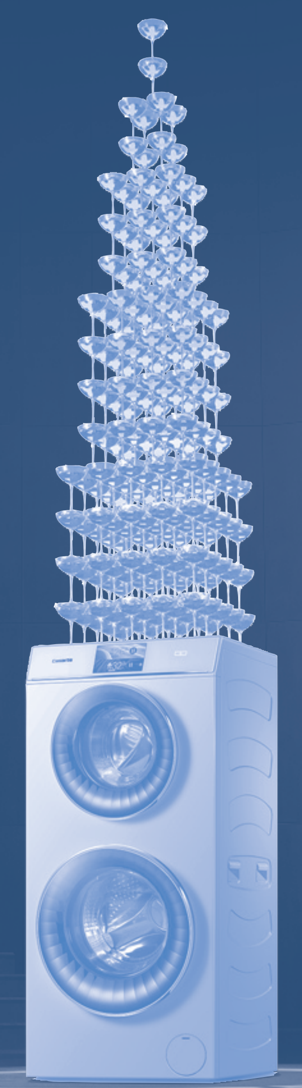

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. ZHOU Yun Jie *(Chairman)*
Mr. SUN Jing Yan

Non-executive Directors

Mr. LIANG Hai Shan
Ms. TAN Li Xia
Dr. WANG Han Hua
Mr. YANG Guang
(appointed with effect from 11 May 2018)
Mr. YIN Jing
(retired with effect from 11 May 2018)

Independent Non-executive Directors

Mr. YU Hon To, David
Mrs. Eva CHENG LI Kam Fun
Mr. GONG Shao Lin
(appointed with effect from 26 June 2018)
Ms. TSOU Kai-Lien, Rose
(retired with effect from 1 July 2018)

CHIEF EXECUTIVE OFFICER

Mr. LI Hua Gang

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. YANG Guang
(appointed with effect from 11 May 2018)
Mr. GONG Shao Lin
(appointed with effect from 26 June 2018)
Ms. TSOU Kai-Lien, Rose
(ceased to act with effect from 1 July 2018)
Mr. YIN Jing
(ceased to act with effect from 11 May 2018)
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

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WEBSITE

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INVESTOR RELATIONS CONTACT

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Communications Group
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18 Harcourt Road,
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INTERIM RESULTS

The Board of Directors (the "Board") of Haier Electronics Group Co., Ltd. (the "Company") hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018 together with comparative figures for the corresponding period in 2017. This condensed consolidated interim financial information has not been audited, but has been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June **2018** **RMB'000** **(Unaudited)**	 2017 RMB'000 (Unaudited) (Restated)
REVENUE	3	**42,314,801**	35,816,140
Cost of sales		**(35,158,455)**	(30,138,213)
Gross profit		**7,156,346**	5,677,927
Other income and gains	4	**399,460**	265,061
Selling and distribution expenses		**(4,154,797)**	(3,160,314)
Administrative expenses		**(1,220,335)**	(994,845)
Other expenses and losses		**(20,383)**	(12,255)
Finance costs	5	**(4,531)**	(2,961)
Share of profits and losses of associates		**(151)**	7,664
PROFIT BEFORE TAX	6	**2,155,609**	1,780,277
Income tax expense	7	**(396,895)**	(344,566)
PROFIT FOR THE PERIOD		**1,758,714**	1,435,711
Attributable to:			
Owners of the Company		**1,668,095**	1,348,078
Non-controlling interests		**90,619**	87,633
		1,758,714	1,435,711
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic		**RMB0.60**	RMB0.49
Diluted		**RMB0.59**	RMB0.48

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
PROFIT FOR THE PERIOD	**1,758,714**	1,435,711
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**124,767**	(56,395)
Reclassification adjustments for a foreign operation disposed of during the period	**—**	1,118
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**124,767**	(55,277)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):		
Net gain on equity instruments at fair value through other comprehensive income	**100,620**	—
Net other comprehensive income not being reclassified to profit or loss in subsequent periods, net of tax	**100,620**	—
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX	**225,387**	(55,277)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**1,984,101**	1,380,434
Attributable to:		
Owners of the Company	**1,893,482**	1,291,727
Non-controlling interests	**90,619**	88,707
	1,984,101	1,380,434

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018

	Notes	**30 June 2018 RMB'000 (Unaudited)**	31 December 2017 RMB'000 (Audited) (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**4,354,203**	4,087,817
Investment properties		**28,645**	29,415
Prepaid land lease payments		**1,218,881**	1,161,400
Goodwill		**106,908**	424,863
Other intangible assets		**109,126**	88,533
Investments in associates		**158,961**	252,659
Equity instruments at fair value through other comprehensive income	2	**1,412,532**	1,283,082
Long-term prepayments		**539,977**	485,005
Deferred tax assets		**985,080**	1,018,389
Other financial assets	10	**197,071**	—
Other non-current assets		**45,993**	45,742
Total non-current assets		**9,157,377**	8,876,905
CURRENT ASSETS			
Inventories		**9,351,430**	8,414,473
Trade and bills receivables	11	**4,609,469**	5,815,924
Prepayments, deposits and other receivables		**1,856,502**	3,240,961
Other financial assets	10	**2,205,650**	1,974,815
Right of return assets	2	**205,091**	166,681
Pledged deposits		**116,985**	119,865
Cash and cash equivalents		**15,438,913**	15,015,303
		33,784,040	34,748,022
Assets of a disposal group classified as held for sale	12	**1,233,867**	—
Total current assets		**35,017,907**	34,748,022
CURRENT LIABILITIES			
Trade and bills payables	13	**7,119,937**	6,088,616
Other payables and accruals		**9,009,714**	10,936,032
Interest-bearing borrowings		**64,397**	162,082
Tax payable		**696,623**	841,207
Provisions	14	**714,361**	674,397
Refund liabilities	2	**337,705**	264,382
		17,942,737	18,966,716

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited) (Restated)
Liabilities directly associated with the assets classified as held for sale	12	296,506	—
Total current liabilities		18,239,243	18,966,716
NET CURRENT ASSETS		16,778,664	15,781,306
TOTAL ASSETS LESS CURRENT LIABILITIES		25,936,041	24,658,211
NON-CURRENT LIABILITIES			
Interest-bearing borrowings		25,676	30,542
Deferred income		151,809	160,743
Deferred tax liabilities		62,582	178,385
Put option liabilities	15	969,992	916,938
Provisions	14	412,467	354,476
Other non-current liabilities		5,612	5,385
Total non-current liabilities		1,628,138	1,646,469
Net assets		24,307,903	23,011,742
EQUITY			
Equity attributable to owners of the Company			
Issued equity	16	3,008,071	2,995,491
Shares held for the Restricted Share Award Scheme		(171,348)	(158,583)
Reserves		19,200,213	17,963,161
		22,036,936	20,800,069
Non-controlling interests		2,270,967	2,211,673
Total equity		24,307,903	23,011,742

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to the owners of the Company																
			Reserves														
	Issued equity RMB'000 (Unaudited)	Shares held for the Restricted Share Award Scheme RMB'000 (Unaudited)	Capital reduction reserve RMB'000 (Unaudited)	Capital reserve RMB'000 (Unaudited)	Capital redemption reserve RMB'000 (Unaudited)	Share option reserve RMB'000 (Unaudited)	Awarded share reserve RMB'000 (Unaudited)	Put option reserve RMB'000 (Unaudited)	Reserve funds RMB'000 (Unaudited)	Retained profits RMB'000 (Unaudited)	Exchange Fluctuation Reserve RMB'000 (Unaudited)	Fair value reserve of financial asset at FVOCI RMB'000 (Unaudited)	Other reserves RMB'000 (Unaudited)	Total reserves RMB'000 (Unaudited)	Total RMB'000 (Unaudited)	Non-controlling interests RMB'000 (Unaudited)	Total equity RMB'000 (Unaudited)
At 1 January 2018																	
As previously reported	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
Prior year adjustments (note 2)	–	–	–	–	–	–	–	–	–	(80,851)	–	–	–	(80,851)	(80,851)	–	(80,851)
As restated	2,995,491	(158,583)	(1,758,526)	1,465,890	425	6,020	153,009	(404,037)	919,328	18,240,080	64,839	–	(723,867)	17,963,161	20,800,069	2,211,673	23,011,742
Profit for the period	–	–	–	–	–	–	–	–	–	1,668,095	–	–	–	1,668,095	1,668,095	90,619	1,758,714
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	–	–	124,767	–	–	124,767	124,767	–	124,767
Net gain on equity instruments at fair value through other comprehensive income	–	–	–	–	–	–	–	–	–	–	–	100,620	–	100,620	100,620	–	100,620
Total comprehensive income for the period	–	–	–	–	–	–	–	–	–	1,668,095	124,767	100,620	–	1,893,482	1,893,482	90,619	1,984,101
Issue of shares	12,580	–	–	–	–	(2,617)	–	–	–	–	–	–	–	(2,617)	9,963	–	9,963
Restricted share award scheme arrangements	–	–	–	–	–	–	54,732	–	–	–	–	–	–	54,732	54,732	–	54,732
Transfer of awarded share reserve upon the expiry of awarded shares	–	–	–	–	–	–	(4,336)	–	–	4,336	–	–	–	–	–	–	–
Share-based incentive arrangements of subsidiaries	–	–	–	–	–	–	3,728	–	–	–	–	–	6,739	10,467	10,467	7,110	17,577
Shares purchased/ received for the Restricted Share Award Scheme	–	(12,765)	–	–	–	–	–	–	–	–	–	–	–	–	(12,765)	–	(12,765)
Changes in fair value of put option liabilities	–	–	–	–	–	–	–	(33,796)	–	–	–	–	–	(33,796)	(33,796)	(18,913)	(52,709)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	232	232
Acquisition from a non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	–	–	(47)	(47)	(47)	(4,394)	(4,441)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(15,360)	(15,360)
Final 2017 dividend declared	–	–	–	(685,169)	–	–	–	–	–	–	–	–	–	(685,169)	(685,169)	–	(685,169)
At 30 June 2018	3,008,071	(171,348)	(1,758,526)	780,721	425	3,403	207,133	(437,833)	919,328	19,912,511	189,606	100,620	(717,175)	19,200,213	22,036,936	2,270,967	24,307,903

	Attributable to the owners of the Company																
				Reserves													
	Issued equity RMB'000 (Unaudited)	Shares held for the Restricted Share Award Scheme RMB'000 (Unaudited)	Equity component of convertible and exchangeable bonds RMB'000 (Unaudited)	Capital reduction reserve RMB'000 (Unaudited)	Capital reserve RMB'000 (Unaudited)	Capital redemption reserve RMB'000 (Unaudited)	Share option reserve RMB'000 (Unaudited)	Awarded shares reserve RMB'000 (Unaudited)	Put option reserve RMB'000 (Unaudited)	Reserve funds RMB'000 (Unaudited)	Retained profits RMB'000 (Unaudited)	Exchange fluctuation reserve RMB'000 (Unaudited)	Other reserves RMB'000 (Unaudited)	Total reserves RMB'000 (Unaudited)	Total RMB'000 (Unaudited)	Non-controlling interests RMB'000 (Unaudited)	Total equity RMB'000 (Unaudited)
At 1 January 2017																	
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
Prior year adjustments (note 2)	—	—	—	—	—	—	—	—	—	—	(57,054)	—	—	(57,054)	(57,054)	—	(57,054)
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	14,955,795	54,957	(1,261,833)	14,728,882	17,507,628	833,288	18,340,916
Profit for the period	—	—	—	—	—	—	—	—	—	—	1,348,078	—	—	1,348,078	1,348,078	87,633	1,435,711
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	—	—	—	(57,469)	—	(57,469)	(57,469)	1,074	(56,395)
Reclassification adjustments for a foreign operation disposed during the period	—	—	—	—	—	—	—	—	—	—	—	1,118	—	1,118	1,118	—	1,118
Total comprehensive income for the period	—	—	—	—	—	—	—	—	—	—	1,348,078	(56,351)	—	1,291,727	1,291,727	88,707	1,380,434
Issue of shares	14,147	—	—	—	—	—	(3,973)	—	—	—	—	—	—	(3,973)	10,174	—	10,174
Exchange of convertible and exchangeable bonds	—	—	(54,838)	—	—	—	—	—	—	—	—	—	528,788	528,788	473,950	749,270	1,223,220
Shares purchased for the Restricted Share Award Scheme	—	(12,038)	—	—	—	—	—	—	—	—	—	—	—	—	(12,038)	—	(12,038)
Transfer of share option reserve upon the forfeiture or expiry of share options	—	—	—	—	—	—	(37,672)	—	—	—	37,672	—	—	—	—	—	—
Equity-settled share option arrangements	—	—	—	—	—	—	(27,243)	—	—	—	—	—	—	(27,243)	(27,243)	—	(27,243)
Restricted share award scheme arrangements	—	—	—	—	—	—	—	88,063	—	—	—	—	—	88,063	88,063	—	88,063
Share-based incentive arrangements of subsidiaries	—	—	—	—	—	—	—	1,440	—	—	—	—	—	1,440	1,440	764	2,204
Changes in fair value of put option liabilities	—	—	—	—	—	—	—	—	(6,277)	—	—	—	—	(6,277)	(6,277)	5,227	(1,050)
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(7,598)	(7,598)
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	7,426	—	—	—	—	7,426	7,426	—	7,426
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(15,977)	(15,977)
Deemed distributions to holding company	—	—	—	—	—	—	—	—	—	—	—	—	(13,791)	(13,791)	(13,791)	(989)	(14,780)
Capital contributions from non- controlling shareholders	—	—	—	—	(95,910)	—	—	—	—	—	—	—	114,938	19,028	19,028	352,372	371,400
Transfer of put option reserve upon the expiry of incentive agreements with non-controlling shareholders	—	—	—	—	—	—	—	—	216,608	—	—	—	(216,608)	—	—	—	—
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	(39,677)	(39,677)	(39,677)	8,477	(31,200)
Final 2016 dividend declared	—	—	—	—	(415,019)	—	—	—	—	—	—	—	—	(415,019)	(415,019)	—	(415,019)
At 30 June 2017	2,891,039	(165,022)	—	(1,758,526)	1,465,890	425	20,488	141,246	7,426	830,457	16,341,545	(1,394)	(888,183)	16,159,374	18,885,391	2,013,541	20,898,932

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**2,155,609**	1,780,277
Adjustments for:		
Finance costs	**4,531**	2,961
Share of profits and losses of associates	**151**	(7,664)
Bank interest income	**(148,418)**	(104,277)
Interest income from other financial assets	**(35,552)**	(11,128)
Dividend income from equity instruments at fair value through other comprehensive income	**(75,454)**	(21,466)
Loss/(gain) on disposal of subsidiaries, net	**(242)**	2,147
Gain on disposal of a business	**—**	(23,586)
Changes in fair value of other financial assets	**(9,117)**	—
Loss on disposal/write off of items of property, plant and equipment, net	**8,121**	5,104
Depreciation of property, plant and equipment	**168,099**	153,432
Depreciation of investment properties	**1,037**	1,070
Recognition of prepaid land lease payments	**12,365**	12,233
Amortisation of intangible assets	**4,449**	5,181
Amortisation of long-term prepayments	**1,437**	1,361
Provision for obsolete and slow-moving inventories, net	**174,253**	81,270
Provision for impairment of trade receivables, net	**4,615**	4,961
Provision for impairment of prepayments and other receivables, net	**7,645**	43
Share-based incentive arrangements of subsidiaries	**6,260**	2,204
Equity-settled share option credit, net	**—**	(27,243)
Equity-settled restricted share award scheme expense	**54,732**	88,063
	2,334,521	1,944,943
Increase in inventories	**(1,112,658)**	(170,291)
Decrease in trade and bills receivables	**863,518**	615,334
Decrease in prepayments, deposits and other receivables	**1,308,810**	1,556,965
Increase in right of return assets	**(38,410)**	(26,579)
Increase in trade and bills payables	**1,154,277**	115,717
Decrease in other payables and accruals	**(2,406,621)**	(1,983,451)
Increase in provisions	**97,955**	39,384
Increase in deferred income	**5,409**	37,527
Increase in refund liabilities	**73,323**	43,758
Effect of foreign exchange rate changes, net	**94,774**	17,390

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Cash generated from operations	**2,374,898**	2,190,697
Interest received	**94,491**	91,229
Mainland China corporate income tax paid, net of tax refunded	**(629,905)**	(444,182)
Net cash flows from operating activities	**1,839,484**	1,837,744
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(849,289)**	(359,788)
Increase in long-term prepayments	**(172,307)**	(91,215)
Receipt of government grants for property, plant and equipment	**8,946**	—
Proceeds from disposal of items of property, plant and equipment	**10,299**	2,599
Additions to prepaid land lease payments	**(16,576)**	(8,987)
Additions to intangible assets	**(19,784)**	(803)
Acquisition of a subsidiary	**—**	(52,336)
Acquisition from non-controlling interests	**(4,441)**	(3,040)
Dividends from an associate	**400**	360
Dividends from equity instruments at fair value through other comprehensive income, net of tax	**67,763**	19,215
Advances to a fellow subsidiary	**—**	(20,000)
Mainland China corporate income tax paid on investing activities	**(15,071)**	—
Disposal of subsidiaries	**(51)**	5,916
Increase in pledged deposits	**1,680**	75
Payment for other non-current assets	**(9,800)**	—
Purchases of other financial assets, net	**(417,057)**	(578,427)
Investment income received from other financial assets	**40,174**	10,475
Net cash flows used in investing activities	**(1,375,114)**	(1,075,956)

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	**9,963**	10,174
Shares purchased for the Restricted Share Award Scheme	**—**	(12,038)
Capital contributions from non-controlling shareholders	**—**	371,400
Contributions to share-based incentive arrangements of subsidiaries	**11,317**	7,544
New borrowings	**54,940**	40,000
Repayment of borrowings	**(65,242)**	(71,504)
Dividends paid to non-controlling shareholders	**(24,796)**	(3,899)
Deemed distributions to holding company	**—**	(14,780)
Repayment of advances from a non-controlling shareholder	**—**	(3,929)
Capital element of finance lease rental payments	**—**	(5,874)
Interest element of finance lease rental payments	**—**	(346)
Interest paid for borrowings	**(4,569)**	(2,570)
Net cash flows from/(used in) financing activities	**(18,387)**	314,178
NET INCREASE IN CASH AND CASH EQUIVALENTS	**445,983**	1,075,966
Cash and cash equivalents at beginning of period	**15,015,303**	12,673,095
Effect of foreign exchange rate changes, net	**14,851**	(27,030)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**15,476,137**	13,722,031
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Non-pledged cash and bank balances	**3,896,040**	5,855,031
Time deposits	**11,542,873**	7,867,000
Cash and cash equivalents as stated in the statement of financial position	**15,438,913**	13,722,031
Cash and cash equivalents of a disposal group classified as held for sale	**37,224**	—
Cash and cash equivalents as stated in the statement of cash flows	**15,476,137**	13,722,031

1. CORPORATE INFORMATION

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

In the opinion of the directors, as at 30 June 2018, the holding company of the Company is Qingdao Haier Co., Ltd. ("Qingdao Haier"), which is established in the People's Republic of China (the "PRC"), and the ultimate holding company of the Company is Haier Group Corporation ("Haier Corp"), which is established in the PRC.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

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

The condensed consolidated interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial statements for the year ended 31 December 2017.

Merger accounting for business combinations under common control

As at 18 September 2017, 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.

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 condensed consolidated statements of profit or loss, the condensed consolidated statements of comprehensive income, the condensed consolidated statements of changes in equity and the condensed consolidated statements of cash flows of the Group for the periods ended 30 June 2018 and 2017 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 periods ended 30 June 2018 and 2017, or since their respective dates of acquisition, incorporation or registration, where this is a shorter period.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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 period ended 30 June 2017 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	35,859,899	—	—	35,859,899
Profit/(loss) before tax	1,797,878	(420)	—	1,797,458
Profit/(loss) for the period	1,450,345	(420)	—	1,449,925

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial information are the same as those used in the annual financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 New standards, interpretations and amendments adopted by the Group (continued)

***IFRS 15 Revenue from Contracts with Customers** (continued)*

The Group provides a right of return for some of the sales contracts of home appliances with customers. Prior to the adoption of IFRS 15, the Group recognised 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 could not be reliably measured, the Group deferred the revenue recognition until the uncertainty is resolved. Under IFRS 15, right of return gives rise to variable consideration. The Group uses the expected value method to estimate the goods that will be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The Group presents a refund liability amounting to RMB337,705,000 (31 December 2017: RMB264,382,000) and an asset for the right of return assets from customers amounting to RMB205,091,000 (31 December 2017: RMB166,681,000) separately in the statement of financial position as at 30 June 2018, and the prior years' net profit or loss effect in relation to IFRS 15 was adjusted in retained profits as the Group adopted IFRS 15 using the full retrospective method of adoption.

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2017 is as follows:

	RMB'000
Right of return assets	166,681
Total current assets	166,681
Deferred tax assets	16,850
Total non-current assets	16,850
Total assets	183,531
Refund liabilities	264,382
Total current liabilities	264,382
Total liabilities	264,382
Retained profits	(80,851)
Total equity	(80,851)

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 New standards, interpretations and amendments adopted by the Group (continued)

IFRS 15 Revenue from Contracts with Customers *(continued)*

Impact on the statement of profit or loss (increase/(decrease)) for the six months ended 30 June 2017 is as follows:

	RMB'000
Revenue	(43,759)
Cost of sales	26,578
Income tax expenses	2,967
Profit for the period	(14,214)
Attributable to:	
Owners of the Company	(14,214)

There is no material impact on the statement of cash flows and basic and diluted EPS.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

With the adoption of IFRS 9, certain unquoted equity investments of the Group currently measured at cost in accordance with IAS 39 has been measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group decides to apply the option to present fair value changes in other comprehensive income. As the carrying amount of the available-for-sale investments amounting to RMB1,283,082,000 as at 31 December 2017 is approximate to the fair values as at 1 January 2018, no transition adjustments was recognised against the opening balance of equity at 1 January 2018.

3. OPERATING SEGMENT INFORMATION

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

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

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

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

(d) the logistics business segment provides logistics services.

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, dividend income from equity instruments at fair value through other comprehensive income, investment income from other financial assets, changes in fair value of 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 equity instruments at fair value through other comprehensive income, 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 and corporate and other unallocated liabilities as these liabilities are managed on a group basis.

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

3. OPERATING SEGMENT INFORMATION (continued)

For the six months ended

	Washing machine business		Water heater business		Channel services business		Logistics business		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited) (Restated)	**(Unaudited)**	(Unaudited) (Restated)	**(Unaudited)**	(Unaudited) (Restated)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited) (Restated)
Segment revenue:										
Sales to external customers	**3,271,706**	2,656,746	**730,142**	542,880	**34,124,505**	29,058,265	**4,188,448**	3,558,249	**42,314,801**	35,816,140
Intersegment sales	**6,037,772**	5,101,643	**2,552,107**	2,150,171	**140,285**	123,422	**457,180**	468,082	**9,187,344**	7,843,318
Total	**9,309,478**	7,758,389	**3,282,249**	2,693,051	**34,264,790**	29,181,687	**4,645,628**	4,026,331	**51,502,145**	43,659,458
Reconciliation:										
Elimination of intersegment sales									**(9,187,344)**	(7,843,318)
Segment revenue									**42,314,801**	35,816,140
Segment other income and gains	**57,179**	25,969	**29,357**	19,742	**19,192**	24,788	**23,344**	57,343	**129,072**	127,842
Total segment revenue and other income and gains									**42,443,873**	35,943,982
Segment results	**798,463**	661,414	**374,342**	316,749	**601,407**	507,841	**223,027**	236,413	**1,997,239**	1,722,417
Reconciliation:										
Elimination of intersegment results									**(35,131)**	(11,494)
Treasury and investment income:										
Bank interest income									**148,418**	104,277
Dividend income from equity instruments at fair value through other comprehensive income									**75,454**	21,466
Investment income from other financial assets									**35,552**	11,128
									259,424	136,871
Changes in fair value of other financial assets									**9,117**	—
Corporate and other unallocated income and gains									**116**	5,361
Corporate and other unallocated expenses and losses									**(70,625)**	(69,917)
Finance costs									**(4,531)**	(2,961)
Profit before tax									**2,155,609**	1,780,277

3. OPERATING SEGMENT INFORMATION (continued)

	Washing machine business		Water heater business		Channel services business		Logistics business		Consolidated	
	June 30 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited) (Restated)	**June 30 2018 RMB'000 (Unaudited)**	31 December 2017 RMB'000 (Audited) (Restated)	**June 30 2018 RMB'000 (Unaudited)**	31 December 2017 RMB'000 (Audited) (Restated)	**June 30 2018 RMB'000 (Unaudited)**	31 December 2017 RMB'000 (Audited)	**June 30 2018 RMB'000 (Unaudited)**	31 December 2017 RMB'000 (Audited) (Restated)
Segment assets	**7,090,135**	5,952,202	**1,603,318**	1,511,056	**9,534,075**	11,120,114	**4,934,529**	6,079,775	**23,162,057**	24,663,147
Reconciliation:										
Elimination of intersegment receivables									**(4,646,944)**	(5,376,779)
Equity instruments at fair value through other comprehensive income									**1,412,532**	1,283,082
Deferred tax assets									**985,080**	1,018,389
Other financial assets									**2,402,721**	1,974,815
Pledged deposits									**116,985**	119,865
Cash and cash equivalents									**15,438,913**	15,015,303
Corporate and other unallocated assets									**4,070,073**	4,927,105
Assets of a disposal group classified as held for sale									**1,233,867**	—
Total assets									**44,175,284**	43,624,927
Segment liabilities	**3,485,113**	3,942,744	**1,574,515**	1,837,034	**12,624,963**	12,804,580	**2,632,032**	3,436,952	**20,316,623**	22,021,310
Reconciliation:										
Elimination of intersegment payables									**(4,646,944)**	(5,376,779)
Deferred tax liabilities									**62,582**	178,385
Tax payable									**696,623**	841,207
Interest-bearing borrowings									**90,073**	192,624
Corporate and other unallocated liabilities									**3,051,918**	2,756,438
Liabilities directly associated with the assets classified as held for sale									**296,506**	—
Total liabilities									**19,867,381**	20,613,185

4. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Other income		
Treasury and investment income:		
Bank interest income	**148,418**	104,277
Dividend income from equity instruments at fair value through other comprehensive income	**75,454**	21,466
Investment income from other financial assets	**35,552**	11,128
	259,424	136,871
Government grants*	**62,684**	38,517
Compensation received from suppliers	**54,494**	51,556
Gross rental income	**1,523**	1,324
Others	**11,976**	13,207
	390,101	241,475
Gains		
Changes in fair value of other financial assets	**9,117**	—
Gain on disposal of a business	**—**	23,586
Gain on disposal of a subsidiary	**242**	—
	9,359	23,586
	399,460	265,061

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

5. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on borrowings	**4,531**	2,615
Interest on finance leases	**—**	346
	4,531	2,961

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**168,099**	153,432
Depreciation of investment properties	**1,037**	1,070
Recognition of prepaid land lease payments	**12,365**	12,233
Amortisation of intangible assets	**4,449**	5,181
Amortisation of long-term prepayments	**1,437**	1,361
Provision for obsolete and slow-moving inventories, net	**174,253**	81,270
Provision for impairment of trade receivables, net	**4,615**	4,961
Provision for impairment of prepayments and other receivables, net	**7,645**	43
Loss on disposal/write-off of items of property, plant and equipment, net	**8,121**	5,104
Loss on disposal of subsidiaries, net	**—**	2,147
Share-based incentive arrangements of subsidiaries	**6,260**	2,204
Equity-settled share option credit, net	**—**	(27,243)
Equity-settled restricted share award scheme expense	**54,732**	88,063

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Current		
Charge for the period	**351,375**	381,561
Underprovision in prior years	**7,293**	1,104
Deferred	**38,227**	(38,099)
Total tax charge for the period	**396,895**	344,566

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

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 2,790,570,407 (2017: 2,779,698,881) in issue during the period.

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

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**1,668,095**	1,348,078

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

	Number of shares for the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation (note)	**2,790,570,407**	2,779,698,881
Effect of dilution — weighted average number of ordinary shares:		
Share options	**1,461,503**	4,880,571
Awarded shares under the Restricted Share Award Scheme	**20,609,133**	16,247,278
Total	**2,812,641,043**	2,800,826,730

Note: Treasury shares are not considered outstanding for the calculation of earnings per share purpose for the period they are held in treasury.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred construction costs for production plants and warehouses and purchased items of property, plant and equipment at a total cost of RMB729,368,000 (2017: RMB295,217,000) and disposed of items of property, plant and equipment with a total net carrying amount of RMB18,420,000 (2017: RMB7,703,000).

10. OTHER FINANCIAL ASSETS

	30 June 2018	31 December 2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Wealth management products	**2,402,721**	1,974,815
Portion classified as non-current	**197,071**	—
Current portion	**2,205,650**	1,974,815

As at the end of the reporting period, included in the Group's wealth management products are products amounting to RMB1,301,189,000 (31 December 2017: RMB1,195,550,000) which are principal protected with floating return and are measured at fair value through profit and loss; and products amounting to RMB1,101,532,000 (31 December 2017: RMB779,265,000) which are principal protected with fixed return and are stated at amortised cost.

11. TRADE AND BILLS RECEIVABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Trade and bills receivables	**4,663,717**	5,873,683
Impairment	**(54,248)**	(57,759)
	4,609,469	5,815,924

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.

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Trade receivables:		
Within 1 month	**2,583,678**	2,579,109
1 to 2 months	**385,342**	408,106
2 to 3 months	**51,614**	101,091
Over 3 months	**181,418**	184,173
	3,202,052	3,272,479
Bills receivable	**1,407,417**	2,543,445
	4,609,469	5,815,924

At 30 June 2018, certain of the Group's bills receivable of approximately RMB34,365,000 (31 December 2017: RMB14,235,000) were pledged to secure certain of the Group's bills payable (note 13).

At 30 June 2018, certain of the Group's trade receivables of approximately RMB37,997,000 (31 December 2017: RMB57,203,000) were pledged to secure loans granted to the Group.

12. ASSETS OF A DISPOSAL GROUP/LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS CLASSIFIED AS HELD FOR SALE

On 9 April 2018, Qingdao Gooday Logistics Co., Ltd. ("Gooday Logistics"), a subsidiary of the Group, entered into an agreement with its non-wholly owned subsidiary, Fujian Shengfeng Logistics Group Company Limited ("Shengfeng Logistics"), and the non-controlling shareholder of Shengfeng Logistics, pursuant to which Gooday Logistics agreed to sell its 58.08% equity interest in Shengfeng Logistics to the non-controlling shareholder for a total cash consideration of RMB798,354,000. The entire transaction is scheduled to be completed in two phases, of which 50.37% and 7.71% equity interest in Shengfeng Logistics are to be disposed of in 2018 and 2019, respectively. Shengfeng Logistics engages in the provision of logistic services. The Group has decided to dispose of its equity interest in Shengfeng Logistics because it plans to focus its resources on its other logistics business. As at 30 June 2018, the assets and liabilities of Shengfeng Logistics were classified as assets of a disposal group held for sale under current assets and liabilities directly associated with the assets classified as held for sales under current liabilities respectively.

The major classes of assets and liabilities of Shengfeng Logistics classified as held for sale as at 30 June 2018 are as follows:

	30 June 2018 RMB'000 (Unaudited)
Assets	
Property, plant and equipment	270,957
Prepaid land lease payments	55,466
Other intangible assets	2,392
Deferred tax assets	20,527
Investments in associates	93,147
Long-term prepayments	4,530
Goodwill	317,955
Inventories	1,448
Trade and bills receivables	323,354
Prepayments, deposits and other receivables	105,667
Pledged deposits	1,200
Cash and cash equivalents	37,224
Assets classified as held for sale	1,233,867
Liabilities	
Trade and bills payables	122,957
Other payables and accruals	70,019
Interest-bearing borrowings	91,500
Tax payable	554
Deferred income	9,009
Deferred tax liabilities	2,467
Liabilities directly associated with the assets classified as held for sale	296,506
Net assets directly associated with the disposal group	937,361

13. TRADE AND BILLS PAYABLES

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Trade payables:		
Within 1 month	6,330,877	5,291,611
1 to 2 months	339,709	396,369
2 to 3 months	52,682	71,930
Over 3 months	280,346	222,301
	7,003,614	5,982,211
Bills payable	116,323	106,405
	7,119,937	6,088,616

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

At 30 June 2018, certain of the Group's bills payable are secured by the pledge of the Group's bank deposits amounting to RMB107,754,000 (31 December 2017: RMB112,365,000) and the Group's bills receivable amounting to RMB34,365,000 (31 December 2017: RMB14,235,000) (note 11).

14. PROVISIONS

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

15. PUT OPTION LIABILITIES

In the prior year, the Company entered into a purchase agreement with the non-controlling shareholders of GREENoneTEC Solarindustrie GmbH ("GoT"), a 51%-owned subsidiary, pursuant to which the non-controlling shareholders were 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 RMB55,854,000 as at 30 June 2018, and is categorised in Level 3 of the fair value measurement.

In the prior year, as part of the joint venture agreement in relation to the capital contribution to Gooday Logistics, certain non-controlling shareholders were granted put options to sell their interest in Gooday Logistics to the Group at prices to be determined based on an agreed formula. The put option liabilities are carried at fair value of approximately RMB914,138,000 as at 30 June 2018, and is categorised in Level 2 of the fair value measurement.

16. ISSUED EQUITY

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At 1 January	**2,995,491**	2,876,892
Exercise of share options	**12,580**	14,147
At 30 June	**3,008,071**	2,891,039

The subscription rights attaching to 962,945 share options were exercised during the period, resulting in the issue of 962,945 shares of HK$0.1 each for a total cash consideration of HK$12,364,000 (equivalent to RMB9,963,000). An amount of RMB2,617,000 was transferred from the share option reserve to the issued equity upon the exercise of the share options.

17. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with Haier Corp and its subsidiaries and/or associates (collectively referred to as "Haier Affiliates") and the Group's associates and non-controlling shareholders (and their affiliates) during the period:

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Haier Affiliates:		
Export sale of products	**1,005,152**	921,291
Export sale expenses	**(15,067)**	(13,787)
Export sale of products, net	**990,085**	907,504
Domestic sale of products	**57,694**	34,881
Purchase of finished goods	**22,058,394**	17,612,745
Purchase of raw materials	**8,961,307**	5,831,399
Purchase of equipment	**13,462**	294
Mould charges	**89,455**	42,969
Utility service fee expenses	**53,352**	55,888
Research and development service fees	**67,063**	93,586
Other service fee expenses	**211,113**	166,035
Interest income	**2,486**	2,124
Other financial service fees	**18,560**	14,878
Logistics service income	**1,359,980**	1,144,725
After-sale service income	**109,426**	94,791
Associates:		
Purchase of finished goods	**1,380**	1,223
Other service fee expenses	**2,446**	20
Logistics services income	**4,463**	—
Non-controlling shareholders:		
Logistics service income	**945,807**	819,400
Logistics service fees	**98,228**	45,884
General service fees	**163,470**	98,793

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

17. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties:

The Group leases its investment properties to Haier Affiliates under operating lease arrangements, and the rental income is RMB1,113,000 during the period (six months ended 30 June 2017: RMB1,101,000). Further details of the operating lease arrangements are set out in note 19 to the condensed consolidated interim financial information.

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short term employee benefits	**4,693**	3,611
Post-employment benefits	**180**	151
Equity-settled share option credit, net	**—**	(2,882)
Equity-settled Restricted Share Award Scheme expense	**14,054**	15,005
Total compensations paid to key management personnel	**18,927**	15,885

17. RELATED PARTY TRANSACTIONS (continued)

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

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Haier Affiliates:			
Cash and cash equivalents	(i)	1,251,994	1,203,063
Trade and bills receivables	(ii)	1,904,651	1,591,400
Trade and bills payables	(ii)	4,810,908	3,244,557
Prepayments, deposits and other receivables	(iii)	285,042	1,474,373
Other payables and accruals	(iii)	747,039	758,377
Associates:			
Trade and bills receivables	(ii)	499	1,836
Trade and bills payables	(ii)	748	1,773
Prepayments, deposits and other receivables	(iii)	—	760
Other payables and accruals	(iii)	11,687	12,050
Non-controlling shareholders:			
Trade and bills receivables	(ii)	451,108	476,742
Prepayments, deposits and other receivables	(iii)	43,592	48,540
Other payables and accruals	(iii)	1,811	9,236

Notes:

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

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

(iii) The balances arose from transactions with Haier Affiliates and the Group's associates and non-controlling shareholders, and they are unsecured, interest-free and repayable on demand.

18. CONTINGENT LIABILITIES

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

19. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties to Haier Affiliates under operating lease arrangements, with leases negotiated for terms ranging from one to three years.

At the end of the reporting period, the Group has total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within one year	**8,209**	13,183
In the second to third years, inclusive	**7,859**	10,739
	16,068	23,922

(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:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within one year	**335,308**	421,229
In the second to fifth years, inclusive	**375,864**	427,348
After five years	**92,060**	124,607
	803,232	973,184

20. COMMITMENTS

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	**660,961**	735,691

21. FAIR VALUE

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		**Fair values**	
	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000	**30 June 2018 (Unaudited) RMB'000**	31 December 2017 (Audited) RMB'000
Financial assets				
Equity instruments at fair value through other comprehensive income	**1,412,532**	—	**1,412,532**	—
Other non-current assets	**45,993**	45,742	**45,993**	45,742
Other financial assets (note 10)	**1,301,189**	1,195,550	**1,301,189**	1,195,550
	2,759,714	1,241,292	**2,759,714**	1,241,292

	Carrying amounts		**Fair values**	
	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000	**30 June 2018 (Unaudited) RMB'000**	31 December 2017 (Audited) RMB'000
Financial liabilities				
Interest-bearing borrowings	**90,073**	192,624	**86,226**	192,458
Put option liabilities (note 15)	**969,992**	916,938	**969,992**	916,938
Other non-current liabilities	**5,612**	5,385	**5,612**	5,385
	1,065,677	1,114,947	**1,061,830**	1,114,781

21. FAIR VALUE (continued)

The above equity instruments at fair value through other comprehensive income, other non-current assets, put option liabilities and other non-current liabilities are measured at fair values at the end of the reporting period and their fair values are categorised within Level 3 and are determined using either Monte Carlo Simulation or discounted cash flow methods, certain put option liabilities amounting to RMB914,138,000 (31 December 2017: RMB861,428,000) and other financial assets were categorised within Level 2.

Interest-bearing borrowings have fixed interest rates and are measured at amortised cost at the end of the reporting period and their disclosed fair values are categorised within Level 3.

22. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, a total of 43,000 share options with the exercise price of HK$12.84 per share were exercised.

In addition, the Company transferred 13,188,404 shares which were held by the Share Award Scheme Trust to participants for nil consideration under the Restricted Share Award Scheme, and issued 4,900,071 new shares to the Share Award Scheme Trust for nil consideration.

23. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

The interim financial information was approved and authorised for issue by the board of directors on 29 August 2018.

Industry Analysis

In the first half of the year, China's consumer market remained stable, while consumption played a greater role in boosting economic growth. According to data released by the National Bureau of Statistics, total retail sales of consumer goods recorded a year-on-year growth of 9.4% in the first half of the year. In the meantime, the year of 2018 followed last year's trend of strict housing regulations, with major cities continuously adopting policies to contain the surging housing prices. The home appliance industry has been adversely affected, especially the segments that are closely related to the property sector, such as kitchen appliances and water heaters. As indicated by the online and offline data collected by AVC (All View Cloud), sales of refrigerators and washing machines grew at 7.1% and 5.95%, respectively, while kitchen appliances and water heaters both stayed at 1.6% growth.

On the other hand, the trend of product upgrade continued. Intelligent products and the use of energy-friendly and innovative technologies have been obtaining greater proportion within the home appliance market. According to AVC's offline data, sales of high-end washing machine, electric water heater and gas water heater recorded 33.1%, 39.8% and 42.7% of the total sales, respectively, representing an increase of 7.1 percentage points, 2.8 percentage points and 5.1 percentage points from the same period of last year, respectively. Key technologies have been widely adopted in our products. Taking washing machine for example, the variable-frequency washing machine has reached 84.5% of total sales, while washer-dryer reached 30.1%, representing a year-on-year growth of 4.8 percentage points and 11.1 percentage points respectively.

Different from large format home appliances, health and lifestyle related appliances with lower penetration rates, including water purifiers, vacuum cleaners and dishwashers, recorded high growth rates against the backdrop of consumption upgrade. According to AVC's estimate, growth rates of water purifiers, vacuum cleaners and dishwashers reached approximately 20%, 30% and 40%, respectively. Taking water purifiers for example, its product mix has been shifting upward. According to CMM's statistics, the online growth of water purification equipments during the "618 Shopping Festival" this year reached 55%, while their average price climbed 28%, mainly driven by the product mix upgrade.

In the first half of this year, online sales of physical goods across the country grew 29.8% year-on-year, representing an uplift of 1.2 percentage points and accounting for 17.4% of total retail sales of consumer goods (indicating an increase of 3.6 percentage points year-on-year. Sales growth through online channel continued to outpace that through offline channel. However, given the data of last five years, online sales of physical goods across the country recorded relatively declining growth rate as compared to the rate of approximately 50% in 2014. Given the online penetration rates of large format appliances already achieved high level, their growth momentum in the future are expected to decelerate. In the meantime, major brands took a greater market share. Top five brands in aggregate secured over 70% of online market share of both washing machine and water heater segments and 80% of online market share of the air conditioner segment.

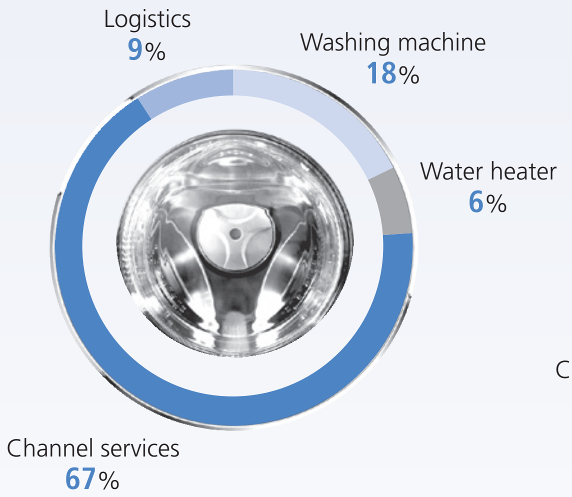
The new retail mode combines the advantages of both online and offline channels, by accurately portraying target customers by capitalizing on the powerful data analysis of online channel and offering essential experience through offline stores, which results in an expansion of customer contact-points and enhanced customer experience. Furthermore, the new retail mode effectively averts the increasing customer acquisition costs incurred by online channels and drawbacks of multi-layer and ineffective distribution attributable to traditional offline channels and therefore improves distribution efficiency and reduces inventory costs.

According to TUC Institute (運聯研究), China's large-format logistics market will exceed RMB500 billion in 2018, indicating a huge market potential. Along with the rapid development of e-commerce, the logistics market for household large-format items will exhibit fierce competition. Market players, including JD.com, an e-commerce giant, and Suning, a traditional home appliance channel, are vying for a share in the large-format logistics segment by heavily investing in warehouse and storage facilities, supply chain system and automation equipment. Logistics companies including SF Cargo Express (順豐重貨), Deppon 360 Preferential Express (德邦 360 快遞) and UCE Bulky Parcel (優速大包裹), also attempted to enter into the market by launching services for large-format logistics, Competition within the logistics market is further intensified. The key success factor of large format products rest on quality and user experience. However, in addition to huge investments, newcomers will face the pressure of rising labour and transportation costs and bear the low profit margin brought by the price pressure from clients in the long run.

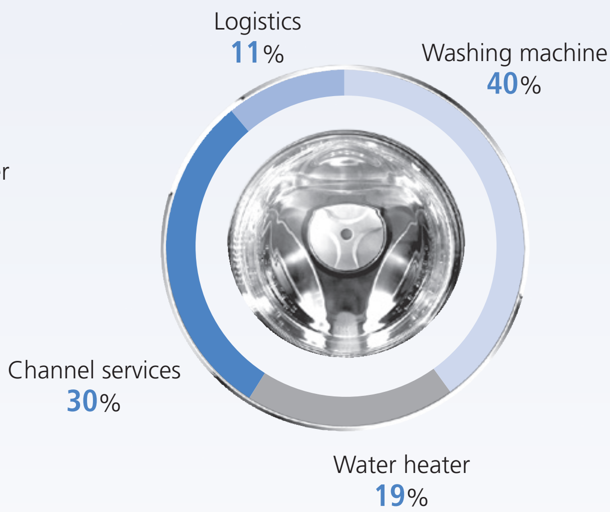
In the first half of 2018, the Group recorded revenue of RMB42.315 billion, representing a year-on-year growth of 18.1%. Net profit attributable to the owners of the Company amounted to RMB1.668 billion, representing a year-on-year increase of 23.7%, which was attributable to the Group's dedication to drive innovation, create value for customers and to attract loyal users through first-class products, experience and services.

The breakdown of segment revenue and results for the first half of 2018 is set out below:

Proportion of segment revenue to revenue before consolidated eliminations



Proportion of segment profit to profit before consolidated eliminations



The pie charts above are prepared based on the total amounts of segment revenue and results, without taking into account any inter-segment eliminations of revenue and results. Inter-segment eliminations represent the revenue generated from sales of washing machines and water heaters to the Group's internal distribution channel, service fee revenue generated from after-sales installation and repair services for washing machines and water heaters of the channel services segment, and revenue under logistics segment generated from warehousing and transportation services for washing machine, water heater and distribution businesses. The table below enumerates the inter-segment eliminations in the first half of 2018:

		Product or service receiver			
	Business segments	**Washing machine**	**Water heater**	**Channel services**	**Logistics**
Product or service provider	Washing machine	nil		6,038 million	nil
	Water heater	nil		2,552 million	nil
	Channel services	133 million		nil	7 million
	Logistics	448 million		9 million	nil

Washing machine business

The Group's washing machine segment is committed to provide users with leading laundry care solutions. The Company utilises its unique electrical engineering technology, design and R&D capabilities, as well as insight on clothing care, to provide consumers with daily and professional laundry and care solutions.

In the first half of 2018, Haier's washing machine business maintained strong growth, recording a revenue of RMB9.309 billion, representing a year-on-year increase of 20.0%. During the period, the Group's washing machine continued to strengthen its leading position in the market in terms of sales revenue and sales volume. According to CMM's offline statistics, market share of the Group's washing machine increased by 3.98 percentage points year-on-year to 32.94% in terms of revenue, and increased by 3.76 percentage points year-on-year to 30.4% in terms of sales volume.

In 2018, the consumption trends in the washing machine market continued to progress in respect of intelligence, quality, capacity and appearance. As front-loading washing machines give better protection to clothing and are more appealing, they have seized a leading position in the market with revenue accounting for 71.76% of the total sales. In particular, products with large drum diameter, separate washing and washer-dryer as selling points have experienced explosive growth. According to CMM's statistics, in the first half of 2018, sales of products with capacity of 10kg or above increased by 128.89%, accounting for 33.17% of the total market share.

Haier's washing machine outpaced its competitors in the first half of the year leveraging on its persistent innovation as well as continuous identification and satisfaction of users' new demands. "Casarte", our high-end brand, launched innovative products to meet complex user's demand on caring and drying of high-end fabrics. During the period, sales revenue of Casarte washing machine increased by approximately 60% year-on-year. According to CMM's statistics, seven of Haier products were on the list of top ten best-selling washing machines in this year.

In the first half of the year, Haier further upgraded its star washing machine products. Focusing on the user demand to separate the washing of underwear, outerwear and infant clothing, we have launched the Casarte Twin Plus, with an upgraded capacity of 17kg (as compared to 12kg of the original Twin Ella washing machine). The product uses innovative water re-use technology. After testing the purity of water in the upper drum during the washing process, the water is sent to the lower drum for washing when needed, in order to achieve health care and water saving. The new Twin Plus has also included Casarte's air-wash function, which enables cleaning and caring of difficult-to-wash fabrics such as mink and cashmere.

With the emerging of new generation consumers, fashionable and healthy drying methods are gradually preferred by high-end users, while their needs to care for high-end clothing such as silk are hardly to be met by ordinary washing machines and dryers. At the beginning of the year, after R&D team's intensive research of 106 types of stains and 18 types of washing fabrics, the Group launched the Casarte Xiannuo (纖諾) washer-dryer set, which consists of a 12kg Casarte washing machine and a 9kg Casarte dryer. The products have been certified by VDE (Verband der Elektrotechnik) German certification standard, which is one of the leading certification standard in the world. Through providing users with a three-in-one care solution integrating washing, caring and drying, we have disentangled the predicament of silk-washing with washing machines and set a leading industry benchmark for high-end care.

The Group's washing machines continue to implement scenario-oriented and community-based marketing, and broaden the users' touch points. We innovated through scenario experience, enabling our users to see and understand the features of our Casarte air wash, clean-free washing machine and direct drive motor washing machine. We provided free air washing for clothing in shopping malls and other high traffic locations, and demonstrated interactive experiences such as piling up coins on operating washing machines. We held more than 10,000 air-wash events in the first half of the year, and handled more than 1 million pieces of clothing for users on-site. We also adopted emerging Internet media, webcast and mobile short videos to spread the experience of our products to potential users, which enabled us to quickly enhance the influence of Haier's washing machine and promote the publicity of our products within users and communities.

Export business of the Group's washing machines had a year-on-year growth of 8%, accounting for 10% of the total washing machine sales. Europe and Asia are among those most important markets in our global export business. Our sales in European market grew rapidly, with sales revenue increased by more than 70% year-on-year, mainly attributable to our entry into new channels such as Currys and Darty in Europe, as well as the launch of products catering to European consumers.

In June this year, Haier washing machine announced its planned establishment of the "WE World" (WE世界) Clothing Ecosystem. Through the Internet of Things technology and collaboration with professional institutions such as clothing brands, Internet of Things technology providers and China National Garment Association, RFID chips will be tagged on clothes in order for us to collect and share the data of clothing design, fabrics, production, care and users throughout the value chain. Combining the clothing with Internet of Things technology, we collaborated with laundry detergent producers to provide detergent specially for fabrics and developed ironing and storage solutions for clothing, ultimately providing full-lifecycle solutions for the purchase, washing, care, appareling and storage of clothing for users.

Water heater business

The Group is committed to develop a full range of water heater products, including electric, gas, solar and heat pump water heaters, providing consumers with comfortable bathing solutions. In the first half of 2018, the Group's water heater business continued to grow rapidly, achieving revenue of RMB3.282 billion, representing a year-on-year increase of 21.9%. The increase in water heater revenue was mainly attributable to market share gain and the rapid growth in gas and heat pump water heaters.

According to the offline data issued by CMM, the Group's water heater continued to lead the industry with a market share of 19.24% in terms of sales volume, representing a year-on-year increase of 0.86 percentage points. In terms of sales value, its market share was 17.84%, representing a year-on-year increase of 1.28 percentage points.

Electric water heater is the main category in the water heater department of the Group. According to CMM's retail monitoring data, in the first half of 2018, the revenue of Haier's electric water heater increased by approximately 12%, accounting for approximately 67% of the Group's total water heater sales, and its market share in terms of sales volume was 26.05%, representing a year-on-year increase of 0.36 percentage points, continuously leading China's electric water heater market.

Electric water heater has the merit of providing a stable water temperature, along with the shortcomings of long heating up time, large space requirement and vulnerability in producing incrustant and bacteria. The Group's electric water heater team is persistently committed to innovation and continuous investment in the R&D of new technologies. Through unremitting attempts and efforts, we have launched high-end new products such as Haier's Jingxiang (淨享) series and Casarte's Tianmu (天沐) series to the market, aiming at solving the pain point of electric water heaters. Jingxiang's Plus9 series won the China Creation Award in the U.S. CES and the China AWE Award this year. The Jingxiang series uses a new thermal system with unique double-drive heating tube and 3D instantaneous heat collection ring to completely solve the user problem of long heating up time. In view of water quality problems such as water scale, residual chlorine, impurities and bacteria, our products have achieved a water scale inhibition rate of 83.4% for the whole tank and attained a highest residual chlorine removal rate of 99.5% through water scale inhibition and purification treatment. The antibacterial and intelligent functions of our water purification module can kill 99.9% of bacteria, providing healthy bathing. The Tianmu series adopts an embedded design to change the cylindrical appearance of traditional electric water heaters, resulting in better looking bathroom for the users.

Gas water heater has maintained high growth in recent years. In the first half of 2018, the sales revenue of Haier's gas water heater grew by more than 40%. According to CMM's offline statistics, the market share of our gas water heater in terms of sales volume reached 9.34%, reaching the top five in the industry for the first time, representing a year-on-year increase of 1.48 percentage points. As compared to electric water heater, gas unit cost is cheaper and enjoy higher thermal efficiency, which allow provision of instant hot water. However, it has high technical barriers and higher safety requirements. Through our cooperation with first-class Chinese scientific research institutions in recent years, we have quickly established our own differentiated technologies to create a series of products featuring zero-cold-water, precise thermostat control, NOCO and carbon monoxide safety, which not only enhanced users' bathing experience, but also provided safety for gas use.

According to CMM's offline statistics, retail volume and revenue of the Group's solar energy products continued to lead the domestic market, market share reaching 31.62% and 29.57%, respectively. Solar water heater, which is more environmental-friendly than electric and gas water heaters, uses solar energy as a heat source. Certain products are designed with electricity as a backup energy source. Traditional solar water heaters adopt heat exchange technology, which require long heating up time, external water tanks, complicated pipeline and large indoor space. The ALL-IN-ONE series launched by the Group combines heat collection and heat storage, which saves indoor space and avoids space for traditional external water tanks. We have adopted the technology of Austria's GREENoneTEC Solarindustrie GmbH which was acquired in 2017, and launched a direct-heating flat-panel technology which doubles the heating rate of traditional solar energy to cater domestic needs.

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. The Group maintained rapid growth in the field of air energy water heater. During the period, sales revenue increased by more than 30% year-on-year. According to CMM's offline statistics, our air energy heat pump water heaters dominate the market, accounting for 42.61% in terms of market sales volume, representing a year-on-year increase of 6.84 percentage points, and accounting for 36.16% in terms of market sales, representing a year-on-year increase of 5.06 percentage points.

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 constraint on the working environment and the output temperature. The new generation "Tianmu Power" air energy water heater launched by the Group can automatically match the optimal frequency according to the environmental temperature to realize the best operating condition. It can achieve 80℃ high water temperature solely by heat pump and deliver 60% more hot water than ordinary heat pump, achieving an energy-efficiency ratio COP value of up to 6.0 and far exceeding the national grade 1 energy-efficiency standard for 9 levels. The product has won the 2018 AWE Environmental Awards.

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 brand owners and smart bathroom hardware products providers. We promote the integration of water heater sales and services in the distribution channel, that is, not only selling water heaters, but also providing water ecological design and overall solutions based on the type of household, forming the complete process of design, installation and testing. Together with our water purification products department, we have developed whole-house smart water system solutions to provide the best whole-house smart experience in aspects such as water heating, water purification and water soften.

Haier water heater has upgraded its manufacturing facilities in aspect of intelligence. As of the first half of 2018, there were approximately 200 factory robots and 35 automated lines, with the total production capacity of water heater reaching 8 million. In 2018, we started to upgrade and transform our welding production process, which could reduce tank leakage by 67%. In the first half of the year, we built a large-scale customized inter-connected factory for electric water heaters in Qingdao Sino-German Industrial Park, which is expected to increase our production capacity of electric water heaters by 782,500 units per year upon full production in 2019. We plan to build a factory with gas and heat pump lines in Zhengzhou, which can increase our production capacity of gas water heaters by 3 million units per year and production capacity of heat pump water heaters by 0.6 million units per year upon full production.

Channel services business

The Group's channel services business mainly comprises the online sales business, offline store distribution business and omni-channel business of Haier's products. In the first half of 2018, the Group's overall channel services business recorded revenue of RMB34.265 billion, representing a year-on-year increase of 17.4%.

Despite the sluggish growth of the whole industry, the Group's channel business managed to achieve a higher growth than its peers', which was mainly attributable to the continuous high growth of the online channel and the steady growth of Haier specialty store. During the year, the main trend of the retail side was the new retail model of which combined online and offline as well as virtual and reality. The new model integrated the supply chain, consumers and goods more effectively.

During the period, e-commerce sales recorded revenue of RMB8.436 billion, representing a year-on-year increase of approximately 35%. The shares of all major categories increased. Leveraging on the e-commerce platform, the Group promoted cross-field marketing, channel expansion and new retailing, which helped to enhance online sales, as well as sales interacting with offline. At the same time, we continued to expand the online layout to all product categories while started to focus on mid-to-high end products and launched the Casarte product series in online channel. In terms of marketing, the Group strengthened its in-depth content marketing for products and enhanced product impression through VR and 3D presentation.

During the period, Haier offline channel achieved a revenue of RMB24.51 billion, representing an increase of more than 15%. We improved user experience through high-end scenario-based sales, and the unit price of specialty store had a steady year-on-year increase. Marketing activities such as the "health festival", "520 fall-in-love day" and "home appliance festival" resulted in the speed-up of distributors' capital turnover. At the same time, through the popular use of Jushanghui, a management system, distributors achieved 100% online orders for the whole process, which greatly improved operational efficiency and strengthened inventory management. The Group has taken various actions to help customers achieving unit price improvement, profit optimization, speed-up of inventory turnover and retail scale expansion, thus brought real value to our customers.

During the period, the Group was committed to expanding customer touch-points, gaining customers through various types of stores such as Haier specialty stores, stores in commercial zones, smart home integrated stores and smart cloud stores. The Group further divided the 558 network grids categorized in the previous year into more than 1,000 network grids and planned for the blank areas in the grids to achieve network expansion and strengthened control down to township level. The Group continued to expand its channels, establishing 2,899 county-level touch-points and 5,107 township-level touch-points, with the number of county-level touch-points and township-level touch-points around the country reaching 16,836 and 30,983, respectively. In the past, the Group's control over townships was relatively weak, and mainly relied on service providers to further distribute to lower tier, which resulted in weak control over pricing and a lack of understanding about the demand of end customers. Through intensifying the expansion of channels, establishing diversified stores in blank markets and launching corresponding incentives to encourage service providers to unify the price system, the management efficiency of township-level market was optimized, and sales increased year-on-year. At the same time, the Group used Yilihuo, a township-level merchant management module under Jushanghui system, to further achieve the transparent tracking of township-level stores ordering from county-level stores, and improved the precise control and management of township-level stores.

The Group also enhanced management and operational efficiency through information tools. With the help of online and offline integrated inventory system, the Group established smart cloud stores and set up new smart screens, in the areas with dense population or high rental cost. Users can identify their needs though the screens, pay online to complete their purchases and receive the goods through physical store delivery services. Currently, more than 240,000 smart cloud store terminals have been installed nationwide, which significantly saved the sampling costs of physical stores and improved sales efficiency. The Group plans to continue its investment in the second half of the year further covering core CBDs and blank areas in villages and towns.

Lastly, the Group continued to promote online and offline omni-channel integration in order to achieve the three-store-in-one layout by integrating Shunguang, e-commerce shopping malls and specialty stores. "Shunguang" connects online and offline inventories, allowing the scope of products sold in a single store to be extended to inventories in distribution warehouses, and store employees can become micro-merchants that connect users through mobile networks. Since its establishment three years ago, Shunguang has achieved a rapid growth. Currently, there are more than 1 million micro-store owners and over 100,000 self-established user communities on the Shunguang platform. The three-store-in-one model integrating Shunguang's micro-merchants, specialty stores and e-commerce shopping malls has achieved multi-channel user acquisition and significantly improved sales conversion rate, which helps providing a constant source of momentum for the steady growth of the Group's channel business.

Logistics services business

In the first half of 2018, the revenue of Gooday Logistics increased by 15.4% year-on-year to RMB4.65 billion, of which online large format furniture business segment achieved a 25.4% growth. The general increase in the costs of transportation and warehousing industries exerted pressure on the gross profit of Gooday Logistics, which recorded a year-on-year decrease of 0.4 percentage points.

During the period, the Group continued to intensify its cooperation with major e-commerce platforms to provide high-quality regional distribution and last-mile services for large format home appliances of Tmall platforms. The orders of Haier branded products on Tmall achieved more than 50% year-on-year growth, and its user reputation (DSR) reached 4.92, far surpassing the industry average of 4.86 and its competitors. During the "618 Shopping Festival", Gooday Logistics' on-time delivery rate reached 99%, which was higher than the industry average of 97.5%.

During the period, the Group continued to plan for the expansion of the large format furniture market, striving to provide omni-channel logistics services for household furniture customers. Leveraging on our favorable reputation and edges in the field of large format home appliances, the overall revenue of our household furniture business has increased by 11%. At the same time, we further reinforced our cooperation with major customers such as Sleemon, de RUCCI, Man Wah and Airland. After two years of efforts, our household furniture segment achieved front-end pick-up in 10 household industry clusters, established 3 Cainiao management system and integrated 3 warehouses with 117 line-haul transportation resources for delivery to 2,200 regions and counties nationwide. Meanwhile, the Group continuously enhanced delivery capability and installation network coverage through acquisition. At this stage, the household furniture logistics market still presents huge untapped market potential with relatively low level of integration. Gooday Logistics will continue to seize the opportunity by relentlessly strengthening competitiveness on four areas, namely warehousing, line-haul transportation, delivery and installation, as well as IT capability. It will focus on improving the network coverage and operational efficiency so as to provide high-quality omni-channel integrated services for its customers.

At the same time, Gooday Logistics also actively optimized its asset portfolio. On one hand, it explored into new industries. Through the acquisition of Shanghai Grand Logistics, which engaged profoundly in the cold chain logistics industry, the Group achieved a revenue of RMB110 million from cold chain during the period. On the other hand, it signed an equity transfer agreement with the founding shareholder of Sheng Feng Logistics, which jointly invested in the less-than truck load segment, to transfer the equity interests it holds in Sheng Feng Logistics for cash consideration, which has not been completed during the period.

During the period, Gooday Logistics continued to strengthen its platform network and actively build its intelligent and automated warehouses in order to set a benchmark for the large-format logistics industry. As at the end of June 2018, the total area of warehouses managed by the Group amounted to 5.23 million square meters, in which the total area of self-built warehouses amounted to 1.02 million square meters, accounting for 19% of the total area of warehouses. The Group has set up an intelligent unmanned warehouse in Hangzhou, with a total area of 5,000 square meters. It adopts the whole-process intelligent management model, of which integrates inventories and goods, and realizes transparent tracking within the warehouse through panoramic scanning and the use of visual and monitoring equipment, and as such it could accumulate experience for future expansion. Intelligent warehouses are expected to improve the efficiency of stock in, sorting and stock out of goods, and enhance the competitiveness of logistics in the field of intelligent warehouse management.

FUTURE OUTLOOK

The personalized demands are rising along with consumption upgrade. Consumers mainly consider whether the products they purchase are high-end, intelligent, systematic, healthy and artistic. The products and services of Haier Group are classified into seven whole-house solutions based on various sceneries, namely the solutions for air, water, washing, safety, sound, health and information for the entire house. Meanwhile, the products and services aim at covering four physical spaces, i.e. smart living room, smart kitchen, smart bathroom and smart bedroom.

As stated in the Chairman's Letter set out in our annual report for 2017, as the Hong Kong listing flagship of Haier Group, the Group targets to capture the future strategic opportunity to create an appealing whole-house water and washing solutions for consumers pursuing smart homes in connection with its home appliances business, which also plays an essential role in providing one-stop solutions for users' families as targeted by the parent company. In addition to the existing washing machine and water heater business, the Group will also make proactive efforts to seek strategic opportunity for business development of water purification, soft water and clothing care, etc.

In respect of our washing machine and water heater business, caring for users' demands and constantly improving of their experience will be our working focus. Besides, we will strive to gradually develop an ecosphere for users in relation to clothing washing and caring and bathroom-supply products. During the first half of the year, certain leading products, such as Twin plus, Xiannuo (纖諾) and Tianmu (天沐) power, were released by us as innovative products. For the second half of the year, more marketing resources will be allocated to our new products, and construction of production lines for mid-to-high-end products will be accelerated. Besides, we will gradually apply the innovative technology of high-end products in mid-end products to enhance the competitiveness of our product mix as a whole.

We currently take the leading position in information technology among the domestic home appliances distribution channels. In the future, our advantages in such channels and digital technology of products will be utilized to further identify users' demands. Besides, we will enlarge touch points with users through Shunguang, cloud stores, flagship stores and other diversified means, and enhance operating efficiency per store through O2O experience stores, experience scenario based marketing.

The Group will continue to make investment backed by its healthy cash flow and diversified financing channels. We will continue to seek for market opportunities to invest in or acquire investment targets which complies with our development policy and complements with our strategy. In addition, we will keep investing in product innovation and technological development, intelligent upgrade of existing plants and arrangement for new production capability for high-end products.

Potential risks faced by the Group

The Group is subject to various risks, including, among others, external risk, strategic risk, financial risk and operating risk.

Uncertain international trading policies bring risk for the Group as to its export business. The U.S. began to levy protective tariff upon imported washing machines since the beginning of this year. Under the background of trade friction between China and the U.S., notwithstanding washing machine and water heater products are not included in the current list requiring for higher tariff, there is possibility of levying additional tariff on these products due to escalation of trading friction, which will in turn affect the Group's revenue. Till now, the export revenue of the Group from the U.S. market accounts for less than 1% of its total revenue. To mitigate this risk, the Group will continue to explore oversea market in various regions so as to avoid over reliance on a single country.

Durable home appliance business is highly related to the property industry. Recently, trading volume in property market declines due to national policy adjustments, leading to a slowdown in the overall growth of washing machine and water heater industries, which thereby brings pressure for the Group's continuous growth. Constantly upgrading products to cater for users' demands, improving products' added-value and launching other products and services related to water ecosphere are effective ways for the Group to maintain steady growth.

Fluctuation of raw material price constitutes one of the major factors affecting the gross profit margin of the manufacturing industry. Price of raw materials, such as cold-rolled plates, galvanized sheets, copper and plastic PP materials, trends to fluctuate. Since costs of raw materials and components account for high proportion of the manufacturing cost of washing machine and water heater products, gross profit margin would be under pressure if price of raw materials rises in the future. In this regard, we will manage to minimize the influence from rising price of raw materials by continuously improving production process and optimizing product portfolio.

In terms of sales volume, the Group's market share of washing machine and water heater products ranks the first in domestic market. The Group firmly believes that delivering innovation in research and development secures it to constantly challenge itself and maintain sustainable development. As the crucial part of products innovation, the patents exclusively possessed by the Group for high-end components act as important technical barriers. However, competitors may imitate our technology, or even faster through directly poaching our talents by offering them higher remuneration or reproducing technical information. Therefore, in order to keep our products competitive, we established an effective system to secure constant innovation based on users' needs, offer quality products and services to create positive brand image and guarantee a sound system for patents application and protection.

Sales channels of home appliances are experiencing integration of online and offline channels in China. The Group is exposed to the risk of over relying on online channels and the risk of failure to adapt to new competition by its offline franchisees. In this regard, the Group adopts numerous actions to optimize omni-channel management, including establishing a management team with integration of online and offline resources, developing the Shunguang platform to support offline distributors to carry out business online, and utilizing the Jushanghui platform to enhance distributors' operating efficiency and technological management.

The logistics industry is relatively highly fragmented. Fierce competition exposes the Group to the risk of order price downward pressure and loss of customers. Besides, we develop value-added services to avoid price competition.

To accelerate the expansion of our logistics business, we have made business acquisition, strategic investment and join-venture cooperation in the past, which strengthens our serving capability and management skill in logistics service and supply chain management businesses. Even though detailed due diligence would be made by us in respect of the business, financial and legal aspects of an acquiree prior to investment, merger risk may still be caused due to conflict of corporate culture and difference between operating models.

FINANCIAL REVIEW

In the first half of 2018, the Group's revenue amounted to RMB42,314,801,000, representing an increase of 18.1% from RMB35,816,140,000 (restated) in the first half of 2017. The profit attributable to owners of the Company was RMB1,668,095,000, representing an increase of 23.7% from RMB1,348,078,000 (restated) in the first half of 2017. The basic earnings per share attributable to ordinary equity holders of the Company was RMB0.60, representing an increase of 22.4% from RMB0.49 in the first half of 2017.

1. Analysis of Revenue and Profit

Items	**For the six months ended 30 June 2018 RMB'000 (Unaudited)**	2017 RMB'000 (Unaudited) (Restated)	Change %
Revenue			
Washing machine business	**9,309,478**	7,758,389	+20.0%
Water heater business	**3,282,249**	2,693,051	+21.9%
Channel services business	**34,264,790**	29,181,687	+17.4%
Logistics business	**4,645,628**	4,026,331	+15.4%
Inter-segment elimination	**(9,187,344)**	(7,843,318)	+17.1%
Consolidated revenue	**42,314,801**	35,816,140	+18.1%
Adjusted operating profit*	**1,828,824**	1,578,747	+15.8%
Profit attributable to owners of the Company	**1,668,095**	1,348,078	+23.7%
Earnings per share attributable to ordinary equity holders of the Company			
Basic	**RMB0.60**	RMB0.49	+22.4%
Diluted	**RMB0.59**	RMB0.48	+22.9%

* 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.

The revenue of the Group for the first half of 2018 was RMB42,314,801,000, representing an increase of 18.1% as compared to RMB35,816,140,000 (restated) in the first half of 2017. The revenue of all four segments achieved the solid growth.

The revenue from washing machine business amounted to RMB9,309,478,000 in the first half of 2018, representing an increase of 20.0% as compared to RMB7,758,389,000 (restated) in the first half of 2017. During the period, Haier washing machine maintained its continuous advancement and innovation of products and technology, intensified interaction, enhanced user experience and continued to be a leader in the high-end market, resulting in significant growth in both online and offline channels. With a 30% growth in revenue from front-loading washing machines, its contribution to the overall revenue of washing machines business increased significantly, indicating that the product mix continued to improve.

The revenue from water heater business amounted to RMB3,282,249,000 in the first half of 2018, representing an increase of 21.9% as compared to RMB2,693,051,000 (restated) in the first half of 2017. This was mainly attributable to the expansion and development of various store networks such as building materials and home improvement channels, as well as the rapid enhancement of brand image and market competitiveness. Among which, the revenue of gas and new energy heat pump water heaters recorded rapid growth of over 30%.

The revenue from channel services business amounted to RMB34,264,790,000 in the first half of 2018, representing an increase of 17.4% as compared to RMB29,181,687,000 (restated) in the first half of 2017. The increase was mainly attributable to the rapid growth of Haier brand products in both online and offline channels. Among which, the increase of offline channel was over 15%, mainly attributable to the expansion and extension of offline channel stores and enhancement of user interaction by the Group, which provided better consumption scenarios and more convenient service experience for users. Haier brand's online distribution channel recorded an increase of over 30%, mainly attributable to the Group's optimization of product layout and 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 improvement of service capacity.

The revenue from logistics business amounted to RMB4,645,628,000 in the first half of 2018, representing an increase of 15.4% as compared to RMB4,026,331,000 in the first half of 2017. This was mainly attributable to the steady growth of logistic service income from home appliances and household furniture business.

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 the 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 the first half of 2018, the adjusted operating profit of the Group amounted to RMB1,828,824,000, representing an increase of 15.8% as compared to RMB1,578,747,000 (restated) in the first half of 2017. The increase in the adjusted operating profit was mainly attributable to the solid growth of the washing machine, water heater and channel services segments.

Profit Attributable to Owners of the Company

In the first half of 2018, profit attributable to owners of the Company amounted to RMB1,668,095,000, representing an increase of 23.7% from RMB1,348,078,000 (restated) in the first half of 2017. Basic earnings per share attributable to ordinary equity holders of the Company was RMB0.60 in the first half of 2018, representing an increase of 22.4% from RMB0.49 in the first half of 2017.

Gross Profit Margins

In the first half of 2018, the overall gross profit margin of the Group was 16.9%, representing an increase of 1.0 percentage points from 15.9% in the first half of 2017. The increase in the overall gross profit margin was mainly attributable to the increase in gross profit margins of washing machine, water heater and channel services businesses.

The gross profit margin of washing machine business was 27.3%, representing an increase of 1.6 percentage points from 25.7% in the first half of 2017. The increase in gross profit margin of washing machine business 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 water heater business was 36.2%, representing an increase of 0.5 percentage points from 35.7% (restated) in the first half of 2017. The increase in gross profit margin of water heater business was mainly attributable to the increase in the proportion of high-end products.

The gross profit margin of channel services business was 10.4%, representing an increase of 0.6 percentage points from 9.8% in the first half of 2017. The increase in gross profit margin of channel services business was mainly attributable to the continuous promotion of retail transformation, enhancement of user experience and optimization of product mix.

The gross profit margin of logistics business was 10.8%, representing a decrease of 0.4 percentage points from 11.2% in the first half of 2017. The decrease in gross profit margin of logistics business was mainly attributable to the increase in storage costs and service costs of household furniture.

Selling and Distribution Expenses

The ratio of selling and distribution expenses of washing machine and water heater businesses to its segment revenue increased by 1.2 percentage points from 15.1% (restated) in the first half of 2017 to 16.3% in the first half of 2018, which was mainly attributable to strengthening of product marketing and brand promotion, which resulted in the increase in advertising expenses during the period.

The ratio of selling and distribution expenses of channel services business to its segment revenue increased by 0.5 percentage points from 7.2% in the first half of 2017 to 7.7% in the first half of 2018, which was mainly attributable to the enhancement of user interaction and increase of user traffic through ways such as scenario-based marketing and content marketing to enhance online interactive marketing for accelerating retail transformation and driving the rapid growth of revenue of the Group. The Group also strengthened the construction of channel network and expedited the construction and upgrade of franchise stores offline to enhance user experience, which resulted in the increase in marketing expenses.

The ratio of selling and distribution expenses of logistics business to its segment revenue decreased by 0.1 percentage points from 1.0% in the first half of 2017 to 0.9% in the first half of 2018, which was mainly attributable to the enhancement of operational efficiency.

Administrative Expenses

The ratio of administrative expenses of washing machine and water heater businesses to its segment revenue increased by 0.5 percentage points from 4.2% in the first half of 2017 to 4.7% in the first half of 2018, which was mainly attributable to the increase in start-up expenses from newly-constructed factories during the period.

The ratio of administrative expenses of channel services businesses to its segment revenue increased by 0.1 percentage points from 0.9% in the first half of 2017 to 1.0% in the first half of 2018.

The ratio of administrative expenses of logistics businesses to its segment revenue decreased by 0.3 percentage points from 5.8% in the first half of 2017 to 5.5% in the first half of 2018, which was mainly attributable to the optimization of personnel structure and enhancement of operational efficiency of Gooday Logistics.

2. Financial Position

Items	**30 June 2018 RMB'000 (Unaudited)**	31 December 2017 RMB'000 (Audited) (Restated)
Non-current assets	**9,157,377**	8,876,905
Current assets	**35,017,907**	34,748,022
Current liabilities	**18,239,243**	18,966,716
Non-current liabilities	**1,628,138**	1,646,469
Net assets	**24,307,903**	23,011,742

Cash and Cash Equivalents

The Group's cash and cash equivalents balance increased by 2.8% from RMB15,015,303,000 as at 31 December 2017 to RMB15,438,913,000 as at 30 June 2018, which was mainly attributable to the combined effects of the cash inflow from operating activities offset by the cash outflow used in capital expenditures.

Net Assets

The Group's net assets increased by 5.6% from RMB23,011,742,000 (restated) as at 31 December 2017 to RMB24,307,903,000 as at 30 June 2018. The increase in net assets was mainly attributable to the profit contribution for the period.

Working Capital

Trade and Bills Receivables Turnover Days

The bills receivable turnover days of the Group's washing machine and water heater businesses was 19 days in the first half of 2018, representing a decrease of 16 days as compared to the end of 2017, which was mainly attributable to the increase in use of bills for endorsement.

In the first half of 2018, trade receivables turnover days of the Group's washing machine and water heater businesses was 16 days, representing an increase of 2 days as compared to the end of 2017, which was mainly attributable to the increase in trade receivables balance due to stocking up for certain customers. The ratio of bills receivable to total trade and bills receivables was 54.3% as at 30 June 2018 (31 December 2017: 70.6%).

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. Trade receivables turnover days in the first half of 2018 was 3 days, representing an increase of 1 day as compared to the end of 2017.

In the first half of 2018, trade receivables turnover days of the Group's logistics business was 72 days, representing a decrease of 4 days as compared to the end of 2017, which was mainly attributable to the higher receivable balance as at 31 December 2017 due to the "11.11 shopping festival". In addition, Gooday Logistics continuously strengthened its management in customers' trade receivables, which resulted in a faster turnover of trade receivables.

Inventory Turnover Days

In the first half of 2018, inventory turnover days of washing machine and water heater businesses was 50 days, representing an increase of 26 days as compared to the end of 2017, which was mainly attributable to the stock up finished inventory for peak sales of washing machine and water heater in the second half of the year, in order to balance production capacity.

In the first half of 2018, inventory turnover days of channel services business was 44 days, representing a decrease of 6 days as compared to the end of 2017, which was mainly attributable to the normal sales of inventories stocked up for last year's Chinese Lunar New Year during the period.

Trade Payables Turnover Days

In the first half of 2018, trade payables turnover days of washing machine and water heater businesses was 46 days, representing a decrease of 11 days as compared to the end of 2017, which was mainly attributable to the significant increase in raw materials procurement at the end of 2017 due to intensive stocking up for Chinese Lunar New Year, while balance payable for procurement of materials decreased at the end of June due to the relatively balanced production schedule in 2018.

In the first half of 2018, trade payables turnover days of channel services business was 17 days, representing an increase of 13 days as compared to the end of 2017, which was mainly attributable to the significant increase in stock up of air-conditioners at the end of the period, resulting an increase in balance payable to suppliers of the Group.

In the first half of 2018, trade payables turnover days of logistics business was 87 days, representing a decrease of 26 days as compared to the end of 2017, which was mainly attributable to the higher payable balance as at 31 December 2017 due to the "11.11 shopping festival". In addition, Gooday Logistics enhanced its efficiency in settlement with suppliers by improving informatization.

3. Cash Flow Analysis

Items	For the six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited) (Restated)
Cash and cash equivalents as stated in the statement of financial position at the beginning of the period	**15,015,303**	12,673,095
Net cash flows from operating activities	**1,839,484**	1,837,744
Net cash flows used in investing activities	**(1,375,114)**	(1,075,956)
Net cash flows (used in)/from financing activities	**(18,387)**	314,178
Effect of foreign exchange rate changes, net	**14,851**	(27,030)
	15,476,137	13,722,031
Less: Cash and cash equivalents of a disposal group classified as held for sale	**37,224**	–
Cash and cash equivalents as stated in the statement of financial position at the end of the period	**15,438,913**	13,722,031

The Group's net cash inflow from operating activities for the period amounted to RMB1,839,484,000, which was generally the same as the corresponding period of last year.

Net cash outflow from investing activities for the period was RMB1,375,114,000, representing an increase of 27.8% as compared to the corresponding period of last year. Cash inflow from investing activities mainly included the cash dividend (after tax) received from Sinopec Marketing Co., Ltd in the amount of RMB67,763,000, the government grants received in relation to long-term assets acquisition in the amount of RMB8,946,000, interest from wealth management products in the amount of RMB40,174,000 and cash received for disposal of fixed assets in the amount of RMB10,299,000.

Cash outflow from investing activities mainly included cash payment of RMB1,057,956,000 for capital expenditure items, cash payment of RMB417,057,000 for purchase of wealth management products and expenditures in relation to equity transactions of RMB29,312,000.

Net cash outflow from financing activities for the period was RMB18,387,000. Cash outflow from financing activities mainly included payment of minority shareholders' dividend of RMB24,796,000 and net repayment of bank borrowings and interests in the amount of RMB14,871,000. Cash inflow from financing activities was mainly attributable to the cash received due to exercise of share options in the amount of RMB9,963,000 and amount in relation to equity incentives in the amount of RMB11,317,000 contributed by the employees of Gooday Logistics.

LIQUIDITY AND FINANCIAL RESOURCES

The Group focuses on cash flow management and has been able to maintain a healthy financial and liquidity position. As at 30 June 2018, the Group had a current ratio of 192.0%, representing an increase of 8.8 percentage points as compared to 183.2% (restated) as at 31 December 2017.

Items	**30 June 2018 RMB'000 (Unaudited)**	31 December 2017 RMB'000 (Audited) (Restated)
Cash and cash equivalents*	**15,476,137**	15,015,303
Less:		
Interest-bearing borrowings**	**181,573**	192,624
Interest-bearing put option liabilities	**914,138**	861,428
Net cash balance	**14,380,426**	13,961,251

* Including cash and cash equivalents of a disposal group classified as held for sale

** Including interest-bearing borrowings directly associated with the assets classified as held for sale

The Group's net cash balance as at 30 June 2018 amounted to RMB14,380,426,000 (31 December 2017: RMB13,961,251,000), representing an increase of 3.0% from the balance as at 31 December 2017.

The Group continues to maintain stable operating cash flows in 2018 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 washing machine, water heater and logistics businesses from time to time. The capital expenditure during the period was RMB1,072,924,000 (30 June 2017: RMB460,793,000 (restated)), in which RMB216,941,000 (30 June 2017: RMB218,455,000) was used in developing the logistics business including the construction of warehouse, and RMB855,983,000 (30 June 2017: RMB242,338,000 (restated)) was used in factory construction and equipment modifications for washing machine and water heater businesses.

GEARING RATIO

As at 30 June 2018, the Group's gearing ratio (defined as total borrowings, including interest-bearing put option liabilities, over net assets) was 4.5% (31 December 2017: 4.6%).

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 deposits denominated in Renminbi, United States Dollars or Hong Kong dollars. Foreign currency risk is largely, though not fully, mitigated, as liabilities in Renminbi will be substantially offset by the Group's revenue, of which mostly are derived from domestic sales in China and denominated in Renminbi. Only approximately 3.0% 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.

CAPITAL COMMITMENT

The Group's capital commitments contracted but not yet provided for amounted to RMB660,961,000 as at 30 June 2018 (31 December 2017: RMB735,691,000), which were mainly related to the construction of connected factories as well as warehouses for logistics business.

CHARGE OF ASSETS

As at 30 June 2018, certain of the Group's buildings and leasehold land with a net carrying value of RMB110,977,000 (31 December 2017: RMB117,952,000), freehold land with a net carrying value of RMB9,289,000 (31 December 2017: RMB9,367,000) and trade receivables with a net carrying value of RMB37,997,000 (31 December 2017: RMB53,670,000) were pledged to secure certain of the Group's bank loans.

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 in total. There was no such pledge for security as at 30 June 2018.

In addition, as at 30 June 2018, certain of the Group's bills payable were secured by the pledge of the Group's bank deposits amounting to RMB107,754,000 (31 December 2017: RMB112,365,000) and the Group's bills receivable amounting to RMB34,365,000 (31 December 2017: RMB14,235,000).

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 that enables employees upgrade themselves continuously.

The total number of employees of the Group increased by approximately 8.5% to 16,543 as at 30 June 2018 from 15,241 as at 31 December 2017.

MATERIAL ACQUISITIONS

The Group had no major acquisitions during the period.

As announced on 30 August 2018, the Group has entered into an asset swap agreement with a subsidiary of Haier Corp on the even date. Pursuant to that asset swap agreement, the Group expects to acquire 51% equity interest in Qingdao Haishi Water Equipment Co., Ltd ("Qingdao Haishi") at a consideration of approximately RMB1.074 billion. Qingdao Haishi is engaged in the R&D and sale of household water purifying solutions. In satisfaction of the consideration, the Group expects to dispose part of its equity interest in Gooday Logistics to a subsidiary of Haier Corp. After this asset swap, the Group will effectively retain 47% of equity interest in Gooday Logistics. The completion of that asset swap agreement shall be conditional upon the fulfillment of certain conditions precedent.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Save for the purchase of 740,158 shares of the Company for an aggregate consideration of RMB12,765,000 pursuant to the Company's Restricted Share Award Scheme as announced by the Company on 15 April 2014, neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2018.

DIVIDENDS

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

CORPORATE GOVERNANCE PRACTICES

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

The Company has complied with the code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the period from 1 January 2018 to 30 June 2018, except for the following deviations:

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a Model Code for Securities Transactions by Directors (the "Haier Electronics Model Code") on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Upon specific enquiry by the Company, all directors of the Company had confirmed that they had complied with the required standard as set out in the Haier Electronics Model Code throughout the period for the six months ended 30 June 2018.

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

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

Up to the balance sheet date, Mr. Zhou Yun Jie has ceased to be a director of Haier Group E-commerce Co., Ltd., a subsidiary of the Group. Mr. Zhou has also been appointed as a director of Qingdao Gooday Chuang Zhi Investment Management Co., Ltd., a subsidiary of the Group.

Mr. Li Hua Gang has ceased to be directors of Shangdong Goodaymart Electric Appliance Co., Ltd., and Liaoning Goodaymart Trading Co., Ltd., subsidiaries of the Group. Mr. Li has also been appointed as directors of Haier Group E-commerce Co., Ltd., Qingdao Gooday Information Technology Co., Ltd., Guanmei (Shanghai) Enterprise Management Co., Ltd., and Ningzhen (Shanghai) Enterprise Management Co., Ltd., subsidiaries of the Group.

On 15 May 2018, Mr. Yu Hon To, David was appointed as an independent non-executive director of MS Group Holdings Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 1451).

AUDIT COMMITTEE

The Company has established an audit committee comprising two independent non-executive directors and a non-executive director of the Company. The audit committee had reviewed, with no disagreement, with the management the accounting principles and practices adopted by the Group, and discussed financial reporting matters including the review of the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2018, and discussed with internal audit department on internal controls.

APPRECIATION

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

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

Hong Kong, 29 August 2018

(I) DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY

Save as disclosed below, as at 30 June 2018, none of the directors and the chief executive of the Company and their respective associates had any interest and short position in the shares, debentures or underlying shares ("Share(s)") of the Company and its associated corporation (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept under section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors adopted by the Company:

(a) Long position in shares of the Company

Name	Number of Shares directly (personal) beneficially owned	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

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 2,803,303,352 shares in issue of the Company as at 30 June 2018.

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

(b) Long position in underlying shares of the Company pursuant to share options

Name	Date of grant of share options	Number of share options granted and not yet exercised*	Approximate % of issued shares upon exercise of share options#
Mr. 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 2,803,303,352 shares in issue of the Company as at 30 June 2018.

(c) Long position in shares of Qingdao Haier

Name	Number of shares held	Approximate% of total registered share capital	Capacity and interest
Mr. Liang Hai Shan	11,684,483	0.19	Directly (personal) beneficially owned
Ms. Tan Li Xia	5,897,074	0.10	Directly (personal) beneficially owned
Mr. Zhou Yun Jie	196,596	0.003	Directly (personal) beneficially owned

(II) SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 June 2018, the directors and the chief executive of the Company were not aware of any other shareholders interested in 5% or more of the interests and short positions in shares and underlying shares of the Company or any person (other than a Director or chief executive of the Company) which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as otherwise recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in Shares:

Name of shareholders	Notes	Number of Shares interested	Approximate percentage of the Company's issued shares*
Haier Corp	1	1,561,320,592	55.70
Qingdao Haier	2	1,561,320,592	55.70
Haier Shareholdings (Hong Kong) Limited ("Hong Kong Haier")	2	832,043,110	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

Short positions in Shares:

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 1,224,720,592 shares held by Qingdao Haier pursuant to the SFO.

   Haier Corp was also deemed to be interested in 336,600,000 shares held by its subsidiary, HCH (HK).

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

2. Qingdao Haier held 392,677,482 shares as beneficial owner. Moreover, Qingdao Haier was deemed to be interested in 832,043,110 shares held by its wholly-owned subsidiary, Hong Kong Haier, pursuant to the SFO.

   Furthermore, HCH (HK) has appointed Qingdao Haier to exercise voting in respect of its holding of 336,600,000 shares.

(II) SUBSTANTIAL SHAREHOLDERS (Continued)

Notes: (Continued)

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.

* The percentage is calculated on the basis of 2,803,303,352 shares in issue of the Company as at 30 June 2018.

SHARE INCENTIVE SCHEMES

(I) SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and reward to eligible participants who contribute to the success of the Group's operations. The Company's current Share Option Scheme became effective on 8 June 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

	Number of share options								
Name or category of participants	**At 1 January 2018**	**Granted during the period**	**Exercised during the period (note 3)**	**Cancelled/ Forfeited during the period**	**Lapsed/ Expired during the period**	**At 30 June 2018**	**Date of grant of share options (note 1)**	**Exercise period of share options**	**Exercise price of share options per share (note 2)** HK$
Executive director									
Mr. Sun Jing Yan	84,000	—	—	—	—	84,000	11/09/2015	10/05/2016–10/05/2020	12.84
Chief executive									
Mr. Li Hua Gang	108,000	—	—	—	—	108,000	11/09/2015	10/05/2016–10/05/2020	12.84
Other employees									
In aggregate	3,303,200	—	962,945	—	—	2,340,255	11/09/2015	10/05/2016–10/05/2020	12.84
	3,495,200	—	962,945	—	—	2,532,255			

Notes:

1. For share options granted on 11 September 2015, 40% and 60% of the total share options granted were vested on vesting dates of 10 May 2016 and 10 May 2017, respectively. The vesting period of the share options is from the date of grant until the respective vesting dates.

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

3. The weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK$26.19 per share.

4. The total share options that could be granted under the then available scheme mandate limit as at 30 June 2018 were in respect of 153,890,890 shares which represented 5.5% of the issued shares of the Company as at 30 June 2018.

As at 30 June 2018, the Company had 2,532,255 share options outstanding under the Share Option Scheme. Should the share options be fully exercised, the Company will receive approximately HK$32,514,000 (before issue expenses). The fair value of these unexercised options measured in accordance with the Group's accounting policy amounted to HK$8,533,000.

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

(II) RESTRICTED SHARE AWARD SCHEME

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

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

	Number of awarded shares								
Name of participants	At 1 January 2018	Granted during the period	Exercised during the period	Cancelled /Forfeited during the period	Lapsed/ Expired during the period	At 30 June 2018	Date of grant of awarded shares	Exercise period of awarded shares	Exercise price of awarded shares per share (note 1) HK$
Executive directors									
Mr. Zhou Yun Jie	696,000	—	—	—	—	696,000	17/10/2016	01/07/2017–01/07/2018	—
	960,000	—	—	—	—	960,000	29/05/2017	01/07/2018–01/07/2019	—
	1,656,000	—	—	—	—	1,656,000			
Mr. Sun Jing Yan	214,800	—	—	—	—	214,800	08/07/2016	01/07/2017–01/07/2018	—
	272,000	—	—	—	—	272,000	03/03/2017	01/07/2018–01/07/2019	—
	486,800	—	—	—	—	486,800			
	2,142,800	—	—	—	—	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	104,400	—	—	—	—	104,400	08/07/2016	08/07/2016–07/07/2020	6.42
In aggregate	8,794,325	—	—	—	—	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	—
	20,277,125	—	—	—	560,400	19,716,725			
	22,613,925	—	—	—	560,400	22,053,525			

(II) RESTRICTED SHARE AWARD SCHEME (Continued)

Note:

1. The exercise price of the awarded shares is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

As at 30 June 2018, the number of ordinary shares held for the Awarded Scheme was 12,595,288 (31 December 2017: 11,855,130) with an aggregate carrying amount of RMB212,424,000 (31 December 2017: RMB158,583,000).

At the date of approval of these financial statements, the Company had 9,917,021 awarded shares outstanding under the Award Scheme, which represented approximately 0.35% of the Company's shares in issue as at that date.

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