

QINGDAO HAIER CO., LTD. AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited



INDEPENDENT AUDITORS' REPORT

TO QINGDAO HAIER CO., LTD

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(incorporated in the People Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of Qingdao Haier Co., Ltd (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 9 to 146, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("IFRSs").

Basis for the opinion

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



INDEPENDENT AUDITORS' REPORT

TO QINGDAO HAIER CO., LTD (CONTINUED)

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Key audit matters

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

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of goodwill

Relevant disclosures are included in notes 5 and 16 to the consolidated financial statements.

The management performs impairment test annually for goodwill. This requires an estimation of the net recoverable amount of the cash-generating unit (the "CGU") to which the goodwill was allocated. The calculation of the CGU's net recoverable amount is complex and involves significant management judgements and estimates, such as forecasted cash flows, revenue growth rates and discount rates, which were sensitive to the expected future market conditions and the CGU's actual performance.

Our procedures in relation to management's impairment assessment of goodwill included:

- Evaluating of the independent valuer's competence, capabilities and objectivity;
- Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the relevant industry and using our valuation experts;
- Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and
- Checking, on a sampling basis, the accounting and relevance of the input data used.

We found the key assumptions were supported by the available evidence.



**INDEPENDENT AUDITORS' REPORT
TO QINGDAO HAIER CO., LTD (CONTINUED)**
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Key audit matters (continued)

Key audit matter

Provision for inventories

Relevant disclosures are included in notes 5, 10 and 21 to the consolidated financial statements.

As at 31 December 2017, the Group's inventories were exposed to inventory obsolete and excess risks as a result of the fast technology innovation and macroeconomic challenges. The determination of the provision amount is complex and involves significant judgements and estimates including the estimation on the net realisable value of inventories.

How our audit addressed the key audit matter

Our procedures in relation to management's provision for inventories included:

- Assessing the process, methods and assumptions used to determine the provision for slow-moving, excess or obsolete items. This included comparing management's calculations for consistency against those used in the prior years and assessing the provision policy adopted by management by reference to past usage or sales history;
- Testing the reliability of the underlying data used by management to calculate the inventory obsolescence provisions by sample checking of an inventory ageing analysis and the subsequent sales orders and usage;
- Testing the accuracy of the resultant calculation by assessing the calculation criteria and recalculating the provision for the inventories based on those criteria; and
- For those items which were identified as slowmoving, excess or obsolete, we assessing management's calculation of net realisable value by checking to the latest or subsequent selling prices.

We found the carrying values of the inventories was supported by the available evidence.



**INDEPENDENT AUDITORS' REPORT
TO QINGDAO HAIER CO., LTD (CONTINUED)**
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Key audit matters (continued)

Key audit matter

Product warranty and installation provisions

Relevant disclosures are included in notes 5 and 33 to the consolidated financial statements.

Product warranty and installation provisions are made with reference to the sales volume and the expected unit costs for warranties and installation services. The assessment of the provision amount involves management assumptions, judgements and estimates. Changes in the assumptions could have a significant impact on the provision amount.

How our audit addressed the key audit matter

Our procedures in relation to management's product warranty and installation provision included:

- Reviewing of the provision estimation process;
- Examination of the underlying data of the provision estimation process; and
- Review of the computation of the provision amount at year end.

We found the amount of provision recorded were supported by the available evidence.



**INDEPENDENT AUDITORS' REPORT
TO QINGDAO HAIER CO., LTD (CONTINUED)**

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Key audit matters (continued)

Key audit matter

How our audit addressed the key audit matter

Recoverability of trade receivables

Relevant disclosures are included in notes 5, 10 and 22 to the consolidated financial statements.

The determination as to whether a trade receivable is collectable involved high level of management's judgement. Specific factors management considered include the age of the balances, location of customers, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties.

Management used these information to determine whether a provision for impairment is required either for a specific transaction or for a customer's balance overall.

Our procedures in relation to management's recoverability of trade receivables included:

- Evaluating management's impairment assessment included testing, on a sample basis, the underlying data used by management to assess the collectability of trade receivables, such as an aged trade receivable analysis, payments from customers;
- Testing the key aged balances where no provision was recognised to check if there were any objective evidences of impairment. This included sample checking of payments received subsequent to the yearend date and reviewing historical payment patterns;
- Selecting a sample of the significant trade receivable balances where a provision for impairment was recognised and understood the rationale behind management's judgement. In order to evaluate these judgements, we checked the age of these balances, the customers' historical payment patterns and any post year-end payments; and
- Assessing the overall provision for impairment, we also considered the consistency of management's application of policy for recognising provisions with the prior years.

We consider the management conclusion to be consistent with the available information.



INDEPENDENT AUDITORS' REPORT

TO QINGDAO HAIER CO., LTD (CONTINUED)

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(incorporated in the People Republic of China with limited liability)

Responsibilities of directors for the consolidated financial statements

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control systems relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control systems.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



INDEPENDENT AUDITORS' REPORT

TO QINGDAO HAIER CO., LTD (CONTINUED)

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Auditors' responsibilities for the audit of the consolidated financial statements (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that the consolidated financial statements give a fair view of the assets, liabilities financial position and financial performance in compliance with IFRS.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited



INDEPENDENT AUDITORS' REPORT
TO QINGDAO HAIER CO., LTD (CONTINUED) 8
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Auditors' responsibilities for the audit of the consolidated financial statements (continued)

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

The engagement director on the audit resulting in this independent auditors' report is Mr. Shek Lui.

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Shek Lui

Practising Certificate Number: P05895

Hong Kong, 30 May 2018

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December	Notes	2017 RMB'M	2016 RMB'M	2015 RMB'M
Revenue	7	159,233	119,117	89,834
Cost of sales		(110,922)	(83,131)	(65,492)
Gross profit		48,311	35,986	24,342
Other income	7	2,034	1,312	1,241
Other gains and losses	8	145	688	578
Selling and distribution expenses		(28,276)	(21,254)	(13,108)
Administrative and other expenses		(11,781)	(8,789)	(6,664)
Finance costs	9	(1,078)	(729)	(119)
Share of profits of associates		1,189	974	696
Profit before taxation	10	10,544	8,188	6,966
Income tax expenses	11	(1,492)	(1,492)	(1,056)
Profit for the year		9,052	6,696	5,910
Attributable to:				
Owners of the Company		6,926	5,042	4,289
Non-controlling interests		2,126	1,654	1,621
		9,052	6,696	5,910
Earnings per share				
- Basic (RMB)	12	1.14	0.83	0.70
- Diluted (RMB)	12	1.09	0.82	0.70

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December	Notes	2017	2016	2015
		RMB'M	RMB'M	RMB'M
Profit for the year		9,052	6,696	5,910
Other comprehensive income/(loss)				
<i>Items that will not be reclassified subsequently to profit or loss:</i>				
Changes in net liabilities or net assets arising from re-measurement of defined benefit plans		(4)	(23)	(6)
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Share of other comprehensive income/(loss) of associates		(307)	(16)	40
Net (loss)/gains from change in fair value of available-for-sale investments		(3)	(454)	34
Net fair value gain on hedging instruments entered into for cash flow hedges		28	12	1
Exchange differences on translation of financial statements denominated in foreign currencies		(318)	445	5
Other comprehensive (loss)/income for the year		(604)	(36)	74
Total comprehensive income for the year		8,448	6,660	5,984
Attributable to:				
Owners of the Company		6,323	4,981	4,346
Non-controlling interests		2,125	1,679	1,638
		8,448	6,660	5,984

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Notes	2017 RMB'M	2016 RMB'M	2015 RMB'M
NON-CURRENT ASSETS				
Property, plant and equipment	13	17,632	17,399	9,874
Investment properties	14	31	35	12
Prepaid land lease payments	15	1,541	1,428	1,234
Goodwill	16	19,843	21,004	392
Other intangible assets	17	5,422	5,816	221
Investments in associates	18	12,993	11,058	4,959
Available-for-sale investments	19	1,415	1,556	2,776
Prepayment for property, plant and equipment and prepaid land lease payments		757	777	317
Derivative financial instruments	24	389	38	78
Deferred tax assets	36	1,895	1,592	971
Other non-current assets	20	1,114	1,013	205
		63,032	61,716	21,039
CURRENT ASSETS				
Inventories	21	21,504	15,285	8,575
Trade and bills receivables	22	25,481	26,062	18,742
Prepayments, deposits and other receivables	23	4,129	4,178	2,613
Derivative financial instruments	24	77	100	22
Other financial assets	25	2,007	491	250
Pledged deposits	26	837	287	32
Cash and cash equivalents	26	34,340	23,295	24,726
		88,375	69,698	54,960
Assets held-for-sale	27	56	56	74
		88,431	69,754	55,034
CURRENT LIABILITIES				
Trade and bills payables	28	42,033	33,007	26,270
Receipt in advance, other payables and accruals	29	19,938	18,552	10,874
Interest-bearing borrowings	30	13,729	19,872	1,847
Convertible and exchangeable bonds	31	-	1,223	-
Finance lease payables		-	9	11
Due to non-controlling shareholder of a subsidiary	32	-	28	26
Tax payables		1,248	931	712
Provisions	33	1,610	1,494	1,096
Other current liabilities		-	16	62
Derivative financial instruments	24	3	2	8
		78,561	75,134	40,906

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December	Note	2017 RMB'M	2016 RMB'M	2015 RMB'M
NET CURRENT ASSETS/(LIABILITIES)		9,870	(5,380)	14,128
TOTAL ASSETS LESS CURRENT LIABILITIES		72,902	56,336	35,167
NON-CURRENT LIABILITIES				
Interest-bearing borrowings	30	16,129	15,624	340
Convertible and exchangeable bonds	31	6,211	-	1,108
Finance lease payables		-	8	17
Provisions	33	1,009	801	760
Deferred income	35	442	283	218
Deferred tax liabilities	36	279	133	113
Derivative financial instruments	24	249	583	-
Employee benefit obligation	37	898	1,209	36
Other non-current liabilities	34	935	15	44
		26,152	18,656	2,636
NET ASSETS		46,750	37,680	32,531
CAPITAL AND RESERVES				
Share capital	38	6,098	6,098	6,123
Reserves		26,118	20,340	16,673
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		32,216	26,438	22,796
NON-CONTROLLING INTERESTS		14,534	11,242	9,735
TOTAL EQUITY		46,750	37,680	32,531

Approved and authorised for issue by the board of directors on 30 May 2018.

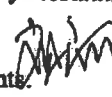
Liang Haishan
Legal representative



Gong Wei
Chief Financial Officer



Ying Ke
Person in charge of accounting
department



The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company							
	Share capital RMB'M	Shares Held for the Restricted Share Award Scheme RMB'M	Treasury shares RMB'M	Capital reduction reserve RMB'M	Capital reserve RMB'M	Remeasurement of defined benefit plans reserve RMB'M	Cash flow hedging reserve RMB'M	Other equity RMB'M
At 1 January 2017	6,098	(1)	-	-	-	(6)	12	-
Profit for the year	-	-	-	-	-	-	-	-
Other comprehensive income/(loss) for the year	-	-	-	-	-	(4)	28	-
Total comprehensive income for the year	-	-	-	-	-	(4)	28	-
Dividend payments	-	-	-	-	-	-	-	-
Transfer to reserves fund	-	-	-	-	-	-	-	-
Cancellation of restricted shares	-	-	-	-	(1)	-	-	-
Changes in ownership interests in subsidiaries that do not result in a loss of control	-	1	-	-	-	-	-	-
Acquisition from non-controlling interests	-	-	-	-	179	-	-	-
Change in equity of associates	-	-	-	-	(13)	-	-	-
Business combination under common control	-	-	-	-	(318)	-	-	-
Transfer to capital reserve	-	-	-	-	153	-	-	-
Issue of convertible and exchangeable bonds	-	-	-	-	-	-	-	431
Conversion of convertible and exchangeable bonds	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-
At 31 December 2017	6,098	-	-	-	-	(10)	40	431

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the years ended 31 December 2017

	Attributable to owners of the Company								
	Equity method investments RMB'M	Available-for-sale financial assets RMB'M	Reserve fund RMB'M	Other reserve RMB'M	Exchange fluctuation reserve RMB'M	Retained profit RMB'M	Sub-total RMB'M	Non-controlling interests RMB'M	Total equity RMB'M
At 1 January 2017	35	7	2,077	82	520	17,614	26,438	11,242	37,680
Profit for the year	-	-	-	-	-	6,926	6,926	2,126	9,052
Other comprehensive income for the year	(307)	(3)	-	-	(317)	-	(603)	(1)	(604)
Total comprehensive income for the year	(307)	(3)	-	-	(317)	6,926	6,323	2,125	8,448
Dividend payments	-	-	-	-	-	(1,512)	(1,512)	(285)	(1,797)
Transfer to reserves fund	-	-	47	-	-	(47)	-	-	-
Cancellation of restricted shares	-	-	-	-	-	-	-	-	-
Changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	-	-	-	-	-	-	-
Acquisition from non-controlling interests	-	-	-	-	-	-	179	-	179
Change in equity of associates	-	-	-	-	-	-	(13)	(31)	(44)
Business combination under common control	-	-	-	743	-	-	743	-	743
Transfer to capital reserve	-	-	(20)	-	-	(188)	(318)	-	(318)
Issue of convertible and exchangeable bonds	-	-	-	-	-	-	(55)	-	(55)
Conversion of convertible and exchangeable bonds	-	-	-	-	-	-	431	-	431
Other changes	-	-	-	-	-	-	-	677	677
	-	-	-	-	-	-	-	806	806
At 31 December 2017	(272)	4	2,104	825	203	22,793	32,216	14,534	46,750

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2016

	Attributable to owners of the Company							
	Share capital RMB'M	Shares Held for the Restricted Share Award Scheme RMB'M	Treasury shares RMB'M	Capital reduction reserve RMB'M	Capital reserve RMB'M	Remeasurement of defined benefit plans reserve RMB'M	Cash flow hedging reserve RMB'M	Other equity RMB'M
At 1 January 2016	6,123	(30)	(47)	-	-	17	-	-
Profit for the year	-	-	-	-	-	-	-	-
Other comprehensive income/(loss) for the year	-	-	-	-	-	(23)	12	-
Total comprehensive income for the year	-	-	-	-	-	(23)	12	-
Purchase of treasury shares	-	-	(113)	-	-	-	-	-
Cancellation of treasury shares	(18)	-	160	-	(142)	-	-	-
Dividend payments	-	-	-	-	-	-	-	-
Transfer to reserves fund	-	-	-	-	-	-	-	-
Cancellation of restricted shares	(7)	29	-	-	(22)	-	-	-
Changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	106	-	-	-
Transfer to capital reserve	-	-	-	-	(39)	-	-	-
	-	-	-	-	97	-	-	-
At 31 December 2016	6,098	(1)	-	-	-	(6)	12	-

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the years ended 31 December 2016

	Attributable to owners of the Company								
	Equity method investments RMB'M	Available- for-sale financial assets reserve RMB'M	Reserve fund RMB'M	Other reserve RMB'M	Exchange fluctuation reserve RMB'M	Retained profit RMB'M	Sub- total RMB'M	Non- controlling interests RMB'M	Total equity RMB'M
At 1 January 2016	51	456	2,030	82	105	14,009	22,796	9,735	32,531
Profit for the year	-	-	-	-	-	5,042	5,042	1,654	6,696
Other comprehensive income/(loss) for the year	(16)	(449)	-	-	415	-	(61)	25	(36)
Total comprehensive income for the year	(16)	(449)	-	-	415	5,042	4,981	1,679	6,660
Purchase of treasury shares	-	-	-	-	-	-	(113)	-	(113)
Cancellation of treasury shares	-	-	-	-	-	-	-	-	-
Dividend payments	-	-	-	-	-	(1,293)	(1,293)	(228)	(1,521)
Transfer to reserves fund	-	-	57	-	-	(57)	-	-	-
Cancellation of restricted shares	-	-	-	-	-	-	-	-	-
Changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	-	-	-	-	106	56	162
Business combination under common control	-	-	-	-	-	-	(39)	-	(39)
Transfer to capital reserve	-	-	(10)	-	-	(87)	-	-	-
At 31 December 2016	35	7	2,077	82	520	17,614	26,438	11,242	37,680

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the years ended 31 December 2015

	Attributable to owners of the Company							
	Share capital RMB'M	Shares Held for the Restricted Share Award Scheme RMB'M	Treasury shares RMB'M	Capital reduction reserve RMB'M	Capital reserve RMB'M	Remeasurement of defined benefit plans reserve RMB'M	Cash flow hedging reserve RMB'M	Other equity RMB'M
At 1 January 2015	3,046	(47)	-	-	5,862	23	-	-
Business combination under common control	-	-	-	-	-	-	(1)	-
Restated total equity at the beginning of the financial year	3,046	(47)	-	-	5,862	23	(1)	-
Profit for the year	-	-	-	-	-	-	-	-
Other comprehensive income/(loss) for the year	-	-	-	-	-	(6)	1	-
Total comprehensive income for the year	-	-	-	-	-	(6)	1	-
Equity-settled share option arrangements	31	-	-	-	255	-	-	-
Capitalisation of capital reserve into shares	3,046	-	-	-	(3,046)	-	-	-
Purchase of treasury shares	-	-	(47)	-	-	-	-	-
Dividend payments	-	-	-	-	-	-	-	-
Transfer to reserves fund	-	-	-	-	-	-	-	-
Restricted share award scheme arrangement	-	(2)	-	-	2	-	-	-
Transfer of awarded share reserve upon the forfeiture or expiry of awarded shares	-	19	-	-	-	-	-	-
Changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	-	-	168	-	-	-
Acquisition from non-controlling interests	-	-	-	-	(19)	-	-	-
Employee share schemes - value of employee services	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	(5,147)	-	-	-
Transfer to capital reserve	-	-	-	-	1,925	-	-	-
Other changes	-	-	-	-	-	-	-	-
At 31 December 2015	6,123	(30)	(47)	-	-	17	-	-

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the years ended 31 December 2015

	Attributable to owners of the Company								
	Equity method investments RMB'M	Available-for-sale financial assets RMB'M	Reserve fund RMB'M	Other reserve RMB'M	Exchange fluctuation reserve RMB'M	Retained profit RMB'M	Sub-total RMB'M	Non-controlling interests RMB'M	Total equity RMB'M
At 1 January 2015	11	422	2,024	117	122	13,029	24,609	7,315	31,924
Business combination under common control	-	-	3	-	(5)	116	113	28	141
Restated total equity at the beginning of the financial year	11	422	2,027	117	117	13,145	24,722	7,343	32,065
Profit for the year	-	-	-	-	-	4,289	4,289	1,621	5,910
Other comprehensive income/(loss) for the year	40	34	-	-	(12)	-	57	17	74
Total comprehensive income for the year	40	34	-	-	(12)	4,289	4,346	1,638	5,984
Equity-settled share option arrangements	-	-	-	(36)	-	-	250	-	250
Capital reserve transferred to shares	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	(47)	-	(47)
Dividend payments	-	-	195	-	-	(1,497)	(1,497)	(225)	(1,722)
Transfer to reserves fund	-	-	-	-	-	(195)	-	-	-
Restricted share award scheme arrangement	-	-	-	-	-	-	-	-	-
Transfer of awarded share reserve upon the forfeiture or expiry of awarded shares	-	-	-	-	-	-	-	-	-
Changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	-	-	-	-	19	-	19
Acquisition from non-controlling interests	-	-	-	-	-	-	168	-	168
Employee share schemes - value of employee services	-	-	-	1	-	-	(19)	(31)	(50)
Business combination under common control	-	-	-	-	-	-	1	-	1
Transfer to capital reserve	-	-	(192)	-	-	(1,733)	(5,147)	-	(5,147)
Other changes	-	-	-	-	-	-	-	1,010	1,010
At 31 December 2015	51	456	2,030	82	105	14,009	22,796	9,735	32,531

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December	Notes	2017 RMB'M	2016 RMB'M	2015 RMB'M
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation		10,544	8,188	6,966
Adjustments for:				
Income tax expense recognised in the profit or loss		(1,492)	(1,492)	(1,056)
Depreciation, amortisation and impairment		3,430	2,917	1,362
Loss/(gain) on disposal/written-off of items of property, plant and equipment, net	8	91	3	(10)
Fair value change on derivative financial instrument	8	(614)	(95)	90
Finance costs	9	1,078	729	119
Share of profits of associates		(1,189)	(974)	(696)
Net gain on disposal of associates	8	(155)	(86)	(339)
Dividend income from available-for-sale investments	7	(41)	(27)	(121)
Net gain on disposal of available-for-sale investments	8	(1)	(699)	(55)
Net (gain)/loss on disposal of derivatives held for trading	8	(49)	10	(50)
Gain on fair value of investment	8	-	-	(49)
Interest income from other financial assets	7	(46)	(10)	(11)
Change in other working capital, other non-cash items		408	(133)	(180)
Operating profit before changes in working capital		11,964	8,331	5,970
Increase in deferred tax assets		(330)	(398)	(59)
Increase/(decrease) in deferred tax liabilities		160	571	(12)
(Increase)/decrease in inventories		(6,726)	(1,695)	376
Decrease/(increase) in trade and bills receivables		694	(3,010)	4,579
Increase/(decrease) in trade and bills payables		10,861	4,563	(5,307)
NET CASH FLOWS FROM OPERATING ACTIVITIES		16,623	8,362	5,547
CASH FLOWS FROM INVESTING ACTIVITIES				
Payment for acquisition of subsidiaries, net of cash acquired		(378)	(36,667)	(5,639)
Payment for acquisition of subsidiaries in prior year		-	(55)	-
Payment for the contingent consideration		-	(35)	(37)
Payment for acquisition of associates		(715)	(665)	(331)
Payment for purchase of property, plant and equipment		(3,967)	(2,627)	(2,512)
Payment for available-for-sale investments		(45)	(95)	(1,291)
Loan to related parties		-	(5)	(27)
Proceeds from disposal of property, plant and equipment		191	261	11
Proceeds from disposal of available-for-sale investments		-	102	99
Proceeds from disposal of subsidiaries, net of cash received		24	9	408
Proceeds from disposal of subsidiaries in prior year		-	95	-
Repayment of loan by related parties		-	32	-
Proceeds from disposal of associates		188	28	-
Payment for other financial assets		(1,480)	(566)	(930)
Redemption of other financial assets		87	346	915
Received in advance for equity transfer		-	104	50
Dividends from associates		201	6	-
Interest received from other financial assets		45	11	11
Received of government grant related to assets		189	10	11
Interest received on available-for-sale investments		37	113	96

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December	Notes	2017 RMB'M	2016 RMB'M	2015 RMB'M
NET CASH USED IN INVESTING ACTIVITIES		(5,623)	(39,598)	(9,166)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of additional equity of non-wholly owned subsidiaries		1,380	94	342
Proceeds from borrowings		18,694	43,471	6,603
Proceeds from issue of convertible and exchangeable bonds		6,796	-	-
Proceeds from sale and finance leaseback arrangements		-	-	17
Repurchases of shares		(1)	(140)	(47)
Repayment of borrowings		(22,922)	(11,685)	(6,940)
Interest paid for borrowings		(1,113)	(300)	(67)
Capital element of finance lease obligation		(17)	(11)	(30)
Interest element of finance lease obligation		(1)	(1)	(1)
Payment for option bought back		(12)	(33)	(76)
(Increase)/decrease in pledged deposits		(550)	(255)	73
Transaction with non-controlling interest		(80)	(37)	(1,128)
Dividends paid to shareholders		(1,512)	(1,293)	(1,482)
Dividends paid to non-controlling shareholders		(275)	(215)	(213)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		387	29,595	(2,949)
Net increase/(decrease) in cash and cash equivalents		11,387	(1,641)	(6,568)
Cash and cash equivalents at the beginning of the year		23,295	24,726	31,140
Effect of foreign exchange rate changes		(342)	210	154
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		34,340	23,295	24,726
Analysis of balances of cash and cash equivalents				
Cash and bank balances	26	34,340	23,295	24,726

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017, 2016 and 2015

1. GENERAL INFORMATION

Qingdao Haier Co., Ltd. is a limited liability company incorporated in the People Republic of China. The Company is listed on Shanghai Stock Exchange since the year 1993. The registered office of the Company is located at the Haier Industrial Park of Laoshan District, Qingdao, Shandong Province, and the headquarters is located at the Haier Industrial Park of Laoshan District, Qingdao, Shandong Province.

In the opinion of the directors of the Company, the ultimate holding company of the Company is Haier Group Corporation (“Haier Corp”), which is established in the PRC.

The Company and its subsidiaries (collectively referred to as the “Group”) are mainly engaged in manufacturing and trading as well as research and development (“R&D”) of refrigerator, air-conditioner, freezer, washing machine, water heater, dishwashers, gas stove, kitchen appliances and relevant products and commercial circulation business.

Pursuant to E.U. Prospectus Regulation No. 809/2004, an issuer’s listing prospectus must include historical financial information covering the previous three fiscal years.

The principal activities of subsidiaries of the Company are set out in note 53 to the consolidated financial statements.

2. BASIC OF PREPARATION

The consolidated financial statements consist of consolidated statements of profit or loss, consolidated statements of other comprehensive income, consolidated statements of financial position, consolidated statements of cash flows, consolidated statements of changes in equity and notes to the consolidated financial statements for the year ended 31 December 2017.

The consolidated financial statements have been prepared and published in million of RMB (“RMB’M”) except when otherwise indicated and on a historical cost basis as modified by the revaluation of financial assets and financial liabilities, including derivative instruments at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

2. BASIC OF PREPARATION (CONTINUED)

Consolidated financial statements of the Company and its subsidiaries (the “Group”) as of and for the year ended 31 December 2017 (with comparative information as of and for the years ended 31 December 2015 and 2016, including opening balances as of 1 January 2015) have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as endorsed by the European Union (“EU”). All IFRS standards whose application was mandatory for the year ended 31 December 2017 have been applied consistently for each of the years ended 31 December 2016 and 2015.

IFRS does not provide guidance for the preparation of financial information on a combined basis nor for business combinations involving entities under common control. As such, IAS 8.10 requires management to use judgment in developing and applying a suitable accounting policy. In making this judgment, IAS 8.12 requires management to consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to developing accounting standards, other accounting literature and accepted industry practices.

Merger accounting for business combinations under common control

During the year end 31 December 2017, the Group acquired 100% interests in Tianjin Ririxin Assets Management Co., Ltd. (“Tianjin Ririxin”) and Fisher & Paykel Production Machinery Limited (“PML”) at a cash consideration of RMB56,093,000 and USD 48,615,481 (equivalent to RMB330,682,500) respectively. During the year ended 31 December 2016, the Group acquired 100% interests in Haier Group (Dalian) Electrical Appliances Industry Co., Ltd. (“Haier Group (Dalian)”) at a cash consideration of RMB39,002,700. During the year ended 31 December 2015, the Group acquired Haier Singapore Investment Holding Pte., Ltd. (“Singapore Investment Holding”), Haier Group’s overseas white goods business, for a total cash consideration of RMB4.9 billion. Singapore Investment Holding is the holding company of 26 overseas operating companies. (the “Acquisitions under Common Control”)

Tianjin Ririxin, PML, Haier Group (Dalian) and Singapore Investment Holding were indirect wholly-owned subsidiaries of Haier Group Corporation (“Haier Corp”).

Pursuant to the Acquisitions under Common Control, the Company became an indirect holding company of Tianjin Ririxin, PML, Haier Group (Dalian) and Singapore Investment Holding. Since the Company, Tianjin Ririxin, PML, Haier Group (Dalian) and Singapore Investment Holding were ultimately controlled by Haier Corp both before and after the completion of the Acquisition, the Acquisitions were under common control were accounted for using the principles of merger accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

2. BASIC OF PREPARATION (CONTINUED)

The consolidated statements of profit or loss, the consolidated statements of other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the years ended 31 December 2017, 2016 and 2015 include the results, changes in equity and cash flows of all companies then comprising the Group, , Tianjin Ririxin, PML, Haier Group (Dalian) and Singapore Investment Holding as if the corporate structure of the Group immediately after the completion of the Acquisitions under Common Control had been in existence throughout the years ended 31 December 2017, 2016 and 2015, or since their respective dates of acquisition, incorporation or registration, where this is a shorter period.

The consolidated statement of financial position of the Group as at 31 December 2016 and 2015 have been prepared to present the state of affairs of the Group, Tianjin Ririxin PML, Haier Group (Dalian) and Singapore Investment Holding as if the corporate structure of the Group immediately after the completion of the Acquisitions under Common Control had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the individual companies attributable to the Company as at 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES**(a) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(a) Basis of consolidation (continued)**

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(b) Merger accounting for common control combination

The consolidated financial statement incorporates the financial statement items of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or business are combined using the existing book values from the controlling party's perspective. No amount is recognised with respect to goodwill or any excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or business from the earliest date presented or since the date when combining entities or business first came under common control, where this is a shorter period, regardless of the date of common control combination

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(c) Investments in associates**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

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

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

If there is objective evidence of impairment, an impairment test is performed by comparing the investment's recoverable amount, which is the higher of its value in use and fair value less costs to sell, with its carrying amount. An impairment loss recognised in prior periods is only reversed if there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognized. If this is the case the carrying amount of the investment is increased to its higher recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(d) Business combinations and goodwill**

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(d) Business combinations and goodwill (continued)**

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

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

(e) Fair value measurement

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(e) Fair value measurement (continued)**

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

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

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

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

(f) Impairment of non-financial assets

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(g) Related parties**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(h) Property, plant and equipment and depreciation**

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(i) Investment properties**

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

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

(j) Intangible assets (other than goodwill)

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

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

(i) Patents, licences and software

Purchased patents, licences and software are stated at cost less any impairment losses and software acquired through business combinations are initially stated at fair value. They are amortised on the straight-line basis over their estimated useful lives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(j) Intangible assets (other than goodwill) (continued)****(ii) Trademark**

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

(iii) Research and development costs

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

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

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

(k) Leases

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(k) Leases (continued)**

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

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

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

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

(l) Investments and other financial assets**Initial recognition and measurement**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(l) Investments and other financial assets (continued)****Initial recognition and measurement (continued)**

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(I) Investments and other financial assets (continued)**

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

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

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Loans and receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(I) Investments and other financial assets (continued)***Available-for-sale financial investments*

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(m) Derecognition of financial assets**

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

(n) Impairment of financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(n) Impairment of financial assets (continued)***Financial assets carried at amortised cost*

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

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

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

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

Assets carried at cost

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(n) Impairment of financial assets (continued)***Available-for-sale financial investments*

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(o) Financial liabilities***Initial recognition and measurement*

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(o) Financial liabilities**

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

Loans and borrowings

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

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

Convertible bonds

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(o) Financial liabilities (continued)***Convertible bonds (continued)*

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

(p) Derecognition of financial liabilities

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

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

(q) Offsetting of financial instruments

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

(r) Treasury shares

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(s) Inventories**

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

(t) Cash and cash equivalents

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

(t) Cash and cash equivalents (continued)

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

(u) Income tax

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(u) Income tax (continued)**

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(u) Income tax (continued)**

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

(v) Provisions

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

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

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

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

(w) Government grants

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(x) Revenue recognition**

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when the services are rendered;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;
- (e) dividend income, when the shareholders' right to receive payment has been established; and

(y) Employee benefits*Share-based payments*

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Employee benefits (continued)

Share-based payments (continued)

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(y) Employee benefits (continued)***Pension schemes*

The Group participates in various defined contribution retirement benefit plans which are available to all relevant employees. These plans are generally funded through payments to schemes established by governments or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays contributions on a mandatory, contractual or voluntary basis into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plan prior to vesting fully in the contributions.

Termination benefit

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(z) Borrowing costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(aa) Dividends**

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

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

(ab) Foreign currencies

These financial statements are presented in RMB, which is also the functional currency of the Group. The functional currency of the Company is the RMB and certain of its overseas subsidiaries is United States Dollars ("USD"), Euro ("EUR") and certain other currencies, while the RMB is used as the presentation currency of the financial statements of the Company as the major operations of the Group are within the PRC. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(ab) Foreign currencies (continued)**

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

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

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

(ac) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(ac) Derivative financial instruments (continued)***Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL.

(ad) Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(ad) Hedge accounting (continued)***Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

(ae) Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(ae) Changes in the Group's ownership interests in existing subsidiaries (continued)**

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

4. NEW ACCOUNTING PRONOUNCEMENT

The following pronouncements, issued by the International Accounting Standards Board ("IASB"), are not yet effective and have not yet been adopted by the Group:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

4. NEW ACCOUNTING PRONOUNCEMENT (CONTINUED)

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

IFRS 9 Financial Instruments

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

(a) Classification and measurement

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

(b) Impairment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

4. NEW ACCOUNTING PRONOUNCEMENT (CONTINUED)**IFRS 9 Financial Instruments (continued)****(c) Hedge accounting**

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. Generally, some restrictions under current rules have been removed and a greater variety of hedging instruments and hedged items become available for hedge accounting. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting.

IFRS 15 Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 supersedes existing revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

IFRS 15 requires the application of a 5-step approach to revenue recognition:

- (a) Identify the contract(s) with a customer
- (b) Identify the performance obligations in the contract
- (c) Determine the transaction price
- (d) Allocate the transaction price to each performance obligation
- (e) Recognise revenue when each performance obligation is satisfied

IFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under IFRSs. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

4. NEW ACCOUNTING PRONOUNCEMENT (CONTINUED)**IFRS 15 Revenue from Contracts with Customers (continued)***(a) Sale of air-conditioner, washing machines and water heaters with installation services*

The Group provides installation services for the sale of air-conditioner, washing machines and water heaters. Currently, when installation services are bundled together with the sale of air-conditioner, washing machines and water heaters, revenue from the sale of air-conditioner, washing machines and water heaters is recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods, and the installation cost is provided as expense estimated based on the sales volume. Upon the adoption of IFRS 15, the Group assessed that the sales of air-conditioner, washing machines and water heaters with installation services provide in the PRC market should not be considered as the separate performance obligations under IFRS 15 due to the general market practice. The Group further assessed that the installation services provided in the rest of market and does not expected that significant impact on the recognition of revenue due to the installation service income was recognised separately in previous years.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

4. NEW ACCOUNTING PRONOUNCEMENT (CONTINUED)**IFRS 15 Revenue from Contracts with Customers (continued)***(c) Presentation and disclosure*

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

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16, Leases. IFRS 16 eliminates the current classification model for lessee's lease contracts as either operating or finance leases and, instead, introduces a single lessee accounting model requiring lessees to recognize right-of-use assets and lease liabilities for leases with a term of more than twelve months. This brings the previous off-balance leases on the balance sheet in a manner largely comparable to current finance lease accounting. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group will adopt the standard for the fiscal year beginning as of 1 January 2019, presumably by applying the modified retrospective approach, i.e. comparative figures for the preceding year would not be adjusted. Currently, it is expected that the majority of the transition effect relates to properties leased by the Group in aggregate of approximately RMB1,744 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**IFRS 16 Leases (continued)**

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

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017, 2016 and 2015 of approximately RMB19,843 million, RMB21,004 million and RMB392 million respectively. Further details are given in note 16 to the consolidated financial statements.

Recoverability of trade and bills receivables

The Group maintains an allowance for estimated losses arising from the inability of its debtors to make the required payments. The Group makes its estimates based on the debtors' creditworthiness, and historical write-off experience. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance. At 31 December 2017, 2016 and 2015, the carrying amounts of trade and bills receivables were RMB25,481 million and RMB26,062 million and RMB18,742 million respectively.

Provision for inventories

Write-down of inventories to net realisable value is made based on the estimated net realizable value of inventories. The assessment of the write-down amount involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the inventories and the write-down charge/reversal in the period in which such estimate has been changed. At 31 December 2017, 2016 and 2015, the carrying amount of inventories was RMB21,504 million, RMB15,285 million and RMB8,575 million respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)**Product warranty and installation provisions**

Product warranty and installation provisions are made with reference to the sales volume and the expected unit cost for warranties and installation services. The assessment of the provision amount involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying amount of the product warranty and installation provisions and the provision amount charged/reversed in the period in which such estimate has been changed. At 31 December 2017, 2016 and 2015, the product warranty and installation provisions amounted to RMB2,601 million, RMB2,276 million and RMB1,842 million respectively.

Impairment of non-financial assets (other than goodwill)

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

Useful lives of items of property, plant and equipment

Management determines the estimated useful lives and related depreciation for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to industry cycles. The depreciation charge will increase when the useful lives are less than the previously estimated useful lives, or management will write off or write down obsolete or non-strategic assets that have been abandoned or sold. At 31 December 2017, 2016 and 2015, the carrying amount of the property, plant and equipment was RMB17,632 million, RMB17,399 million and RMB9,874 million respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)**Deferred tax assets**

Deferred tax assets are recognised for deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. As at 31 December 2017, 2016 and 2015 the carrying value of deferred tax assets was RMB1,895 million, RMB1,592 million and RMB971 million) respectively.

6. SEGMENT INFORMATION

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

- Refrigerator segment mainly engaged in manufacture and sales of refrigerator and freezers products;
- Air-conditioner segment mainly engaged in manufacture and sales of household air conditioners and commercial air conditioners;
- Washing machine segment mainly engaged in manufacture and sales of washing machine products;
- Kitchenware and bathroom appliances segment mainly engaged in manufacture and sales of water heater, kitchen appliances products and bathroom appliances;
- Equipment components segment mainly engaged in procurement, manufacture and sales of upstream matching accessories for household appliances, manufacture and sales of mould; and
- Integrated channel services and others segment mainly engaged in distribution business, logistics business, after-sale business, small home appliance business and others.

The Group's 3rd and 4th tier markets channel business is treated as integrated channel services and assessed separately from other segments. Accordingly, operating profits from 3rd and 4th tier markets of refrigerator, air-conditioner, kitchenware and bathroom appliances, washing machine businesses were not reflected in operating profits of each segment.

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 the operating segments 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 other income, other gains and losses, share of profits of associates, corporate and other unallocated income and gains, corporate and other unallocated expenses and losses as well as finance costs are excluded from such measurement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

6. SEGMENT INFORMATION (CONTINUED)

Segment assets exclude goodwill, available-for-sale investments, investments in associates, deferred tax assets, 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 payables, interest-bearing borrowings, convertible and exchangeable bonds and corporate and other unallocated liabilities as these liabilities are managed on a group basis.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

6. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

	Revenue from external customers			Inter-Segment revenue			Total segment revenue			Segment's profit before tax		
	2017 RMB'M	2016 RMB'M	2015 RMB'M	2017 RMB'M	2016 RMB'M	2015 RMB'M	2017 RMB'M	2016 RMB'M	2015 RMB'M	2017 RMB'M	2016 RMB'M	2015 RMB'M
Refrigerator segment	25,589	17,450	9,741	18,536	15,853	15,694	44,125	33,303	25,435	2,511	2,561	1,982
Air-conditioner segment	9,680	5,868	5,684	19,156	11,338	9,860	28,836	17,206	15,544	1,712	568	271
Washing machine segment	14,390	9,707	4,897	14,631	11,860	10,843	29,021	21,567	15,740	2,181	1,741	1,364
Kitchenware and bathroom appliances ware segment	20,551	12,713	1,072	7,050	5,533	4,717	27,601	18,246	5,789	2,224	1,635	615
Equipment components segment	3,118	2,710	2,146	40,568	30,133	28,423	43,686	32,863	30,569	361	298	504
Integrated channel services and others segment	85,905	70,669	66,294	12,010	7,407	8,225	97,915	78,076	74,519	606	(368)	481
Total segment	159,233	119,117	89,834	111,951	82,144	77,762	271,184	201,261	167,596	9,595	6,435	5,217
Reconciliation to consolidated financial statements	-	-	-	(111,951)	(82,144)	(77,762)	(111,951)	(82,144)	(77,762)	949	1,753	1,749
	159,233	119,117	89,834	-	-	-	159,233	119,117	89,834	10,544	8,188	6,966
<i>Reconciliation to consolidated financial statements:</i>												
Total of segments' profit before tax										9,595	6,435	5,217
Other income										2,034	1,312	1,241
Other gains and losses										145	688	578
Share of profits of associates										1,189	974	696
Finance costs										(1,078)	(729)	(119)
Eliminations, Corporate Treasury, Corporate Items, other items										(1,341)	(492)	(647)
Reconciliation to consolidated financial statements										949	1,753	1,749
Profit before tax										10,544	8,188	6,966

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

6. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

	Total assets			Total liabilities		
	2017 RMB'M	2016 RMB'M	2015 RMB'M	2017 RMB'M	2016 RMB'M	2015 RMB'M
Refrigerator segment	15,093	12,795	6,376	23,320	21,272	6,394
Air-conditioner segment	14,045	13,259	5,842	8,165	6,076	3,821
Washing machine segment	10,774	10,066	4,285	5,650	4,055	2,255
Kitchenware and bathroom appliances segment	12,462	13,407	2,131	6,468	5,762	1,541
Equipment components segment	26,193	23,099	14,845	28,089	21,746	19,044
Integrated channel services and others segment	31,818	26,812	22,868	26,754	24,219	20,869
Total segment	110,385	99,438	56,347	98,446	83,130	53,924
Reconciliation to consolidated financial statements	41,078	32,032	19,726	6,267	10,660	(10,382)
	151,463	131,470	76,073	104,713	93,790	43,542

Reconciliation to consolidated financial statements:

Total assets						
Total of segments' assets				110,385	99,438	56,347
Goodwill				19,843	21,004	392
Deferred tax assets				1,895	1,592	971
Available-for-sale investments				1,415	1,556	2,776
Investments in associates				12,993	11,058	4,959
Eliminations, Corporate Treasury, Corporate Items, other items				4,932	(3,178)	10,628
Reconciliation to consolidated financial statements				41,078	32,032	19,726
Total assets				151,463	131,470	76,073

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

6. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Total liabilities			
Total of segments' liabilities	98,446	83,130	53,924
Convertible and exchangeable bonds			
Tax payables	6,211	1,223	1,108
Interest-bearing borrowings	1,248	931	712
Deferred tax liabilities	29,858	35,496	2,187
Eliminations, Corporate Treasury, Corporate Items, other items	279	133	113
	(31,329)	(27,123)	(14,502)
Reconciliation to consolidated financial statements	6,267	10,660	(10,382)
Total liabilities	104,713	93,790	43,542

Other segment information

	Product warranty and installation provisions		Depreciation and amortisation	
	2017 RMB'M	2016 RMB'M	2017 RMB'M	2015 RMB'M
Refrigerator segment	1,528	1,150	822	730
Air-conditioner segment	1,212	666	364	271
Washing machine segment	884	741	406	339
Kitchenware and bathroom appliances segment	574	430	698	570
Equipment components segment	-	-	124	145
Integrated channel services and others segment	-	-	360	371
Total segment	4,197	2,987	2,774	2,426
				1,055

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

6. SEGMENT INFORMATION (CONTINUED)

Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, investment properties, prepaid land lease payments, other intangible assets, long-term prepayment and other non-current assets ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment, investment properties, prepaid land lease payments and long-term prepayment, the location of the operation to which they are allocated in the case of other intangible assets.

	Revenues from external customers			Specified non-current assets		
	2017	2016	2015	2017	2016	2015
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Mainland China	91,828	71,533	71,081	12,105	11,215	10,823
Other countries/regions*	67,405	47,584	18,753	14,392	15,253	1,040
	159,233	119,117	89,834	26,497	26,468	11,863

* Other countries/regions in this report refers to all other countries/regions (including Hong Kong and Macau Special Administration Region and Taiwan) other than the Mainland China for the purpose of information disclosure.

Information about major customers

During the years ended 31 December 2017, 2016 and 2015, there was no revenue from a single customer which individually accounted for 10% or more of the Group's revenue.

7. REVENUE AND OTHER INCOME

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

An analysis of revenue and other income is as follows:

	2017	2016	2015
	RMB'M	RMB'M	RMB'M
Revenue			
Sales of goods	153,396	114,387	85,884
Rendering of services	5,837	4,730	3,950
	159,233	119,117	89,834

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

7. REVENUE AND OTHER INCOME (CONTINUED)

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Other income			
Bank interest income	313	226	525
Interest income from other financial assets	46	10	11
Government grants	909	697	308
Compensation received from suppliers	329	224	236
Rental income	19	14	16
Dividend income from available-for-sale investments	41	27	121
Legal settlement	171	-	-
Others	206	114	24
	2,034	1,312	1,241

8. OTHER GAINS AND LOSSES

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Net gain on disposal of associates and subsidiaries	155	86	339
Net gain on disposal of available-for-sale investments	1	699	55
Gain on deemed disposal of a subsidiary	-	-	49
(Loss)/gain on disposal/written-off of items of property, plant and equipment, net	(91)	(3)	10
Net foreign exchange (losses)/gains	(583)	(179)	165
Net gain/(loss) on disposal of derivatives financial instruments	49	(10)	50
Fair value change on derivative financial Instruments	614	95	(90)
	145	688	578

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

9. FINANCE COSTS

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Interest on interest-bearing borrowings	997	628	63
Interest on convertible bonds	-	-	21
Interest on convertible and exchangeable bonds	12	37	34
Other interest expenses	69	64	1
	<u>1,078</u>	<u>729</u>	<u>119</u>

10. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Cost of inventories sold	105,636	78,932	62,061
Cost of services provided	5,286	4,199	3,431
Depreciation of property, plant and equipment	2,422	2,167	969
Depreciation of investment properties	2	2	-
Amortisation of prepaid land lease payments	44	28	26
Amortisation of other intangible assets	291	214	29
Research and development costs	4,334	3,186	2,344
Employee benefit expenses	15,647	13,152	7,976
Provision for obsolete and slow-moving inventories, net	533	467	250
Product warranty and installation provisions	4,197	2,987	2,461
Provision/(reversal of provision) for impairment of trade receivables, net	68	(34)	59
Provision/(reversal of provision) for impairment of prepayments and other receivables, net	(7)	56	(8)
Provision for impairment of available-for-sale investments	27	-	-
Provision for impairment of property, plant and equipment	4	2	5
Provision for impairment of investments in associates	21	-	-
Provision for impairment of other intangible assets	10	-	-
Foreign exchange differences, net	583	179	(165)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

11. INCOME TAX EXPENSES

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Current tax			
Charge for the year	1,769	1,398	1,249
Over-provision in prior years	(107)	(79)	(122)
	1,662	1,319	1,127
Deferred tax	(170)	173	(71)
Total income tax expense for the year	1,492	1,492	1,056

(i) PRC corporate income tax

PRC corporate income tax has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances, and on the estimated assessable profits of entities within the Group established in the PRC for the years ended 31 December 2017, 2016 and 2015. The general PRC corporate income tax rate is 25% in 2017, 2016 and 2015. Certain subsidiaries of the Company in the PRC were approved as High and New Technology Enterprises or were granted the West China Development and certain preferential taxation benefit, and accordingly, they were subject to a reduced preferential corporate income tax rate of 15% for the years ended 31 December 2017, 2016 and 2015.

(ii) Corporate income tax in other countries

Income tax expenses arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

(iii) Withholding tax

According to applicable tax regulations prevailing in the PRC, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax.

Withholding taxes on dividends distribution at respective applicable tax rates are under certain jurisdictions that the Group's entities operate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

11. INCOME TAX EXPENSES (CONTINUED)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the tax rate of 25% for the years ended 31 December 2017, 2016 and 2015, being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments, as follows:

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Profit before taxation	10,544	8,188	6,966
Tax calculated at a tax rate of 25%	2,636	2,047	1,741
Effects of different tax rates in other jurisdiction and preferential taxation benefit granted to the PRC subsidiaries	(485)	(689)	(592)
Adjustments in respect of current tax of previous periods	(107)	(79)	(122)
Income not subject to tax	(252)	(191)	(128)
Expenses not deductible for tax	66	115	56
Net derecognition of deferred tax	(366)	289	101
Income tax expenses	1,492	1,492	1,056

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 6,097,402,727, 6,099,297,846 and 6,094,732,973 in issue during the years ended 31 December 2017, 2016 and 2015 respectively, as adjusted to exclude the shares issued or repurchased under the Restricted Share Award Scheme in prior years.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

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

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

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Earnings			
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	6,926	5,042	4,289
Profit for the year from subsidiaries used in the calculation of diluted earnings per shares from convertible and exchangeable bonds	(305)	(16)	(16)
Interest on convertible and exchangeable bonds	12	-	-
	<u>6,633</u>	<u>5,026</u>	<u>4,273</u>
	2017 Number of shares	2016 Number of shares	2015 Number of shares
Weighted average number of Ordinary shares in issue	6,097,402,727	6,099,297,846	6,094,732,973

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

13. PROPERTY, PLANT AND EQUIPMENT

	Land and building RMB'M	Leasehold improvement RMB'M	Machinery and equipment RMB'M	Motor vehicles RMB'M	Furniture, fixtures and equipment RMB'M	Construction in progress RMB'M	Total RMB'M
Cost							
At 1 January 2015	5,125	57	7,593	195	697	1,357	15,024
Additions	23	10	4	32	7	2,162	2,238
Written-off/disposals	(59)	(1)	(627)	(55)	(67)	-	(809)
Reclassified as held for sale	(124)	-	(111)	-	(2)	-	(237)
Acquisition through business combinations (note 42)	97	-	7	88	7	12	211
Disposal of subsidiaries (note 43)	(18)	-	(327)	-	(10)	(6)	(361)
Transfer from construction in progress	909	-	929	33	263	(2,134)	-
Exchange difference	4	-	(9)	(8)	1	1	(11)
At 31 December 2015 and 1 January 2016	5,957	66	7,459	285	896	1,392	16,055
Additions	2	35	357	7	50	2,069	2,520
Written-off/disposals	(150)	-	(658)	(34)	(141)	(5)	(988)
Acquisition through business combinations (note 42)	1,105	2	5,918	-	-	119	7,144
Transfer from construction in progress	630	-	994	12	170	(1,806)	-
Transfer to investment properties (note 14)	(23)	-	-	-	-	-	(23)
Exchange difference	131	-	414	2	17	19	583
At 31 December 2016 and 1 January 2017	7,652	103	14,484	272	992	1,788	25,291
Additions	286	29	611	15	16	2,428	3,385
Written-off/disposals	(106)	-	(901)	(46)	(78)	-	(1,131)
Acquisition through business combinations (note 42)	138	14	23	7	7	1	190
Disposal of subsidiaries (note 43)	-	-	-	-	-	(2)	(2)
Transfer from construction in progress	828	12	1,704	41	91	(2,676)	-
Exchange difference	(94)	(1)	(440)	(1)	(2)	(9)	(547)
At 31 December 2017	8,704	157	15,481	288	1,026	1,530	27,186
Accumulated depreciation and impairment							
At 1 January 2015	1,672	-	4,077	104	377	15	6,245
Charge for the year	257	14	555	64	79	-	969
Written-off/disposals	(29)	-	(488)	(46)	(58)	-	(621)
Transfer from construction in progress	15	-	-	-	-	(15)	-
Disposal of subsidiaries (note 43)	(9)	-	(164)	-	(4)	-	(177)
Reclassified as held for sale	(114)	-	(104)	-	(2)	-	(220)
Impairment provided for the year	5	-	-	-	-	-	5
Exchange difference	3	-	(9)	(14)	-	-	(20)
At 31 December 2015 and 1 January 2016	1,800	14	3,867	108	392	-	6,181
Charge for the year	366	19	1,531	61	190	-	2,167
Written-off/disposals	(54)	-	(415)	(31)	(115)	-	(615)
Impairment provided for the year	-	-	-	-	-	2	2
Exchange difference	28	-	124	1	4	-	157
At 31 December 2016 and 1 January 2017	2,140	33	5,107	139	471	2	7,892
Charge for the year	426	26	1,850	48	72	-	2,422
Written-off/disposals	(27)	(1)	(561)	(42)	(29)	-	(660)
Transfer from construction in progress	2	-	-	-	-	(2)	-
Impairment provided for the year	-	-	4	-	-	-	4
Exchange difference	(6)	(1)	(96)	(1)	-	-	(104)
At 31 December 2017	2,535	57	6,304	144	514	-	9,554
Net book value							
At 31 December 2017	6,169	100	9,177	144	512	1,530	17,632
At 31 December 2016	5,512	70	9,377	133	521	1,786	17,399
At 31 December 2015	4,157	52	3,592	177	504	1,392	9,874

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2017, 2016 and 2015, certain of the Group's land and buildings with an aggregate net book value of approximately RMB2,030 million, RMB2,306 million and RMB2,963 million, respectively, which did not have building ownership certificates registered under the names of the respective subsidiaries of the Company, respectively.

With respect to the above properties, the Group's investment properties and prepaid land lease payments, in prior years, Haier Corp issued to the Group three undertakings, pursuant to which Haier Corp agreed to provide other suitable properties to the Group to ensure the operations of certain subsidiaries of the Company are not disrupted and/or indemnify the Group against any losses arising from the above defective property title issue. The aggregate net book value of the Group's buildings indemnified by Haier Corp as at 31 December 2017, 2016 and 2015 amounted to approximately RMB117 million, RMB120 million and RMB130 million, respectively.

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

(i) *Leased assets*

Fixed assets included the following amounts where the Group is a lessee under finance leases.

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Leased equipment			
Cost	-	32	33
Accumulated depreciation	-	(20)	(5)
Net book value	-	12	28

(ii) *Non-current assets pledged as security*

Refer to note 47 for information on non-current assets pledged as security by the Group.

(iii) *Impairment losses recognised during the year*

The carrying amounts of property, plant and equipment is assessed at the end of each reporting period for indications of impairment with reference to the assessment undertaken by management. Such assessment assessed the recoverable amount of each asset being the higher of its value in use or its fair value less costs to sell. During the year ended 31 December 2017, 2016 and 2015 an impairment loss of approximately RMB4 million, RMB2 million and RMB5 million was recognised in the consolidated statement of profit or loss respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

14. INVESTMENT PROPERTIES

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Cost at 1 January, net of accumulated depreciation	35	12	39
Transfer from owner-occupied properties (note 13)	-	23	-
Transfer to assets held-for-sale	-	-	(27)
Depreciation provided during the year	(2)	(2)	-
Exchange realignment	(2)	2	-
Cost at 31 December, net accumulated depreciation	31	35	12
At 31 December:			
Cost	47	49	24
Accumulated depreciation	(16)	(14)	(12)
Net carrying amount	31	35	12

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

The fair values of the Group's investment properties erected on land are as following:

	2017 RMB'M	2016 RMB'M	2015 RMB'M
- Mainland China	25	23	22
- Hong Kong	22	26	-
	47	49	22

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

14. INVESTMENT PROPERTIES (CONTINUED)

As at 31 December 2017, 2016 and 2015, the Group's investment properties erected on land in Mainland China amounted to RMB11 million, RMB11 million and RMB12 million, respectively, which did not have building ownership certificates registered under the names of the respective subsidiaries of the Company. The Group obtained an undertaking from Haier Corp in relation to this defective property title issue, details of which are set out in note 13 to the consolidated financial statements.

15. PREPAID LAND LEASE PAYMENTS

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Carrying amount at 1 January	1,458	1,266	923
Additions	183	238	320
Acquisition of subsidiaries (note 42)	-	-	53
Disposal of subsidiaries (note 43)	(13)	(21)	(4)
Amortisation for the year	(44)	(28)	(26)
Exchange realignment	(1)	3	-
Carrying amount at 31 December	1,583	1,458	1,266
Current portion included in prepayments, deposits and other receivables	(42)	(30)	(32)
Non-current portion	1,541	1,428	1,234

As at 31 December 2017, 2016, and 2015, certain parcels of the Group's leasehold land with an aggregate carrying amount of approximately RMB121 million, RMB108 million and RMB139 million, respectively, which did not have land use right certificates registered under the names of the respective subsidiaries of the Company. Details of the undertakings granted by Haier Corp to the Company in relation to this defective property title issue are set out in note 13 to the consolidated financial statements.

As at 31 December 2017, 2016 and 2015, certain parcels of the Group's leasehold land with an aggregate carrying amount of RMB5 million, RMB13 million and, RMB11 million, respectively, were pledged to secure loans granted to the Group (note 30).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

16. GOODWILL

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Cost at 1 January	21,004	392	74
Acquisition of subsidiaries (note42)	32	19,462	318
Exchange realignment	(1,193)	1,150	-
Cost at 31 December	19,843	21,004	392
At 31 December:			
Cost	19,843	21,004	392
Accumulated impairment	-	-	-
Net carrying amount	19,843	21,004	392

Goodwill acquired through business combinations are allocated to the following cash-generating units for impairment testing:

- Qingdao Goodaymart Home Furnishing Service Co., Ltd. ("Qingdao Furnishing Service")
- Shanghai Boyol New Brothers Supply Chain Management Co., Ltd. ("Shanghai Beiye Supply Chain");
- Sheng Feng Logistics Group Co., Ltd. ("Shengfeng Logistics");
- GE Appliances, Household Appliance Assets and Business of General Electric ("GEA");
- Shanghai Grand Logistics Co., Ltd. ("Grand Logistics"); and
- GREENoneTEC Solarindustrie GmbH. ("GoT").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

16. GOODWILL (CONTINUED)**Qingdao Furnishing Service**

The recoverable amount of Qingdao Furnishing Service has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 17.2%, 17.2% and 17.5% for the years ended 31 December 2017, 2016 and 2015 respectively. The growth rate used to extrapolate the cash flows beyond the five-year period is 3%, 3% and 3% for the years ended 31 December 2017, 2016 and 2015 respectively.

Shanghai Beiye Supply Chain

The recoverable amount of Shanghai Beiye Supply Chain has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 18.5%, 18.5% and 18.2% for the years ended 31 December 2017, 2016 and 2015 respectively. The growth rate used to extrapolate the cash flows beyond the five-year period is 3%, 3% and 3% for the years ended 31 December 2017, 2016 and 2015 respectively.

Assumptions were used in the value in use calculation of the cash-generating units for years ended 31 December 2017, 2016 and 2015. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

Shengfeng Logistics

The recoverable amount of Shengfeng Logistics has been determined based on its fair value less cost of disposal categorised in Level 3 using cash flows projections on financial budgets covering a ten-year period approved by senior management. The discount rate applied to the cash flow projections is 14.7%, 14.5% and 14.4% for the years ended 31 December 2017, 2016 and 2015 respectively. The growth rate used to extrapolate the cash flows beyond the ten-year period is 3%, 3% and 3% for the years ended 31 December 2017, 2016 and 2015 respectively.

Assumptions were used in the fair value calculation for the year ended 31 December 2017, 2016 and 2015. The following describes each key assumption on which management has based its cash flow projections to determine the fair value:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

16. GOODWILL (CONTINUED)**Shengfeng Logistics (continued)**

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

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

Turnover days of net working capital – The basis used to determine the value assigned to the turnover days of net working capital is the actual turnover days for the years ended 31 December 2017, 2016 and 2015, decreased for management efficiency improvement.

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

GEA

The recoverable amount of GEA has been determined based on its fair value less cost of disposal categorised in Level 3 using cash flows projections on financial budgets covering a sixteen-year period approved by senior management. The range of discount rate applied to the cash flow projections for the year ended 31 December 2017 and 2016 of approximately 9% and 10%. The growth rate used to extrapolate the cash flows beyond the sixteen-year period is 2% and 2% for the years ended 31 December 2017 and 2016 respectively.

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

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

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

Turnover days of net working capital – The basis used to determine the value assigned to the turnover days of net working capital is the actual turnover days for the years ended 31 December 2017 and 2016, decreased for management efficiency improvement.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

16. GOODWILL (CONTINUED)**Grand Logistics**

The recoverable amount of Grand Logistics has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15.8% for the year ended 31 December 2017. The growth rate used to extrapolate the cash flows beyond the five-year period is 3% for the year ended 31 December 2017.

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

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

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

GoT

The recoverable amount of GoT has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15.7% for the year ended 31 December 2017. The growth rate used to extrapolate the cash flows beyond the five-year period is 3% for the year ended 31 December 2017.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

16. GOODWILL (CONTINUED)

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

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Qingdao Furnishing Service	6	6	6
Shanghai Beiye Supply Chain	68	68	68
Shengfeng Logistics	318	318	318
GEA	19,419	20,612	-
Grand Logistics	29	-	-
GoT	3	-	-
	19,843	21,004	392

17. OTHER INTANGIBLE ASSETS

	Proprietary Technology RMB'M	Patents and licences RMB'M	Trademarks RMB'M	Software & others RMB'M	Total RMB'M
31 December 2017					
At 1 January 2017:					
Cost	773	3,933	659	808	6,173
Accumulated amortisation and impairment	(48)	(57)	-	(252)	(357)
Net carrying amount	725	3,876	659	556	5,816
Cost at 1 January 2017, net of accumulated amortisation and impairment	725	3,876	659	556	5,816
Acquisition of subsidiaries (note 42)	-	-	-	9	9
Additions	14	47	-	219	280
Written-off/disposals	-	(54)	-	(10)	(64)
Amortisation provided for the year	(80)	(98)	-	(113)	(291)
Impairment provided for the year	-	-	-	(10)	(10)
Exchange difference	(40)	(222)	(38)	(18)	(318)
Cost at 31 December 2017, net of accumulated amortisation and impairment	619	3,549	621	633	5,422
At 31 December 2017:					
Cost	743	3,698	621	998	6,060
Accumulated amortisation and impairment	(124)	(149)	-	(365)	(638)
Net carrying amount	619	3,549	621	633	5,422

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

17. OTHER INTANGIBLE ASSETS (CONTINUED)

31 December 2016

At 1 January 2016:					
Cost	3	-	-	356	359
Accumulated amortisation and impairment	(3)	-	-	(135)	(138)
Net carrying amount	-	-	-	221	221

Cost at 1 January 2016, net of accumulated amortisation and impairment	-	-	-	221	221
Acquisition of subsidiaries (note 42)	727	3,714	622	259	5,322
Additions	-	-	-	120	120
Disposal of subsidiaries (note 43)	-	-	-	(2)	(2)
Amortisation provided for the year	(44)	(56)	-	(114)	(214)
Exchange difference	42	218	37	72	369

Cost at 31 December 2016, net of accumulated amortisation and impairment	725	3,876	659	556	5,816
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At 31 December 2016:					
Cost	773	3,933	659	808	6,173
Accumulated amortisation and impairment	(48)	(57)	-	(252)	(357)
Net carrying amount	725	3,876	659	556	5,816

31 December 2015

At 1 January 2015:					
Cost	3	-	-	227	230
Accumulated amortisation and impairment	(3)	-	-	(108)	(111)
Net carrying amount	-	-	-	119	119

Cost at 1 January 2015, net of accumulated amortisation and impairment	-	-	-	119	119
Acquisition of subsidiaries (note 42)	-	-	-	1	1
Additions	-	-	-	130	130
Amortisation provided for the year	-	-	-	(29)	(29)

Cost at 31 December 2015, net of accumulated amortisation and impairment	-	-	-	221	221
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At 31 December 2015:					
Cost	3	-	-	356	359
Accumulated amortisation and impairment	(3)	-	-	(135)	(138)
Net carrying amount	-	-	-	221	221

The following useful lives are used in the calculation of amortisation:

Proprietary technology	10 years
Patents and licences	40 years
Trademarks	Indefinite
Software & Others	not exceeding than 10 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

18. INVESTMENTS IN ASSOCIATES

	2017 RMB'M	2016 RMB'M	2015 RMB'M
At 1 January	11,058	4,959	3,583
Additions during the year	561	5,184	634
Share of post-acquisition profits, net of dividend received	1,002	942	685
Share of other comprehensive (loss)/income	(307)	(16)	40
Other changes in equity	749	(1)	36
Disposals during the year	(49)	(10)	(19)
Impairment loss recognised	(21)	-	-
At 31 December	12,993	11,058	4,959

The Group's trade and other receivable and payable balances with the associates are disclosed in note 45 to the consolidated financial statements, respectively.

Details of each of the Group's material investments in associates at 31 December 2017, 2016 and 2015 are as follows:

Name of associates	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest/voting rights held held by the Group		
			2017 %	2016 %	2015 %
Haier Group Finance Co., Ltd.	Financing	PRC	42.00	42.00	42.00
CONTROLADORA MABE S.A.deC.V	Manufacturing of household appliances	Mexico	48.41	48.41	-
Bank of Qingdao co., Ltd.	Commercial bank	PRC	9.61	9.47	-

Haier Group Finance Co., Ltd.

Set out below are the summarised financial information of Haier Group Finance Co., Ltd. extracted from its financial statements prepared under generally accepted accounting principles in the PRC.

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Non-current assets	7,914	7,512	4,186
Current assets	68,438	64,555	56,908
Current liabilities	(62,030)	(57,729)	(48,277)
Non-current liabilities	(3,173)	(4,556)	(4,234)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

18. INVESTMENTS IN ASSOCIATES (CONTINUED)

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Revenue	2,653	2,333	2,721
Profit for the year	1,427	1,274	1,523
Other comprehensive (loss)/income	(60)	(75)	74
Total comprehensive income	1,669	1,199	1,597
Dividend received	210	294	-
Reconciliation to carrying amounts:			
	2017 RMB'M	2016 RMB'M	2015 RMB'M
Net assets value as at 31 December	11,149	9,782	8,583
Group's share in %	42	42	42
Carrying amount	4,683	4,109	3,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

18. INVESTMENTS IN ASSOCIATES (CONTINUED)

CONTROLADORA MABE S.A.deC.V.

Set out below are the summarised financial information of CONTROLADORA MABE S.A.deC.V. extracted from its financial statements prepared under International Financial Reporting Standards.

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Non-current assets	10,304	9,986	-
Current assets	5,825	5,411	-
Current liabilities	(7,048)	(5,948)	-
Non-current liabilities	(5,837)	(6,151)	-
	2017 RMB'M	2016 RMB'M	2015 RMB'M
Revenue	19,990	9,967	-
Profit for the year	388	452	-
Other comprehensive (loss)/income	(334)	155	-
Total comprehensive income	54	607	-
Dividend received	34	-	-
Reconciliation to carrying amounts:			
	2017 RMB'M	2016 RMB'M	2015 RMB'M
Net assets value as at 31 December	3,244	3,298	-
Group's share in %	48.41	48.41	-
Share of net assets value	1,571	1,597	-
Goodwill	1,415	1,415	-
Carrying amount	2,986	3,012	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

18. INVESTMENTS IN ASSOCIATES (CONTINUED)

Bank of Qingdao co., Ltd.

Set out below are the summarised financial information of Bank of Qingdao co., Ltd. extracted from its financial statements prepared under generally accepted accounting principles in the PRC.

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Non-current assets	175,910	159,107	-
Current assets	130,366	118,881	-
Current liabilities	(203,654)	(214,236)	-
Non-current liabilities	(76,499)	(46,116)	-
	2017 RMB'M	2016 RMB'M	2015 RMB'M
Revenue	5,568	5,996	-
Profit for the year	1,904	2,089	-
Other comprehensive loss	(949)	(420)	-
Total comprehensive income	955	1,699	-
Dividend received	77	77	-
Reconciliation to carrying amounts:			
	2017 RMB'M	2016 RMB'M	2015 RMB'M
Net assets value as at 31 December	26,123	17,636	-
Group's share in %	9.61	9.47	-
Carrying amount	2,510	1,670	-

The unrecognised share of losses of the investments in associates for the year ended 31 December 2017, 2016 and 2015 amounted to RMB1 million Nil and Nil, respectively, and cumulatively as at 31 December 2017, 2016 and 2015 amounted to RMB1 million, Nil and Nil respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

19. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Listed equity investments, at fair value	27	52	1,454
Unlisted equity investments, at cost	1,418	1,507	1,325
Impairment	(30)	(3)	(3)
	1,415	1,556	2,776

As at the end of the reporting period, certain of the Group's available-for-sale investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of them in the near future.

20. OTHER NON-CURRENT ASSETS

Included in other non-current assets are balances of approximately RMB966 million, RMB913 million, and RMB78 million as at 31 December 2017, 2016 and 2015, respectively, which related to the expenditure incurred on developing new technology and software and to be amortised using the straight-line basis over the commercial lives of the technology and software, when they are put into commercial production.

21. INVENTORIES

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Raw materials	3,426	2,029	1,292
Work in progress	212	216	101
Inventory for construction in progress	188	159	184
Finished goods	17,678	12,881	6,998
	21,504	15,285	8,575

At 31 December 2015, certain inventories with an aggregate carrying amount of RMB31 million were pledged as security for the Group's borrowings, as further detailed in note 30 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

22. TRADE AND BILLS RECEIVABLES

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Trade receivables	12,892	12,674	6,511
Impairment	(444)	(409)	(443)
	12,448	12,265	6,068
Bills receivables	13,033	13,797	12,674
	25,481	26,062	18,742

The Group's trading terms with the sizeable customers are mainly on credit, where payment in advance is normally required on the remain customers. The credit period is generally ranging from 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

As at 31 December 2017, 2016 and 2015, included in the Group's trade and bills receivables are amounts due from Haier Corp and its subsidiaries and/or associates (Collectively referred to as "Haier Affiliates") of RMB764 million, RMB820 million and RMB1,504 million and due from associates of RMB142 million, RMB273 million and RMB280 million which are repayable on credit terms similar to those offered to the major customers of the Group. Further details of the sales to these related parties are set out in note 45 to the consolidated financial statements.

The movements in provision for impairment of trade receivables are as follows:

	2017 RMB'M	2016 RMB'M	2015 RMB'M
At 1 January	409	443	422
Acquisition of subsidiaries	2	-	8
Disposal of subsidiaries	(1)	-	(10)
Provision/(reversal of provision) for impairment of trade receivables, net	68	(34)	59
Amount written off as uncollectible	(21)	(21)	(6)
Exchange realignment	(13)	21	(30)
At 31 December	444	409	443

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

22. TRADE AND BILLS RECEIVABLES (CONTINUED)

Included in the above provision for impairment of trade receivables is a provision for impaired trade receivables for the years ended 31 December 2017, 2016 and 2015 of approximately RMB444 million, RMB409 million and RMB443 million respectively, with a carrying amount before provision of RMB12,892 million, RMB12,674 million and RMB6,511 million respectively.

Past due but not impaired

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Less than 1 year	12	-	-

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

At 31 December 2017, 2016 and 2015, certain of the Group's trade and bills receivables of approximately RMB10,123 million, RMB8,480 million and RMB7,943 million were pledged to secure certain of the Group's bills payable respectively (note 28).

At 31 December 2017, 2016 and 2015, certain of the Group's trade and bills receivables of approximately RMB57 million, RMB873 million and RMB nil pledged to secure certain of the Group's borrowings, respectively (note 30).

Transferred receivables

The carrying amounts of the trade receivables include receivables which are subject to the factoring and securitisation arrangements. Under these arrangements, the Group has transferred the relevant receivables to the factor in exchange for cash and is prevented from selling or pledging the receivables. However, the Group has retained late payment and credit risk. The Group therefore continues to recognise the transferred assets in their entirety in its statement of consolidated financial position. The amount repayable under the factoring agreement is presented as secured borrowing.

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Trade receivables under factoring and securitisation arrangements	4,789	4,907	30

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

23. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Dividend receivables	5	102	86
Interest receivables	204	135	184
Taxes recoverable	1,942	1,796	963
Prepaid land lease payments	42	30	32
Prepayment	591	593	541
Deposits	86	88	88
Other receivables	1,336	1,532	764
	4,206	4,276	2,658
Impairment	(77)	(98)	(45)
	4,129	4,178	2,613

As at 31 December 2017, 2016 and 2015, included in the Group's prepayment, deposits and other receivables are amounts due from Haier Affiliates of RMB200 million, RMB371 million and RMB 300 million and amounts due from associates of RMB274 million, RMB306 million and RMB 280 million, respectively. Further details of the sales to these related parties are set out in note 45 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

24. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging criteria or are not designated as hedging instruments, they are classified as 'held for trading' for accounting purposes below. The Group has the following derivative financial instruments:

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Non-current assets			
Financial assets at fair value through profit or loss	46	38	78
Foreign currency forward contracts			
– fair value hedges	343	-	-
	389	38	78
Current assets			
Foreign currency forward contracts			
– held for trade	21	80	22
– fair value hedges	5	3	-
Interest rate swaps			
– cash flow hedges	51	17	-
	77	100	22
Current liabilities			
Foreign currency forward contracts			
– held for trade	3	2	8
Non-current liabilities			
Foreign currency forward contracts			
– held for trade	242	-	-
– fair value hedges	-	583	-
Others	7	-	-
	249	583	-

Note:

Derivative financial assets represent the amounts the Group would receive whilst derivative financial liabilities represent the amounts the Group would pay if the positions were closed at the end of the reporting period. In respect of derivative financial instruments that do not qualify for hedge accounting or are not designated as hedging instruments, their corresponding changes in fair values have been recognised in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

During the year ended 31 December 2016, a foreign subsidiary of the Company entered into foreign currency forward contracts to minimise the exposure to fluctuations in RMB exchange rates of borrowings, which are denominated in RMB, in respect of the principal repayments. The foreign currency forward contracts designated as hedging instruments in fair value hedges will offset the impact of future changes in exchange rate on the fair value of the underlying borrowings. The foreign currency forwards are reflected at fair value in the consolidated statement of financial position and the related portion of borrowings being hedged is reflected at an amount equal to the sum of its carrying amount plus an adjustment representing the change in fair value of the borrowings attributable to the currency risk being hedged.

During the year ended 31 December 2017 and 2016, the foreign subsidiary of the Company also entered into interest rate swap contracts with various financial institutions to minimise its exposure to fluctuations in interest rates of its variable interest bearing borrowings. At 31 December 2017 and 2016, the Group has interest swap contracts outstanding with an aggregate notional contract amount of US\$806.5 million and US\$145.0 million, respectively.

The fair values of the above derivative under hedge accounting are based on the valuation provided by the counterparty financial institutions and measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

25. OTHER FINANCIAL ASSETS

Other financial assets represented financial products with original maturity of within one year when acquired from banks. The principals of these financial products are guaranteed by banks and cannot be withdrawn prior to the maturity date.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Cash and bank balances and time deposits	35,177	23,582	24,758
Less: Deposits pledged for bank guarantee and bills payable (note 28)	(837)	(287)	(32)
Cash and cash equivalents	34,340	23,295	24,726

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (CONTINUED)

As at 31 December 2017, 2016 and 2015, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB24,932 million, RMB19,469 million and RMB21,428 million, respectively. These cash and bank balances are subject to the rules and regulations of foreign exchange control promulgated by the PRC government. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of up to one year depending on the immediate cash requirements of the Group, and earn interest at the deposit rates of the respective periods. The bank balances and pledged deposits are deposited with creditworthy banks or financial institutions with no recent history of default.

Included in the Group's cash and cash equivalents are deposits of approximately RMB13,024 million, RMB9,651million and RMB11,183million as at 31 December 2017, 2016 and 2015 placed with Haier Group Finance Co., Ltd. ("Haier Finance") respectively, which is a fellow subsidiary of the Group and is a financial institution approved by the People's Bank of China. The interest rate on these deposits ranges from 0.3% to 3.3% per annum. Further details of the interest income attributable to the deposits placed with Haier Finance are set out in note 45 to the consolidated financial statements.

27. ASSETS HELD-FOR-SALE

During the years ended 31 December 2015 and 2014, Qingdao Haier Refrigerator (International) Co., Ltd and Qingdao Haier Air Conditioner Gen Corp., Ltd. signed a demolition compensation agreement with the local government with regards to certain land use rights with the local government. The Group classified the land use rights and property, plant and equipment as assets held-for-sale. Due to delay of the settlement, approximately RMB56 million, RMB56 million and RMB74 million of the aforementioned assets remains at assets held-for-sale as at 31 December 2017, 2016 and 2015, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

28. TRADE AND BILLS PAYABLES

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Trade payables	25,654	20,602	14,673
Bills payables	16,379	12,405	11,597
	42,033	33,007	26,270

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

Included in the Group's trade and bills payables are amounts due to Haier Affiliates as at 31 December 2017, 2016 and 2015 of RMB2,753 million, RMB1,786 million and RMB3,138 million, respectively. As at 31 December 2017, 2016 and 2015, the amounts due to associates of RMB469 million, RMB1,384 million and RMB83 million respectively are repayable on credit terms similar to those offered by other similar suppliers of the Group respectively. Further details of the purchases from these related parties are set out in note 45 to the consolidated financial statements.

At 31 December 2017, 2016 and 2015 certain of the Group's bills payable are secured by the pledge of the Group's bank deposits amounting to RMB837 million, RMB287 million and RMB32 million) (note 26) respectively and the Group's trade and bills receivable amounting to RMB10,123 million, RMB8,480 million, RMB7,943 million (note 22) respectively.

29. RECEIPT IN ADVANCE, OTHER PAYABLES AND ACCRUALS

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Receipt in advance	5,834	5,737	3,148
Deferred income	55	60	46
Accrued staff costs	2,262	2,363	1,236
Employee benefit obligation (note 37)	88	46	-
Other tax payables	683	707	201
Dividend payable	154	149	133
Interest payable	58	31	15
Other payables	5,573	5,639	3,396
Accruals	5,231	3,820	2,699
	19,938	18,552	10,874

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

29. RECEIPT IN ADVANCE, OTHER PAYABLES AND ACCRUALS (CONTINUED)

As at 31 December 2017, 2016 and 2015, included in the Group's other payables and accruals, receipt in advance, dividend payable and interest payable are amounts due to Haier Affiliates of RMB982 million, RMB1,241 million and RMB841 million respectively.

30. INTEREST-BEARING BORROWINGS

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Bank loans	25,606	26,070	1,139
Other loans	4,252	9,426	1,048
	29,858	35,496	2,187
Secured loans	25,237	27,511	1,126
Unsecured loans	4,621	7,985	1,061
	29,858	35,496	2,187
Analysed into:			
loans repayable within			
one year or on demand	13,729	19,872	1,847
Between one and five years	16,094	15,577	308
Over five years	35	47	32
	29,858	35,496	2,187
Less: Current portion of interest-bearing borrowings	(13,729)	(19,872)	(1,847)
Non-current portion of interest-bearing borrowings	16,129	15,624	340

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

30. INTEREST-BEARING BORROWINGS (CONTINUED)

Loans at principal amounts are denominated in the following currencies (inclusive of the effect of hedging transactions):

	2017 RMB'M	2016 RMB'M	2015 RMB'M
US dollars	25,305	25,670	190
RMB	4,126	8,450	131
Other currencies	427	1,376	1,866
	29,858	35,496	2,187

The ranges of effective interest rates on the Group's loans are as follows:

	2017	2016	2015
Effective interest rates	1.05 % to 12.00 %	1.05 % to 11.05 %	1.05 % to 11.65 %

The assets pledged as security or corporate guarantee provided for the Group's secured loans are as follows:

	2017 RMB'M	2016 RMB'M	2015 RMB'M
<u>Assets</u>			
Inventories	-	-	31
Property, plant and equipment	123	18	55
Prepaid land lease payments	5	13	11
Trade and bills receivables	57	873	-
	185	904	97
<u>Corporate guarantee</u>			
Haier Corp	20,638	23,351	1,001
Others	31	50	-
	20,669	23,401	1,001

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

30. INTEREST-BEARING BORROWINGS (CONTINUED)

As at 31 December 2017 and 2016, bank loans of approximately USD1,980 million (equivalent to approximately RMB12,940 million) and USD2,371 million (equivalent to approximately RMB 16,451 million) respectively were guaranteed by Haier Corp and shares of Haier US Appliance Solution, Inc.

31. CONVERTIBLE AND EXCHANGEABLE BONDS

In the year 2014, the Group and the Alibaba Group agreed on a strategic collaboration through the Strategic Investments Agreements to further develop the Group's logistics business carried out by Qingdao Goodaymart Logistics Co., Ltd. ("Goodaymart Logistics"), a then indirect wholly-owned subsidiary of the Company.

According to the Convertible and Exchangeable Bond Agreement entered into between the Group and the Alibaba Group on 20 March 2014, Haier Electronics Group Co., Ltd. ("Haier Electronics"), issued convertible and exchangeable bonds (the "CEB") to Alibaba Group with a principal amount of HK\$1,316,036,000 (equivalent to RMB1,055,023,000). The CEB is interest-bearing at a rate of 1.5% per annum and is due to mature on 20 March 2017. The CEB is convertible into ordinary shares of Haier Electronics at a conversion price of HK\$19.334 per share (the "Conversion Right") or exchangeable into the ordinary shares of Goodaymart Logistics (the "Exchange Right"), at the option of the CEB holders. If the Conversion Right is exercised, all interests accrued up to the date of the conversion will be payable and taken into account in arriving at the number of convertible shares. If the Exchange Right is exercised, no interest will be payable by Haier Electronics.

The fair value of the liability component of the CEB amounting to RMB1,000,185,000 was estimated at the issuance date using an equivalent market interest rate for a similar bond without conversion and exchange options. During the year 31 December 2017, the CEB was fully converted by Alibaba Group.

On 21 November 2017, Harvest International Company Limited, a wholly owned subsidiary of the Company, issue a principal amount of HK\$8,000 million convertible and exchangeable bonds. The convertible and exchangeable bonds mature at the five anniversary of the issue date and bears interest of 1% per annum.

The components of the convertible and exchangeable bonds on the issuance date were recognised into as follows:

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Liability component	6,300	1,000	1,000
Equity component – Exchange Right	431	55	55
	6,731	1,055	1,055

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

31. CONVERTIBLE AND EXCHANGEABLE BONDS (CONTINUED)

The movement of the liability component of CEB and convertible and exchangeable bonds is as follows:

	2017 RMB'M	2016 RMB'M	2015 RMB'M
At 1 January	1,223	1,108	1,024
Additions	6,300	-	-
Interest expense (note 9)	12	37	34
Exercise of CEB	(1,223)	-	-
Exchange realignment	(101)	78	50
At 31 December	6,211	1,223	1,108

32. AMOUNT DUE TO NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The amount due to non-controlling shareholder of a subsidiary was unsecured, interest-free and repayable on demand.

33. PROVISIONS

	Current			Non-current		
	2017 RMB'M	2016 RMB'M	2015 RMB'M	2017 RMB'M	2016 RMB'M	2015 RMB'M
Product warranties and installation	1,610	1,494	1,096	991	782	746
Legal claim	-	-	-	18	19	14
	1,610	1,494	1,096	1,009	801	760

(i) Information about individual provisions and significant estimates

Product warranties and installation

Significant assumptions and estimates related to the estimated charges of Product warranties and installations: the Company rationally estimates the rate of – Product warranties and installations according to the previous actual expenditures and sales data on “Product Warranties” and installations, and estimates the potential charges of Product warranties and installations based on the policy of Product warranties and installations and the realised sales data.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

33. PROVISION (CONTINUED)

(i) Information about individual provisions and significant estimates (continued)

Legal claim

As at 31 December 2017, 2016 and 2015, the Group had provisions classified as non-current liabilities in respect of a number of legal proceedings arising in the normal course of its business. This provision was recognised based on management's best estimate after consultation with the legal counsel on the possible outcome and liability of the Group. In cases where the actual future outcomes differ from the estimation, further provision may be required.

(ii) Movements in provisions

	Product warranties And installations RMB'M	Legal claim RMB'M	Total RMB'M
Carrying amount as at 1 January 2015	1,913	19	1,932
Charged to profit or loss	2,461	-	2,461
Exchange realignment	1	-	1
Amounts used during the year	(2,533)	(5)	(2,538)
Carrying amount as at 31 December 2015 and 1 January 2016	1,842	14	1,856
Charged to profit or loss	2,987	4	2,991
Acquisition of subsidiaries (note 42)	256	-	256
Exchange realignment	27	1	28
Amounts used during the year	(2,836)	-	(2,836)
Carrying amount as at 31 December 2016 and 1 January 2017	2,276	19	2,295
Charged to profit or loss	4,197	-	4,197
Acquisition of subsidiaries (note 42)	4	-	4
Exchange realignment	(18)	(1)	(19)
Amounts used during the year	(3,858)	-	(3,858)
Carrying amount as at 31 December 2017	2,601	18	2,619

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

34. OTHER NON-CURRENT LIABILITIES

During the year ended 31 December 2017, as part of the purchase agreement in relation to the Group's acquisition of a 51% interest in GoT, the seller, which has then become the non-controlling shareholder of GoT, was granted a put option to sell the remaining 49% interest in GoT, to the Group at a price to be determined based on an agreed formula. The put option liability is carried at fair value of approximately RMB55,510,000 as at 31 December 2017, and is categorised in Level 3 of the fair value measurement.

During the year 31 December 2017, as part of the joint venture agreement in relation to the capital contribution to Qingdao Goodaymart Logistics Co., Ltd. ("Goodaymart Logistics"), the new investors, which have then become the non-controlling shareholders of Goodaymart Logistics, were granted put options to sell their interest in Goodaymart Logistics to the Group at prices to be determined based on an agreed formula. The put option liabilities are carried at fair value of approximately RMB861,428,000 as at 31 December 2017, and is categorised in Level 2 of the fair value measurement.

The put option liabilities under other current liabilities in the prior year were extinguished upon the exercise of the corresponding put options during the year ended 31 December 2017.

35. DEFERRED INCOME

As at 31 December 2017, 2016 and 2015, the Group has unused government grants in relation to the construction of qualifying assets and its future achievements. The deferred income will be recognised over the useful life of the qualifying assets and upon satisfaction of its future achievements.

36. DEFERRED TAX

The deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when the deferred income taxes relate to the same fiscal authority. The amounts shown in the consolidated statement of financial position are determined after appropriate offset.

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Deferred tax assets	1,895	1,592	971
Deferred tax liabilities	279	133	113
Net deferred tax assets	1,616	1,459	858

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

36. DEFERRED TAX (CONTINUED)

The amounts shown as below are determined before appropriate offset:

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Deferred tax assets			
Accruals	1,514	1,589	704
Provisions	185	206	125
Unrealised profits	418	306	176
Others	328	11	10
	2,445	2,112	1,015
Deferred tax liabilities			
Withholding taxes	162	39	9
Accelerated depreciation and amortisation	472	461	5
Others	195	153	143
	829	653	157
Total deferred tax assets, net	1,616	1,459	858

Deferred tax assets have not been recognized with respect of the following items:

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Deductible temporary differences	283	273	237
Tax loss carry-forwards	217	467	264
	500	740	501

The deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when the deferred income taxes relate to the same fiscal authority. The amounts shown in the consolidated statement of financial position are determined after appropriate offset.

37. EMPLOYEE BENEFIT OBLIGATION

	2017			2016			2015		
	Current RMB'M	Non- current RMB'M	Total RMB'M	Current RMB'M	Non- current RMB'M	Total RMB'M	Current RMB'M	Non- current RMB'M	Total RMB'M
Defined pension benefit (i)	88	549	637	46	838	884	-	-	-
Termination benefits	-	82	82	-	54	54	-	36	36
Provision for work-related Injury compensation	-	267	267	-	317	317	-	-	-
	88	898	986	46	1,209	1,255	-	36	36

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

37. EMPLOYEE BENEFIT OBLIGATION (CONTINUED)

(i) Defined pension benefit

The Group's major defined benefit plans are in Japan and the United States. The plans are either contributory final salary pension plans or contributory career average pay plans or non-contributory guaranteed return defined contribution plans.

The amounts recognised in the consolidated statement of financial position and the movements in the net defined pension benefit over the years are as follows:

	Present value of obligation RMB'M	Fair value of plan assets RMB'M	Total RMB'M	Impact of minimum funding requirement / asset ceiling RMB'M	Net amount RMB'M
At 1 January 2015	276	(283)	(7)	-	(7)
Current service cost	9	-	9	-	9
Interest expense/(income)	3	(5)	(2)	-	(2)
Total amount recognised in profit or loss	12	(5)	7	-	7
Remeasurements Experience losses	6	-	6	-	6
Total amount recognised in other comprehensive income	6	-	6	-	6
Exchange differences	14	(14)	-	-	-
Contributions:					
Employers	-	(12)	(12)	-	(12)
Benefit payments	(22)	22	-	-	-
At 31 December 2015 and 1 January 2016	286	(292)	(6)	-	(6)
Current service cost	68	-	68	-	68
Past services cost	(120)	-	(120)	-	(120)
Interest expense/(income)	19	(4)	15	-	15
Total amount recognised In profit or loss	(33)	(4)	(37)	-	(37)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

37. EMPLOYEE BENEFIT OBLIGATION (CONTINUED)

(i) Defined pension benefit (continued)

	Present value of obligation RMB'M	Fair value of plan assets RMB'M	Total RMB'M	Impact of minimum funding requirement / asset ceiling RMB'M	Net amount RMB'M
Remeasurements					
Return on plan assets, excluding amounts included in interest income	-	(1)	(1)	-	(1)
Experience losses	24	-	24	-	24
Total amount recognised in other comprehensive income		24(1)	23	-	23
Exchange differences	76	(31)	45	-	45
Contributions:					
Employers	-	(21)	(21)	-	(21)
Business combination	885	-	885	-	885
Benefit payments	(46)	41	(5)	-	(5)
At 31 December 2016 and 1 January 2017	1,192	(308)	884	-	884
Current service cost	35	-	35	-	35
Past services cost	20	-	20	-	20
Interest expense/(income)	32	(2)	30	-	30
Total amount recognised In profit or loss	87	(2)	85	-	85
Remeasurements					
Return on plan assets, excluding amounts included in interest income	-	(13)	(13)	-	(13)
Experience losses	17	-	17	-	17
Total amount recognised in other comprehensive income		17 (13)	4	-	4
Exchange differences	(61)	17	(44)	-	(44)
Contributions:					
Employers	-	(272)	(272)	-	(272)
Benefit payments	(68)	44	(24)	-	(24)
At 31 December 2017	1,167	(534)	633	-	633

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

37. EMPLOYEE BENEFIT OBLIGATION (CONTINUED)

(i) Defined pension benefit (continued)

The net liabilities/(assets) disclosed above relates to funded and unfunded plans as follows:

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Present value of funded obligations	637	659	286
Less: Fair value of plan assets	(534)	(308)	(292)
Deficit/(surplus) of funded plans	103	351	(6)
Present value of unfunded obligations	530	533	-
Total deficit of defined benefit pension plans (before asset ceiling)	633	884	(6)

The following table shows a breakdown of the defined benefit obligation and plan assets by country:

	Japan RMB'M	2017 US RMB'M	Total RMB'M	Japan RMB'M	2016 US RMB'M	Total RMB'M	Japan RMB'M	2015 US RMB'M	Total RMB'M
Present value of obligation	303	864	1,167	315	877	1,192	286	-	286
Less Fair value of plan assets	(307)	(227)	(534)	(300)	(8)	(308)	(292)	-	(292)
Total liability/(assets)	(4)	637	633	15	869	884	(6)	-	(6)

The net defined benefit liabilities presented above represent the deficit calculated in accordance with International Accounting Standard 19 “Employee Benefits” (“IAS 19”) and is the difference between the present value of the defined benefit obligation and the fair value of plan assets. Management appointed actuaries to carry out a valuation of these pension plans to determine the pension obligation and the fair value of the plan assets that are required to be disclosed and accounted for in the financial statements in accordance with IAS 19 (the “accounting actuarial valuations”). The realisation of the deficit disclosed above is contingent upon the realisation of the actuarial assumptions made which is dependent upon a number of factors including the market performance of plan assets. The accounting actuarial valuations are not used for the purposes of determining the funding contributions to the defined benefit pension plans. Contributions to fund the obligations are based upon the recommendations of independent qualified actuaries for each of the Group’s pension plans to fully fund the relevant schemes on an ongoing basis. Funding requirements of the Group’s major defined benefit pension plans are detailed below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

37. EMPLOYEE BENEFIT OBLIGATION (CONTINUED)

(i) Defined pension benefit (continued)

Fair value of the plan assets are analysed as follows:

	2017 %	2016 %	2015 %
Cash and cash equivalent	27	36	68
Other assets	73	64	32
	100	100	100

IAS 19 “Employee Benefits” requires disclosure of a sensitivity analysis for the significant actuarial assumptions, used to determine the present value of the defined benefit obligations, that shows the effects of a hypothetical change in the relevant actuarial assumption at the end of the reporting period on defined benefit obligations.

The effect that is disclosed in the following assumes that (a) a hypothetical change of the relevant actuarial assumption had occurred at the end of the reporting period and had applied to the relevant actuarial assumption in existence on that date; and (b) the sensitivity analysis for each type of actuarial assumption does not reflect inter-dependencies between different assumptions.

The preparation and presentation of the sensitivity analysis for significant actuarial assumptions is solely for compliance with IAS 19 disclosure requirements in respect of defined benefit obligations. The sensitivity analysis measures changes in the defined benefit obligations from hypothetical instantaneous changes in one actuarial assumption (e.g. discount rate or future salary increase), the amount so generated from the sensitivity analysis are “what-if” forward-looking estimates. The sensitivity analyses are for illustration purposes only and it should be noted that in practice actuarial assumptions rarely change in isolation. Actual results in the future may differ materially from the sensitivity analyses due to developments in the markets which may cause fluctuations in actuarial assumptions (e.g. discount rate or future salary increase) to vary and therefore it is important to note that the hypothetical amounts so generated do not present a projection of likely future events and profits or losses.

The principal actuarial assumptions used for the purpose of the actuarial valuation were as follows:

	2017		2016		2015	
	Japan %	US %	Japan %	US %	Japan %	US %
Discount rate	0.50-2.00	3.21-3.98	1.10-2.00	3.21-3.98	1.10-2.00	-
Future salary increases	6.02	3.75	5.31	3.75	12.24	-
Average term of defined benefit obligation/year		14.70	12.05	14.90	12.14	14.70

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

38. SHARE CAPITAL

	2017 RMB'M	2016 RMB'M	2015 RMB'M
As at 1 January	6,098	6,123	3,046
Equity-settled share option arrangements	-	-	31
Capital reserve transferred to shares	-	-	3,046
Cancellation of treasury shares	-	(18)	-
Cancellation of restricted shares	-	(7)	-
As at 31 December	6,098	6,098	6,123

The movements of the Company's issued share capital during the year are follows:

	Number of Shares in issue 'million	Issued share capital RMB'M	Total RMB'M
At 1 January 2015	3,046	3,046	3,046
Equity-settled share option arrangements	31	31	31
Capital reserve transferred to shares	3,046	3,046	3,046
At 31 December 2015 and 1 January 2016	6,123	6,123	6,123
Cancellation of treasury shares	(18)	(18)	(18)
Cancellation of restricted shares	(7)	(7)	(7)
At 31 December 2016 and 1 January 2017 and 31 December 2017	6,098	6,098	6,098

Equity-settled Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 39 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

39. SHARE OPTION INCENTIVES SCHEME AND SHARES HELD FOR THE RESTRICTED SHARE AWARD SCHEME

The Company operates a share option incentive scheme and restricted share award scheme, which aim at providing incentives and rewards to the eligible participants who contribute to the success of the operations of the Group. Eligible participants of the share option scheme include any employee, executive or officer of the Group (including executive, nonexecutive and independent non-executive directors of the Company) and any supplier, consultant, agent, adviser, shareholder, customer, partner or business associate who, in the opinion of the board of directors of the Company (the "Board"), have contributed to the Group. Under the restricted share award scheme, the Company may purchase the scheme shares in the open market and hold the purchased shares in the Share Award Scheme Trust for the relevant selected employees until such shares vest or issue and allot new scheme shares to the trustee. The board of the Company has discretion to decide whether the awarded shares are to be purchased or subscribed.

1. In December 2012, the conditions for the third exercise period of Phase I Share Option Incentive Scheme and first exercise period of Phase II Share Option Incentive Scheme of the Company have been fulfilled. On 10 and 11 January 2013, the Company directionally issued additional 7,184,400 and 3,597,600 ordinary shares to determined and qualified participates of Phase I and Phase II Share Option Incentive Scheme respectively at a price of RMB5.07 per share and RMB10.94 per share, respectively. The aggregate 10,782,000 shares above mentioned were listed on 18 January 2013.
2. In September 2013, the Company induced a proposal on the introduction of the strategic investor through non-public issuance of no more than 305 million A ordinary shares to KKR (Luxembourg) with proceeds of not more than RMB3.447 billion. After the approval received from the general meeting of the shareholders of the Company, Ministry of Commerce and CSRC, the Board of the Company conducted relevant share transfer procedures in July 2014 and determined 302,992,994 shares to be issued at the issue price of RMB10.83 per share. The listing of the relevant shares will be effective on 17 July 2017.
3. In April 2014, the Company introduced Phase IV Share Option Incentive Scheme. The Scheme involves 54,560,000 options, of which, 49,110,000 options (including 42,879,000 share options and 6,231,000 restricted shares) were granted under the first grant and 5,450,000 options (including 4,761,000 share options and 689,000 restricted shares) were reserved shares. After no objection filing with the CSRC and the approval of the Scheme at a general meeting of the shareholders of the Company, the Board determined the date of the First Grant was 20 June 2014 and 48,780,000 options (including 42,679,000 share options at the exercise price of RMB16.63 per share; and 6,101,000 restricted shares at the grant price of RMB7.73 per share) were granted to scheme participants (adjusted after one participant left the Company) under the first grant. The registration of transfer of the abovementioned restricted shares was completed on 7 July 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

39. SHARE OPTION INCENTIVES SCHEME AND SHARES HELD FOR THE RESTRICTED SHARE AWARD SCHEME (CONTINUED)

4. In November 2014, the conditions for the third exercise period of Phase II Share Option Incentive Scheme, the second exercise period of Phase III Share Option Incentive Scheme of the Company have been fulfilled. On 25 November 2014, the Company directionally issued additional 4,779,200, and 11,226,000 ordinary shares to determined and qualified participants of Phase II and Phase III Share Option Incentive Scheme at prices of RMB10.11 and RMB10.36 per share respectively. The aggregate 16,005,200 shares above mentioned were listed on 2 December 2014.
5. In February 2015, according to the Company's reserved equity under the Phase IV Share Option Incentive Scheme, an aggregate of 650,000 share options were granted with the exercise price of RMB20.44 per share while 190,000 restricted shares were granted with the granting price of RMB10.06 per share. The Board of Directors determined that the Grant date was 26 February 2015. Registration and transfer issues of the restricted shares have been completed on 8 April 2015.
6. In July 2015, the conditions of the first exercise/unlocking of equity initially granted under Phase IV Share Option Incentive Scheme were fulfilled. The Company directionally issued additional 30,904,000 ordinary shares to determined and qualified participants of the first exercise of equity granted under Phase IV Share Option Scheme at a price of RMB8.07 per share. The above shares were listed on 5 August 2015.

As at 31 December 2017, 2016 and 2015, the number of issued restricted share options were Nil, 228,000 and 7,701,200.

The following restricted awarded shares were outstanding under the during the year:

	2017		2016		2015	
	Weighted average issue price per share RMB	Number of awarded shares	Weighted average issue price per share RMB	Number of awarded shares	Weighted average issue price per share RMB	Number of awarded shares
At 1 January	8.07	228,000	6.13	7,701,200	7.73	6,101,000
Grant during the year	-	-	-	-	8.07	380,000
Grant during the year due to dividend share issued	-	-	-	-	3.62	6,101,000
Forfeited/lapsed during the year	8.07	(228,000)	6.13	(7,473,200)	7.73	(4,880,800)
At 31 December	-	-	8.07	228,000	6.13	7,701,200

The exercise prices and exercise periods of the awarded shares outstanding as at the end of the reporting period are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

39. SHARE OPTION INCENTIVES SCHEME AND SHARES HELD FOR THE RESTRICTED SHARE AWARD SCHEME (CONTINUED)

For the year ended 31 December 2016

	Number of awarded shares	Exercise price per share RMB
28 July 2015 to 26 July 2017	228,000	8.07

For the year ended 31 December 2015

Exercise period	Number of awarded shares	Exercise price per share RMB
7 July 2014 to 20 June 2016	7,321,200	3.62
28 July 2015 to 26 July 2016	152,000	8.07
28 July 2015 to 26 July 2017	228,000	8.07
	7,701,200	6.13

40. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 13 to 18 of the consolidated financial statements.

- (a) PRC laws and regulations require companies registered in the PRC to maintain certain statutory reserves, which are to be appropriated from the retained earnings (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before distributing retained earnings to their shareholders. Statutory reserves are created for specific purposes. In accordance with the Company Law, PRC companies are required to appropriate 10% of the net profits to statutory surplus reserves. A company may discontinue the appropriation when the balance of its statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies or to increase capital of the companies. In addition, a company may make further contribution to a discretionary surplus reserve based on a resolution of the board of directors.
- (b) Other reserves mainly represent the additional equity share from the associates.
- (c) Fair value changes arising from the effective portion of hedging instruments designated as cash flow hedges are included in the hedging reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

41. DIVIDEND

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Final dividend paid in respect of the year ended 31 December 2016, 2015 and 2014 of 24.8 cents, 21.2 cents and 49.2 cents per fully paid share respectively	1,512	1,293	1,497

42. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2017

Acquisition of Grand Logistics and GoT

The following table summarises the fair values of assets acquired and liabilities assumed, on a provisional basis, which were recognised as at the dates of acquisition of the subsidiaries.

	Grand Logistics RMB'M	GoT RMB'M	Total RMB'M
Total consideration:			
Cash Consideration	-	52	52
Available-for-sale investments	8	-	8
Other non-current liabilities	-	6	6
Other non-current assets	20	(6)	14
Put option liabilities	-	8	8
	28	60	88

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

42. ACQUISITION OF SUBSIDIARIES (CONTINUED)

For the year ended 31 December 2017 (continued)

Acquisition of Grand Logistics and GoT (continued)

Recognised amounts of identifiable assets acquired and liabilities assumed:

	Grand Logistics RMB'M	GoT RMB'M	Total RMB'M
Property, plant and equipment	22	168	190
Available-for-sales investments	1	-	1
Other intangible assets	1	8	9
Deferred tax assets	-	2	2
Inventories	-	29	29
Trade and bills receivables	39	34	73
Prepayments, deposits and other receivables	18	15	33
Cash and bank balances	3	-	3
Trade and bills payables	(33)	(11)	(44)
Other payables and accruals	(16)	(30)	(46)
Interest-bearing borrowings	(34)	(87)	(121)
Provisions	-	(4)	(4)
Deferred income	-	(4)	(4)
Deferred tax liabilities	-	(8)	(8)
Total identifiable net assets	1	112	113
Non-controlling interest	(2)	(55)	(57)
Goodwill	29	3	32
	28	60	88
Net cash outflow arising on acquisition:			
Consideration paid in cash	-	(52)	(52)
Cash and cash equivalents acquired	3	-	3
	3	(52)	(49)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

42. ACQUISITION OF SUBSIDIARIES (CONTINUED)

For the year ended 31 December 2017 (continued)

Acquisition of Grand Logistics and GoT (continued)

- (a) On 31 August 2017, the Group increased its interest in Grand Logistics from 17% to 57% at nil consideration in accordance with the equity interest adjustment clause (classified as a derivative financial instrument under non-current assets) (note 24) as stipulated in the investment agreement entered into in 2015. Grand Logistics was a then 17%-owned investee company classified as an available-for-sale investment, which is engaged in the provision of cold-chain logistics services. The transaction was made as part of the Group's strategy to expand its logistics service business.

Grand Logistics contributed total revenue of approximately RMB67 million and total net loss of approximately of RMB8million to the Group for the period from the relevant acquisition dates to 31 December 2017.

Had the combination taken place at 1 January 2017, the revenue of the Group and the profit of the Group for the year would have been RMB159,369 million and RMB9,048 million, respectively.

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

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

GoT contributed total turnover of approximately RMB144 million and total net loss of approximately of RMB1 million to the Group for the period from the relevant acquisition dates to 31 December 2017.

Had the combination taken place at 1 January 2017, the revenue of the Group and the profit of the Group for the year would have been RMB159,297 million and RMB9,050 million, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

42. ACQUISITION OF SUBSIDIARIES (CONTINUED)

For the year ended 31 December 2016

Acquisition of GEA

During the year ended 31 December 2016, the Group acquired 100% interests in GEA at a cash consideration of USD5,612 million (equivalent to RMB36,758 million).

The following table summarises the fair value of assets acquired, liabilities assumed recognised, on a provisional basis, as a result of the GEA Integration at the completion date.

	GEA RMB'M
Total consideration:	
Cash consideration	36,758

Recognised amounts of identifiable assets acquired and liabilities assumed:

	GEA RMB'M
Property, plant and equipment and intangible assets	13,205
Investments in associates	2,757
Other non-current assets	793
Inventories	5,394
Trade and other receivables	5,599
Cash and bank balances	150
Trade and other payables	(8,591)
Tax payable	(45)
Provisions	(256)
Payroll obligations, provisions for pensions and similar obligations	(1,710)
Total identifiable net assets	17,296
Goodwill	19,462
	36,758

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

42. ACQUISITION OF SUBSIDIARIES (CONTINUED)

For the year ended 31 December 2016 (continued)

Acquisition of GEA (continued)

	RMB'M
Net cash outflow arising on acquisition:	
Consideration paid in cash	(36,758)
Cash and cash equivalents acquired	<u>150</u>
	<u>(36,608)</u>

The GEA contributed revenue of approximately RMB25,917 million and net profit of approximately of RMB1,012 million to the Group for the period from the relevant acquisition dates to 31 December 2016.

For the year ended 31 December 2015

Acquisition of Shengfeng Logistics

The following table summarises the fair value of assets acquired, liabilities assumed recognised, on a provisional basis, as a result of the Shengfeng Logistics Integration at the completion date.

	Shengfeng Logistics RMB'M
Cash Consideration	355
Capital in injection in cash	250
Contingent considerations	<u>70</u>
	<u>675</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

42. ACQUISITION OF SUBSIDIARIES (CONTINUED)

For the year ended 31 December 2015 (continued)

Acquisition of Shengfeng Logistics (continued)

Recognised amounts of identifiable assets acquired and liabilities assumed:

	Shengfeng Logistics RMB'M
Property, plant and equipment	211
Prepaid land lease payment	53
Other intangible assets	1
Deferred tax assets	6
Investments in associates	84
Prepayments for items of property, plant and equipment	27
Inventories	1
Trade and bills receivables	234
Prepayments, deposits and other receivables	395
Cash and bank balances	27
Trade and bills payables	(119)
Other payables and accruals	(78)
Interest-bearing borrowings	(160)
Tax payable	(8)
Deferred income	(18)
Deferred tax liabilities	(3)
Finance lease payables	(23)
Total identifiable net assets	630
Non-controlling interest	(273)
Goodwill	318
	675
Net cash outflow arising on acquisition:	
Consideration paid in cash	(355)
Cash and cash equivalents acquired	27
	(328)

The Shengfeng Logistics contributed revenue of approximately RMB1,418 million and net profit of approximately of RMB16 million to the Group for the period from the relevant acquisition dates to 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

43. DISPOSAL OF SUBSIDIARIES

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Net assets disposed of:			
Cash and bank balances	11	8	258
Prepayments, deposits and other receivables	36	17	98
Trade and bills receivables	37	51	483
Inventories	32	4	273
Property, plant and equipment	2	-	184
Prepaid land lease payments	13	21	4
Other non-current assets	-	-	2
Deferred tax assets	-	-	2
Trade and bills payables	(18)	(45)	(469)
Other payables and accruals	(55)	(5)	(178)
Interest-bearing borrowings	-	-	(10)
Tax payable	(8)	-	(6)
Deferred income	-	-	(1)
Exchange fluctuation reserve	(1)	-	-
Non-controlling interests	(12)	(25)	(198)
	37	26	442
Gain/(loss) on disposal of subsidiaries, net	(1)	(6)	320
	36	20	762
Satisfied by:			
Cash	35	18	762
Other receivables	1	2	-
	36	20	762

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

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Cash consideration received	35	17	666
Cash and bank balances disposed of	(11)	(8)	(258)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	24	9	408

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

44. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

On 8 May 2015, the Company entered into a sale and purchase agreement with an independent third party, Qingdao Haier Collective Assets Management Association*, pursuant to which the Company has conditionally agreed to purchase 13.33% of shares of Qingdao Haier Dishwasher Co., Ltd* at a total consideration of approximately RMB50.40 million. Upon completion of the transaction, the Group's equity interests in Qingdao Haier Dishwasher Co., Ltd were increased from 86.67% to 100%.

On 18 April 2016, the Company entered into a sale and purchase agreement with an independent third party, Nichinan Japan Co., Ltd* and Design GK Japan Co., Ltd*, pursuant to which the Company has conditionally agreed to purchase, 20% and 5% of shares of Qingdao Hai Ri High-Tech Model Co., Ltd at a total consideration of approximately RMB5.12million and RMB1.28 million. Upon completion of the transactions, the Group's equity interests in Qingdao Hai Ri High-Tech Model Co., Ltd were increased from 75% to 100%. The transaction had been completed in the year 2017.

On 4 September 2017, the Company entered into a sale and purchase agreement with an independent third party, Qingdao Zhuoao Investment Limited*, pursuant to which the Company has conditionally agreed to purchase, 2.64% of shares of Qingdao Haier Intelligent Electronics Co., Ltd at a total consideration of approximately RMB37.51 million. Upon completion of the transaction, the Group's equity interests in Qingdao Haier Intelligent Electronics Co., Ltd were increased from 97.36% to 100%.

The effect on the equity attributable to the owners of the Company during the years is summarised as follows:

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Carrying amount of non-controlling interests acquired	31	-	31
Consideration paid to non-controlling interests	44	-	50
Excess of consideration paid recognised in the transactions with non-controlling interests reserve within equity	13	-	19

* The English name of the Company is for identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

45. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

- (a) The Company's directors and the Group's management consider the following entities are principal related parties of the Group with which the Group had transactions during the year.

Name of related party	Nature of relationship
Haier Group Electric Appliance Industry Co., Ltd.	Controlled by Haier Corp
Fisher&Paykel Appliances Limited	Controlled by Haier Corp
Qingdao Haier New Material Research and Development Co., Ltd.	Controlled by Haier Corp
Qingdao Haier International Travel Agency Co., Ltd.	Controlled by Haier Corp
Qingdao Haier International Trading Co., Ltd.	Controlled by Haier Corp
Qingdao Haier Parts Procurement Co., Ltd.	Controlled by Haier Corp
Haier Group Finance Co., Ltd.	Controlled by Haier Corp
Chongqing Haier Electrical Appliances Sales Co., Ltd.	Controlled by Haier Corp
Laiyang Haier Electrical Co. Ltd.	Controlled by Haier Corp
Chongqing Haier Logistics Co., Ltd.	Controlled by Haier Corp
Hefei Haier Logistics Co., Ltd.	Controlled by Haier Corp
Haier International (HK) Limited	Controlled by Haier Corp
Qingdao Haier Strauss Water Equipment Co., Ltd.	Controlled by Haier Corp
Haier International Co., Ltd.	Controlled by Haier Corp
Qingdao Haier Special Plastic Research and Development Co., Ltd.	Controlled by Haier Corp
Haier Information Appliances S.R.L.	Controlled by Haier Corp
Qingdao Haier Communications Co., Ltd.	Controlled by Haier Corp
Feima Electronic (Qingdao) Co., Ltd.	Controlled by Haier Corp
Hefei Hai Zhi Real Estate Co., Ltd.	Controlled by Haier Corp
Haier Brothers Animation Industry Co., Ltd.	Controlled by Haier Corp
Haier Energy Power Co., Ltd.	Controlled by Haier Corp
Haier Group Corporation	Controlled by Haier Corp
Qingdao Haier Industrial Development Co., Ltd.	Controlled by Haier Corp
Brave Lion (HK) Limited	Controlled by Haier Corp
ControladoraMabe, S.A. de C.V.	Associate
Hefei Haier Special Steel Board Research & Development Co., Ltd.	Associate
Wolong Electric Zhangqiu Haier Motor Co., Ltd.	Associate
Qingdao Haier Carrier Refrigeration Equipment Co., Ltd.	Associate
HNR Company (Private) Limited	Associate

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and Haier Affiliates and the Group's associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

45. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Significant related party transactions

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Sales of goods/services to			
- Associates	2,084	1,937	704
- Haier Affiliates	3,165	2,706	5,796
Purchase of goods/services from			
- Associates	10,991	6,993	1,841
- Haier Affiliates	24,601	19,687	24,350
Bank interest income from			
- Associates	60	123	258
Interest on other loans to			
- Associates	277	299	36
Logistics service			
- Associates	77	59	14
- Haier Affiliates	131	132	115
Other service fee expenses			
- Haier Affiliates	299	232	285

(b) Balances with related parties

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Bank deposit in			
Haier Group Finance Co., Ltd.	13,024	9,651	11,183
Trade and bills receivable due from			
Haier Group Electric Appliance Industry Co., Ltd.	173	210	784
Fisher&Paykel Appliances Limited	241	226	165
Qingdao Haier New Material Research and Development Co., Ltd.	60	45	48
Qingdao Haier International Travel Agency Co., Ltd.	34	35	124
Qingdao Haier International Trading Co., Ltd.	-	-	85
ControladoraMabe, S.A. de C.V.	86	-	-
Hefei Haier Special Steel Board Research & Development Co., Ltd.	38	95	76
Wolong Electric Zhangqiu Haier Motor Co., Ltd.	4	6	111
HNR Company (Private) Limited	2	123	32
Other related parties	268	353	359
	906	1,093	1,784

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

45. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties (continued)

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Dividend receivable due from			
Wolong Electric Zhangqiu Haier Motor Co., Ltd.	-	50	50
Qingdao Haier Carrier Refrigeration Equipment Co., Ltd.	-	39	-
Other related parties	5	13	11
	5	102	61
Prepayments due from			
Qingdao Haier Parts Procurement Co., Ltd.	27	54	17
Qingdao Haier International Trading Co., Ltd.	26	26	27
Other related parties	76	37	22
	129	117	66
Interest receivables due from			
Haier Group Finance Co., Ltd.	17	10	91
Other receivables due from			
Haier Group Electric Appliance Industry Co., Ltd.	5	60	45
Chongqing Haier Electrical Appliances Sales Co., Ltd.	-	33	-
HNR Company (Private) Limited	274	256	224
Other related parties	44	99	93
	323	448	362

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

45. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties (continued)

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Trade and bills payables due to			
Qingdao Haier Parts Procurement Co., Ltd.	976	176	663
Chongqing Haier Logistics Co., Ltd.	305	54	139
Qingdao Haier International Trading Co., Ltd.	268	210	246
Hefei Haier Logistics Co., Ltd.	257	50	201
Haier International (HK) Limited	163	42	21
Chongqing Haier Electrical Appliances Sales Co., Ltd.	90	275	760
Qingdao Haier Strauss Water Equipment Co., Ltd.	61	47	-
Haier International Co., Ltd.	56	61	22
Qingdao Haier Special Plastic Research and Development Co., Ltd.	53	87	75
Haier Information Appliances S.R.L.	6	34	103
Qingdao Haier Communications Co., Ltd.	5	219	-
Feima Electronic (Qingdao) Co., Ltd.	2	144	203
Haier Group Electric Appliance Industry Co., Ltd.	-	11	188
ControladoraMabe, S.A. de C.V.	359	1,232	-
HNR Company (Private) Limited	49	76	83
Laiyang Haier Electrical Co. Ltd.	57	58	30
Wolong Electric Zhangqiu Haier Motor Co., Ltd.	61	76	-
Other related parties	454	318	487
	3,222	3,170	3,221
Advance from			
Hefei Hai Zhi Real Estate Co., Ltd.	155	155	-
Other related parties	18	37	37
	173	192	37
Other payables due to			
Haier Brothers Animation Industry Co., Ltd.	385	385	393
Chongqing Haier Logistics Co., Ltd.	52	52	52
Haier Energy Power Co., Ltd.	42	37	-
Haier Group Corporation	-	163	-
Qingdao Haier Industrial Development Co., Ltd.	-	91	-
Other related parties	170	166	221
	649	894	666
Interest payables due to			
Haier Group Finance Co., Ltd.	6	15	6
Dividend payables due to			
Brave Lion (HK) Limited	123	123	115
Other related parties	31	17	17
	154	140	132

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

45. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties (continued)

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Other loans due to Haier Group Finance Co., Ltd.	4,252	9,426	1,048

(c) Information about the Group's borrowings were guaranteed by related parties:

Name of borrower	Amount of borrowing RMB'M	Name of Guarantor
<i>For the year ended 31 December 2017</i>		
Qingdao Haier Special Refrigerator Co., Ltd.	300	Haier Group Corporation
Qingdao Haier Special Freezer Co., Ltd.	500	Haier Group Corporation
Zhengzhou Haier Air-conditioning Co., Ltd.	170	Haier Group Corporation
Qingdao Haier (Jiaozhou) Air-conditioning Co., Limited	400	Haier Group Corporation
Qingdao Haier Air-Conditioner Electronics Co., Ltd.	300	Haier Group Corporation
Chongqing Haier Electronics Sales Co., Ltd.	500	Haier Group Corporation
Qingdao Haidayuan Procurement Service Co., Ltd.	300	Haier Group Corporation
HAIER US APPLIANCE SOLUTIONS, INC	<u>18,168</u>	Haier Group Corporation
	<u>20,638</u>	
<i>For the year ended 31 December 2016</i>		
Qingdao Haier Special Refrigerator Co., Ltd.	700	Haier Group Corporation
Hefei Haier Refrigerator Co., Ltd.	700	Haier Group Corporation
Qingdao Haier Special Freezer Co., Ltd.	500	Haier Group Corporation
Zhengzhou Haier Air-conditioning Co., Ltd.	250	Haier Group Corporation
Qingdao Haier (Jiaozhou) Air-conditioning Co., Limited	600	Haier Group Corporation
Qingdao Haier Air-Conditioner Electronics Co., Ltd.	300	Haier Group Corporation
Chongqing Haier Electronics Sales Co., Ltd.	2,450	Haier Group Corporation
Qingdao Haidayuan Procurement Service Co., Ltd.	1,000	Haier Group Corporation
Haier Overseas Electric Appliance Co., Ltd.	400	Haier Group Corporation
HAIER US APPLIANCE SOLUTIONS, INC	<u>16,451</u>	Haier Group Corporation
	<u>23,351</u>	
<i>For the year ended 31 December 2015</i>		
Haier Shareholdings (Hong Kong) Limited	1,001	Haier Group Corporation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

45. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Key management personnel compensation

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Short term employee benefits	5	4	4
Equity-settled share option expenses, net	16	-	10
Equity-settled Restricted Share			
Award Scheme expense	-	-	31
	21	4	45

46. COMMITMENTS

In addition to the operating lease commitments detailed in note 48(b) above, the Group had the following commitments at the end of the reporting period:

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Contracted, but not provided for:			
Property, plant and equipment	1,744	882	531

47. ASSETS PLEDGED AS SECURITY

The carrying amounts of assets pledged as security for the Group's borrowings and bills payables are:

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Inventories	-	-	31
Pledged deposits	837	287	32
Prepaid land lease payments	5	13	11
Property, plant and equipment	123	18	55
Trade and bill receivables	10,180	9,353	7,943
	11,145	9,671	8,072

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

48. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years. At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Within one year	20	8	5
In the second to fifth years, inclusive	12	4	9
After five years	1	1	-
	<u>33</u>	<u>13</u>	<u>14</u>

(b) As lessee

The Group leases certain properties under operating lease arrangements. Leases for the properties are negotiated for terms ranging from one to twenty years.

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

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Within one year	926	662	514
In the second to fifth years, inclusive	988	361	491
After five years	322	391	152
	<u>2,236</u>	<u>1,414</u>	<u>1,157</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

49. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

31 December 2017

	Financial assets at fair value through profit or loss- designated as such upon initial recognition RMB'M	Loan and receivables RMB'M	Available for-sale financial assets RMB'M	Total RMB'M
Available-for-sale investments	-	-	1,415	1,415
Trade and bills receivables	-	25,481	-	25,481
Other receivables	-	3,452	-	3,452
Derivative financial instruments	466	-	-	466
Other financial assets	-	811	1,196	2,007
Cash and cash equivalents and pledged deposits	-	35,177	-	35,177
	466	64,921	2,611	67,998

31 December 2016

	Financial assets at fair value through profit or loss- designated as such upon initial recognition RMB'M	Loan and receivables RMB'M	Available for-sale financial assets RMB'M	Total RMB'M
Available-for-sale investments	-	-	1,556	1,556
Trade and bills receivables	-	26,062	-	26,062
Other receivables	-	3,497	-	3,497
Derivative financial instruments	138	-	-	138
Other financial assets	-	491	-	491
Cash and cash equivalents and pledged deposits	-	23,582	-	23,582
	138	53,632	1,556	55,326

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

49. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial assets (continued)

31 December 2015

	Financial assets at fair value through profit or loss- designated as such upon initial recognition RMB'M	Loan and receivables RMB'M	Available for-sale financial assets RMB'M	Total RMB'M
Available-for-sale investments	-	-	2,776	2,776
Trade and bills receivables	-	18,742	-	18,742
Other receivables	-	1,983	-	1,983
Derivative financial instruments	100	-	-	100
Other financial assets	-	250	-	250
Cash and cash equivalents and pledged deposits	-	24,758	-	24,758
	100	45,733	2,776	48,609

Financial liabilities

31 December 2017

	Financial liabilities at fair value through profit or loss RMB'M	Financial liabilities at amortised cost RMB'M	Total RMB'M
Trade and bills payables	-	42,033	42,033
Other payables	-	5,573	5,573
Interest-bearing borrowings	-	29,858	29,858
Derivative financial instruments	252	-	252
Other non-current liabilities	922	13	935
Convertible and exchangeable bonds	-	6,211	6,211
	1,174	83,688	84,862

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

49. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities (continued)

31 December 2016

	Financial liabilities at fair value through profit or loss RMB'M	Financial liabilities at amortised cost RMB'M	Total RMB'M
Trade and bills payables	-	33,007	33,007
Other payables	-	5,639	5,639
Interest-bearing borrowings	-	35,496	35,496
Finance lease payables	-	17	17
Due to a non-controlling shareholder	-	28	28
Derivative financial instruments	585	-	585
Other current liabilities	16	-	16
Other non-current liabilities	-	15	15
Convertible and exchangeable bonds	-	1,223	1,223
	601	75,425	76,026

31 December 2015

	Financial liabilities at fair value through profit or loss RMB'M	Financial liabilities at amortised cost RMB'M	Total RMB'M
Trade and bills payables	-	26,270	26,270
Other payables	-	3,396	3,396
Interest-bearing borrowings	-	2,187	2,187
Finance lease payables	-	28	28
Due to a non-controlling shareholder	-	26	26
Derivative financial instruments	8	-	8
Other current liabilities	62	-	62
Other non-current liabilities	44	-	44
Convertible and exchangeable bonds	-	1,108	1,108
	114	33,015	33,129

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts			Fair values		
	2017 RMB'M	2016 RMB'M	2015 RMB'M	2017 RMB'M	2016 RMB'M	2015 RMB'M
Financial assets						
Available-for-sale Investments*	27	52	1,454	27	52	1,454
Derivative financial instruments	466	138	100	466	138	100
	493	190	1,554	493	190	1,554

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

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: (continued)

	Carrying amounts			Fair values		
	2017	2016	2015	2017	2016	2015
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Financial liabilities						
Finance lease payables	-	17	28	-	17	27
Derivative financial instruments	252	585	8	252	585	8
Other current liabilities	-	16	62	-	16	62
Other non-current liabilities	922	-	44	922	-	42
Convertible and exchangeable bonds	6,211	1,223	1,108	6,605	1,366	1,115
	7,385	1,841	1,250	7,779	1,984	1,254

* As at 31 December 2017, certain of the Group's available-for-sale investments amounting to RMB1,388 million (2016: RMB1,504 million and 2015: RMB1,322 million) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably, respectively.

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the assets or liabilities that are not based on observable market data (i.e. unobservable inputs).

Assets measured at fair values:

31 December 2017

	Fair value measurement using			Total RMB'M
	Quoted prices in active markets (Level 1) RMB'M	Significant observable inputs (Level 2) RMB'M	Significant unobservable inputs (Level 3) RMB'M	
Available-for-sale investments	25	2	-	27
Derivative financial instruments	-	420	46	466
	25	422	46	493

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Assets measured at fair values: (continued)

31 December 2016

	Fair value measurement using			Total RMB'M
	Quoted prices in active markets (Level 1) RMB'M	Significant observable inputs (Level 2) RMB'M	Significant unobservable inputs (Level 3) RMB'M	
Available-for-sale investments	29	1	22	52
Derivative financial instruments	-	100	38	138
	29	101	60	190

31 December 2015

	Fair value measurement using			Total RMB'M
	Quoted prices in active markets (Level 1) RMB'M	Significant observable inputs (Level 2) RMB'M	Significant unobservable inputs (Level 3) RMB'M	
Available-for-sale investments	1,454	-	-	1,454
Derivative financial instruments	-	22	78	100
	1,454	22	78	1,554

During the years ended 31 December 2015, 2016 and 2017, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Liabilities measured at fair values:

31 December 2017

	Fair value measurement using			Total RMB'M
	Quoted prices in active markets (Level 1) RMB'M	Significant observable inputs (Level 2) RMB'M	Significant unobservable inputs (Level 3) RMB'M	
Derivative financial instruments	-	252	-	252
Other non-current liabilities	-	861	61	922
	-	1,113	61	1,174

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Liabilities measured at fair values: (continued)

31 December 2016

	Fair value measurement using			Total RMB'M
	Quoted prices in active markets (Level 1) RMB'M	Significant observable inputs (Level 2) RMB'M	Significant unobservable inputs (Level 3) RMB'M	
Derivative financial instruments	-	585	-	585
Other current liabilities	-	16	-	16
	-	601	-	601

31 December 2015

	Fair value measurement using			Total RMB'M
	Quoted prices in active markets (Level 1) RMB'M	Significant observable inputs (Level 2) RMB'M	Significant unobservable inputs (Level 3) RMB'M	
Derivative financial instruments	-	8	-	8
Other current liabilities	-	62	-	62
Other non-current liabilities	-	-	44	44
	-	70	44	114

During the years ended 31 December 2015, 2016 and 2017, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Liabilities for which fair values are disclosed:

31 December 2017

	Fair value measurement using			Total RMB'M
	Quoted prices in active markets (Level 1) RMB'M	Significant observable inputs (Level 2) RMB'M	Significant unobservable inputs (Level 3) RMB'M	
Convertible and exchangeable bonds	-	-	6,605	6,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Liabilities for which fair values are disclosed: (continued)

31 December 2016

	Fair value measurement using			Total RMB'M
	Quoted prices in active markets (Level 1) RMB'M	Significant observable inputs (Level 2) RMB'M	Significant unobservable inputs (Level 3) RMB'M	
Finance lease payables	-	-	17	17
Convertible and exchangeable bonds	-	-	1,366	1,366
	-	-	1,383	1,383

31 December 2015

	Fair value measurement using			Total RMB'M
	Quoted prices in active markets (Level 1) RMB'M	Significant observable inputs (Level 2) RMB'M	Significant unobservable inputs (Level 3) RMB'M	
Finance lease payables	-	-	27	27
Convertible and exchangeable bonds	-	-	1,115	1,115
	-	-	1,142	1,142

During the years ended 31 December 2015, 2016 and 2017, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing borrowings, finance lease payables, amount due to a non-controlling shareholder, convertible and exchangeable bonds and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign currency risk

The Group's businesses are based in mainland China, the US, Japan, Southeast Asia, South Asia, central and east Africa, Europe, and Australia, etc. and are settled in RMB, US dollar and other currencies. The Group's overseas assets and liabilities denominated in foreign currencies as well as transactions settled in foreign currencies in the future expose the Group to fluctuations in exchange rates. The Group's finance department is responsible for monitoring the size of transactions in foreign currencies and assets and liabilities denominated in foreign currencies, so as to reduce its exposure to fluctuations in exchange rates to the largest extent. The Group avoid its exposure to fluctuations in exchange rates by entering into forward foreign exchange contracts.

The group's exposure to foreign currency risk at the end of the reporting period, expressed in RMB, was as follows:

For the year ended 31 December 2017

	JPY RMB'M	USD RMB'M	EUR RMB'M
Cash and cash equivalent	290	8,167	157
Trade and bills receivables	224	6,771	363
Interest-bearing borrowings	(43)	(25,305)	(88)
Trade payables	(70)	(5,864)	(118)
	401	(16,231)	(314)

For the year ended 31 December 2016

	JPY RMB'M	USD RMB'M	EUR RMB'M
Cash and cash equivalent	309	2,687	155
Trade and bills receivables	257	6,775	359
Interest-bearing borrowings	(627)	(25,670)	(79)
Trade payables	(227)	(6,203)	(209)
	(288)	(22,411)	226

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

For the year ended 31 December 2015

	JPY RMB'M	USD RMB'M	EUR RMB'M
Cash and cash equivalent	82	2,486	168
Trade and bills receivables	272	390	556
Interest-bearing borrowings	(642)	(190)	(104)
Trade payables	(253)	(734)	(356)
	(541)	1,952	264

The following sensitivity analysis disclosed the reasonable possible change in the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) by increase/decrease in the exchange rates with all other variables held constant of United States dollar, Japan Yen and EUR at the ended of each reporting periods. There is no significant impact on other components of the Group's equity.

Impact of USD

During the year ended 31 December 2017, 2016 and 2015, if RMB has strengthened by 5%, with all other risk variables remained constant, the Group's profit/(loss) after taxation of approximately RMB812 million, RMB1,120 million and RMB(98) million respectively. For a 5% weakening of RMB, there would be an equal and opposite impact on the profit after taxation and retained profits. Other components of consolidated equity would not be affected by the changes in foreign exchange rates.

Impact of JPY

During the year ended 31 December 2017, 2016 and 2015, if RMB has strengthened by 5%, with all other risk variables remained constant, the Group's (loss)/profit after taxation of approximately RMB(20) million, RMB14 million and RMB27 million respectively. For a 5% weakening of RMB, there would be an equal and opposite impact on the profit after taxation and retained profits. Other components of consolidated equity would not be affected by the changes in foreign exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

Impact of EUR

During the year ended 31 December 2017, 2016 and 2015, if RMB has strengthened by 5%, with all other risk variables remained constant, the Group's profit/(loss) after taxation of approximately RMB16 million, RMB11 million and RMB(13) million respectively. For a 5% weakening of RMB, there would be an equal and opposite impact on the profit after taxation and retained profits. Other components of consolidated equity would not be affected by the changes in foreign exchange rates.

The sensitivity analysis above has been determined assuming that the change in foreign exchange rate had occurred at the end of the reporting periods and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rate over the period until the end of next annual reporting period.

As at 31 December 2016, a foreign subsidiary of the Company has borrowings of approximately RMB8,600 million is denominated in RMB and such foreign currency risk is managed by entering into forward exchange currency contracts to hedge against its exposures to changes in foreign exchange rate on the borrowings. The forward exchange currency contracts are designated as effective hedging instruments and hedge accounting is used (see note 24 for details). The Group reviewed the continuing effectiveness of hedging instruments at the least at the end of each reporting period. The Group mainly uses regression analysis and comparison of change in fair value of the hedging instruments and the hedged items for assessing the hedge effectiveness.

As at 31 December 2017, the forward exchange currency contracts were not accounted for hedging instrument as it is hedge ineffective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**(a) Market risk (continued)****(ii) Interest risk**

The Group mainly faces interest rate risk from its bank and other loans and convertible and exchangeable bonds which are interest-bearing. Financial liabilities with floating interest rates expose the Group to cash flow interest rate risk, while financial liabilities with fixed interest rates expose the Group to fair value interest rate risk. The Group determines the percentage of fixed-interest rate and floating interest rate contracts in light of the prevailing market conditions.

During the years ended 31 December 2016 and 2017, the Group entered into certain interest rate swap contracts to hedge its exposure arising from its borrowings carried at floating rates. Under these interest rate swap contracts, the Group agreed with the counterparties to exchange, at specified interval, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. These interest rate swap contracts have the economic effect of converting borrowings from floating rates to fixed rates and were qualified as hedging accounting.

(b) Credit risk

The credit risk exposed to mainly comes from bank deposits, trade and bills receivables, interest receivables, other receivables and wealth management products in other financial assets.

The Group's bank deposits and wealth management products are mainly deposited with Haier Group Finance Co., Ltd., national banks and other large and medium size listed banks. The interest receivables mainly refer to the accrued interest from time deposits placed with the aforesaid banks. The Group doesn't believe there is any significant credit risk due to defaults of its counterparties which would cause any significant loss.

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all consumers who wish to trade on credit terms are subject to credit verification procedures. The payment terms shall be determined on a reasonable basis. The Group monitors the balances of trade receivables on an ongoing basis and maintains credit insurances for significant accounts receivables due from its credit clients, so as to ensure the Group will not expose to significant risk of bad debts.

The Group's other receivables mainly include export tax rebate receivable, recurrent loans and advances to its employees. The Group strengthened the management of these receivables and corresponding business activities based on their historical reasons of occurrence, and continued to monitor such receivables, so as to ensure that the Group's significant risk of bad debts are controllable and to further reduce such risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**(c) Liquidity risk**

Liquidity risk is the risk that an enterprise may encounter deficiency of funds in meeting obligations associated with financial liabilities. In order to control liquidity risk, the Group integrates the utilization of various financing methods such as settlement with bills and bank loans, to strive for a sustainable and flexible financing. The Group has secured line of credit with a great number of commercial banks to satisfy its needs for working capital and capital expenditures.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Liquidity risk (continued)

	On demand or no fixed terms of repayment RMB'M	Within one year RMB'M	Over one year RMB'M	Total RMB'M
31 December 2017				
Trade and bills payables	-	42,033	-	42,033
Other payables	5,573	-	-	5,573
Interest-bearing borrowings	-	13,729	16,129	29,858
Derivative financial instrument	-	3	249	252
Other non-current liabilities	-	-	1,256	1,256
Convertible and exchangeable bonds	-	-	6,211	6,211
	5,573	55,765	23,845	85,183
31 December 2016				
Trade and bills payables	-	33,007	-	33,007
Other payables	5,639	-	-	5,639
Interest-bearing borrowings	-	19,872	15,624	35,496
Derivative financial instrument	-	2	583	585
Finance lease payables	-	10	8	18
Due to a non-controlling shareholder	28	-	-	28
Other current liabilities	-	16	-	16
Other non-current liabilities	-	-	15	15
Convertible and exchangeable bonds	-	1,223	-	1,223
	5,667	54,130	16,230	76,027
31 December 2015				
Trade and bills payables	-	26,270	-	26,270
Other payables	3,396	-	-	3,396
Interest-bearing borrowings	-	1,847	340	2,187
Derivative financial instrument	-	8	-	8
Finance lease payables	-	12	17	29
Due to a non-controlling shareholder	26	-	-	26
Other current liabilities	-	62	-	62
Other non-current liabilities	-	-	44	44
Convertible and exchangeable bonds	-	-	1,153	1,153
	3,422	28,199	1,554	33,175

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017, 2016 and 2015.

The Group monitors working capital using a gearing ratio, which is net debt divided by total equity. Net debt includes interest-bearing borrowings, financial lease payables, amount due to non-controlling shareholders and convertible and exchangeable bonds less cash and cash equivalents. The gearing ratios as at the end of the reporting periods were as follows:

	2017 RMB'M	2016 RMB'M	2015 RMB'M
Financial lease payables	-	17	28
Interest-bearing borrowings	29,858	35,496	2,187
Due to non-controlling shareholders	-	28	26
Convertible and exchangeable bonds	6,211	1,223	1,108
Total debt	36,069	36,764	3,349
Less: Cash and cash equivalents	(34,340)	(23,295)	(24,726)
Net debt	1,729	13,469	(21,377)
Total equity	46,750	37,680	32,531
Gearing ratio	4%	36%	N/A

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

52. EVENTS AFTER THE REPORTING PERIOD

1. According to the resolution of the 13th meeting of the 9th session of the Board of Directors of the Company held on 24 April 2018, the profit for the year is proposed to be distributed on the basis of the total number of shares on the registration date when the plan is implemented in the future, the Company will declare cash dividend of RMB3.42 (including taxes) for every 10 shares to all shareholders.
2. According to the resolution of the 12th meeting of the 9th session of the Board of Directors of the Company held on 10 April 2018, the Company passed the resolution of "Proposal of Qingdao Haier Co., Ltd on the Initial Public Offering in the D-shares Market of the China European International Exchange". The Company intends to make Initial Public Offer of the D-shares on China European International Exchange (the "D-Shares Market"). The listing will be implemented through the access and listing transaction of the Frankfurt Stock Exchange. China Europe International Exchange Co., Ltd. is a jointly company established by the Shanghai Stock Exchange, the Deutsche Börse Group, and the China Financial Futures Exchange. The Deutsche Börse Group is the main body of the Frankfurt Stock Exchange. The Frankfurt Stock Exchange's listing rules apply to the D Shares Market. Subject to regulatory requirements such as the minimum issuance ratio of the Company's stocks listed on the market, combined with the company's capital requirements for future business development, the number of D-shares to be issued this time will not exceed 400 million shares (before the execution of the over-allotment option) and may be awarded. The bookkeeping administrator does not exceed the above-mentioned over-allotment rights of 15% of the number of issued D shares. The final number of issues is submitted to the general meeting of shareholders for authorization of the board of directors and authorized persons of the board of directors to be determined in accordance with legal requirements, regulatory approvals, and market conditions.
3. The Company intends to acquire the 100% equity interest of Haier New Zealand Investment Holding Company Limited ("Haier New Zealand") which is held by Haier (Singapore) Management Holding Co. Pte. Limited ("Haier Singapore"), through overseas subsidiary Haier Singapore Investment Holding Pte. Ltd. at cash consideration. (the "Transaction"). On 24 April 2018, Haier Singapore Investment Holding Pte. Ltd. and Haier Singapore entered into a sale and purchase agreement (the "Equity Transfer Agreement"). Pursuant to the Equity Transfer Agreement, Haier Singapore Investment Holding Pte. Ltd. intends to acquire 100% of the equity of Haier New Zealand held by Haier Singapore at a cash consideration of approximately US\$303 million. After the completion of this transaction, Haier New Zealand will become a wholly owned overseas subsidiary of the Company. The Transaction is subject to the approval of the overseas investment of domestic enterprises and the overseas anti-monopoly. The contractual party will examine the relevant filing, registration or examination and approval procedures in the competent authority according to relevant laws and regulations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

52. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

4. On 23 November 2017, the Company held the first extraordinary general meeting of shareholders in 2017, and passed the resolution of "Proposal on the Issue of Convertible Bonds by Qingdao Haier Co., Ltd.". According to the resolution, the Company will issue convertible bonds of no more than RMB5.64 billion at RMB100 per face value, and the term of convertible bonds shall not exceed six years from the date of issue. The issue size, maturity, coupon interest rate and payment period of the convertible bonds are authorized by the Company's Board of Directors to be implemented by the Company's shareholders. The issue of convertible bonds is subject to the approval of the China Securities Regulatory Commission, and there is still uncertainty about whether or not the approval can be obtained.

Saved as disclosed above, so far as is known to the directors, there are no other subsequent events occurred after 31 December 2017, which may have significant effects, on the assets and liabilities of future operations of the Group.

53. LIST OF SUBSIDIARIES

- (a) Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued registered share capital (in million)	Percentage of equity attributable to the Company						Voting right	Principal activities
			2017	2016	2015	2017	2016	2015		
			%	%	%	%	%	%		
Haier Electronics Group Co., Ltd	Bermuda/PRC	2017: HKD2,802 (2016: 2,792 and 2015: 2,793)	14.01	14.06	14.06	29.68	29.79	29.78	2017: 55.70%* (2016: 55.91%* and 2015: 55.89%*)	Investment holding, production and sale of washing machines and water heater, distribution services and logistics service
Wonder Global (BVI) Investment Limited	British Virgin Islands/USA	2017: USD1,481 (2016: USD981 and 2015: nil)	-	-	-	100.00	100.00	-	2017: 100.00% (2016: 100.00% and 2015: nil)	Manufacture and sale of household appliances
Haier US Appliance Solutions, Inc	USA/USA	2017: USD1,947 (2016: USD1,807 and 2015: nil)	-	-	-	100.00	100.00	-	2017: 100.00% (2016: 100.00% and 2015: nil)	Manufacture and sale of household appliances
Haier Singapore Investment Holding Co., Ltd	Singapore/ Singapore and other overseas areas	2017: USD390 (2016: USD390 and 2015: USD390)	-	-	-	100.00	100.00	100.00	2017: 100.00% (2016: 100.00% and 2015: 100.00%)	Manufacture and sale of household appliances
Qingdao Haier Air Conditioner General Corp., Ltd	PRC/PRC	2017: RMB218 (2016: RMB218 and 2015: RMB218)	99.95	99.95	99.95	-	-	-	2017: 99.95% (2016: 99.95% and 2015: 99.95%)	Manufacture and operation of household air-conditioners
Guizhou Haier Electronics Co., Ltd	PRC/PRC	2017: RMB141 (2016: RMB141 and 2015: RMB141)	59.00	59.00	59.00	-	-	-	2017: 59.00% (2016: 59.00% and 2015: 59.00%)	Manufacture and sale of refrigerator
Hefei Haier Air-Conditioning Co., Ltd	PRC/PRC	2017: RMB12 (2016: RMB12 and 2015: RMB12)	100.00	100.00	100.00	-	-	-	2017: 100.00% (2016: 100.00% and 2015: 100.00%)	Manufacture and sales of air-conditioners

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

53. LIST OF SUBSIDIARIES (CONTINUED)

(a) Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Issued registered share capital (in million)	Percentage of equity attributable to the Company						Voting right	Principal activities
			2017 %	2016 %	2015 %	2017 %	2016 %	2015 %		
Wuhan Haier Electronics Co., Ltd	PRC/PRC	2017: RMB62 (2016: RMB62 and 2015: RMB62)	60.00	60.00	60.00	-	-	-	2017: 60.00% (2016: 60.00% and 2015: 60.00%)	Manufacture and sales of air-conditioners
Qingdao Haier Air-Conditioner Electronics Co., Ltd	PRC/PRC	2017: RMB356 (2016: RMB356 and 2015: RMB356)	100.00	100.00	100.00	-	-	-	2017: 100.00% (2016: 100.00% and 2015: 100.00%)	Manufacture and sale of air-conditioners
Qingdao Haier Information Plastic Development Co., Ltd	PRC/PRC	2017: RMB78 (2016: RMB78 and 2015: RMB78)	100.00	100.00	100.00	-	-	-	2017: 100.00% (2016: 100.00% and 2015: 100.00%)	Manufacture of plastic products
Dalian Haier Precision Products Co., Ltd	PRC/PRC	2017: RMB48 (2016: RMB48 and 2015: RMB48)	90.00	90.00	90.00	-	-	-	2017: 90.00% (2016: 90.00% and 2015: 90.00%)	Manufacture and sale of precise plastics
Hefei Haier Plastic Co., Ltd	PRC/PRC	2017: RMB34 (2016: RMB34 and 2015: RMB34)	94.12	94.12	94.12	5.88	5.88	5.88	2017: 100.00% (2016: 100.00% and 2015: 100.00%)	Manufacture and sale plastic parts
Qingdao Haier Moulds Co., Ltd	PRC/PRC	2017: RMB158 (2016: RMB158 and 2015: RMB158)	75.00	75.00	75.00	25.00	25.00	25.00	2017: 100.00% (2016: 100.00% and 2015: 100.00%)	Research and manufacture of precise mould and product
Qingdao Meier Plastic Powder Co., Ltd	PRC/PRC	2017: RMB12 (2016: RMB12 and 2015: RMB12)	40.00	40.00	40.00	60.00	60.00	60.00	2017: 100.00% (2016: 100.00% and 2015: 100.00%)	Manufacture of plastic powder, plastic sheet and high performance coatings
Chongqing Haier Precision Plastic Co., Ltd	PRC/PRC	2017: RMB65 (2016: RMB65 and 2015: RMB65)	90.00	90.00	90.00	10.00	10.00	10.00	2017: 100.00% (2016: 100.00% and 2015: 100.00%)	Plastic products, sheet metal work, electronics and hardware
Chongqing Haier Intelligent Electronics Co., Ltd	PRC/PRC	2017: RMB10 (2016: RMB10 and 2015: RMB10)	90.00	90.00	90.00	10.00	10.00	10.00	2017: 100.00% (2016: 100.00% and 2015: 100.00%)	Manufacture and sale of electronics and automatic control system equipment
Qingdao Haier Robot Co., Ltd	PRC/PRC	2017: RMB16 (2016: RMB16 and 2015: RMB16)	50.00	50.00	50.00	-	-	-	2017: 50.00% (2016: 50.00% and 2015: 50.00%)	Research development, manufacture and sale of robot
Qingdao Haier Refrigerator Co., Ltd	PRC/PRC	2017: RMB201 (2016: RMB207 and 2015: RMB201)	100.00	100.00	100.00	-	-	-	2017: 100.00% (2016: 100.00% and 2015: 100.00%)	Manufacture and production of fluorine-free refrigerators
Qingdao Haier Refrigerator (International) Co., Ltd	PRC/PRC	2017: RMB260 (2016: RMB260 and 2015: RMB260)	75.00	75.00	75.00	-	-	-	2017: 75.00% (2016: 75.00% and 2015: 75.00%)	Manufacture and production of refrigerators
Qingdao Household Appliance Technology and Equipment Research Institute	PRC/PRC	2017: RMB67 (2016: RMB67 and 2015: RMB67)	100.00	100.00	100.00	-	-	-	2017: 100.00% (2016: 100.00% and 2015: 100.00%)	Research and development of home appliances mould and technological equipment
Qingdao Haier Whole Set Home Appliance Service Co., Ltd	PRC/PRC	2017: RMB120 (2016: RMB120 and 2015: RMB120)	98.33	98.33	98.33	-	-	-	2017: 98.33% (2016: 98.33% and 2015: 98.33%)	Research, development and sales of health series of small home appliance

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

53. LIST OF SUBSIDIARIES (CONTINUED)

(a) Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Issued registered share capital (in million)	Percentage of equity attributable to the Company						Voting right	Principal activities
			2017	2016	2015	2017	2016	2015		
			%	%	%	%	%	%		
Qingdao Haier Special Freezer Co., Ltd	PRC/PRC	2017: RMB388 (2016: RMB388 and 2015: RMB388)	96.06	96.06	96.06	-	-	-	2017: 96.06% (2016: 96.06% and 2015: 96.06%)	Research, manufacture and sales of freezer and other refrigeration products
Qingdao Haier Intelligent Electronics Co., Ltd	PRC/PRC	2017: RMB279 (2016: RMB279 and 2015: RMB279)	100.00	97.36	97.36	-	-	-	2017: 100% (2016: 97.36% and 2015: 97.36%)	Design and development of electronics and automatic control system

* Reason for the ratio of voting rights higher than the ratio of shareholding of Haier Electronics Group Co., Ltd.: on 10 July 2015, HCH (HK) Investment Management Co., Limited (hereinafter referred to as "HCHI") signed a Shareholder Voting Right Entrustment Agreement with the Company. HCH entrusted the Company to exercise the underlying shareholder voting rights of 336,600,000 shares of Haier Electronics Group Co., Ltd. Both parties agreed that HCH will not revoke the entrustment and

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests / voting rights held by non-controlling interests			Profit allocated to non-controlling interests			Accumulated non-controlling interests		
		2017	2016	2015	2017	2016	2015	2017	2016	2015
		%	%	%	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
Haier Electronics	Bermuda/PRC	56.31	56.15	56.16	2,090	1,585	1,589	13,930	10,660	9,201
Guizhou Haier Electronics Co., Ltd. "Guizhou Haier"	PRC	41.00	41.00	41.00	11	8	11	108	105	102
Wuhan Haier Electronics Co., Ltd. "Wuhan Haier"	PRC	40.00	40.00	40.00	26	13	31	223	205	193
Qingdao Haier Refrigerator (International) Co., Ltd. "Haier Refrigerator"	PRC	25.00	25.00	25.00	1	-	(4)	80	79	79

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

53. LIST OF SUBSIDIARIES (CONTINUED)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Summarised financial information in respect of Group's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	Haier Electronics			Guizhou Haier		
	2017 RMB'M	2016 RMB'M	2015 RMB'M	2017 RMB'M	2016 RMB'M	2015 RMB'M
Non-current assets	8,943	7,710	7,053	36	38	43
Current assets	34,425	28,448	23,060	383	431	315
Current liabilities	(18,005)	(16,782)	(12,309)	(155)	(212)	(110)
Non-current liabilities	(2,334)	(1,039)	(2,108)	-	-	-
Non-controlling interests	13,930	10,660	9,201	108	105	102
Revenue and other income	78,801	63,862	62,832	1,151	940	1,072
Expenses	75,219	61,059	60,012	1,123	921	1,046
Profit for the year	3,582	2,803	2,820	27	19	26
Other comprehensive income	3,465	2,848	2,851	-	-	-
Total comprehensive income for the year	7,047	5,651	5,671	27	19	26
Net cash inflow from operating activities	4,124	3,660	2,603	247	59	26
Net cash outflow from investing activities	(2,538)	(918)	(2,913)	(227)	(56)	(7)
Net cash inflow/(outflow) from financing activities	772	(326)	(402)	(20)	(10)	(30)
Net cash inflow/(outflow)	2,358	2,416	(712)	-	(7)	(11)
	Wuhan Haier			Haier Refrigerator		
	2017 RMB'M	2016 RMB'M	2015 RMB'M	2017 RMB'M	2016 RMB'M	2015 RMB'M
Non-current assets	131	132	138	56	56	56
Current assets	979	690	550	280	278	279
Current liabilities	(552)	(308)	(206)	(17)	(17)	(19)
Non-current liabilities	-	-	-	-	-	-
Non-controlling interests	223	205	193	80	79	79
Revenue and other income	2,498	1,636	1,710	-	-	-
Expenses	2,434	1,605	1,633	(2)	(1)	15
Profit/(loss) for the year	64	32	76	2	1	(15)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income/(loss) for the year	64	32	76	2	1	(15)
Net cash inflow from operating activities	153	330	33	-	57	24
Net cash outflow from investing activities	(145)	(348)	(18)	-	(83)	(190)
Net cash outflow from financing activities	(8)	-	(20)	-	-	-
Net cash outflow	-	(18)	(5)	-	(26)	(166)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

54. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group purchased property, plant and equipment by endorsing bills receivable with an aggregate carrying amount of RMB44,267,000 (2016: Nil and 2015: Nil).

(b) Reconciliation of liabilities arising from financing activities:

	Interest-bearing borrowings RMB'M	Convertible and exchangeable bonds RMB'M	Finance lease payable RMB'M	Total RMB'M
As at 1 January 2015	2,292	1,801	-	4,093
Changes from financing cash flows:				
Repayment of borrowings	(6,940)	-	-	(6,940)
Proceeds from borrowings	6,603	-	-	6,603
Interest paid	(67)	(8)	(1)	(76)
Total changes from financing cash flows	1,888	1,793	(1)	3,680
Other changes:				
Exchange realignment	86	49	-	135
Acquisition of subsidiaries	160	-	-	160
Acquisition of property, plant and equipment	-	28	28	
Disposal of subsidiaries	(10)	-	-	(10)
Exercised during the year	-	(789)	-	(789)
Interest expenses	63	55	1	119
As at 31 December 2015 and 1 January 2016	2,187	1,108	28	3,323
Changes from financing cash flows:				
Repayment of borrowings	(11,685)	-	-	(11,685)
Repayment of obligations under finance lease	-	-	(11)	(11)
Proceeds from borrowings	43,471	-	-	43,471
Interest paid	(300)	-	(1)	(301)
Total changes from financing cash flows	33,673	1,108	16	34,797
Other changes:				
Exchange difference	1,195	78	-	1,273
Interest expenses	628	37	1	666
As at 31 December 2016 and 1 January 2017	1,223	17	36,736	38,976
Changes from financing cash flows:				
Repayment of borrowings	(22,922)	-	-	(22,922)
Proceeds from borrowings	18,694	-	-	18,694
Proceeds from issuing of convertible and exchangeable bonds	-	6,300	-	6,300
Repayment of obligations under finance lease	-	-	(17)	(17)
Interest paid	(1,113)	-	(1)	(1,114)
Total changes from financing cash flows	30,155	7,523	(1)	37,677

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017, 2016 and 2015

54. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**(b) Reconciliation of liabilities arising from financing activities: (continued)**

	Interest-bearing borrowings RMB'M	Convertible and exchangeable bonds RMB'M	Finance lease payable RMB'M	Total RMB'M
Other changes:				
Exchange realignment	(1,415)	(101)	-	(1,516)
Acquisition of subsidiaries	121	-	-	121
Exercised during the year	-	(1,223)	-	(1,223)
Interest expenses	997	12	1	1,010
At 31 December 2017	29,858	6,211	-	36,069

55. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorised for issue on 30 May 2018.

- End of notes -