QINGDAO HAIER CO., LTD. AND ITS SUBSIDIARIES

INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

INDEPENDENT REVIEW REPORT
TO QINGDAO HAIER CO., LTD. ____ 1
(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim condensed consolidated financial statement set out on pages 3 to 36, which comprises the condensed consolidated statement of financial position of Qingdao Haier Co., Ltd. (the ‘Company’) and its subsidiaries (collectively referred to as the ‘Group’) as at 30 June 2018 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Company are responsible for the preparation of interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 ‘Interim Financial Reporting’ (‘IAS 34’) issued by the International Accounting Standards Board. Our responsibility is to express a conclusion on this interim condensed consolidated financial statement based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’ issued by the International Auditing and Assurance Standards Board. A review of interim condensed consolidated financial statement consists of making inquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements as at 30 June 2018, do not present fairly, in all material respects, in accordance with IAS 34.

Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 3 September 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June	Notes	**2018** RMB'M (Unaudited)	2017 RMB'M (Unaudited)
Revenue	3	**88,581**	77,575
Cost of sales		**(63,363)**	(54,465)
Gross profit		**25,218**	23,110
Other income		**820**	542
Other gains and losses	4	**137**	275
Selling and distribution expenses		**(13,107)**	(12,180)
Administrative and other expenses		**(6,188)**	(5,740)
Finance costs	5	**(556)**	(560)
Share of profit of associates		**581**	586
Profit before taxation		**6,905**	6,033
Income tax expenses	8	**(967)**	(758)
Profit for the period		**5,938**	5,275
Attributable to:			
Owners of the Company		**4,858**	4,417
Non-controlling interests		**1,080**	858
		5,938	5,275
Earnings per share			
- Basic (RMB)	9	**0.80**	0.72
- Diluted (RMB)	9	**0.79**	0.72

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the six months ended 30 June	Notes	**2018** RMB'M (Unaudited)	2017 RMB'M (Unaudited)
Profit for the period		**5,938**	5,275
Other comprehensive income/(loss)			
Item that will not be reclassified subsequently to profit or loss:			
Changes in net liabilities or net assets arising from re-measurement of defined benefit plans		**(7)**	-
Change in fair value of equity investment at fair value through other comprehensive income		**113**	-
Item that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income/(loss) of associates		**87**	(122)
Net loss from change in fair value of available-for-sale investments		**-**	(2)
Net fair value gain on hedging instruments entered into for cash flow hedges		**23**	-
Exchange differences on translation of financial statements denominated in foreign currencies		**175**	(71)
Other comprehensive income/(loss) for the period		**391**	(195)
Total comprehensive income for the period		**6,329**	5,080
Attributable to:			
Owners of the Company		**5,125**	4,255
Non-controlling interests		**1,204**	825
		6,329	5,080

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**At 30June 2018 RMB'M (Unaudited)**	At 31 December 2017 RMB'M (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**18,099**	17,632
Investment properties		**31**	31
Prepaid land lease payments		**1,824**	1,541
Goodwill		**19,766**	19,843
Other intangible assets		**6,024**	5,422
Investments in associates		**13,425**	12,993
Available-for-sale investments		**-**	1,415
Equity instruments at fair value through other comprehensive income		**1,558**	-
Prepayment for property, plant and equipment and prepaid land lease payments		**833**	757
Derivative financial instruments		**396**	389
Deferred tax assets		**1,835**	1,895
Other long term financial assets		**197**	-
Other non-current assets		**561**	1,114
		64,549	63,032
CURRENT ASSETS			
Inventories		**22,507**	21,504
Trade and bills receivables		**29,114**	25,481
Prepayments, deposits and other receivables		**4,183**	4,129
Derivative financial instruments		**122**	77
Other financial assets		**2,232**	2,007
Pledged deposits		**1,283**	837
Cash and cash equivalents		**32,185**	34,340
		91,626	88,375
Assets of a disposal group classified as held for sale		**1,290**	56
		92,916	88,431

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	**At 30 June 2018** RMB'M (Unaudited)	At 31 December 2017 RMB'M (Audited)
CURRENT LIABILITIES			
Trade and bill payables		**47,577**	42,033
Other payables and accruals		**17,823**	19,938
Interest-bearing borrowings		**14,913**	13,729
Tax payables		**1,139**	1,248
Provision		**1,699**	1,610
Derivative financial instruments		**4**	3
		83,155	78,561
Liabilities directly associated with assets classified as held-for-sale		**297**	-
		83,452	78,561
NET CURRENT ASSETS		**9,464**	9,870
TOTAL ASSETS LESS CURRENT LIABILITIES		**74,013**	72,902
NON-CURRENT LIABILITIES			
Interest-bearing borrowings		**13,051**	16,129
Convertible and exchangeable bonds		**6,348**	6,211
Provisions		**1,191**	1,009
Deferred income		**473**	442
Deferred tax liabilities		**163**	279
Derivative financial instruments		**243**	249
Employee benefit obligation		**955**	898
Other non-current liabilities		**982**	935
		23,406	26,152
NET ASSETS		**50,607**	46,750

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	**At 30 June 2018** RMB'M (Unaudited)	At 31 December 2017 RMB'M (Audited)
CAPITAL AND RESERVES			
Share capital	11	**6,098**	6,098
Reserves		**29,169**	26,118
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**35,267**	32,216
NON-CONTROLLING INTERESTS		**15,340**	14,534
TOTAL EQUITY		**50,607**	46,750

Approved and authorised for issue by the board of directors on 3 September 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 condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company						
	Share capital RMB'M	Share Held for the Restricted Share Award Scheme RMB'M	Capital reserve RMB'M	Remeasurement of defined benefit plans reserve RMB'M	Cash flow hedging reserve RMB'M	Other equity RMB'M	Equity method investment reserve RMB'M
At 1 January 2018 (Audited)	6,098	-	-	(10)	40	431	(272)
Profit for the period	-	-	-	-	-	-	-
Other comprehensive (loss)/income for the period	-	-	-	(7)	23	-	87
Total comprehensive income for the period	-	-	-	(7)	23	-	87
Change of accounting policy of associate	-	-	-	-	-	-	40
Dividend payments	-	-	-	-	-	-	-
Changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	47	-	-	-	-
Other changes	-	-	-	-	-	-	-
At 30 June 2018 (Unaudited)	6,098	-	47	(17)	63	431	(145)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2018

	Attributable to owners of the Company							
	Equity instruments at fair value through other comprehensive income 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 2018 (Audited)	**4**	**2,104**	**825**	**203**	**22,793**	**32,216**	**14,534**	**46,750**
Profit for the period	-	-	-	-	4,858	4,858	1,080	5,938
Other comprehensive (loss)/income for the period	113	-	-	51	-	267	124	391
Total comprehensive income for the period	113	-	-	51	4,858	5,125	1,204	6,329
Change of accounting policy of associate	-	-	-	-	(75)	(35)	-	(35)
Dividend payments	-	-	-	-	(2,086)	(2,086)	(401)	(2,487)
Changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	-	-	-	47	-	47
Other changes	-	-	-	-	-	-	3	3
At 30 June 2018 (Unaudited)	**117**	**2,104**	**825**	**254**	**25,490**	**35,267**	**15,340**	**50,607**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2017

	Attributable to owners of the Company						
	Share capital RMB'M	Share Held for the Restricted Share Award Scheme RMB'M	Capital reserve RMB'M	Remeasurement of defined benefit plans reserve RMB'M	Cash flow hedging reserve RMB'M	Other equity RMB'M	Equity method investment reserve RMB'M
At 1 January 2017 (Audited)	6,098	(1)	-	(6)	12	-	35
Profit for the period	-	-	-	-	-	-	-
Other comprehensive (loss)/income for the period	-	-	-	-	-	-	(122)
Total comprehensive income for the period	-	-	-	-	-	-	(122)
Dividend payments	-	-	-	-	-	-	-
Transfer to reserves fund	-	-	-	-	-	-	-
Change in equity of subsidiaries	-	-	224	-	-	-	-
Acquisition from non-controlling interests	-	-	2	-	-	-	-
Change in equity of associates	-	-	6	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-
Transfer to capital reserve	-	-	-	-	-	-	-
Issue of exchangeable notes	-	-	-	-	-	-	-
Conversion of exchangeable notes	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-
At 30 June 2017 (Unaudited)	6,098	(1)	232	(6)	12	-	(87)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2017

	Attributable to owners of the Company							
	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 2017 (Audited)	7	2,077	82	520	17,614	26,438	11,242	37,680
Profit for the year	-	-	-	-	4,417	4,417	858	5,275
Other comprehensive (loss)/income for the period	(2)	-	-	(38)	-	(162)	(33)	(195)
Total comprehensive income for the period	(2)	-	-	(38)	4,417	4,255	825	5,080
Dividend payments	-	-	-	-	(1,512)	(1,512)	(249)	(1,761)
Transfer to reserves fund	-	-	-	-	-	-	-	-
Change in equity of subsidiaries	-	-	-	-	-	224	-	224
Acquisition from non-controlling interests	-	-	-	-	-	2	-	2
Change in equity of associates	-	-	-	-	-	6	-	6
Business combination under common control	-	-	-	-	-	-	-	-
Transfer to capital reserve	-	-	-	-	-	-	-	-
Issue of exchangeable notes	-	-	-	-	-	-	352	352
Conversion of exchangeable notes	-	-	-	-	-	-	677	677
Other changes	-	-	-	-	-	-	372	372
At 30 June 2017(Unaudited)	5	2,077	82	482	20,519	29,413	13,219	42,632

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June	**2018** RMB'M (Unaudited)	2017 RMB'M (Unaudited)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**5,368**	8,434
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for acquisition of subsidiary, net of cash acquired	**-**	(70)
Payment for acquisition of associates	**(30)**	(163)
Payment for purchase of property, plant and equipment	**(2,737)**	(1,690)
Payment for equity instruments at fair value through other comprehensive income (2017: available-for-sale investments)	**(10)**	(11)
Payment for other financial assets	**(2,502)**	(594)
Mainland China corporate income tax paid on investing activities	**(15)**	-
Advances to a fellow subsidiary	**-**	(20)
Net cash (outflow)/inflow from disposal of subsidiaries	**(57)**	6
Proceeds from disposal of property, plant and equipment	**66**	38
Redemption of other financial assets	**2,183**	14
Dividends from associates	**135**	82
Interest received from other financial assets	**41**	11
Received of government grant related to assets	**9**	-
Dividends received on financial assets held as investments	**68**	19
NET CASH USED IN INVESTING ACTIVITIES	**(2,849)**	(2,378)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceed from issuance of additional equity of non-wholly owned subsidiaries	**80**	403
Proceed from borrowings	**4,510**	12,543
Repayment of borrowings	**(6,528)**	(13,233)
Interest paid for borrowings	**(122)**	(127)
Payments for options bought back	**-**	(12)
Capital element of finance lease obligation	-	(6)
Payment for issuance costs of convertible and exchangeable bonds	**(59)**	-
Increase in pledged deposits	**(446)**	(58)
Transactions with non-controlling interests	**(9)**	(10)
Dividends paid to shareholders	**(2,085)**	-
Dividends paid to non-controlling shareholders	**(26)**	(4)
NET CASH USED IN FINANCING ACTIVITIES	**(4,685)**	(504)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June	**2018** RMB'M (Unaudited)	2017 RMB'M (Unaudited)
Net (decrease)/increase in cash and cash equivalents	**(2,166)**	5,552
Cash and cash equivalents at the beginning of the period	**34,340**	23,295
Effect of foreign exchange rate changes	**11**	(73)
CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD	**32,185**	28,774
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**32,185**	28,774

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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 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. In addition to the consolidated financial statements for years ended 31 December 2017, 2016 and 2015, the Group presents condensed consolidated financial statements for the six months ended 30 June 2018.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements consist of condensed consolidated statement of profit or loss, condensed consolidated statement of other comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of cash flows, condensed consolidated statement of changes in equity and notes to the condensed consolidated financial statements for the six months ended 30 June 2018.

The condensed consolidated interim 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.

For further explanations of Qingdao Haier Co., Ltd. and additional information reference is made to the consolidated financial statements for the years ended 31 December 2017. The condensed consolidated interim financial statements should be read in conjunction with these consolidated financial statements.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Condensed consolidated financial statements of the Company and its subsidiaries (the 'Group') as of and for the six months ended 30 June 2018 have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as endorsed by the European Union ('EU') and, in particular, for interim financial information according to International Accounting Standard ('IAS') 34, Interim Financial Reporting.

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.

New standards, interpretations and amendments adopted by the Group

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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

IFRS 15 Revenue from Contracts with Customers (continued)

The Group provides a right of return for some of the sales contracts of home appliances with customers. Prior to the adoption of IFRS 15, the Group recognised revenue from the sale of goods measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. If revenue could not be reliably measured, the Group deferred the revenue recognition until the uncertainty is resolved. Under IFRS 15, right of return gives rise to variable consideration. The Group uses the expected value method to estimate the goods that will be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The directors of the Group have assessed that the application of IFRS 15 does not have a material impact on the Group's condensed consolidated financial statements for the period ended 30 June 2018. As at 30 June 2018, contract liabilities of RMB3,486 million in respect of advance payment received from customers were included in other payables and accruals.

IFRS 9 Financial Instruments

In the current period, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

The following table shows the reconciliation of the categories and carrying amounts of financial instruments as well as the impact on Group equity of the first-time application of IFRS 9.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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

Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowance is recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is separately disclosed in the condensed consolidated statement of profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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

Financial assets at FVTPL (continued)

Impairment under ECL model

The Group assesses ECL on financial assets which are subject to impairment under IFRS 9 (including other receivables, debt instruments at fair value through other comprehensive income and cash and bank balances). The assessment is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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

Significant increase in credit risk (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amounts of these debt instruments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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

Measurement and recognition of ECL (continued)

Summary of effects arising from initial application of IFRS 9

Financial assets	Available-for-sale investments RMB'M	Equity instruments at FVTOCI RMB'M
At 31 December 2017 – IAS 39	1,415	-
Effect arising from initial application of IRS 9:		
Reclassification from available-for-sale investments	(1,415)	1,415
At 1 January 2018	**-**	**1,415**

Notes: Available-for-sale investments of RMB$1,415 million were reclassified from available-for-sale financial assets to financial assets at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding.

3. SEGMENT INFORMATION

For management purposes, the Group is organized 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;

3. SEGMENT INFORMATION (CONTINUED)

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

- Kitchenware and bathroom appliances segment mainly engaged in manufacture and sales of water heater and kitchen appliances products;

- 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 was 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 operating segment profits, 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.

Segment assets exclude goodwill, equity instruments at fair value through other comprehensive income (2017: 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

3. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

	Revenue from external customers Six months ended 30 June		Inter-segment revenue Six months ended 30 June		Total segment revenue Six months ended 30 June		Segment's profit before tax Six months ended 30 June	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M	RMB'M
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Refrigerator segment	**13,280**	11,672	**10,062**	8,989	**23,342**	20,661	**1,907**	1,658
Air-conditioner segment	**6,871**	5,935	**13,122**	10,130	**19,993**	16,065	**1,181**	1,014
Washing machine segment	**7,535**	6,419	**6,875**	5,804	**14,410**	12,223	**1,346**	1,141
Kitchenware and bathroom appliances segment	**10,052**	9,671	**3,378**	2,847	**13,430**	12,518	**1,007**	913
Equipment components segment	**1,373**	1,529	**29,020**	18,575	**30,393**	20,104	**238**	172
Integrated channel services and others segment	**49,470**	42,349	**6,611**	5,847	**56,081**	48,196	**693**	645
Total segment	**88,581**	77,575	**69,068**	52,192	**157,649**	129,767	**6,372**	5,543
Reconciliation to condensed consolidated financial statements	**-**	-	**(69,068)**	(52,192)	**(69,068)**	(52,192)	**533**	490
	88,581	77,575	**-**	-	**88,581**	77,575	**6,905**	6,033

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

3. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (continued)

	Six months ended 30 June	
	2018	2017
	RMB'M	RMB'M
	(Unaudited)	(Unaudited)
Reconciliation to condensed consolidated financial statements:		
Total of segments' profit before tax	**6,372**	5,543
Other income	**820**	542
Other gains	**137**	275
Share of profits of associates	**581**	586
Finance costs	**(556)**	(560)
Eliminations, Corporate Treasury, Corporate Items, other items	**(449)**	(353)
Reconciliation to condensed consolidated financial statements	**533**	490
Profit before tax	**6,905**	6,033

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

3. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

	Total assets		Total liabilities	
	At 30 June 2018 RMB'M (Unaudited)	At 31 December 2017 RMB'M (Audited)	**At 30 June 2018** RMB'M (Unaudited)	At 31 December 2017 RMB'M (Audited)
Refrigerator segment	**15,642**	15,093	**25,374**	23,320
Air-conditioner segment	**17,848**	14,045	**8,938**	8,165
Washing machine segment	**13,573**	10,774	**5,862**	5,650
Kitchenware and bathroom appliances segment	**12,363**	12,462	**6,382**	6,468
Equipment components segment	**32,462**	26,193	**34,669**	28,089
Integrated channel services and others segment	**36,267**	31,818	**30,787**	26,754
Total segment	**128,155**	110,385	**112,012**	98,446
Reconciliation to condensed consolidated financial statements	**29,310**	41,078	**(5,154)**	6,267
	157,465	151,463	**106,858**	104,713

3. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities (continued)

		At 30 June 2018 RMB’M (Unaudited)	At 31 December 2017 RMB’M (Audited)
Reconciliation to condensed consolidated financial statements:			
Total assets			
Total of segments’ assets		**128, 155**	110,385
Goodwill		**19,766**	19,843
Deferred tax assets		**1,835**	1,895
Equity instruments at fair value through other comprehensive income	**1,588**	**-**	
Available-for-sale investments		**-**	1,415
Interests in associates		**13,425**	12,993
Eliminations, Corporate Treasury, Corporate Items, other items		**(7,304)**	4,932
Reconciliation to condensed consolidated financial statements		**29,310**	41,078
Total assets		**157,465**	151,463

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

3. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities (continued)

	At 30 June 2018 RMB'M (Unaudited)	At 31 December 2017 RMB'M (Audited)
Reconciliation to condensed consolidated financial statements: (continued)		
Total liabilities		
Total of segments' liabilities	**112,012**	98,446
Convertible and exchangeable bonds	**6,348**	6,211
Tax payables	**1,139**	1,248
Interest-bearing borrowings	**27,964**	29,858
Deferred tax liabilities	**163**	279
Eliminations, Corporate Treasury, Corporate Items, other items	**(40,768)**	(31,329)
Reconciliation to condensed consolidated financial statements	**(5,154)**	6,267
Total liabilities	**106,858**	104,713

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

3. SEGMENT INFORMATION (CONTINUED)

Other segment information

	Product warranty and installation provisions Six months ended		Depreciation and amortisation Six months ended	
	30 June 2018 RMB'M (Unaudited)	30 June 2017 RMB'M (Unaudited)	**30 June 2018** RMB'M (Unaudited)	30 June 2017 RMB'M (Unaudited)
Refrigerator segment	**737**	770	**392**	400
Air-conditioner segment	**710**	688	**221**	189
Washing machine segment	**409**	359	**216**	202
Kitchenware and bathroom appliances segment	**260**	239	**305**	303
Equipment components segment	**-**	-	**62**	66
Integrated channel services and others segment	**-**	-	**191**	181
Total segment	**2,116**	2,056	**1,387**	1,341

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

3. 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, other long term financial assets 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 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 Six months ended 30 June		**Specified non-current assets**	
			At 30 June	At 31 December
	2018	2017	**2018**	2017
	RMB'M	RMB'M	RMB'M	RMB'M
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Mainland China	**52,783**	42,482	**13,332**	12,105
Other countries/regions*	**35,798**	35,093	**14,237**	14,392
	88,581	77,575	**27,569**	26,497

* Other countries/regions in this report refer 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

4. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2018	2017
	RMB'M	RMB'M
	(Unaudited)	(Unaudited)
Net gain on disposal of equity instruments at fair value through other comprehensive income (2017: available-for-sale investments)	**-**	1
Net gain on disposal of associates and subsidiaries	**18**	20
Gain on disposal/written-off of items of property, plant and equipment, net	**(16)**	-
Net foreign exchange losses	**(59)**	(172)
Net gain on disposal of derivative financial instruments	**157**	14
Fair value change on derivative financial instruments	**37**	412
	137	275

5. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	RMB'M	RMB'M
	(Unaudited)	(Unaudited)
Interest on interest-bearing borrowings	**420**	533
Interest on convertible and exchangeable bonds	**81**	1
Other interest expenses	**55**	26
	556	560

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	For the six months ended 30 June	
	2018	2017
	RMB'M	RMB'M
	(Unaudited)	(Unaudited)
Cost of inventories sold	**60,676**	52,173
Cost of services provided	**2,687**	2,292
Depreciation and amortisation	**1,387**	1,341
Research and development costs	**2,171**	2,109
Foreign exchange differences, net	**59**	172

7. DIVIDEND

A final dividend in respect of the year ended 31 December 2017 of RMB3.42 per ten share (2016: RMB2.48 per ten shares) was proposed pursuant to a resolution passed by the board on 18 May 2018 and approved by the shareholders of the Company at 2018 annual general meeting. Such dividend amounting to RMB2,085 million (final dividend for 2016: RMB1,512 million) was paid before 30 June 2018.

The board did not declare any interim dividend for the six months ended 30 June 2018 and 2017.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

8. INCOME TAX EXPENSES

	For the six months ended 30 June	
	2018	2017
	RMB'M	RMB'M
	(Unaudited)	(Unaudited)
Current tax		
Charge for the period	**1,111**	855
Overprovision in prior years	**(94)**	(76)
	1,017	779
Deferred tax	**(50)**	(21)
Total income tax expenses for the period	**967**	758

(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 six months ended 30 June 2018 and 2017. The general PRC corporate income tax rate is 25% in the six months ended 30 June 2018 and 2017. Certain subsidiaries of the Company in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential corporate income tax rate of 15% for the six months ended 30 June 2018 and 2017.

(ii) Corporate income tax in other countries

Taxation 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

9. 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 six months ended 30 June 2018 and 2017 attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 6,097,402,727 and 6,097,402,727 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 the convertible bonds and/or convertible and exchangeable bonds, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the 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.

The calculation of basic and diluted loss per share is based on:

	For the six months ended 30 June	
	2018	2017
	RMB'M	RMB'M
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**4,858**	4,417
Profit for the year from subsidiaries used in the calculation of diluted earnings per shares from convertible and exchangeable bonds	**(147)**	-
Interest on convertible and exchangeable bonds	**81**	1
	4,792	4,418

	For the six months ended 30 June	
	2018	2017
	Number of shares	Number of shares
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**6,097,402,727**	6,097,402,727

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred construction costs for production plants and warehouses and purchased items of property, plant and equipment at a total cost of RMB1,993 million (31 December 2017: RMB3,384 million) and disposed of items of property, plant and equipment with a total net carrying amount of RMB96 million (2017: RMB471 million).

11. SHARE CAPITAL

	At 30 June 2018		At 31 December 2017	
	Number of shares ’million (Unaudited)	**RMB’M** (Unaudited)	Number of shares ’million (Audited)	RMB’M (Audited)
Issued share capital	**6,098**	**6,098**	6,098	6,098

12. 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:

	At 30 June 2018 RMB’M (Unaudited)	At 31 December 2017 RMB’M (Audited)
Within one year	**23**	20
In the second to fifth years, inclusive	**40**	12
After five years	**-**	1
	63	33

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

12. OPERATING LEASE ARRANGEMENTS (CONTINUED)

(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:

	At 30 June 2018 RMB'M (Unaudited)	At 31 December 2017 RMB'M (Audited)
Within one year	**716**	926
In the second to fifth years, inclusive	**826**	988
After five years	**253**	322
	1,795	2,236

13. COMMITMENTS

In addition to the operating lease commitments detailed in note 12 above, the Group had the following commitments at the end of the reporting period:

	At 30 June 2018 RMB'M (Unaudited)	At 31 December 2017 RMB'M (Audited)
Contracted, but not provided for:		
Property, plant and equipment	**1,380**	1,744

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

14. 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	
	At 30 June 2018 RMB'M (Unaudited)	At 31 December 2017 RMB'M (Audited)	**At 30 June 2018** RMB'M (Unaudited)	At 31 December 2017 RMB'M (Audited)
Financial assets				
Equity instruments at fair value through other comprehensive income	**1,558**	-	**1,558**	-
Available-for-sale investments	**-**	27	**-**	27
Derivative financial instruments	**518**	466	**518**	466
Other financial assets	**1,301**	-	**1,301**	-
	3,377	493	**3,377**	493
Financial liabilities				
Derivative financial instruments	**247**	252	**247**	252
Put option liabilities	**970**	917	**970**	917
Convertible and exchangeable bonds	**6,348**	6,211	**6,240**	6,605
Contingent considerations	**6**	5	**6**	5
	7,571	7,385	**7,463**	7,779

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

15. EVENTS AFTER THE REPORTING PERIOD

1. 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.". At the same time, according to the authorization of the general meeting of shareholders to the board of directs, the resolution of the 17th meeting of the 9th session of the board of directors of the Company held on 24 August 2018, the Company passed the resolution on the adjustment of issuance proposal of convertible bonds. The Company will issue convertible bonds of no more than RMB3.01 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.

2. The Company acquired 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 of approximately US$303 million on 31 July 2018.

3. On 30 August 2018, Guanmei (Shanghai) Enterprise Management Co., Ltd. ("Guanmei"), an indirectly owned subsidiary of the Company, entered into an asset swap agreement ("Assets Swap Agreement") with Haier Electric International Co., Ltd. ("Haier International"), a subsidiary of Haier Corp ("Haier Group Corporation"). Pursuant to the Asset Swap Agreement, Guanmei has agreed to acquire and Haier International has agreed to sell the 51 % of the equity interest in Qingdao Haishi Water Equipment Co., Ltd. at a consideration of approximately RMB1.074 billion. In satisfaction of the consideration, Guanmei has agreed to transfer the 55 % of the equity interest in Bingji (Shanghai) Enterprise Management Co., Ltd. to Haier International at the same consideration. Details of which are set out in the announcement of the Company dated 30 August 2018.

   Saved as disclosed above, so far as is known to the directors, there are no other subsequent events occurred after 30 June 2018, which may have significant effects, on the assets and liabilities of future operations of the Group.

--- End of Notes ---