Qingdao Haier Co., Ltd.

2019 Follow-up Rating Report on the Convertible Corporate Bonds

Long-term credit rating of the issuer

Follow-up rating result: AAA **Rating outlook:** Stable

Last rating result: AAA **Rating outlook:** Stable

Credit rating of the bonds

Bond abbreviation	Bonds Size	Bond tenor	Last rating result	Current rating result	Time of the last rating
Haier Convertible Bonds	RMB3,007.49 million	6 years	AAA	AAA	26 June 2018

Time of follow-up rating: 20 June 2019

Main financial data:

Item	2017	2018	March 2019
Total assets (RMB100 million)	1,571.64	1,667.00	1,774.45
Owner's equity (RMB100 million)	478.49	551.30	571.60
Long-term debts (RMB100 million)	222.48	247.33	226.96
Total debts (RMB100 million)	556.57	539.27	573.30
Revenue (RMB100 million)	1,634.29	1,833.17	480.43
Net profit (RMB100 million)	90.28	97.71	26.66
EBITDA (RMB100 million)	150.41	162.34	--
Net cash flow from operating activities (RMB100 million)	167.04	189.34	13.24
Operating profit margin (%)	30.59	28.53	28.64
Return on equity (%)	21.14	18.98	4.75
Debt-equity ratio (%)	69.55	66.93	67.79
Total debt capitalization ratio (%)	53.77	49.45	50.07
Current ratio (multiples)	1.11	1.18	1.11
EBITDA total debt ratio (multiples)	0.27	0.30	--
EBITDA interest ratio (multiples)	10.51	11.08	--
EBITDA/total principal outstanding (multiples)	5.01	5.41	--

Notes: 1. In the report, part of the totals are different from the sum of the addends in the mantissa, and the difference is caused by rounding off; unless otherwise specified, all of them refer to RMB. 2. EBITDA/total principal outstanding = EBITDA/total principal outstanding of the bond under the follow-up of the report. 3. As the data of the first quarter of 2019, relevant indicators were unannualized.

Rating opinion

During the follow-up period, as a world's leading enterprise in the white household appliance manufacturing industry, Qingdao Haier Co., Ltd. (hereinafter referred to as "the Company" or "Qingdao Haier") still had strong comprehensive competitive advantages in industry status, production scale, research and development strength, and market layout. In 2018, the Company's overall operation status was good. It saw the growth of the sales volume of all main products and maintained the growth in assets and revenue with the good status of cash flows from operating activities. Meanwhile, United Credit Ratings Co., Ltd. (hereinafter referred to as "United Ratings") has also noticed the adverse impacts on the credit status of the Company brought by factors such as the intense competition in the white household appliance industry, fluctuations in the prices of raw materials, the decline in rates of capacity utilization of all main products of the Company, the large scale of goodwill, and the certain occupation of funds of accounts receivable and the inventory.

In the future, with the continuous promotion of the smart home strategy of the Company, the improvement on the operation efficiency brought by the retail transformation, the increase in the proportion of high-end brands, and the basically completed global layout, the Company will realize synergistic advantages in the global procedure, production, R&D, and channels, which will further enhance its comprehensive competitiveness, and thus is expected to continue maintaining its leading position in the global white household appliance industry.

To sum up, United Ratings maintains the long-term credit rating of the Company as AAA and rating outlook as Stable; maintains the credit rating of the bond "Haier Convertible Bonds" as AAA.

Strengths

1. During the follow-up period, as a world's leading enterprise in the white household appliance manufacturing industry, the Company still had strong comprehensive competitive advantages in industry status, production scale,

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research and development strength, and market layout.

2. During the follow-up period, the Company's overall operation status was good. It saw the growth of the sales volume of all the main products.

3. During the follow-up period, the income and assets of the Company maintained a growth trend. With the good status of cash flows from operating activities, the overall debt burden on the Company was reduced.

Concerns

1. As the competition in the white household appliance industry is intensive and the homogeneity of products is obvious, the Company faces a large external competitive pressure.

2. With the in-depth advancement of globalization of the Company, the management difficulty has been increased, which leads to the uncertainty of the synergistic effect among brands.

3. After acquiring GEA, the Company has formed larger goodwill. If the subsequent business performance of GEA fails to reach the expected goal, the Company will face a certain risk of goodwill impairment.

Analyst

Tang Yuli

Tel: 010-85172818

Email: tangyl@unitedratings.com.cn

Dai Feiyi

Tel: 010-85172818

Email: daify@unitedratings.com.cn

Fax: 010-85171273

Address: Floor 12 (100022), No.2 PICC Office Tower, Jianguomenwai Avenue, Chaoyang District, Beijing City

Http://www.unitedratings.com.cn

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Statement on the Credit Rating Report

In addition to the entrusted relationship between United Credit Ratings Co., Ltd. (United Ratings) and the rating object because of the follow-up rating matter, there is no any related party relationship that affects the independence, objectivity, and fairness among United Ratings, rating personnel, and the rating object.

United Ratings and review personnel have fulfilled the obligations of due diligence and fiduciary duties and have sufficient reasons to guarantee that the follow-up rating report issued by them observes the principles of truth, objectivity, and fairness.

The rating conclusion of the follow-up rating report is the independent judgment made by United Ratings according to reasonable internal credit rating standards and procedures and its rating opinion is not changed under the undue influence of the rating object and any other organizations or individuals. The rating method on which the rating report is based is publicly disclosed on the website of United Ratings.

The follow-up rating report is used as a reference for relevant decisions and is not the conclusion of or suggestion on a decision.

The relevant materials of the rating object quoted in the follow-up rating report are mainly provided by the rating object. United Ratings has conducted the necessary inspection and verification of the authenticity, accuracy, and completeness of the documents on which the rating report is based, but the inspection and verification conducted by United Ratings cannot replace the corresponding legal liabilities that shall be assumed by the rating object and other institutions for the materials provided by them.

The follow-up rating report is effective from the date of issuance to the maturity and redemption date of this (issue of) bond. During the duration of this (issue of) bond, United Ratings will continuously conduct a follow-up rating and the rating object's credit rating may be changed according to the conclusion of the follow-up rating.

Analyst:

United Credit Ratings Co., Ltd.

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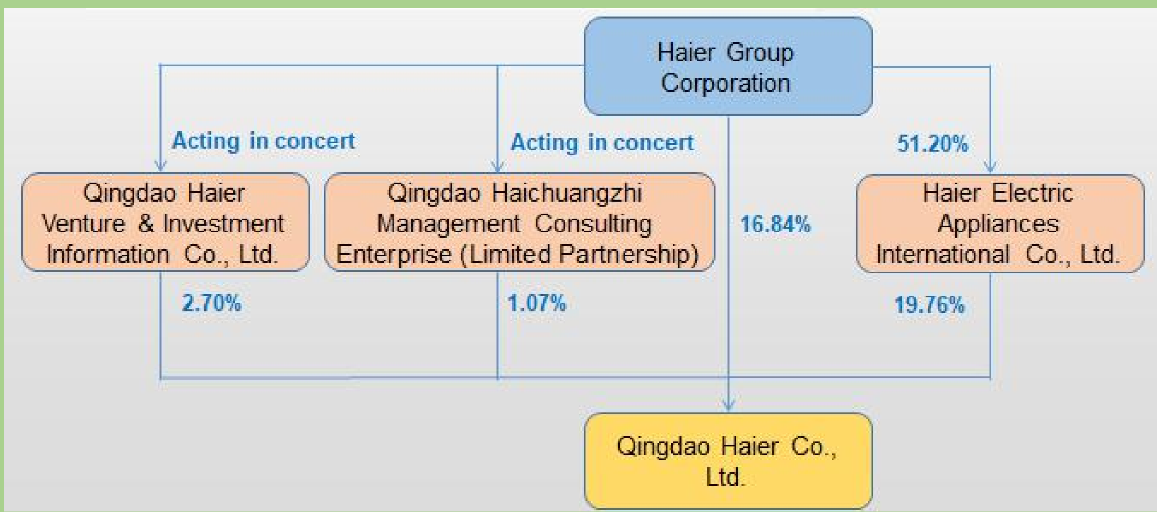
I. Overview of the Issuer

Formerly known as Qingdao Qindao Haier Co., Ltd., Qingdao Haier Co., Ltd., (hereinafter referred to as "the Company" or "Qingdao Haier") was set up in April 1989 by directional fund raising based on the reconstruction of the original Qingdao Refrigerator Factory as approved by Q.D.SH.T.G.W.F. [1989] No. 3. In March and July 1993, as approved by the document of Q.G.L.Z. [1993] No. 2 and No. 9 issued by the pilot leading team of Qingdao joint stock company, based on the normalized transformation, the Company was converted from a directional offering company to a public subscription company and additional 50.00 million shares were issued to the public. In July 1993, the Company changed its name to "Qingdao Haier Refrigerator Co., Ltd.". The stock issuance of the Company was reviewed and approved by China Securities Regulatory Commission pursuant to ZH.J.F.SH.Z. [1993] No. 78 and its stock listing application was reviewed and approved by the Shanghai Stock Exchange pursuant to SH.ZH.SH. [93] No. 2087. The Company was listed on the Shanghai Stock Exchange in November 1993 (Stock code: 600690.SH, Short Name: Qingdao Haier). In May 2001, Qingdao Haier Refrigerator Co., Ltd. changed its name to the current name. After many times of the conversion of capital reserve to the share capital, as at the end of 2018, the Company's total share capital was 6,368 million shares. With a shareholding of 19.76% (not pledged), Haier Electric Appliances International Co., Ltd. (hereinafter referred to as "Haier Electric Appliances International") was the largest shareholder of the Company. The actual controller of the Company was Haier Group Corporation (hereinafter referred to as "Haier Group").[1]

Figure 1 Equity Structure of the Company as at the End of 2018



Source: The annual report of the Company

As at the end of 2018, the Company's consolidation scope included the parent company and 105 subsidiaries, an increase of 14 subsidiaries compared with last year. The Company had a total of 87,447 in-service employees. In 2018, the business scope and the organizational structure of the Company remained unchanged compared with last year.

As at the end of 2018, the Company had total consolidated assets of RMB166,700 million, total liabilities of RMB111,569 million, total owner's equity of RMB55,130 million (including the equity of minority shareholders), of which the total owner's equity attributable to the parent company was

[1] In the industrial and commercial registration, Haier Group Corporation was registered as a joint-stock enterprise. According to the explanation issued by Qingdao Municipal State-owned Assets Administration Office on June 1, 2002, we identify the nature of Haier Group Corporation as an enterprise of collective ownership.

RMB39,402 million; in 2018, the Company recorded a revenue of RMB183,317 million and net profit (including the equity of minority shareholders) of RMB9,771 million, of which the net profit attributable to the parent company was RMB7,440 million; net cash flows from operating activities were RMB18,934 million and the net increase in cash and cash equivalents was RMB1,057 million.

As at the end of March 2019, the Company had total consolidated assets of RMB177,445 million, total liabilities of RMB120,284 million, total owner's equity of RMB57,160 million (including the equity of minority shareholders), of which the total owner's equity attributable to the parent company was RMB41,077 million; from January to March 2019, the Company recorded a revenue of RMB48,043 million and net profit (including the equity of minority shareholders) of RMB2,666 million, of which the net profit attributable to the parent company was RMB2,136 million; net cash flows from operating activities were RMB1,324 million and the net increase in cash and cash equivalents was -RMB920 million.

Registered address of the Company: Haier Industrial Park, Laoshan District, Qingdao City; legal representative: Liang Haishan.

II. Bond Issuance and the Use of Raised Funds

On 18 December 2018, upon approval by China Securities Regulatory Commission pursuant to ZH.J.X.K. [2018] No. 1912, the Company completed the issuance of the convertible corporate bonds of RMB3,007,490,000 and the bond name was the "2018 Convertible Corporate Bonds of Qingdao Haier Co., Ltd. (hereinafter referred to as "the bonds"). The increase year by year is adopted for the interest rate of the bonds. The nominal interest rate of the convertible bonds is year one 0.2%, year two 0.5%, year three 1.0%, year four 1.5%, year five 1.8%, and year six 2.0%. The term of the bonds is six years. The interest shall be paid once a year and the principal shall be repaid upon maturity. The conversion duration of the convertible bonds starts on the first trading day (25 June 2019) six months after the end of the issuance of the convertible bonds (24 December 2018, T+4 day) and ends on the maturity date of the convertible bonds (17 December 2024). The bonds had been listed on the Shanghai Stock Exchange on January 18, 2019. Its short name is "Haier Convertible Bonds" and the bond code is "110049".

As at the issuance date of the report, the first interest payment date of the bonds was still undue.

As at 10 June 2019, after deducting the issuance cost, RMB1,236 million of the funds raised by the bonds had been used and the use was consistent with the agreed purpose.

III. Industry Analysis

1. Overview of the operation of the household appliance industry

Judging from the domestic market, in 2018, affected by factors such as the slowdown in economic growth and the plunge in the growth rate of the sales area of real estate, the expansion of the domestic household appliance industry market obviously slowed down and showed a trend of being firstly high and then low, and the growth pressure in Q3 and Q4 was constantly increasing. In terms of the market scale, according to the calculation of CMM, in 2018, the market scale of China's household appliance industry (excluding 3C) was RMB948 billion, a year-on-year increase of 1.10%, showing a significant decrease compared with the industry growth of 14.10% in 2017. Specifically, in terms of the white household appliance industry, the retail volume and the retail sales of the household air-conditioner industry increased by 3.00% and 5.60% respectively. In terms of refrigerators and washing machine, replacement demand became the primary demand. The growth of sales volume was weak. The structure upgrading drove the growth of the average price and the retail sales maintained a slight increase. The retail volume of the refrigerator industry decreased by 5.9% while the retail sales increased by 7.90%. The retail volume and the retail sales of the washing machine industry increased by 0.1% and 5.4% respectively. In terms of kitchen appliance products and water heaters, the retail volume of water heaters decreased by 3.20% while the retail sales increased by 0.50%. The retail volume of kitchen ventilators and gas stoves showed a negative growth of 7.90% and 7.10% respectively. In terms of prices, according to the offline monthly monitoring data of CMM, in 2018, the average retail price in the refrigerator industry was RMB4,167, a year-on-year increase of 9.90%; the average retail price in the washing machine industry was RMB2,956, a year-on-year increase of 9.93%.

Judging from the overseas market, affected by factors like different levels of economic development and the holding of products in each region, the market development of each region showed different trends in 2018. In the US market, the sales volume of major appliances was basically the same as that in 2017. In the European market, the cold industry, benefiting from the rising proportion of large-capacity refrigerators such as open-door and multi-door refrigerators, and washing products, benefiting from factors such as the rising proportions of large-capacity washing machine, heat pump type dryers, and intelligent interconnected products, maintained the single-digit growth. Stoves and embedded products were basically the same year-on-year. The Japanese market increased by 3%. In the Australian and New Zealand market, affected by factors such as the continuously declining economic prosperity and consumption expenditure and the weakness of the real estate industry, the household appliance consumer market was impacted and showed a trend of negative growth. Among South Asian markets, affected by factors such as inflation and currency devaluation, there were economic fluctuations in the Pakistan market and the growth of the household appliance market slowed down, while in the Indian market, affected by INR devaluation, rising costs, and weak demands, the growth was flat and was lower than the expectation.

In general, in 2018, the growth of the domestic household appliance market dropped significantly while each region of the overseas market showed different trends.

2. Industry focus

(1) The new round of subsidy policies has been issued but subsidies are not as large as those in the past.

Policies like "home appliances to the countryside", "old for new service", and "energy saving product benefiting people" had greatly promoted China's household appliance consumption. At present, the household appliances sold under the promotion of the last round of subsidy policies have entered the replacement period. In January 2019, the National Development and Reform Commission and other nine departments jointly issued the *Implementation Plan for Further Optimizing the Supply to Promote the Stable Consumption Growth and Facilitating the Formation of a Strong Domestic Market (2019)*, which includes the contents like supporting the sales of green intelligent household appliances and promoting the renewal and replacement of household appliance products. However, in the plan, more attention is paid to the structured consumption upgrade and the contents of policies shall comply with local conditions. Therefore, the overall stimulus is weaker than the last round and we need to observe whether new supporting policies are to be issued subsequently. In the context of the increasingly complicated economic situation, the overall promoting function of relevant preferential policies of the household appliance industry may be small.

(2) The market competition has intensified.

The household appliance industry is an industry full of competition and the traditional competition has been very intense. As the growth of the household appliance market has transformed from the overall market growth to the corrosive growth and the cross-industry competition from industries such as the Internet industry is becoming increasingly fierce, the space for the traditional pure-hardware profit model may be further reduced.

(3) There are fluctuations in the prices of raw materials.

Affected by the overall sluggish global economy and the market fluctuations of bulk commodities, the prices of raw materials like panel, copper, and steel have fluctuated greatly. If the above prices of raw materials rally while the terminal selling price cannot effectively mitigate the impact of cost fluctuations, the business performance of enterprises in the industry will be affected.

3. Industry development

After the rapid development for over 30 years, China's production scale of household appliances has already ranked first in the world and the household appliance industry is one of the industries with great international competitiveness in China. Currently, China's household appliance industry has completed the rapid growth and faces new development opportunities in the new normal.

First, the development opportunities brought by the renewal and replacement. At present, China's household appliance industry has entered the stage dominated by updated consumption. With the general improvement on the living standard and quality of the people and the growth of income, the consumption structure of urban and rural residents will transit to a higher level and consumers will raise high demands for the levels, functions, and quality of household appliance products, which will bring about great opportunities for the consumption upgrade of the household appliance industry.

Second, the creation of new consumption demands. On the one hand, the development of the household appliance industry depends on customers' choice of products. On the other hand, it depends on that manufacturers provide more product options for consumers. During the "13th Five-Year Plan" period, there will be more new types of household appliances going to the homes of consumers. For example, various intelligent products such as sanitary ware, dish-washing machine, clothes dryer, and built-in kitchen will be widely used by ordinary families.

On the whole, product R&D and technologies will still be the theme of the household appliance industry. Grasping consumption upgrade and strengthening technological innovation will be the development direction of the household appliance industry. In the future, the technological transformation of China's household appliance industry will continue to be developed in depth and breadth and its focus will be transferred from scale expansion to efficiency promotion. The digital and intelligent scientific and technological revolution will further promote the manufacturing mode reform of China's household appliance industry and allow China's household appliance industry to further step towards the new stage for the upgrade into a modem manufacturing industry.

IV. Management Analysis

In 2018, the original Employee Supervisor Wang Yuqing of the Company left office for personal reasons and Yu Miao was appointed as the Employee Supervisor at the Employee Representatives Meeting. Other core team members of the Company were stable. The management policies of the Company were continuous with the normal business operation.

V. Operation Analysis

1. Operation overview

In 2018, the Company The Company continued engaging in research, development, production and sales of home appliances with product portfolios covering refrigerators/freezers, washing machines, air-conditioners, water heaters, kitchen appliance products, small home appliances, U-home smart home business, etc., offering complete sets of smart home solutions to consumers, and providing the integrated channel service business such as logistics, household appliances, and sub-underwriting business of other products. In 2018, the Company recorded an operating revenue of RMB183,317 million, representing an increase of 12.17% compared with last year; net profit of RMB9,771 million, representing an increase of 8.22% compared with last year.

Judging from the composition of the operating revenue, the main business revenue of the Company was mainly from white household appliance business such as air-conditioner, refrigerator, and washing machine, and the integrated channel service business. In 2018, the main business revenue of the Company was RMB182,494 million, accounting for 99.55% of the operating revenue, indicating that the Company's main business was very prominent. In 2018, besides equipment products, the revenue scale of air-conditioning business, refrigerator business, kitchen appliance products, water heaters, washing machine business and the integrated channel service business of the Company increased and there were no significant changes in the proportions of all main business segments to the revenue compared with last year. Specifically, in 2018, the revenue from air-conditioners was RMB31,773 million, representing an increase of 10.59% compared with last year, accounting for 17.33% of the operating revenue; the revenue from refrigerators was RMB54,339 million, representing an increase of 12.07% compared with last year, accounting for 29.64% of the operating revenue; the revenue from kitchen appliance products and water heaters was RMB32,875 million, representing an increase of 15.11% compared with last year, accounting for 17.93% of the operating revenue; the revenue from washing machine was RMB36,268 million, representing an increase of 15.06% compared with last year, accounting for 19.78% of the operating revenue. In 2018, the revenue from equipment product business of the Company declined substantially by 49.42% to RMB1,478 million, accounting for 0.81% of the operating revenue, mainly due to the adjustment of the segment standard of the business. Integrated channel services and other business of the Company were mainly logistics business and using self-owned Internet channels of Haier to sell the Group's products and third-party products, and Cosmoplat business revenue. In 2018, the revenue of integrated channel services and other business was RMB25,762 million, which accounted for 14.05% of the operating revenue, representing a slight increase.

Table 1 Main Business Revenue, Composition, Gross Profit Margin, and Year-on-year Status of the Company in 2018

Item	2018			Compared with 2017	
	Income (RMB100 million)	**Proportion (%)**	**Gross profit margin (%)**	**Change in revenue (%)**	**Change in gross profit margin (percentage point)**
Air conditioners	317.73	17.41	31.72	10.59	-0.11
Refrigerators	543.39	29.78	30.36	12.07	-1.68
Kitchen appliance products	249.51	13.67	30.97	7.37	-6.84
Water heaters	79.24	4.34	45.60	11.48	2.29
Washing machine	362.68	19.87	33.92	15.06	-2.48
Equipment products	14.78	0.81	12.87	-49.42	7.58
Integrated channel service business and others	257.62	14.12	8.19	23.76	-1.86
Total	**1,824.95**	**100.00**	**29.00**	**--**	**-1.80**

Source: The annual report of the Company

Note: As the Company's business segments were adjusted in 2018, the year-on-year status of the revenue proportion of each segment in 2018 was not provided.

Judging from regions of sources of revenue, in 2018, the proportion of operating revenue from countries/regions other than the mainland China of the Company was 42.02%, which was basically the same as that in 2017. Specifically, nearly 100% of the overseas revenue was from the Company's own brands.

Table 2 Year-on-year Status of Regions of Sources of the Revenue of the Company in 2018

Item	2018		Compared with 2017	
	Income (RMB100 million)	**Proportion (%)**	**Change in revenue (percentage point)**	**Change in proportion (percentage point)**
Mainland China	1,058.18	57.98	15.25	0.25
Other countries and regions	766.77	42.02	7.98	-0.25
Total	**1,824.94**	**100.00**	**--**	**--**

Source: Provided by the Company

Judging from gross profit margin, in 2018, in addition to the increase in the gross profit margins of water heaters and equipment products, the gross profit margins of all the other products of the Company declined, mainly due to the reclassification of some logistics freight in accordance with the new revenue standard. The gross profit margin of water heaters slightly increased by 2.29 percentage points to 45.60% compared with last year, mainly due to the rising proportion of medium and high-end products among products. The gross profit margin of equipment product business increased by 7.58 percentage points to 12.87%, mainly due to the change in the product structure after the adjustment of the segment standard of the business. Affected by the above-mentioned factors, in 2018, the gross profit margin of the main business of the Company was 29.00%, representing a slight decrease by 1.80 percentage points compared with last year.

From January to March 2019, the Company recorded an operating revenue of RMB48,043 million, representing an increase of 10.17% over the same period of last year; recorded a net profit of RMB2,666 million, representing an increase of 9.26% over the same period of last year.

In general, in 2018, as a world's leading enterprise in the white household appliance industry, the Company occupied high market shares in the domestic and international market, maintained the growth of the scale of assets, with the stable profitability and the overall stable proportions of all businesses to the revenue. However, the comprehensive gross profit margin of the Company's businesses slightly decreased.

2. Operation status

In 2018, household appliance businesses such as air-conditioners, refrigerators, washing machine, and kitchen appliance products accounted for about 85% of the main business revenue, which were the main sources of the Company's revenue.

(1) Procurement

In 2018, there were no significant changes in the types of main procured raw materials and the procurement amount increased by 4.61% compared with 2017 to RMB40,270 million.

Table 3 Procurement Amount of Main Raw Materials of the Company from 2017 to 2018 (Unit: RMB100 million)

Items of raw materials	**2017**	**2018**
Packaging boxes and packaging films	9.21	10.90
Metals such as steel plate, copper, and aluminum	124.90	132.80
Presses, motors, evaporators and condensers	103.01	101.80
Electronic components	64.22	68.90
Injection molding	83.62	88.30
Total	**384.96**	**402.70**

Source: Provided by the Company

Note: The types of raw materials of the Company are numerous and other raw materials include exterior glass parts, heaters, vacuum tubes, heat collectors, expansion tanks, and valves, which are difficult for the Company to classify and make statistics of them. Therefore, more details of the raw materials cannot be provided.

In 2018, the procurement amount of the top five customers of the Company was RMB44,485 million, accounting for 26.62% of the total annual procurement amount. Specifically, the procurement amount of related parties in the top five customers was RMB31,568 million, accounting for 18,89% of the total annual procurement amount.

In general, in 2018, the procurement amount of the Company increased, with an ordinary concentration degree of procurement.

(2) Production

As at the end of 2018, the Company had a total of 122 factories in the world, including 68 domestic factories, which were distributed in 13 industrial parks in Qingdao, Dalian, Hefei, Shenyang, Wuhan, Zhengzhou, Chongqing, Foshan, and Guizhou in China, and 54 overseas factories, which were widely distributed in America, East Asia, Southeast Asia, South Asia, Australia, Europe, and Middle East, and Africa.

In 2018, the production capacity and output of refrigerators, kitchen appliance products and water heaters of the Company declined. The production capacity of washing machine and air-conditioners increased. The output of washing machine increased but the output of air-conditioners declined. In addition to kitchen appliance products and water heaters, rates of capacity utilization of all the other products of the Company declined.

Table 4 Production of Main Products of the Company from 2017 to 2018 (Unit: 10,000, %)

Product	Item	2017	2018
Refrigerators	Production capacity	2,620.00	2,421.00
	Output	2,179.00	1,816.00
	Rate of capacity utilization	83.17	75.02
Washing machine	Production capacity	2,211.00	2,634.00
	Output	1,917.00	2,095.00
	Rate of capacity utilization	86.70	79.54
Air conditioners	Production capacity	1,867.00	1,908.00
	Output	1,509.00	1,317.00
	Rate of capacity utilization	80.82	69.00
Kitchen appliance products and water heaters	Production capacity	1,388.00	1,231.00
	Output	1,265.00	1,159.00
	Rate of capacity utilization	91.14	94.15

Source: Provided by the Company

In general, in 2018, the production capacity and output of all products of the Company were changed, but the overall rate of capacity utilization declined.

(3) Sales

In 2018, the sales volume of all the main products of the Company increased. In addition to air-conditioners, whose average price declined due to the effect of the change in the product structure, the average prices of all the other products increased.

Table 5 Sales of Main Products of the Company from 2017 to 2018 (Unit: 10,000, RMB/unit)

Product	Item	2017	2018
Refrigerators	Sales	1,976.00	2,207.00
	Average price	2,384.40	2,461.93
Washing machine	Sales	1,974.00	2,077.00
	Average price	1,564.95	1,746.47
Air conditioners	Sales	1,373.00	1,820.00
	Average price	2,092.80	1,746.62
Kitchen appliance products	Sales	1,929.00	2,109.00

and water heaters	Average price	1,480.26	1,558.94

Source: Provided by the Company

Note: The sales volume of kitchen appliance products and water heaters in Table 6 was much larger than the output in Table 5, mainly because some products were produced in the form of OEM.

In 2018, the sales of the top five customers of the Company were RMB36,797 million, accounting for 20.07% of the total annual sales. Specifically, there were no sales of related parties in the sales of the top five customers.

In general, in 2018, the quality and prices of the main products of the Company increased, with good sales.

3. Major projects under construction

As at the end of 2018, the Company invested RMB1,180 million in the projects under construction accumulatively and it is expected that the Company will still need to invest RMB1,020 million in the projects in the future. The projects under construction of the Company will be mainly completed in 2019 and 2020.

Table 6 Major projects under Construction of the Company as at the End of 2018 (Unit: RMB100 million, %)

Project Name	Total investment amount	Accumulated investment amount	Project progress	Source of fund	Expected completion date
Huangdao Front-Loading Washing Machine	8.70	6.10	70.00	Self-finance	December 2019
Hefei Commercial Washing Machine	3.80	1.10	44.00	Self-finance + fund raised	December 2020
Laiyang Smart Kitchen	2.90	0.90	30.00	Self-finance + fund raised	October 2019
Zhongde Refrigerator	6.70	3.70	70.00	Self-finance + fund raised	June 2019
Total	**22.00**	**11.80**	--	--	--

Source: Provided by the Company and collated by United Ratings

In General, the scale of the major projects under construction of the Company is small and the Company's financial pressure is not large.

4. Operation focus

(1) There is fierce competition in the industry and the renewal and replacement of products are frequent.

The white household appliance industry where the Company is in is featured by many market participants, fierce competition, and the fast renewal and replacement of products and thus the Company faces the risk of competing on price with peers in the industry. Whether the Company can continuously develop new products to meet and lead the market demand is the key factor for it to maintain the leading position in the industry.

(2) The rising costs of raw material will increase the Company's cost pressure.

The large scale of procurement of bulk raw materials such as steel plate, copper, and aluminum is greatly affected by market prices and will impose pressures on the Company's control of costs.

(3) Cross-border mergers and acquisitions have increased management difficulty.

In recent years, the Company has completed several important overseas mergers and acquisitions. As a result, the proportion of overseas business has on the rise and the Company's market layout is enriched.

However, the management difficulty has increased accordingly. There are certain gaps in management personnel and whether the Company can realize the strong alliance and complementary advantages is uncertain. In addition, as the Company's operations in the overseas market are greatly affected by the local political and economic situation, legal system, and regulatory policies, there are certain risks.

5. Future development

In 2019, based on its leadership in various industries, the Company will enhance the competitiveness of smart home solutions, further promote its global operations, continuously enhance the industry status of refrigerators, washing machines, water heaters and other dominant products, and continue to strengthen the development of air conditioners and kitchen appliances.

Domestic market: Focusing on user experience and customer interests, the Company will adhere to the working principles of "building the network of contact points, building industry barriers, building parallel platforms, and creating lifelong users", deepen the retail transformation, and mainly promote the following works: (1) Promote channel transformation and e-commerce transformation. 1) In terms of channel transformation, the Company will upgrade the channel competitiveness under the whole network management to enhance the network coverage in weak areas, blank business circles, and blank towns. 2) In terms of e-commerce channels, the Company will enhance the competitiveness of air conditioners and kitchen appliances, and plan and implement the complete high-end online solutions. (2) Build scheme and brand barriers. 1) The Company will focus on the competitiveness of the first set of solutions in the industry, promote the construction of different networks of contact points, and continuously upgrade the five sets of capabilities. 2) For Casarte brand, the Company will promote the upgrade of operation system from product-led to lifestyle-led by focusing on users' extreme experience. 3) For Leader brand, the Company will build the younger barrier and becomes the first choice for young people in terms of customization. (3) Promote the transformation of marketing and enhance the competitiveness of digital platforms to achieve the word of mouth of users first.

Overseas market: Focusing on the needs of users and taking "high-end, terminal" as the direction of market transformation and upgrading, the Company will accelerate the implementation and leading of "RenDanHeYi" overseas, enhance the global resource coordination ability, and further deepen the Three-in-One strategy of "R&D, manufacturing, and marketing". (1) In terms of products, the Company will adhere to the strategy of high-end leading and brand creation and lead the market through differentiated high-end products. (2) In terms of the market, the Company will focus on the strategy of "branding and leadership as well as high-end transformation", and actively promote the construction of the whole process and zero-distance interactive platform including creators, customers and users through the model mechanism and resource betting. The Company will display the upgrading standards by issuing overseas terminals and effectively enhance the user experience of high-end Haier brand.

Smart home life platform: (1) In order to satisfy the needs of all types of personalized home users, "5+7+N" home space and domain life solutions are designed iteratively for the implementation of seven major brands. (2) The Company will intensify the IoT platform, iteratively build big data home cloud brain, and launch active services of touch control and voice. (3) The Company will optimize all online and offline contact points, and focus on the layout of first-tier cities and backbone cities. (4) The Company will continue to solve the ecological problems of food and clothing, and iterate the integrity platform for the Internet of Food and the ecological model for the Internet of Clothes.

In General, the 2019 development plan of the Company is specific, complies with the development situation of the Company, is highly feasible, and is advantageous to consolidate the Company's leading market position in the white household appliance industry.

VI. Financial Analysis

1. Financial overview

The 2018 annual financial statements prepared by the Company have been audited by Shandong

Hexin Certified Public Accountants Co., Ltd. (Special General Partnership) with standard unqualified audit report issued. The consolidated financial statements of the Company for the three months ended 31 March 2019 have not been audited. The Ministry of Finance issued the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (《企业会计准则第 22 号——金融工具确认和计量》), Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets (《企业会计准则第 23 号——金融资产转移》) and Accounting Standards for Business Enterprises No. 37 - Presentation of Financial Instruments (《企业会计准则第 37 号——金融工具列报》) (collectively, the New Financial Instrument Standards) as well as the Accounting Standards for Business Enterprises No. 14 - Revenue (《企业会计准则第 14 号——收入》), respectively in 2017, and issued the Notice of Ministry of Finance on Revising and Issuing the Format of Financial Statements of General Enterprises (Cai Kuai [2018] No. 15) (《财政部关于修订印发 2018 年度一般企业财务报表格式的通知》(财会〔2018〕15 号)) in 2018. The Company and its subsidiaries applied the amended Accounting Standards for Business Enterprises and the notice set out above from 1 January 2018 by making adjustments to the accounting policies and financial statements. According to the Interpretation of the Issues Concerning the Format of Financial Statements for General Enterprises in 2018 (《关于 2018 年度一般企业财务报表格式有关问题的解读》) issued by the Accounting Regulatory Department of Ministry of Finance, the above-mentioned changes in the accounting policies will affect the opening balance of the consolidated statement of financial position due to the initial application of the New Financial Instrument Standards and Revenue Standard by the Company and its subsidiaries for the current period.

As at the end of 2018, the consolidated financial statements of the Company comprised the financial statements of the Company and its 105 subsidiaries, representing an increase of 14 subsidiaries as compared with last year. Given that the Company had a large business scale and its principal operation remained unchanged, the financial information of the Company was comparable.

As at the end of 2018, the Company had consolidated total assets of RMB166,700 million, total liabilities of RMB111,569 million, and total owners' equity of RMB55,130 million (inclusive of non-controlling interests), comprising total owners' equity attributable to the Company of RMB39,402 million. In 2018, the Company recorded operating income of RMB183,317 million and net profit (inclusive of non-controlling interests) of RMB9,771 million, comprising net profit attributable to owners of the Company of RMB7,440 million; net cash flow from operating activities amounted to RMB18,934 million and net increase in cash and cash equivalents amounted to RMB1,057 million.

As at the end of March 2019, the Company had consolidated total assets of RMB177,445 million, total liabilities of RMB120,284 million, and total owners' equity of RMB57,160 million (inclusive of non-controlling interests), comprising total owners' equity attributable to the Company of RMB41,077 million. From January to March 2019, the Company recorded operating income of RMB48,043 million and net profit (inclusive of non-controlling interests) of RMB2,666 million, comprising net profit attributable to owners of the Company of RMB2,136 million; and net cash flow from operating activities amounted to RMB1,324 million and net increase in cash and cash equivalents amounted to RMB-920 million.

2. Asset and liability structure

(1) Assets

As at the end of 2018, the Company had consolidated total assets of RMB166,700 million, representing an increase of 6.07% as compared with the beginning of the year. Both current assets and non-current assets of the Company increased, each of which accounting for 56.55% and 43.45% of the consolidated total assets of the Company, forming an asset structure mainly comprising current assets.

As at the end of 2018, the Company had current assets of RMB94,260 million in total, representing an increase of 4.06% as compared with the beginning of the year, mainly due to an increase in cash and cash equivalents and bills receivable. The current assets of the Company mainly comprised cash and cash equivalents (39.74%), bills receivable (15.09%), accounts receivable (11.07%) and inventory (23.74%).

As at the end of 2018, the Company had cash and cash equivalents of RMB37,456 million, representing an increase of 4.55% as compared with the beginning of the year, among which the balance of bank deposits amounted to RMB35,484 million, accounting for 94.73% of the cash and cash equivalents of the Company. Out of the bank deposits of the Company, RMB1,412 million were used as restricted security deposits, accounting for 3.77% of the cash and cash equivalents of the Company.

As at the end of 2018, the Company had bills receivable of RMB14,221 million, representing an increase of 9.11% as compared with the beginning of the year, mainly due to an increase in the sales of the Company. The bills receivable of the Company was mainly commercial acceptance bills.

As at the end of 2018, the Company had accounts receivable of RMB10,431 million, representing a year-on-year decrease of 19.08%. The provision for bad debts amounted to RMB344 million, accounting for 3.19% of accounts receivable of the Company. From the perspective of aging, accounts receivable due within one year accounted for 95.26% of accounts receivable of the Company, which was relatively short. From the perspective of concentration, the book balance of accounts receivable due from the top five persons amounted to RMB2,848 million, accounting for 26.44% of accounts receivable of the Company, indicating the concentration of accounts receivable of the Company was insignificant.

As at the end of 2018, the Company had net inventory of RMB22,377 million, comprising finished goods (88.21%) and raw materials (10.90%), which changed slightly as compared with the beginning of the year. The accumulative provision for inventory impairment of the Company amounted to RMB869 million, accounting for 3.74% of the net inventory of the Company, which was mainly provided for finished goods and raw materials.

In terms of non-current assets, the Company had total non-current assets of RMB72,439 million as at the end of 2018, representing an increase of 8.80% as compared with the beginning of the year, mainly due to increases in construction in progress and intangible assets. The non-current assets of the Company mainly comprised long-term equity investment (19.28%), fixed assets (23.91%), construction in progress (5.35%), intangible assets (12.71%) and goodwill (29.20%).

As at the end of 2018, the Company had long-term equity investment of RMB13,966 million, representing an increase of 7.54% as compared with the beginning of the year, mainly due to increased investment by the Company in six associates, including, amongst others, Beijing ASU Tech Co., Ltd. (北京一数科技有限公司), Shenzhen Root Sense Environmental Protection and Technology Co., Ltd. (深圳根元环保科技有限公司) and Qingdao Hegang New Material Technology Co., Ltd. (青岛河钢新材料科技有限公司). Currently, the Company has invested in 28 associates including, amongst others, Haier Group Financial Co., Ltd. (海尔集团财务有限责任公司) and Bank of Qingdao Co., Ltd. (青岛银行股份有限公司). The long-term equity investment was accounted for using the equity method.

As at the end of 2018, the book value of fixed assets of the Company amounted to RMB17,320 million, representing an increase of 1.01% as compared with the beginning of the year, showing no significant changes. The fixed assets of the Company mainly comprised buildings and constructions (38.06%) and production facilities (61.45%). Depreciation expenses of the Company increased by RMB2,366 million in 2018. The transfer from construction in progress to fixed assets amounted to RMB2,348 million. The accumulative depreciation expenses of the Company amounted to RMB11,759 million and the residue ratio of fixed assets was 58.70%, which was moderate.

As at the end of 2018, the balance of construction in progress of the Company amounted to RMB3,873 million, representing an increase of 140.50% as compared with the beginning of the year, mainly due to the fact that the Company continued to increase its investments in the supply chain project of Ri Ri Shun Logistics and the project of Qingdao Special Refrigeration Electrical Appliance. The accumulative impairment provision for construction in progress of the Company amounted to RMB23 million, mainly provided for the GEA project in the United States.

As at the end of 2018, the Company had net intangible assets of RMB9,209 million, representing an increase of 11.95% as compared with the beginning of the year, mainly due to an increase in the applications and management software. The intangible assets of the Company mainly comprised proprietary technologies (11.39%), exclusive rights (39.61%), land use rights (20.25%), trademark rights (13.60%), applications and management software and others (15.15%). The accumulative amortization of the Company amounted to RMB1,959 million, with the amortisation rate being 17.52%.

As at the end of 2018, the Company had goodwill of RMB21,156 million, representing an increase of 3.99% as compared with the beginning of the year, mainly due to the fluctuation in the exchange rate of GEA project in the United States. The goodwill was accounted for using the discounted future cash flow method, with no impairment provision made for the goodwill.

As at the end of 2018, the Company had restricted assets of RMB13,961 million in total, mainly comprising cash and cash equivalents, bills receivable, fixed assets and accounts receivable, accounting for 8.38% of the total assets of the Company. The percentage of restricted assets of the Company was low.

As at the end of March 2019, the Company had total assets of RMB177,445 million, 54.40% of which were current assets, showing no significant changes than that at the beginning of the year.

In general, the Company's assets have grown in size as at the end of 2018, mainly comprising current assets. Cash and cash equivalents and inventory accounted for a large portion of current assets of the Company. Fixed assets and goodwill accounted for a large portion of non-current assets of the Company. The Company's overall asset quality was good.

(2) Liabilities and owners' equity

As at the end of 2018, the Company had total liabilities of RMB111,569 million, representing an increase of 2.06% as compared with the beginning of the year, among which current liabilities and non-current liabilities accounted for 71.78% and 28.22% respectively, indicating that current liabilities remained the main component of the Company's liabilities.

As at the end of 2018, the Company had current liabilities of RMB80,082 million in total, representing a decrease of 1.51% as compared with the beginning of the year. The current liabilities of the Company mainly comprised bills payable (24.51%), accounts payable (34.66%), contract liabilities (6.85%) and other payables (15.84%).

As at the end of 2018, the Company had bills payable of RMB19,626 million in total, representing an increase of 19.83% as compared with the beginning of the year, mainly due to the Company's increased reliance on the bank acceptance as the settlement tools; the Company had accounts payable of RMB27,759 million in total, representing an increase of 5.80% as compared with the beginning of the year, mainly due to an increase in the procurement quantity; the Company had contract liabilities of RMB5,482 million, mainly due to an increase in the receipts in advance of the Company, all of which were incurred in the year; and the Company had other payables of RMB12,686 million, representing an increase of 12.17% as compared with the beginning of the year, among which interests payable, dividends payable and other payables accounted for 0.82%, 1.28% and 97.90%, respectively.

As at the end of 2018, the Company had non-current liabilities of RMB31,488 million, representing an increase of 12.44% as compared with the beginning of the year, mainly due to the issuance of new bonds. As at the end of 2018, the non-current liabilities of the Company mainly comprised long-term borrowings (49.36%), bonds payable (29.19%), estimated liabilities (9.02%) and other non-current liabilities (5.79%). As at the end of 2018, the balance of the Company's long-term borrowings was RMB15,541 million, representing a decrease of 3.9% as compared with the beginning of the year, mainly due to decreases in the guaranteed and secured borrowings; the balance of bonds payable of the Company amounted to RMB9,192 million, representing an increase of 47.99% as compared with the beginning of the year, mainly due to the Company's issuance of "Haier Convertible Bonds" with a maturity term of six years; the balance of estimated liabilities of the Company was RMB2,840 million, representing an increase of 6.73% as compared with the beginning of the year, mainly due to an increase in the warranty and installation; and the balance of other non-current liabilities of the Company was RMB1,824 million, representing an increase of 52.31% as compared with the beginning of the year, mainly due to increased repurchase obligations to non-controlling interests.

As at the end of 2018, the Company had total liabilities of RMB53,927 million, representing a decrease of 3.11% as compared with the beginning of the year, mainly due to a decrease in the short-term liabilities of the Company. The short-term liabilities and long-term liabilities accounted for 54.14% and 45.86% of the total liabilities of the Company, respectively, with the percentage of long-term liabilities going up slightly. As at the end of 2018, the asset-liability ratio of the Company was 66.93%, representing a decrease of 2.62 percentage points as compared with the beginning of the year; the debt-capitalization ratio of the Company was 49.45%, representing a decrease of 4.32 percentage points as compared with the beginning of the year; the long-term debt-capitalization rate of the Company was 30.97%, which was basically the same as that at the beginning of the year; the overall debt level of the Company was basically the same as that at the beginning of the year, except that the debt burden of the Company was alleviated to certain extent.

As at the end of March 2019, the Company had liabilities of RMB120,284 million, representing an increase of 7.81% as compared with the beginning of the year, mainly due to an increase in the current liabilities of the Company. The current liabilities and non-current liabilities accounted for 72.61% and 27.39% of the total liabilities of the Company respectively. The liability structure of the Company has not changed significantly since the beginning of the year, with current liabilities remaining as the main component. As at the end of March 2019, the Company had total debts of RMB57,330 million, representing an increase of 6.31% as compared with the beginning of the year, with the short-term debts and long-term debts accounting for 60.41% and 39.59% of the total debts of the Company.

As at the end of 2018, the Company had owners' equity of RMB55,130 million in total, representing an increase of 15.22% as compared with the beginning of the year, mainly due to an increase in the retained earnings. The equity attributable to owners of the Company accounted for 71.47% of the owners' equity of the Company. Among the equity attributable to owners of the Company as at the end of 2018, paid-in capital, capital reserve, surplus reserve and retained earnings accounted for 16.16%, 5.61%, 5.81% and 68.17%, respectively. As the percentage of retained earnings of the Company was relatively high, the stability of the equity structure of the Company was weak.

As at the end of March 2019, the Company had owners' equity of RMB57,160 million, which was basically the same as that at the beginning of the year. The equity structure of the Company has not changed significantly since the beginning of the year.

In general, as at the end of 2018, the size of liabilities of the Company did not change significantly and most of which were current liabilities. The debt burdens of the Company were alleviated to a certain extent. Notwithstanding the increase in the owners' equity of the Company, the percentage of retained earnings of the Company remained high. Therefore, the stability of owners' equity of the Company needs to be improved.

3. Profitability

In 2018, the Company recorded operating income of RMB183,317 million, representing a year-on-year increase of 12.17%, mainly due to an increase in the collections on product sales, the operating costs of the Company amounted to RMB130,154 million, representing a year-on-year increase of 15.58%; the Company recorded net profit of RMB9,771 million, representing a year-on-year increase of 8.22%, among which the net profit attributable to the Company amounted to RMB7,440 million, representing a year-on-year increase of 7.71%.

In terms of the period expenses, the Company had total expenses of RMB42,997 million in total in 2018, representing a year-on-year increase of 1.71%; the selling and distribution expenses amounted to RMB28,653 million, representing a year-on-year decrease of 1.18%; the general and administrative expenses amounted to RMB8,324 million, representing a year-on-year of 16.18%, mainly due to an increase in employee benefit expenses; the finance expenses amounted to RMB939 million, representing a year-on-year decrease of 41.45%, mainly due to a decrease in exchange gain or loss; the research and development expenses amounted to RMB5,081 million, representing a year-on-year increase of 12.66%, mainly due to increases in employee benefit expenses, expenditures on research and development equipment, inspection and testing fees and etc. In 2018, the expense-to-revenue ratio of the Company was 23.46%, representing a year-on-year decrease of 2.41 percentage points. Although the ability of the Company to manage period expenses was enhanced as compared with last year, the period expenses of the Company significantly eroded its profit.

In 2018, the investment income of the Company amounted to RMB1,923 million, representing a year-on-year increase of 29.68%, mainly due to an increase in investment in associates and joint ventures of the Company, accounting for 16.88% of the operating profit of the Company; other income of the Company amounted to RMB895 million, which were mainly government grants received by the Company, accounting for 7.85% of the operating profit of the Company. Extraordinary items contributed to the profit of the Company.

In 2018, the return on total capital of the Company was 10.57%, representing a year-on-year decrease of 0.43 percentage points; the return on total assets was 8.09%, representing a year-on-year decrease of 0.19 percentage point; the return on net assets was 18.98%, representing a year-on-year decrease of 2.16 percentage point. Profitability indicators of the Company showed a slight decline, and the profitability slightly reduced.

From January to March 2019, the Company recorded operating income of RMB48,043 million, representing an increase of 10.17% as compared with the corresponding period of the previous year; and the Company recorded net profit of RMB2,136 million, representing an increase of 9.41% as compared with the corresponding period of the previous year.

In general, the year 2018 witnessed an increase in the operating income and net profit of the Company; the ability of the Company to control expenses was enhanced, and the extraordinary items of the Company contributed to the profit of the Company to some extent. The overall profitability of the Company remained strong.

4. Cash flows

In terms of operating activities, the cash inflows from operating activities of the Company amounted to RMB190,922 million in 2018, representing a year-on-year increase of 12.37%, mainly due to growing sales volume of the Company; and the cash outflows from operating activities of the Company amounted to RMB171,988 million, representing a year-on-year increase of 12.26%, mainly due to an increase in the payment for goods purchased and services received. Due to the above-mentioned factors, the net cash flows from operating activities of the Company amounted to RMB18,934 million, representing a year-on-year increase of 13.35%. In terms of income quality, the Company’s cash-to-income ratio was 102.83% in 2018, which did not change significantly as compared with last year. The income realization was satisfactory.

In terms of investing activities, the cash inflows from investing activities of the Company amounted to RMB2,230 million in 2018, representing a year-on-year increase of 71.69%, mainly due to an increase in cash inflows from disposal of subsidiaries and other business units; the cash outflows from investing activities of the Company amounted to RMB9,896 million, representing a year-on-year increase of 40.55%, mainly due to an increase in cash outflows from acquisition and construction of fixed assets, intangible assets and other long-term assets. Due to the above-mentioned factors, the net cash flows from investing activities of the Company amounted to RMB-7,666 million, up by 33.51% from last year.

In terms of financing activities, the cash inflows from financing activities of the Company amounted to RMB18,708 million in 2018, representing a year-on-year decrease of 30.38%, mainly due to the repayment of certain short-term borrowings; and the cash outflows from financing activities of the Company amounted to RMB29,198 million, representing a year-on-year increase of 10.76%, mainly due to the other cash payments relating to financing activities. Due to the above-mentioned factors, the net cash flows from financing activities of the Company amounted to RMB-10,489 million and cash flows from financing activities were changed from net inflows to net outflows.

From January to March 2019, the net cash flows from operating activities of the Company amounted to RMB1,324 million; the net cash flows from investing activities of the Company amounted to RMB-53.28 million; and the net cash flows from financing activities of the Company amounted to RMB3,225 million.

In general, the operating cash flow of the Company was favourable and the income realization was satisfactory in 2018; net cash outflows from investing activities of the Company expanded and cash flows from financing activities were changed to large cash outflows.

5. Solvency

From the perspective of short-term solvency indicators, affected by the increase of current assets, the current ratio of the Company increased from 1.11 times at the beginning of the year to 1.18 times at the end of 2018, and the quick ratio increased from 0.84 times at the beginning of the year to 0.90 times. In 2018, the ratio of operating cash to current liabilities increased from 20.54% at the beginning of the year to 23.64%. As at the end of 2018, the Company's short-term debts had risen to 1.83 times from 1.46 times at the beginning of the year. In general, the Company's short-term solvency was quite strong.

From the perspective of long-term solvency indicators, EBITDA was RMB16,234 million in 2018, representing an increase of 7.93% over the beginning of the year, mainly due to an increase in total profits; EBITDA was mainly composed of total profits (71.64%) and depreciation (15.70%), and the interest expenses included in finance expenses (9.02%) and amortization (3.65%) were relatively low. In 2018, EBITDA interest multiples rose from 10.51 times last year to 11.08 times, showing a strong interest coverage ability; EBITDA total debt ratio rose from 0.27 times last year to 0.30 times, showing a strong ability to cover all debts. In general, the Company's long-term solvency was quite strong.

As at the end of 2018, there was no material litigation pending or other contingencies that were required to be disclosed, and there was no external guarantee.

As at the end of March 2019, the Company obtained RMB62,800 million of comprehensive line of credit from banks, of which RMB28,100 million had been used and RMB34,700 million remained undrawn, indicating that the Company enjoyed smooth indirect financing channels. As a listed company, the Company was accessible to direct financing channels.

Pursuant to the Credit Report of the People's Bank of China (No. G1037021200112050B), the Company had no unsettled or settled credit records which were rated as non-performing or requiring special mention as at 24 January 2019 and its previous debt performance was good.

In general, the Company's overall solvency was very strong.

VII. Solvency Analysis of Corporate Bonds

In terms of assets, as of the end of March 2019, cash assets (cash and cash equivalents, financial assets at fair value through profit or loss, bills receivable) of the Company amounted to RMB51,780 million, about 17.22 times the total principal of Haier Convertible Bonds (RMB3,007.49 million), showing that the coverage of cash assets to the principal of Haier Convertible Bonds was quite high; the net assets amounted to RMB57,160 million, about 19.01 times the total principal of Haier Convertible Bonds (RMB3,007.49 million). The large-scale cash assets and net assets of the Company can play a very strong role in guaranteeing the timely repayment of the principal of Haier Convertible Bonds.

In terms of earnings, in 2018, EBITDA was RMB16,234 million, about 5.40 times the total principal of Haier Convertible Bonds (RMB3,007.49 million). The Company’s EBITDA covered the principal of Haier Convertible Bonds very well.

In terms of cash flows, in 2018, the cash inflows generated from operating activities were RMB190,922 million, about 63.48 times the total principal of Haier Convertible Bonds (RMB3,007.49 million). The cash inflows from the Company's operating activities covered the bonds very well.

Based on the above analysis, considering that the Company (as a global leader in the manufacturing industry of white household appliances) has comprehensive competitive advantages in industry position, production scale, R&D strength and market layout, it is believed by the United Credit Ratings Co., Ltd. that the Company has a strong ability to repay Haier Convertible Bonds.

VIII. Comprehensive Evaluation

During the follow-up period, the Company, as a global leader in the manufacturing industry of white household appliances, had comprehensive competitive advantages in industry position, production scale, R&D strength and market layout. In 2018, the Company's overall operation is in good condition; sales of major products have increased; assets and income scale have maintained growth; and cash flow of operating activities was better. At the same time, the United Credit Ratings Co., Ltd. also concerned the possible adverse effects on the credit level of the Company caused by the fierce competition in the white household industry, fluctuations in raw material prices, declining productivity utilization of the Company's main products, large scale of goodwill and the occupation of funds by accounts receivable and inventory.

In the future, with the continuous promotion of the Company's smart home strategy, the improvement of operational efficiency brought about by retail transformation, the proportion increase of high-end brands and the completion of global layout, the Company will achieve synergistic advantages in global procurement, production, R&D and channels, and its comprehensive competitive strength will be further enhanced. It is expected to maintain its leading position in the global white household industry.

In summary, the corporate long-term credit rating of the Company is maintained at AAA, the rating outlook is “stable”, and the credit rating of Haier Convertible Bonds is maintained at AAA.

Appendix 1 Qingdao Haier Co., Ltd.

Key Indicators

Items	2017	2018	March 2019
Total assets (in RMB100 million)	1,571.64	1,667.00	1,774.45
Owners' equity (in RMB100 million)	478.49	551.30	571.60
Short-term debts (in RMB100 million)	334.09	291.94	346.35
Long-term debts (in RMB100 million)	222.48	247.33	226.96
Total debts (in RMB100 million)	556.57	539.27	573.33
Operating income (in RMB100 million)	1,634.29	1,833.17	480.43
Net profit (in RMB100 million)	90.28	97.71	26.66
EBITDA (in RMB100 million)	150.41	162.34	--
Net operating cash flow (in RMB100 million)	167.04	189.34	13.24
Accounts receivable turnover (times)	12.78	15.21	--
Inventory turnover (times)	5.84	5.59	--
Total assets turnover (times)	1.13	1.13	0.28
Cash-to-income ratio (%)	102.57	102.83	102.87
Return on total capital (%)	11.00	10.57	--
Return on total assets (%)	8.28	8.09	--
Return on net assets (%)	21.14	18.98	4.75
Operating profit margin (%)	30.59	28.53	28.64
Cost-to-income ratio (%)	28.63	26.23	19.75
Gearing ratio (%)	69.55	66.93	67.79
Total debt capitalization ratio (%)	53.77	49.45	50.07
Long-term debt capitalization ratio (%)	31.74	30.97	28.42
EBITDA interest multiples (x)	10.51	11.08	--
EBITDA total debt ratio (x)	0.27	0.30	--
Current ratio (x)	1.11	1.18	1.11
Quick ratio (x)	0.84	0.90	0.84
Cash to short-term-debt ratio (x)	1.46	1.83	3.05
Ratio of operating cash to current liabilities (%)	20.54	23.64	1.52
EBITDA/ Total outstanding principal amount (x)	5.01	5.41	--

Notes: 1. In this report, any discrepancies between the totals and the sums of certain amounts are due to rounding. Unless otherwise specified, all amounts are denominated in RMB.
2. EBITDA/ Total outstanding principal amount =EBITDA/Total outstanding principal of bonds tracked in this report.
3. Figures for the first quarter of 2019 were unaudited, and relevant indicators were not presented on an annualized basis.

Appendix 2 Formulas for Relevant Indicators

Name of Indicator	Formula
Growth indicator	
Average annual growth rate	(1) 2nd year's data: Growth rate = (current period – prior period)/prior period× 100% (2) n year's data: Growth rate = [(current period /previous n years)^（1/(n-1)）-1]×100%
Operating efficiency indicators	
Accounts receivable turnover	Operating income/[(opening balance of accounts receivable + closing balance of accounts receivable)/2]
Inventory turnover ratio	Operating costs/[(opening balance of inventory + closing balance of inventory)/2]
Total assets turnover ratio	Operating income/[(opening balance of total assets+ closing balance of total assets)/2]
Cash-to-income ratio	Cash from goods sold and services provided/operating income × 100%
Profitability indicators	
Return on total capital	(net profit + interest expenses included in finance expenses)/[(opening owners' equity + opening total debts + closing owners' equity + closing total debts)/2]×100%
Return on total assets	(total profit + interest expenses included in finance expenses)/ [(opening total assets + closing total assets)/2] ×100%
Return on net assets	Net profit/[(opening owners' equity +closing owners' equity)/2]×100%
Gross profit margin of principal operations	(income from principal operations – cost for principal operations)/income from principal operations×100%
Operating profit margin	(operating income – operating costs – business tax and surcharges)/operating income ×100%
cost-to-income ratio	(general and administration expenses + operating expenses + finance expenses)/operating income×100%
Financial composition indicators	
Gearing ratio	Total liabilities/total assets×100%
Total debt capitalization ratio	Total debts/(long-term debts + short-term debts + owners' equity)×100%
Long-term debt capitalization ratio	Long-term debts/(long-term debts + owners' equity)×100%
Collateral ratio	Balance of collateral/owners' equity × 100%
Long-term solvency indicators	
EBITDA interest multiples	EBITDA/(capitalized interest + interest expenses included in finance expenses）
EBITDA total debt ratio	EBITDA/total debts
Debt service coverage ratio of operating cash	Net cash flows from operating activities/total debts
Debt service coverage ratio of net cash flows before financing activities	Net cash flows before financing activities/total debts
Short-term solvency indicators	
Current ratio	Total current assets/total current liabilities
Quick ratio	(total current assets – inventory)/total current liabilities
Cash to short-term debt ratio	Cash assets/ short-term debts
Ratio of operating cash to current liabili ties	Net cash flow from operating activities/total current liabilities × 100%
Operating cash interest coverage ratio	Net cash flows from operating activities/(capitalized interest + interest expenses included in finance expenses）
Interest coverage ratio of net cash flows before financing activities	Net cash flows before financing activities / (capitalized interests + interest expenses included in finance expenses)
Debt service ability of corporate bonds of the current period	
EBITDA debt coverage ratio	EBITDA/ amount of corporate bonds due for repayment during the current period
Debt coverage ratio of cash inflows fro m operating activities	Cash inflows from operating activities/amount of corporate bonds due for repayment during the current period
Debt coverage ratio of net cash flows fr om operating activities	Net cash flows from operating activities/amount of corporate bonds due for repayment during the current period

（Note: This Report has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.）

Notes: Cash assets = Cash and cash equivalents + Financial assets at fair value through profit or loss + Bills receivable

Long-term debts = Long-term borrowings + Bonds payable

Short-term debts = Short-term borrowings + Financial liabilities at fair value through profit or loss + Bills payable + Short-term bonds payable + Non-current liabilities due within one year + Placements from banks and other financial institutions

Total debts = Long-term debts + Short-term debts

EBITDA= Total profit + Interest expenses included in finance expenses + Depreciation of fixed-assets + Amortization

Owners' equity = Equity attributable to owners of the Company+ Non-controlling interests

Appendix 3 Classification and Definitions of Corporate Long-Term Credit Ratings of the Company

The corporate long-term credit ratings of the company comprise 9 grades, which are represented by AAA, AA, A, BBB, BB, B, CCC, CC and C respectively. Except for AAA and CCC (inclusive), each credit rating can be fine-tuned by adding "+" and "-" to express a new rating that is slightly higher or lower than the current one.

AAA: extremely strong solvency, basic immunity from adverse economic conditions and extremely low default risk;

AA: very strong solvency, hardly to be affected by adverse economic conditions and very low default risk;

A: strong solvency, susceptible to adverse economic conditions and low default risk;

BBB: moderate solvency, more susceptible to adverse economic conditions and moderate default risk;

BB: weak solvency, very susceptible to adverse economic conditions and high default risk;

B: its solvency relying on a favourable economic environment and high default risk;

CCC: its solvency heavily relying on a favourable economic environment and extremely high default risk;

CC: few protections available in bankruptcy or restructuring and basically unable to guarantee the repayment of debts;

C: unable to repay debts.

The symbols and definitions of credit ratings for long-term bonds (including corporate bonds) are the same as that of the corporate long-term credit ratings of the company.