

Hisense 海信科龙

海信科龍電器股份有限公司

Hisense Kelon Electrical Holdings Company Limited

Stock Code: 00921



2014
ANNUAL REPORT

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Company Profile

Hisense Kelon Electrical Holdings Company Limited (the “Company”) is at present one of the largest manufacturers of white household electrical appliances in the People’s Republic of China (the “PRC” or “China”), with three brand names, namely “Hisense”, “Kelon” and “Ronshen”, which have been appraised as “Chinese Well-known Marks”. Founded in 1984 and headquartered in Shunde District, Foshan City, Guangdong Province, the PRC, the Company is principally engaged in the production of white household electrical appliances such as refrigerators, air-conditioners, freezers and washing machines. In 1996 and 1999, the shares of the Company were listed on the main boards of The Stock Exchange of Hong Kong Limited and Shenzhen Stock Exchange respectively.

The Company adheres to its core philosophy of “relying on technology and the talents of its people to build up the Company”, and considers “technology” as the basic driving force for the Company’s development. The production and sales volume of its refrigerators and air-conditioners have been among the highest in China for consecutive years. Leveraging on the superior refrigeration technology and application of high technology in its products, the Company has won good reputation in the industry, and has been awarded many honors for its technologies and products. In 2014, at the 2014 China Appliance World Expo, the latest generation of intelligent refrigerator of the Company won the 2014 China Household Electrical Appliance Product Prize. At the International Funkausstellung (IFA) held in Berlin, Germany, Hisense Bei Duo Fen (倍多分) Cross French-door refrigerators successfully won the “2014 Technology Innovation” award. At the China Refrigerator Industry Summit, Ronshen refrigerators won the “2013-2014 Leading Brand for Moisturizing Technology in the Refrigerator Industry” award and Hisense refrigerators was the only industry player to receive the “Leading Brand for Healthy Refrigerators” award. At the Chinese Air-conditioner Industry Summit, Hisense air-conditioners obtained several major awards including “Leading Brand for Intelligent Technology”, “Star of Intelligent Technology” and “Pioneering Inverter Product” of the air-conditioner industry in 2014. Kelon air-conditioners received the “Leading Brand for Energy-saving Technology” award of the air-conditioner industry in 2014. Hisense 89 Intelligent Supreme Series Artistic Cabinet Style air-conditioners – split style floor standing room air-conditioners obtained the “Outstanding Outlook Design” award at the Sixteenth Patent Competition in China. In addition, in the “2013-2014 Assessment of Household Electric Appliances Brands in China”, Hisense refrigerators and freezers were awarded the “Top Ten Brands in the Refrigerator Industry” and “Top Ten Brands in the Freezer Industry” respectively and Hisense air-conditioners and Kelon air-conditioners were awarded the “Top Ten Brands in the Household Air-conditioner Industry”.

The Company will adhere to the operating direction of “building product advantages, enhancing marketing capabilities, improving service quality, enhancing system efficiency and ensuring scale and efficiency”, in the incessant pursuit for profound research and development, with a focus on product intellectualization and improvement of user experience to reinforce technological innovations and boost product competitiveness, and will further perfect the high-end product line, enhance the product sales structure and reform the marketing model, together with the all-round enhancement of the Company’s integrated capability in the areas of technology level, service quality, product grade, market scale and sustainability etc., to achieve a steady growth in scale, efficiency and market share.

Major Events Calendar

JANUARY

Hisense Kelon sponsored the 27th “Hisense Kelon Cup” New Year’s Day Long Run Race at Ronggui Street, Shunde District. This was the 26th consecutive year for Hisense Kelon to sponsor this major sports event at Ronggui Street, Shunde District since 1988.

MARCH

At the 2014 China Appliance World Expo, the latest generation of intelligent refrigerator of Hisense Kelon outshone more than 230 new home appliances and won the China Household Electrical Appliance Product Prize 2014.

APRIL

“Guangdong Kelon Fittings Co., Ltd.” officially changed its name to “Guangdong Hisense Electrical Appliances Co., Ltd.” with the addition of kitchen appliances to its scope of business.

MAY

At the 2014 China Refrigerator Industry Summit under the theme of “Enhancing Health and Generating New Energy with Intelligent Technologies”, Ronshen refrigerators won the “2013-14 Leading Brand in Moisture Preservation Technology in Refrigerator Industry” award and Hisense refrigerators was the only industry player to receive the “Leading Brand in Healthy Refrigerators” award. Ronshen BCD-648WP refrigerator was awarded the “Breakthrough in Double Refrigerating and Double Circulation Technology in Refrigerator Industry for the Year” award, and Ronshen BCD-439WKK1FYM refrigerator was awarded the “Star of Space Design in Refrigerator Industry” award. Hisense refrigerator BCD-440WDG also won the “Star of Anti-bacteria Function and Food Preservation in Refrigerator Industry” award, whereas Hisense BCD-253WDG/A product won the “Innovative Health Technology in the Industry” award.

JULY

The China International Consumer Electronics Show (SINOCES) was held at Qingdao International Exhibition Center under the theme of “Universal Interconnection and Intelligent Life”. At which, Hisense Cross French-door 440 series refrigerators received the “2014 Most Popular Product” award for their innovative cross French-door design, and more sophisticated and healthy food storage method. Ronshen Cross French-door refrigerators won the “Innovative Leaders in Industrial Design of International Consumer Electronics in China” for their innovative cross French-door exterior design and rational space design.

“Safeguarding the Safety on the Tip of the Tongue – Cross-sector Expert Assessment Meeting on Food Preservation Refrigeration Technology” organized by The International Food Safety Association was held in Beijing. Ronshen refrigerators equipped with Nanofresh nano negative-ion food preservation technology received the “Sole Recommendation for Safe Food Storage in Refrigerator” from The International Food Safety Association, and was the first refrigerator brand in the world to be recommended by The International Food Safety Association.

AUGUST

Hisense Air Conditioner, Hisense Refrigerator and Ronshen Refrigerator were awarded the “User Experience Test (UET)” certificate at the 2014 User Experience Index of the Refrigerator and Air-conditioner Industries cum Press Release for the User Experience Indices of Refrigerator and Air-conditioner Products organized by the China Household Electric Appliance Research Institute, whereas Hisense Refrigerator was also awarded with the highest grade A certificate for the user experience tests.

At the 2014 Chinese Air-conditioner Industry Summit under the theme of “Big Intelligence for a Small Time” co-organized by the Department of Information Resources Development of the State Information Center and the State Grid, Hisense Air-Conditioner obtained several major awards including “Leading Intelligent Brand”, “Star of Intelligent Products” and “Leading Inverter Product” of the air-conditioner industry in the Year of Freeze in 2014. Kelon Air-Conditioner received the “Leading Energy-saving Brand” award of the air-conditioner industry in the Year of Freeze in 2014, and its latest QV Artistic Cabinet Style air-conditioners launched in 2014 were awarded the “Star of Quality in the Year of Freeze in 2014” award.

Major Events Calendar

SEPTEMBER

Under the guidance of the Department of Industrialization and Informatization, the “2013-2014 Assessment of Household Electric Appliances Brands in China” was organized by the China Household Electric Appliance Research Institute, at which top ten brands of the air-conditioner, refrigerator and other household appliances industries were named. With the consolidated strength, such as capabilities in sustainable development and marketing and ability of consumers, Hisense refrigerators and freezers were named as “Top Ten Brand in the Refrigerator Industry” and “Top Ten Brand in the Freezer Industry” respectively. Hisense air-conditioner and Kelon air-conditioner were named as top ten brands in the household air-conditioner industry.

The International Funkausstellung (IFA) was held in Berlin, Germany. Demonstrating the innovative power of the Chinese household appliances enterprises to the world, Hisense Bei Duo Fen (倍多分) Cross French-door refrigerators successfully won the “Award of Technology Innovation” of 2014 with their differentiation technologies and innovations to meet customer needs, showing the innovative power of Hisense Refrigerator before in front of its peers around the world and the consumers.

OCTOBER

At the Quality Month of China in 2014 organized by China Quality Supervision, Hisense Kelon Air-Conditioning was named as the “Typical Enterprise with Outstanding Quality and Integrity in China”.

NOVEMBER

Hisense 89 Intelligent Supreme Series Artistic Cabinet Style air-conditioners – split style floor standing room air-conditioners (K12011) obtained the “Outstanding Outlook Design Award” at the Sixteenth Patent Competition in China.

DECEMBER

The Company’s Kelon air-conditioners and Ronshen freezers were named as Famous Products of Guangdong Province.

Chairman's Statement

Dear Shareholders:

I am pleased to present the annual report of the Company for the year ended 31 December 2014 (the "Reporting Period").

During the Reporting Period, the growth of the PRC economy gradually shifted from a high speed trend to a moderate to high momentum and there was greater downward pressure on the economic development. At the same time, due to factors such as continued sluggish property market and overdraft demand by the household appliances stimulation policies during the previous periods, demand in the PRC market diminished and its growth was weak. According to the statistics of China Market Monitor Company Limited (CMM), the retail volume of the domestic refrigerator industry recorded year-to-year decrease for every month since February, whereas the retail volume of the refrigerator industry recorded a year-to-year decrease of 9.33% in 2014. On the other hand, the air-conditioner market started promisingly but declined afterwards with significant slowdown in the growth during the second half of the year and recorded a negative growth since August. There was a 1.35% year-to-year decrease in the retail volume of the air-conditioner market in 2014 and the high growth era of the household appliances industry came to an end. As to the export market, due to factors such as global economic downturn and slowing down of demand, demand remained slack in the overseas market. According to the statistics of the Customs Department, in 2014, the export volume of the refrigerator and freezer products marked a year-to-year growth of 8.9%, and that of the air-conditioner products decreased by 2.7% year-to-year. Riding on the swift development of mobile internet technologies and the popularization of intelligent homes, the household appliance industry is further heading towards intelligentization, artization and high-end development.

During the Reporting Period, the Company strictly adhered to the operating strategies of "building product advantages, improving service quality, reforming marketing model, enhancing system efficiency and ensuring scale and efficiency" and maintained stable growth in the principal businesses. The Company recorded operating revenue of RMB 26534 million, representing a year-to-year increase of 8.93%, and principal operating revenue of RMB 24371 million, representing a year-to-year increase of 9.84%, of which the revenue from the refrigerator and washing machine business accounted for 48.68% of the principal operating revenue, representing a year-to-year decrease of 1.01%; revenue from the air-conditioner business accounted for 46.54% of the principal operating revenue, representing a year-to-year growth of 22.84%; the domestic sales business recorded a principal operating revenue of RMB17179 million, representing a year-to-year growth of 9.95%, whereas the export sales business recorded a principal operating revenue of RMB7192 million, representing a year-to-year growth of 9.58%. However, as a result of the decrease in the gross profit margin of the refrigerator business and the increase in sales expenses, the Company recorded reduced profitability. During the Reporting Period, the Company recorded net profit attributable to equity holders of the listed company of RMB672 million and earnings per share of RMB0.50, representing a year-to-year decrease of 44.44%. The debt-to-asset ratio of the Company decreased by 3.63 percentage points. The Company's financial position was further improved.

In respect of research and development of technology, the refrigerator business of the Company continued to uphold the research and development approach of further enhancing the level of intelligentization of its products and user experience, focused on upgrading the technologies in areas such as energy-saving, food preservation, moisturizing, healthy and remote control, and persisted in technology innovations and function upgrades. At the International Funkausstellung (IFA) held in Berlin, Germany, Hisense bei duo fen (倍多分) Cross French-door refrigerators successfully won the "2014 Technology Innovation" award for their differentiation technologies and innovations to meet user needs. The air-conditioner business of the Company continued to consolidate the strategies of product intelligentization and differentiation, through measures such as technical innovations, function upgrades and innovative outlook designs, established product advantages and enhanced product competitiveness. At the World Innovation Forum, Hisense intelligent air-conditioners, for their self-developed internet intelligent air-conditioners which is the first model around the globe, won the "Golden Kangaroo World Innovation" award, which was a unique and major global honor. At the 2014 (Seventh) Annual Conference of the Chinese Air-conditioner Industry, Hisense air-conditioners won the two major intelligence awards of "Intelligent Innovations" and "Product with the Best Intelligent Experience" for their advance technologies and innovative user experience in the intelligent products.

Chairman's Statement

Looking ahead into 2015, the persistent downward pressure on the PRC economy, weak economic growth momentum and continual downturn of the property market will lead to insufficient demand in the domestic market. Furthermore, since the commencement of year 2015, the overall inventory of the air-conditioner industry remains at high levels. Price war is on the verge and the air-conditioner industry will face a rather tough situation for business operation. At the same time, the global economy is still in the phase of in-depth adjustment after the international financial crisis, with an expected weak recovery momentum and the aggravating fluctuations in the international exchange rates, especially the recent sharp depreciation of the euro exchange rate, which leads to significant increase of risk for export. It is anticipated that the Company will face stronger pressure in its operation. However, at the same time we observe that with the development objectives of quality and efficiency enhancement in the domestic economy, the further promotion of the new urbanization policies, the improvements in the regional economic development policies and reserve fund systems, and, in the international market, the continued recovery of the economy in the United States and other developed countries, in 2015, the year which the implementation of the Twelfth Five-year Plan will come to completion, both the domestic and export demand of household appliances will be stimulated to bring along favorable influences on the development of the Company. The Company will rigidly uphold the operating strategies of “building product advantages, enhancing marketing capabilities, improving service quality, enhancing system efficiency and ensuring scale and efficiency” to tackle any challenges ahead, actively integrate resources and ride on the opportunities of sector upgrades and technology and product innovations; to thoroughly actualize the philosophy of customer-orientation and provision of satisfactory products to the customers in order to improve product competitiveness and establish product advantages continually; to increase the sales capability; to take “customer satisfaction” as the ultimate goal, reinforce NPS management and improve the service quality; to continue development of efficiency enhancement measures; to reinforce capital management and implement strict risk control on capital in order to achieve steady increase in the scale, efficiency and market share of the Company.

In 2014, the business development of the Company has received the care and strong support from all shareholders, financial institutions, partners and the government. I would like to express my gratitude to every one of them and hope to receive your continued support in the forthcoming year. We believe that, with the careful and in-depth planning, the realization our of goals successively, the concerted efforts and commitment of our staff, a brand new corporate spirit and pragmatic style of work as driving forces of the enterprise to take on the challenges ahead, the development of the Company will be advanced. I also earnestly look forward to sharing a better future of Hisense Kelon with you all.

Tang Ye Guo
Chairman

The PRC, 26 March 2015

Management Discussion and Analysis

I. INDUSTRY OVERVIEW

During the Reporting Period, the growth of the PRC economy gradually shifted from a high speed trend to a moderate to high momentum and there was greater downward pressure on the economic development. At the same time, due to factors such as continued sluggish property market and overdraft demand by the household appliances stimulation policies during the previous periods, demand in the PRC market diminished and its growth was weak. According to the statistics of China Market Monitor Company Limited (CMM), the retail volume of the domestic refrigerator industry recorded year-to-year decrease for every month since February, whereas the retail volume of the refrigerator industry recorded a year-to-year decrease of 9.33% in 2014. On the other hand, the air-conditioner market started promisingly but declined afterwards with significant slowdown in the growth during the second half of the year and recorded a negative growth since August. There was a 1.35% year-to-year decrease in the retail volume of the air-conditioner market in 2014 and the high growth era of the household appliances industry came to an end. As to the export market, due to factors such as global economic downturn and slowing down of demand, demand remained slack in the overseas market. According to the statistics of the Customs Department, the export volume of the refrigerator and freezer products marked a year-to-year growth of 8.9%, and that of the air-conditioner products decreased by 2.7% year-to-year. Riding on the swift development of mobile internet technologies and the popularization of household intelligence, the household appliance industry is further heading towards intelligentization, artization and high-end development.

II. ANALYSIS OF THE COMPANY'S OPERATION

Overall situation

During the Reporting Period, the Company strictly adhered to the operating strategies of “building product advantages, improving service quality, reforming marketing model, enhancing system efficiency and ensuring scale and efficiency” and maintained stable growth in the principal businesses. The Company recorded operating revenue of RMB 26534 million, representing a year-to-year increase of 8.93%, and principal operating revenue of RMB 24371 million, representing a year-to-year increase of 9.84%, of which the revenue from the refrigerator and washing machine business accounted for 48.68% of the principal operating revenue, representing a year-to-year decrease of 1.01%; revenue from the air-conditioner business accounted for 46.54% of the principal operating revenue, representing a year-to-year growth of 22.84%; the domestic sales business recorded a principal operating revenue of RMB17179 million, representing a year-to-year growth of 9.95%, whereas the export sales business recorded a principal operating revenue of RMB7192 million, representing a year-to-year growth of 9.58%. However, as a result of the profit-eroding factors such as decrease in the gross profit margin of the refrigerator business, increase in sales expenses, losses from changes in fair values due to fluctuation in the exchange rates, and coupled with year-to-year decrease in non-operating revenue, the Company recorded reduced profitability. During the Reporting Period, the Company recorded net profits attributable to equity holders of the listed company of RMB672 million and earnings per share of RMB0.50, representing a year-to-year decrease of 44.44%.

During the Reporting Period, the debt-to-asset ratio of the Company decreased by 3.63 percentage points. The Company's financial position further improved.

Technology orientation

During the Reporting Period, the refrigerator business of the Company continued to uphold the research and development approach of further enhancing the level of intelligentization of its products and user experience, focused on upgrading the technologies in areas such as energy-saving, food preservation, moisturizing, healthy and remote control, and persisted in technology innovations and function upgrades. At the China Household Appliances Expo held in March 2014, the Company launched the Nanofresh nano negative-ion freshness preservation technology that combined the two major functions for refrigerator products, namely moisturization and disinfection and swiftly promoted the integration of the technology in actual products by launching the Ronshen Cross French-door refrigerators. At the 2014 China Refrigerator Industry Summit, Ronshen refrigerators won the “2013-14 Leading Brand for Moisturizing Technology of the Refrigerator Industry” award for their continual innovations in the moisturizing, frostless and cooling technologies; Hisense refrigerators won the “2013-14 Leading Brand for Healthy Refrigerators of the Refrigerator Industry” award for their innovations in healthy refrigerators. At the International Funkausstellung (IFA) held in Berlin, Germany, Hisense Beiduofen (倍多分) Cross French-door refrigerators successfully won the “2014 Technology Innovation” Award for their differentiation technologies and innovations to meet user needs.

Management Discussion and Analysis

During the Reporting Period, the air-conditioner business of the Company continued to consolidate the strategies of product intelligentization and differentiation, through measures such as technical innovations, function upgrades and innovative outlook designs, established product advantages and enhanced product competitiveness. At the World Innovation Forum held in February 2014, Hisense intelligent air-conditioners, for their self-developed internet intelligent air-conditioners which were the first model around the globe, won the “Golden Kangaroo World Innovation” Award, which was a unique and major global honor. At the 2014 China Air-conditioner Industry Summit, Hisense air-conditioners won major awards including “Leading Brand for Intelligent Technology”, “Star of Intelligent Technology”, “Pioneering Inverter Product” of the air-conditioner industry in 2014 for their outstanding technologies and products and positive market responses; Kelon air-conditioners were awarded the “Leading Brand for Energy-saving Technology” of the air-conditioner industry in 2014. In August 2014, Hisense air-conditioners launched the industry-leading intelligent air-conditioning solution, “Breathing Home” that realizes coordination between air-conditioners, air purifiers and other household appliances through cloud platform and physical networking technologies which provides a comprehensive household air solution for the users. Hisense air-conditioners at the same time completed the development of the first 360-degree “Flip Turn” artistic cabinet air-conditioner, enriching the portfolio of high-end air-conditioner products. At the 2014 (Seventh) Annual Conference of the Chinese Air-conditioner Industry held in October 2014, Hisense air-conditioners won the two major intelligence awards of “Intelligent Innovations” and “Product with the Best Intelligent Experience” for their advance technologies and innovative user experience in the intelligent products.

Refrigerator and washing machine business

During the Reporting Period, the Company’s refrigerator and washing machine business were committed to implementing the strategy of high-end products and the product structure was enhanced. Hisense Beiduofen (倍多分) Cross French-door refrigerators, Ronshen Shishangpai (食尚派) Cross French-door refrigerators and other new high-end products were launched, which further enhanced the portfolio of the high-end products. According to the statistics of CMM, the retail market share of the French-style refrigerators in 2014 was 2.75 percentage points higher than that in 2013. However, affected by an overall trend of negative growth in the PRC refrigerator retail market in 2014, the scale of the Company’s refrigerator and washing machine business declined and the gross profit margin narrowed by 1.25 percentage points on a year-to-year basis. At the same time, the Company increased its spending in product promotion in response to the market competition, leading to a further increase in the cost of sales rate and drop in profitability of the refrigerator and washing machine business. As to exports, the Company has proactively explored the overseas markets and promoted sales to the overseas markets on full throttle to compensate the shortfall in the scale of the domestic business. According to the statistics of the Customs Department, the export volume of the refrigerator and washing machine products of the Company marked a year-to-year growth of 16.6% in 2014, outperforming the average growth of 8.9% of the industry.

Air-conditioner business

During the Reporting Period, the Company’s air-conditioner business persisted in product development towards the direction of energy-saving, inverting technology, healthy, personalization and intelligentization with a focus on the strategy of sophistication. Kelon air-conditioners have launched the “Jiangnan Wind” series of artistic products with unique outlook and outstanding functions, whereas Hisense air-conditioners have launched the “Apple Pie A8L” series of intelligent air-conditioners, realizing an upgrade to the sophisticated outlook and craftsmanship of the “Apple Pie” series. Hisense air-conditioners have also upheld the operating strategy of “enhancing service quality” which led to a steady increase in the NPS (net promoter score) value of their services. High quality after-sale services and improvements in product competitiveness helped to promote the scale of the Company’s air-conditioner business in a steady pace. According to the statistics of CMM, air-conditioners under the two brands “Hisense” and “Kelon” recorded year-to-year growth of 11.8% and 0.78% respectively in retail volume in 2014, outperforming the overall level of increase of the air-conditioner industry despite a year-to-year decrease of 1.35% in the retail volume of the air-conditioner market. The retail volume of air-conditioner products of the Company recorded a 0.66 percentage point increase in the share of the air-conditioner retail market. As to exports, the Company has actively explored the overseas markets to expand the scale of exports. According to the statistics of the Customs Department, the Company recorded a year-to-year growth of 2.8% in the export volume of air-conditioner products of the Company in 2014 despite a year-to-year decrease in the export volume of the air-conditioner industry by 2.7%. At the same time, the gross profit margin of air-conditioner products recorded an increase of 1.67 percentage points and the profitability of the air-conditioner industry continued to increase with the improvements in the air-conditioner product structure, as well as implementation of efficiency-enhancing and cost-reducing measures.

Management Discussion and Analysis

III. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD

(I) Major Accounting Data and Financial Indicators

Did the Company make retrospective adjustment to or restatement of the accounting data of prior years due to changes in accounting policies and correction of accounting errors?

Yes No

Item	2014	2013		Increase or decrease as compared to last year (%) After adjustment	2012	
		Before adjustment	After adjustment		Before adjustment	After adjustment
Operating revenue (RMB)	26,534,420,935.55	24,360,021,308.47	24,360,021,308.47	8.93	18,958,915,310.09	18,958,915,310.09
Net profits attributable to shareholders of listed company (RMB)	672,478,632.35	1,239,005,051.61	1,215,669,602.07	(44.68)	717,764,680.40	717,764,680.40
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	582,931,287.47	1,077,904,382.91	1,077,904,382.91	(45.92)	597,180,784.22	597,180,784.22
Net cash flow from operating activities (RMB)	965,990,457.87	218,798,349.53	218,798,349.53	341.50	1,098,192,778.13	1,098,192,778.13
Basic earnings per share (RMB/share)	0.50	0.92	0.90	(44.44)	0.53	0.53
Diluted earnings per share (RMB/share)	0.50	0.92	0.90	(44.44)	0.53	0.53
Weighted average rate of return on net assets (%)	21.65	58.16	56.78	(35.13)	61.95	61.95

Items	31 December 2014	31 December 2013		Increase or decrease as compared to end of last year (%) After adjustment	31 December 2012	
		Before adjustment	After adjustment		Before adjustment	After adjustment
Total assets (RMB)	13,266,793,963.74	11,964,709,290.58	12,208,030,858.33	8.67	9,200,334,640.73	9,295,011,411.79
Net assets attributable to shareholders of listed company (RMB)	3,458,363,028.38	2,748,731,080.83	2,748,731,080.83	25.82	1,512,042,166.49	1,512,042,166.49

Management Discussion and Analysis

(II) Non-recurring Profit and Loss Items and Amounts

Item	Unit: RMB			Description
	Amount of 2014	Amount of 2013	Amount of 2012	
Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)	(2,343,557.57)	296,087.55	97,537,681.25	
Government grants recognized in the profits or losses (excluding government grants closely related to the Company's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	82,298,890.90	82,700,643.38	23,057,674.18	
Corporate restructuring costs (e.g. staff relocation costs and costs during the course of integration)	(36,817,863.11)	(52,492,777.86)		
Reversal of provision for impairment on account receivables subject to separate impairment testing	12,585,064.60	89,950,024.68		
Other non-operating income and expenses other than the aforementioned items	39,015,647.68	14,306,916.33	3,348,427.38	
Less: Effect of income tax	15,218,459.01	4,249,768.03	2,187,048.64	
Effect of minority interests (after tax)	(10,027,621.39)	(7,254,093.11)	1,172,837.99	
Total	89,547,344.88	137,765,219.16	120,583,896.18	

(III) Analysis of Principal Business

I. Income

Is the Company's income from sales of goods larger than its income from provision of services?

Yes No

Industry Category	Item (ten thousand units/sets)	2014	2013	Increase or decrease as compared to corresponding period last year (%)
Home appliances manufacturing industry	Sales volume	1,699	1,566	8.49
	Production volume	1,731	1,605	7.85
	Inventory volume	184	152	21.05

Management Discussion and Analysis

2. Costs

Unit: RMB ten thousand

Industry Category	Item	2014		2013		Increase or decrease as compared to corresponding period last year (%)
		Amount	Weight to operating costs (%)	Amount	Weight to operating costs (%)	
Home appliances manufacturing industry	Raw materials	1,697,168.44	90.45	1,542,152.64	90.23	0.22
	Staff wages	53,990.60	2.88	51,646.53	3.02	(0.14)
	Depreciation	36,722.00	1.96	28,402.07	1.66	0.3

3. Expenses

Unit: RMB ten thousand

Expense Item	2014	2013	Increase or decrease as compared to corresponding period last year (%)	Reason for the changes
Management expense	85,693.18	81,445.26	5.22	No significant change
Finance expense	(396.62)	(2,747.44)	N/A	Mainly due to a decrease in the proceeds from the use of capital during the Reporting Period
Income tax expense	5,972.51	5,361.89	11.39	No significant change

Management Discussion and Analysis

4. Cash Flow

Unit: RMB ten thousand

Item	2014	2013	Increase or decrease as compared to corresponding period last year (%)
Sub-total of cash inflows from operating activities	1,537,699.84	1,456,341.79	5.59
Sub-total of cash outflows from operating activities	1,441,100.80	1,434,461.96	0.46
Net cash flows from operating activities	96,599.05	21,879.83	341.50
Sub-total of cash inflows from investing activities	10,764.75	9,315.94	15.55
Sub-total of cash outflows from investing activities	76,618.68	56,571.70	35.44
Net cash flows from investing activities	(65,853.93)	(47,255.76)	N/A
Sub-total of cash inflows from financing activities	138,115.72	47,399.58	191.39
Sub-total of cash outflows from financing activities	129,146.68	26,043.63	395.89
Net cash flows from financing activities	8,969.04	21,355.95	(58.00)
Net increase in cash and cash equivalents	39,705.16	(4,067.42)	N/A

Reasons for over 30% year-to-year changes in the relevant data

√ Applicable □ Not applicable

- (1) Year-to-year increase in the net cash flows from operating activities was mainly due to increase in amounts received from due notes receivable of the Company during the Reporting Period.
- (2) Year-to-year decrease in the net cash flows from investing activities was mainly due to increase in investments in fixed assets during the Reporting Period.
- (3) Year-to-year decrease in the net cash flows from financing activities was mainly due to decrease in net factoring accounts receivable during the Reporting Period.

Management Discussion and Analysis

5. Research and development expenses

During the Reporting Period, the Company continued to focus on further enhancing products' features such as energy-saving, freshness preservation, moisturizing, intelligence as its core development direction, and persisted in stepping up investments in research, development and innovations of its products. Through refrigerator development projects such as "Multi-function Ion Freshness Preservation Technology" and "R&D for Low-carbon, Energy-saving Foaming Technology", as well as air-conditioner development projects such as "R&D for Breathing Home Intelligent Products", "Development of New APF Outdoor Platform based on CAE and CFD Analyses and Synergized Efficiency Enhancement and Consumption Reduction" and "R&D and Application of High Efficiency Air Passage based on Controllable Vortex Technology", the Company strived to enhance the features and levels of intelligence of its products, enhancing the market competitiveness of the products and the core competitiveness of the Company, which provided solid technological support for the Company's industrial upgrade.

(VI) Description of Principal Business Segments

Item	<i>Unit: RMB</i>					
	Revenue from operating businesses	Costs of operating businesses	Gross profit margin (%)	Increase or decrease in revenue from operating businesses as compared to corresponding period last year (%)	Increase or decrease in costs of operating businesses as compared to corresponding period last year (%)	Increase or decrease in gross profit margin as compared to corresponding period last year (%)
By industry						
Home appliances manufacturing industry	24,370,988,051.17	18,762,900,237.84	23.01	9.84	9.78	0.05
By product						
Refrigerators	9,777,648,421.45	7,555,205,500.69	22.73	(3.25)	(2.13)	(0.89)
Air-conditioners	11,342,514,901.50	8,620,900,642.94	23.99	22.84	20.20	1.67
Others	3,250,824,728.22	2,586,794,094.21	20.43	14.18	17.55	(2.28)
By region						
Domestic	17,178,988,978.86	12,359,306,312.99	28.06	9.95	9.92	0.03
Overseas	7,191,999,072.31	6,403,593,924.85	10.96	9.58	9.51	0.06

Management Discussion and Analysis

Due to adjustments to the statistical criteria for the Company's principal operating business during the Reporting Period, the data on the Company's principal operating business in the recent year after making adjustments to the statistical criteria at the end of the Reporting Period

√ Applicable □ Not Applicable

Unit: RMB

Item	Revenue from operating businesses	Costs of operating businesses	Gross profit margin (%)	Increase or decrease in revenue from operating businesses as compared to corresponding period last year (%)	Increase or decrease in costs of operating businesses as compared to corresponding period last year (%)	Increase or decrease in gross profit margin as compared to corresponding period last year (%)
By industry						
Home appliances manufacturing industry	24,370,988,051.17	18,762,900,237.84	23.01	9.84	9.78	0.05
By product						
Refrigerators and washing machines	11,864,028,175.03	9,268,105,140.56	21.88	(1.01)	0.60	(1.25)
Air-conditioners	11,342,514,901.50	8,620,900,642.94	23.99	22.84	20.20	1.67
Others	1,164,444,974.64	873,894,454.34	24.95	20.26	23.57	(2.01)
By region						
Domestic	17,178,988,978.86	12,359,306,312.99	28.06	9.95	9.92	0.03
Overseas	7,191,999,072.31	6,403,593,924.85	10.96	9.58	9.51	0.06

Note: For the data by product categories in year 2014, data of freezers and washing machines has been reclassified from "other products" to "refrigerators and washing machines" for statistical purposes.

Management Discussion and Analysis

(V) Analysis of Assets and Liabilities Position

1. Significant changes in asset items

Unit: RMB

Item	31 December 2014		31 December 2013		Increase or decrease in weight (%)	Explanation of significant changes
	Amount	Percentage to total assets (%)	Amount	Percentage to total assets (%)		
Cash at bank and on hand	870,663,755.12	6.56	473,787,177.54	3.88	2.68	Mainly due to increase in entrusted collection for notes receivable and increase in factoring accounts receivable during the Reporting Period.
Financial assets measured at fair value where changes in fair value are accounted for as gain or loss of the period	162,460.00	0	67,115,019.35	0.55	(0.55)	Mainly due to changes in exchange rates for undue forward exchange business as at the end of the Reporting Period
Notes receivable	991,796,937.82	7.48	2,160,801,733.50	17.70	(10.22)	Mainly due to increase in amounts received from due notes receivable during the Reporting Period.
Accounts receivable	1,984,291,386.93	14.96	1,644,771,822.27	13.47	1.49	No significant change
Prepayments	498,209,306.68	3.76	352,903,571.02	2.89	0.87	Mainly due to increase in construction prepayments of subsidiaries during the Reporting Period.
Inventories	2,915,921,775.81	21.98	2,496,359,854.46	20.45	1.53	No significant change
Investment properties	31,459,416.41	0.24	33,946,307.75	0.28	(0.04)	No significant change
Long-term equity investments	1,216,043,770.20	9.17	993,500,673.77	8.14	1.03	No significant change
Fixed assets	2,932,039,091.41	22.1	2,368,500,692.73	19.40	2.7	No significant change
Deferred tax assets	106,813,348.23	0.81	36,616,861.02	0.30	0.51	Mainly due to increase in the subsidiaries which satisfy deferred profit tax assets provision and subsidiaries continued to make profits as at the end of the Reporting Period.

Management Discussion and Analysis

2. Significant changes in liability items

Unit: RMB

Item	2014		2013		Increase or decrease in weight (%)	Explanation of significant changes
	Amount	Percentage to total assets (%)	Amount	Percentage to total assets (%)		
Short-term borrowings	253,985,142.45	1.91	191,681,513.02	1.57	0.34	Mainly due to increase in factoring accounts receivable as at the end of the Reporting Period.
Financial liabilities measured at fair value where changes in fair value are accounted for as gain or loss of the period	7,391,136.66	0.06	4,645.00	0.00	0.06	Mainly due to changes in exchange rates for undue forward exchange business as at the end of the Reporting Period.
Taxes payable	174,792,592.21	1.32	86,555,036.75	0.71	0.61	Mainly due to increase in income tax payable during the Reporting Period.

(VI) Assets and Liabilities Measured at Fair Value

Unit: RMB

Items	Balance at the beginning of the period	Gain or loss from change in fair value during the period	Accumulated changes in fair value accounted in equity	Provision for impairment during the period	Amount purchased during the period	Amount sold during the period	Balance at the end of the period
Financial assets							
1. Financial assets measured at fair value where changes in fair value are accounted for as gain or loss of the period (excluding derivative financial assets)	67,115,019.35	(66,952,559.35)	(66,952,559.35)				162,460.00
2. Derivative financial assets							
3. Financial assets available for sale							
Subtotal of financial assets							
Investment Properties							
Productive biological assets							
Others							
Total	67,115,019.35	(66,952,559.35)	(66,952,559.35)				162,460.00
Financial liabilities	(4,645.00)	(7,386,491.66)	(7,386,491.66)				(7,391,136.66)

Management Discussion and Analysis

(VII) Core Competitiveness Analysis

1. Technological advantages

The Company adheres to its operating philosophy of “technology orientation” and focuses on “energy-saving by inverter technology” and “green and environmental friendliness” to build its core competitiveness through continual innovations in technologies and products. The Company has top-notch research and development institutions including State-level enterprise technology center, enterprise post-doctoral scientific research station, State-recognized laboratory, and Guangdong Provincial Key Research and Development Center of Engineering Science, and an industry-leading research and development team with thousands of technical personnel. The Company is always committed to enhance its self-driven innovation capacity and strives to enhance the performance and level of intelligentization of its products, in order to improve its core competitiveness and its products’ market competitiveness and provide strong technical support for the Company’s industrial advancement.

2. Brand advantages

The three brand names used in refrigerator and air-conditioner products of the Company, namely “Hisense”, “Ronshen” and “Kelon”, have good brand reputation and market base. Among these brands, the market share of “Hisense” inverter air-conditioners had ranked first in China for thirteen consecutive years, while the market share of “Ronshen” refrigerators had ranked first in China for eleven years. “High technology and high quality” reflects the Company’s core brand value. At the same time, the Company gradually accelerates the progress of internationalization, and continues to promote the internationalization of its own brands. From a global market perspective, Hisense’s own brand air-conditioner products ranked fifth in the global market share and its own brand refrigerator and freezer products ranked seventh in the global market share.

(VIII) Major subsidiaries and companies in which the Company has equity interest

Name of company	Company type	Industry	Major product or service	Registered capital	Total assets (RMB ten thousand)	Net assets (RMB ten thousand)	Operating revenue (RMB ten thousand)	Operating profit (RMB ten thousand)	Net profits (RMB ten thousand)
Hisense Hitachi	A company in which the Company has equity interest	Home appliances industry	Production and sale of commercial air-conditioners	US\$46 million	300,376.06	189,825.49	412,998.67	84,088.28	71,087.05

Acquisition and disposal of subsidiaries during the Reporting Period

√ Applicable □ Not applicable

Name of company	Purpose of acquisition and disposal of subsidiaries during the Reporting Period	Means of acquisition and disposal of subsidiaries during the Reporting Period	Effect on the overall production and performance
Hisense (Guangdong) Air-Conditioner Company Limited	Establishment of new air-conditioner production base	Newly established	For facilitating the enhancement of the Company’s production capabilities for air-conditioner products and production efficiency.
Hisense (Guangdong) Mould Plastic Company Limited (海信(廣東)模塑有限公司)	Establishment of new subsidiary for the business of auxiliary products such as mould and plastic	Newly established	For facilitating the enhancement of the Company’s production capabilities for auxiliary products

Management Discussion and Analysis

IV. OUTLOOK

Looking ahead into 2015, the persistent downward pressure on the PRC economy, weak economic growth momentum and continual downturn of the property market will lead to insufficient demand in the domestic market. Further, since the commencement of year 2015, the overall inventory of the air-conditioner industry remains at high levels. Price war is on the verge and the air-conditioner industry will face a rather tough situation for business operation. At the same time, the global economy is still in the phase of in-depth adjustment after the international financial crisis, with an expected weak recovery momentum and the aggravating fluctuations in the international exchange rates, especially the recent sharp depreciation of the euro exchange rate. The risk for export increases significantly. It is anticipated that the Company will face stronger pressure in its operation. However, at the same time we observe that with the development objectives of quality and efficiency enhancement in the domestic economy, the further promotion of the new urbanization policies, the improvements in the regional economic development policies and reserve fund systems, and, in the international market, the continued recovery of the economy in the United States and other developed countries, in 2015, the year which the implementation of the Twelfth Five-year Plan will come to completion, both the domestic and export demand of household appliances will be stimulated to bring along favorable influences on the development of the Company.

In 2015, the Company will rigidly uphold the operating strategies of “building product advantages, enhancing marketing capabilities, improving service quality, enhancing system efficiency and ensuring scale and efficiency” to tackle any challenges ahead, actively integrate resources and ride on the opportunities of sector upgrades and technology and product innovations in order to strive for steady increase in its scale, performance and market share through implementation of the following:

1. to thoroughly actualize the philosophy of customer-orientation and provision of satisfactory products to the customers in order to improve product competitiveness and establish product advantages continually. Specifically enrich product portfolio, supplement and enhance the sales channel to corresponding products, establish all-round competitive advantages; innovate key technologies, maintain the leading position of the products' core competitiveness through continual technological innovations; continue to enhance product sophistication, strengthen improvements in product quality; to adhere to the strategies of high-end product development, product differentiation and sophistication, increase the input of research and development for high-end products, enrich the portfolio of high-end products, with the aim of realizing the Company's transition towards product intelligentization, artization and development of high-end products; at the same time, to thoroughly explore rooms to reduce production cost, to enhance products' gross profit margin and to ensure product cost advantage through measures such as technological innovation, collaboration with suppliers to innovate and strengthen purchase management.
2. to increase the sales capability. To improve the product planning and promotion capabilities through responding to changes in sales models brought by the mobile internet; to capitalize the opportunities brought by the swift growth of the emerging channel such as ecommerce for enhancing the online popularity and reputation of the brands in order to fortify the operating capability; to continue driving for the construction of channels for the third and fourth grade markets, enhance network quality and increase the single-shop productivity to strive for synchronized growth in the quantity and quality of the channels; to increase sales expense and strengthen the output budget analysis and management to reduce spending which is ineffective or which has low efficiency and to lower the rate of sale expenses; to reinforce promotion of mid- to high-end products and enlarge the market share of key products in order to drive for the enhancement of the overall market share. In the perspective of the international market, to accelerate the development of the brand business, through breakthrough in major markets to enhance the business scale of the overseas market and market share of the brand.
3. to take “customer satisfaction” as the ultimate goal, reinforce NPS management and improve the service quality. To enhance the consonance between the service provider and the sales network to enhance the scale of the service provider; to enhance the service network and improve the standard of services; to build the core image of the service provider and promote the market reputation of the brand; to improve the timeliness of on-site visit through whole-process supervision .

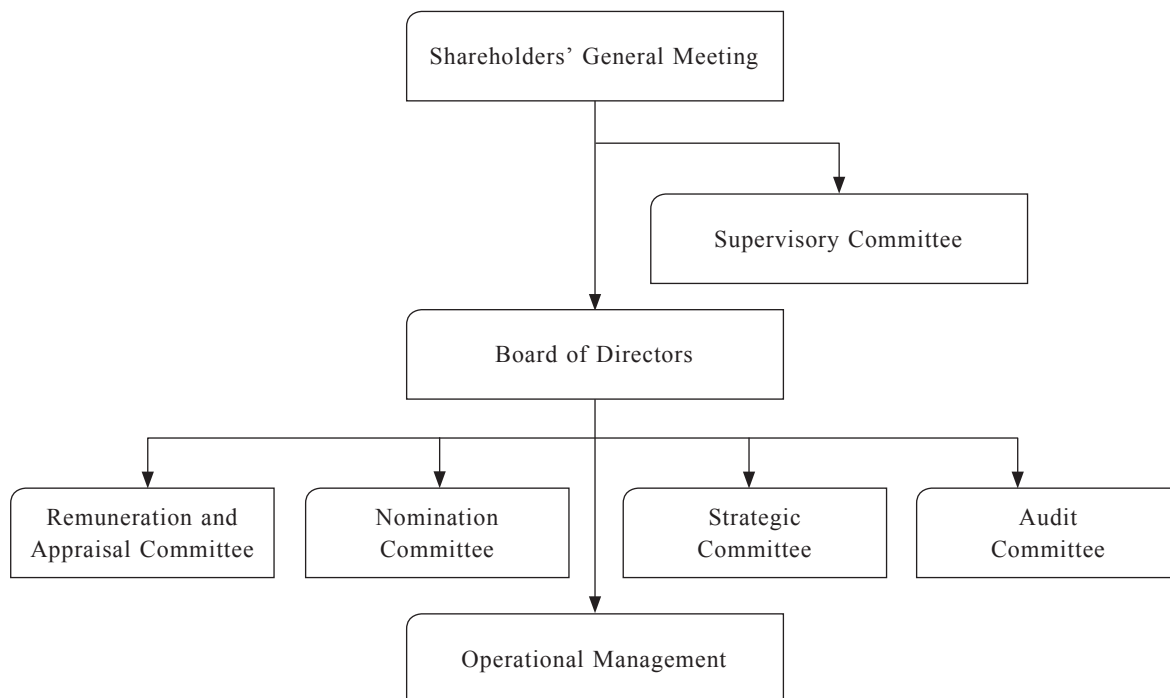
Management Discussion and Analysis

4. to continue development of efficiency enhancement measures. To speed up the manufacture efficiency through workflow enhancement, enhancing the level of automation and techniques and accelerating production speed; to implement integration of functions through enhancing the workflow and organizational structure, to increase working efficiency, continually enhance the talent structure, and enhance the staff capabilities through informatization measures, in order to improve the management efficiency; to set up organization for sales efficiency improvement, through measures such as reforming the sales model to enhance the sales capabilities and scale, in order to enhance sales efficiency.
5. to reinforce capital management and implement strict risk control. Reinforce receivables management, reduce inventory occupancy, implement strict control over capital, strengthen expenses management and accelerate capital flow; reinforce exchange rate management; avert exchange rate risks.

Corporate Governance Report

Sound corporate governance is the basic assurance to the long-term healthy and stable development of a corporation, whereas continued enhancement of the governance level is a necessary measure to maintain the healthy development of the company. During the Reporting Period, following completion of the implementation of the first phase of the exercise of share options under the Company's first share option incentive scheme, the Company has further amended the Articles of Association of the Company mainly related to the alteration of the capital structure of the Company. The shareholders' general meetings, meetings of the board of directors and its various specialized committees and the supervisory committee performed their functions, coordinated with each other and maintained effective check and balance in accordance with the laws, regulations and the relevant systems, which continuously enhanced the level of corporate governance of the Company.

I. Corporate governance structure:



(a) Shareholders' General Meeting

As the highest authority of the Company, the shareholders' general meeting exercises its functions and powers in accordance with the laws to make decisions on significant events of the Company. The Company has established and maintained different communication channels with its shareholders through the publication of announcements, the Company's website, as well as by e-mail, telephone and facsimile.

In accordance with Article 8.27 of the Articles of Association of the Company, a poll may be demanded in any shareholders' general meeting of the Company by:

- (a) the chairman of the meeting; or
- (b) at least two shareholders with voting rights or their proxies; or
- (c) one or more shareholder(s) (including their proxies) representing, individually or in aggregate, 10% or more of all shares carrying the voting rights at the general meeting.

The chairman of the general meeting will present detailed procedures of a poll to the shareholders at the beginning of the shareholders' general meeting, and then answer any questions of the shareholders relating to voting by poll. The voting results will be announced after the general meeting in the manner prescribed under Rule 13.39(5) of the Listing Rules.

Corporate Governance Report

In 2014, one Annual General Meeting (“AGM”) and one Extraordinary General Meeting (“EGM”) have been held by the Company. The shareholding held by the shareholders attending the AGM and the EGM represented 51.17% and 56.18% of all the then issued shares of the Company respectively. The attendance records of Directors attending the general meetings are set out in the following table:

Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Tang Ye Guo	2	2	0	100%
Mr. Ren Li Ren (<i>Note 1</i>)	1	1	0	100%
Ms. Yu Shu Min	2	0	0	—
Mr. Lin Lan	2	0	0	—
Mr. Xiao Jian Lin (<i>Note 2</i>)	2	1	0	50%
Mr. Gan Yong He (<i>Note 3</i>)	1	0	0	—
Mr. Wang Xin Yu	2	2	0	100%
Mr. Wang Ai Guo	2	2	0	100%
Mr. Xu Xiang Yi	2	2	0	100%
Mr. Huang Xiao Jian (<i>Note 4</i>)	1	1	0	100%
Mr. Tian Ye (<i>Note 5</i>)	1	1	0	100%

Notes:

1. Mr. Ren Li Ren ceased to be a Director with effect from 27 March 2014;
2. Mr. Xiao Jian Lin ceased to be a Director with effect from 17 March 2015;
3. Mr. Gan Yong He ceased to be a Director with effect from 27 March 2014;
4. Mr. Huang Xiao Jian was appointed as a Director on 26 June 2014;
5. Mr. Tian Ye was appointed as a Director on 26 June 2014; and
6. All Directors unable to attend the general meetings in person have applied for leave in writing before the commencement of the general meetings.

Rights of Shareholders

Procedures for Shareholders to requisition the convening of shareholders’ extraordinary general meeting or class meeting

Shareholders who request the convening of a shareholders’ extraordinary general meeting or a class meeting shall comply with the following procedures:

- (1) two (2) or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign the written requisitions in one (1) or more counterparts requiring the Board to convene a shareholders’ extraordinary general meeting or a class meeting thereof and stating the object of the meeting. The written requisition shall be deposited at the Company’s registered office in China at No.8 Ronggang Road, Ronggui, Shunde, Foshan, Guangdong Province, PRC or the Company’s place of business in Hong Kong at Room 3101-3105, Singa Commercial Centre, No.148 Connaught Road West, Hogn Kong. The Board shall proceed as soon as possible to convene the shareholders’ extraordinary general meeting or class meeting thereof after the receipt of such written requisition. The number of shares held referred to above shall be calculated as of the date of the written requisitions.

Corporate Governance Report

- (2) if the Board fails to issue a notice of such a meeting within thirty (30) days after the receipt of the written requisitions, the requisitionists may themselves convene such a meeting in a manner as similar as possible to the manner in which the shareholders' meetings are convened by the Board within four (4) months after the receipt of such requisitions by the Board. Reasonable expenses incurred by the requisitionists by reason of the Board's failure to convene a meeting as requisitioned and the calling and convening of a meeting by themselves shall be borne by the Company.

Procedures by which enquiries may be made by shareholders

Shareholder requesting for information such as the Articles of Association of the Company, register of shareholders and minutes of shareholders' general meetings or inspect relevant information should provide written documentation to the Company to evidence the type and number of shares of the Company that he/she holds. Upon verification of the shareholder's identity, the Company will provide the copy as per the shareholder's request within 7 days upon receipt of reasonable charges. In addition, the shareholders can also make enquiries or suggestions by various methods such as phone, mail, site visit and internet platform. The Securities Department of the Company, whose contact details are set out below, is responsible for the day-to-day communication with shareholders.

The Securities Department, Hisense Kelon Electrical Holdings Company Limited
No. 8 Ronggang Road, Ronggui Street,
Shunde District, Foshan City, Guangdong Province,
The People's Republic of China.
Postal code: 528303
Fax number: 86-757-28361055
E-mail address: kelonsec@hisense.com

Shareholders have smooth channels to make enquiries and suggestions to the Company, and the Company also arranges designated person to respond to the relevant enquiries timely.

For voting on each resolution in a general meeting, shareholders are entitled to enquire about the content of the resolution and make recommendation in respect thereof. Speaking shareholder should first introduce his/her identity as shareholder and his/her shareholdings etc., whereas the chairman of the meeting shall respond or give explanation for such enquiry or recommendation in person or by appointing specific staff.

Procedures for putting forward proposals at shareholders' general meeting

Any shareholder(s) who hold(s), individually or jointly, 3% or more of the Company's shares shall be entitled to propose and submit in writing to the convener additional motions sixteen (16) days prior to the date of the shareholders' general meeting. The convener shall issue a supplemental notice of the general meeting within the prescribed period to announce the contents of the additional motion(s).

As regard the procedures for proposing a person for election as a Director, please refer to the procedures made available on the website of the Company at <http://www.kelon.com>.

(b) The Board of Directors

The Nomination Committee has been established under the Board. The Nomination Committee will select and make suggestions on the candidates for the positions of Directors and the selection criteria and procedures and the same will be submitted to the Board for consideration and approval, and Directors will be elected at the shareholders' general meetings. The eighth session of the Board was elected and established at the annual general meeting of the Company held on 26 June 2012 with a term of office of 3 years. During the Reporting Period, the Board comprised nine Directors, being the executive Directors Mr. Tang Ye Guo (Chairman), Mr. Xiao Jian Lin, Ms. Yu Shu Min, Mr. Lin Lan, Mr. Huang Xiao Jian and Mr. Tian Ye, and the independent non-executive Directors Mr. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo. As Mr. Xiao Jian Lin tendered his resignation on 17 March 2015 which took effect on 17 March 2015, the Board comprises 8 Directors from 17 March 2015 to the date hereof.

Board Diversity Policy

The Board has adopted a board diversity policy. The Company recognizes and embraces the benefits of having a diverse board to enhance the quality of its performance. With a view to achieving its sustainable and balanced development, the Company aims to achieve board diversity through consideration of a number of factors including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of services, and the selection of director candidates will be based on a range of diversity aspects and the final decision will be based on merits of and contribution that candidate may bring to the Board.

The Nomination Committee will review the composition of the Board under diversified perspectives and will monitor the implementation of the board diversity policy to ensure its continual effectiveness.

Members of the Board have different backgrounds with extensive experience in various fields such as science and technology, corporate management and finance and accounting. The biographies and roles of the Directors are set out on pages 33 to 34 of this annual report.

The primary duties of the Board include: convening shareholders' general meetings and reporting its work at the shareholders' general meetings, and exercising its decision-making powers as delegated by the shareholders at the general meetings with respect to matters such as the strategic development plans of the Company, establishment of the management structure, investment and financial controls, disposal of material assets, material transactions and human resources. The Board is responsible for formulating the Company's overall strategy and annual business plans, and ensuring that its production and operation is properly planned, approved, conducted and monitored. In addition, the Board is also responsible for the appointment of the members of the Operational Management and the supervision and evaluation of their performance.

The Board is also responsible for overseeing the preparation of the accounts for each fiscal period to ensure that such accounts truly and fairly reflect the Company's business operation, results and cash flow performance during that period. The Operational Management of the Company provides proper explanation and sufficient information to the Board so as to enable it to make an informed assessment of the financial information and other information submitted to it for approval. In preparing the accounts for the year ended 31 December 2014, the Directors:

- selected appropriate accounting policies;
- approved the adoption of all applicable standards as set out in the China Accounting Standards for Business Enterprises; and
- made prudent and reasonable judgments and estimates, and prepared the accounts on a going concern basis.

The Operational Management of the Company is responsible for implementing the decisions made by the Board and making its own decisions on matters relating to the Company's business operation within the scope delegated by the Board, which include: overseeing the management of the Company's production and operation, organizing and implementing the Company's annual operation and investment plans, preparing the proposal for the establishment of the Company's internal control structure, formulating the Company's basic management system and setting up the Company's basic regulations. Meanwhile, as requested by the Board, the Operational Management reports to the Board the conclusion and performance of the Company's major contracts, the use of capital and the Company's profit and loss conditions and ensures that such information is true and complete.

The Company has formulated the relevant systems in accordance with the Listing Rules and the relevant laws and regulations to remind the Directors of their obligations, including making disclosures to the regulatory authorities in a timely manner of their interests, potential conflicts of interests and changes in their personal information. Each Director also undertakes that he or she is able to devote sufficient efforts and time to the Company's affairs. The Board assesses and evaluates the performance of the Directors in carrying out their duties based on their attendance rate in the Board meetings and shareholders' general meetings as well as the opinions and suggestions put forward by them in the day-to-day work.

Corporate Governance Report

In 2014, the eighth session of the Board of the Company held 13 meetings to discuss the Company's operating results, overall strategies, investment proposals as well as operating and financial performance. The Directors attended the meetings in person or by their proxies, and their attendance records are set out in the following table:

The attendance of the meetings of the eighth session of the Board

Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Tang Ye Guo	13	13	0	100%
Mr. Ren Li Ren (<i>Note 1</i>)	4	4	0	100%
Ms. Yu Shu Min	13	13	0	100%
Mr. Lin Lan	13	13	0	100%
Mr. Xiao Jian Lin (<i>Note 2</i>)	13	13	0	100%
Mr. Gan Yong He (<i>Note 3</i>)	4	4	0	100%
Mr. Xu Xiang Yi	13	13	0	100%
Mr. Wang Xin Yu	13	13	0	100%
Mr. Wang Ai Guo	13	13	0	100%
Mr. Huang Xiao Jian (<i>Note 4</i>)	4	4	0	100%
Mr. Tian Ye (<i>Note 5</i>)	4	4	0	100%

Notes:

1. Mr. Ren Li Ren ceased to be a Director with effect from 27 March 2014;
2. Mr. Xiao Jian Lin ceased to be a Director with effect from 17 March 2015;
3. Mr. Gan Yong He ceased to be a Director with effect from 27 March 2014;
4. Mr. Huang Xiao Jian was appointed as a Director on 26 June 2014; and
5. Mr. Tian Ye was appointed as a Director on 26 June 2014.

As stipulated by the Articles of Association of the Company, all Directors should be given 14 days' notice prior to the commencement of a regular Board meeting. For an extraordinary Board meeting, 3 days' notice should be given in advance. Arrangements are also in place to ensure that all Directors are given an opportunity to include matters in the agenda for Board meetings. The secretary to the Board is responsible for providing details of a regular Board meeting (including information in relation to the meeting of each of the specialized committees of the Board) not later than 3 days prior to the commencement of the meeting to ensure all Directors are apprised of the matters to be considered in the meeting in advance. As for extraordinary Board meetings which are held by means of telecommunication at the request of the Company's management, information relevant to the meeting would be provided simultaneously to all Directors via email and facsimile and sufficient time would be given to the Directors to consider the matters. The secretary to the Board would respond to any questions raised by the Directors and take appropriate action in a timely manner to assist the Directors to ensure that the procedures of the meetings of the Board are in compliance with the applicable regulations, such as the Company Law of the People's Republic of China, the Articles of Association of the Company and the Listing Rules. Sufficient resources are available to enable Directors to discharge their duties and responsibilities, including budget for consulting fees in seeking independent professional advice. Minutes of each Board meeting and each meeting of the committees of the Board will be signed by the attending Directors and the person taking the minutes, and be kept for a term of 10 years, during which the minutes are available for Directors' inspection from time to time upon their request.

The Board is responsible for corporate governance, supervision of the management in establishment of a compliant organization structure and system, compliance with the CG Code (as defined below) and other laws and regulations in the ordinary course of management and other functions set out in code provision D.3.1 in the CG Code. During the Reporting Period, the Board and specialized committees have reviewed compliance of the Company's policies and practices on corporate governance, the training and continuous professional development of the Directors and senior management and the Company's internal control system.

Corporate Governance Report

Independent Non-Executive Directors

The Board of the Company comprises three independent non-executive Directors, accounting for one-third of the total number of Directors. The independent non-executive Directors of the Company have complied with Rules 3.10(1) and (2), Rule 3.10A and Rule 3.13 of the Listing Rules and all of them are independent of and are not connected with any of the connected persons (as defined in the Listing Rules) of the Company. The Company has received a confirmation of independence from each of the independent non-executive Directors. The term of office of Mr. Xu Xiang Yi, Mr. Wang Ai Guo and Mr. Wang Xin Yu is from 26 June 2012 to 25 June 2015.

In compliance with the relevant laws, regulations and the requirements of the Working System of Independent Non-executive Directors, the independent non-executive Directors of the Company attended the meetings of the Board and the specialized committees in a meticulous, responsible, enthusiastic and conscientious manner and brought their professionalism and expertise to a full play in the independent performance of their duties, contributing professional advice and independent judgment for significant issues under discussion for decision making.

Specialized committees of the Board of Directors

The Board has established four specialized committees, namely, the Remuneration and Appraisal Committee, the Nomination Committee, the Strategic Committee and the Audit Committee. Each committee has devised its own working rules to define its terms of reference and the procedures of performance, which have been approved by the Board.

Remuneration and Appraisal Committee

The eighth session of the Board has established the Remuneration and Appraisal Committee with specific written terms of reference. During the Reporting Period and up to the date hereof, the Remuneration and Appraisal Committee consisted of the Directors, namely, Mr. Lin Lan and Ms. Yu Shu Min, and the independent non-executive Directors, namely, Mr. Wang Ai Guo, Mr. Xu Xiang Yi and Mr. Wang Xin Yu. Mr. Xu Xiang Yi acts as the chairman of the committee.

The major duties and authority of the Remuneration and Appraisal Committee are:

- (A) to analyze the appraisal standard of the Directors and senior management and to carry out the appraisal and make recommendations based on the actual conditions of the Company;
- (B) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- (C) to make recommendations in situations where Directors or senior management accept responsibilities and resign or are proposed to be dismissed for their defaults and failure to perform their duties;
- (D) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- (E) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- (F) to make recommendations to the Board for the remuneration of independent non-executive Directors;
- (G) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- (H) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

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- (I) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;
- (J) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and
- (K) other duties provided under applicable regulatory rules and other matters authorized by the Board.

The Remuneration and Appraisal Committee may seek professional advice when necessary. No Director or any member of the senior management shall be involved in deciding his or her own remuneration. The main purpose of the remuneration policies formulated by the Remuneration and Appraisal Committee is to attract and retain Directors and senior management who faithfully and diligently discharge their duties, and who help the Company in its successful operation and the remuneration policies are therefore important to the Company. For details of the remuneration policies of the Company, please refer to page 54 of this annual report.

The Remuneration and Appraisal Committee under the Board of the Company held two meeting during the Reporting Period, and the attendance record of the members of the Remuneration and Appraisal Committee is set out below:

The attendance of the meetings of the Remuneration and Appraisal Committee under the Board

Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Ms. Yu Shu Min	2	2	0	100%
Mr. Lin Lan	2	2	0	100%
Mr. Wang Xin Yu	2	2	0	100%
Mr. Wang Ai Guo	2	2	0	100%
Mr. Xu Xiang Yi	2	2	0	100%

During the Reporting Period, the Remuneration and Appraisal Committee considered and approved:

1. the disclosure of the annual remuneration of the Directors, supervisors and senior management in the 2013 annual report;
2. the resolution in respect of the basic annual remuneration of the senior management of the Company;
3. the resolution in respect of the risk annual remuneration of senior management of the Company for the year of 2013; and
4. the opinion on the verification of matters in relation to the exercise of the share options during the first exercise period of the first share option incentive scheme of the Company.

Members of the Remuneration and Appraisal Committee confirmed that the remuneration of the Directors, supervisors and senior management during the Reporting Period are in line with the remuneration appraisal system set up by the Company and the remuneration policies have been strictly implemented. Details of the remuneration of the Directors, the supervisors and the senior management of the Company for the year ended 31 December 2014 are set out on pages 53 to 54 of this annual report.

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Nomination Committee

The eighth session of the Board of the Company has established the Nomination Committee with specific written terms of reference. During the Reporting Period and up to the date hereof, the Nomination Committee comprised three independent non-executive Directors, namely, Mr. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo, and Directors, namely, Mr. Tang Ye Guo, Mr. Ren Li Ren (till 26 March 2014) and Mr. Xiao Jian Lin (till 16 March 2015). Mr. Xu Xiang Yi acts as the chairman of the committee.

The major duties and authority of the Nomination Committee are:

- (A) to analyze the standard and process for selection of candidates for the positions of Director and senior management and make recommendations to the Board;
- (B) to extensively identify individuals qualified to become Directors and senior management;
- (C) to examine the candidate for the positions of Director and senior management and make recommendations to the Board;
- (D) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategies;
- (E) to assess the independence of the independent non-executive Directors;
- (F) to make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the chairman and the chief executive; and
- (G) other matters authorized by the Board.

During the Reporting Period, the Nomination Committee comprised five Directors, including three independent non-executive Directors, and the members of the Nomination Committee are nominated by the Chairman of the Board, one-half or more of the independent non-executive Directors or one-third or more of Directors, and are elected by the Board. The Nomination Committee shall have one chairman (convener) who should be an independent non-executive Director responsible for presiding over the work of the committee. The convener shall be elected among the committee members, and shall be reported to the Board for approval. The term of office of each member of the Nomination Committee is consistent with the term he or she serves in the Board. During the term of office, if any member of the committee ceases to be a Director, he or she shall be disqualified as a member of the committee accordingly, and the vacancy should be filled by the person elected by the Board in accordance with the requirements. The human resources department of the Company will assist the Nomination Committee in carrying out its daily work such as selection and nomination of suitable candidates.

The Nomination Committee of the Board of the Company held one meeting during the Reporting Period, and the attendance record of the members of the Nomination Committee is set out below:

The attendance of the meeting of the Nomination Committee under the Board				
Name	Number of meeting which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance Rate for the year
Mr. Tang Ye Guo	1	1	0	100%
Mr. Ren Li Ren (<i>Note 1</i>)	1	1	0	100%
Mr. Wang Xin Yu	1	1	0	100%
Mr. Wang Ai Guo	1	1	0	100%
Mr. Xu Xiang Yi	1	1	0	100%
Mr. Xiao Jian Lin (<i>Note 2</i>)	0	0	0	—

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Notes:

1. Mr. Ren Li Ren ceased to be a member of the Nomination Committee with effect from 27 March 2014; and
2. Mr. Xiao Jian Lin ceased to be a member of the Nomination Committee from 17 March 2015.

During the Reporting Period, the Nomination Committee considered and approved:

- (1) the resolution in respect of the nomination of Mr. Tian Ye as candidate of the Director of the eighth session of the Board of the Company;
- (2) the resolution in respect of the nomination of Mr. Huang Xiao Jian as candidate of the Director of the eighth session of the Board of the Company;
- (3) the resolution in respect of the nomination of Mr. Xiao Jian Lin as candidate of the president of the Company;
- (4) the resolution in respect of the nomination of Mr. Huang Xiao Jian as candidate of the vice-president of the Company.

The Nomination Committee conducts extensive searches for candidates of Directors or senior management within the Company and in the open market, etc. after considering the Company's requirements for new Directors or senior management. With the consent to nomination from the candidates, the Nomination Committee will convene the Nomination Committee meeting in accordance with relevant laws and regulations, the Articles of Association of the Company and the Terms of Reference for Nomination Committee in view of the Company's actual situation, examine the qualifications of the initial nominees according to the requirements for the position of Directors or senior management and form a resolution which would be recorded and submitted to the Board for its consideration. The Nomination Committee will provide the Board with its recommendation on the candidates for directorship together with relevant information two months before the nomination. In respect of the nomination of senior management, the Nomination Committee shall provide the Board with its recommendation on the candidates together with relevant materials one month before the nomination. During the Reporting Period, the Nomination Committee strictly implemented the nomination procedures and recommendation criteria in accordance with the nomination policy enacted.

Strategic Committee

The eighth session of the Board of the Company has established the Strategic Committee with specific written terms of reference. During the Reporting Period and up to the date hereof, the Strategic Committee of the eighth session of the Board comprised Mr. Tang Ye Guo, Ms. Yu Shu Min, Mr. Lin Lan and Mr. Xiao Jian Lin (till 16 March 2015), Mr. Ren Li Ren (till 26 March 2014) and Mr. Tian Ye (since 26 June 2014). Mr. Tang Ye Guo is the chairman of the committee.

The Strategic Committee of the Board is a specialized working organ under the Board, primarily responsible for studying and making recommendations on the long-term development strategies and the decision-making on significant investments of the Company.

During the Reporting Period, the Strategic Committee comprised five Directors, who are nominated by the Chairman of the Board, one-half or more of the independent non-executive Directors or one-third or more of all the Directors, and are elected by the Board. The committee shall have one chairman (convener), who shall be the Chairman of the Board of the Company. The term of office of each member of the Strategic Committee shall be consistent with his or her term of office with the Board, and members of the committee can be re-elected upon his or her retirement. During the term of office, if any member of the committee ceases to be a Director of the Company, he or she shall be disqualified as a member of the committee accordingly, and the vacancy should be filled by the person elected by the committee in accordance with the requirements.

Audit Committee

The Board takes ultimate responsibility for the Company's internal control system. To achieve the best corporate governance practices, the Company has established the Audit Committee to review the efficiency of the relevant systems. The Audit Committee is a specialized working organ under the Board with specific written terms of reference, and is responsible for the communication, supervision and inspection of the internal and external audit work of the Company. The Audit Committee reports to the Board and its proposals shall be submitted to the Board for approval.

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The major duties and authority of the Audit Committee are:

- (A) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditing body, and to approve the remuneration and terms of engagement of the external auditing body, and any questions of its resignation or dismissal;
- (B) to review and monitor the independence and objectivity of the external auditing body and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditing body the nature and scope of the audit and reporting obligations before the audit commences;
- (C) to develop and implement policy on engaging an external auditing body to supply non-audit services. For this purpose, “external auditing body” includes any entity that is under common control, ownership or management with the auditing body or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (D) to monitor the integrity of the Company’s financial statements and annual reports and accounts, interim reports and quarterly reports, and to review significant financial reporting judgments presented in these reports. In reviewing these reports before submission to the Board, the committee should focus particularly on:
 - 1. any changes in accounting policies and practices;
 - 2. areas involving major judgments;
 - 3. significant adjustments resulting from the audit;
 - 4. the going concern assumptions and any qualified opinions;
 - 5. compliance with accounting standards; and
 - 6. compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (E) regarding item (D) above:
 - 1. members of the committee should liaise with the Board and senior management and the committee must meet, at least twice a year, with the Company’s auditing body; and
 - 2. the committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, and it should give due consideration to any matters that have been raised by the Company’s staff responsible for the accounting and financial reporting function, compliance officer or auditing body;
- (F) to examine and review the Company’s financial controls, internal control and risk management systems;
- (G) to discuss the internal control system with management to ensure that management has performed its duty to establish an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experiences, training programmes and budget of the Company’s accounting and financial reporting function;
- (H) to research major findings of investigation on internal control matters as delegated by the Board or on its own initiative and management’s response to these findings;
- (I) where an internal audit function exists, to ensure co-ordination between the internal and external auditing bodies, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to examine, review and monitor its effectiveness;
- (J) to examine and review the Group’s financial and accounting policies and practices;

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- (K) to review the explanatory letter on audit work provided to the management by the external auditing body, any material queries raised by the auditing body to management about the accounting records, financial accounts or systems of control and management's response;
- (L) to ensure that the Board will provide a timely response to the issues raised in the explanatory letter on audit work provided to the management by the external auditing body;
- (M) to report to the Board on the matters in these terms of reference;
- (N) to audit and review the following arrangements set by the Company: the arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and the committee members of the Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (O) to act as the key representative body for overseeing the Company's relationship with the external auditing body;
- (P) to establish a whistle-blowing mechanism to pay attention to and openly handle the enquiries and complaints made by the staff, customers, suppliers and investors of the Company and social media on the truthfulness, accuracy and completeness of the financial information;
- (Q) to make recommendation regarding the establishment and modification of corporate governance mechanism and to provide effective supervision over the implementation of resolutions of the Board by senior management of the Company; and
- (R) to consider such other matters as the Board may authorize.

All members of the Audit Committee under the eighth session of the Board of the Company are independent non-executive Directors. During the Reporting Period and up to the date hereof, the Audit Committee consisted of Mr. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo. Mr. Wang Ai Guo is the chairman of the committee.

The Audit Committee of the Board of the Company held three meetings during the Reporting Period, and the attendance record of the members of the Audit Committee is set out below. All matters considered and approved at such meetings were recorded in accordance with the relevant requirements and filed for record after being reviewed and signed by all members of the Audit Committee.

The attendance of the meetings of the Audit Committee under the Board

Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Wang Xin Yu	3	3	0	100%
Mr. Wang Ai Guo	3	3	0	100%
Mr. Xu Xiang Yi	3	3	0	100%

In 2014, the Audit Committee accomplished the following major tasks:

1. having reviewed the annual, interim and quarterly financial reports of the Company;
2. having considered and approved the report on self-assessment of internal control for the year of 2013 and the final report for the audit work conducted by the auditing body for the year of 2013;
3. having considered and approved the resolution on the reappointment of Ruihua Certified Public Accountants as the auditor of the Company for the year of 2014;

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4. having reviewed the connected transactions of the Company to ensure that the connected transactions were in compliance with the principles of fairness, impartiality and transparency with sufficient protection of the medium and minority shareholders' interests;
5. having reviewed the effectiveness of the company's internal control system; and
6. having made recommendations on significant matters of the Company and reminded the senior management of the Company of the relevant risks.

(e) Supervisory Committee

The Supervisory Committee was established in accordance with the PRC laws. It independently performs its supervisory duties to protect the legal interests of shareholders, the Company and its staff from infringements. It also reviews the Company's financial positions in accordance with the relevant requirements of the Articles of Association of the Company, and oversees the discharge of duties of the Directors and the senior management of the Company.

During the Reporting Period, the eighth session of the Supervisory Committee was composed of two shareholder representative supervisors, namely Mr. Liu Zhen Shun and Ms. Gao Yu Ling and one employee representative supervisor, Mr. Zhang Jian Jun, with Mr. Liu Zhen Shun acting as the chairman of the Supervisory Committee. On 15 January 2015, the Company received the resignation from Mr. Zhang Jian Jun. Given that Mr. Zhang Jian Jun tendered his resignation as the employee representative supervisor, to ensure the normal operation of the Supervisory Committee of the Company, a meeting of the employee representatives was held and Mr. Shu Peng was elected as employee representative supervisor of the eighth session of the Supervisory Committee with effect from 15 January 2015 until the expiration of the eighth session of the Supervisory Committee (i.e. 25 June 2015).

Details of the above-mentioned supervisors' biographies are set out on pages 34 to 35 of this annual report.

II. Compliance with the CG Code

To the best knowledge and information of the Company, during the Reporting Period, the Company complied with the code provisions in the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules.

Training of the Directors

In order to enhance the level of corporate management of the Directors, the secretary to the Board of the Company continuously follows the latest regulatory requirements set out by the securities regulatory institutions, and delivers such requirements and information to the Directors, supervisors and senior management of the Company in a timely manner. At the same time, the Company has also arranged training programs for the relevant Directors, supervisors and senior management, which includes specific training sessions held by the Shenzhen Stock Exchange and China Securities Regulatory Commission Guangdong Bureau, to assist the Directors in participating in continuous professional development.

The secretary to the Board maintains records of training attended by the Directors. The training attended by each current Director during the Reporting Period is tabulated as follows:

Name	Type of training (Note)
Mr. Tang Ye Guo	a, b
Ms. Yu Shu Min	b
Mr. Lin Lan	a, b
Mr. Xiao Jian Lin	a, b
Mr. Huang Xiao Jian	b
Mr. Tian Ye	b
Mr. Wang Xin Yu	a, b
Mr. Wang Ai Guo	a, b
Mr. Xu Xiang Yi	a, b

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Notes:

- a: attending seminar(s) or training session(s)
- b: reading newspapers, journals and updates relating to the Company's business or directors' duties and responsibilities etc.

Chairman and President

The Chairman of the Board and the President of the Company are appointed by the Board. The persons who were appointed as the Chairman and the President of the Company during the Reporting Period are as follows:

POSITION	Chairman	Former President	Former President	President
NAME	Mr. Tang Ye Guo	Mr. Ren Li Ren	Mr. Xiao Jian Lin	Mr. Tian Ye
TERM OF OFFICE	26 June 2006 to 25 June 2015	27 June 2011 to 26 March 2014	27 March 2014 to 16 March 2015	17 March 2015 to 25 June 2015

The Chairman shall be responsible for presiding over the general meetings, convening and presiding over the Board meetings, ensuring that the Board is in effective proper operation to review and discuss all the significant issues in a timely and effective manner, reviewing the implementation of the Board's resolutions as well as discharging his duties as the legal representative of the Company. The President shall take charge of the management of the production and operation of the Company, and is responsible for organizing the implementation of the Board's resolutions and the Company's annual operational and investment plans and making decisions on other issues within the scope of delegation by the Board.

During the Reporting Period, the Chairman held a meeting with the independent non-executive Directors without the presence of the executive Directors.

Internal Control

During the Reporting Period, pursuant to the provisions and requirements of the "Basic Norms for Enterprise Internal Control" and its ancillary guidelines, with the objectives of enhancing the level of corporate operation and management and risk prevention ability, as well as reasonably ensuring the compliance of the Company's operation with law and regulation, the safety of assets, the truthfulness and completeness of the financial reports and relevant information, optimizing the efficiency and efficacy of operation and promoting the implementation of strategies for sustainable development by the Company, and taking into account the Company's internal control system and assessment method and on the basis of daily supervision and specific supervision of internal control, the Company has determined the scope of assessment in internal control that require emphasis, including organizational structure, development strategies, human resources, social responsibility, corporate culture, funding activities, procurement business, asset management, sales business, research and development, engineering project, guarantee business, business outsourcing, financial reporting, comprehensive budget, contract management, internal information transfer and information system, and has carried out self-assessment on the effectiveness of the Company's internal control in 2014. Conclusions were drawn in respect of the effectiveness of internal control: during the Reporting Period, the Company has established internal control for all businesses and matters included in the scope of assessment, and the internal control has been effectively executed to achieve the objectives of the Company's internal control without significant shortfalls.

The Board has reviewed the effectiveness of the internal control system during the year. During the course of the review, the Board considered that the Company had established an appropriate internal control system for the Company based on the actual situation and was not aware of any significant defect in the internal control system. In addition, the Company has engaged Ruihua Certified Public Accountants to perform independent audit on the effectiveness of the Company's internal control and an audit report on internal control has been issued. The auditor is of the view that as at 31 December 2014, the Company has maintained effective internal control related to financial reporting in accordance with "Basic Norms for Enterprise Internal Control" and the relevant requirements in all material aspects.

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III. Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules as its code for securities transactions by the Directors. After making specific enquiries to the Directors, they all confirmed that they had complied with the Model Code during their term of office.

IV. Auditor

In 2014, as considered and approved at the shareholders’ general meeting, the Company agreed to reappoint Ruihua Certified Public Accountants as the auditors of the Company for the year of 2014, and the Board was authorized to fix their remuneration. The Company agreed to pay a remuneration of approximately RMB1,800,000 and RMB700,000 to the auditors for the provision of audit services for financial reporting and internal control respectively for the year ended 31 December 2014 and bear the corresponding travel expenses.

V. Company secretary

On 26 June 2012, the Board examined and approved the appointment of Ms. Wong Tak Fong as the company secretary to assist the Company in dealing with the Listing Rules compliance matters. Ms Wong Tak Fong is the Company’s external personnel. She can contact and communicate with the secretary of the Board of the Company, Mr. Xia Feng, in her day-to-day work.

According to Rule 3.29 of the Listing Rules, Ms. Wong Tak Fong has taken no less than 15 hours of relevant professional training during the Reporting Period.

Profiles of Directors, Supervisors & Members of the Senior Management

Directors:

Mr. Tang Ye Guo, aged 52, has successively held the positions of the chief accountant, the deputy general manager, the general manager and director of 青島海信電器股份有限公司 (Hisense Electric Co., Ltd.) (“Hisense Electric”). From August 2003 to September 2005, he served as an assistant to the president and the vice president of Hisense Company Limited (“Hisense Group”), and the general manager and chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited (“Hisense Air-Conditioning”). Mr. Tang was the chairman of the board of directors of Hisense Air-Conditioning and a director of Hisense Electric and the president of the Company from September 2005 to June 2006. He has acted as the vice president of Hisense Group and chairman of the board of directors of Hisense Air-Conditioning and the chairman of the board of directors of the Company from June 2006 to April 2010. He has been the vice president and a director of Hisense Group and chairman of the board of directors of Hisense Air-Conditioning and the chairman of the board of directors of the Company since April 2010.

Ms. Yu Shu Min, aged 63, has successively served as the deputy secretary to the party committee of 青島市電子儀錶工業總公司 (Qingdao Municipal Electronics Instrument Industrial Corporation), the deputy secretary to the party committee and the vice president of Hisense Group, the general manager of Hisense Electric, the vice chairwoman of the board of directors and the chief executive officer of Hisense Group. She has been the chairwoman of the board of directors of Hisense Electric since December 1999. Ms. Yu has been the vice chairwoman of the board of directors and the president of Hisense Group since July 2001. She has been a director of the Company since June 2006.

Mr. Lin Lan, aged 57, has worked as the manager of the power system software development department of 西門子諮詢公司 (Siemens, currently known as “AMEC Limited” in the UK), the senior project manager and senior engineer of GE 動力系統公司 (GE Power Systems). Mr. Lin acted as the vice president of the Company from September 2002 to June 2006. Since July 2006, he has served as the vice president of Hisense Group. He has been a director of Hisense Electric since May 2007 and a director of Hisense Group since December 2009. He has been a director of the Company since June 2006.

Mr. Tian Ye, aged 40, has served successively as the head of the financial planning department of Hisense Electric, deputy manager of the business department of the sales company of Hisense Group, deputy manager of the financial planning department of Hisense Electric, the deputy general manager and general manager of Hisense South Africa Development Company and the deputy manager of the purchase department, manager of general manager’s office and general manager of purchase centre of Hisense Electric. He has served as the assistant to the general manager of Hisense Electric from August 2006 to March 2010, the deputy general manager of Hisense Electric from March 2010 to April 2013 and the vice president of the Company from May 2013 to March 2015. He has served as a director of the Company since June 2014. He has been the president of the Company since March 2015.

Mr. Huang Xiao Jian, aged 56, Mr. Huang has successively served as an engineer of the development department, the head of the air-conditioner design division of the research department, head of the sales management department, international marketing director and the general manager of the Company. He acted as the vice general manager of Qingdao Hisense International Marketing Holdings Co., Ltd. from February 2007 to February 2014. Mr. Huang has acted as the vice president of the Company since March 2014. He has served as a director of the Company since June 2014.

Mr. Xu Xiang Yi, aged 59, a professor of the School of Management of Shandong University, holds a Ph. D. in Law from Shandong University. He is a Ph. D. supervisor in business management. He was the Dean of the School of Management of Shandong University from January 2004 to December 2012, and is currently the head of corporate governance research centre of Shandong University. He was an independent director of Shandong Hi-speed Company Limited (listed on the Shanghai Stock Exchange) from April 2003 to April 2010, a supervisor of Shandong Hi-speed Company Limited since April 2010, an independent director of Hisense Electric (listed on the Shanghai Stock Exchange) from June 2003 to May 2009, an independent director of TonglingJingda Special Magnet Wire Co., Ltd. (listed on the Shanghai Stock Exchange) from December 2006 to January 2010, and an independent director of Shandong Demian Incorporated Company (listed on the Shenzhen Stock Exchange) from April 2010 to December 2011. He has been an independent director of Baolingbao Biology Co., Ltd. (listed on the Shenzhen Stock Exchange) from October 2007 to December 2013, and an independent director of Shandong Longji Machinery Co., Ltd. (listed on the Shenzhen Stock Exchange) from March 2008 to February 2014. He has been an independent non-executive director of the Company since June 2012.

Profiles of Directors, Supervisors & Members of the Senior Management

Mr. Wang Ai Guo, aged 50, holds a master's degree in accountancy from Tianjin Institute of Finance & Economics (天津財經學院) and a doctoral degree from the School of Management of Tianjin University (天津大學管理學院), and is a postdoctoral fellow in accountancy in Tianjin University of Finance & Economics (天津財經大學). He was an associate professor at the Faculty of Accountancy of Shandong Economics College (山東經濟學院) from 1995 to 2000, and was a professor at the Faculty of Accountancy of Shandong Economics College from 2000 to 2011. He was the dean of the School of Accountancy of Shandong University of Finance and Economics (山東財經大學) from 2011 to 2014. He is currently the dean, a professor and a Ph. D. supervisor of the School of Management of University of Jinan (濟南大學管理學院), a council member of China Appraisal Society (中國資產評估協會), a council member of Accounting Society of China, and the vice-chairman and the secretary-general of Accounting Education Committee of Accounting Society of Shandong Province (山東省會計學會會計教育專業委員會). He was an independent director of Laiwu Steel Co., Ltd (萊蕪鋼鐵股份有限公司) (listed on the Shanghai Stock Exchange) from June 2008 to February 2012 and an independent director of Shandong Zhangqiu Blower Co., Ltd. (山東省章丘鼓風機股份有限公司) (listed on the Shenzhen Stock Exchange) since July 2009 and an independent non-executive director of China Corn Oil Company Limited (中國玉米油股份有限公司) (listed on The Stock Exchange of Hong Kong Limited) since November 2009. He has been an independent director of Shandong Chenming Paper Holdings Co. Ltd (山東晨鳴紙業集團股份有限公司) (listed on the Shenzhen Stock Exchange and The Stock Exchange of Hong Kong Limited) since April 2010. He has also been an independent director of Shandong Iron and Steel Company Ltd (山東鋼鐵股份有限公司) (listed on the Shanghai Stock Exchange) since April 2012. He has served as an independent non-executive director of the Company since January 2011.

Mr. Wang Xinyu, aged 44, graduated from the University of International Business and Economics with a bachelor degree in international finance and obtained a M.B.A from the University of Chicago Booth School of Business. He served as the director of MBK Partners from October 2005 to February 2010 and he has acted as the managing director of JP Capital Investment Limited since September 2010. He was a director of Luye Pharma Group Ltd. (listed on the Singapore Stock Exchange) from August 2008 to February 2010. He has acted as an independent non-executive director of the Company since September 2011.

Mr. Xiao Jian Lin, aged 47, has successively served as the deputy head of operation centre, the head of finance centre, head of finance department, assistant to president and vice president of Hisense Group. He was the head of audit department of Hisense Group from August 2007 to January 2009. He has been the vice-president of Hisense Group from January 2008 to January 2014, the head of finance and operation management centre of Hisense Group from January 2009 to January 2014, a director of Hisense Group since January 2000 and a director of Hisense Electric since June 2008. He has been a director of Hisense Air-Conditioning since April 2009. He has served as a director of the Company from January 2011 to March 2015. He has been the president of the Company from March 2014 to March 2015.

Mr. Ren Li Ren, aged 50, has served successively as the assistant to the general manager and the vice general manager of Hisense Electric, the assistant to the general manager of Qingdao Hisense Computer Co., Ltd., the general manager of Hisense (Beijing) Electrical Co., Ltd., the general manager of Hisense (Nanjing) Electrical Co., Ltd., the general manager of Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd. and the vice general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.. From June 2006 to June 2009, he acted as the assistant to the president of the Company. From June 2009 to June 2011, he acted as the vice president of the Company. He has been the president of the Company from June 2011 to March 2014. He has been a director of Hisense Air-Conditioning since August 2011 and a director of the Company from August 2011 to March 2014.

Mr. Gan Yong He, aged 47, was previously the head of manufacturing quality department and head of central quality department of Anhui Boxihua Household Electric Appliance Co., Ltd., and the quality manager and quality director of Electrolux (China) Home Appliances Co., Ltd. He acted as the deputy general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. from June 2008 to June 2011, and has served as the vice president of the Company from June 2011 to March 2014. He has served as a director of the Company from January 2012 to March 2014.

Supervisors:

Mr. Liu Zhen Shun, aged 45. He has served as the head of the legal department and the legal director of Hisense Group. He was the deputy head of the legal affairs department, the deputy secretary of the discipline inspection committee of Hisense Group from March 2005 to June 2012. He has been the head of the legal affairs department, the deputy secretary of the discipline inspection committee of Hisense Group since July 2012. He has served as a supervisor of the Company since January 2014.

Profiles of Directors, Supervisors & Members of the Senior Management

Ms. Gao Yu Ling, aged 34, holds a master's degree in accountancy. She has served as the treasury supervisor, tax supervisor, audit supervisor, accounting supervisor and financial management supervisor of the finance centre of Hisense Electric. She was the deputy director of the finance centre of Hisense Electric from April 2012 to February 2013. She has been the deputy head of the finance and operation management department of Hisense Group from March 2013 to February 2015. She has served as a supervisor of the Company since January 2014.

Mr. Shu Peng, aged 40, holds a master degree in business administration. He has served as the deputy manager of the capital department of the Company. He was the deputy head of the finance department of the Company from May 2006 to February 2012, the deputy head of Foshan Shunde Rongsheng Plastic Co., Ltd from February 2012 to December 2012, the manager of Foshan Shunde Rongsheng Plastic Co., Ltd from December 2012 to May 2013 and the deputy head of the finance department of the Company since May 2013. He has served as a supervisor of the Company since January 2015.

Mr. Zhang Jian Jun, aged 41, holds a bachelor degree in law. He was a deputy director of the management promotion department of the domestic marketing company of the Company from March 2007 to March 2008, the deputy director of the integrated management department of the domestic marketing company of the Company from March 2008 to August 2009 and the legal counsel of the domestic marketing company of the Company from November 2009 to August 2010. He has been the head of the legal affairs department of the Company from September 2010 to December 2014. He has been a supervisor of the Company from June 2012 to January 2015.

Mr. Guo Qing Cun, aged 61, acted as a part-time lawyer in the legal advisory office in Shandong and Wenhan Law Firm (文翰律師事務所), a lecturer, associate professor and professor of Shandong University and held various positions at the university, including the deputy president of the Institute of Science, an assistant to the head of School of Management and the chief officer of the Research Centre of Technology Law and Intellectual Property Rights from 1986 to 2002. Mr. Guo was a visiting scholar of the faculty of law at Peking University in 1995. In 1998, he was nominated as a Professional Technology Talent in Shandong Province. From April 2003 to January 2004, he served as an assistant to the president of Hisense Group. From January 2004 to February 2011, he served as vice president of Hisense Group. He has served as a supervisor of the Company from December 2006 to January 2014.

Ms. Liu Jiang Yan, aged 39. She was the department head of the finance department of Qingdao Hisense Import & Export Co., Ltd. from August 2004 to March 2009, and the deputy director of the finance centre of Hisense Electric from March 2009 to June 2010. She has been the deputy director of the finance and operation management centre of Hisense Group from June 2010 to November 2012. She has been the deputy general manager of Hisense Electric since April 2013 and a supervisor of the Company from August 2012 to January 2014.

Senior Management Members:

Mr. Jia Shao Qian, aged 42, has served as a legal adviser in the corporate legal department, a supervisor of public relations in the president office, deputy manager of the president office and manager of the president office of Hisense Group. He served as chairman of the supervisory committee of Hisense Electric from June 2006 to March 2011. He has served as the vice president of the Company since January 2007.

Mr. Li Hua, aged 41, is a Certified Public Accountant. He has successively served as the deputy head of the financial planning department, deputy director of the information technology centre and head of the operation management department of Hisense Group. He has been the deputy director of the finance and operation management centre of Hisense Group from January 2009 to June 2010. He has acted as the head of the strategic development department of Hisense Group from June 2010 to February 2015. He has been the person in charge of finance and chief accountant of the Company since March 2015.

Mr. Xia Feng, aged 38, holds a master degree in management, and was previously the head of the capital operating department of Hisense Group, deputy manager of the marketing department of Hisense Air-Conditioning, and deputy manager, representative of securities affairs, manager of securities department and secretary to the board of directors of Hisense Electric. He has been the secretary to the board of directors and the head of securities department of the Company since August 2010.

Ms. Wong Tak Fong, aged 47, holds a master degree in Business Administration from the University of Bradford, the United Kingdom, and is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom, a certified tax adviser and a fellow member of the Taxation Institute of Hong Kong. She acted as the managing director of General Bright Consultants Ltd. since November 1994 to May 2014. She has been the chief financial controller of DIAMOND DRAGON FASHION LTD (星薈亞洲有限公司) since December 2010. She acted as a joint company secretary from April 2011 to June 2012 and has been the company secretary of the Company since June 2012.

Profiles of Directors, Supervisors & Members of the Senior Management

Ms. Li Jun, aged 40, is a certified public accountant and has served successively as the head of financial analysis of the finance department and the deputy head of the audit department of Hisense Group. She was the deputy director of the finance and operation management centre of Hisense Group from January 2009 to August 2012. She acted as a supervisor of the Company from June 2012 to August 2012. She has been the person in charge of finance and the chief accountant of the Company from August 2012 to March 2015

Mr. Zhang Yu Qing, aged 51, is a senior engineer. He was the head of the refrigerator manufacturing department and the chief technology officer of Suzhou Samsung Electronics Co., Ltd. from January 2003 to May 2005. He joined Hisense Group in May 2006 and has been the vice general manager of Hisense (Beijing) Electrical Co., Ltd., the deputy executive general manager of Hisense (Nanjing) Electrical Co., Ltd., the vice general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. and the general manager of Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.. Mr. Zhang was a director and the general manager of Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd. from December 2008 to April 2010. He has been the vice president of the Company from June 2009 to March 2014.

Mr. Wang Yun li, aged 41, was the deputy sales general manager of Hisense Electric from July 2006 to January 2010, deputy executive general manager of the domestic marketing company of the Company from January 2010 to October 2010, and general manager of the domestic marketing company of the Company from November 2010 to February 2012. He has been the vice president of the Company from December 2010 to March 2014.

Note: Hisense Group and Hisense Air-Conditioning mentioned in the above profiles are substantial shareholders of the company within the meaning of Part XV of the Securities and Futures Ordinance.

Report of the Directors

PRINCIPAL BUSINESSES

The Group is principally engaged in development and manufacture of such as refrigerators, air-conditioners, and domestic and overseas sales of products and provision of after-sale services.

FINAL DIVIDEND

The Group recorded net profit attributable to shareholders of the listed company of RMB672 million for the year ended 31 December 2014. The Board resolved not to pay any dividend for 2014 and not to capitalize any reserve funds (no dividend was paid by the Group for the year ended 31 December 2013).

RESERVES

Movements in the reserves of the Group during the Reporting Period are set out in Note 7 (31-34) to the financial statements.

DISTRIBUTABLE RESERVES

There was no distributable reserves of the Company as at 31 December 2014.

LIQUIDITY AND SOURCES OF FUNDS

For the year ended 31 December 2014, net cash generated from operating activities of the Group amounted to approximately RMB966 million (2013: net cash generated from operating activities amounted to approximately RMB219 million).

As at 31 December 2014, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB871 million (2013: RMB474 million), and bank loans amounting to approximately RMB254 million (2013: RMB192 million).

Total capital expenditures of the Group for the year ended 31 December 2014 amounted to approximately RMB766 million (2013: RMB566 million).

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 31 December 2014, the Group had approximately 34,560 employees, mainly comprising 5,112 technical staff, 15,674 sales representatives, 545 financial staff, 831 administrative staff and 12,398 production staff. The Group had 6 employees with a doctorate degree, 311 with a master's degree and 3,799 with a bachelor's degree. For the year ended 31 December 2014, the Group's staff payroll amounted to RMB2,483 million (corresponding period in 2013 amounting to RMB2,137 million).

EMPLOYEES' TRAINING AND REMUNERATION POLICY

Employees and people are the basis for corporate development. Leveraging on the platform provided by Hisense College, the Company has established a three-level training system, a well-rounded curriculum system and a training regulation system and actively promoted the building up of teacher resources internally and externally, so as to effectively support the development of the Company's management and technical personnel and achieve value-added human resources. Every year, the Company formulates education and training programs for the employees based on the annual operational strategy and human resources development needs.

The Company has provided 4,105 courses in total during the Reporting Period, and the number of participants reached 124,804. The courses are mainly of enterprise management type, craftsmanship and quality type, corporate culture type, manufacturing type, or technology research and development type, etc., covering employees at different levels, ranging from ground level staff responsible for work such as front-line production and marketing to senior management.

The Company adopts a position-based remuneration policy for its staff. Staff remuneration is determined by reference to the relative importance of and responsibility assumed by the position and other performance factors.

Report of the Directors

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2014, the Group's property, plant and equipment (including leasehold land held for own use), investment properties and trade receivables of approximately RMB254 million (31 December 2013: RMB192 million) were pledged as security for the Group's borrowings.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 7 (12 and 13) to the financial statements.

PENSION SCHEMES

Details of the Group's pension schemes for the year ended 31 December 2014 are set out in note 11 to the financial statements.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

Since part of the purchase and the majority of the overseas sales of the Group during the Reporting Period were denominated in foreign currency, the Group is exposed to certain risk of exchange rate fluctuation. The Group has used financial instruments such as import/export documentary bills and forward contracts for exchange rate hedging purpose.

PUBLIC FLOAT

The Directors confirm that as at 26 March 2015, based on publicly available information and to the best of their knowledge, 25% or above of the total issued share capital of the Company are held by the public. Therefore, the public float of the Company satisfies the requirement stipulated under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

AUDIT COMMITTEE

The eighth session of the audit committee of the Company has reviewed the final results announcement and report of the final results of the Group for the year ended 31 December 2014.

CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2015 will be approximately RMB443 million. The Group has sufficient funds to meet the funding requirement for capital expenditure plans and daily operations.

TRUST DEPOSITS

As at 31 December 2014, the Group did not have any trust deposits with any financial institutions in the PRC. All of the Group's deposits have been deposited in commercial banks and other financial institutions in the PRC and Hong Kong.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2014, the Group did not have any long-term bank borrowings and its cash and cash equivalents amounted to RMB871 million (2013: RMB474 million), of which more than RMB822 million are denominated in Renminbi.

As at 31 December 2014, the Group's current liabilities amounted to RMB8,861 million, non-current liabilities amounted to RMB465 million, and shareholders' equity attributable to the shareholders of the Company amounted to RMB3,458 million. Details of the Group's capital structure are set out in the financial statements which will be contained in the annual report of the Company.

GEARING RATIO

As at 31 December 2014, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 70.30% (2013: 73.92%).

Report of the Directors

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The eighth session of the Board has received a written confirmation from each of the independent non-executive Directors in respect of their independence in accordance with the requirements provided under Rule 3.13 of the Hong Kong Listing Rules. The Company considers that all the independent non-executive Directors of the eighth session of the Board meet the relevant requirements under Rule 3.13 of the Hong Kong Listing Rules and considers them to be independent.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

None of the Directors and the supervisors of the Company have a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

The Directors of the eighth session of the Board and the supervisors of the Company do not and did not directly or indirectly hold any material interests in any contract of significance of the Company or its subsidiaries subsisting during or at the end of the year 2014.

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the eighth session of the Board have reviewed the continuing connected transactions of the Group for the year 2014, and confirmed that these transactions were conducted in the ordinary course of business of the Group in accordance with the relevant agreements governing them and on normal commercial terms which were fair and reasonable and in the interest of the shareholders of the Company as a whole.

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY AUDITORS

After auditing the continuing connected transactions of the Group, the auditors of the Company confirmed that the relevant continuing connected transactions of the Group had been approved by the Board, were carried out in accordance with the Company's pricing policies pursuant to the terms of the agreements of the relevant transactions, and had not exceeded the caps disclosed in the previous announcements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in the Hong Kong Listing Rules as its code for securities transaction by Directors. After having made specific enquiries to the Directors, all Directors of the Board confirmed that they had acted in full compliance with the Model Code during their term of office.

SHARE CAPITAL STRUCTURE

As at 31 December 2014, the share capital structure of the Company was as follows:

Class of shares	Number of shares	Percentage to the total issued share capital
H shares	459,589,808	33.83%
A shares	898,905,752	66.17%
Total	1,358,495,560	100.00%

Report of the Directors

TOP TEN SHAREHOLDERS

As at 31 December 2014, there were 35,045 shareholders of the Company (the “Shareholders”) in total, of which the top ten Shareholders were as follows:

Name of Shareholder	Nature of Shareholder	No. of shares held	Percentage to the total issued shares of the Company	Percentage to the relevant class of issued shares of the Company	No. of shares held subject to trading moratorium
Qingdao Hisense Air-conditioning Company Limited	State-owned legal person	612,316,909	45.07%	68.12%	0
HKSCC Nominees Limited ^{Note 1}	Foreign legal person	459,128,768	33.80%	99.90%	0
China Huarong Asset Management Co., Ltd.	State-owned legal person	30,000,000	2.21%	3.34%	0
Zhang Shaowu	Domestic natural person	6,500,000	0.48%	0.72%	0
Zhang Yi ^{Note 4}	Domestic natural person	3,044,453	0.22%	0.34%	0
Zhang Jing Bing ^{Note 4}	Domestic natural person	2,744,721	0.20%	0.31%	0
New China Life Insurance Company Ltd — Traditional — General Insurance Product — 018L-CT001 Shen	Other	2,499,903	0.18%	0.28%	0
Ping An Life Insurance Company of China, Ltd — bonus — bank insurance bonus ^{Note 3}	Other	2,308,114	0.17%	0.26%	0
Ping An Life Insurance Company of China, Ltd — Universal — Personal Universal Insurance ^{Note 3}	Other	1,775,948	0.13%	0.20%	0
Ping An Life Insurance Company of China, Ltd — Traditional — High Interest Rate Insurance Product ^{Note 3}	Other	1,655,600	0.12%	0.18%	0

Notes:

- The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, among which, Hisense (Hong Kong) Company Limited, a party acting in concert with the controlling shareholder of the Company, increased its holding of H shares of the Company by 10,869,000H shares during the Reporting Period, representing 0.80% of the total number of shares of the Company. Hisense (Hong Kong) Company Limited is the holder of 64,869,000 H shares in total at the end of the Reporting Period, representing 4.78% of the total number of shares of the Company.
- At the end of the day falling 5 trading days prior to the date of disclosure of the annual report for A shares on 27 March 2015, there were 34,604 shareholders of the Company in total.

Report of the Directors

- Ping An Life Insurance Company of China, Ltd is the manager of Ping An Life Insurance Company of China, Ltd — bonus — bank insurance bonus, Ping An Life Insurance Company of China, Ltd – Universal – Personal Universal Insurance and Ping An Life Insurance Company of China, Ltd – Traditional – High Interest Rate Insurance Product.
- The 3,044,453 shares of the Company held by Mr. Zhang Yi, a shareholder of the Company, were held through a guaranteed security account for customer credit trading of China Securities Company Limited. The 2,676,321 shares of the Company held by Mr. Zhang Jing Bing, a shareholder of the Company, were held through a guaranteed security account for customer credit trading of GF Securities Company Limited.

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of tradable shares held	Class of shares
Qingdao Hisense Air-conditioning Company Limited	612,316,909	RMB ordinary shares
HKSCC Nominees Limited	459,128,768	Overseas listed foreign shares
China Huarong Asset Management Co., Ltd.	30,000,000	RMB ordinary shares
Zhang Shaowu	6,500,000	RMB ordinary shares
Zhang Yi	3,044,453	RMB ordinary shares
Zhang Jing Bing	2,744,721	RMB ordinary shares
New China Life Insurance Company Ltd — Traditional — General Insurance Product – 018L–CT001 Shen	2,499,903	RMB ordinary shares
Ping An Life Insurance Company of China, Ltd — bonus — bank insurance bonus	2,308,114	RMB ordinary shares
Ping An Life Insurance Company of China, Ltd — Universal — Personal Universal Insurance	1,775,948	RMB ordinary shares
Ping An Life Insurance Company of China, Ltd — Traditional — High Interest Rate Insurance Product	1,655,600	RMB ordinary shares

Note: The Company is not aware whether any of the top ten holders of tradable shares is connected with each other or any of them is a party acting in concert with any of the other nine shareholders within the meaning of 《上市公司收購管理辦法》 (Administrative Measures for the Takeover of Listed Companies).

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES

So far as is known to the Directors, supervisors and the chief executive of the Company, as at 31 December 2014, the following persons (other than the Directors, supervisors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would need to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”), or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”):

Report of the Directors

Long position or short position in the shares of the Company

Name of shareholder	Capacity	Type of shares	Number of shares held	Percentage of the respective type of shares	Percentage of the total number of shares in issue
Qingdao Hisense Air-conditioning Company Limited ^{Note 1}	Beneficial owner	A shares	612,316,909(L)	68.12%	45.07%
Qingdao Hisense Electric Holdings Company Limited ^{Note 1}	Interest of controlled corporation	A shares	612,316,909(L)	68.12%	45.07%
Hisense Company Limited ^{Note 1}	Interest of controlled corporation	A shares	612,316,909(L)	68.12%	45.07%
Hisense (Hong Kong) Company Limited ^{Note 1}	Beneficial owner	H shares	64,869,000 (L)	14.11%	4.78%
Qingdao Hisense Electric Holdings Company Limited ^{Note 1}	Interest of controlled corporation	H shares	64,869,000 (L)	14.11%	4.78%
Hisense Company Limited ^{Note 1}	Interest of controlled corporation	H shares	64,869,000 (L)	14.11%	4.78%
Prime Capital Management Company Limited ^{Note 2}	Investment manager	H shares	60,520,691 (L)	13.16%	4.45%
Citigroup Inc. ^{Note 3}	Person having security interests in shares and custodian corporation/ approved lending agent	H shares	30,181,081(L) 172,000(S) 7,150,918(P)	6.56% 0.03% 1.55%	2.22% 0.01% 0.53%

The letter “L” denotes a long position, the letter “S” denotes a short position and the letter “P” denotes lending pool.

Notes:

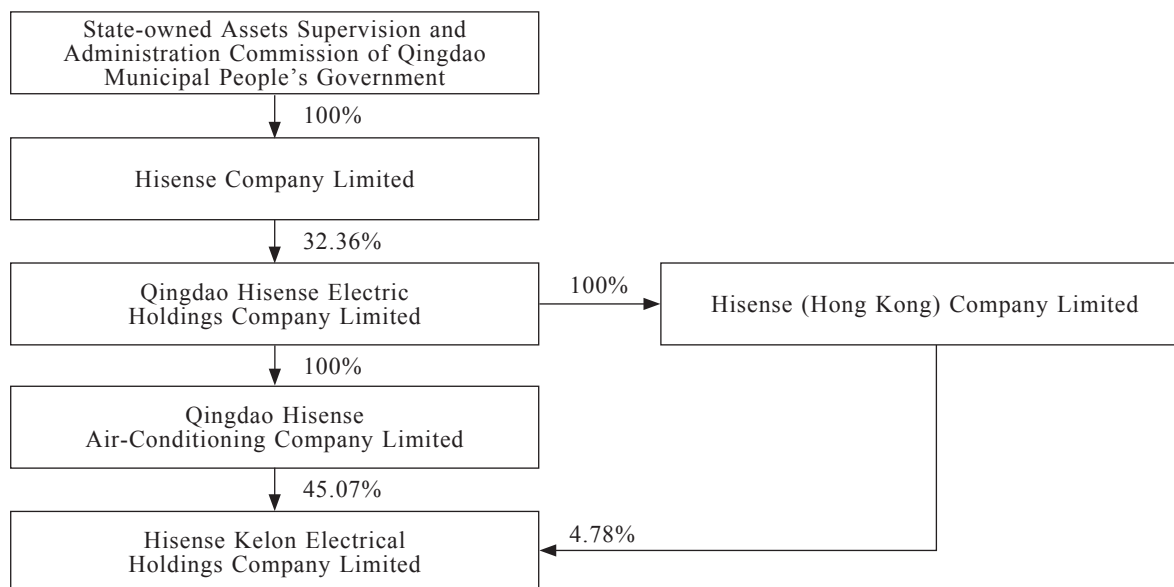
1. Qingdao Hisense Air-conditioning Company Limited is a company directly owned as to 93.33% and indirectly owned as to 6.67% by Qingdao Hisense Electric Holdings Company Limited, whereas Hisense (Hong Kong) Company Limited is a company directly owned as to 100% by Qingdao Hisense Electric Holdings Company Limited. Qingdao Hisense Electric Holdings Company Limited is in turn owned as to 32.36% by Hisense Company Limited. By virtue of the SFO, Qingdao Hisense Electric Holdings Company Limited and Hisense Company Limited were deemed to be interested in the same parcel of A shares of which Qingdao Hisense Air-conditioning Company Limited was interested and in the same parcel of H shares of which Hisense (Hong Kong) Company Limited was interested.
2. Prime Capital Management Company Limited was interested in a total of 60,520,691 H shares in the capacity of an investment manager by virtue of the SFO.
3. By virtue of the SFO, Citigroup Inc. was interested in these H shares, in which Citigroup Global Markets Limited was interested in the long position of 22,858,163 H shares; Citigroup Global Markets Hong Kong Limited was interested in the long position of 172,000 H shares and the short position of 172,000 H shares and Citibank N.A. was interested in the long position of 7,150,918 H shares. Among such interests in the H shares, Citigroup Inc. was interested in the long position of 22,857,165 H shares as person having security interests, the long position of 7,150,918 H shares as custodian corporation or approved lending agent and the long position of 172,998 H shares and the short position of 172,000 H shares as interest of controlled corporation.

Save as disclosed above, as at 31 December 2014, in so far as the Directors, supervisors and chief executive of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Report of the Directors

PARTICULARS OF THE CONTROLLING SHAREHOLDERS OF THE COMPANY

- (a) Qingdao Hisense Air-Conditioning Company Limited, the controlling shareholder of the Company, was incorporated on 17 November 1995. Its registered address is Changsha Road, Hi-tech Industrial Zone, Qingdao, the PRC and the legal representative is Mr. Tang Ye Guo and its registered capital is RMB674.79 million. Its business scope is the development and manufacture of air-conditioning products and injection moulds and the provision of after-sale repairing services for its products (Permit/licence shall be obtained for the operation of the businesses above if they fall into the requirements of licensure).
- (b) The beneficial controller of the Company is Hisense Company Limited, which was incorporated in August 1979 with its registered address at No. 17 Donghai West Road, Shinan, Qingdao. Mr. Zhou Houjian is the legal representative of Hisense Company Limited and its registered capital is RMB806.17 million. The scope of business includes: the entrusted operation of state-owned assets; the manufacture and sales of TV sets, refrigerators, freezers, washing machines, small household appliances, disc players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products and the provision of related services; the development of software and the provision of internet services; the technological development and the provision of consultation services; the self-operated import and export business (with its operation subject to the list of projects as approved by the MOFTEC); the foreign economic and technical cooperation (with its operation subject to the list of projects as approved by the MOFTEC); operation of property rights transaction and provision of brokerage and information services; provision of industrial travel agency services; provision of relevant business trainings, property management, leasing of tangible property and leasing of immovable property (Permit/licence shall be obtained for the operation of the businesses above if they fall into the requirements of licensure).
- (c) The ultimate beneficial controller of the Company is the State-owned Assets Supervision and Administration Commission of Qingdao Municipal People's Government.
- (d) Relationship between the Company and its beneficial controllers:



- (e) During the Reporting Period, there was no change in the controlling shareholders of the Company.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2014, save as disclosed below and in the sub-section "Movements of the share options during the Reporting Period" under the section headed "Summary on adoption of first share option incentive scheme and the grant thereunder", none of the members of the Board, supervisors and the chief executive of the Company held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be maintained by the Group pursuant to section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Report of the Directors

Long position in the shares of the Company

Name of Director	Nature of interest	Number of shares held	Percentage to the total issued shares of the Company	Percentage to the relevant class of issued shares of the Company
Tang Ye Guo	Beneficial owner	415,800 A shares	0.03%	0.046%
Xiao Jian Lin	Beneficial owner	273,240 A shares	0.02%	0.030%

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2014, the aggregate amount of the Group's purchases from the top five suppliers was RMB2,866 million, representing 15.28% of the total purchase amount of the Group for the year and the aggregate sales amount to the top five customers was RMB5,766 million, representing 23.66% of the total sales amount of the Group for the year. As at 31 December 2014, none of the Directors, their close associates or Shareholders who, to the knowledge of the Directors, held more than 5% of the shares in the Company, had any interest in the above suppliers or customers.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDITOR

On 26 June 2014, as considered and approved at the shareholders' general meeting, the Company agreed to re-appoint Ruihua Certified Public Accountants as the auditor of the Company for the financial year of 2014, and the Board was authorized to fix their remuneration.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association of the Company or the relevant PRC laws.

TAXATION

Pursuant to the relevant tax regulations, the Company is required to withhold and pay corporate income tax at the rate of 10% when distributing dividends to non-resident enterprise shareholders whose names appear on the H-share register of members.

SUMMARY ON ADOPTION OF FIRST SHARE OPTION INCENTIVE SCHEME AND THE GRANT THEREUNDER

(1) Purpose of the Scheme

The first share option incentive scheme (the "Scheme") was adopted by the Company on 1 August 2011. The Scheme is formulated to further refine the management structure of the Company, provide long-term rewards and retention incentives for the senior and mid-level management, key technical, sales and management personnel of the Company, fully motivate their pro-activeness and creativity, closely correlate their interests with the long term development of the Company, and allow sustainable development of the Company.

The participants include the directors of the Company (exclusive of the independent directors and external directors who are not officers of Hisense Group and its subsidiaries (other than the Company and its subsidiaries), senior management (including president, vice president, financial controller, secretary to the Board, company secretary and other officers which are regarded as senior management under the Articles of Association) of the Company, mid-level management staff of the Company and its subsidiaries, and such key technical personnel of the Company and its subsidiaries as determined by the Board.

Report of the Directors

(2) Movements of the share options during the Reporting Period

No.	Name	Position	Outstanding share options as at 1 January 2014 ('0000 shares)	Number of share options exercised during the Reporting Period ('0000 shares)	Number of share options lapsed during the Reporting Period ('0000 shares)	Number of share options cancelled during the Reporting Period ('0000 shares)	Outstanding share options as at 31 December 2014 ('0000 shares)	As a percentage of the total share capital	As a percentage of share capital of the same class (A shares)
1	Tang Ye Guo	Chairman	126	41.58	—	—	84.42	0.06%	0.09%
2	Xiao Jian Lin	Former Director, Former President	82.8 ^(Note 2)	27.324	—	—	55.476	0.04%	0.06%
3	Jia Shao Qian	Vice-President	82.8	25.806	—	—	56.994	0.04%	0.06%
4	Ren Li Ren	Former Director, former President	72 ^(Note 3)	N/A	—	—	N/A	N/A	N/A
5	Zhang Yu Qing	Former Vice-President	82.8 ^(Note 3)	N/A	—	—	N/A	N/A	N/A
6	Wang Yun Li	Former Vice-President	82.8 ^(Note 3)	N/A	—	—	N/A	N/A	N/A
7	Gan Yong He	Former Director, former Vice-President	18.1 ^(Note 3)	N/A	—	—	N/A	N/A	N/A
8	Mid level management staff and key personnel		936.9	349.371	41.61	508.41 ^(Note 4)	801.619	0.59%	0.89%
Total			1,484.2	444.081	41.61	508.41 ^(Note 4)	998.509	0.74%	1.11%

Notes:

- All share options available for issue under the Scheme have been granted.
- Mr. Xiao Jian Lin resigned from his positions as director and president respectively on 17 March 2015.
- Mr. Ren Li Ren, Mr. Zhang Yu Qing, Mr. Wang Yun Li and Mr. Gan Yong He respectively resigned from their positions as director, president and vice-president on 27 March 2014.
- The share options for subscribing 5,084,100 A Shares which were cancelled includes the share options for subscribing 4,668,000 A Shares which had lapsed on 18 October 2013.

(3) The grant date and the exercise price of the share options

The grant date of the share options is 31 August 2011 and the exercise price is RMB7.65 per share.

(4) Validity period of the share options

The validity period of the share options under the grant shall be a term of 5 years commencing from the grant date.

Report of the Directors

(5) Exercise Arrangement

The exercise of the share options under the grant is subject to a restriction period of 2 years, during which period the rights are not exercisable.

Subject to the fulfillment of the exercise conditions, the share options under the grant can be exercised in batches after the expiry of the 2-year period from the grant date according to the following exercise arrangement:

- i. 33% of the share options granted to each participant shall become exercisable on the trading day immediately after the second anniversary of the grant date (2 September 2013) until the trading day falling on the fifth anniversary of the grant date (31 August 2016);
- ii. another 33% of the share options granted to each participant shall become exercisable on the trading day immediately after the third anniversary of the grant date (1 September 2014) until the trading day falling on the fifth anniversary of the grant date (31 August 2016); and
- iii. the remaining 34% of the share options granted to each participant shall become exercisable on the trading day immediately after the fourth anniversary of the grant date (1 September 2015) until the trading day falling on the fifth anniversary of the grant date (31 August 2016).

Where the participant is a director or member of the senior management, share options of not less than 20% of the total share options granted to such participant can only be exercised after the participant has reached a pass grade or above in the performance appraisal for his/ her employment (or office).

In addition, during the validity period of the share options, the maximum gain which the participants can obtain from the share option incentives shall not exceed 40% of their remuneration level (inclusive of the gain from the share option incentives) when the share options were granted. In the event that the gain from the share option incentive exceeds the above proportion, share options which have not been exercised will not be exercised.

Unless approved in the general meeting, the aggregate number of underlying shares which may be acquired by any participant through the Scheme or other effective share option incentive schemes of the Company (if any) at any time shall not exceed 1% of the Company's total share capital of the same class, and the maximum entitlement which may be granted to a participant (including exercised, cancelled and outstanding share options) within any 12-month period shall not exceed 1% of the Company's total share capital of the same class.

(6) Determination method of exercise price

The exercise price of the grant is the higher of the following two prices: (i) the closing price of the A shares on the last trading day immediately preceding the date of the announcement of the summary of the Scheme (that is, 29 November 2010), which was RMB7.65 per share; and (ii) the average closing price of the A shares during the last 30 trading days immediately preceding the date of announcement of the summary of the Scheme, which was RMB7.37 per share. Therefore, the exercise price is RMB7.65 per share.

(7) Effect of the Company's share option incentive scheme on the financial position for the Reporting Period

In accordance with the requirements of the First Share Option Incentive Scheme of Hisense Kelon Electrical Holdings Company Limited (Revised Draft), the Company has elected to use the Black-Scholes option pricing model to calculate the fair value of the share options granted under the Scheme. According to the calculation by such pricing model, the Company recognized an expense of RMB 1 million in total in relation to this share option incentive scheme.

Report of the Directors

PARTICULARS OF MATERIAL CONNECTED TRANSACTIONS OF THE COMPANY DURING THE REPORTING PERIOD

- (I) **21 November 2013, the Company entered into the Business Co-operation Framework Agreement, Financial Services Agreement, Business Framework Agreement 1, Business Framework Agreement 2 and the Purchase Financing Agency Framework Agreement with Hisense Group, Hisense Electric, Hisense Finance, Hisense Hitachi, Hisense-Whirlpool and Hisense Hong Kong respectively.**

Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding approximately 45.07% (then owned approximately 45.22% of the issued shares of the Company as at the date of the agreement) of the issued shares of the Company and Hisense Hong Kong holds approximately 4.78% (then owned approximately 3.99% of the issued shares of the Company as at the date of the agreement) of the issued shares of the Company. As Hisense Group indirectly owns 47.90% of Hisense Air-conditioning and Hisense Hong Kong and Hisense Electric is owned as to 40.37% (then owned as to 40.43% as at the date of the agreement) by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries (including without limitation Hisense International Marketing and its subsidiaries) are connected persons of the Company according to the Hong Kong Listing Rules. Hisense Finance is a subsidiary of Hisense Group, Hisense Finance therefore is a connected person of the Company according to the Hong Kong Listing Rules. As certain directors of the Company are also senior management of Hisense Hitachi and Hisense-Whirlpool, Hisense Hitachi and Hisense-Whirlpool are connected persons of the Company according to the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange.

Details of the Business Co-operation Framework Agreement with Hisense Group and Hisense Electric, the Financial Services Agreement with Hisense Finance, Business Framework Agreement 1 with Hisense Hitachi and Business Framework Agreement 2 with Hisense-Whirlpool can be found in the announcement and the circular published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 21 November 2013 and 18 December 2013 respectively.

As Hisense Group is the beneficial controller of both Hisense Hong Kong and the Company, Hisense Hong Kong is a connected person of the Company under the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange. Hisense Hong Kong is also a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. Since the financial assistance arrangement under the Purchase Financing Agency Framework Agreement would be for the benefit of the Company on normal commercial terms where no security over the assets of the Company was to be granted in respect of the financial assistance, such arrangement was exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules. Details of the Purchase Financing Agency Framework Agreement can be found in the announcement published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 21 November 2013.

The above transactions (other than the Business Framework Agreement 1 with Hisense Hitachi and the Business Framework Agreement 2 with Hisense-Whirlpool) constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. The Company confirmed that it had complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules for the relevant connected transactions (other than the Purchase Financing Agency Framework Agreement which is exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules). Specific information of the Business Co-operation Framework Agreement and the Financial Services Agreement is set out as follows:

1. The Business Co-operation Framework Agreement with Hisense Group and Hisense Electric

On the one hand, the supply of home electrical appliances, raw materials and parts and components, equipment and moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries can help to lower the production costs of the Group as a result of the increase in production level, which in turn enhance the market competitiveness of the Group's products. At the same time, the Group can continue to develop overseas market and enhance brand competitiveness and awareness. The Group can also increase market share by selling products through the online platform of Hisense Group and Hisense Electric which reduces the product circulation links. Provision of services to Hisense Group and/or its subsidiaries will increase the income of the Group. On the other hand, taking into account the product quality, prices and services provided by Hisense Group, Hisense Electric and/or their respective subsidiaries, purchases of home electrical appliances, equipment, raw materials and parts and components from Hisense Group, Hisense Electric and/or their respective subsidiaries

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and engagement of their services can meet the manufacture needs of the Company and the development of related business, and can also help reduce costs. Hisense Marketing, a subsidiary of Hisense Group, has over 10 years' experience in overseas operations, professional expertise and mature market network and channels in overseas market. By engaging the export agency services of Hisense Group and/or its subsidiaries which will provide professional management services to the Group for its development of the international market, the Group can largely reduce costs which would have to be committed for running the operation by itself, and use the available resources on the research and development and the quality warranties for the products to be exported, which will be beneficial to the Group in enhancing the stable development of its export business at the same time. As such, the Company entered into the Business Co-operation Framework Agreement with Hisense Group and Hisense Electric, the principal terms of which are as follows:

- (1) The Business Co-operation Framework Agreement shall commence from the date of approval of the Business Co-operation Framework Agreement by the independent shareholders (that is, 10 January 2014) until 31 December 2014, which can be terminated before its expiration by mutual agreement of the parties.
- (2) Pricing for the purchase of home electrical appliances between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances from time to time. Pricing for the purchase of raw materials, equipments, parts and components between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness. Pricing for the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries is the market price determined by the open bidding process. Pricing for the provision of services between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services in the industry. The fees payable by the Group for the provision of the agency services for export for the white goods of the Group is calculated by multiplying the Group's revenue from export of the relevant type of products (which shall be the final amount of revenue for sales by the Group to third party customers in RMB) with an export agency fee percentage. Taking into consideration the audited rate of the charges actually incurred by Hisense Marketing and/or its subsidiaries for providing agency services for export to the Group for the period from March 2011 to June 2012, the rate of the charges actually incurred during the first half of 2012 (being 7.24%) shall be used as the base percentage and the corresponding profit margin for export agency services payable by the Group to Hisense Group and/or its subsidiaries shall be determined according to the growth rate of the revenue from export subject to the export agency services in 2014, pursuant to which the export agency fee percentage during the term of the Business Co-operation Framework Agreement shall also be determined as provided in the table below

Growth rate of the revenue from export subject to the export agency services	Corresponding profit margin for export agency services	Corresponding export agency fee percentage
Below 0%	0%	7.24%
0-5% (inclusive of 5%)	0.5%	7.74%
5-10% (inclusive of 10%)	0.8%	8.04%
10-15% (inclusive of 15%)	1%	8.24%
Above 15%	1.1%	8.34%

Note: Growth rate of the revenue from export subject to the export agency services = (the Group's audited revenue from export subject to the export agency services in 2014 — the Group's audited revenue from export subject to the export agency services in 2012)/the Group's audited revenue from export subject to the export agency services in 2012.

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- (3) Payment term(s) for the transactions between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto. The fees for the provision of the agency services for export of the white goods products of the Group will be calculated on a monthly basis and the relevant members of the Group should pay the monthly fee for the preceding month by way of telegraphic transfer or bills.
- (4) The annual caps under the Business Co-operation Framework Agreement are shown in the table below:

Unit: RMB (ten thousand) (exclusive value-added tax)

Types of connected transactions	Division by products or services	Connected person	Annual cap
Sale of products and materials	Sale of home electrical appliances products by the Group	Hisense Group	303,895
		Hisense Electric	85
	Sale of equipment by the Group	Hisense Group	856
	Sale of moulds by the Group	Hisense Group	25,566
Hisense Electric		9,402	
Sale of raw materials, parts and components by the Group	Hisense Group	1,625	
	Hisense Electric	1,280	
Provision of services	Provision of loading and unloading, design, equipment rental and property services by the Group	Hisense Group	687
Purchase of products and materials	Purchase of home electrical appliances products by the Group	Hisense Group	60
		Hisense Electric	51
	Purchase of raw materials, parts and components by the Group	Hisense Group	1,801
		Hisense Electric	4,997
	Purchase of equipment by the Group	Hisense Group	400
Receipt of services	Receipt of material processing, installation and maintenance, property, medical, leasing, design, inspection, agency services for import and export, property construction, management consultancy, technical support and information system maintenance by the Group	Hisense Group	11,859
		Hisense Electric	1,153
	Receipt of property and design services by the Group	Hisense Group	36,683

2. The Financial Services Agreement with Hisense Finance

The Group is expected to benefit from the rates on loans and deposits offered by Hisense Finance to the Group, which will be equal to or more favourable than those offered by the PRC commercial banks, and at the same time, Hisense Finance's better understanding of the operations of the Group which should allow the provision of more expedient and efficient services than those offered by PRC commercial banks. On the other hand, Hisense Finance is regulated by 中國銀行業監管管理委員會 (China Banking Regulatory Commission) and engages into the provision of financial services in compliance with the regulations and operation requirements issued by the relevant regulatory authorities. The primary customers of Hisense Finance are the companies within the Hisense Group. In general, as the risks exposed to Hisense Finance are less than those exposed to the financial institutions with a broad and unrestricted customer base, Hisense Finance is able to safeguard the customers' funds more effectively. As such, the Company entered into the Financial Services Agreement with Hisense Finance, the principal terms of which are as follows:

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- (1) The term of the Financial Services Agreement shall commence from the date of approval of the Financial Services Agreement by the independent shareholders (that is, 10 January 2014) until 31 December 2015, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.
- (2) The services to be provided by Hisense Finance to the Group include deposit services, loan and electronic bank acceptance bill (電子銀行承兌匯票) services, draft discount services (票據貼現服務) and settlement and sale of foreign exchange services (結售匯服務) and agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務).
- (3) The interest rate payable for the Group's deposits with Hisense Finance shall not be lower than the rate payable by normal commercial banks in the PRC for comparable deposits. The interest rate charged for the loans provided to the Group by Hisense Finance shall not be higher than the rate charged by normal commercial banks in the PRC for comparable loans. The service fees charged for the provision of electronic bank acceptance bill services by Hisense Finance for the Group shall not be higher than the standard service fees charged by normal commercial banks in the PRC for comparable services. Hisense Finance may require the Group to provide guarantee or security or pledge over assets in respect of the loan services and the electronic bank acceptance bill services rendered, depending on the then circumstances and business needs. The discount rate for the provision of draft discount services by Hisense Finance to the Group shall be determined on the basis of the rediscount rate (再貼現利率) quoted by The People's Bank of China and with reference to market level and shall not be higher than the discount rate charged by normal commercial banks in the PRC providing such services to the Group. The level of services (including the level of exchange rates) for the settlement and sale of foreign exchange at Hisense Finance shall not be worse than the level of services (including the level of exchange rates) of normal commercial banks in the PRC providing such services to the Group. The charging standard for service fees chargeable for the provision of agency services such as settlements services for receipt and payment of funds by Hisense Finance for the Group shall not be higher than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC during the corresponding period.
- (4) The maximum daily balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the cap of RMB800,000,000 (inclusive of interest) on any given day. The maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the Financial Services Agreement shall not exceed the cap of RMB2.2 billion (inclusive of interest and service fees). The annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services during the term of the Financial Services Agreement shall not exceed the cap of RMB50,000,000. The annual amount settled or sold by Hisense Finance for the Group shall not exceed the cap of US\$500,000,000. The annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務) shall not exceed the cap of RMB5,000,000.

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(II) During the Reporting Period, certain connected transactions in relation to ordinary operation have been entered into, details of which are as follows:

Connected parties	Type of connected transaction	Particulars of connected transaction	Pricing principle of connected transaction	Connected transaction amount (RMB ten thousand)	Percentage of total amount of similar transactions (%)
Hisense — Whirlpool	Purchase	Finished goods	Agreed price	43,013.37	2.07
Hisense Electric	Purchase	Finished goods	Agreed price	7.05	
Hisense Group	Purchase	Finished goods	Agreed price	228.47	0.01
Hisense — Whirlpool	Purchase	Materials	Agreed price	859.32	0.04
Hisense Hitachi	Purchase	Materials	Agreed price	623.02	0.03
Hisense Group	Purchase	Materials	Agreed price	1,667.28	0.08
Hisense Electric	Purchase	Materials	Agreed price	2,221.47	0.11
Hisense Group	Receipt of services	Receipt of services	Agreed price	39,545.39	1.90
Hisense Electric	Receipt of services	Receipt of services	Agreed price	999.70	0.05
Hisense Hong Kong	Receipt of services	Receipt of purchase financing agency services	Agreed price	21,324.41	1.03
Hisense Electric	Sale	Finished goods	Agreed price	0.47	
Hisense Hitachi	Sale	Finished goods	Agreed price	4,195.00	0.16
Hisense Group	Sale	Finished goods	Market price	178,298.76	6.72
Hisense — Whirlpool	Sale	Materials	Agreed price	1,230.04	0.05
Hisense Group	Sale	Materials	Agreed price	1,231.78	0.05
Hisense Hitachi	Sale	Materials	Agreed price	117.84	
Hisense Electric	Sale	Materials	Agreed price	59.25	
Hisense — Whirlpool	Sale	Materials	Agreed price	208.52	0.01
Hisense Group	Sale	Moulds and equipment	Agreed price	20,831.35	0.79
Hisense Hitachi	Sale	Moulds	Market price	752.31	0.03
Hisense — Whirlpool	Sale	Moulds	Market price	419.65	0.02
Hisense Electric	Sale	Moulds	Market price	7,104.20	0.27
Hisense — Whirlpool	Provision of services	Provision of services	Agreed price	297.09	0.01
Hisense Group	Provision of services	Provision of services	Agreed price	512.90	0.02

As at the end of the Reporting Period, the Company and its subsidiaries had the balance of deposit of RMB698,828,900 and interest income received of RMB3,200,300, the actual balance of loan of RMB0, balance of electronic bank acceptance bill of RMB621,484,700, interest payment for discounted notes of RMB0 and the handling fee for opening accounts for electronic bank acceptance bill of RMB995,600 with Hisense Finance. The actual amount of discounted interest for the provision of draft discount services was RMB0, the actual amount involved for the provision of settlement and sale of foreign exchange services was US\$36,377,800 and the actual service fee paid for the provision of agency services such as settlement services for receipt and payment of funds was RMB308,700.

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(III) During the Reporting Period, the Company and its connected persons (within the meaning under Chapter 14A of the Hong Kong Listing Rules) have entered into the following agreements, involving transactions between the Group and the relevant connected persons after the Reporting Period:

No.	Agreement	Counterparty to the agreement	Particulars of connected transactions	Annual cap
1	Business Co-operation Framework Agreement dated 2 December 2014	Hisense Group and Hisense Electric	Purchase of home electrical appliances by the Group Purchase of raw materials, parts and components by the Group Receipt of services by the Group Receipt of agency services for export of white goods products by the Group Supply of home electrical appliances by the Group Supply of equipment by the Group Supply of moulds by the Group Supply of raw materials, parts and components by the Group Provision of services by the Group	RMB800,000 RMB35,650,000 RMB177,120,000 RMB439,330,000 RMB2,985,280,000 RMB8,000,000 RMB350,000,000 RMB67,050,000 RMB7,190,000
2	Purchase Financing Agency Framework Agreement dated 2 December 2014	Hisense Hong Kong	Receipt of financing agency services by the Group to purchase imported raw materials, components and equipment	US\$100,000,000

The term of the Business Co-operation Framework Agreement and the Purchase Financing Agency Framework Agreement commences from the date of approval of such agreements by the independent shareholders (that is, 21 January 2015) until 31 December 2015. The relationship between the Group on one hand and Hisense Group, Hisense Electric and Hisense Hong Kong on the other hand has been disclosed above.

Details of the agreements can be found in the announcements and the circular published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 2 December 2014 and 19 December 2014 respectively.

CORPORATE GOVERNANCE CODE

To the best knowledge and information of the Company, during the Reporting Period, the Company has complied with the code provisions in the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules.

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NOTE: SUPPLEMENTARY INFORMATION AS REQUIRED BY THE HONG KONG STOCK EXCHANGE IN RELATION TO THE COMPANY'S A SHARE ANNUAL RESULTS ANNOUNCEMENT

I. Particulars of the remuneration of directors, supervisors and senior management of the Company

Name	Position	Gender	Age	Term of Office	Total remuneration received from the Company (RMB ten thousand)	Total remuneration received from shareholders' entities (RMB ten thousand)	Actual remuneration received at the end of the Reporting Period (RMB ten thousand)
Tang Ye Guo	Chairman	Male	52	2012.06.26-2015.06.25	99.97	0	99.97
Yu Shu Min	Director	Female	63	2012.06.26-2015.06.25	0	—	—
Lin Lan	Director	Male	57	2012.06.26-2015.06.25	0	—	—
Tian Ye	Director President Former Vice President	Male	40	2014.06.26-2015.06.25 2015.03.17-2015.06.25 2013.05.17-2015.03.16	137.45	0	137.45
Huang Xiao Jian	Director Vice President	Male	56	2014.06.26-2015.06.25 2014.03.27-2015.06.25	100.34	0	100.34
Xiao Jian Lin	Former Director Former President	Male	47	2012.06.26-2015.03.16 2014.03.27-2015.03.16	88.59	0	88.59
Ren Li Ren	Former Director Former President	Male	50	2012.06.26-2014.03.26 2012.06.26-2014.03.26	54.35	0	54.35
Gan Yong He	Former Director Former Vice President	Male	47	2012.06.26-2014.03.26 2012.06.26-2014.03.26	25.61	0	25.61
Xu Xiang Yi	Independent non-executive Director	Male	59	2012.06.26-2015.06.25	9	0	9
Wang Ai Guo	Independent non-executive Director	Male	50	2012.06.26-2015.06.25	9	0	9
Wang Xin Yu	Independent non-executive Director	Male	44	2012.06.26-2015.06.25	24	0	24
Liu Zhen Shun	Chairman of Supervisory Committee	Male	45	2014.01.10-2015.06.25	—	—	—
Gao Yu Ling	Supervisor	Female	34	2014.01.10-2015.06.25	—	—	—
Shu Peng	Employee Representative Supervisor	Male	39	2015.01.15-2015.06.25	26.72	0	26.72
Guo Qing Cun	Former Chairman of Supervisory Committee	Male	61	2012.06.26-2014.01.09	—	—	—

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Name	Position	Gender	Age	Term of Office	Total remuneration received from the Company (RMB ten thousand)	Total remuneration received from shareholders' entities (RMB ten thousand)	Actual remuneration received at the end of the Reporting Period (RMB ten thousand)
Liu Jiang Yan	Former Supervisor	Female	39	2012.08.15-2014.01.09	—	—	—
Zhang Jian Jun	Former Employee Representative Supervisor	Male	41	2012.06.26-2015.01.14	30.22	0	30.22
Jia Shao Qian	Vice President	Male	42	2012.06.26-2015.06.25	72.08	0	72.08
Li Hua	Person in charge of finance	Male	41	2015.03.17-2015.06.25	0	0	0
Xia Feng	Secretary to the Board	Male	38	2012.06.26-2015.06.25	36.13	0	36.13
Wong Tak Fong	Company Secretary	Female	47	2012.06.26-2015.06.25	15.84	0	15.84
Zhang Yu Qing	Former Vice President	Male	51	2012.06.26-2014.03.26	79.91	0	79.91
Wang Yun Li	Former Vice President	Male	41	2012.06.26-2014.03.26	94.27	0	94.27
Li Jun	Former Person in charge of finance	Female	40	2012.08.15-2015.03.16	82.63	0	82.63

II. The decision-making procedures and basis of determination of the remuneration of the Directors, supervisors and senior management are as follows:

- the remuneration of the Directors of the Company is determined based on suggestions made to the Board by the remuneration and appraisal committee of the Board on the basis of the duties of the Directors and the remuneration level of other listed companies in the same industry, and is subject to consideration and approval by the Board and the shareholders at general meetings;
- the remuneration of the supervisors is determined based on suggestions made by the supervisory committee on the basis of the duties of the supervisors and the remuneration level of other listed companies in the same industry and is subject to consideration and approval by the Board and the shareholders at general meetings;
- the remuneration and appraisal committee of the Board makes remuneration suggestion to the Board based on the senior management's experience, responsibilities undertaken for operation under his/her management, risk, pressure and his/her contribution to the Company, which is determined and approved by the Board. The final remuneration received by the senior management is also linked with his/her annual performance review.

The Company determines and pays the remuneration of the Directors, supervisors and senior management in accordance with the above requirements and procedures.

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III. Material litigations and arbitrations of the Company

√ Applicable □ Not Applicable

General status of the litigation (arbitration)	Amount involved (RMB ten thousand)	Whether a liability is expected to be incurred	Progress of the litigation (arbitration)	Results and effects of the litigation (arbitration)	Execution of the judgment of the litigation (arbitration)
A series of related party transactions and unusual cash flows occurred between the Greencool Companies and the Company during the period from October 2001 to July 2005. In addition, during the period, the Greencool Companies, through certain specific third party companies such as Tianjin Lixin Commercial Trading Development Company Limited, were involved in a series of unusual cash flow with the Company. The Company has instituted proceedings against the Greencool Companies for such transactions and unusual cash flows as well as the suspected fund embezzlements.	72,541.44	No	On 24 June 2014, the Company received the execution judgment of (2009) Fo Zhong Fa Zhi Zi No. 235 from the Foshan Intermediate Court, which provides the execution procedure of the above mentioned case has been concluded in accordance with the law. In July and November 2014, the Company received from the Foshan Intermediate Court a sum of approximately RMB 3,000,000 and approximately RMB9,007,000 respectively, being execution payment of the cases involving the Greencool Companies.	The effect of the cases involving Greencool Companies on the net profits attributable to shareholders of the Company during the reporting period was approximately RMB17,440,000.	As at the date hereof, the Company has not yet received execution judgment for 1 case involving Greencool Companies.

IV. Shareholdings in other listed companies held by the Company

Stock code	Stock abbreviation	Initial investment cost (RMB ten thousand)	Shareholding percentage in the company (%)	Carrying amount at the end of the period (RMB ten thousand)	Profit and loss for the Reporting Period (RMB ten thousand)	Changes in ownership interests for the Reporting Period (RMB ten thousand)
000404	Huayi Compressor	2,417.14	3.74	8,189.07	700.07	622.70

Report of the Directors

V. Particulars of guarantees

√ Applicable □ Not applicable

Unit: RMB ten thousand

External guarantee given by the Company (excluding guarantees for its subsidiaries)								
The guaranteed party	Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount	Limit on guaranteed amount	Actual effective date (date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee	Completed or not	Whether the guarantee is given for any connected party
Nil	—	—	—	—	—	—	—	—
Total limit on the amount of external guarantees approved during the Reporting Period (A1)			0	Actual amount of external guarantees during the Reporting Period (A2)				0
Total limit on the amount of external guarantees which has been approved at the end of the Reporting Period (A3)			0	Total balance of actual amount of external guarantees at the end of the Reporting Period (A4)				0

Guarantees given by the Company for its subsidiaries								
The guaranteed party	Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount	Guaranteed amount	Actual effective date (date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee	Completed or not	Whether the guarantee is given for any connected party
Guangdong Refrigerator	22 November 2013	60,000	2013-03-13	19.89	Joint liability guarantee	2013.03.13-2014.01.31	Yes	No
Guangdong Refrigerator	22 November 2013	60,000	2014-03-05	9.44	Joint liability guarantee	2014.03.05-2015.01.31	No	No
Guangdong Refrigerator	22 November 2013	60,000	2014-01-24	1,263.50	Joint liability guarantee	2014.01.24-2014.08.05	Yes	No
Guangdong Refrigerator	22 November 2013	60,000	2014-07-07	124.43	Joint liability guarantee	2014.07.07-2015.01.03	No	No
Kelon Air-conditioner	22 November 2013	30,000	2013-11-26	199.08	Joint liability guarantee	2013.11.26-2014.08.30	Yes	No
Kelon Air-conditioner	22 November 2013	30,000	2014-05-05	160.00	Joint liability guarantee	2014.05.05-2015.12.31	No	No
Kelon Air-conditioner	22 November 2013	30,000	2013-11-20	4,456.60	Joint liability guarantee	2013.11.20-2014.12.18	Yes	No
Kelon Air-conditioner	22 November 2013	30,000	2014-10-10	170.63	Joint liability guarantee	2014.10.10-2015.02.07	No	No
Home Appliances Co	22 November 2013	5,000	2013-12-20	135.41	Joint liability guarantee	2013.12.20-2014.11.13	Yes	No
Home Appliances Co	22 November 2013	5,000	2014-06-23	125.30	Joint liability guarantee	2014.06.23-2015.05.30	No	No
Home Appliances Co	22 November 2013	5,000	2014-06-20	60.00	Joint liability guarantee	2014.06.20-2016.06.11	No	No
Home Appliances Co	22 November 2013	5,000	2014-01-29	1,780.49	Joint liability guarantee	2014.01.29-2014.12.30	Yes	No
Guangdong Freezer	22 November 2013	5,000	2014-02-26	95.02	Joint liability guarantee	2014.02.26-2014.04.15	Yes	No

Report of the Directors

Guarantees given by the Company for its subsidiaries								
The guaranteed party	Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount	Guaranteed amount	Actual effective date (date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee	Completed or not	Whether the guarantee is given for any connected party
Yangzhou Refrigerator	22 November 2013	10,000	2013-05-14	163.78	Joint liability guarantee	2013.05.14-2014.08.28	Yes	No
Yangzhou Refrigerator	22 November 2013	10,000	2013-05-14	86.26	Joint liability guarantee	2013.05.14-2015.01.14	No	No
Ronsheng Plastic	22 November 2013	6,000	2013-11-25	3,049.59	Joint liability guarantee	2013.11.25-2014.12.29	Yes	No
Total limit on the amount of guarantees for subsidiaries approved during the Reporting Period (B1)			183,000	Actual amount of guarantees for subsidiaries during the Reporting Period (B2)			11,899.41	
Total limit on the amount of guarantees for subsidiaries which has been approved at the end of the Reporting Period (B3)			183,000	Total balance of actual amount of guarantees for subsidiaries at the end of the Reporting Period (B4)			736.05	
Total guaranteed amount of the Company (being the sum of the previous two major items)								
Total limit on the amount of guarantees approved during the Reporting Period (A1+B1)			183,000	Actual amount of guarantees during the Reporting Period (A2+B2)			11,899.41	
Total limit on the amount of guarantees which has been approved at the end of the Reporting Period (A3+B3)			183,000	Total balance of actual amount of guarantees at the end of the Reporting Period (A4+B4)			736.05	
Proportion of actual amount of guarantees (being A4+B4) to the net assets of the Company Including:								0.21%
Guaranteed amount provided for shareholders, beneficial controlling parties and their connected parties (C)								0
Guaranteed amount provided directly or indirectly for the guaranteed party with gearing ratio over 70% (D)								330.63
Total guaranteed amount over 50% of the net asset (E)								0
Sum of the above three guarantees (C+D+E)								330.63
Statement on possibility to assume joint liabilities for guarantees which have not expired								Nil
Description of provision of external guarantee in violation of prescribed procedures								Nil

VI. Derivatives investment

<i>Unit: RMB (in ten thousand)</i>										
Name of operators of derivatives investment	Whether or not a connected transaction	Type of derivatives investment	Initial investment of derivatives investment	Effective Date	Expiry Date	Investment at the beginning of the Reporting Period	Amount of provision for impairment (if any)	Investment at the end of the Reporting Period	Proportion of investment to the net asset of the Company at the end of the Reporting Period (%)	Actual amount of profit and loss during the Reporting Period
Bank	No	No	Forward foreign exchange contracts	278,543.31	1 January 2014	31 December 2014	278,543.31	221,160.98	63.95	(1,985.48)
Source of derivatives investment funding									Export trade payment	
Litigation involved (if applicable)									Not applicable	
Date of the announcement disclosing the approval of derivatives investment by the Board (if any)									28 March 2014	
Date of the announcement disclosing the approval of derivatives investment during shareholders' meetings (if any)									27 June 2014	

Report of the Directors

Risk analysis of positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)	<p>The derivatives business of the Company mainly represents the forward foreign exchange contracts used to avoid the risk of foreign exchange fluctuations related to the overseas sales receivables. The Company determines a reasonable range of foreign exchange rates to achieve the hedging purpose.</p> <p>The Company has formulated the “Management Measures for the Foreign Exchange Capital Business” and “the Internal Control System for Forward Foreign Exchange Capital Transactions”. The measures specifically regulate the basic principles, operation rules, risk control measures and internal controls that shall be followed when engaging in the business of foreign exchange derivatives. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.</p>
Changes in market price or product fair value of invested derivatives during the Reporting Period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of derivatives’ fair value	<p>The assessment of the fair value of the derivatives carried out by the Company mainly represents the outstanding foreign exchange forward contracts entered into by the Company and banks, which are recognized as transactional financial assets or liabilities based on the difference between the quotation of the outstanding foreign exchange forward contracts and the forward exchange rate as at the end of the period. During the Reporting Period, the Company recognized a gain on change in fair value of the derivatives of RMB-74,339,100. Investment gain amounted to RMB54,484,300, resulting in a total profits or losses of RMB-19,854,800.</p>
Explanations of any significant changes in the Company’s accounting policies and specific accounting and auditing principles on derivatives between the Reporting Period and the last reporting period	<p>During the Reporting Period, there were no material changes in the accounting policy and specific accounting and auditing principles for the Company’s derivatives business as compared to last reporting period.</p>
Specific opinions of independent directors on the derivatives investment and risk control of the Company	<p>Opinion of independent directors: Commencement of foreign exchange derivatives business by the Company was beneficial to the Company in the prevention of exchange rate fluctuation risks. The Company has devised the Internal Control System for Forward Foreign Exchange Capital Transactions to strengthen internal control and enhance the management of foreign exchange risks by the Company, and the targeted risk control measures adopted were practicable.</p>

VII. Description of changes in scope of consolidation as compared to financial report last year

Applicable Not applicable

Newly consolidated subsidiaries: Hisense (Guangdong) Air-Conditioner Co., Ltd. and Hisense (Guangdong) Mould Plastic Company Limited

During the Reporting Period, newly established Hisense (Guangdong) Air-Conditioner Company Limited and Hisense (Guangdong) Mould Plastic Company Limited were included in the scope of consolidation.

This report is published in both English and Chinese. If there is any conflict between the English and the Chinese versions, the Chinese version shall prevail.

Report of the Directors

DEFINITIONS

In the report, unless the context requires otherwise, the following terms or expressions shall have the following meanings:

“Company”, “the Company”	Hisense Kelon Electrical Holdings Company Limited
“Hisense Air-Conditioning”	Qingdao Hisense Air-Conditioning Company Limited
“Hisense Electric”	Hisense Electric Co., Ltd.
“Hisense Group”	Hisense Company Limited
“Hisense Hitachi”	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.
“Hisense-Whirlpool”	Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd.
“Hisense Finance”	Hisense Finance Company Limited
“Hisense International”	Hisense International Co., Ltd.
“Hisense Hong Kong”	Hisense (Hong Kong) Company Limited
“Guangdong Greencool”	Guangdong Greencool Enterprise Development Company Limited
“Greencool Companies”	Guangdong Greencool and other related parties
“Guangdong Refrigerator”	Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.
“Kelon Air-conditioner”	Guangdong Kelon Air-Conditioner Co., Ltd.
“Home Appliances Co”	Guangdong Hisense Home Appliances Co., Ltd.. Its former name is Guangdong Kelon Fittings Co., Ltd., which has been changed since 10 April 2014
“Guangdong Freezer”	Hisense Ronshen (Guangdong) Freezer Co., Ltd.
“Yangzhou Refrigerator”	Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.
“Ronsheng Plastic”	Foshan Shunde Rongsheng Plastic Co., Ltd.
“Huayi Compressor”	Huayi Compressor Company Limited
“Foshan Intermediate Court”	Intermediate People’s Court of Foshan City
“RMB”	Renminbi
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

Report of the Supervisory Committee

Dear Shareholders:

During the reporting period, the Supervisory Committee of Hisense Kelon Electrical Holdings Company Limited has faithfully discharged its duties to protect the lawful interests of the Company, its staff and shareholders in compliance with the relevant requirements of the Company Law of the PRC, the Listing Rules of Shenzhen Stock Exchange, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the articles of association of the Company. We would like to report to you the work of the Supervisory Committee during 2014 in accordance with the articles of association of the Company:

I. WORK OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

During the reporting period, the Supervisory Committee held a total of 5 meetings, details of which are summarized as follows:

- (1) The first meeting of the eighth session of the Supervisory Committee in 2014 was held on 10 January 2014, at which the resolution to elect Mr. Liu Zhen Shun as the chairman of the eighth session of the Supervisory Committee of the Company was considered and approved;
- (2) The second meeting of the eighth session of the Supervisory Committee in 2014 was held on 27 March 2014, at which the 2013 annual report of the Company and related matters were considered and approved ;
- (3) The third meeting of the eighth session of the Supervisory Committee in 2014 was held on 24 April 2014, at which the 2014 first quarterly report of the Company was considered and approved;
- (4) The fourth meeting of the eighth session of the Supervisory Committee in 2014 was held on 27 August 2014, at which the 2014 interim report of the Company and related matters were considered and approved;
- (5) The fifth meeting of the eighth session of the Supervisory Committee in 2014 was held on 29 October 2014, at which the 2014 third quarterly report of the Company was considered and approved.

Report of the Supervisory Committee

II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2014

(1) Operation of the Company in compliance with law

During the reporting period, the Company continued to perfect its various management systems, and the Company's decision-making processes were in compliance with law. The convening procedures, the motions and the voting procedures of the Company's shareholders' general meetings and board meetings all complied with the laws and regulations and the requirements of the articles of association of the Company. The directors and senior management were diligent and responsible, and conscientiously implemented resolutions of the shareholders' general meetings and board meetings, and have not acted in violation of the laws, regulations or articles of association of the Company or prejudiced the Company's interests during the execution of their duties in the Company.

(2) Examination of the Company's financial situation

Ruihua Certified Public Accountants has audited the Company's financial statement for the year 2014 and issued an auditor's report with standard unqualified opinion. The Supervisory Committee is of the view that the opinion expressed in the auditor's report was fair and objective and the current financial statement has truthfully reflected the state of financial condition and operating results of the Company.

(3) During the reporting period, the Company had not made any investments which were funded by capital raising activities.

(4) During the reporting period, the prices for disposal of the Company's assets were reasonable. There was neither any insider dealing nor any prejudice to the shareholders' interests or any loss of the assets of the Company.

(5) During the reporting period, the connected transactions which the Company entered into with connected parties were fair and reasonable and the prices were fairly determined without prejudicing the interests of any non-connected shareholders and the Company.

(6) Opinion of the Company's Supervisory Committee on the Company's internal control assessment report

After reviewing the Company's 2014 Internal Control Assessment Report, the Company's Supervisory Committee is of the view that:

With reference to the relevant requirements of Basic Norms for Enterprise Internal Control and the Guidelines of the Shenzhen Stock Exchange for the Standardized Operation of Companies Listed on the Main Board, the Company's existing internal control systems are basically sound and cover all levels and segments of the Company's operation, are in compliance with the requirements of the relevant laws and regulations, and suit the actual needs of the Company's operating activities. Each of the internal control systems is able to exert relatively effective control of the different segments in the Company's operation, and is capable of preventing, timely discovering and rectifying possible errors in the Company's operation process, controlling the relevant risks, protecting the safety and completeness of the Company's assets, ensuring the truthfulness, accuracy and timeliness of the accounting records and accounting information. The Company's 2014 Internal Control Assessment Report has fully, objectively and truly reflected the actual internal control situation of the Company, and we agree to the issue of the 2014 Internal Control Assessment Report by the board of directors of the Company.

Corporate Information

REGISTERED OFFICE IN CHINA

No. 8 Ronggang Road, Ronggui, Shunde,
Foshan, Guangdong Province,
The People's Republic of China.

PLACE OF BUSINESS IN HONG KONG

Room 3101-3105,
Singa Commercial Centre,
No 148 Connaught Road West,
Hong Kong

SECRETARY FOR THE BOARD OF DIRECTORS & COMPANY SECRETARY

Secretary for the Board of Directors: Xia Feng
Company Secretary: Wong Tak Fong

AUTHORIZED REPRESENTATIVES

Tang Ye Guo
Xiao Jian Lin

INVESTOR COMMUNICATION CENTRE

Hong Kong Registrars Limited
17Mth Floor, Hopewell Center,
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AUDITORS

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3-4/F, Tower 2,
No.16 Xisihuanzhong Road,
Haidian District, Beijing, PRC

LEGAL ADVISERS

China:
Guangdong Guardian Law Firm
26/F, North Tower, Yuexiu City Plaza,
445 Dongfeng Road Central, Guangzhou

Hong Kong:
Sit, Fung, Kwong & Shum
9/F., York House, The Landmark,
15 Queen's Road Central, Hong Kong

BANKERS IN CHINA

The Industrial and Commercial Bank of China
Bank of China
Bank of Communications
Agricultural Bank of China
Guangdong Development Bank
Shunde Rural Commercial Bank

BANKERS IN HONG KONG

Australia & New Zealand Bank, Hong Kong Branch
Bank of China (Hong Kong) Co., Ltd.
The Hongkong and Shanghai Banking Corporation Limited

Auditor's Report



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Rui Hua Shen Zi [2015] 95020024

To the shareholders of Hisense Kelon Electrical Holdings Company Limited:

We have audited the accompanying financial statements of Hisense Kelon Electrical Holdings Company Limited (the “Company” or “Hisense Kelon”), which comprise the consolidated and the Company’s balance sheets as at 31 December 2014, and the Company’s and consolidated income statements, the Company’s and consolidated cash flows statements and the Company’s and consolidated statements of changes in equity for 2014 and the notes to the financial statements.

I. MANAGEMENT’S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management of Hisense Kelon is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing the financial statements in accordance with Accounting Standards for Business Enterprises to achieve fair presentation of the financial statements; (2) designing, implementing and maintaining internal control that is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

II. AUDITOR’S RESPONSIBILITY

Our responsibility is to express an audit opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. China Standards on Auditing require that we comply with the Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity’s preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Report

III. AUDIT OPINION

In our opinion, the financial statements of the Company present fairly, in all material aspects, the Company's and consolidated financial position as at 31 December 2014 and the Company's and consolidated results of operations and cash flows for the year 2014 in accordance with Accounting Standards for Business Enterprises.

Ruihua Certified Public Accountants (LLP)

Beijing, the People's Republic of China

26 March 2015

Chinese Certified Public Accountant: **Hu Jia Qing**

Chinese Certified Public Accountant: **Sun Lei**

Consolidated Balance Sheets

31 December 2014

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Closing Balance	Opening Balance
Current assets:		
Cash at bank and on hand	870,663,755.12	473,787,177.54
Balances with clearing companies		
Lending capital		
Financial assets at fair value through profit or loss	162,460.00	67,115,019.35
Derivative financial assets		
Notes receivable	991,796,937.82	2,160,801,733.50
Accounts receivable	1,984,291,386.93	1,644,771,822.27
Prepayments	498,209,306.68	352,903,571.02
Insurance premium receivable		
Receivables from reinsurers		
Reserves for reinsurance contract receivable		
Interests receivable		
Dividends receivable		
Other receivables	493,051,526.66	546,337,496.66
Financial assets purchased under agreements to resell		
Inventories	2,915,921,775.81	2,496,359,854.46
Assets classified as held for sale		
Non-current assets due within one year		
Other current assets	287,019,824.65	248,628,217.20
Total current assets	8,041,116,973.67	7,990,704,892.00
Non-current assets:		
Disbursement of loans and advances		
Available-for-sale financial assets	4,000,000.00	4,000,000.00
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	1,216,043,770.20	993,500,673.77
Investment properties	31,459,416.41	33,946,307.75
Fixed assets	2,932,039,091.41	2,368,500,692.73
Construction in progress	251,551,873.15	253,977,558.18
Construction materials		
Disposal of fixed assets	134,612.95	
Productive biological assets		
Oil and gas assets		
Intangible assets	670,944,657.29	521,782,817.81
Development costs		
Goodwill		
Long-term prepaid expenses	12,690,220.43	5,001,055.07
Deferred tax assets	106,813,348.23	36,616,861.02
Other non-current assets		
Total non-current assets	5,225,676,990.07	4,217,325,966.33
Total assets	13,266,793,963.74	12,208,030,858.33

Consolidated Balance Sheets

31 December 2014

Item	Closing Balance	Opening Balance
Current liabilities:		
Short-term borrowings	253,985,142.45	191,681,513.02
Borrowings from central bank		
Receipt of deposits and deposits from other banks		
Loans from other banks		
Financial liabilities at fair value through profit or loss	7,391,136.66	4,645.00
Derivative financial liabilities		
Notes payable	1,528,195,526.41	1,391,098,638.68
Accounts payable	3,465,854,583.60	3,480,510,368.16
Advances from customers	765,881,375.85	907,031,506.85
Proceeds from disposal of financial assets under agreements to repurchase		
Handling fees and commission payable		
Employee remunerations payable	249,664,285.98	236,343,013.69
Taxes payable	174,792,592.21	86,555,036.75
Interests payable		
Dividends payable	2,067.02	9,002,067.02
Other payables	1,735,584,905.78	1,731,259,054.40
Reinsured accounts payable		
Reserves for reinsurance contract		
Customer brokerage deposits		
Securities underwriting brokerage deposits		
Liabilities classified as held for sale		
Non-current liabilities due within one year		
Other current liabilities	680,022,633.56	574,037,292.42
Total current liabilities	8,861,374,249.52	8,607,523,135.99
Non-current liabilities:		
Long-term borrowings		
Bonds payable		
Including: Preference shares		
Perpetual debts		
Long-term payables		
Long-term employee remunerations payable		
Specific payables		
Provisions	404,411,887.77	361,158,229.87
Deferred income	60,261,598.06	56,011,769.90
Deferred tax liabilities	165,600.70	
Other non-current liabilities		
Total non-current liabilities	464,839,086.53	417,169,999.77
Total liabilities	9,326,213,336.05	9,024,693,135.76

Consolidated Balance Sheets

31 December 2014

Item	Closing Balance	Opening Balance
Shareholders' equity:		
Share capital	1,358,495,560.00	1,354,054,750.00
Other equity instruments		
Including: Preference shares		
Perpetual debts		
Capital reserve	2,125,930,825.88	2,092,858,847.28
Less: Treasury shares		
Other comprehensive income	39,990,884.45	40,350,357.85
Special reserves		
Surplus reserves	145,189,526.48	145,189,526.48
General risk provisions		
Undistributed profit	(211,243,768.43)	(883,722,400.78)
Total equity attributable to shareholders of the parent	3,458,363,028.38	2,748,731,080.83
Minority interests	482,217,599.31	434,606,641.74
Total shareholders' equity	3,940,580,627.69	3,183,337,722.57
Total liabilities and shareholders' equity	13,266,793,963.74	12,208,030,858.33
Legal representative: Tang Ye Guo	Chief financial officer: Li Hua	Accounting supervisor: Yan Zhi Yong

Balance Sheets of Parent Company

31 December 2014

	<i>Unit: RMB</i>	
Item	Closing Balance	Opening Balance
Current assets:		
Cash at bank and on hand	28,279,997.40	194,913,820.28
Financial assets at fair value through profit or loss		
Derivative financial assets		
Notes receivable	21,212,318.94	2,027,916,069.94
Accounts receivable	1,728,905,969.96	670,881,711.22
Prepayment	437,314,766.27	833,406,962.27
Interests receivable		
Dividends receivable		11,000,000.00
Other receivables	834,537,438.77	1,045,453,070.00
Inventories	488,848.54	1,722,669,777.53
Assets classified as held for sale		
Non-current assets due within one year		
Other current assets		102,035,462.26
Total current assets	3,050,739,339.88	6,608,276,873.50
Non-current assets:		
Available-for-sale financial assets	4,000,000.00	4,000,000.00
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	3,722,635,609.58	3,531,519,488.35
Investment properties	12,449,817.00	13,834,076.00
Fixed assets	136,178,710.74	170,557,944.23
Construction in progress		255,384.60
Construction materials		
Disposal of fixed assets		
Productive biological assets		
Oil and gas assets		
Intangible assets	210,195,530.00	219,910,990.00
Development costs		
Goodwill		
Long-term prepaid expenses	2,347,333.36	
Deferred tax assets		
Other non-current assets		
Total non-current assets	4,087,807,000.68	3,940,077,883.18
Total assets	7,138,546,340.56	10,548,354,756.68

Balance Sheets of Parent Company

31 December 2014

Item	Closing Balance	Opening Balance
Current liabilities:		
Short-term borrowings		
Financial liabilities at fair value through profit or loss		
Derivative financial liabilities		
Notes payable		1,424,477,630.22
Accounts payable	1,540,384,205.06	2,661,630,607.61
Advances from customers	30,571,318.62	789,669,536.98
Employee remunerations payable	4,695,796.34	100,022,496.03
Taxes payable	40,194,681.98	9,829,893.36
Interests payable		
Dividends payable		
Other payables	793,873,733.58	1,931,424,623.14
Liabilities classified as held for sale		
Non-current liabilities due within one year		
Other current liabilities	484,701,272.85	427,144,578.22
Total current liabilities	2,894,421,008.43	7,344,199,365.56
Non-current liabilities:		
Long-term borrowings		
Bonds payable		
Including: Preference shares		
Perpetual debts		
Long-term payables		
Long-term employee remunerations payable		
Specific payables		
Provisions	404,411,887.77	361,158,229.87
Deferred income	32,279,217.04	34,760,406.21
Deferred tax liabilities		
Other non-current liabilities		
Total non-current liabilities	436,691,104.81	395,918,636.08
Total liabilities	3,331,112,113.24	7,740,118,001.64
Shareholders' equity:		
Share capital	1,358,495,560.00	1,354,054,750.00
Other equity instruments		
Including: Preference shares		
Perpetual debts		
Capital reserve	2,248,177,447.05	2,217,354,579.67
Less: Treasury shares		
Other comprehensive income	29,436,301.71	29,582,203.03
Special reserves		
Surplus reserves	114,580,901.49	114,580,901.49
Undistributed profit	56,744,017.07	(907,335,679.15)
Total shareholders' equity	3,807,434,227.32	2,808,236,755.04
Total liabilities and shareholders' equity	7,138,546,340.56	10,548,354,756.68

Legal representative: **Tang Ye Guo**

Chief financial officer: **Li Hua**

Accounting supervisor: **Yan Zhi Yong**

Consolidated Income Statement

For the year 2014

<i>Unit: RMB</i>		
Item	Amount for current period	Amount for previous period
I. Total operating revenue	26,534,420,935.55	24,360,021,308.47
Including: Operating revenue	26,534,420,935.55	24,360,021,308.47
Interest income		
Insurance premium earned		
Income from handling fees and commission		
II. Total operating costs	26,183,318,375.81	23,538,198,019.35
Including: Operating costs	20,784,712,962.70	19,039,837,900.27
Interest expenses		
Handling fees and commission expenses		
Refunded premiums		
Net amount of compensation payout		
Net amount of insurance contract reserves provided		
Policyholder dividend expenses		
Reinsurance premium expenses		
Business taxes and surcharges	98,323,909.43	99,639,534.69
Selling and distribution expenses	4,388,690,223.86	3,678,122,171.15
General and administrative expenses	856,931,761.63	814,452,637.11
Financial expenses	(3,966,187.82)	(27,474,387.27)
Impairment losses on assets	58,625,706.01	(66,379,836.60)
Add: Gain from changes in fair value (Loss denoted by “-”)	(74,339,051.01)	56,596,312.10
Investment income (Loss denoted by “-”)	375,501,155.02	323,689,615.01
Including: Share of profit of associates and jointly controlled entities	311,516,852.93	299,785,829.53
Foreign exchange gains (Loss denoted by “-”)		
III. Operating profits (Loss denoted by “-”)	652,264,663.75	1,202,109,216.23
Add: Non-operating income	124,362,153.94	114,840,364.46
Including: Gain on disposal of non-current assets	1,623,453.29	12,010,056.34
Less: Non-operating expenses	5,391,172.93	17,536,717.20
Including: Loss on disposal of non-current assets	3,967,010.86	11,713,968.79
IV. Total profit (Total loss denoted by “-”)	771,235,644.76	1,299,412,863.49
Less: Income tax expenses	59,725,146.29	53,618,940.95
V. Net profits (Net loss denoted by “-”)	711,510,498.47	1,245,793,922.54
Net profits attributable to shareholders of the parent	672,478,632.35	1,215,669,602.07
Profit and loss of minority interests	39,031,866.12	30,124,320.47

Consolidated Income Statement

For the year 2014

Item	Amount for current period	Amount for previous period
VI. Other comprehensive income after tax, net	(359,473.40)	19,517,764.27
Other comprehensive income after tax attributable to owners of the parent, net	(359,473.40)	19,517,764.27
A. Items not to be reclassified into profit or loss in subsequent periods		(4,298,798.14)
1. Changes arising from remeasurement of net liabilities or assets of defined benefit plan		
2. Share of other comprehensive income of the investee not to be reclassified into profit or loss under the equity method		(4,298,798.14)
B. Items to be reclassified into profit or loss in subsequent periods	(359,473.40)	23,816,562.41
1. Share of other comprehensive income of the investee to be reclassified into profit or loss under the equity method in subsequent periods	(145,901.32)	23,587,913.49
2. Gains or losses from changes in fair value of available-for-sale financial assets		
3. Gains or losses on reclassification of held-to-maturity investments as available-for-sale financial assets		
4. The effective portion of gains or losses from cash flow hedges		
5. Differences on translation of foreign currency financial statements	(213,572.08)	228,648.92
6. Others		
Other comprehensive income after tax attributable to minority interests, net		
VII. Total comprehensive income	711,151,025.07	1,265,311,686.81
Total comprehensive income attributable to shareholders of the parent	672,119,158.95	1,235,187,366.34
Total comprehensive income attributable to minority interests	39,031,866.12	30,124,320.47
VIII. Earnings per share:		
(1) Basic earnings per share	0.50	0.90
(2) Diluted earnings per share	0.50	0.90

Legal representative: **Tang Ye Guo**

Chief financial officer: **Li Hua**

Accounting supervisor: **Yan Zhi Yong**

Income Statement of Parent Company

For the year 2014

			<i>Unit: RMB</i>	
Item	Amount for current period	Amount for previous period		
I. Total operating revenue	3,697,678,120.33	15,423,216,361.55		
Less: Operating costs	2,766,141,571.10	12,121,678,413.48		
Business taxes and surcharges	35,134,769.91	57,959,862.64		
Selling and distribution expenses	311,811,541.12	2,977,239,232.30		
General and administrative expenses	40,481,244.98	47,475,414.09		
Financial expenses	(2,130,136.76)	14,707,486.54		
Impairment losses on assets	(62,556,739.39)	13,221,334.10		
Add: Gain from changes in fair value (Loss denoted by “-”)				
Investment income (Loss denoted by “-”)	339,100,658.73	343,865,847.73		
Including: Share of profit of associates and jointly controlled entities	311,516,852.93	276,450,379.99		
II. Operating profits (Loss denoted by “-”)	947,896,528.10	534,800,466.13		
Add: Non-operating income	16,926,025.43	4,723,672.17		
Including: Gain on disposal of non-current assets	64,150.61			
Less: Non-operating expenses	742,857.31	5,110,460.03		
Including: Loss on disposal of non-current assets	239,448.02	147,301.11		
III. Total profit (Total loss denoted by “-”)	964,079,696.22	534,413,678.27		
Less: Income tax expenses		7,149,676.20		
IV. Net profits (Net loss denoted by “-”)	964,079,696.22	527,264,002.07		
V. Other comprehensive income after tax, net	(145,901.32)	19,289,115.35		
A. Items not to be reclassified into profit or loss in subsequent periods		(4,298,798.14)		
1. Changes arising from remeasurement of net liabilities or assets of defined benefit plan				
2. Share of other comprehensive income of the investee not to be reclassified into profit or loss under the equity method		(4,298,798.14)		
B. Items to be reclassified into profit or loss in subsequent periods	(145,901.32)	23,587,913.49		
1. Share of other comprehensive income of the investee to be reclassified into profit or loss under the equity method in subsequent periods	(145,901.32)	23,587,913.49		
2. Gains or losses from changes in fair value of available-for-sale financial assets				
3. Gains or losses on reclassification of held-to-maturity investments as available-for-sale financial assets				
4. The effective portion of gains or losses from cash flow hedges				
5. Differences on translation of foreign currency financial statements				
6. Others				
VI. Total comprehensive income	963,933,794.90	546,553,117.42		
VII. Earnings per share:				
(1) Basic earnings per share				
(2) Diluted earnings per share				

Legal representative: **Tang Ye Guo** Chief financial officer: **Li Hua**

Accounting supervisor: **Yan Zhi Yong**

Consolidated Cash Flow Statement

For the year 2014

Item	Amount for current period	Amount for previous period
<i>Unit: RMB</i>		
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	13,458,272,981.18	12,720,006,814.03
Net increase in customer deposits and interbank deposits		
Net increase in borrowings from central bank		
Net increase in placements from other financial institutions		
Cash received from original insurance contracts		
Net cash received from reinsurance business		
Net increase in deposits and investments from policyholders		
Net increase from disposal of financial assets at fair value through profit or loss		
Cash received from interests, fees and commissions		
Net increase in placements from banks and other financial institutions		
Net increase in repurchase business capital		
Tax rebates received	759,461,588.28	680,222,674.80
Other cash received concerning operating activities	1,159,263,877.98	1,163,188,431.87
Subtotal of cash inflows from operating activities	15,376,998,447.44	14,563,417,920.70
Cash paid for purchases of commodities and receipt of services	7,165,880,178.95	8,442,872,755.59
Net increase in loans and advances to customers		
Net increase in deposits with central bank and other banks		
Cash paid for compensation under original insurance contract		
Cash paid for interests, fees and commissions		
Cash paid for policyholders' dividend		
Cash paid to and for employees	2,483,052,331.95	2,136,796,995.31
Cash paid for taxes and surcharges	947,984,920.48	952,876,720.89
Cash paid for other operating activities	3,814,090,558.19	2,812,073,099.38
Subtotal of cash outflows from operating activities	14,411,007,989.57	14,344,619,571.17
Net cash flows from operating activities	965,990,457.87	218,798,349.53
II. Cash flows from investing activities:		
Cash received from recovery of investments	88,200,000.00	73,500,000.00
Cash received from investment income	10,127,855.18	4,750,000.00
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	9,319,673.61	14,909,409.58
Net cash received from disposals of subsidiaries and other operation units		
Cash received relating to other investing activities		
Subtotal of cash inflows from investing activities	107,647,528.79	93,159,409.58
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	766,186,788.01	565,717,025.69
Cash paid for investments		
Net increase in pledge loans		
Cash paid for acquiring subsidiaries and other operation units		
Cash paid relating to other investing activities		
Subtotal of cash outflows from investing activities	766,186,788.01	565,717,025.69
Net cash flows from investing activities	(658,539,259.22)	(472,557,616.11)

Consolidated Cash Flow Statement

For the year 2014

Item	Amount for current period	Amount for previous period
III. Cash flows from financing activities:		
Cash received from capital contribution	48,566,371.50	67,210,551.74
Including: Cash contribution to subsidiaries from minority shareholders' investment	14,594,175.00	
Cash received from borrowings	1,332,590,807.75	406,785,264.38
Cash received from issuance of bonds		
Cash received relating to other financing activities		
Subtotal of cash inflows from financing activities	1,381,157,179.25	473,995,816.12
Cash paid for repayment of borrowings	1,264,519,716.22	244,645,738.20
Cash paid for distribution of dividends, profit or payment of interest expenses	26,947,098.71	15,790,611.76
Including: Dividend and profit paid to minority shareholders by subsidiaries		
Cash paid relating to other financing activities		
Subtotal of cash outflows from financing activities	1,291,466,814.93	260,436,349.96
Net cash flows from financing activities	89,690,364.32	213,559,466.16
IV. Effects of foreign exchange rate changes on cash and cash equivalents	(89,985.39)	(474,398.57)
V. Net increase in cash and cash equivalents	397,051,577.58	(40,674,198.99)
Add: Balance of cash and cash equivalents at the beginning of the period	472,987,177.54	513,661,376.53
VI. Balance of cash and cash equivalents at the end of the period	870,038,755.12	472,987,177.54

Legal representative: **Tang Ye Guo** Chief financial officer: **Li Hua**

Accounting supervisor: **Yan Zhi Yong**

Cash Flow of Parent Company

For the year 2014

Unit: RMB

Item	Amount for current period	Amount for previous period
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	3,144,437,078.13	5,547,186,231.84
Tax rebates received		16,125.89
Cash received concerning other operating activities	4,706,266,480.65	4,649,456,072.35
Subtotal of cash inflows from operation activities	7,850,703,558.78	10,196,658,430.08
Cash paid for purchases of commodities and receipt of labor services	4,018,419,419.99	7,080,037,287.04
Cash paid to and for employees	318,793,009.54	898,357,768.42
Cash paid for taxes and surcharges	312,758,318.32	570,313,096.58
Cash paid for other operating activities	3,575,499,239.76	1,722,281,355.59
Subtotal of cash outflow from operating activities	8,225,469,987.61	10,270,989,507.63
Net cash flows from operating activities	(374,766,428.83)	(74,331,077.55)
II. Cash flow from investing activities:		
Cash received from recovery of investments	145,730,000.00	73,500,000.00
Cash received from investment income	32,005,136.18	33,080,018.20
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	154,932.27	247,851.86
Net cash received from disposals of subsidiaries and other operation units		
Cash received relating to other investing activities		
Subtotal of cash inflows from investing activities	177,890,068.45	106,827,870.06
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	3,729,659.00	5,495,402.80
Cash paid for investments		175,000,000.00
Net cash paid for acquisition of subsidiaries and other operation units		
Cash paid relating to other investing activities		
Subtotal of cash outflows from investing activities	3,729,659.00	180,495,402.80
Net cash flows from investing activities	174,160,409.45	(73,667,532.74)
III. Cash flows from financing activities:		
Cash received from capital contribution	33,972,196.50	
Cash received from borrowings		
Cash received from issuance of bonds		
Cash received relating to other financing activities		
Subtotal of cash inflows from financing activities	33,972,196.50	
Cash paid for repayment of borrowings		
Cash paid for distribution of dividends, profit or payment of interest expenses		
Cash paid relating to other financing activities		
Subtotal of cash outflows from financing activities		
Net cash flows from financing activities	33,972,196.50	
IV. Effects of foreign exchange rate changes on cash and cash equivalents		
V. Net increase in cash and cash equivalents	(166,633,822.88)	(147,998,610.29)
Add: Balance of cash and cash equivalents at the beginning of the period	194,913,820.28	342,912,430.57
VI. Balance of cash and cash equivalents at the end of the period	28,279,997.40	194,913,820.28

Legal representative: Tang Ye Guo Chief financial officer: Li Hua

Accounting supervisor: Yan Zhi Yong

Consolidated Statement of Changes in Owners' Equity

For the year 2014

Amount for current period

Unit: RMB

Item	Current period										General risk provisions	Undistributed profits	Minority interests	Total owners' equity
	Attributable to the owners of the parent				Other									
	Share capital	Preference shares	Perpetual debts	Others	Capital reserve	Treasury shares	Less: comprehensive income	Special reserves	Surplus reserves					
I. Closing balance of previous year	1,354,054,750.00				2,092,858,847.28		40,350,357.85		145,189,526.48		(883,722,400.78)	434,606,641.74	3,183,337,722.57	
Add: Changes in accounting policies														
Correction for error in previous period														
Business combination involving entities under common control														
Other														
II. Opening balance for the year	1,354,054,750.00				2,092,858,847.28		40,350,357.85		145,189,526.48		(883,722,400.78)	434,606,641.74	3,183,337,722.57	
III. Movements in the current period														
(Decreases denoted in "-")	4,440,810.00				33,071,978.60		(359,473.40)				672,478,632.35	47,610,957.57	757,242,905.12	
(1) Total comprehensive income							(145,901.32)				672,478,632.35	39,031,866.12	711,364,597.15	
(2) Owners' contributions														
and capital reductions	4,440,810.00				33,071,978.60							11,522,966.00	49,035,754.60	
1. Ordinary shares contributed by owners	4,440,810.00				35,022,063.86							11,522,966.00	50,985,839.86	
2. Capital contributions by holders of other equity instruments														
3. Amount of share-based payment included in owners' equity					(1,950,085.26)								(1,950,085.26)	
4. Other														
(3) Profit Distribution												(2,943,874.55)	(2,943,874.55)	
1. Appropriations to surplus reserve														
2. Appropriations to general risk provisions														
3. Distribution to owners (or shareholders)												(2,943,874.55)	(2,943,874.55)	
4. Other														
(4) Transfer of owners' equity														
1. Transfer to capital (or share capital) from capital reserve														
2. Transfer to capital (or share capital) from surplus reserve														
3. Surplus reserves for making up losses														
4. Other														
(5) Special reserves														
1. Provided during the period														
2. Used during the period														
(6) Other													(213,572.08)	
IV. Closing balance for the period	1,358,495,560.00				2,125,930,825.88		39,990,884.45		145,189,526.48		(211,243,768.43)	482,217,599.31	3,940,580,627.09	

Legal representative: **Tang Ye Guo**

Chief financial officer: **Li Hua**

Accounting supervisor: **Yan Zhi Yong**

Consolidated Statement of Changes in Owners' Equity

For the year 2014

Amount for previous period

Unit: RMB

Item	Previous period										General risk provisions	Undistributed profits	Minority interests	Total owners' equity
	Attributable to the owners of the parent													
	Other equity instruments			Less: Treasury shares			Other comprehensive income		Surplus reserves					
	Share capital	Preference shares	Perpetual debts	Others	Capital reserve	Treasury shares	Special reserves	Surplus reserves	General risk provisions	Undistributed profits	Minority interests	Total owners' equity		
I. Closing balance for previous year	1,354,054,750.00				2,091,357,299.28		20,832,593.58	145,189,526.48		(2,099,392,002.85)	361,165,845.47	1,873,208,011.96		
Add: Changes in accounting policies														
Correction for error in previous period														
Business combination involving entities under common control														
Other														
II. Opening balance for the year	1,354,054,750.00				2,091,357,299.28		20,832,593.58	145,189,526.48		(2,099,392,002.85)	361,165,845.47	1,873,208,011.96		
III. Movements in the current period														
(Decreases denoted in "-")					1,501,548.00		19,517,764.27			1,215,669,602.07	73,440,796.27	1,310,129,710.61		
(1) Total comprehensive income							(3,817,685.27)			1,215,669,602.07	30,124,320.47	1,241,976,237.27		
(2) Owners' contributions and capital reductions					1,501,548.00						67,193,000.00	68,694,548.00		
1. Ordinary shares contributed by owners											67,193,000.00	67,193,000.00		
2. Capital contributions by holders of other equity instruments														
3. Amount of share-based payment included in owners' equity					1,501,548.00							1,501,548.00		
4. Other														
(3) Profit Distribution											(23,876,524.20)	(23,876,524.20)		
1. Appropriations to surplus reserve														
2. Appropriations to general risk provisions														
3. Distribution to owners (or shareholders)											(23,876,524.20)	(23,876,524.20)		
4. Other														
(4) Transfer of owners' equity														
1. Transfer to capital (or share capital) from capital reserve														
2. Transfer to capital (or share capital) from surplus reserve														
3. Surplus reserves for making up losses														
4. Other														
(5) Special reserves														
1. Provided during the period														
2. Used during the period														
(6) Other							23,335,449.54					23,335,449.54		
IV. Closing balance for the period	1,354,054,750.00				2,092,858,847.28		40,350,357.85	145,189,526.48		(883,722,400.78)	434,606,641.74	3,183,337,722.57		

Legal representative: **Tang Ye Guo** Chief financial officer: **Li Hua**

Accounting supervisor: **Yan Zhi Yong**

Statement of Changes in Owners' Equity of the Parent Company

For the year 2014

Amount for current period

Unit: RMB

Item	Share capital	Other equity instruments		Others	Current period		Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Total owners' equity
		Preference shares	Perpetual debts		Less: Treasury shares	Capital reserve					
I. Closing balance in previous year	1,354,054,750.00				2,223,601,333.16				114,580,901.49	(884,000,229.61)	2,808,236,755.04
Add: Changes in accounting policies					(6,246,753.49)		29,582,203.03			(23,335,449.54)	
Correction for error in previous period											
Other											
II. Opening balance for the year	1,354,054,750.00				2,217,354,579.67		29,582,203.03		114,580,901.49	(907,335,679.15)	2,808,236,755.04
III. Movements in the current period											
(Decreases denoted in "-")	4,440,810.00				30,822,867.38		(145,901.32)			964,079,696.22	999,197,472.28
(1) Total comprehensive income							(145,901.32)			964,079,696.22	963,933,794.90
(2) Owners' contributions											
and capital reductions	4,440,810.00				30,822,867.38						35,263,677.38
1. Ordinary shares contributed by owners	4,440,810.00				32,772,952.64						37,213,762.64
2. Capital contributions by holders of other equity instruments											
3. Amount of share-based payment included in owners' equity					(1,950,085.26)						(1,950,085.26)
4. Other											
(3) Profit Distribution											
1. Appropriations to surplus reserve											
2. Distribution to owners (or shareholders)											
3. Other											
(4) Transfer of owners' equity											
1. Transfer to capital (or share capital) from capital reserve											
2. Transfer to capital (or share capital) from surplus reserve											
3. Surplus reserves for making up losses											
4. Other											
(5) Special reserves											
1. Provided during the period											
2. Used during the period											
(6) Other											
IV. Closing balance for the period	1,358,495,560.00				2,248,177,447.05		29,436,301.71		114,580,901.49	56,744,017.07	3,807,434,227.32

Statement of Changes in Owners' Equity of the Parent Company

For the year 2014

Amount for previous period

Unit: RMB

Item	Share capital	Other equity instruments			Previous period		Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Total owners' equity
		Preference shares	Perpetual debts	Others	Capital reserve	Less: Treasury shares					
I. Closing balance in previous year	1,354,054,750.00				2,226,146,119.35			114,580,901.49	(1,434,599,681.22)	2,260,182,089.62	
Add: Changes in accounting policies					(10,293,087.68)		10,293,087.68				
Correction for error in previous period											
Other											
II. Opening balance for the year	1,354,054,750.00				2,215,853,031.67		10,293,087.68	114,580,901.49	(1,434,599,681.22)	2,260,182,089.62	
III. Movements in the current period											
(Decreases denoted in "-")					1,501,548.00		19,289,115.35		527,264,002.07	548,054,665.42	
(1) Total comprehensive income							19,289,115.35		527,264,002.07	546,553,117.42	
(2) Owners' contributions and capital reductions					1,501,548.00					1,501,548.00	
1. Ordinary shares contributed by owners											
2. Capital contributions by holders of other equity instruments											
3. Amount of share-based payment included in owners' equity					1,501,548.00					1,501,548.00	
4. Other											
(3) Profit Distribution											
1. Appropriations to surplus reserve											
2. Distribution to owners (or shareholders)											
3. Other											
(4) Transfer of owners' equity											
1. Transfer to capital (or share capital) from capital reserve											
2. Transfer to capital (or share capital) from surplus reserve											
3. Surplus reserves for making up losses											
4. Other											
(5) Special reserves											
1. Provided during the period											
2. Used during the period											
(6) Other											
IV. Closing balance for the period	1,354,054,750.00				2,217,354,579.67		29,582,203.03	114,580,901.49	(907,335,679.15)	2,808,236,755.04	

Legal representative: **Tang Ye Guo** Chief financial officer: **Li Hua**

Accounting supervisor: **Yan Zhi Yong**

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

1. COMPANY PROFILE

Hisense Kelon Electrical Holdings Company Limited (hereinafter referred to as the “Company”) , formerly known as Guangdong Shunde Pearl River factory (廣東順德珠江冰箱廠) was established in 1984 . After the restructuring into a joint stock limited company in December 1992, the Company was renamed as Guangdong Kelon Electrical Holdings Company Limited. The Company’s 459,589,808 overseas listed public shares (the “H Shares”) were listed on The Stock Exchange of Hong Kong Limited on 23 July 1996. In 1998, the Company obtained the approval to issue 110,000,000 domestic shares (the “A Shares”), which were listed on the Shenzhen Stock Exchange on 13 July 1999.

In October 2001 and March 2002, the former single largest shareholder of the Company, Guangdong Kelon (Ronshen) Group Company Limited (hereinafter referred to as “Ronshen Group”, which previously held 34.06% interest in the Company) entered into a share transfer agreement and a supplemental agreement with Shunde Greencool Enterprise Development Company Limited (which was renamed as “Guangdong Greencool Enterprises Development Company Limited in 2004, hereinafter referred to as “Guangdong Greencool”), in connection with the transfer of 20.64% of the total share capital of the Company to Guangdong Greencool by Ronshen Group. In April 2002, Ronshen Group transferred its shareholding of 6.92%, 0.71% and 5.79% of the total share capital of the Company to Shunde Economic Consultancy Company, Shunde Dong Heng Development Company Limited and Shunde Xin Hong Enterprise Company Limited, respectively. After the abovementioned share transfers, Ronshen Group, the former single largest shareholder of the Company, no longer held shares of the Company.

On 14 October 2004, 5.79% of the total share capital of the Company held by Shunde Xin Hong Enterprise Company was transferred to Guangdong Greencool. Upon completion of the share transfer, the percentage of total share capital of the Company held by Guangdong Greencool increased to 26.43%.

On 13 December 2006, 26.43% of the total share capital of the Company held by Guangdong Greencool Enterprises Development Company Limited was transferred to Qingdao Hisense Air-Conditioning Company Limited (“Qingdao Hisense Air-Conditioning”). Upon completion of the share transfer, Guangdong Greencool, the former single largest shareholder of the Company, no long held shares of the Company.

The Company’s share reform scheme was approved on the A shareholders’ meeting on 29 January 2007 and approved by the Ministry of Commerce of the PRC on 22 March 2007. The shareholding of Qingdao Hisense Air-Conditioning, the largest shareholder of the Company, was changed to 23.63% after the scheme. Since 2008, Qingdao Hisense Air-Conditioning has successively increased the shareholding of the Company through secondary market. At the end of 2009, Qingdao Hisense Air-Conditioning held 25.22% of the total share capital of the Company.

On 20 June 2007, the name of the Company was changed from “Guangdong Kelon Electrical Holdings Company Limited” to “Hisense Kelon Electrical Holdings Company Limited”.

In accordance with the resolutions of the fourth interim general meeting of the Company held on 31 August 2009, and as approved by China Securities Regulatory Commission with the “Letter of Reply Concerning the Approval for the Major Asset Restructuring of Hisense Kelon Electrical Holdings Company Limited and the Acquisition of Assets through Issuance of Shares to Qingdao Hisense Air-Conditioning Company Limited (Zheng Jian Xu Ke [2010] No. 329)”, and the “Letter of Reply Concerning the Approval for the Announcement by Qingdao Hisense Air-Conditioning Company Limited of the Acquisition Report of Hisense Kelon Electrical Holdings Company Limited and the Waiver of its General Offer Obligation (Zheng Jian Xu Ke [2010] No. 330)” dated 23 March 2010, the Company was permitted to issue 362,048,187 ordinary shares (A shares) in Renminbi to Qingdao Hisense Air-conditioning (as a specific party), to fund the acquisition of 100% equity interests in Hisense (Shandong) Air-Conditioner Co., Ltd., 51% equity interests in Hisense (Zhejiang) Air-Conditioner Co., Ltd., 49% equity interests in Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. (“Hisense Hitachi”), 55% equity interests in Hisense (Beijing) Electrical Co., Ltd., 78.70% equity interests in Qingdao Hisense Mould Co., Ltd. and the white goods marketing businesses and assets including refrigerators and airconditioners of Qingdao Hisense Marketing Co., Ltd. (“Hisense Marketing”).

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

1. COMPANY PROFILE *(continued)*

In 2010, the connected transaction in relation to the acquisition of assets by way of share (A share) issue by the Company to a specific party was completed, and the Company issued 362,048,187 additional A shares to Qingdao Hisense Air-Conditioning under seasoned offering. The new shares were listed on 10 June 2010. On 30 June 2010, the registered capital of the Company changed from RMB992,006,563.00 to RMB1,354,054,750.00

On 18 June 2013, 612,221,909 restricted A shares of the Company held by Qingdao Hisense Air Conditioning were no longer subject to selling moratorium and were listed for trading.

On 23 May 2014, upon the satisfaction of the conditions to the first exercise period of the First Share Option Incentive Scheme of the Company and after approval by and registration with the Shenzhen branch of China Government Securities Depository Trust & Clearing Co. Ltd., an additional of 4,440,810 new shares issued upon the exercise of options were approved for listing.

As at 31 December 2014, the total number of shares of the Company was 1,358,495,560.00 and the registered share capital of the Company was RMB1,358,495,560.00; of which, the shareholding of the Company held by Qingdao Hisense Air-Conditioning was 45.07%.

Scope of operations of the Company: Manufacturing and sales of refrigerators, air-conditioners and home appliances

Place of registration of the Company: No. 8 Ronggang Road, Ronggui, Shunde, Foshan, Guangdong Province

Address of headquarters: No. 8 Ronggang Road, Ronggui, Shunde, Foshan, Guangdong Province

The 2014 financial statements and the notes to the financial statements of the Company were approved at the first meeting in 2015 of the eighth session of the Board.

In 2014, there were a total of 35 subsidiaries consolidated into the Company, increased by 2 as compared to last year. See Note 6 “Business Combination and Consolidated Financial Statements” for more details.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared based on going-concern assumption and actual transactions and events according to the Accounting Standards for Business Enterprises – Basic Standard (the Ministry of Finance Order No. 33 Issue, the Ministry of Finance Order No. 76 Amendment) issued by the Ministry of Finance, and 41 specific accounting standards, application guidelines for Accounting Standards for Business Enterprises, explanation of Accounting Standards for Business Enterprises and other relevant regulations (hereinafter collectively referred to as “Accounting Standards For Business Enterprises”) issued and revised on February 15, 2006 or later, and the Information Disclosure Regulations for Companies Publicly Issuing Securities No. 15 – General Provisions for Financial Statements (Revised 2014) issued by China Securities Regulatory Commission.

According to the relevant provisions of Accounting Standards for Business Enterprises, the Company’s financial accounting is conducted on accrual basis. Except for certain financial instruments, the financial statements take the historical cost as the accounting basis. If an asset is impaired, the provision for impairment shall be accrued in accordance with the relevant provisions.

As the Company is listed in both Mainland and Hong Kong stock exchange, save as the abovementioned relevant regulations, the financial statements shall also disclose such information as required by applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

3. STATEMENT OF COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements prepared by the Company comply with the requirements of the Accounting Standards for Business Enterprises and truly and completely reflect the financial state as at 31 December 2014 and the operating results, cash flows and other related information of the Company for the year then ended. In addition, the financial statements also comply with the disclosure requirements as contained in the Information Disclosure Regulations for Companies Publicly Issuing Securities No. 15 – General Provisions for Financial Statements (Revised 2014) issued by China Securities Regulatory Commission relating to financial statements and notes thereto in all material respects.

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Company and its subsidiaries are engaged in the production of household appliances. Based on actual production and management features, the Company and its subsidiaries formulated a number of specific accounting policies and accounting estimates for revenue recognition and other related transactions and matters in accordance with the relevant requirements of Accounting Standards for Business Enterprises. See this note 4(24) “Income” for details. For the explanation on significant accounting judgments and estimates made by the management, please refer to note 4(30) “Significant Accounting Judgments and Estimates”.

(1) Accounting period

The accounting period is based on the calendar year and starts on 1 January and ends on 31 December.

(2) Business cycle

A normal business cycle represents a period from purchase of assets used for production to realization of cash or cash equivalents by the Company. The Company adopts a 12-month period as its business cycle and the basis for liquidity classification between assets and liabilities.

(3) Reporting currency

Renminbi (RMB) is the currency in the primary economic environment in which the Company and its domestic subsidiaries operate. The Company and its domestic subsidiaries adopt RMB as their reporting currencies. The overseas subsidiaries of the Company adopt the Hong Kong dollar, Euro or Japanese Yen as their respective reporting currencies depending on the currency in the primary economic environment where they operate. RMB is the functional currency adopted by the Company in preparing these financial statements.

(4) Accounting treatment for business combinations involving entities under common and not under common control

A business combination refers to the transaction or matter in which one reporting subject formed due to the combination of two or above separate entities. A business combination can be classified as the combination under common control and not under common control.

1. *Business combination involving entities under common control*

A business combination under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. For a business combination under common control, the party that obtains the control of the other parties on the combination date is the acquirer, and other parties involving in the business combination are the acquirees. The combination date is the date on which the acquirer effectively obtains the control of the acquirees.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(4) Accounting treatment for business combinations involving entities under common and not under common control *(continued)*

1. *Business combination involving entities under common control (continued)*

Assets and liabilities that are obtained by the acquirer in a business combination shall be measured at their carrying amount at the combination date as recorded by the acquirees. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid by the acquirer for the combination (or the aggregate par value of the issued shares) shall be adjusted to share premium under capital reserve (or capital premium). If the share premium under capital reserve (or capital premium) is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Expenses that are directly attributable to the business combination by the acquirer are charged to the profit and loss for the period in which they are incurred.

2. *Business combination involving entities not under common control*

A business combination not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the combination. For a business combination not under common control, the party that obtains the control of the other parties on the acquisition date is the acquirer; other parties involving in the business combination are the acquirees. The acquisition date is the date on which the acquirer effectively obtains control of the acquirees.

For a business combination not under common control, the cost of business combination is the fair value of assets paid, liabilities incurred or undertaken, and equity securities issued by the acquirer for obtaining the control of the acquirees at the acquisition date. Expenses that are attributable to the business combination such as audit fees, legal services fees, consultancy fees and other administration expenses incurred by the Company as acquirer are expensed in the profit or loss for the period in which they are incurred. Transaction fees of equity securities or debt securities issued by the acquirer as consideration for a business combination are included in the initially recognised amount of equity securities or debt securities. Contingent consideration involved is recorded as the combination cost at its fair value on the acquisition date. Should any new or further evidence in relation to the circumstances existing on the acquisition date arise within 12 months after the acquisition date, making it necessary to adjust the contingent consideration, the goodwill arising from the business combination shall be adjusted accordingly. The cost of combination incurred and identifiable net assets obtained by the acquirer in a business combination are measured at fair value on the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets on the acquisition date, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets on the acquisition date, the difference is recognised in profit or loss for the current year after a review of measurement for the fair value of identifiable assets, liabilities and contingent liabilities of the acquiree and the combination cost.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(4) Accounting treatment for business combinations involving entities under common and not under common control *(continued)*

2. *Business combination involving entities not under common control (continued)*

In relation to the deductible temporary difference acquired from the acquiree, which was not recognised as deferred tax assets due to non-fulfillment of the recognition criteria at the date of the acquisition, if new or further information that is obtained within 12 months after the acquisition date indicates that related conditions at the acquisition date already existed, and that the realization of the economic benefits brought by the deductible temporary difference of the acquiree on the acquisition date can be expected, the relevant deferred tax assets shall be recognised and goodwill shall be deducted accordingly. When the amount of goodwill is less than the deferred tax assets that shall be recognised, the difference shall be recognised in the profit or loss for the period. Except for the above circumstances, deferred tax assets in relation to business combination are recognised in the profit or loss for the period.

For a business combination involving entities not under common control that is achieved in stages, the Company shall determine whether the business combination shall be treated as “a bundle of transactions” in accordance with the determination standards as contained in the “Circular on the Publishment of Interpretation 5 on Accounting Standards for Business Enterprises” issued by the Ministry of Finance (Cai Kuai [2012] No. 19) and Section 51 of “Accounting Standards for Business Enterprises 33 – Consolidated Financial Statements” (Refer to note 4(5)ii). Where the business combination is treated as “a bundle of transactions”, the business combination shall be accounted for in accordance with the previous paragraphs and note 4(12) “Long term equity investment”; where the business combination does not fall within “a bundle of transactions”, the business combination in the Company’s and the consolidated financial statements shall be accounted for as follows:

In the Company’s financial statements, the initial cost of the investment shall be the sum of the carrying amount of equity investment held in the acquiree prior to the acquisition date and the amount of additional investment made to the acquiree at the acquisition date. Other comprehensive income relating to the equity interest held in the acquiree prior to the acquisition date shall be, upon disposal of the investment, accounted for in accordance with the same basis as that the acquiree adopts in directly disposing of relevant assets or liabilities, that is, except for the acquirer’s interest in the changes arising from remeasurement of net assets or liabilities relating to the defined benefit plan of the acquiree that is accounted for in accordance with the equity method of accounting, the balance shall be transferred to investment income for the current year.

In the consolidated financial statements, the equity interest held in the acquiree prior to the acquisition date is re-measured according to its fair value at the acquisition date; the difference between the fair value and the carrying amount is recognised as investment income for the current period. Other comprehensive income relating to the equity interest held in the acquiree prior to the acquisition date shall be accounted for in accordance with the same basis as that the acquiree adopts in directly disposing of relevant assets or liabilities, that is, except for the acquirer’s interest in the changes arising from remeasurement of net assets or liabilities relating to the defined benefit plan of the acquiree that is accounted for in accordance with the equity method of accounting, the balance shall be transferred to investment income for the period within which the acquisition date falls.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(5) Preparation of consolidated financial statements

1. *Criteria for the recognition of scope of consolidation*

The scope of consolidation shall be determined based on the concept of control. Control refers to the power over the investee, share of or entitlement to the risk exposure or rights of reward of variable returns, and the ability to affect the amount of such returns by using its power over the investee. The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries, which are defined as those entities controlled by the Company.

Once any change in the facts and circumstances arises which leads to a change in the elements involved in the definition of control, the Company will conduct an assessment.

2. *Preparation of consolidated financial statements*

Subsidiaries are consolidated from the date on which the Company obtains their net assets and actual control over their operating decisions, and are deconsolidated from the date when such control ceases. For subsidiaries being disposed, the operating results and cash flows prior to the date of disposal are duly included in the consolidated income statement and consolidated cash flow statement; for subsidiaries disposed during the period, the opening balances of the consolidated balance sheet would not be restated. For subsidiaries acquired from a business combination not under common control, their operating results and cash flows subsequent to the acquisition date are included in the consolidated income statement and consolidated cash flow statement, and the opening balances and comparative figures in the consolidated financial statements would not be restated. For subsidiaries acquired from a business combination under common control, their operating results and cash flows from the date of commencement of the period in which the combination occurred to the date of combination are included in the consolidated income statement and consolidated cash flow statement, and the comparative figures in the consolidated financial statements would be restated.

In preparing the consolidated financial statements, where the accounting policies or the accounting periods are inconsistent between the Company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company. For subsidiaries acquired from a business combination not under common control, their financial statements are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant inter-group balances, transactions and unrealised profits are eliminated in preparing the consolidated financial statements.

The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to the Company are recognised as minority interests and profits and losses attributable to minority interests respectively, which are presented under shareholders' equity and net profit separately, in the consolidated financial statement. A subsidiary's net profit and loss for the period attributable to minority interests is recognised as share of profit or loss of minority interests under net profit in the consolidated income statement. When the amount of a subsidiary's loss attributable to the minority shareholders exceeds the minority shareholders' share of the opening balance of shareholders' equity of the subsidiary, the excess is deducted from the minority interests.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(5) Preparation of consolidated financial statements *(continued)*

2. *Preparation of consolidated financial statements (continued)*

When the control over a subsidiary is lost due to disposal of a portion of equity investment or otherwise, the remaining equity interest is re-measured at the fair value on the date when the control ceased. The difference between the sum of the consideration received from disposal of equity interest and the fair value of the remaining equity interest, and the net assets of the former subsidiary attributable to the Company since the acquisition date as calculated based on its original shareholding percentage in that subsidiary, is recognised as the investment income for the period when the loss of control occurred. Other comprehensive incomes in relation to the equity investment of the subsidiary shall be, upon the loss of control, accounted for in accordance with the same basis as that the acquiree adopts in directly disposing of relevant assets or liabilities, that is, except for the changes arising from remeasurement of net assets or liabilities relating to the defined benefit plan of that subsidiary, the balance shall be transferred to investment income for the current year. Subsequent measurement of the remaining equity interests shall be in accordance with relevant accounting standards such as “Accounting Standards for Business Enterprises 2 — Long-term Equity Investments” or “Accounting Standards for Business Enterprises 22 — Recognition and Measurement of Financial Instruments”, which are detailed in note 4(12) “Long term equity investment” or note 4(9) “Financial instrument”.

The Company shall determine whether a series of transactions in relation to disposal of equity investment in or even loss of control over a subsidiary in stages should be treated as a bundle of transactions. When the economic effects and terms and conditions of the transactions in relation to the disposal of equity investment met one or more of the following situations, the series of transactions shall normally be accounted for as a bundle of transactions: (i) these transactions are entered into simultaneously or after considering the mutual consequences of each individual transaction; (ii) these transactions need to be considered as a whole in order to achieve a deal in commercial sense; (iii) the occurrence of an individual transaction depends on the occurrence of one or more individual transaction(s) in the series; (iv) The result of an individual transaction is not economical, but it would be economical after taking into account the other transactions in the series. When the transactions are not treated as a bundle of transactions, each of the individual transactions shall be accounted for as the “portion disposal of long term equity investment in a subsidiary which would not lead to loss of control” (detailed in note 4(12)ii(iv)) or the “loss of control due to portion disposal of equity investment in a subsidiary or otherwise” (detailed in the previous paragraph), as the case may be. When the transactions in relation to disposal of equity investment in or even loss of control over a subsidiary are treated as a bundle of transactions, each of the transactions shall be accounted for as one transaction in relation to disposal of the subsidiary leading to loss of control; however, the difference between the consideration received from the disposal and the share of net assets of the subsidiary disposed in each individual transaction before loss of control shall be recognised as other comprehensive income in the consolidated financial statements, and reclassified as profit or loss for the period when control is lost.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(6) Classification of joint arrangements and accounting treatment for joint operations

A joint arrangement refers to an arrangement over which two or more parties have joint control. In accordance with the Company's rights and obligations under a joint arrangement, the Company classifies joint arrangements into joint operations and joint ventures. A joint operation refers to a joint arrangement under which the Company is entitled to the assets and assumes the obligations. A joint venture refers to a joint arrangement under which the Company is only entitled to net assets.

The investment in joint ventures is accounted for using the equity method in accordance with the accounting policies as set out in note 4(12)ii(ii) "Long-term equity investment by using equity method".

As a party to a joint operation, the Company recognise the assets held and obligations assumed solely by the Company, and the assets held and obligations assumed jointly by the Company in proportion to the share of the Company; recognise the revenue from sales of the share of outputs of the joint operation of the Company; recognise the share of revenue from sales of outputs by the joint operation of the Company; recognise the expenses solely incurred by Company; and recognise the expenses incurred by the joint operation in proportion to the share of the Company.

When the Company, as a party to a joint operation, invests in or disposes of an asset (not being a business, the same below) to or purchase an asset from the joint operation, the Company shall only recognise the portion of profit or loss arising from this transaction attributable to other parties to the joint operation before such disposal to any third party. Where an impairment loss of these assets that meets the requirements in "Accounting Standard for Business Enterprises 8 – Asset Impairment" arises, the Company shall recognise the loss in full in relation to the assets invested in or disposed of to the joint operation by the Company; and shall recognise the loss in proportion to the share of the Company in relation to the assets purchased from the joint operation by the Company.

(7) Criteria for the recognition of cash and cash equivalents

For the purpose of the cash flows statement, cash and cash equivalents comprise cash on hand, deposits held at call with bank and short-term (maturing within 3 months from the date of acquisition) and highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

(8) Foreign currency transactions and translation of financial statements in foreign currency

1. Translation of foreign currency transactions

Foreign currency transactions are, on initial recognition, translated into the functional currency at the spot exchange rates prevailing at the dates of the transactions, i.e. the middle price of RMB exchange rate published by the People's Bank of China on that date in general and the same below, except when the Company carries on a business of currency exchange or involves in currency exchange transactions, at the actual exchange rates which would be used.

2. Translation of monetary items and non-monetary items in foreign currencies

At the balance sheet date, monetary items denominated in foreign currency are translated into the functional currency using the spot exchange rate prevailing at the balance sheet date. The resulting exchange differences are recognised in profit or loss for the current period, except for (i) those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalised as part of the cost of those assets; (ii) exchange difference arising from changes in carrying amount of available for sale foreign-currency monetary items other than changes in amortized cost, which is recognised in other comprehensive income.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(8) Foreign currency transactions and translation of financial statements in foreign currency *(continued)*

2. *Translation of monetary items and non-monetary items in foreign currencies (continued)*

For the purpose of preparing consolidated financial statements involving foreign operations, the exchange differences arising from changes in exchange rates in relation to translation of foreign currency monetary items which effectively constitute a net investment in the foreign operation, are recognized in other comprehensive income, or upon disposal of the foreign operation, in the profit or loss for the period.

Non-monetary items denominated in foreign currency that are measured at historical cost are translated into the functional currency using the spot rates prevailing at the dates of the transactions. Non-monetary items denominated in foreign currency that are measured at fair value are translated into the functional currency using the spot rate prevailing on the date when fair value is determined and the resulting exchange differences will be recognised as fair value change (including a change of exchange rate) in profit or loss for the period or as other comprehensive income.

3. *Translation of financial statements in foreign currency*

For the purpose of preparing consolidated financial statements involving foreign operations, the exchange differences arising from changes in exchange rates in relation to translation of foreign currency monetary items which effectively constitute a net investment in the foreign operation, are recognised as “exchange difference on translation of financial statements in foreign currency” in other comprehensive income, or upon disposal of the foreign operation, in the profit or loss for the period.

The following displays the methods for translating financial statements in foreign currency of foreign operations into the statements in RMB: The asset and liability items in the balance sheets are translated at the spot exchange rates on the balance sheet date. Under the shareholders’ equity, the items other than “undistributed profits” are translated at the spot exchange rates at the transaction dates. The income and expense items in the income statements are translated at the spot exchange rates at the transaction dates. Opening balance of undistributed profits is equal to the closing balance of undistributed profits after translation in the previous year; closing balance of undistributed profit is measured and presented based on the items in profit distribution after translation. The exchange difference arising from translation of the sum of assets, liabilities and equity items is recognised as the difference on translation of financial statements in foreign currency in other comprehensive income. Such exchange difference in relation to the foreign operation as shown under shareholders’ equity in the balance sheet is recognised in the profit or loss for the period in full or on a pro rata basis upon disposal of the foreign operation leading to a loss of control.

The cash flows in foreign currency and of overseas operations are translated at the spot exchange rates on the dates of the cash flows or the rates approximate thereto. The effect of exchange rate changes on cash is presented separately as an adjustment item in the cash flow statement.

The opening balance and the prior year’s figures are presented as the balances after translation of the financial statements in the previous year.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(8) Foreign currency transactions and translation of financial statements in foreign currency *(continued)*

3. *Translation of financial statements in foreign currency (continued)*

On disposal of the entire owners' equity held in a foreign operation by the Company, or upon a loss of control over a foreign operation due to partial disposal of equity investment or other reasons, the exchange differences arising on translation of the financial statements in foreign currency in relation to that foreign operation, which are attributable to owners' equity of parent company as shown under shareholders' equity in the balance sheet, are recognised in the profit or loss in the period in which the disposal took place.

In case of partial disposal of equity investment or other reason resulting in reduction in shareholding in a foreign operation without losing control over it, the exchange differences arising from the translation of financial statements in foreign currency in relation to the assets disposed will be attributable to minority interests and will not be recognised in profit or loss for the period. For partial disposals of equity interests in foreign operations which are associates or joint ventures, the exchange differences arising from the translation of financial statements in foreign currency of the foreign operation is reclassified to profit or loss for the period in which the disposal took place on a pro rata basis.

(9) Financial instruments

The Group recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are measured at fair value upon initial recognition. For financial assets and financial liabilities measured at fair value through profit or loss, the transaction costs are directly recognised in profit or loss for the period. For financial assets and financial liabilities classified as other categories, the transaction costs are included in the amount initially recognised.

1. *Determination of fair value for financial assets and financial liabilities*

The fair value refers to the price that will be received when selling an asset or the price to be paid to transfer a liability in an orderly transaction between market participants on the date of measurement. For financial instruments that have an active market, fair value is determined based on the quoted price in such market. The quoted price in an active market refers to the price that is easily and regularly obtained from exchanges, brokers, industrial organisations and price fixing service organisations, representing the actual price of a market transaction that takes place in a fair deal. Where financial instruments do not have an active market, the fair value is determined using valuation techniques. Valuation techniques include, among others, reference to the prices reached in recent market transactions entered into by both willing parties with an informed view, and reference to present fair values of other substantially identical financial instruments, cash flow discounting method and option pricing models.

2. *Classification, recognition and measurement of financial assets*

Any regular purchase and sale of financial assets shall be recognised and derecognised at the transaction date. Financial assets are classified into financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets upon initial recognition.

(i) *Financial assets at fair value through profit or loss*

They include financial assets held-for-trading and those designated as financial assets at fair value through profit or loss. Financial assets measured at fair value by the Company through profit or loss are financial assets held-for-trading.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(9) Financial instruments *(continued)*

2. Classification, recognition and measurement of financial assets *(continued)*

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

A financial asset is classified as held for trading if one of the following conditions is satisfied: (a) It has been acquired mainly for the purpose of sale or repurchase in the near term; or (b) It is part of a portfolio of identifiable financial instruments that the Group manages together and there is objective evidence that the Company has adopted a short-term profit-taking pattern recently; or (c) It is a derivative, except for a derivative that is designated as and is an effective hedging instrument, or that is a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

Financial assets held-for-trading are measured subsequently at fair value. Gains or losses arising from changes in fair value and any dividend and interest income on such assets are recognized in the profit or loss for the current period.

(ii) Held-to-maturity investments

They are non-derivative financial assets that have fixed or determinable payments and fixed maturity and for which the Company has the positive intention and ability to hold to maturity.

Held-to-maturity investments are measured subsequently at amortised cost by using the effective interest rate method. Gains or losses arising on derecognition, impairment or amortization are recognized in the profit or loss for the current period.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and the interest income or interest expense over respective periods, using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the current carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Company estimates future cash flows taking into account all contractual terms of the financial asset or financial liability (without considering future credit losses), and also considers all fees paid or received between the parties to the contract giving rise to the financial asset or financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

(iii) Loans and receivables

They are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets, including notes receivable, trade receivable, interest receivable, dividends receivable and other receivables, are classified as loans and receivables by the Company.

Loans and receivables are measured subsequently at the amortised cost by using the effective interest rate method. Gains or losses arising on derecognition, impairment or amortisation are charged to profit or loss in the current period.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(9) Financial instruments *(continued)*

2. Classification, recognition and measurement of financial assets *(continued)*

(iv) Available-for-sale financial assets

They include non-derivative financial assets that are designated as available for sale upon initial recognition and the financial assets other than those at fair value through profit or loss, loans and receivables and held-to-maturity investments.

The closing cost of available-for-sale debt instrument investments is recognised at amortised cost, i.e. the initially recognised amount less the principal repaid, and then plus or less the accumulated amortisation amount arising from the amortisation of the difference between the initially recognised amount and the amount at the maturity date using the effective interest rate method, and then further less the impairment loss already incurred. The closing cost of available-for-sale equity instrument investments is the cost on initial acquisition.

Available-for-sale financial assets are subsequently measured at fair value. Gain or loss arising from changes in fair value are recognised as other comprehensive income, except for impairment loss and exchange differences arising from translation of foreign currency monetary financial assets in relation to amortised cost which are accounted for through profit or loss for the current period. The financial assets will be transferred out on derecognition and accounted for through profit or loss for the current period. However, equity investment that is not quoted in an active market and the fair value of which cannot be measured reliably, and derivative financial assets that are linked to and must be settled by delivery of such equity instrument are subsequently measured at cost.

Interests received during the period in which available-for-sale financial assets are held and the cash dividends declared by the investee are recognised as investment income.

3. Impairment of financial assets *(other than receivables)*

Except for financial assets at fair value through profit or loss for the current period, the Group assesses the carrying amount of other financial assets at each balance sheet date, and if there is objective evidence that the financial assets are impaired, provisions are made for the impairment.

(i) Impairment of held-to-maturity investments

The carrying amount of the financial assets measured at cost or amortised cost is written down to the present value of the estimated future cash flow and the written-down amount is recognised as the impairment loss in the profit or loss for the current period. The originally recognised impairment loss is reversed if there is objective evidence that the value of the financial assets has been recovered and the recovery can be linked objectively to an event occurring after the impairment loss was recognised. The carrying amount of the financial assets upon the reversal of the impairment loss will not exceed the amortised cost of the financial assets on the reversal date as if no impairment loss provision has been made.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(9) Financial instruments *(continued)*

3. *Impairment of financial assets (other than receivables) (continued)*

(ii) *Impairment of available-for-sale financial assets*

If there is objective evidence of a significant prolonged decrease in the fair value of an available-for-sale financial asset, and the downtrend is expected to be non-temporary, it can be ascertained that the available-for-sale financial asset is impaired and an impairment loss shall be recognised. Upon impairment provision is made in respect of the impaired available-for-sale financial asset, the cumulative loss from the decline in fair value originally recognized directly in shareholder's equity is removed and recognized as impairment loss. The cumulative loss removed equals to the initial acquisition cost of the available-for-sale financial asset, net of principal payment and amortization, current fair value and impairment losses previously recognized in the profit or loss.

If after an impairment loss was recognized on an available-for-sale debt instrument, the fair value of the debt instrument has increased in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed and recognized in profit or loss for the current period. The impairment loss recognized on an equity instrument available-for-sale is reversed in equity, not in profit or loss, if any increase in fair value occurs after the impairment.

4. *Basis for recognition and measurement of transfer of financial assets*

The financial asset will be de-recognised if any of the following conditions is satisfied: (1) The contractual right to receive the cash flow of the financial asset is terminated; (2) The financial asset has been transferred and substantially all of the risks and rewards of ownership of the financial asset have been transferred to the transferee; (3) The financial asset has been transferred and the entity has waived the control over the financial asset although it has neither transferred nor reserved substantially all of the risks and rewards of ownership of the financial asset.

Where the entity has neither transferred nor reserved substantially all of the risks and rewards of ownership of the financial asset and not waived the control over the financial asset, to the extent of its continuous involvement in the financial asset transferred, the entity recognises the relevant financial asset and meanwhile, recognises the relevant liability accordingly. The extent of the continuous involvement is the level of risk to which the entity exposes due to changes in the value of such financial asset.

Where the conditions of de-recognition are satisfied upon overall transfer of the financial asset, the difference between the carrying amount of the transferred financial asset and the sum of the consideration received from the transfer and the accumulated changes in fair value previously recognised in other comprehensive income is recognised in the profit or loss for the current period.

Where the conditions of de-recognition are satisfied upon partial transfer of the financial asset, the carrying amount of the transferred financial asset is allocated between the derecognised and non-derecognised portion at the corresponding fair value, and the difference between the sum of the consideration received from the transfer and the accumulated changes in fair value previously recognised in other comprehensive income to be allocated to the de-recognised portion and the above mentioned allocated carrying amount is recognised in the profit or loss for the current period.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(9) Financial instruments *(continued)*

4. *Basis for recognition and measurement of transfer of financial assets (continued)*

Where the Company disposes of the financial asset with the right of recourse or transfers the financial asset by endorsement, it shall be ascertained that whether substantially all the risks and rewards of ownership of the financial asset have been transferred. Where substantially all the risks and rewards of ownership of the financial asset have been transferred to the transferee, the financial asset are de-recognised; where substantially all the risks and rewards of ownership of the financial asset have been retained, the financial asset are not de-recognised; and where substantially all the risks and rewards of ownership of the financial asset have been neither transferred nor retained, it shall be determined whether the entity retains the control over the asset and the asset shall be accounted for in accordance with the above mentioned policies.

5. *Classification and measurement of financial liabilities*

Upon initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities. Upon initial recognition, financial liabilities are measured at fair value. For the financial liabilities at fair value through profit or loss, the relevant transaction costs are directly recognised in profit or loss for the current period; and for other financial liabilities, the relevant transaction costs are included in the initially recognised amount.

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

The conditions for the financial liabilities to be classified as held for trading and to be designated to be measured at fair value through profit or loss upon initial recognition are the same as those for the financial assets to be classified as held for trading and to be designated to be measured at fair value through profit or loss upon initial recognition.

The financial liabilities at fair value through profit or loss are subsequently measured at the fair value. The gains or losses arising from the change in fair value and the dividend and interest expenses related to the financial liabilities are charged to the profit or loss for the current period.

(ii) *Other financial liabilities*

The derivative financial liabilities linked to and to be settled through delivery of the equity instruments that are not quoted in an active market and the fair value of which cannot be reliably measured such equity instruments are subsequently measured at cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method and the gains or losses arising from de-recognition or amortisation are recognised in profit or loss for the current period.

(iii) *Financial guarantee contracts*

The financial guarantee contracts other than the financial liabilities designated as at fair value through profit or loss are initially recognised at fair value and subsequently measured at the amount determined in accordance with the Accounting Standards for Business Enterprises 13 – Contingencies or the balance of the initially recognised amount less the accumulated amortisation determined in accordance with the Accounting Standards for Business Enterprises 14 – Income, whichever is the higher.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(9) Financial instruments *(continued)*

6. *De-recognition of financial liabilities*

The financial liabilities may not be de-recognised in whole or in part unless and until the present obligations of the financial liabilities are discharged in whole or in part. Where the Company (the debtor) concludes an agreement with a creditor to replace the existing financial liabilities with the new financial liabilities and the contractual terms for new financial liabilities are materially not the same as existing financial liabilities, the existing financial liabilities are de-recognised and the new financial liabilities are recognised.

Where the financial liabilities are de-recognised in whole or in part, the difference between the carrying amount of the de-recognised portion and the consideration paid (including non-monetary assets transferred or new financial liabilities assumed) is recognised in profit or loss for the current period.

7. *Derivatives and embedded derivatives*

Derivatives are initially measured at fair value at the date when the derivative contracts are entered into and are subsequently re-measured at fair value. The gain or loss arising from the change in fair value of a derivative is recognised in profit or loss for the current period, unless the derivative is designated and highly effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship in accordance with hedging accounting policies.

An embedded derivative is separated from the hybrid instrument, where the hybrid instrument is not designated as a financial asset or financial liability at fair value through profit or loss, and treated as a stand-alone derivative if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. If the Group is unable to measure the embedded derivative separately either at acquisition or at a subsequent balance sheet date, it will designate the entire hybrid instrument as a financial asset or financial liability at fair value through profit or loss.

8. *Offsetting financial assets and financial liabilities*

Where the Company has a legal right to offset the recognised financial assets and financial liabilities and may enforce this right at present and plans to net or realise the financial assets and settle the financial liabilities, the remaining balance upon the offset between the financial assets and the financial liabilities is presented in the balance sheet. Otherwise, the financial assets and the financial liabilities are separately presented in the balance sheet and do not offset against each other.

9. *Equity instruments*

An equity instrument refers to a contract which proves the ownership of the remaining equities in net assets of the Company after deduction of all liabilities. The issuance (including re-financing), repurchase, sale or cancellation of equity instruments is accounted for as the change in equity. The Company does not recognise the change in fair value of equity instruments. Transaction costs related to equity transactions are charged to equity.

Various distributions (excluding dividends) made by the Company to holders of equity instruments reduce owners' equity. The Company does not recognise the change in fair value of equity instruments.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(10) Accounts receivable

1. *Accounts receivable that are individually significant and subject to separate provision:*

(i) *The basis or criteria for determination of individually significant receivables*

Accounts for 10% or above of the total receivables, except for the Greencool receivables.

(ii) *Method of provision for bad debt in individually significant receivables*

Individually significant receivables are subject to separate impairment test. Where there is an objective evidence of impairment, the balance of the present value of the future cash flows less than the carrying amount shall be treated as impairment loss and accounted for as provision for bad debts. Where there is no impairment according to the separate impairment test, the accounts receivable shall be combined into a group of receivables with similar credit risk characteristics and subject to a further impairment test collectively.

2. *Receivables subject to collective provision:*

Basis for determination of groups is as follows

Group 1 A group of accounts receivable based on ageing characteristics

Group 2 A group of Greencool receivables.

Method of provision for bad debts by groups

Group 1 Using ageing analysis method.

Group 2 Conducting an individual impairment test, where the balance of the present value of the future cash flows expected to be derived from the receivables less than the carrying amount shall be treated as impairment loss and accounted for as provision for bad debts.

For Group 1, receivables for which provision for bad debts is made using age analysis method are as follows:

Ageing	Ratio of provision for bad debts (%)
Within 3 months (including 3 months)	0
Over 3 months but within 6 months (including 6 months)	10
Over 6 months but within 1 year (including 1 year)	50
Over 1 year	100

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(10) Accounts receivable *(continued)*

3. *Individually insignificant receivables subject to separate provision:*

Reason for individual provision	Receivables which are individually insignificant over one year or above.
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Method for provision for bad debts	Where there is an objective evidence of impairment, receivables shall be separated from the group they belong to and subject to an individual test. The balance of the present value of the future cash flows expected to be derived from the receivables less than the carrying amount shall be treated as impairment loss and accounted for as provision for bad debts
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(11) Inventories

1. *Classification of inventories*

Inventories are classified into: raw materials, goods in processing contract, low-value consumables, packaging materials, self-manufactured semi-finished goods, work in progress, goods in transit, finished goods and etc.

2. *Measurement of inventories*

Inventories are initially measured at actual cost. Cost of an inventory consists of purchase cost, processing cost and other cost.

Raw materials are measured at the standard cost upon delivery, and amortized at the end of each month according to cost differences in order to adjust the standard cost to actual cost.

Work in progress and finished goods are measured at the actual cost upon delivery, whereas the actual cost is determined using the weighted average method.

3. *Basis for determination of net realizable value and method of provision for declines in value of inventories*

The net realizable value of commodity inventories for immediate sales, such as finished goods, commodity stocks, and materials ready for sale, is determined based on the estimated selling price less the estimated selling and distribution costs and related taxes in the ordinary course of business;

The net realizable value of raw materials is determined based on the estimated selling price of finished goods manufactured, less the costs estimated to be incurred up to completion and estimated costs necessary to make the sale, and related taxes in the ordinary course of business;

For inventories held for fulfilling sales contract or labor contract, the net realizable value is determined based on the contract price; if the amounts of inventories held exceed the amounts of sales order specified in the contract, the net realizable value of the excess portion is determined based on the general market price.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(11) Inventories *(continued)*

3. *Basis for determination of net realizable value and method of provision for declines in value of inventories (continued)*

The Company takes general inventory checkup at each balance sheet date, and records or adjusts impairment loss on inventories at the lower of cost or net realizable value. The provision for impairment loss on inventories is made on an individual basis in principle; for inventories in a large quantity and with relatively low unit prices, provision for impairment loss on inventories shall be made based on the category; for inventories relevant to the production and sales of products in the same region with same or similar use or purpose and difficult to measure separately, provision for impairment loss on inventories shall be made on an aggregated basis. In case the factors causing the previous write-down of inventories disappear, the write-down amount shall be reversed to the provision of impairment previously made and the reverse amount shall be charged to the profit or loss for the period.

4. *The group adopts the perpetual inventories system.*

5. *Amortization of low-value consumables and packaging materials*

Low-value consumables are expensed upon issuance.

Packaging materials are expensed upon issuance.

(12) Long-term equity investments

Long-term equity investments under this section refer to long-term equity investments in which the Company has control, joint control or significant influence over the investee. Long-term equity investment without control or joint control or significant influence of the Group is accounted for as available-for-sale financial assets or financial assets at fair value through profit or loss for the period. For details on its accounting policy, please refer to note 4(9) "Financial instruments".

Joint control is the Company's contractually agreed sharing of control over an arrangement, the activities under which must be decided by unanimous agreement from parties who share the control. Significant influence is the power of the Company to participate in the decision-making for financial and operating policies of an investee, but not to control or joint control the formulation of such policies together with other parties.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(12) Long-term equity investments *(continued)*

1. *Determination of investment cost*

For a long-term equity investment acquired through a business combination involving entities under common control, the initial investment cost shall be recognised at the carrying amount of the Company's share of the combined party's equity in the consolidated financial statements of the ultimate controlling party on the date of combination. The difference between the initial cost of the long-term equity investment and the cash paid, non-monetary assets transferred and the carrying amount of the debts assumed shall offset against the capital reserve. Where the capital reserve is insufficient to offset, the retained earnings shall be adjusted. In case that the consideration of the business combination is satisfied by issuing equity securities, the initial investment cost of the long-term equity investment shall be recognised at the carrying amount of the Company's share of the combined party's equity in the consolidated financial statements of the ultimate controlling party on the date of combination. With the total face value of the shares issued as share capital, the difference between the initial cost of the long-term equity investment and total face value of the shares issued shall be used to offset against the capital reserve. Where the capital reserve is insufficient to offset, the retained earnings shall be adjusted. For a business combination involving entities under common control by acquiring equity interests in the combined party under common control in a series of transactions, the transactions shall be treated separately: in case of "a bundle of transactions", each of the transactions shall be accounted for as an acquisition of control; otherwise, the initial investment cost of the long-term equity investment shall be recognised at the carrying amount of the Company's share of the combined party's equity in the consolidated financial statements of the ultimate controlling party on the date of combination. The difference between the initial cost of the long-term equity investment and the sum of the carrying amount of the long-term equity investment before combination and the book value of the additional consideration paid for further acquisition of shares on the date of combination shall offset against the capital reserve. Where the capital reserve is insufficient to offset, the retained earnings shall be adjusted. Other comprehensive income recognised for the equity investment held prior to the date of combination by using equity method or for available-for-sale financial assets will not be accounted for in the financial statements.

For a long-term equity investment acquired through a business combination involving entities not under common control, the initial investment cost of the long-term equity investment shall be recognised at the cost of combination on the date of acquisition. Cost of combination includes the aggregate fair value of assets paid, liabilities incurred or assumed and equity securities issued by the acquirer. For a business combination involving entities not under common control by acquiring the equity in the acquiree in a series of transactions, the transactions shall be treated separately: in case of "a bundle of transactions", each of the transactions shall be accounted for as an acquisition of control; otherwise, the initial investment cost of the long-term equity investment shall be accounted for using the cost method at the sum of the carrying amount of equity investment previously held in the acquiree and the additional investment cost. Where the equity investment previously held is accounted for by using the equity method, the corresponding other comprehensive income will not be accounted for. Where the equity investment previously held is classified as an available-for-sale financial asset, the difference between its fair value and carrying amount, as well as the accumulated changes in fair value previously included in the other comprehensive income shall be recognised in the profit or loss for the current period.

Agent fees incurred by the combining party or the acquirer for a business combination such as audit, legal service, and valuation and consultation fees, and other related administration expenses are charged to profit or loss in the current period when such expenses incurred.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(12) Long-term equity investments *(continued)*

1. *Determination of investment cost (continued)*

The long-term equity investment acquired other than by means of a business combination shall be initially measured at cost. Such cost, depending upon the means of acquisition of the long-term equity investment, is determined based on, among others, the purchase price actually paid by the Company in cash, the fair value of equity securities issued by the Company, the agreed value by the investment contracts or agreements, fair value or original carrying amount of the asset exchanged in a non-monetary asset exchange transaction, and fair value of the long-term equity investment. The costs, taxes and other necessary expenses that are directly attributable to the acquisition of the long-term equity investment are also included in the investment cost. Where an additional equity investment gives rise to an ability to exercise a significant influence or joint control over the investee but without obtaining the control, the cost of the long-term equity investment shall be the sum of fair value of the equity investment previously held determined in accordance with “Accounting Standard for Business Enterprises 22 – Recognition and Measurement of Financial Instruments” and additional investment cost.

2. *Subsequent measurement and recognition of profit or loss*

A long-term equity investment with joint control (excluding that constituting a joint venture) over or significant influence on the investee is accounted for by using the equity method, and a long-term equity investment with control over the investee is accounted for in the Company’s financial statements by using the cost method.

(i) *Long-term equity investments accounted for by using the cost method*

Under the cost method, a long-term equity investment is measured at its initial investment cost. The cost of the long-term equity investment shall be adjusted in case of any additional investment or return. Except for the actual consideration paid on acquisition of the investment or cash dividends or profits declared but not yet distributed which are included in the consideration, the gain on investment for the period is recognised at the Company’s share of cash dividends or profits declared by the investee.

(ii) *Long-term equity investments accounted for by using the equity method*

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Company’s share of fair value of the investee’s identifiable net assets at the acquisition date, no adjustment shall be made to the initial investment cost. Where the initial investment cost is less than the Company’s share of fair value of the investee’s identifiable net assets at the acquisition date, the difference shall be charged to profit or loss for the current period, and the cost of the long term equity investment shall be adjusted accordingly.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(12) Long-term equity investments *(continued)*

2. *Subsequent measurement and recognition of profit or loss (continued)*

(ii) *Long-term equity investments accounted for by using the equity method (continued)*

Under the equity method, the gain on investment and other comprehensive income shall be recognised at the Company's share of the net profit or loss and other comprehensive income realised by the investee, respectively, and carrying amount of the long-term equity investment shall be adjusted accordingly. Carrying amount of the long-term equity investment shall be reduced by the Company's share of the profit or cash dividend declared by the investee. In respect of the changes in owners' equity of the investee other than in net profit or loss, other comprehensive income and profit distribution, the carrying amount of the long-term equity investment shall be adjusted and included in the capital reserves. The Company recognises its share of the investee's net profit or loss based on fair value of the investee's identifiable assets at the time of acquisition, after making appropriate adjustments thereto. In the case of any inconsistency between the accounting policies and accounting periods adopted by the investee and by the Company, the financial statements of the investee shall be adjusted in accordance with the accounting policies and accounting periods of the Company, and the gain on investment and other comprehensive income shall be recognised accordingly. In respect of the transactions between the Company and its associates and joint ventures in which the assets invested or disposed of are not part of the business, the share of unrealised gain or loss arising from inter-group transactions shall be offset by the portion attributable to the Company, and the gain or loss on investment shall be recognised accordingly. However, any unrealised loss arising from inter-group transactions between the Company and an investee is not offset to the extent that the loss is impairment loss of the assets transferred. Where the Company invests to its joint ventures or associates an asset forming part of a business, giving rise to the acquisition of a long-term equity investment by the investor without obtaining control, the initial investment cost of the additional long-term equity investment shall be recognised at fair value of the business invested. The difference between initial investment cost and carrying amount of the business invested will be fully included in profit or loss for the current period. Where the Company disposes of an asset forming part of a business to its associates or joint ventures, the difference between the consideration received and the carrying amount of the business shall be fully included in profit or loss for the current period. Where the Company acquires from its associates or joint ventures an asset forming part of a business, the profit or loss related to the transaction shall be accounted for and recognised in accordance with "Accounting Standards for Business Enterprises 20 "Business Combination".

The Company's share of net loss of the investee shall be recognised to the extent that the carrying amount of the long-term equity investment and any long-term equity that substantially forms part of the investor's net investment in the investee are written down to zero. If the Company has to assume additional obligations to the loss of the investee, the estimated liabilities shall be recognised for the estimated obligation assumed and charged to the profit or loss as investment loss for the period. Where the investee makes profits in subsequent periods, the Company shall re-recognise its share of the profits after setting off against the share of unrecognised losses.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(12) Long-term equity investments *(continued)*

2. *Subsequent measurement and recognition of profit or loss (continued)*

(iii) Acquisition of minority interests

When preparing the consolidated financial statements, the Company adjusts the capital reserve and, if the capital reserve is insufficient, adjusts the retained earnings based on the difference between the additional long-term equity investment arising on acquisition of minority interests and the Company's share in the net assets of the subsidiary accrued from the acquisition date (or combination date) in proportion to the additional shareholdings.

(iv) Disposal of long-term equity investment

In the consolidated financial statements, if the parent disposes part of the long-term equity investment in the subsidiary without losing its control, the difference between the disposal price and the Company's share in the net assets of the subsidiary attributable to the disposal of the long-term equity investment is recognised in the shareholders' equity; if the parent disposes part of the long-term equity investment in the subsidiary resulting in the loss of its control over the subsidiary, the accounting treatment shall be in accordance with the policies as set out in note 4(5)ii "Preparation of consolidated financial statements".

In other cases, upon the disposal of a long-term equity investment, the difference between the carrying amount of the investment and the price received is recognised in the profit or loss for the current period.

For a long-term equity investment that is accounted for using the equity method where the remaining equity after disposal continues to be accounted for using the equity method, the portion of other comprehensive income previously included in shareholder's equity shall be treated in accordance with the same basis as the investee directly disposes of relevant asset or liability on pro rata basis at the time of disposal. The owners' equity recognised for the change in owners' equity of the investee other than net profit or loss, other comprehensive income and profit distribution shall be transferred to profit or loss for the current period on pro rata basis.

For a long-term equity investment accounted for using the cost method where the remaining equity after disposal continues to be accounted for using cost method, other comprehensive income recognised using the equity method or in accordance with the standard for recognition and measurement of financial instruments prior to the acquisition of control over the investee shall be treated in accordance with the same basis as the investee directly disposes of relevant asset or liability, and transferred to profit or loss for the current period on pro rata basis. The change in owners' equity recognised in net assets of the investee by using the equity method other than net profit or loss, other comprehensive income and profit distribution shall be transferred to profit or loss for the current period on pro rata basis.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(12) Long-term equity investments *(continued)*

2. *Subsequent measurement and recognition of profit or loss (continued)*

(iv) *Disposal of long-term equity investment (continued)*

In preparing separate financial statements, if control is lost over the investee upon partial disposal of equity investment, the remaining equity with joint control or an ability to impose a significant influence over the investee after disposal shall be accounted for using the equity method, and shall be adjusted as if it has been accounted for using the equity method since it was acquired. The remaining equity without joint control or an ability to impose a significant influence over the investee after disposal shall be accounted for based on the standard for recognition and measurement of financial instruments, and the difference between its fair value and carrying amount as at the date of loss of control shall be included in profit or loss for the current period. In respect of other comprehensive income recognised using the equity method or in accordance with the standard for recognition and measurement of financial instruments prior to the acquisition of control over the investee, it shall be accounted for in accordance with the same basis as the investee directly disposes of relevant asset or liability when the control is lost. The change in owners' equity recognised in net assets of the investee by using the equity method other than net profit or loss, other comprehensive income and profit distribution shall be transferred to profit or loss for the current period at the time when the control over investee is lost. Where the remaining equity after disposal is accounted for using the equity method, other comprehensive income and other owners' equity shall be carried forward on pro rata basis. Where the remaining equity after disposal is accounted for in accordance with the standard for recognition and measurement of financial instruments, other comprehensive income and other owners' equity shall be fully carried forward.

If the joint control or significant influence over the investee is lost upon partial disposal of equity investment, the remaining equity after disposal shall be accounted for in accordance with the standard for recognition and measurement of financial instruments. The difference between its fair value and carrying amount as at the date of loss of joint control or significant influence shall be included in profit or loss for the current period. For other comprehensive income recognised previously for the equity investment using equity method, it shall be accounted for in accordance with the same basis as the investee directly disposes of relevant asset or liability at the time when the equity method was ceased to be used. The owners' equity recognised arising from the change in owners' equity of the investee other than net profit or loss, other comprehensive income and profit distribution shall be transferred to profit or loss for the current period at the time when the equity method was ceased to be used.

Where the Company disposes of its equity investment in a subsidiary in a series of transactions until the control is lost, and such transactions form "a bundle of transactions", each transaction shall be accounted for as a disposal of equity investment of the subsidiary resulting in a loss of control. The difference between the consideration for each transaction and the carrying amount of the long-term equity investment attributable to the equity interests disposed prior to loss of control shall be initially recognised as other comprehensive income, and upon loss of control, transferred to profit or loss for the period when the loss of control takes place.

3. *Impairment test and provision for impairment*

For long-term equity investments in subsidiaries, joint ventures and associates, the Company provides for impairment in accordance with the policies in note 4(20).

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(13) Investment properties

Investment properties are the properties held to earn rental or for capital appreciation or both, and represent buildings which have been leased out by the Company.

Investment properties are initially recognized at the cost at the time of acquisition, and are depreciated or amortized on a basis consistent with the depreciation and amortization policies which the Group adopts for fixed assets and intangible assets.

Please see note 4(20) for recognition of provision for impairment of investment properties using cost model for subsequent measurement.

(14) Fixed assets

1. Recognition of fixed assets

Fixed assets are tangible assets that are held for producing goods, rendering of services, leasing out to other parties or administrative purposes, with useful life more than one accounting year. Fixed assets are recognized when they meet the following conditions:

- (i) When it is probable that the economic benefits associated with the fixed asset will flow into the Company; and
- (ii) The cost of the fixed asset can be reliably measured.

2. Depreciation of fixed assets

Fixed assets are depreciated by categories using the straight-line method over their useful life. Depreciations are provided when the fixed assets are available for intended use, and are terminated when the fixed assets are derecognised or classified as non-current assets held-for-sale (except for fixed assets that are fully depreciated and are still in use, and lands that are accounted separately). When no impairment provision is made, the annual depreciation rates for different fixed assets which are determined by asset category, estimated useful life and estimated residual value are as follows:

Category	Useful life (year)	Rate of residual value (%)	Annual depreciation rates
Buildings	20-50	0-10	1.8-5
Machinery and equipment	5-20	5-10	4.5-19
Electronic equipment, appliances and furniture	5-10	5-10	9-19
Motor vehicles	5-10	5-10	9-19
Moulds	3	0	33.33

3. Impairment test and provision for impairment loss of fixed assets

Please see note 4(20) for recognition of provision for impairment of fixed assets of the Company.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(15) Construction in progress

1. *Measurement of construction in progress*

Constructions in progress are measured at actual cost and are accounted for by individual projects.

2. *Timing of transfer from construction in progress to fixed assets*

Constructions in progress are transferred to fixed assets at all the actual expenses incurred when they are ready for intended use. When construction in progress is ready for its intended use but has not completed the final accounts, it shall be transferred to fixed assets at estimated cost, which is based on project budget, project price or actual construction cost, on the date when it is ready for intended use, and depreciation is made accordingly pursuant to the Company's depreciation policy in relation to fixed assets. The estimated cost will be adjusted for the actual cost after the completion of the final accounts without adjustments to the depreciation already provided.

3. *Provision for impairment loss on construction in progress*

Please see note 4(20) for the recognition of provision for impairment on construction in progress.

(16) Borrowing costs

1. *Principles for recognition of capitalization of borrowing costs*

Assets eligible for capitalization refer to the fixed assets, investment properties, inventories and other assets that require a substantially long period of time of acquisition and construction or production activities for intended use or for sale. Borrowing costs include interest on borrowings, amortization of discounts or premiums, ancillary costs, and exchange differences arising from foreign currency borrowings.

Where the borrowing costs incurred by the Company can be directly attributable to the acquisition and construction or production activities of assets eligible for capitalization, it shall be capitalized and recorded as part of the costs of relevant assets. Other borrowing costs shall be recognized as expenses in profit or loss for the period on the basis of the actual amount incurred at the time when they are incurred.

The borrowing costs shall not be capitalized until they meet the following requirements at the same time:

- (i) The expenditure for the asset has already been incurred, which shall include the expenses by means of cash, transfer of non-cash assets or interest bearing debts paid for the acquisition and construction or production activities of the asset eligible for capitalization;
- (ii) The borrowing costs have been incurred;
- (iii) The acquisition and construction or production activities necessary to prepare the asset for its intended use or for sale have already commenced.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(16) Borrowing costs *(continued)*

2. *Period of capitalization of the borrowing costs*

The borrowing costs that are directly attributable to the acquisition and construction or production of qualifying asset are capitalized as the cost before the asset is ready for its intended use or sale. Borrowing costs incurred afterwards are recognised in profit or loss for the current period.

Where the acquisition and construction or production activities of a qualifying asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended. Should the interruption be a necessary step for the asset qualified for capitalization under acquisition and construction or production to become ready for its intended use or sale, the borrowing cost shall continue to be capitalised. Borrowing costs arising during the interruption period shall be recognised in the profit or loss for the period until the acquisition and construction or production of the asset is resumed, and by then capitalisation of the borrowing costs shall also be resumed. Where part of the acquisition and construction or production activities of asset qualified for capitalization is completed and available for separate use, the capitalization of borrowing cost for that part of the asset shall be ceased.

3. *Calculation of capitalized borrowing costs*

For the specific borrowings obtained for the acquisition and construction or production of a qualifying asset, the interest expense (deducting any interest income earned from depositing the unused specific borrowings with the bank or any investment income arising on the temporary investment of those borrowings) and the ancillary expense incurred in relation to the specific borrowings shall be capitalized until the qualifying asset is ready for the intended use or sale.

For the general borrowings obtained for the acquisition and construction or production of a qualifying asset, the interest expense to be capitalized is determined by multiplying the capitalization rate of general borrowings used by the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowings.

Where there is any discount or premium, the amount of discounts or premiums shall be amortized in each accounting period by using effective interest rate method, and an adjustment shall be made to the amount of interests in each period.

During the capitalization period, exchange differences related to principal and interest on specific borrowings denominated in foreign currencies are capitalized as part of the cost of the qualifying assets.

(17) Intangible asset

1. *Initial measurement of intangible assets*

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Company.

An intangible asset shall be initially measured at cost. The expenditures incurred on an intangible asset shall be recognised as cost of the intangible asset only if it is probable that economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. Other expenditures on an item asset shall be charged to profit or loss when incurred.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(17) Intangible asset *(continued)*

1. Initial measurement of intangible assets *(continued)*

Land use right acquired shall normally be recognised as an intangible asset. For self-constructed buildings (e.g. plants), the expenditures on the land use right and cost of the buildings shall be separately accounted for as an intangible asset and fixed asset. For buildings and structures purchased, the purchase consideration shall be allocated among the land use right and the buildings on a reasonable basis. In case there is difficulty in making a reasonable allocation, the consideration shall be recognised in full as an fixed asset.

2. Subsequent measurement of intangible assets

(i) Useful life of intangible assets

The useful life of intangible assets is determined upon acquisition. For an intangible asset with definite useful life, the Company estimates the years of its useful life or the amount of similar measurement units such as production capacity constituting a useful life. An intangible asset with unforeseeable life to bring economic benefits to the Company is deemed to be an intangible asset with indefinite useful life.

(ii) Amortisation of intangible assets

An intangible asset with a definite useful life are amortized over the estimated useful life from the month of acquisition using the straight-line method. An intangible asset with indefinite useful life are not amortized but an impairment test is carried out at the end of the year.

The useful life and method of amortization for intangible assets are reviewed and adjusted, if necessary, at least annually at the end of each year.

(iii) When an intangible asset is expected to no longer generate any future economic benefits to the Company at the end of the year, the carrying amount of the intangible asset is entirely transferred into the profit or loss for the period.

(iv) Impairment of intangible assets

Please see note 4(20) for the recognition of provision for impairment of intangible assets.

(18) Expenditure on research and development

1. The Group classifies the expenditure on an internal research and development project into expenditure at the research phase and expenditure at the development phase.
2. Specific criteria for the classification of the Company's internal research and development projects into research phase and development phase:

Research phase: the phase at which creative investigation and research activities are carried out as planned for the purpose of obtaining and understanding new scientific or technical knowledge.

Development phase: the phase at which the research achievement or other knowledge is applied to a particular project or design in order to produce new or substantially improved materials, devices, products and etc. before commercial production or utilization.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(18) Expenditure on research and development *(continued)*

3. Expenditure at the research phase of an internal research and development project is recognized in profit or loss for the period when it is incurred.
4. Expenditure at the development phase of an internal research and development project is recognised as an intangible asset only if all of the following conditions are satisfied at the same time:
 - (i) It is technically feasible to complete the intangible asset so that it will be available for use or sale;
 - (ii) Management intends to complete and to use or sell the intangible asset;
 - (iii) It can be demonstrated how the intangible asset will generate economic benefits, including demonstrating that there is an existing market for products produced by the intangible asset or for the intangible asset itself, and that it can be used if the intangible asset is to be used internally;
 - (iv) There are adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible assets;
 - (v) The expenditure attributable to the intangible asset at its development phase can be reliably measured.
5. All the expenditures on research and development which cannot be distinguished between the research phase and development phase are recognised in the profit or loss when incurred.

(19) Long-term prepaid expenses

1. Long-term prepaid expenses are expenditures that have been incurred but should be recognized as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortized on a straight-line basis over the expected beneficial period.
2. Pre-operating expenses during the establishment period should be recognized directly in profit or loss in the month as incurred.

(20) Impairment of assets

Impairment of long-term equity investments in subsidiaries, associates and jointly ventures, investment properties subsequently measured using the cost method, fixed assets, construction in progress, intangible assets and goodwill (other than inventories, investment properties measured using the fair value method, deferred tax assets and financial assets) are determined as follows:

1. An asset is tested for impairment if there is any indication that the asset may be impaired at the balance sheet date. If any indication exists that the asset may be impaired, the recoverable amount is estimated. Goodwill arising from a business combination, an intangible asset with an indefinite useful life and intangible assets that have not been ready for intended use are tested for impairment at least once a year, irrespective of whether or not there is any indication that those assets may be impaired.
2. The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the expected future cash flows estimated to be derived from the asset. The recoverable amount is estimated on an individual asset basis. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of a group of assets to which the asset belongs is determined.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(20) Impairment of assets *(continued)*

3. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. When the recoverable amount of an asset or an asset group is less than its carrying amount, the carrying amount is written down to the recoverable amount. The written-down amount is provided for impairment loss and recognized in profit or loss for the period.
4. Once the impairment loss of the above assets is recognized, it will not be reversed in subsequent periods.

(21) Employee benefits

Staff remuneration of the Company mainly includes short-term staff remuneration, post-employment benefits, termination benefits and other long-term staff benefits, in which:

Short-term remuneration mainly includes salaries, bonuses, allowance and subsidies, staff welfare, medical insurance premium, maternity insurance premium, work-related injury insurance premium, housing provident funds, union operation costs and employee education costs and non-monetary welfare etc. Short-term remuneration incurred during the accounting period in which the staff provided services for the Company is recognised as a liability, and included in profit or loss for the current period or as related asset cost. Non-monetary welfare is measured at fair value.

Post-employment benefits mainly include defined contribution plan. Defined contribution plan mainly includes pension insurance premium and unemployment insurance premium. Relevant contribution amount is included as part of related asset cost or in profit or loss for the current period during the period in which the expenses incurred.

Where the Company terminates the employment relationship with employees before the expiration of the employment contracts or proposes compensation to encourage employees to accept voluntary redundancy, it shall recognise employee compensation liabilities arising from termination benefit and included in profit or loss for the current period, on the date when the Company may not revoke unilaterally the termination benefit provided due to the termination of employment relationship plans or employee redundancy proposals or when the Company recognises the cost and expenses related to restructuring involving in the payment of termination benefit, whichever is earlier. However, if the termination benefit is not expected to be fully paid within 12 months from the end of the reporting period, it shall be accounted for as other long-term staff remuneration.

The early retirement plan shall be accounted for in accordance with the same accounting principles for termination benefit abovementioned. The salaries or wages and the social contributions to be paid to the retiring employees for the period from the date on which the employees cease rendering services to the scheduled retirement date, shall be recognised as termination benefit in profit or loss for the current period if the recognition criteria for provisions are satisfied.

Where other long-term employee benefit provided by the Company for its employees falls in defined contribution plans, it shall be accounted for as a defined contribution plan, or otherwise as a defined benefit plan.

(22) Provisions

Obligations pertinent to the contingencies which satisfy all the following conditions are recognised as accrued liabilities: (a) The obligation is a current obligation borne by the Company; (b) it is likely that an outflow of economic benefits will be resulted from the performance of the obligation; and (c) the amount of the obligation can be reliably measured.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(22) Provisions *(continued)*

At the balance sheet date, accrued liabilities shall be measured at the best estimate of the necessary expenses required for the performance of existing obligations, after taking into account relevant risks, uncertainties, time value of money and other factors pertinent to the contingencies.

If all or part of the expenses required for settlement of accrued liabilities are expected to be compensated by a third party, the compensation amount shall, on a recoverable basis, be recognised as an asset separately, and compensation amount recognised shall not be more than the carrying amount of the accrued liabilities.

(23) Share-based payments and equity instruments

1. *Share-based payments*

Equity-settled share incentives are granted to senior management by the Company. Equity instruments used for share incentives are measured at their fair value as at the date of grant.

2. *Accounting treatment of share-based payments*

Equity-settled share payments to employees are charged to costs and capital reserve (other capital reserve) at their fair value on the date of grant, and subsequent changes in fair value are not accounted. Cash-settled share payments to employees are re-measured at their fair value on each balance sheet date and are recognised as costs and staff remuneration payables.

3. *Determination of fair value of equity instruments*

If there is an active market for an equity instrument granted such as share option, the fair value of the equity instrument is determined based on the quoted price in the active market. If not, the fair value is determined using the option pricing model.

4. *Recognition basis for the best estimate of exercisable equity instruments*

On each balance sheet date within the vesting period, the estimated number of exercisable equity instruments is amended based on the best estimate made by the Company according to the latest available subsequent information as to changes in the number of employees with exercisable rights. As at the exercise date, the final estimated number of exercisable equity instruments should equal the actual number of exercisable equity instruments.

5. *Accounting treatment for implementation, amendment and termination of share-based payments*

The accumulated cost to be recognised for the period is determined based on the fair value of abovementioned equity instruments and estimated number of exercisable equity instruments, after deducting the recognised amount for the previous period, and is expensed for the period.

(24) Revenue

1. *Sale of goods*

Revenue from the sale of goods is recognised when all the following conditions are satisfied: the significant risks and rewards of ownership of the goods have been transferred to purchaser; the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; it is probable that the associated economic benefits will flow to the Company; the relevant revenue and costs can be measured reliably.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(24) Revenue *(continued)*

2. *Rendering of services*

On the balance sheet date, outcome of a transaction on rendering of services that could be reliably estimated shall be recognised using percentage-of-completion method. The Company determines the total revenue from rendering of services based on the purchase price received or receivable by the party to whom the services are rendered under the contract or agreement, except when the purchase price is unfair.

On the balance sheet date, where the outcome of a transaction on rendering of services cannot be reliably estimated, accounting treatment is carried out as follows:

- (i) If the cost incurred is expected to be recoverable, the revenue from rendering of services shall be recognised at the cost that has been incurred, and an equivalent amount is carried forward to profit or loss as service cost.
- (ii) If the cost incurred is not expected to be recoverable, the cost that has been incurred shall be recognised in the profit or loss for the period, and no revenue from such services is recognised.

3. *Transfer of asset use rights*

When it is probable that the economic benefits related to the transaction will flow to the Company and the revenue from transfer of asset use rights can be reliably measured, it is recognised as follows:

- (i) The interest income is recognised on basis of the length of time during which and effective interest rate at which the Company's cash funds are utilized by the others.
- (ii) The royalty income is recognised on basis of the agreed payment schedule and method under relevant agreement or contract.

(25) Government grants

Government grants are divided into asset-related government grants and income-related government grants.

1. *Recognition and measurement of government grants*

Government grants are recognized when all attaching conditions are satisfied and the grants are received.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value; if fair value is not reliably determinable, it is measured at a nominal amount.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(25) Government grants *(continued)*

2. *Accounting treatment of government grants*

An asset-related government grant shall be recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset.

A government grant measured at a nominal amount is recognized directly in profit or loss for the period.

For an income-related government grant, where the grant is a compensation for related expenses or losses to be incurred by an entity in subsequent periods, it shall be recognized as deferred income and included in profit or loss for the period when related expenses are charged; where the grant is a compensation for related expenses or losses already incurred by the entity, the grant shall be recognized directly in profit or loss for the period.

(26) Deferred tax assets/deferred tax liabilities

1. *Current income tax*

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods shall be measured at the income tax expected to be paid (or returned) as required by tax laws. Taxable income, based on which the current income tax expense is calculated, is derived after adjusting the accounting profit before tax for the year in accordance with relevant requirements of tax laws.

2. *Deferred income tax assets and deferred income tax liabilities*

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base, and the difference between the tax base and the carrying amount of an item that is not recognised as an asset or liability but has a tax base that can be determined according to tax laws, shall be recognised for deferred income tax assets and deferred income tax liabilities using the balance sheet liability method.

Deferred income tax liabilities are not recognised for taxable temporary differences related to: the initial recognition of goodwill; and the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable income (or deductible loss) at the time of the transaction. In addition, for taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures, if the Company is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future, relevant deferred income tax liabilities are not recognised either. Except for abovementioned circumstances, the Company recognises deferred income tax liabilities arising from other taxable temporary differences.

Deferred income tax assets are not recognised for deductible temporary differences related to the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable income (or deductible loss) at the time of the transaction. In addition, for deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, if it is not probable that the temporary difference will reverse in the foreseeable future, and it is not probable that taxable income will be available in the future against which the deductible temporary difference can be utilised, relevant deferred income tax assets are not recognised. Except for abovementioned circumstances, the Company recognises deferred income tax assets arising from other deductible temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilised.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(26) Deferred tax assets/deferred tax liabilities *(continued)*

2. *Deferred income tax assets and deferred income tax liabilities (continued)*

The Company recognises a deferred income tax asset for deductible losses and tax credits that can be carried forward to subsequent periods, to the extent that it is probable that future taxable income will be available against which the deductible losses and tax credits can be utilised.

At the balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, according to the tax laws.

At the balance sheet date, the Company reviews the carrying amount of a deferred income tax asset. If it is probable that sufficient taxable income will not be available in future periods against which the benefit of deferred income tax asset can be utilised, the carrying amount of the deferred income tax asset shall be written down. Any amount so written down shall be reversed when it becomes probable that sufficient taxable income will be available.

3. *Income tax expense*

Income tax expense comprises current income tax expense and deferred income tax expense.

Current and deferred income tax expense or income is included in profit or loss for the current period, except for those recognised as other comprehensive income or current income tax and deferred income tax related to transactions or events that are directly recognised in shareholders' equity, which are recognised in other comprehensive income or shareholders' equity, and except for deferred income tax arising from a business combination, which is used to adjust the carrying amount of goodwill.

4. *Offsetting income tax*

With the legal rights of netting off and with an intention to net off or realize the assets and settle the liabilities, the Company records the net current income tax assets and current income tax liabilities after offsetting between the assets and liabilities.

When the Company has the legal rights of netting off current income tax assets and liabilities, and deferred income tax assets and deferred income tax liabilities are related to income tax imposed on the same taxable entity by the same tax competent authority or related to different taxable entities, the Company records the net current income tax assets and current income tax liabilities after offsetting between the assets and liabilities, provided that the taxable entity involved is intended to net off current income tax assets and liabilities or, realise assets and settle liabilities during each significant future period whenever deferred income tax assets and liabilities would be reversed.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(27) Segment information

The Group identifies operating segments based on the internal organization structure, management requirements and internal reporting system, and discloses segment information of reportable segments on the basis of operating segments.

An operating segment is a component of the Company that satisfies all the following conditions:

1. The component is able to generate revenues and incur expenses in the course of ordinary activities;
2. The operating results of the component are regularly reviewed by the Company's management in order to make decisions about resources to be allocated to the segment and to assess its performance; and
3. Information on financial position, operating results and cash flows of the component is available to the Company. The accounting policies of operating segments are the same with the major accounting policies of the Company.
4. The segment revenue, operating results, assets and liabilities include the amount that is directly attributable to the segment and can be allocated to the segment on a reasonable basis. Revenue, assets and liabilities of an operating segment are determined at the amount before the elimination of inter-group transactions and inter-group current account balances. Transfer price between operating segments is calculated based on terms similar to those of the transactions with other parties.

(28) Operating leases

The Company, as lessor, recognises the rentals under operating leases in profit or loss in respective periods over the leasing term on a straight line basis. Initial direct costs incurred are accounted for in the profit or loss for the period.

(29) Changes in significant accounting policies and accounting estimates

1. *Changes in accounting policies*

Early in 2014, the Ministry of Finance issued Accounting Standards for Business Enterprises 39 – Fair Value Measurement, Accounting Standards for Business Enterprises 30 – Presentation of Financial Statements (Revised 2014), Accounting Standards for Business Enterprises 9 – Employee Benefits (Revised 2014), Accounting Standards for Business Enterprises 33 – Consolidated Financial Statements (Revised 2014), Accounting Standards for Business Enterprises 40 – Joint Venture Arrangements, Accounting Standards for Business Enterprises 2 – Long-term Equity Investments (Revised 2014), and Accounting Standards for Business Enterprises 41 – Disclosure of Interests in Other Entities by the release of documents Caikuai [2014] No. 6, 7, 8, 10, 11, 14 and 16, respectively. These standards became effective on 1 July 2014 for entities adopting Accounting Standards for Business Enterprises. Entities listed overseas were encouraged to adopt the standards in advance of the scheduled effective date. Meanwhile, the Ministry of Finance issued Accounting Standards for Business Enterprises 37 – Presentation of Financial Instruments (Revised 2014) (Caikuai [2014] No.23) (hereinafter referred to as “Standard of Presentation of Financial Instruments”), requiring entities to present financial instruments in their financial reports for 2014 and the subsequent accounting periods pursuant to requirements of the standard.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(29) Changes in significant accounting policies and accounting estimates (continued)

1. Changes in accounting policies (continued)

The Company had adopted five new or revised Accounting Standards for Business Enterprises other than the Standards of “Long-term Equity Investments”, “Disclosure of Interests in Other Entities” and “Presentation of Financial Instruments” in its 2013 annual report, which have been adopted in preparing its 2014 annual report with adjustments made pursuant to the transition rules for each standard. Impacts on items and amounts in financial statements for comparable periods are set out as follows:

Standard	Changes in accounting policies and impacts on the Company	Affected amount of financial statement items as of 1 January 2014 and for the year ended 31 December 2013	
		Items	Affected amount Increase+/ Decrease-
Accounting Standards for Business Enterprises 2 – Long-term Equity Investments (Revised 2014)	According to Accounting Standards for Business Enterprises 2 – Long-term Equity Investments (Revised 2014), for long-term equity investments where the investing entity does not control or jointly control or has significant influences on the investee, and which has no quoted price in an active market and the fair value of which cannot be reliably measured, the Accounting Standards for Business Enterprises – Recognition and Measurement of Financial Instruments shall apply. The equity investment of RMB4,000,000 of the Company, which was originally recognized as a long-term equity investment, has been presented as a financial asset available-for-sale;	Financial assets available-for-sale	+4,000,000.00
		Long-term equity investments	-4,000,000.00
		Other comprehensive income	+23,335,449.54
		Investment gains	-23,335,449.54
Accounting Standards for Business Enterprises 30 – Presentation of Financial Statements (Revised 2014)	According to Accounting Standards for Business Enterprises 30 – Presentation of Financial Statements (Revised 2014) and application guidelines	Other comprehensive income	+17,014,908.31
		Capital reserves	-6,246,753.49
		Differences on translation of foreign currency financial statements	-10,768,154.82
		Deferred income	+56,011,769.90
		Other non-current liabilities	-56,011,769.90
		Other current assets	+243,321,567.75
		Taxes payable - VAT	+243,321,567.75

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(29) Changes in significant accounting policies and accounting estimates *(continued)*

1. *Changes in accounting policies (continued)*

Accounting Standards for Business Enterprises 2 – Long-term Equity Investments:

Before the adoption of the Accounting Standards for Business Enterprises 2 – Long-term Equity Investments (Revised 2014), the equity investments where the Company did not control or jointly control or had no significant influences on the investee, and which had no quoted price in an active market and fair value of which cannot be reliably measured, were accounted for as long-term equity investments by using the cost method. Since the adoption of the Accounting Standards for Business Enterprises 2 – Long-term Equity Investments (Revised 2014), the equity investments aforesaid have been accounted for as financial assets available-for-sale. Retrospective adjustments are made based on the changes to the above accounting policies.

Before the adoption of the Accounting Standards for Business Enterprises 2 – Long-term Equity Investments (Revised 2014), due to the acceptance of unilateral capital increase in jointly controlled entities and associated entities from other shareholders, the Company's shareholding was diluted while its share of interest was increased with joint control over or significant influence on those entities. Under equity method, the transaction was recognised as partial disposal of such entities and recorded in the current profit or loss, based on the difference between the increased share of net assets attributable to the Company arising from capital increase in the investee recognised in proportion to its shareholding after dilution and the carrying amount of long-term equity investments attributable to the decreased shareholdings which shall be carried forward. Since the adoption of the Accounting Standards for Business Enterprises 2 – Long-term Equity Investments (Revised 2014), under equity method, in such cases, the increased share of net assets in the investee attributable to the Company has been recognised as capital reserve which, upon subsequent disposal of the equity interests in these associated or jointly controlled entities, can be proportionally or fully included in the investment gains for the period of disposal. Retrospective adjustments are made based on the changes to the above accounting policies.

Accounting Standards for Business Enterprises 41 – Disclosure of Interests in Other Entities:

Accounting Standards for Business Enterprises 41 – Disclosure of Interests in Other Entities apply to the disclosure of interests by enterprises in their subsidiaries, joint venture arrangements, associated entities and structured entities that are not included in the consolidated financial statements. The adoption of the Accounting Standards for Business Enterprises 41 – Disclosure of Interests in Other Entities will result in a broader range of disclosure by the enterprises in the notes to financial statements. These financial statements have made disclosures in accordance with the standard, and the notes to the financial statements for comparable periods have been restated accordingly.

Accounting Standards for Business Enterprises 37 – Presentation of Financial Instruments:

Accounting Standards for Business Enterprises 37 – Presentation of Financial Instruments (Revised 2014) add the provisions and requirements of disclosure of offset and financial assets transfer, and amend the requirements of disclosure of the maturity analysis for financial assets and financial liabilities. These financial statements have been presented in accordance with the standard, and the notes to the financial statements for comparable periods have been restated accordingly.

2. *Changes in accounting estimates*

There are no changes in the accounting estimates of the Company in the period.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(30) Critical accounting judgements and estimates

The Company needs to make judgments, estimates and assumptions as to the carrying amount of statement items which cannot be accurately measured in applying its accounting policies due to inherent uncertainties of operation activities. Such judgments, estimates and assumptions are made based on the historical experience of the Company's management and taking into account other relevant factors, and may affect the reported amount of revenue, expenses, assets and liabilities and disclosure of contingent liabilities at the balance sheet date. However, the actual results derived from the uncertainties of such estimates may differ from the current estimation of the Company's management, which may cause critical adjustment to the carrying amount of assets or liabilities which may be affected in the future.

The Company regularly reviews the aforesaid judgments, estimates and assumptions on a going concern basis. A revision to accounting estimate is recognised in the period in which the estimate is revised if it only affects that period. A revision is recognised in the period of the revision and future periods if it affects both current and future periods.

At the balance sheet date, the critical areas where the Company needs to make judgments, estimates and assumptions as to the amount of items in the financial statements are set out below:

1. *Classification of leases*

The Company classifies the leases as operating lease and financing lease in accordance with "Accounting Standards for Business Enterprises 21 – Leases". When making the classification, the management needs to analyse and judge whether all the risks and rewards relating to the ownership of leased out assets have been substantially transferred to the lessee, or whether the Company has been substantially obliged to all the risks and rewards relating to the ownership of leased assets.

2. *Allowance for inventories*

In accordance with the accounting policies of inventories and by measuring at the lower of cost and net realisable value, the Company makes allowance for inventories which have costs higher than net realisable value or become obsolete and slow-moving. Write-down of inventories to their net realisable values is based on the valuation of marketability and net realisable values of inventories. Determination of impairment of inventories requires the management to make judgments and estimates on the basis of definite evidence and taking into account the purpose of holding inventories and impacts of events after balance sheet date. The difference between the actual outcome and original estimates shall affect the carrying amount of inventories and provision for and reversal of the provision for the impairment of inventories during the period in which the estimates are revised.

3. *Depreciation and amortisation*

The Company shall provide depreciation and amortisation for investment properties, fixed assets and intangible assets over their useful lives and after taking into account of their residual value by using straight-line method. The Company shall regularly review the useful lives to determine the amount depreciated and amortised to be accounted for in each reporting period. The useful life is determined by the Company according to its previous experience on similar assets and estimated technical updates. If there is any material change in the estimate previously made, the depreciation and amortisation will be adjusted over the future period.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(30) Critical accounting judgements and estimates *(continued)*

4. *Deferred income tax assets*

The deferred income tax assets will be recognised for all unused tax losses to the extent that it is probable there will be sufficient taxable profits against which the loss is utilised. This requires the Company's management to apply numerous judgments to estimate the timing and amount of the future taxable profits so as to determine the amount of deferred income tax assets to be recognised with reference to the tax planning strategy.

5. *Income tax*

There are some uncertainties in tax treatment and calculation for some transactions of the Company during its ordinary course of business. The approval from the tax authority is required for pre-tax expensing of some items. Any difference between the final determined outcome of such tax matters and the initially estimated amount will exert an effect on the current income tax and deferred income tax during the period in which the final amount is determined.

5. TAXATION

(1) The types and rates of taxes applicable to the Group

Type of taxes	Tax basis	Tax rate
Value-added tax	Taxable value added amount	17%
Business tax	Taxable business turnover	5%
City maintenance and construction tax	Turnover tax payable	1%-7%
Education surcharges	Turnover tax payable	3%
Corporate income tax	Taxable income	25%

(2) Tax preferences and approvals

According to the list of high-tech enterprises approved by the National Torch Center, Hisense Ronshen (Guangdong) Refrigerator Co., Ltd., a subsidiary of the Company, was recognised as a high-tech enterprise (Number: GR201444001326), with an effective period of three years (2014, 2015 and 2016). Pursuant to the tax preference regulation on High-Tech Enterprises, this subsidiary is entitled to the preferential enterprise income tax rate of 15% in 2014, 2015 and 2016 (2013: 15%).

According to the list of high-tech enterprises approved by the National Torch Center, Guangdong Kelon Mould Co., Ltd., a subsidiary of the Company, was recognised as a high-tech enterprise (Number: GR201444001017), with an effective period of three years (2014, 2015 and 2016). Pursuant to the tax preference regulation on High-Tech Enterprises, this subsidiary is entitled to the preferential enterprise income tax rate of 15% in 2014, 2015 and 2016 (2013: 15%).

Hisense Ronshen (Guangdong) Freezer Co., Ltd. a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GF201244000446) dated 26 November 2012 which was jointly issued by the Guangdong Science and Technology Department, Guangdong Provincial Finance Department, Guangdong Provincial State Tax Bureau and Guangdong Provincial Local Taxation Bureau, with an effective period of three years (2012, 2013 and 2014). Pursuant to the tax preference regulation on High-tech Enterprises, this subsidiary is entitled to the preferential enterprise income tax rate of 15% in 2012, 2013 and 2014.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

5. TAXATION *(continued)*

(2) Tax preferences and approvals *(continued)*

Guangdong Hisense Household Electrical Appliance Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GF201344000231) dated 16 October 2013 which was jointly issued by the Guangdong Science and Technology Department, Guangdong Provincial Finance Department, Guangdong Provincial State Tax Bureau and Guangdong Provincial Local Taxation Bureau, with an effective period of three years (2013, 2014 and 2015). According to the relevant tax preference regulation on High-tech Enterprise, this subsidiary is entitled to the preferential enterprise income tax rate of 15% in 2013, 2014 and 2015.

Hisense (Chengdu) Refrigerator Co., Ltd., a subsidiary of the Company, received Certificate of High-tech Enterprise (Number: GF201251000207) dated 28 November 2012 which was jointly issued by the Sichuan Science and Technology Department, Sichuan Provincial Finance Department, Sichuan Provincial State Tax Bureau and Sichuan Provincial Local Taxation Bureau, with an effective period of three years (2012, 2013 and 2014). Pursuant to the tax preference regulation on High-tech Enterprises, this subsidiary is entitled to the preferential enterprise income tax rate of 15% in 2012, 2013 and 2014.

Hisense (Shandong) Air-conditioning Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201437100159) dated 14 October 2014 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, Qingdao State Taxation Bureau and Qingdao Local Taxation Bureau, with an effective period of three years (2014, 2015 and 2016). According to the relevant tax preference regulation on High-tech Enterprises, the applicable enterprise income tax rate for this subsidiary is 15% in 2014, 2015 and 2016.

Qingdao Hisense Mould Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201437100092) dated 14 October 2014 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, Qingdao State Taxation Bureau and Qingdao Local Taxation Bureau, with an effective period of three years (2014, 2015 and 2016). According to the relevant tax preference regulation on High-tech Enterprises, the applicable enterprise income tax rate for this subsidiary is 15% in 2014, 2015 and 2016.

Hisense (Shandong) Refrigerator Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201437100091) dated 14 October 2014 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, Qingdao State Taxation Bureau and Qingdao Local Taxation Bureau, with an effective period of three years (2014, 2015 and 2016). According to the relevant tax preference regulation on High-tech Enterprises, the applicable enterprise income tax rate for this subsidiary is 15% in 2014, 2015 and 2016.

Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201332000826) dated 3 December 2013 which was jointly issued by the Jiangsu Science and Technology Department, Jiangsu Finance Department, Jiangsu Provincial State Taxation Bureau and Jiangsu Local Taxation Bureau, with an effective period of three years (2013, 2014 and 2015). According to the relevant tax preference regulation on High-tech Enterprises, the applicable enterprise income tax rate for this subsidiary is 15% in 2013, 2014 and 2015.

The subsidiaries of the Company which were incorporated in Hong Kong are subject to an income tax on the estimated assessable profits derived from or arising in Hong Kong at a rate of 16.5% (2013: 16.5%).

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

5. TAXATION (continued)

(3) Other illustrations

- Other taxes in the PRC, including, among others, real estate tax, land use tax, local education surcharges, vehicle and vessel tax, stamp duty and withholding individual income tax, are calculated and payable in accordance with the relevant regulations of the State tax laws.
- Kelon (Japan) Ltd, a subsidiary of the Company, is a legal person in Japan and is mainly subject to income tax (including corporation tax, corporate inhabitant tax and corporate business tax), consumption tax and fixed asset tax. The bases and rates of such taxes are as follows:

Type of taxes	Tax Basis	Tax rate
Corporation tax	The audited profits for the period	In accordance with the applicable local tax rate
Corporate inhabitant tax (local tax)	A fixed tax rate on the legal person itself and proportional tax rate on its income	In accordance with the applicable local tax rate
Corporate business tax (local tax)	The total amount of income, value surcharge and capital for each operating year	In accordance with the applicable local tax rate
Consumption tax	The difference between the total sales amount and the total purchase amount of the tax payer	In accordance with the applicable local tax rate
Fixed asset tax	Value of lands, buildings and depreciable assets	In accordance with the applicable local tax rate

6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise expressly stated, all amounts in the following table of this section are denominated in RMB'0000.

(1) Major subsidiaries

1. Subsidiaries acquired from establishment or investment

Name of the subsidiary	Type of subsidiary	Place of registration	Nature of Business	Registered capital	Entity type	Scope of business	Actual investment at the end of the period	Shareholding (%)		% of voting rights held	Con-solidated or not	Minority interest	Gain or loss attributable to minority interest	Dividend attributed to minority interest
								Direct	Indirect					
Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. ("Guangdong Refrigerator")	Wholly-owned subsidiary	Foshan	Industrial	US\$26,800,000	Limited liability company	Manufacture and sale of refrigerators	20,464.54	70%	30%	100%	Yes			
Guangdong Kelon Air-conditioner Co., Ltd. ("Guangdong Air-conditioner") ^{#1}	Subsidiary	Foshan	Industrial	US\$36,150,000	Limited liability company	Manufacture and sale of air-conditioners	28,100.00	60%		100%	Yes			
Hisense Ronshen (Guangdong) Freezer Co., Ltd. ("Guangdong Freezer")	Wholly-owned subsidiary	Foshan	Industrial	23,700.00	Limited liability company	Manufacture and sale of freezers	3,530.59	44%	56%	100%	Yes			

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Major subsidiaries (continued)

1. Subsidiaries acquired from establishment or investment (continued)

Name of the subsidiary	Type of subsidiary	Place of registration	Nature of Business	Registered capital	Entity type	Scope of business	Actual investment at the end of the period	Shareholding (%)		% of voting rights held	Con-solidated or not	Minority interest	Gain or loss attributable to minority interest	Dividend attributed to minority interest
								Direct	Indirect					
Shunde Kelon Household Electrical Appliance Co., Ltd. ("Kelon HEA")	Wholly-owned subsidiary	Foshan	Industrial	1,000.00	Limited liability company	Manufacture and sale of household appliances	250.00	25%	75%	100%	Yes			
Guangdong Hisense Home Appliances Co., Ltd. ("Hisense Home Appliances") ²	Subsidiary	Foshan	Industrial	5,740.51	Limited liability company	Manufacture and sale of home appliances, such as metal furniture, plastic furniture, kitchen ventilator, gas stove	5,153.11	81.17%		81.17%	Yes	1,647.54	495.25	
Foshan Shunde Rongsheng Plastic Co., Ltd. ("Rongsheng Plastic")	Subsidiary	Foshan	Industrial	US\$15,827,400	Limited liability company	Manufacture of plastic parts	8,184.58	44.92%	25.13%	70.05%	Yes	8,396.81	166.56	
Guangdong Kelon Mould Co., Ltd. ("Kelon Mould")	Subsidiary	Foshan	Industrial	US\$15,056,100	Limited liability company	Manufacture of mould	8,886.70		70.11%	70.11%	Yes	5,211.82	424.76	
Guangdong Huaao Electronics Co., Ltd. ("Huaao Electronics")	Subsidiary	Foshan	Industrial	1,000.00	Limited liability company	Research and development, production and sale of electronic products	700.00		70%	100%	Yes			
Guangdong Foshan Shunde Kelon Property Service Co., Ltd. ("Kelon Property")	Wholly-owned subsidiary	Foshan	Service	500.00	Limited liability company	Corporate consultancy management, catering, household decoration design	492.78		100%	100%	Yes			
Foshan Shunde Wangao Import & Export Co., Ltd. ("Wangao I&E")	Wholly-owned subsidiary	Foshan	Commercial	300.00	Limited liability company	Import and export	300.00	20%	80%	100%	Yes			
Foshan Shunde Kelon Jiake Electronics Co., Ltd. ("Kelon Jiake")	Wholly-owned subsidiary	Foshan	Industrial	6,000.00	Limited liability company	IT and communication technology, and micro-electronics technology development	6,000.00	70%	30%	100%	Yes			
Guangdong Kelon Weili Electrical Appliances Co., Ltd. ("Kelon Weili")	Subsidiary	Zhongshan	Industrial	20,000.00	Limited liability company	Production of intelligent washing machines, intelligent air-conditioners and after-sale maintenance services and technology consultation for its products, 70% products for domestic sale		55%	25%	80%	Yes	(436.26)	0.23	
Hisense Ronshen (Yingkou) Refrigerator Co., Ltd. ("Yingkou Refrigerator")	Subsidiary	Yingkou	Industrial	20,000.00	Limited liability company	Manufacture and sale of refrigerators	14,214.36	42%	36.79%	78.79%	Yes	217.42	(344.58)	
Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon")	Wholly-owned subsidiary	Nanchang	Industrial	US\$29,800,000	Limited liability company	Manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small household appliances	23,941.85	60%	40%	100%	Yes			

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Major subsidiaries (continued)

1. Subsidiaries acquired from establishment or investment (continued)

Name of the subsidiary	Type of subsidiary	Place of registration	Nature of Business	Registered capital	Entity type	Scope of business	Actual investment at the end of the period	Shareholding (%)		% of voting rights held	Con-solidated or not	Minority interest	Gain or loss attributable to minority interest	Dividend attributed to minority interest
								Direct	Indirect					
Jiangxi Kelon Combine Electrical Appliances Co., Ltd. ("Combine") ⁸	Subsidiary	Nanchang	Industrial	2,000.00	Limited liability company	Research and development, production and sale of household and commercial airconditioners, refrigerators, freezers and small household appliances	1,100.00		55%	55%	No			
Hangzhou Kelon Electrical Co., Ltd. ("Hangzhou Kelon")	Wholly-owned subsidiary	Hangzhou	Industrial	2,400.00	Limited liability company	Research and development and production of high efficiency, energy saving and environmental friendly refrigerators, technology for environmental friendly refrigerators, technology consultation, warehousing, and sale of the Company's products	2,400.00	100%		100%	Yes			
Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd. ("Yangzhou Refrigerator")	Wholly-owned subsidiary	Yangzhou	Industrial	US\$44,447,900	Limited liability company	Production and sale of energy saving, environmental friendly refrigerators and other energy saving cooling electrical appliances	32,254.38	74.33%	25.67%	100%	Yes			
Shangqiu Kelon Electrical Co., Ltd. ("Shangqiu Kelon")	Wholly-owned subsidiary	Shangqiu	Industrial	15,000.00	Limited liability company	Research and development, manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small household appliances and parts and accessories, and provision of relevant information and technical consultancy services	15,000.00		100%	100%	Yes			
Zhuhai Kelon Electrical Industrial Development Co., Ltd. ("Zhuhai Kelon")	Wholly-owned subsidiary	Zhuhai	Industrial	US\$29,980,000	Limited liability company	Research and development and manufacture of refrigerators, air-conditioners, freezers, small household appliances and related accessories	23,581.63	75%	25%	100%	Yes			
Shenzhen Kelon Purchase Co., Ltd. ("Shenzhen Kelon")	Wholly-owned subsidiary	Shenzhen	Commercial	10,000.00	Limited liability company	Domestic business, material supply and marketing (excluding franchise, control and monopoly of goods); import and export; provision of warehousing, information consultation	10,000.00	95%	5%	100%	Yes			
Pearl River Electric Refrigerator Co., Ltd. ("Pearl River Refrigerator")	Wholly-owned subsidiary	Hong Kong	Commercial	HK\$400,000	Limited liability company	Sale of raw materials and accessories for refrigerators	31.56		100%	100%	Yes			

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Major subsidiaries (continued)

1. Subsidiaries acquired from establishment or investment (continued)

Name of the subsidiary	Type of subsidiary	Place of registration	Nature of Business	Registered capital	Entity type	Scope of business	Actual investment at the end of the period	Shareholding (%) Direct Indirect	% of voting rights held or not	Con-solidated or not	Minority interest	Gain or loss attributable to minority interest	Dividend attributed to minority interest
Kelon Development Co., Ltd. ("Kelon Development")	Wholly-owned subsidiary	Hong Kong	Investment	HKS 5,000,000	Limited liability company	Investment holding	1,120.00	100%	100%	Yes			
Kelon (Japan) Limited ("Kelon Japan")	Wholly-owned subsidiary	Japan	Commercial	JPY 1,100,000,000	Limited liability company	Technical research and trading in electrical household appliances	2,594.32	100%	100%	Yes			
Kelon International Incorporation ("KII")	Wholly-owned subsidiary	British Virgin Islands	Commercial	US\$50,000	Limited liability company	Investment holding and sale of household appliances	0.0006	100%	100%	Yes			
Hisense (Chengdu) Refrigerator Co., Ltd. ("Chengdu Refrigerator")	Wholly-owned subsidiary	Chengdu	Industrial	5,000.00	Limited liability company	Manufacture of household appliances and refrigeration equipment, sale of the Company's products, and provision of related after-sale services	5,000.00	100%	100%	Yes			
Hisense (Shandong) Refrigerator Co., Ltd. ("Shandong Refrigerator")	Wholly-owned subsidiary	Qingdao	Industrial	27,500.00	Limited liability company	Manufacture of energy saving and environmental friendly refrigerators, freezers and other household energy saving cooling appliances; sale of self-manufactured products of the Company; design and development of new products in the area of energy saving and environmental friendly refrigerators, freezers and energy saving cooling appliances	27,500.00	100%	100%	Yes			
Guangdong Hisense Refrigerator Marketing Co., Ltd. ("Refrigerator Marketing Company")	Subsidiary	Foshan	Commercial	20,081.90	Joint stock limited	Sale and provision of after-sale and technical services of refrigerators, freezers, washing machines, living appliances and other household appliances	15,827.60	78.82%	78.82%	Yes	4,596.72	343.86	
Qingdao Hisense Air-conditioner Marketing Co., Ltd. ("Air-conditioner Marketing Company")	Subsidiary	Qingdao	Commercial	10,091.00	Joint stock limited	General items of operation: sales and provision of after-sale and technical services of air-conditioners, air purifiers, dehumidifiers, living appliances, environmental appliances	7,626.00	75.57%	75.57%	Yes	3,503.62	1,039.58	

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Major subsidiaries (continued)

1. Subsidiaries acquired from establishment or investment (continued)

Name of the subsidiary	Type of subsidiary	Place of registration	Nature of Business	Registered capital	Entity type	Scope of business	Actual investment	Shareholding (%)		% of voting rights held	Con-solidated or not	Gain or loss attributable to minority interest	Dividend attributed to minority interest
							at the end of the period	Direct	Indirect	Minority interest	Minority interest	Minority interest	
Hisense Home Appliance (Europe) Research & Development Center GmbH ("Hisense Europe Research")	Wholly-owned subsidiary	Germany	R&D center	EUR 50,000.00	Limited liability company	Research, development and design of refrigerators, air-conditioners, washing machines, small household appliances and other household appliances, provision of technical consultation, services and technical support for household appliances, and sale of design proposals of household appliances products	39.85		100%	100%	Yes		
Hisense (Guangdong) Air-Conditioner Company Limited ("Hisense Guangdong Air-Conditioner")	Wholly-owned subsidiary	Jiangmen	Industrial	20,000.00	Limited liability company	Development, manufacture and assembly of air-conditioners, air purifiers, dehumidifiers, living appliances, environmental appliances and other household appliances products, sale of self-manufactured products, provision of after-sale and technical consultancy services related to above products, Import and export of various goods and technologies self-manufactured and distributed (exclusive of goods or technologies subject to business operation restrictions by State or prohibited from import or export)	20,000.00		100%	100%	Yes		
Hisense (Guangdong) Mould Plastic Company Limited ("Hisense Guangdong Mould Plastic")	Wholly-owned subsidiary	Jiangmen	Industrial	1,000.00	Limited liability company	Manufacture of moulds, hardwares, plastic furnitures (exclusive of worn-out plastics), and development, manufacture, assembly and sales of their parts, provision of after-sale and technical consultancy services related to above products, Import and export of various goods and technologies self-manufactured and distributed (items that permission is required by law, no operations shall be carried out until permitted by relevant departments)	1,000.00		100%	100%	Yes		

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Major subsidiaries (continued)

2. Subsidiary acquired from business combination under common control

Name of the subsidiary	Type of subsidiary	Place of registration	Nature of Business	Registered capital	Entity type	Scope of business	Actual	Shareholding (%)		% of	Con-	Minority interest	Gain or loss attributable to minority interest	Dividend attributed to minority interest
							investment at the end of the period	Direct	Indirect	voting rights held	solidated or not			
Hisense (Beijing) Electric Co., Ltd. ("Beijing Refrigerator")	Subsidiary	Beijing	Industrial	8,571.00	Limited liability company	Manufacture of refrigerator products and other household appliances; sale of self-manufactured products; import and export of goods and technologies, and provision of import and export agency services	9,210.12	55%		55%	Yes	8,798.18	1,431.07	
Hisense (Shandong) Air-conditioning Co., Ltd. ("Shandong Air-conditioning")	Wholly-owned subsidiary	Qingdao	Industrial	50,000.00	Limited liability company	Research and development, manufacture and sale of air-conditioning products and injection moulds, and provision of after-sale maintenance services	56,717.55	100%		100%	Yes			
Hisense (Zhejiang) Air-conditioning Co., Ltd. ("Zhejiang Air-conditioning")	Subsidiary	Huzhou	Industrial	11,000.00	Limited liability company	Production of air-conditioners, manufacture and sale of other household appliances, provision of related technical services, and import and export of goods and technologies	5,452.36	51%		51%	Yes	3,954.86	(233.94)	
Qingdao Hisense Mould Co., Ltd. ("Hisense Mould")	Subsidiary	Qingdao	Industrial	2,764.20	Limited liability company	Design and manufacture of moulds, machine processing, design and manufacture of jigs, plastic injection, painting/brushing and processing etc.	12,162.80	78.70%		78.70%	Yes	6,521.70	1,385.12	294.39
Hisense (Nanjing) Electric Co., Ltd. ("Nanjing Refrigerator")	Subsidiary	Nanjing	Industrial	12,869.15	Limited liability company	Research and development, manufacture and sale of fluorine-free refrigeration products and other household appliances. Import and export of various goods and technologies self-manufactured and distributed	10,173.67		60%	60%	Yes	5,809.35	(804.72)	

*1 The Company holds 60% equity interests in Guangdong Air-conditioner and 70% equity interests in Huaao Electronics, however as the Company has committed to provide financial support to these companies and bear 100% of their losses, therefore the long-term equity investment was accounted for 100% shareholding.

*2 Guangdong kelon fittings Co., Ltd. had its name officially changed to Guangdong Hisense Home Appliances Co., Ltd. during the current period. The registered capital of Hisense Home Appliances was increased during the current period, and upon the increase, the Company's shareholding in Hisense Electrical Appliances was decreased from 100% to 81.17%.

*3 The Company holds 55% equity interests in Combine. As Combine has declared in liquidation and reorganization, therefore it has not been included in the consolidated financial statements.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Major subsidiaries (continued)

3. Illustration of changes in scope of business combination

Subsidiaries newly consolidated during the period

Name	Unit: RMB	
	Net assets as at the end of the period	Net profit for the period
Hisense Guangdong Air-Conditioner	197,193,190.13	(2,806,809.87)
Hisense Guangdong Mould Plastic	9,969,967.26	(30,032.74)

4. Major financial information of the principal non-wholly-owned subsidiaries

Unit: RMB'0000

Name of the subsidiary	Closing balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Refrigerator Marketing Company	278,235.80	3,613.95	281,849.75	260,151.50		260,151.50
Air-conditioner Marketing Company	249,589.64	1,113.83	250,703.47	236,360.66		236,360.66

Name of the subsidiary	Opening balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Refrigerator Marketing Company	20,075.10		20,075.10			
Air-conditioner Marketing Company	10,087.08		10,087.08			

Name of the subsidiary	Amount incurred during current year				Amounts incurred in previous year			
	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Refrigerator Marketing Company	658,255.99	1,623.16	1,623.16	9,638.90		(6.8)	(6.8)	(20,073.70)
Air-conditioner Marketing Company	673,619.51	4,255.73	4,255.73	30,878.56		(3.92)	(3.92)	(10,063.92)

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(1) Major subsidiaries *(continued)*

5. Transactions that led to changes in the ownership interest in, but without losing of control of the subsidiary

(1) Notes to changes in the share of ownership interest in the subsidiary

During the current period, the registered capital of Hisense Home Appliances was increased by RMB10,810,500 and upon the increase, the Company's shareholding in Hisense Home Appliances changed from 100% to 81.17%.

(2) Effect of the transactions on the minority interest and ownership interest attributable to the parent

Item	Hisense Home Appliances
Cost of purchase/consideration for disposal	14,594,175.00
— Cash	14,594,175.00
Total cost of purchase/consideration for disposal	14,594,175.00
Less: Share of the subsidiary' net asset measured in proportion to the acquired/disposed equity interest	17,803,080.56
Difference	(3,208,905.56)
Including: Adjustment to capital reserve	(3,208,905.56)

6. Exchange rate for major items in the financial statements of overseas operating entities

Major items in the financial statements	Currency	Balances denominated in foreign currency	Exchange rate	<i>Unit: RMB</i>
				Balances denominated in RMB
Cash at bank and on hand	HKD	22,571,972.88	0.78887	17,806,352.25
	EUR	53,168.88	7.4556	396,405.90
Net accounts receivable	HKD	699,772,109.52	0.78887	552,029,224.04
Other payables	HKD	453,545,505.95	0.78887	357,788,443.28
Revenue from principal operations	HKD	5,072,178,363.63	0.78755	3,994,594,070.28
Administrative expenses	HKD	2,794,715.45	0.78755	2,200,978.15

Notes to exchange rate:

Consolidated overseas operating entities that are accounted for in foreign currency include Pearl River Refrigerator, Kelon Development, KII, Hisense Europe Research and Kelon Japan. On the date of consolidation, the Company has translated the items of assets and liabilities at spot exchange rate on the balance sheet date, while items under equity (other than unallocated profits) were translated at historic exchange rate, and items under profit and loss were translated at average exchange rate. The difference between assets and liabilities and net assets was reflected in "Other comprehensive income" and presented separately under shareholder's equity in the balance sheet.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unless otherwise specified, opening balances refer to balances as at 1 January 2014, whereas closing balances refer to balances as at 31 December 2014, and the current period refers to 2014, whereas the previous period refers to 2013 in the following notes (including major notes to the financial statements of the Company):

1. Cash at bank and on hand

Item	Closing balance			Opening balance		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
Cash on hand:						
RMB	10,000.00	1.00000	10,000.00	2,857.60	1.0000	2,857.60
USD						
JPY						
Others						
Subtotal of cash:			10,000.00			2,857.60
Bank deposits:						
RMB	821,945,447.61	1.00000	821,945,447.61	327,865,899.56	1.0000	327,865,899.56
HKD	589,349.85	0.78887	464,920.48	10,123,987.34	0.7862	7,959,782.49
USD	7,363,232.04	6.11900	45,055,608.01	20,868,665.66	6.0969	127,234,162.50
JPY	158,386.00	0.05137	8,136.45	96,485.00	0.0578	5,574.15
EUR	341,318.49	7.45560	2,544,734.41	1,176,618.04	8.4189	9,905,829.81
Others	2,202.38		9,908.16	2,210.47		13,071.43
Subtotal of bank deposits:			870,028,755.12			472,984,319.94
Other cash at bank and on hand:						
RMB	625,000.00	1.00000	625,000.00	800,000.00	1.0000	800,000.00
Subtotal of other cash at bank and on hand:	625,000.00		625,000.00			800,000.00
Total			870,663,755.12			473,787,177.54

Notes to cash at bank and on hand:

Other cash at bank and on hand represented mainly security deposit.

Breakdown of restricted cash at bank and on hand are listed as follows:

Item	Closing balance	Opening balance
Security deposit	625,000.00	800,000.00
Total	625,000.00	800,000.00

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Financial assets at fair value through profit or loss

(1) *Category*

Item	Closing balance	Opening balance
Financial assets held-for-trading	162,460.00	67,115,019.35
Including: Derivative financial assets	162,460.00	67,115,019.35
Total	162,460.00	67,115,019.35

(2) *Notes to financial assets held-for-trading*

- (i) There was no material restriction for realizing the financial assets held-for-trading as at the end of the year.
- (ii) Derivative financial assets mainly represented the outstanding forward exchange settlement and sale contracts entered into by the Company and banks, which were recognized as the financial assets or liabilities held-for-trading based on the difference between the quoted price of the outstanding forward contracts and the forward rates as at 31 December 2014.

3. Notes receivable

(1) *Classification of notes receivable*

Category	Closing balance	Opening balance
Bank acceptance notes	967,193,183.44	2,152,781,319.53
Commercial acceptance notes	24,603,754.38	8,020,413.97
Total	991,796,937.82	2,160,801,733.50

(2) *Pledged notes receivable as at the end of the year:*

Item	Pledged amounts as at the end of the year	
	Closing balance	Opening balance
Bank acceptance notes	365,731,397.56	841,772,597.15
Total	365,731,397.56	841,772,597.15

Whereas: the top five notes receivables are as follows:

Issuer	Date of issuance	Maturity date	Amount
Top 1	2014-7-31	2015-1-31	31,232,130.00
Top 2	2014-7-31	2015-1-31	21,813,067.00
Top 3	2014-8-29	2015-2-28	12,904,460.00
Top 4	2014-8-29	2015-2-28	12,480,671.00
Top 5	2014-12-24	2015-6-24	10,349,963.50

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Notes receivable (continued)

- (3) As at the end of the year, there was no discounted notes receivable.
- (4) As at the end of the year, there were no notes receivable that are reclassified to accounts receivable due to inability of the issuers to settle the notes.
- (5) As at the end of the year, notes endorsed to other parties but not due yet amounted to RMB6,064,065,561.52 (31 December 2013: RMB5,114,804,598.86), with the top five notes receivables as follows:

Issuer	Date of issuance	Maturity date	Amount
Beijing Jingdong Century Trading Co., Ltd.	2014-07-16	2015-01-16	18,455,375.00
Anhui Fang Yu Electric Appliance Sales Co., Ltd.	2014-07-24	2015-01-24	14,079,605.00
JiaxingYongle Electrical Appliance Co., Ltd.	2014-07-18	2015-01-18	10,529,499.94
Qingdao Gome Electrical Appliance Co., Ltd.	2014-12-24	2015-06-24	10,302,539.10
Suning Procurement Center of Suning Commerce Group Co., Ltd.	2014-08-29	2015-02-27	10,000,000.00

- (6) Please see note 8 for details of notes receivables from related parties as at the end of the year.

4. Accounts receivable

- (1) *Accounts receivable by category:*

Category	Closing balance			
	Book value		Provision for bad debts	
	Amount	%	Amount	%
Individually significant and subject to separate provision for bad debts				
Ageing analysis	2,131,048,376.82	100.00	146,756,989.89	6.89
Greencool Companies				
Subtotal	2,131,048,376.82	100.00	146,756,989.89	6.89
Individually insignificant but subject to separate provision for bad debts				
Total	2,131,048,376.82	100.00	146,756,989.89	6.89

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivable (continued)

(1) Accounts receivable by category: (continued)

Continued from above table

Category	Opening balance			
	Book value		Provision for bad debts	
	Amount	%	Amount	%
Individually significant and subject to separate provision for bad debts				
Ageing analysis	1,784,069,239.64	97.88	155,260,459.01	8.70
Greencool Companies	38,689,983.28	2.12	22,726,941.64	58.74
Subtotal	1,822,759,222.92	100.00	177,987,400.65	9.76
Individually insignificant but subject to separate provision for bad debts				
Total	1,822,759,222.92	100.00	177,987,400.65	9.76

Accounts receivable in the group provided for bad debts by using ageing method:

Aging	Closing balance			Opening balance		
	Book value		Provision for bad debts	Book value		Provision for bad debts
	Amount	%		Amount	%	
Within three months	1,939,033,166.75	90.99		1,603,973,518.09	88.00	
Over three months but within six months	41,524,824.98	1.95	4,152,482.50	25,252,208.41	1.39	2,525,220.84
Over six months but within one year	15,771,755.40	0.74	7,885,877.70	4,216,549.94	0.23	2,108,274.97
Over one year	134,718,629.69	6.32	134,718,629.69	150,626,963.20	8.26	150,626,963.20
Total	2,131,048,376.82	100.00	146,756,989.89	1,784,069,239.64	97.88	155,260,459.01

Accounts receivable in the group provided for bad debts by Greencool Companies:

Name	Closing balance		Opening balance	
	Amount	Provision for bad debts	Amount	Provision for bad debts
Hefei Weixi Electrical Appliance Co., Ltd. ("Hefei Weixi")			18,229,589.24	7,805,094.62
Wuhan Changrong Electrical Appliance Co., Ltd. ("Wuhan Changrong")			20,460,394.04	14,921,847.02
Total			38,689,983.28	22,726,941.64

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivable (continued)

(2) Movements in bad debt provision for accounts receivable

Year	Opening balance	Provision for the year	Decrease for the year		Closing balance
			Reversal	Write-off	
2014	177,987,400.65	17,213,300.23	6,673,376.81	41,770,334.18	146,756,989.89

(3) Accounts receivable that are written off

Name	Nature	Amount	Reason for write-off	Whether or not arising from related party transactions
Unrelated party	Payment for goods	57,733,375.82	Not recoverable due to long aging	No
Total		57,733,375.82	—	—

Whereas: major accounts receivable written off are as follows:

Name	Nature	Amount	Reason for write-off	The procedure involved in performing write-off	Whether or not arising from related party transactions
Hefei Weixi	Payment for goods	18,229,589.24	Not recoverable due to long aging	Approval from Board of directors	No
Wuhan Changrong	Payment for goods	20,460,394.04	Not recoverable due to long aging	Approval from Board of directors	No
Total		38,689,983.28			

- (4) As at 31 December 2014, there was no amounts due from shareholder who holds 5% or more (including 5%) voting shares of the Company in accounts receivable. As at 31 December 2013, there was no amounts due from shareholder who holds 5% or more (including 5%) voting shares of the Company in accounts receivable.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

4. Accounts receivable *(continued)*

(5) *Top five accounts receivable*

No.	Relationship with the Company	Amount	Ageing	Percentage of the total accounts receivable (%)
Top 1	Unrelated party	343,456,693.76	Within three months	16.12
Top 2	Unrelated party	193,642,266.00	Within three months	9.09
Top 3	Unrelated party	57,641,325.65	Within three months	2.7
Top 4	Related party	47,459,451.83	Within three months	2.23
Top 5	Unrelated party	42,512,958.01	Within three months	1.99
Total		684,712,695.25	—	32.13

(6) Please see note 8 for details of accounts receivable from related parties as at the end of the year.

(7) As at the end of the year, the balance of accounts receivable amounted to RMB327,418,638.64 were used for factoring secured borrowings to secure borrowings of RMB253,985,142.45.

5. Prepayments

(1) *Prepayments are presented by aging as follows:*

Aging	Closing balance		Opening balance	
	Amount	%	Amount	%
Within one year	493,371,989.78	99.03	349,160,071.55	98.94
One to two years	4,837,316.90	0.97	3,278,286.47	0.93
Two to three years				
Over three years			465,213.00	0.13
Total	498,209,306.68	100	352,903,571.02	100

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Prepayments (continued)

(2) Top five prepayments

No.	Relationship with the Company	Amount	Ageing	Reason for non-settlement
Top 1	Unrelated party	98,492,017.21	Within one year	Normal settlement
Top 2	Unrelated party	48,802,491.27	Within one year	Normal settlement
Top 3	Unrelated party	41,101,021.86	Within one year	Normal settlement
Top 4	Unrelated party	24,134,400.00	Within one year	Normal settlement
Top 5	Unrelated party	20,584,598.66	Within one year	Normal settlement
Total		233,114,529.00	—	

As at 31 December 2014, there was no amounts due from shareholder who holds 5% or more (including 5%) voting shares of the Company in the prepayments. As at 31 December 2013, there was no amounts due from shareholder who holds 5% or more (including 5%) voting shares of the Company in the prepayments.

6. Other receivables

(1) Other receivables are disclosed by category as follows:

Category	Closing balance			
	Book value		Provision for bad debts	
	Amount	%	Amount	%
Individually significant and subject to separate provision for bad debts	127,393,675.52	18.88	3,800,000.00	2.98
Ageing analysis	178,154,494.66	26.40	29,659,997.32	16.65
Greencool Companies	369,278,769.88	54.72	148,315,416.08	40.16
Subtotal	547,433,264.54	81.12	177,975,413.40	32.51
Individually insignificant but subject to separate provision for bad debts				
Total	674,826,940.06	100.00	181,775,413.40	26.94

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

(1) Other receivables are disclosed by category as follows: (continued)

Continued from above table:

Category	Opening balance			
	Book value		Provision for bad debts	
	Amount	%	Amount	%
Individually significant and subject to separate provision for bad debts				
Ageing analysis	357,928,069.35	48.18	38,570,595.67	10.78
Greencool Companies	385,033,369.88	51.82	158,053,346.90	41.05
Subtotal	742,961,439.23	100.00	196,623,942.57	26.46
Individually insignificant but subject to separate provision for bad debts				
Total	742,961,439.23	100.00	196,623,942.57	26.46

As at the end of the year, other receivables individually significant and subject to separate provision for bad debts are as follows:

Other receivables (provided by company)	Closing balance			Reasons for provision
	Other receivables	Provision for bad debts	Provision ratio	
Grant	127,393,675.52	3,800,000.00	2.98%	The percentage to total receivables exceeding 10%
Total	127,393,675.52	3,800,000.00	— —	

Other receivables in the group provided for bad debts by aging are as follows:

Aging	Closing balance			Opening balance		
	Book value		Provision for bad debts	Book value		Provision for bad debts
	Amount	%		Amount	%	
Within three months	144,145,632.73	21.36		317,731,755.84	42.77	
Over three months but within six months	2,912,828.41	0.43	291,282.84	994,388.25	0.13	99,438.82
Over six months but within one year	3,454,638.05	0.51	1,727,319.01	1,461,536.83	0.2	730,768.42
Over one year	27,641,395.47	4.10	27,641,395.47	37,740,388.43	5.08	37,740,388.43
Total	178,154,494.66	26.40	29,659,997.32	357,928,069.35	48.18	38,570,595.67

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

(1) Other receivables are disclosed by category as follows: (continued)

Other receivables in the group provided for bad debts by Greencool Companies are as follows:

Name	Closing balance		Opening balance	
	Amount	Provision for bad debts	Amount	Provision for bad debts
Guangdong Greencool			13,754,600.00	6,185,215.74
Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool")	12,289,357.71	12,289,357.71	12,289,357.71	12,289,357.71
Jiangxi Kesheng Trading Co., Ltd. ("Jiangxi Kesheng")	27,462,676.72	20,103,988.97	27,462,676.72	20,306,709.12
Jinan San Ai Fu Chemical Co., Ltd. ("Jinan San Ai Fu")	121,496,535.45	24,368,160.49	121,496,535.45	24,795,942.45
Greencool Technology Development (Shenzhen) Co., Ltd. ("Shenzhen Greencool Technology")	32,000,000.00	15,519,462.85	32,000,000.00	15,973,475.39
Greencool Environmental Engineering Shenzhen Co., Ltd. ("Shenzhen Greencool Environmental")	33,000,000.00	16,004,446.06	33,000,000.00	16,472,646.49
Jiangxi Keda Plastic Technology Co. Ltd. ("Jiangxi Keda")	13,000,200.00		13,000,200.00	
Zhuhai Longjia Refrigerating Plant Co., Ltd. ("Zhuhai Longjia")	28,600,000.00		28,600,000.00	
Zhuhai Defa Air-conditioner Fittings Co., Ltd. ("Zhuhai Defa")	21,400,000.00		21,400,000.00	
Wuhan Changrong Electrical Appliance Co., Ltd. ("Wuhan Changrong")	20,000,000.00		20,000,000.00	
Beijing Deheng Solicitors ("Deheng Solicitors")	2,000,000.00	2,000,000.00	4,000,000.00	4,000,000.00
Shangqiu Bingxiong Freezing Facilities Co., Ltd. ("Shangqiu Bingxiong")	58,030,000.00	58,030,000.00	58,030,000.00	58,030,000.00
Total	369,278,769.88	148,315,416.08	385,033,369.88	158,053,346.90

(2) *Movements in provision for impairment of other receivables*

Year	Opening balance	Provision for the year	Decrease for the year		Closing balance
			Reversal	Write-off	
2014	196,623,942.57	6,254,032.03	14,647,185.63	6,455,375.57	181,775,413.40

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

(3) Other receivables that are written off

Name	Nature	Amount	Reasons for write-off	Whether or not arising from related party transactions
Unrelated party	Debt/Balance due	6,455,375.57	Not recoverable due to long aging	No
Total		6,455,375.57	—	—

Whereas: major other receivables written-off are as follows:

Name	Nature	Amount	Reasons for write-off	The procedure involved in performing write-off	whether or not arising from related party transactions
Shunde Yunlong Consultancy Service Limited	Debt/Balance due	4,455,375.57	Not recoverable due to long aging	Approval from Board of directors	No
Beijing Deheng Solicitors	Debt/Balance due	2,000,000.00	Not recoverable due to long aging	Approval from Board of directors	No
Total		6,455,375.57			

- (4) As at 31 December 2014, there was no amounts due from shareholder that holds 5% or more (including 5%) voting shares of the Company in the balance of other receivables. As at 31 December 2013, there was no amounts due from shareholder that holds 5% or more (including 5%) voting shares of the Company in the balance of other receivables.

(5) Other receivables by nature

Nature	Closing balance	Opening balance
Inter-group current account payments	477,322,300.55	521,758,064.81
Personal borrowings	3,508,590.02	3,417,090.85
Security deposit	1,661,640.00	1,496,538.70
Others	192,334,409.49	216,289,744.87
Total	674,826,940.06	742,961,439.23

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

(6) Top five other receivables

No.	Relationship with the Company	Amount	Ageing	Percentage of the total other Receivables (%)
Top 1	Unrelated party	127,393,675.52	Over one year	18.79
Top 2	“Specific third party”	121,496,535.45	Over three years	17.92
Top 3	“Specific third party”	58,030,000.00	Over three years	8.56
Top 4	“Specific third party”	33,000,000.00	Over three years	4.87
Top 5	“Specific third party”	32,000,000.00	Over three years	4.72
Total		371,920,210.97	—	54.86

The term “specific third party” is the abbreviation of the Greencool Companies controlled by the original actual controlling party through the above companies, with whom the Company incurred a series of unusual cash inflows and outflows.

(7) Please see note 8 for details of other receivables from related parties as at the end of the year.

7. Inventories

(1) Classification of inventories

Item	Closing balance		
	Book value	Provision for declines in value	Carrying amount
Raw materials	355,829,763.12	30,884,089.84	324,945,673.28
Works in progress	158,031,735.66	8,685,770.52	149,345,965.14
Finished goods	2,516,821,812.70	75,191,675.31	2,441,630,137.39
Total	3,030,683,311.48	114,761,535.67	2,915,921,775.81

Continued from above table

Item	Opening balance		
	Book value	Provision for declines in value	Carrying amount
Raw materials	359,953,481.94	32,058,972.28	327,894,509.66
Works in progress	168,849,486.65	8,635,165.22	160,214,321.43
Finished goods	2,079,655,460.82	71,404,437.45	2,008,251,023.37
Total	2,608,458,429.41	112,098,574.95	2,496,359,854.46

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Inventories (continued)

(2) Provision for declines in value of inventories

Inventories category	Opening balance	Provision for the year	Decrease for the year		Closing balance
			Reversal	Write-off	
Raw materials	32,058,972.28	219,608.99		1,394,491.43	30,884,089.84
Works in progress	8,635,165.22	57,792.31		7,187.01	8,685,770.52
Finished goods	71,404,437.45	34,584,546.53		30,797,308.67	75,191,675.31
Total	112,098,574.95	34,861,947.83		32,198,987.11	114,761,535.67

(3) Basis of the provision for declines in value of inventories and reasons for the reversal or write-off during the year

Item	Basis of the provision for declines in value of inventories	Reasons for the write-off of provision for declines in value of inventories during the year
Raw materials	The lower of the cost and net realizable value	Removal due to sales
Works in progress		
Finished goods		

8. Other current assets

Item	Closing balance	Opening balance
Others	287,019,824.65	248,628,217.20
Total	287,019,824.65	248,628,217.20

Notes to other current assets: other current assets-others mainly represent value-added tax retained for deduction.

9. Available-for-sale financial assets

(1) Available-for-sale financial assets

Item	Closing balance			Opening balance		
	Book value	Impairment provision	Carrying amount	Book value	Impairment provision	Carrying amount
Available-for-sale equity instrument	4,000,000.00		4,000,000.00	4,000,000.00		4,000,000.00
Including: Measured at cost	4,000,000.00		4,000,000.00	4,000,000.00		4,000,000.00
Total	4,000,000.00		4,000,000.00	4,000,000.00		4,000,000.00

Notes to available-for-sale financial assets: All the available-for-sale financial assets held by the Company are investments in non-listed companies in PRC.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Available-for-sale financial assets (continued)

(2) Available-for-sale financial assets measured at cost as at the end of the year

Investee	Book value				Impairment provision				Shareholding in the investee (%)	Cash dividend in current year
	At the beginning of the year	Increase for the year	Decrease for the year	At the end of the year	At the beginning of the year	Increase for the year	Decrease for the year	At the end of the year		
Xinjiang Hisense Kelon Electrical Sales Co., Ltd. ("XinjiangKelon")	100,000.00			100,000.00					2.00	
Fujian Kelon Air-condition Sales Co., Ltd. ("Fujian Kelon")	100,000.00			100,000.00					2.00	
Hisense International Co., Ltd. ("Hisense International")	3,800,000.00			3,800,000.00					12.67	9,500,000.00
Total	4,000,000.00			4,000,000.00					—	9,500,000.00

10. Investments in joint ventures and associates

(1) Investments in joint ventures

Name of investee	Entity type	Registered place	Legal representative	Business nature	Registered capital	% of shareholding	% of voting rights	Accounting treatment
								Unit: RMB'0000
Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd. ("Hisense-Whirlpool")	Limited liability company	Zhejiang	Li Yan	Industrial	45,000.00	50.00	50.00	Equity method
Hisense Hitachi	Limited liability company	Shandong	Qing Shan Gong	Industrial	US\$46,000,000	49.00	49.00	Equity method

(2) Investments in associates

Name of investee	Entity type	Registered place	Legal representative	Business nature	Registered capital	% of shareholding	% of voting rights	Accounting treatment
								Unit: RMB'0000
Huayi Compressor Company Limited ("Huayi Compressor") ³	Joint stock company	Jiangxi	Liu Ti Bin	Industrial	55,962.40	3.74	3.74	Equity method
Attend Logistics Co., Ltd. ("Attend")	Limited liability company	Guangzhou	Ye Wei Long	Logistics	1,000.00	20.00	20.00	Equity method

Notes to investments in joint ventures and associates:

- There was no significant difference between the significant accounting policies and accounting estimates of the joint ventures and associates and those of the Company.
- Illustration of evidence of joint control over joint ventures: the production and operation of the enterprise are under joint management of the parties as required by the Articles of Associations of the joint venture.
- The Company has representatives on the board of directors of Huayi Compressor to participate in its decision making processes and has major transactions with Huayi Compressor. Accordingly, the Board of the Company is of the opinion that the Company still has significant influence over Huayi Compressor and continues to recognize Huayi Compressor as an associate.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Investments in joint ventures and associates (continued)

(3) Major financial information of the principal joint ventures

Item	Closing balance/ Amount incurred during current year		Opening balance/ Amount incurred during previous year	
	Hisense Hitachi	Hisense- Whirlpool	Hisense Hitachi	Hisense- Whirlpool
Current assets	259,821.08	37,961.79	200,782.02	75,919.38
Including: Cash and cash equivalents	181,380.62	6,722.74	140,370.55	4,077.85
Non-current assets	40,554.98	36,222.75	32,495.95	37,991.79
Total assets	300,376.06	74,184.54	233,277.97	113,911.17
Current liabilities	97,777.20	39,884.46	96,539.54	71,602.11
Non-current liabilities	6,634.52			
Total liabilities	104,411.72	39,884.46	96,539.54	71,602.11
Minority interests	6,138.85			
Equity attributable to shareholders of parent	189,825.49	34,300.08	136,738.44	42,309.06
Share of net asset measured in proportion to shareholdings	93,014.49	17,150.04	67,001.83	21,154.53
Adjustment for:	2,965.78		3,353.29	(42.88)
— Goodwill				
— Unrealized profits from intra-group transactions				(42.88)
— others	2,965.78		3,353.29	
Carrying amount of investment in equity of joint ventures	95,980.27	17,150.04	70,355.13	21,111.65
Fair value of investment in equity of joint ventures with available quoted price				
Operating revenue	412,998.67	101,818.20	354,070.04	173,699.49
Financial expenses	(5,072.62)	(208.26)	(4,399.24)	(412.6)
Income tax expense	14,899.21		10,826.51	
Net profit	71,087.05	(8,008.98)	60,821.59	94.82
Net profit from discontinued operations				
Other comprehensive income				
Total comprehensive income	71,087.05	(8,008.98)	60,821.59	94.82
Dividend from joint ventures during current year	8,820.00		7,350.00	

Unit: RMB'0000

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Investments in joint ventures and associates (continued)

(4) Aggregate financial information of the insignificant associates

Unit: RMB'0000

Item	Closing balance/ Amount incurred during current year		Opening balance/ Amount incurred during previous year	
	Huayi Compressor	Attend	Huayi Compressor	Attend
Associate:				
Total carrying amount of investments	8,189.07	285.00	7,566.37	316.92
Amounts in aggregate in proportion to the shareholdings:				
— Net profit	700.07	(31.92)	602.97	(11.66)
— Other comprehensive income	(14.59)		1,928.91	
— Total comprehensive income	685.48	(31.92)	2,531.88	(11.66)

11. Long-term equity investment

Investee	Accounting treatment	Investment cost	Opening balance	Increase for the year	Decrease for the year	Closing balance	% Equity interest held	% voting rights held	Impairment provision	Impairment provided in the year	Cash dividend
1. Investment in joint ventures											
Hisense-Whirlpool	Equity method	225,000,000.00	211,116,482.31		39,616,078.84	171,500,403.47	50.00	50.00			
Hisense Hitachi	Equity method	332,821,597.45	703,551,272.91	344,451,398.11	88,200,000.00	959,802,671.02	49.00	49.00			88,200,000.00
2. Investment in associates											
Huayi Compressor	Equity method	24,171,468.64	75,663,702.46	6,854,807.98	627,855.18	81,890,655.26	3.74	3.74			627,855.18
Attend	Equity method	2,000,000.00	3,169,216.09		319,175.64	2,850,040.45	20.00	20.00			
3. Other long-term equity investment											
Combine ^{*1}	Cost method	11,000,000.00	11,000,000.00			11,000,000.00	55.00	55.00	11,000,000.00		
Total		594,993,066.09	1,004,500,673.77	351,306,206.09	128,763,109.66	1,227,043,770.20			11,000,000.00		88,827,855.18

*1 As Combine, a subsidiary of the Company, has declared in liquidation and reorganization, it has not been included in the consolidated financial statements and impairment has been fully provided for the investment cost;

Except for Huayi Compressor, all the joint ventures and associates of the Company are unlisted companies;

Whereas:

Item	Closing balance	Opening balance
Listed investment:		
Equity method	81,890,655.26	75,663,702.46
Associate	81,890,655.26	75,663,702.46
Total	81,890,655.26	75,663,702.46
Non-listed investment:		
Equity method	1,134,153,114.94	917,836,971.31
Joint venture	1,131,303,074.49	914,667,755.22
Associate	2,850,040.45	3,169,216.09
Total	1,134,153,114.94	917,836,971.31

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Investment properties

(1) Investment properties measured at cost

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Total cost	68,676,129.02	13,650.00		68,689,779.02
1. Buildings and structures	68,676,129.02	13,650.00		68,689,779.02
2. Total accumulated depreciation and amortization	34,729,821.27	2,500,541.34		37,230,362.61
1. Buildings and structures	34,729,821.27	2,500,541.34		37,230,362.61
3. Total net book value	33,946,307.75			31,459,416.41
1. Buildings and structures	33,946,307.75			31,459,416.41
4. Total accumulated provision for impairment				
1. Buildings and structures				
5. Total carrying amount	33,946,307.75			31,459,416.41
1. Buildings and structures	33,946,307.75			31,459,416.41

(2) Notes to investment properties

- (1) Depreciation expense for 2014 amounted to RMB2,500,541.34 and RMB2,500,294.34 for 2013.
- (2) As at 31 December 2014, no investment properties were pledged by the Company.
- (3) As at 31 December 2014, the Company has not obtained ownership certificates for investment properties with cost of RMB13,794,500, accumulated depreciation of RMB7,988,200 and net carrying amount of RMB5,806,300.

Breakdowns are as follows:

Item	Carrying amount
Mee King Building	5,806,352.80
Total	5,806,352.80

- (4) As at 31 December 2014, the Company has not identified any investment Properties with the recoverable amount lower than its carrying amount and therefore no provision has been made for impairment.
- (5) Among the investment properties, all buildings and structures are located in the Mainland China with useful lives ranging from 20 to 50 years.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Fixed assets

(1) Particulars of fixed assets

Item	Buildings and structures	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Moulds	Total
1. Cost						
1. Opening balance	1,860,423,056.05	2,428,026,783.84	335,869,529.75	24,666,476.13	789,138,370.84	5,438,124,216.61
2. Additions in the year	164,766,577.34	532,889,100.60	70,081,280.42	5,237,908.22	363,444,225.27	1,136,419,091.85
(1) Purchase	10,627,820.43	133,312,950.71	39,500,567.29	3,153,796.42	220,551,869.26	407,147,004.11
(2) Transferred from construction in progress	154,138,756.91	399,576,149.89	30,580,713.13	2,084,111.80	142,892,356.01	729,272,087.74
3. Reductions in the year	95,137.00	165,878,736.49	28,742,938.70	1,330,847.20	76,724,421.85	272,772,081.24
(1) Disposal or retirement	95,137.00	165,878,736.49	28,742,938.70	1,330,847.20	76,724,421.85	272,772,081.24
4. Closing balance	2,025,094,496.39	2,795,037,147.95	377,207,871.47	28,573,537.15	1,075,858,174.26	6,301,771,227.22
2. Accumulated depreciation						
1. Opening balance	794,197,087.83	1,404,726,603.11	230,760,617.71	13,094,063.27	508,560,848.52	2,951,339,220.44
2. Additions in the year	79,387,721.18	166,811,296.59	36,804,031.49	3,169,688.92	183,058,126.33	469,230,864.51
(1) Provision	79,387,721.18	166,811,296.59	36,804,031.49	3,169,688.92	183,058,126.33	469,230,864.51
3. Reductions in the year	29,851.71	104,555,481.04	20,070,379.32	1,100,579.15	54,484,545.73	180,240,836.95
(1) Disposal or retirement	29,851.71	104,555,481.04	20,070,379.32	1,100,579.15	54,484,545.73	180,240,836.95
4. Closing balance	873,554,957.30	1,466,982,418.66	247,494,269.88	15,163,173.04	637,134,429.12	3,240,329,248.00
3. Impairment provision						
1. Opening balance	34,115,252.48	76,756,452.43	1,324,472.60	431,332.41	5,656,793.52	118,284,303.44
2. Additions in the year		18,270,390.98	557,761.31	101,488.93	2,687,347.14	21,616,988.36
(1) Provision		18,270,390.98	557,761.31	101,488.93	2,687,347.14	21,616,988.36
3. Reductions in the year		9,966,606.33	289,621.22	87,974.15	154,202.29	10,498,403.99
(1) Disposal or retirement		9,966,606.33	289,621.22	87,974.15	154,202.29	10,498,403.99
4. Closing balance	34,115,252.48	85,060,237.08	1,592,612.69	444,847.19	8,189,938.37	129,402,887.81
4. Carrying amount						
1. Opening carrying amount	1,032,110,715.74	946,543,728.30	103,784,439.44	11,141,080.45	274,920,728.80	2,368,500,692.73
2. Closing carrying amount	1,117,424,286.61	1,242,994,492.21	128,120,988.90	12,965,516.92	430,533,806.77	2,932,039,091.41

For 2014, the fixed assets transferred from construction in progress amounted to RMB729,272,087.74 (2013: RMB583,422,723.55).

(2) Depreciation expense for 2014 amounted to RMB469,230,864.51 and amounted to RMB342,889,688.99 for 2013.

(3) As at the end of the year, no fixed asset was idle temporarily.

(4) As at the end of the year, no fixed asset was held under finance lease.

(5) As at the end of the year, no fixed asset was rent out under operating lease.

(6) As at the end of the year, no fixed asset was held for sale.

(7) As at the end of the year, no fixed asset has not obtained the ownership certificate.

(8) As at the end of the year, no building or structure was pledged.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Constructions in progress

(1) Breakdown of constructions in progress

Item	Closing balance			Opening balance		
	Book value	Impairment provision	Net carrying amount	Book value	Impairment provision	Net carrying amount
Yangzhou Refrigerator	15,467,782.11		15,467,782.11	19,653,771.49		19,653,771.49
Chengdu Refrigerator	6,292,337.96		6,292,337.96	5,307,537.85		5,307,537.85
Kelon Air-conditioner	848,484.03		848,484.03	31,233,845.46		31,233,845.46
Shandong Air-conditioning	4,848,447.07		4,848,447.07	11,450,092.24		11,450,092.24
Shandong Refrigerator	91,572,755.37		91,572,755.37	147,536,731.20		147,536,731.20
Zhejiang Air-conditioning	34,548,485.95		34,548,485.95	2,797,744.76		2,797,744.76
Hisense Guangdong Air-Conditioner	82,802,325.49		82,802,325.49			
Others	22,942,172.84	7,770,917.67	15,171,255.17	47,323,670.85	11,325,835.67	35,997,835.18
Total	259,322,790.82	7,770,917.67	251,551,873.15	265,303,393.85	11,325,835.67	253,977,558.18

(2) Movements in major projects of construction in progress

Name of project	Budget	Opening balance	Increase for the year	Transferred to fixed assets	Other reductions	% Contribution in budget	Progress	Source of funding	Closing balance
Six position blister package machine of Yangzhou Refrigerator	11,710,000.00	10,026,853.64	136,293.38	10,163,147.02		86.79	Completed	Self-funding	
Automatic ferrule within the drum of washing machine of Shandong Refrigerator	21,410,000.00	15,332,250.00	77,691.51	15,409,941.51		71.98	Completed	Self-funding	
Phase 2 dry foaming machine of Shandong Refrigerator	10,500,000.00	5,810,000.00	2,490,000.00	8,300,000.00		79.05	Completed	Self-funding	
Power cable of Shandong Refrigerator	65,000,000.00	8,198,477.08		8,198,477.08		12.61	Completed	Self-funding	
Production line of Shandong Refrigerator	50,850,000.00	4,846,154.00		4,846,154.00		9.53	Completed	Self-funding	
OAK punch presses of Kelon Air-conditioner (2 units)	10,196,728.10	9,208,988.09		9,208,988.09		90.31	Completed	Self-funding	
Plants of Hisense Guangdong Air-Conditioner	261,460,000.00		17,707,714.85			6.77	Not completed	Self-funding	17,707,714.85
OAK punch presses of Hisense Guangdong Air-Conditioner (6 units)	31,039,362.50		29,098,702.50			93.75	Not completed	Self-funding	29,098,702.50
Technology transformation for production line equipment of Zhejiang Air-conditioning	21,531,850.20		21,531,850.20			100.00	Not completed	Self-funding	21,531,850.20
Spray painting line and natural gas pipeline works of Rongsheng Plastic		3,647,228.00			3,647,228.00				
Production line of Shangqiu Kelon		7,770,917.67					Pending retirement	Self-funding	7,770,917.67
Others		200,462,525.37	819,728,346.12	673,145,380.04	163,831,885.85				183,213,605.60
Total		265,303,393.85	890,770,598.56	729,272,087.74	167,479,113.85				259,322,790.82

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Constructions in progress (continued)

(2) Movements in major projects of construction in progress (continued)

Notes to movements in constructions in progress:

- (1) During the year, movements in constructions in progress mainly represented increase and decrease in the production lines of the Company's subsidiaries.
- (2) During the year, there was no capitalization of the borrowing costs for constructions in progress.

(3) Provision for impairment of constructions in progress

Items	Opening balance	Increase for the year	Decrease for the year	Closing balance	Reasons
Spray painting line and natural gas pipeline works of Rongsheng Plastic	3,554,918.00		3,554,918.00		
Production line of Shangqiu Kelon	7,770,917.67			7,770,917.67	
Total	11,325,835.67		3,554,918.00	7,770,917.67	

15. Intangible assets

(1) Particulars of intangible assets

Item	Land use rights	Trademarks	Know-how	Others	Total
1. Cost					
1. Opening balance	651,206,874.83	524,409,198.95	69,633,122.63	39,870,078.36	1,285,119,274.77
2. Additions in the year	159,079,243.80		53,712.54	20,848,857.92	179,981,814.26
(1) Purchase	159,079,243.80			20,848,857.92	179,928,101.72
(2) Internal research and development			53,712.54		53,712.54
3. Reductions in the year	1,943,455.00		266,057.95	3,510,706.63	5,720,219.58
(1) Disposal	1,943,455.00		266,057.95	3,510,706.63	5,720,219.58
4. Closing balance	808,342,663.63	524,409,198.95	69,420,777.22	57,208,229.65	1,459,380,869.45
2. Accumulated amortization					
1. Opening balance	207,820,270.48	134,130,255.55	50,338,876.37	34,453,647.76	426,743,050.16
2. Additions in the year	15,599,516.89		5,816,462.82	5,494,048.07	26,910,027.78
(1) Provision	15,599,516.89		5,816,462.82	5,494,048.07	26,910,027.78
3. Reductions in the year	188,948.00		106,422.95	1,514,901.63	1,810,272.58
(1) Disposal	188,948.00		106,422.95	1,514,901.63	1,810,272.58
4. Closing balance	223,230,839.37	134,130,255.55	56,048,916.24	38,432,794.20	451,842,805.36
3. Impairment provision					
1. Opening balance	50,012,843.19	286,061,116.40		519,447.21	336,593,406.80
2. Additions in the year					
(1) Provision					
3. Reductions in the year					
(1) Disposal					
4. Closing balance	50,012,843.19	286,061,116.40		519,447.21	336,593,406.80
4. Carrying amount					
1. Closing carrying amount	535,098,981.07	104,217,827.00	13,371,860.98	18,255,988.24	670,944,657.29
2. Opening carrying amount	393,373,761.16	104,217,827.00	19,294,246.26	4,896,983.39	521,782,817.81

(2) Notes to intangible assets:

- (1) Amortization of intangible assets amounted to RMB26,910,027.78 for 2014, compared to that of RMB21,973,498.51 in 2013.
- (2) As at the end of the year, no land use rights were pledged.
- (3) Trademarks were not amortized due to indefinite useful lives, and no provision was made for impairment of trademarks after tested for impairment.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Long-term prepaid expenses

Item	Opening balance	Additions in the year	Amortization in the year	Other deductions	Closing balance	Reasons for other deductions
Others	5,001,055.07	11,404,540.80	3,715,375.44		12,690,220.43	
Total	5,001,055.07	11,404,540.80	3,715,375.44		12,690,220.43	

Notes to long-term prepaid expenses: Long-term prepaid expenses-others mainly represented the overhaul expenses for the fixed assets.

17. Deferred tax assets/deferred tax liabilities

Deferred tax assets and liabilities are presented on a net basis.

(1) Net of deferred tax assets or liabilities and corresponding deductible or taxable temporary differences

Item	Net of deferred tax assets or liabilities at the end of the reporting period	Deductible or taxable temporary differences arising from offsetting deferred tax assets and liabilities at the end of the reporting period	Net of deferred tax assets or liabilities at the beginning of the reporting period	Deductible or taxable temporary differences arising from offsetting deferred tax assets and liabilities at the beginning of the reporting period
Deferred tax assets:				
Provision for assets impairment	29,423,799.12	141,992,086.22	34,090,504.40	156,382,380.24
Financial assets held-for-trading	140,541.50	778,150.00	(6,671,594.15)	(33,259,961.00)
Others	77,249,007.61	466,938,900.24	9,197,950.77	50,657,563.61
Subtotal	106,813,348.23	609,709,136.46	36,616,861.02	173,779,982.85
Deferred tax liabilities:				
Accelerated depreciation	165,600.70	1,104,004.67		
Subtotal	165,600.70	1,104,004.67		

(2) Details of offsetting deferred tax assets and liabilities

Item	Amount for the year	Amount for previous year
Financial assets held-for-trading	140,541.50	(6,671,594.15)

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Deferred tax assets/deferred tax liabilities (continued)

(3) *The deductible tax losses for unrecognized deferred tax assets will expire in following timeframe:*

Year	Closing balance	Opening balance	Remark
2015	10,201,084.77	10,118,229.35	
2016	2,957,949.57	6,552,610.10	
2017	45,951,993.00	81,862,637.32	
2018	39,470,505.84	51,479,787.23	
2019	177,545,662.43		
Infinite	43,922,092.59	50,760,547.10	
Total	320,049,288.20	200,773,811.10	

(4) *Breakdown of taxable and deductible temporary differences*

Item	Amount
Financial assets held-for-trading	778,150.00
Provision for bad debts on accounts receivable	6,837,682.08
Provision for bad debts on other receivables	2,277,622.08
Provision for declines in values of inventories	74,520,994.29
Impairment provision for fixed assets	50,321,758.77
Impairment provision for intangible assets	8,034,029.00
Others	465,834,895.57
Total	608,605,131.79

18. Short-term borrowings

(1) *Short-term borrowings by category*

Item	Closing balance	Opening balance
Secured borrowings ^{*1}	253,985,142.45	191,681,513.02
Total	253,985,142.45	191,681,513.02

Notes to the categories of short-term borrowings:

*1 It represented the secured borrowings incurred by the accounts receivable factoring activities of the subsidiaries of the Company, of which US dollar borrowings were RMB250,383,247.66 equivalent amount, and Euro borrowings were RMB3,601,894.79 equivalent amount.

(2) As at the end of the period, the Company had no outstanding short-term borrowings due.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

19. Financial liabilities at fair value through profit or loss

Item	Closing balance	Opening balance
Financial liabilities held-for-trading	7,391,136.66	4,645.00
Including: Derivative financial liabilities	7,391,136.66	4,645.00
Total	7,391,136.66	4,645.00

Notes to financial liabilities held-for-trading:

It represented mainly the outstanding forward exchange settlement and sale contracts entered into by the Company and banks, which were recognized as the financial assets or liabilities held-for-trading based on the difference between the quoted price of the outstanding forward contracts and the forward rates as at 31 December 2014.

20. Notes payable

Category	Closing balance	Opening balance
Bank acceptance notes	970,754,476.87	1,235,561,696.44
Commercial acceptance notes	557,441,049.54	155,536,942.24
Total	1,528,195,526.41	1,391,098,638.68

Particulars of notes payable:

- (1) As at 31 December 2014, there were no amount due to shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of notes payable. As at 31 December 2013, there were no amount due to shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of notes payable.
- (2) There were no outstanding notes payable due as at the end of the year.
- (3) Please see note 8 for details of notes payable to related parties as at the end of the year.

21. Accounts payable

(1) Ageing analysis of accounts payable

Ageing	Closing balance	Opening balance
Within one year	3,335,201,948.30	3,291,382,468.75
Over one year	130,652,635.30	189,127,899.41
Total	3,465,854,583.60	3,480,510,368.16

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. Accounts payable (continued)

- (2) As at 31 December 2014, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of accounts payable. As at 31 December 2013, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of accounts payable.
- (3) Please see note 8 for details of accounts payable to related parties as at the end of the year.

22. Advances from customers

(1) Aging analysis of advances from customers

Ageing	Closing balance	Opening balance
Within one year	703,294,210.41	821,066,394.32
Over one year	62,587,165.44	85,965,112.53
Total	765,881,375.85	907,031,506.85

- (2) As at 31 December 2014, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of advances from customers. As at 31 December 2013, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of advances from customers.
- (3) Please see note 8 for details of amount due to related parties in the balance of advances from customers as at the end of the year.

23. Compensations payable to employee

(1) Compensations payable to employee are listed as follows:

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Short-term compensations	231,248,317.69	2,294,156,426.96	2,283,429,673.43	241,975,071.22
2. Post-employment benefit-defined contribution plans	2,783,860.71	188,924,223.03	188,005,323.22	3,702,760.52
3. Termination benefits	2,310,835.29	13,292,954.25	11,617,335.30	3,986,454.24
Total	236,343,013.69	2,496,373,604.24	2,483,052,331.95	249,664,285.98

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. Compensations payable to employee (continued)

(2) Short-term compensations are as follows:

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Wages and salaries, bonuses, allowances and subsidies	224,568,904.93	1,946,751,199.58	1,936,814,268.43	234,505,836.08
2. Staff welfare	4,960,834.65	139,994,279.41	140,780,240.59	4,174,873.47
3. Social insurance	650,722.91	98,251,161.71	97,819,245.59	1,082,639.03
Including: Medical insurance	313,074.15	81,844,440.79	81,491,408.99	666,105.95
Work-related injury insurance	234,628.21	7,938,487.55	7,866,559.90	306,555.86
Maternity insurance	103,020.54	8,468,233.37	8,461,276.70	109,977.21
4. Housing provident funds	(309,613.38)	88,157,957.09	87,185,896.54	662,447.17
5. Labor union funds and employee education funds	1,377,468.58	21,001,829.17	20,830,022.28	1,549,275.47
Total	231,248,317.69	2,294,156,426.96	2,283,429,673.43	241,975,071.22

(3) Defined contribution plans are as follows:

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Basic pension insurance	2,454,712.31	176,119,504.79	175,176,645.90	3,397,571.20
2. Unemployment insurance	329,148.40	12,804,718.24	12,828,677.32	305,189.32
Total	2,783,860.71	188,924,223.03	188,005,323.22	3,702,760.52

Note: The Company participates as required the basic pension insurance and unemployment insurance schemes operated by government agencies, pursuant to which the Company makes monthly contributions to such plans at 12% and 0.50% of employees' basic salaries respectively. The Company has no further payment obligations beyond above monthly contribution. The corresponding expenses are included in the profit or loss or cost of relevant asset for the period as incurred.

Notes to compensations payable to employee:

- (1) There were no defaulted payables included in compensations payable to employee.
- (2) Arrangements in respect of expected payout time and amount for employee compensations: calculated in the current month and paid in the following month.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. Taxes payable

Item	Closing balance	Opening balance
Value-added tax	44,988,423.65	4,977,277.36
Business tax	63,909.26	1,395,697.58
Enterprise income tax	80,983,264.18	32,290,051.16
Individual income tax	3,680,314.25	3,750,642.66
City maintenance and construction tax	6,928,866.85	3,515,761.30
Real estate tax	9,823,022.93	8,770,019.08
Land use tax	4,997,247.57	4,976,487.69
Education surcharges	4,652,099.25	2,450,605.56
Embankment maintenance fee	3,281,842.31	1,956,979.56
Others	15,393,601.96	22,471,514.80
Total	174,792,592.21	86,555,036.75

25. Dividends payable

Name	Closing balance	Opening balance
Yingleng (Group) Co., Ltd.	2,067.02	2,067.02
Beijing Xuehua Group Company Limited		9,000,000.00
Total	2,067.02	9,002,067.02

26. Other payables

(1) *Ageing analysis of other payables:*

Aging	Closing balance	Opening balance
Within one year	1,328,493,785.03	1,513,321,725.49
Over one year	407,091,120.75	217,937,328.91
Total	1,735,584,905.78	1,731,259,054.40

(2) As at 31 December 2014, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of other payables. As at 31 December 2013, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of other payables.

(3) Please see note 8 for details of amount due to related parties in the balance of other payables as at the end of the year.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. Other payables (continued)

(4) Particulars of other payables of significant amounts due over one year

Name	Amount	Reasons for remaining outstanding	Remark
Tianjin Taijin Yunye Company Limited (“Tianjin Taijin”)	65,000,000.00	Current account	Specific third party Company amount
Zhuhai Longjia	28,316,425.03	Current account	Specific third party Company amount
Jiangxi Greencool	13,000,000.00	Current account	Greencool Companies

27. Other current liabilities

Item	Closing balance	Opening balance	Reasons for the balance
Installation fees	251,034,465.20	144,962,337.71	Installation fee provided for but not yet paid in respect of goods sold
Sales discounts	261,526,162.20	249,743,671.30	Incurred but not yet settled
Transportation fees	13,590,621.68	10,216,284.52	Incurred but not yet settled
Audit fees	3,683,021.26	3,437,719.64	Annual audit fee
Marketing fees	1,096,485.63	22,559,489.79	Incurred but not yet settled
Amounts payable	60,695,739.35	49,265,333.00	Incurred but not yet settled
Power fees	11,014,661.53	20,565,524.92	Incurred but not yet settled
Agency fees	21,579,061.96	5,079,051.90	Incurred but not yet settled
Others	55,802,414.75	68,207,879.64	Incurred but not yet settled
Total	680,022,633.56	574,037,292.42	

28. Provisions

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Pending litigation	4,627,597.15		10,067.50	4,617,529.65
Provision for warranties*	356,530,632.72	43,263,725.40		399,794,358.12
Total	361,158,229.87	43,263,725.40	10,067.50	404,411,887.77

* Provision for warranties represented the estimated security deposit for product quality. During the warranty period, the Company will offer a free warranty service to the customers concerned. Based on the industry’s experience and historic data, the warranty costs were calculated and provided based on the remaining years of warranty offered and the average repair fee per unit.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. Deferred income

Item	Closing balance	Opening balance
Deferred income	60,261,598.06	56,011,769.90
Total	60,261,598.06	56,011,769.90

Breakdown of the deferred income is as follows:

Item	Closing balance	Opening balance
State debenture projects for technical advancement and industry upgrade	21,450,000.00	21,450,000.00
Production technology reform project for energy-saving household SBS large-size refrigerator	1,475,000.00	1,925,000.00
Production capacity expansion and technology renovation project for low-carbon, energy-saving, chlorine-free refrigerator	2,146,666.67	2,426,666.67
Others	35,189,931.39	30,210,103.23
Total	60,261,598.06	56,011,769.90

30. Share capital

Categories of shares	Opening balance	Increase for the year	Decrease for the year	Closing balance
Restricted floating shares subject to terms of lock-up		710,325.00		710,325.00
Including: Other domestic shares				
Including: Shares held by domestic natural persons		710,325.00		710,325.00
Unrestricted floating shares not subject to terms of lock-up	1,354,054,750.00	3,730,485.00		1,357,785,235.00
Including: RMB ordinary shares	894,464,942.00	3,730,485.00		898,195,427.00
Overseas listed foreign shares	459,589,808.00			459,589,808.00
Total number of shares	1,354,054,750.00	4,440,810.00		1,358,495,560.00

Changes for the year was attributable to fulfillment of the exercise conditions and exercise of the share options for the first exercise period of the Company's first share option scheme. The total number of shares as a result of the exercise of share option was 4,440,810, as verified by the Yue Xiang Kuai Yan Zi [2014] No. 1238 Yan Zi report issued by Guangdong Xin Xiang He CPA Co. Limited.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. Capital reserve

(1) Changes in capital reserve

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Share premium	1,968,114,175.93	35,022,063.86		2,003,136,239.79
Other capital reserve	124,744,671.35	1,291,480.88	3,241,566.14	122,794,586.09
Total	2,092,858,847.28	36,313,544.74	3,241,566.14	2,125,930,825.88

(2) Notes to capital reserve:

- (1) The increase in share premium for the year was mainly attributable to the premium from exercising share options.
- (2) The increase in other capital reserve for the year was attributable to the amount accounted for the share options provided; the decrease for the year was due to exercising of share options.

32. Other comprehensive income

Item	Opening balance	Amount incurred in the year				Attributable to minority interest after tax	Closing balance
		Amount before income tax for the year	Less: Amount included in other comprehensive income in previous period transferred to profit or loss in current period	Less: income tax expense	Attributable to parent after tax		
1. Other comprehensive income that would not be reclassified subsequently to profit or loss	(4,298,798.14)						(4,298,798.14)
Including: Share of other comprehensive income of investee that would not be reclassified into profit or loss under equity method	(4,298,798.14)						(4,298,798.14)
2. Other comprehensive income that would be reclassified subsequently to profit or loss	44,649,155.99	(359,473.40)			(359,473.40)		44,289,682.59
Including: Share of other comprehensive income of investee that would be reclassified into profit or loss under equity method	33,881,001.17	(145,901.32)			(145,901.32)		33,735,099.85
Difference arising from translation of financial statements presented in foreign currency	10,768,154.82	(213,572.08)			(213,572.08)		10,554,582.74
Total other comprehensive income	40,350,357.85	(359,473.40)			(359,473.40)		39,990,884.45

33. Surplus reserve

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Statutory surplus reserve	145,189,526.48			145,189,526.48
Total	145,189,526.48			145,189,526.48

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. Undistributed profits

Item	Ratio for appropriation or distribution	Amount for the year	Amount for previous year
Undistributed profits at the end of previous period		(883,722,400.78)	(2,099,392,002.85)
Add: Adjustment to undistributed profits at the beginning of the year			
Undistributed profits at the beginning of the period		(883,722,400.78)	(2,099,392,002.85)
Add: Net profits attributable to the shareholders of the parent in current period		(672,478,632.35)	1,215,669,602.07
Less: Appropriation of statutory surplus reserve			
Dividends payable on ordinary shares			
Undistributed profits at the end of the period		(211,243,768.43)	(883,722,400.78)

35. Operating revenue and operating costs

(1) Operating revenue and operating costs

Item	Amount for the year	Amount for previous year
Revenue from principal operations	24,370,988,051.17	22,186,925,492.98
Revenue from other operations	2,163,432,884.38	2,173,095,815.49
Total operating revenue	26,534,420,935.55	24,360,021,308.47
Costs of principal operations	18,762,900,237.84	17,092,033,966.98
Costs of other operations	2,021,812,724.86	1,947,803,933.29
Total operating costs	20,784,712,962.70	19,039,837,900.27

(2) Principal operations (by products)

Products	Amount for the year		Amount for previous year	
	Operating revenue	Operating costs	Operating revenue	Operating costs
1. Refrigerators and washing machines	11,864,028,175.03	9,268,105,140.56	11,984,925,209.88	9,212,730,537.38
2. Air-conditioners	11,342,514,901.50	8,620,900,642.94	9,233,763,216.95	7,172,078,184.60
3. Others	1,164,444,974.64	873,894,454.34	968,237,066.15	707,225,245.00
Total	24,370,988,051.17	18,762,900,237.84	22,186,925,492.98	17,092,033,966.98

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. Operating revenue and operating costs (continued)

(3) Principal operations (by regions)

Region	Amount for the year		Amount for previous year	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Domestic	17,178,988,978.86	12,359,306,312.99	15,623,701,445.80	11,244,309,969.38
Overseas	7,191,999,072.31	6,403,593,924.85	6,563,224,047.18	5,847,723,997.60
Total	24,370,988,051.17	18,762,900,237.84	22,186,925,492.98	17,092,033,966.98

(4) Operating revenue from the top five customers of the Company

No.	Amount for the year	Percentage of the total revenue from principal operations of the Company (%)
Top 1	2,236,459,053.76	9.18
Top 2	1,599,754,219.75	6.56
Top 3	758,917,324.51	3.11
Top 4	667,484,614.40	2.74
Top 5	503,883,326.39	2.07
Total	5,766,498,538.81	23.66

36. Business tax and surcharges

Item	Standard charge rate	Amount for the year	Amount for previous year
Business tax	5%	3,401,098.98	1,780,644.55
City maintenance and construction tax	1%-7%	56,341,133.10	56,879,211.19
Education surcharges	3%	36,796,529.02	38,714,646.12
Others		1,785,148.33	2,265,032.83
Total		98,323,909.43	99,639,534.69

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. Financial expenses

Item	Amount for the year	Amount for previous year
Interest expenses*	15,003,224.16	572,549.35
Less: Interest incomes	3,791,604.77	3,164,480.55
Discounted notes		1,552,073.11
Exchange gain or loss	(11,103,123.31)	28,783,994.95
Others	(4,074,683.90)	(55,218,524.13)
Total	(3,966,187.82)	(27,474,387.27)

* Interest expenses for 2014 and 2013 were wholly interests on bank borrowings of which the last term of repayment is within five years.

38. Impairment losses on assets

Item	Amount for the year	Amount for previous year
1. Bad debt loss	2,146,769.82	(101,659,694.95)
2. Decline in value of inventories	34,861,947.83	28,449,803.89
3. Impairment loss on fixed assets	21,616,988.36	6,830,054.46
Total	58,625,706.01	(66,379,836.60)

39. Gain arising from changes in fair value

Sources of gain arising from changes in fair value	Amount for the year	Amount for previous year
Financial assets held-for-trading	(66,952,559.35)	56,436,725.88
Including: Gain from changes in fair value of derivative financial instruments	(66,952,559.35)	56,436,725.88
Financial liabilities held-for-trading	(7,386,491.66)	159,586.22
Total	(74,339,051.01)	56,596,312.10

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. Investment gain

(1) Breakdown of investment gain

Item	Amount for the year	Amount for previous year
Gain from available-for-sale financial assets during holding period	9,500,000.00	4,750,000.00
Gain from long-term equity investment under the equity method	311,516,852.93	299,785,829.53
Gain from disposal of long-term equity investment		
Gain from disposal of financial assets at fair value through profit or loss	54,484,302.09	19,153,785.48
Total	375,501,155.02	323,689,615.01

(2) Gain from available-for-sale financial assets during holding period

Investee	Amount for the year	Amount for previous year
Hisense International Marketing	9,500,000.00	4,750,000.00
Total	9,500,000.00	4,750,000.00

(3) Gain from long-term equity investment under the equity method:

Investee	Amount for the year	Amount for previous year
Huayi Compressor	7,000,709.29	6,029,708.70
Hisense-Whirlpool	(39,616,078.84)	1,297,493.73
Attend	(319,175.63)	(116,634.72)
Hisense Hitachi	344,451,398.11	292,575,261.82
Total	311,516,852.93	299,785,829.53

Note: Except for gain from investments in Huayi Compressor of RMB7,000,709.29 which were generated from listed investments, the other gains of RMB368,500,445.73 were all generated from non-listed investments.

41. Non-operating income and non-operating expenses

Non-operating income

Item	Amount for the year	Amount for previous year
Total gain from disposal of non-current assets	1,623,453.29	12,010,056.34
Including: Gain from disposal of fixed assets	1,623,453.29	12,010,056.34
Government grants	82,298,890.90	82,700,643.38
Others	40,439,809.75	20,129,664.74
Total	124,362,153.94	114,840,364.46

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

41. Non-operating income and non-operating expenses (continued)

Non-operating income (continued)

Details of government grants during the year are as follows:

Item	Amount incurred during current year	Amount incurred during previous year
1. Government grants related to assets		
Production technology reform project for energy-saving household SBS large-size refrigerator ^{*1}	450,000.00	450,000.00
Production capacity expansion and technology renovation project for low-carbon, energy-saving, chlorine-free refrigerator ^{*2}	280,000.00	280,000.00
Government grants related to other assets	5,916,962.67	130,620.59
Subtotal	6,646,962.67	860,620.59
2. Government grants related to income		
Government incentive awards		35,000,000.00
Tax refund on embedded softwares	17,903,091.50	
Other government grants	57,748,836.73	46,840,022.79
Subtotal	75,651,928.23	81,840,022.79
Total	82,298,890.90	82,700,643.38

^{*1} The government grants represented the project award of RMB3,000,000.00 granted to the subsidiary of the Company Guangdong Refrigerator by the Financial Bureau of Foshan, Shunde under "Circulating the Circular of Guangdong Provincial Support for Technology Renovation Tender Projects and Supplementary Projects in 2007" (Fo Jing Mao [2007] No. 391), and the project award of RMB1,500,000.00 granted to the subsidiary of the Company Guangdong Refrigerator by the Economic and Trade Bureau of Foshan, Shunde under "Reply by the Office of the People's Government of Shunde, Foshan on Consenting to Grant Regional Subsidy for Science and Technology Outlay to Enterprises Including Guangdong Xinbao Electrical Appliances Holdings Co., Ltd. in 2007" (Shun Fu Ban Han [2008] No. 114). The project was commenced from October 2007 and ended in October 2009. In April and May 2008, Guangdong Refrigerator has recognized deferred income after receiving the project government grants of RMB3,000,000.00 and RMB1,500,000.00 respectively from the Company, and the amounts received were accounted for in the books of Guangdong Refrigerator as non-operating income over a period of 10 years. In 2008, Guangdong Refrigerator has recognized income in the amount of RMB325,000.00. In 2009, income in the amount of RMB450,000.00 was recognized. In 2010, income in the amount of RMB450,000.00 was recognized. In 2011, income in the amount of RMB450,000.00 was recognized. In 2012, income in the amount of RMB450,000.00 was recognized. In 2013, income in the amount of RMB450,000.00 was recognized. In 2014, income in the amount of RMB450,000.00 was recognized, and there was still RMB1,475,000.00 subject to deferred recognition.

^{*2} The government grants were granted to Hisense Mould, a subsidiary of the Company, by the Commission Of Economy and Informatization of Qingdao Municipal under the "Approval of the Commission Of Economy and Informatization of Qingdao Municipal on the Application for Investment by the Central Government on Technology Reforms of Small-to-Medium Industrial Enterprises 2012 by the Technology Renovation Project for Manufacturing Sophisticated Intelligent Moulds of Qingdao Hisense Mould Co., Ltd." (Qing Jing Xin Pi Zi [2012] No. 5) for use in the technology renovation project for manufacturing sophisticated intelligent moulds in 2012. The government grants for the project were recognized as deferred income upon receipt by Hisense Mould in August 2012. Hisense Mould has recognized the amount from the month after receipt as non-operating income over a period of 10 years. In 2012, Hisense Mould has recognized income in the amount of RMB93,333.33 in relation to the item for the year. In 2013, income in the amount of RMB280,000.00 was recognized. In 2014, income in the amount of RMB280,000.00 was recognized, and there was still RMB2,146,666.67 subject to deferred recognition.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

41. Non-operating income and non-operating expenses (continued)

Non-operating expenses

Item	Amount for the year	Amount for previous year
Total loss on disposal of non-current assets	3,967,010.86	11,713,968.79
Including: Loss on disposal of fixed assets	3,967,010.86	11,713,968.79
Others	1,424,162.07	5,822,748.41
Total	5,391,172.93	17,536,717.20

42. Income tax expense

(1) Income tax expense statement

Item	Amount for the year	Amount for previous year
Current income tax expenses	129,756,032.80	82,941,113.95
Including: PRC Enterprise income tax	125,223,500.64	74,776,381.83
Hong Kong profit tax	4,532,532.16	8,164,732.12
Deferred income tax expenses	(70,030,886.51)	(29,322,173.00)
Total	59,725,146.29	53,618,940.95

(2) Reconciliation of accounting profit and income tax expenses is as follows:

Item	Amount for the year
Total profits	771,235,644.76
Income tax expense calculated at statutory (or applicable) tax rates	192,808,911.22
Effect of application of different tax rate to certain subsidiaries	15,132,519.01
Adjustment to income tax in previous year	(3,016,895.99)
Effect of non-taxable income	(103,501,024.79)
Effect of non-deductible cost, expense and loss	
Effect of utilization of deductible losses unrecognized as deferred tax assets in previous period	(14,291,022.69)
Effect of deductible temporary difference or deductible loss unrecognized as deferred tax assets in current period	(27,407,340.47)
Changes in opening balance of deferred tax assets/liabilities arising from changes in tax rate	
Others	
Income tax expense	59,725,146.29

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

43. Calculation of basic and diluted earnings per share

Item		Amount for the year	Amount for previous year
Net profits attributable to ordinary shareholders of the Company during the reporting period	P1	672,478,632.35	1,215,669,602.07
Non-recurring profit and loss attributable to ordinary shareholders of the Company during the reporting period	F	89,547,344.88	137,765,219.16
Net profits after non-recurring profit and loss attributable to ordinary shareholders of the Company during the reporting period	P2=P1-F	582,931,287.47	1,077,904,382.91
Effect of dilutive events on net profits attributable to ordinary shareholders of the Company	P3		
Effect of dilutive events on net profits after non-recurring profit and loss attributable to ordinary shareholders of the Company	P4		
Weighted average number of outstanding ordinary shares	S	1,356,645,223.00	1,354,054,750.00
Add: Increase in the weighted average number of ordinary shares assuming full conversion of dilutive potential ordinary shares into outstanding ordinary shares	X1		
Weighted average number of ordinary shares used for calculation of diluted earnings per share	X2=S+X1	1,356,645,223.00	1,354,054,750.00
Basic earnings per share attributable to ordinary shareholders of the Company	Y1=P1/S	0.50	0.90
Basic earnings per share attributable to ordinary shareholders of the Company after non-recurring profit and loss	Y2=P2/S	0.43	0.80
Diluted earnings per share attributable to ordinary shareholders of the Company	Y3=(P1+P3)/X2	0.50	0.90
Diluted earnings per share attributable to ordinary shareholders of the Company after non-recurring profit and loss	Y4=(P2+P4)/X2	0.43	0.80

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

44. Other comprehensive income

Item	Amount for the year	Amount for previous year
1. Recognition of share of other comprehensive income of the investee under equity method	(145,901.32)	23,587,913.49
Less: Income tax effect arising from recognition of share of other comprehensive income of the investee under equity method		
Add: Net amount included in other comprehensive income in previous period transferred to profit or loss in current period		(4,298,798.14)
Subtotal	(145,901.32)	19,289,115.35
2. Difference arising from translation of foreign currency financial statements	(213,572.08)	228,648.92
Less: Net amount transferred to profit or loss upon disposal of foreign operations in current period		
Subtotal	(213,572.08)	228,648.92
3. Others		
Less: Income tax effect arising from other items accounted into other comprehensive income		
Net amount of other items accounted into other comprehensive income in previous period transferred to profit or loss in current period		
Subtotal		
Total	(359,473.40)	19,517,764.27

45. Notes to cash flows statement

(1) Other cash receipt related to operating activities

Item	Amount for the year	Amount for previous year
Interest incomes	3,791,604.77	3,164,480.55
Government grants	75,651,928.23	81,840,022.79
Others	1,079,820,344.98	1,078,183,928.53
Total	1,159,263,877.98	1,163,188,431.87

(2) Other cash payment related to operating activities

Item	Amount for the year	Amount for previous year
Cash payments for general and administrative expenses	428,633,158.96	418,170,115.12
Cash payments for sales expenses	2,886,030,649.19	1,997,419,348.86
Bank charges	11,475,903.16	8,486,756.11
Others	487,950,846.88	387,996,879.29
Total	3,814,090,558.19	2,812,073,099.38

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

46. Supplementary information to cash flows statement

(1) Supplementary information to cash flows statement

Supplementary information	Amount for the year	Amount for previous year
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	711,510,498.47	1,245,793,922.54
Add: Provision for assets impairment	58,625,706.01	(66,379,836.60)
Depreciation of fixed assets	471,731,405.85	345,389,983.33
Amortization of intangible assets	26,910,027.78	21,973,498.51
Amortization of long-term prepaid expenses	3,715,375.44	1,382,115.88
Loss on disposal of fixed assets, intangible assets and other long-term assets	2,357,431.47	(296,087.55)
Loss on retirement of fixed assets		
Loss on change in fair value	74,339,051.01	(56,596,312.10)
Financial expenses	15,003,224.16	572,549.35
Investment loss	(375,501,155.02)	(323,689,615.01)
Decrease in deferred tax assets	(70,196,487.21)	(29,322,173.00)
Increase in deferred tax liabilities	165,600.70	
Decrease in inventories	(419,561,921.35)	(757,918,744.31)
Decrease in operating receivables	734,465,465.36	(820,488,840.55)
Increase in operating payables	(267,573,764.80)	658,377,889.04
Others		
Net cash flows from operating activities	965,990,457.87	218,798,349.53
2. Significant investment and financing activities not involving cash receipts and payments:		
Liabilities converted into equity		
Convertible company debentures due within one year		
Fixed assets under finance leases		
3. Net movement in cash and cash equivalents:		
Cash at the end of the period	870,038,755.12	472,987,177.54
Less: Cash at the beginning of the period	472,987,177.54	513,661,376.53
Add: Cash equivalents at the end of the period		
Less: Cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	397,051,577.58	(40,674,198.99)

(2) Details of cash and cash equivalents

Item	Amount for the year	Amount for previous year
1. Cash	870,038,755.12	472,987,177.54
Including: Cash on hand	10,000.00	2,857.60
Bank deposits that are readily available for payment	870,028,755.12	472,984,319.94
Other cash at bank and on hand that are readily available for payment		
2. Cash equivalents		
Including: Bond investments due within three months		
3. Cash and cash equivalents as at the end of the period	870,038,755.12	472,987,177.54

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

47. Net current assets

Item	Closing balance	Opening balance
Current assets (consolidated)	8,041,116,973.67	7,990,704,892.00
Less: Current liabilities (consolidated)	8,861,374,249.52	8,607,523,135.99
Net current assets (consolidated)	(820,257,275.85)	(616,818,243.99)
Current assets (the parent)	3,050,739,339.88	6,608,276,873.50
Less: Current liabilities (the parent)	2,894,421,008.43	7,344,199,365.56
Net current assets (the parent)	156,318,331.45	(735,922,492.06)

48. Total assets less current liabilities

Item	Closing balance	Opening balance
Total assets (consolidated)	13,266,793,963.74	12,208,030,858.33
Less: Current liabilities (consolidated)	8,861,374,249.52	8,607,523,135.99
Total assets less current liabilities (consolidated)	4,405,419,714.22	3,600,507,722.34
Total assets (the parent)	7,138,546,340.56	10,548,354,756.68
Less: Current liabilities (the parent)	2,894,421,008.43	7,344,199,365.56
Total assets less current liabilities (the parent)	4,244,125,332.13	3,204,155,391.12

49. Segment information

The Group manages its business by divisions which are organized by a mixture of both business lines and geographical locations. For the purpose of resource allocation and performance assessment, the management manages the operating results of each business segment separately, and the segment results are assessed based on the profits of the reporting segments.

(1) Segment profit or loss and assets and liabilities

Amount for current period	Refrigerators and washing machines	Air-conditioners	Others	Inter-segment elimination	Total
1. Revenue from external sales	11,864,028,175.03	11,342,514,901.50	1,164,444,974.64		24,370,988,051.17
2. Revenue from inter-segment transactions			1,167,709,264.45	(1,167,709,264.45)	
3. Gain from investment in associates and joint ventures	(32,615,369.55)	344,451,398.11	(319,175.63)		311,516,852.93
4. Depreciation and amortization	340,888,192.48	160,804,441.46	(1,268,122.29)		500,424,511.65
5. Gain arising from changes in fair value	(31,515,479.90)	(29,910,879.16)	(12,912,691.95)		(74,339,051.01)
6. Impairment losses on assets	23,811,177.70	36,884,260.65	(2,069,732.34)		58,625,706.01
7. Total profit (losses)	139,168,506.62	522,949,903.74	163,603,402.85	(54,486,168.45)	771,235,644.76
8. Income tax expense	37,156,783.38	3,668,910.35	18,899,452.56		59,725,146.29
9. Net profit (loss) (including minority interests)	102,011,723.24	519,280,993.39	144,703,950.29	(54,486,168.45)	711,510,498.47
10. Total assets	11,997,088,181.69	9,477,802,119.66	3,682,785,008.26	(11,890,881,345.87)	13,266,793,963.74
11. Total liabilities	8,145,845,933.47	7,351,150,477.03	2,394,229,900.30	(8,565,012,974.75)	9,326,213,336.05
12. Additions to other non-current assets other than long-term equity investments	285,719,193.14	421,677,482.96	78,411,251.21		785,807,927.31

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

49. Segment information (continued)

(1) Segment profit or loss and assets and liabilities (continued)

Continued from above table

Amount for previous period	Refrigerators and washing machines	Air-conditioners	Others	Inter-segment elimination	Total
1. Revenue from external sales	11,984,925,209.88	9,233,763,216.95	968,237,066.15		22,186,925,492.98
2. Revenue from inter-segment transactions			986,201,863.65	(986,201,863.65)	
3. Gain from investment in associates and joint ventures	7,327,202.43	292,575,261.82	(116,634.72)		299,785,829.53
4. Depreciation and amortization	204,680,483.80	114,091,722.01	48,591,276.03		367,363,481.84
5. Gain arising from changes in fair value	27,143,109.62	24,405,843.08	5,047,359.40		56,596,312.10
6. Impairment losses on assets	(13,980,679.21)	21,567,802.50	(73,966,959.89)		(66,379,836.60)
7. Total profit (losses)	662,326,146.86	411,949,532.53	272,173,317.76	(47,036,133.66)	1,299,412,863.49
8. Income tax expense	40,925,686.71	(5,394,304.31)	18,087,558.55		53,618,940.95
9. Net profit (loss) (including minority interests)	621,400,460.15	417,343,836.84	254,085,759.21	(47,036,133.66)	1,245,793,922.54
10. Total assets	10,600,650,219.34	7,872,553,097.96	3,877,044,915.72	(10,142,217,374.69)	12,208,030,858.33
11. Total liabilities	6,823,379,772.51	6,114,821,210.11	2,754,449,274.77	(6,667,957,121.63)	9,024,693,135.76
12. Additions to other non-current assets other than long-term equity investments	567,101,189.55	107,704,846.59	26,776,445.73		701,582,481.87

(2) Geographic Information

Region	2014	2013
Revenue from domestic transactions	17,178,988,978.86	15,623,701,445.80
Revenues from overseas transactions	7,191,999,072.31	6,563,224,047.18
Total	24,370,988,051.17	22,186,925,492.98
Non-current assets — Domestic	5,212,995,836.79	4,202,897,397.03
Non-current assets — Overseas	12,681,153.28	14,428,569.30
Total	5,225,676,990.07	4,217,325,966.33

The Company operates mainly in Mainland China. Most of the Company's non-current assets are in Mainland China. Therefore it is not necessary to present further details of the regional information.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Particulars of the parent

(Amount Unit: RMB'0000)

Name of the parent	Relationship	Category of enterprise	Registration address	Legal representative	Business nature
Qingdao Hisense Air-conditioning	Controlling shareholder	Foreign-sino joint venture	Qingdao	Tang Ye Guo	Manufacture of air-conditioners, moulds and provision of after-sale services
Hisense Group	Ultimate Controlling shareholder	State wholly-owned	Qingdao	Zhou Hou Jian	Entrusted operation of state-owned assets; manufacture and sales of household appliances, communication products and provision of related services

Continued from above table

Name of the parent	Registered capital	Shareholding of the parent in the Company (%)	Voting rights of the parent in the Company (%)	Ultimate holding company of the Company	Organization code
Qingdao Hisense Air-conditioning	67,479	45.07	45.07	State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government	61430651-4
Hisense Group	80,617			State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government	16357877-1

2. For information about the subsidiaries, associates and joint ventures of the Company, please see note 6, note 7(10) and note 7(11).

3. Greencool Companies

Name of related parties of Greencool Companies	Relationship with the Company
Guangdong Greencool	Former controlling shareholder of the Company
Shenzhen Greencool Environmental	Related party of Guangdong Greencool
Shenzhen Greencool Technology	Related party of Guangdong Greencool
Greencool Procurement (Shenzhen) Co., Ltd. ("Shenzhen Greencool Procurement")	Related party of Guangdong Greencool
Hainan Greencool	Related party of Guangdong Greencool
Jiangxi Greencool Electrical Appliance Co., Ltd. ("Jiangxi Greencool")	Related party of Guangdong Greencool

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

4. Other related parties of the Company

Name of other related parties	Relationship with the Company	Organization code
Hisense Finance Co., Ltd. (“Hisense Finance”)	Subsidiary of ultimate holding company	71788291x
Hisense Electric Co., Ltd. (“Hisense Electric”)	Subsidiary of ultimate holding company	26462882-x
Shunde Yunlong Consultancy Service Limited (“Shunde Yunlong Consultancy”)	Minority shareholder of Huao Electronics	
Beijing Xuehua Group Company Limited (“Xuehua Group”)	Minority shareholder of Beijing Refrigerator	
Beijing Embraco Snowflake compressor Co., Ltd. (“Embraco”)	Associate of Xuehua Group	
Hisense (Hong Kong) Company Limited (“Hisense Hong Kong”)	Subsidiary of ultimate holding company	

5. The Greencool Companies had a series of transactions or unusual cash inflows and outflows through the following “Specific Third Party Companies”

Name of related party	Relationship with the Company
Jiangxi Kesheng	Specific Third Party Company
Jinan San Ai Fu	Specific Third Party Company
Tianjin Xiangrun	Specific Third Party Company
Tianjin Lixin	Specific Third Party Company
Jiangxi Keda	Specific Third Party Company
Hefei Weixi	Specific Third Party Company
Zhuhai Longjia	Specific Third Party Company
Zhuhai Defa	Specific Third Party Company
Wuhan Changrong	Specific Third Party Company
Tianjin Taijin	Specific Third Party Company
Deheng Solicitors	Specific Third Party Company
Shangqiu Bingxiong	Specific Third Party Company
Finance Bureau of Yangzhou Economic Development Zone	Specific Third Party Company

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

6. Related party transactions

(1) Purchase of goods/receipt of services

Related party	Particulars of related party transactions	Pricing and decision-making procedures of related party transactions	Amount for the year		Amount for previous year	
			Amount	Percentage of the amount for similar transactions (%)	Amount	Percentage of the amount for similar transactions (%)
Hisense-Whirlpool	Finished goods	Agreed price	430,133,686.79	2.07	654,769,720.19	3.44
Hisense Electric and its subsidiaries	Finished goods	Agreed price	70,512.82		409,060.87	
Hisense Group and its subsidiaries	Finished goods	Agreed price	2,284,666.67	0.01	167,413.33	
Subtotal of purchase of finished goods			432,488,866.28	2.08	655,346,194.39	3.44
Huayi Compressor and its subsidiaries	Raw materials	Agreed price	757,992,072.20	3.65	792,876,108.54	4.16
Embraco	Raw materials	Agreed price	23,497,568.39	0.11	55,408,634.21	0.29
Hisense-Whirlpool	Raw materials	Agreed price	8,593,163.00	0.04	6,414,982.38	0.03
Hisense Hitachi	Raw materials	Agreed price	6,230,202.75	0.03	7,658,894.53	0.04
Hisense Group and its subsidiaries	Raw materials	Agreed price	16,672,758.10	0.08	12,297,129.49	0.06
Hisense Electric and its subsidiaries	Raw materials	Agreed price	22,214,693.81	0.11	21,045,309.18	0.11
Subtotal of purchase of raw materials			835,200,458.25	4.02	895,701,058.33	4.69
Hisense Group and its subsidiaries	Moulds	Agreed price			44,097.00	
Subtotal of purchase of moulds					44,097.00	
Hisense Group and its subsidiaries	Receipt of services	Agreed price	395,453,887.87	1.9	314,008,392.57	1.65
Xuehua Group	Receipt of services	Agreed price	1,485,040.46	0.01	18,464,451.09	0.1
Hisense Electric and its subsidiaries	Receipt of services	Agreed price	9,996,984.51	0.05	9,037,818.74	0.05
Subtotal of receipt of services			406,935,912.84	1.96	341,510,662.40	1.8
Hisense Hong Kong	Financing purchase		213,244,123.52	1.03	145,231,385.68	0.76
Subtotal of financing purchase			213,244,123.52	1.03	145,231,385.68	0.76

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

6. Related party transactions *(continued)*

(1) Purchase of goods/receipt of services (continued)

- (1) The Company and the related subsidiaries of Hisense Group entered into a Business Cooperation Framework Agreement on 21 November 2013. During the effective period of the agreement, the transaction with the Company as the purchaser and recipient of services was subject to an aggregate cap (exclusive of value-added tax) of RMB570,040,000.
- (2) The Company and Hisense Whirlpool entered into a Business Framework Agreement (II) on 21 November 2013. During the effective period of the agreement, the transaction with the Company as the purchaser and recipient of services was subject to an aggregate cap (exclusive of value-added tax) of RMB1,257,730,000.
- (3) The Company and Hisense Hitachi entered into a Business Framework Agreement (I) on 21 November 2013. During the effective period of the agreement, the transaction with the Company as the purchaser was subject to an aggregate cap (exclusive of value-added tax) of RMB20,080,000.
- (4) The Company and Hisense Hong Kong entered into a Financing Purchase Framework Agreement on 21 November 2013. During the effective period of the agreement, the transaction in which Hisense Kelon engaged Hisense Hong Kong to perform financing purchase as its agent was subject to an aggregate cap of USD36,000,000.

The above agreements were considered and approved at the fifth interim meeting of the Company's eighth session of the board of directors in 2013 convened on 21 November 2013 and the first extraordinary general meeting in 2014 convened on 10 January 2014 respectively.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

6. Related party transactions (continued)

(2) Sale of goods/rendering of service

Related party	Particulars of related party transactions	Pricing and decision-making Procedures of related party transactions	Amount for the year		Amount for previous year	
			Amount	Percentage of the amount for similar transactions (%)	Amount	Percentage of the amount for similar transactions (%)
Hisense Electric and its subsidiaries	Finished goods	Agreed price	4,745.21		102,569.92	
Hisense-Whirlpool	Finished goods	Agreed price			146318.87	
Hisense Hitachi	Finished goods	Agreed price	41,950,005.66	0.16	70,899,684.46	0.29
Hisense Group and its subsidiaries	Finished goods	Market price	1,782,987,606.97	6.72	2,630,872,809.89	10.8
Subtotal of sale of finished product			1,824,942,357.84	6.88	2,702,021,383.14	11.09
Hisense-Whirlpool	Raw materials	Agreed price	12,300,354.33	0.05	21,528,464.60	0.09
Hisense Group and its subsidiaries	Raw materials	Agreed price	12,317,816.40	0.05	8,650,148.96	0.04
Hisense Hitachi	Raw materials	Agreed price	1,178,388.59		1,390,888.76	0.01
Hisense Electric and its subsidiaries	Raw materials	Agreed price	592,472.70		4,175,791.11	0.02
Huayi Compressor and its subsidiaries	Raw materials	Agreed price	2,085,169.42	0.01		
Subtotal of sale of raw materials			28,474,201.44	0.11	35,745,293.43	0.16
Hisense Group and its subsidiaries	Mould and equipment	Market price	208,313,517.39	0.79	182,374,253.98	0.75
Hisense Hitachi	Moulds	Market price	7,523,076.91	0.03	118,803.43	
Hisense-Whirlpool	Mould and equipment	Market price	4,196,474.36	0.02	7,139,646.13	0.03
Hisense Electric and its subsidiaries	Moulds	Market price	71,042,006.08	0.27	72,330,708.33	0.3
Subtotal of sale of moulds			291,075,074.74	1.11	261,963,411.87	1.08
Attend		Agreed price	3,600.00			
Hisense-Whirlpool		Agreed price	2,970,942.16	0.01	2,710,938.24	0.01
Hisense Group and its subsidiaries		Agreed price	5,129,018.69	0.02	2,455,623.42	0.01
Subtotal of rendering of services			8,103,560.85	0.03	5,166,561.66	0.02

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

6. Related party transactions *(continued)*

(2) Sale of goods/rendering of service (continued)

- (1) The Company and related subsidiaries of Hisense Group entered into a Business Cooperation Framework Agreement on 21 November 2013. During the effective period of the agreement, the transaction with the Company as the supplier and service provider was subject to an aggregate cap (exclusive of value-added tax) of RMB3,433,960,000.
- (2) The Company and Hisense Whirlpool entered into a Business Framework Agreement (II) on 21 November 2013. During the effective period of the agreement, the transaction with the Company as the supplier and service provider was subject to an aggregate cap (exclusive of value-added tax) of RMB86,100,000.
- (3) The Company and Hisense Hitachi entered into a Business Framework Agreement (I) on 21 November 2013. During the effective period of the agreement, the transaction with the Company as the supplier and service provider was subject to an aggregate cap (exclusive of value-added tax) of RMB273,500,000.

The above agreements were considered and approved at the fifth interim meeting of the Company's eighth session of the board of directors in 2013 convened on 21 November 2013 and the first extraordinary general meeting in 2014 convened on 10 January 2014 respectively.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

6. Related party transactions *(continued)*

(3) Related party guarantees

Guarantor	Guaranteed party	Amount (RMB'0000)	Inception date of guarantee	Expiry date of guarantee	Nature of guarantee	Execution of guarantee is completed or not
Hisense Group	Shandong Refrigerator	1,205.64	2013-4-25	2015-1-23	Import letter of credit	No
Hisense Group	Shandong Refrigerator	373.35	2013-4-25	2015-3-22	Domestic letter of credit	No
Hisense Group	Shandong Air-conditioning	80	2014-9-2	2015-3-31	Bank guarantee	No
Subtotal		1,658.99	—	—		

Notes to related party guarantees:

- (1) In April 2013, Hisense Group and the business department of Qingdao branch of Agricultural Bank entered into a Maximum Guarantee Contract (No. 84100520130002413), pursuant to which Hisense Group would provide guarantee securities for the liabilities under the maximum credit limit of RMB100,000,000 arising from various businesses with Shandong Refrigerator by the business department of Qingdao branch of Agricultural Bank during the period from 25 April 2013 to 23 April 2014.
- (2) In August 2014, Hisense Group and the business department of Qingdao branch of Agricultural Bank entered into a Maximum Guarantee Contract (No. 84100520140001566), pursuant to which Hisense Group would provide guarantee securities for the liabilities under the maximum credit limit of RMB100,000,000 arising from various businesses with Shandong Refrigerator by the business department of Qingdao branch of Agricultural Bank during the period from 11 August 2014 to 18 November 2014.
- (3) In October 2013, Hisense Group and Shandong Road sub-branch of Qingdao branch of Industrial and Commercial Bank entered into a Maximum Guarantee Contract (No. 38030201-2013 Ying Ye(Bao)Zi No. 0043), pursuant to which Hisense Group would provide guarantee securities for the liabilities under the maximum credit limit of RMB150,000,000 arising from various businesses with Shandong Air-conditioning by Shandong Road sub-branch of Qingdao branch of Industrial and Commercial Bank during the period from 10 October 2013 to 18 September 2014.
- (4) As at 31 December 2014, the Company and its subsidiaries had balances of deposit of RMB698,828,900, bank loans of RMB0, and notes payable of RMB621,484,700 with Hisense Finance. For the year, loan interests paid to Hisense Finance amounted to RMB0, interests paid in respect of discounted notes amounted to 0, and handling fees paid amounted to RMB1,304,300. Interest income received from Hisense Finance for the deposits amounted to RMB3,200,300. Provision of exchange settlement and sales services by Hisense Finance amounted to RMB222,595,800 for the year.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

7. Receivables from and payables to related parties

(1) Receivables from related parties

Item	Related party	Closing balance		Opening balance	
		Book value	Provision for bad debts	Book value	Provision for bad debts
Notes receivable	Hisense Electric and its subsidiaries	1,777,900.00			
Notes receivable	Hisense Group and its subsidiaries	7,742,513.97			
Subtotal		9,520,413.97			
Accounts receivable	Hisense Electric and its subsidiaries	5,369,800.07		8,310,815.47	
Accounts receivable	Hisense Group and its subsidiaries	425,687,562.52	863,752.76	261,146,292.16	830.04
Accounts receivable	Hisense-Whirlpool	2,433,508.67		6,612,890.57	
Accounts receivable	Hisense Hitachi	6,246,024.20		12,091,751.26	
Subtotal		439,736,895.46	863,752.76	288,161,749.46	830.04
Notes receivable	Hisense Group and its subsidiaries			11,349,514.97	
Subtotal				11,349,514.97	
Other receivables	Shunde Yunlong Consultancy			4,455,375.57	4,455,375.57
Other receivables	Hisense Electric and its subsidiaries	163,006.00		33,670.00	
Other receivables	Hisense Group and its subsidiaries	158,946.20		446,694.81	
Other receivables	Hisense-Whirlpool	7,237,588.19		11,122,562.09	
Other receivables	Xuehua Group and its subsidiaries	7,200,000.00			
Subtotal		14,759,540.39		16,058,302.47	4,455,375.57
Prepayments	Hisense Group and its subsidiaries	1,119,996.81		448,053.16	
Subtotal		1,119,996.81		448,053.16	

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

7. Receivables from and payables to related parties *(continued)*

(2) Payables to related parties

Item	Related party	Closing balance	Opening balance
Accounts payable	Huayi Compressor and its subsidiaries	182,978,262.08	174,056,225.97
Accounts payable	Embraco	8,609,219.66	18,578,321.11
Accounts payable	Hisense Group and its subsidiaries	30,670,272.38	34,213,685.77
Accounts payable	Hisense-Whirlpool	141,394,148.65	235,546,646.15
Accounts payable	Hisense Hitachi	1,592.78	1,323.34
Accounts payable	Hisense Electric and its subsidiaries	8,396.50	38,336.76
Subtotal		363,661,892.05	462,434,539.10
Other payables	Hisense Group and its subsidiaries	2,852,656.51	390,870.01
Other payables	Huayi Compressor and its subsidiaries	1,500,000.00	600,000.00
Other payables	Embraco	100,000.00	100,000.00
Other payables	Combine	5,099,880.00	5,099,880.00
Other payables	Hisense-Whirlpool	200,000.00	
Other payables	Xuehua Group and its subsidiaries		629,794.63
Subtotal		9,752,536.51	6,820,544.64
Advances	Hisense Hitachi		8,589,916.67
Advances	Hisense Group and its subsidiaries	1,769,699.72	491,778.44
Advances	Hisense Electric and its subsidiaries	933,000.00	
Subtotal		2,702,699.72	9,081,695.11

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

8. Transactions with “specific third party companies”

Item	Related party	At the end of the year Book value	At the beginning of the year Book value
Accounts receivable	Hefei Weixi Wuhan Changrong		18,229,589.24 20,460,394.04
Subtotal of accounts receivable			38,689,983.28
Prepayments	Hefei Weixi		465,213.00
Subtotal of prepayments			465,213.00
Other receivables	Jiangxi Kesheng Jinan San Ai Fu Jiangxi Keda Zhuhai Longjia Zhuhai Defa Wuhan Changrong Deheng Solicitors Shangqiu Bingxiong	27,462,676.72 121,496,535.45 13,000,200.00 28,600,000.00 21,400,000.00 20,000,000.00 2,000,000.00 58,030,000.00	27,462,676.72 121,496,535.45 13,000,200.00 28,600,000.00 21,400,000.00 20,000,000.00 4,000,000.00 58,030,000.00
Subtotal of other receivables		291,989,412.17	293,989,412.17
Other payables	Zhuhai Longjia Zhuhai Defa Tianjin Taijin	28,316,425.03 65,000,000.00	28,316,425.03 7,362,170.00 65,000,000.00
Subtotal of other payables		93,316,425.03	100,678,595.03

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

9. Transactions with Greencool Companies

Item	Related party	At the end of the year Book value	At the beginning of the year Book value
Other receivables	Guangdong Greencool		13,754,600.00
	Shenzhen Greencool Environmental	33,000,000.00	33,000,000.00
	Shenzhen Greencool Technology	32,000,000.00	32,000,000.00
	Hainan Greencool	12,289,357.71	12,289,357.71
Subtotal of other receivables		77,289,357.71	91,043,957.71
Other payables	Jiangxi Greencool	13,000,000.00	13,000,000.00
Subtotal of other payables		13,000,000.00	13,000,000.00

9. SHARE-BASED PAYMENT

1. General information about share-based payments

Item	Amount for the year
Total equity instruments granted during the period	(1,950,085.26)
Total equity instruments exercised during the period	33,972,196.50
Total equity instruments expired during the period	
Range of exercise price of share options outstanding and remaining contractual term as the end of the period	Exercise price of share options was RMB7.65, with remaining contractual term of 242 days
Range of exercise price of other equity instruments and remaining contractual term as at the end of the period	

2. Equity settled share-based payments

Item	Amount for the year
Determination on fair value of equity instruments at the date of grant	Fair value of share options granted under the Scheme calculated by using the Black-Scholes option pricing model
Determination on the best estimate of the number of exercisable equity instruments	Determined by taking into account the number of the participants, expected gain of share options and performance assessment of participants, etc
Reasons for significant discrepancies between estimates of current period and previous period	No
Accumulated amount of equity settled share-based payments in capital reserve	9,009,476.23
Total expense recognized for equity settled share-based payments	9,009,476.23

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

9. SHARE-BASED PAYMENT (continued)

3. Share-based services

Item	Amount for the year
Total amount of employee services received in exchange for share-based payments	9,009,476.23
Total amount of other services received in exchange for share-based payments	

4. Shares granted

Category	Exercise price	Outstanding as at 1 January 2014	Transferred to/from other categories during the year	Lapsed during the year	Exercised during the year	Expired during the year	Outstanding as at 31 December 2014
Directors	RMB7.65	2,989,000			689,040		2,299,960
Senior management	RMB7.65	2,484,000			258,060		2,225,940
Other management	RMB7.65	9,369,000		416,100	3,493,710		5,459,190
Total		14,842,000		416,100	4,440,810		9,985,090

The board of directors of the Company has completed the registration in respect of the grant of share options under the First Share Option Incentive Scheme of Hisense Kelon Electrical Holdings Company Limited (the "Scheme") under the authorization granted at the general meeting of the Company on 28 September 2011, and the basic information are as follows:

- (1) Date of grant: 31 August 2011
- (2) Exercise price: RMB7.65 per share.
- (3) Option abbreviation: Hisense JLC1
- (4) Option code: 037018
- (5) The share options are valid for five years from the date of grant, subject to a lock up period of 2 years. The incentive participants may exercise their options in equal installments within 3 years from the third anniversary of the date of grant, with 33%, 33% and 34% of the total options granted being exercisable each year.
- (6) The incentive participants may include: the directors of the Company (exclusive of the independent directors and the external directors who are not working with Hisense Group Limited liability company), senior management (including president, vice president, financial controller, board secretary, company secretary and other officers regarded as senior management under the Articles of Association) of the Company, mid-level management staff of the Company and its subsidiaries, and core technical personnel as the Board may determine.
- (7) The fund for exercising share options by the participants shall be raised by themselves and the Company shall not provide borrowings or any other kind of financial assistance to the participants under the Scheme (including guarantee for their borrowings).
- (8) The share option scheme has been reviewed and approved by the SASAC of Qingdao, filed with the SASAC of the State Council and filed with the CSRC with no objection

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

9. SHARE-BASED PAYMENT (continued)

4. Shares granted (continued)

On 18 October 2013, the *resolution on adjustment to participants, and the number of shares granted under the first share option incentive scheme of the Company* was passed at the fourth interim meeting of the Company's eighth session of the board of directors in 2013 to cancel 4,668,000 share options. Upon the adjustment, there were 14,842,000 share options granted under the scheme.

In 2013, the conditions to exercise for the first exercise period of the first phase share option incentive scheme of the Company were fulfilled. Upon approval at the fourth interim meeting of the Company's eighth session of the board of directors in 2013, 163 eligible participants all exercised their share options during the first exercise period, and there were 4,897,860 exercisable share options in total at the exercise price of RMB7.65. In May 2014, 148 eligible participants of the Company exercised their share options with 4,440,810 share options exercised. During the first phase to exercise share options, 9 participants were no longer eligible for this share option incentive. Board of directors of the Company decided to disqualify the above 9 participants and cancel 416,100 share options accordingly. As at 31 December 2014, there were 9,985,090 share options of the Company granted yet outstanding.

10. CONTINGENCIES

1. Contingent liabilities arising from pending litigations and their financial impact

As at 31 December 2014, the pending litigations involving the Company are summarized as follows:

(1) Cases with the Company as the plaintiff

Plaintiff	Defendant	Causes	Total amount involved
The Company	Beijing Diamond Advertising Co., Ltd.	Dispute over advertising contract	5,000,000.00
The Company and its subsidiaries	Others		16,570,000.00
Total			21,570,000.00

(2) Cases with the Company as the defendant

Plaintiff	Defendant	Causes	Total amount involved
Supplier of raw materials	The Company	Dispute over sale and purchase contract and processing contract	3,630,431.30
Others	The Company	Labor dispute and others	16,352,063.34
Total			19,982,494.64

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

10. CONTINGENCIES (continued)

1. Contingent liabilities arising from pending litigations and their financial impact (continued)

(3) Cases for which the judgment was in favor of the Company and became effective but was not yet executed

Plaintiff	Defendant	Causes	Total amount involved
The Company	Shangqiu Kelon	Default in goods payment	25,660,900.00
Total			25,660,900.00

It represented that the Company requested the defendants to repay the goods payment along with the accrued interests and bear all the litigation fees, for which the civil judgment has taken effect.

11. OTHER SIGNIFICANT EVENTS

1. Assets and liabilities measured at fair value

Item	Opening balance	Amount of financial assets	Gain or loss from change in fair value	Impairment provision for the year	Closing balance
Financial assets					
Derivative financial assets	67,115,019.35	162,460.00	(66,952,559.35)		162,460.00
Subtotal of financial assets	67,115,019.35	162,460.00	(66,952,559.35)		162,460.00
Derivative financial liabilities	(4,645.00)	(7,391,136.66)	(7,386,491.66)		(7,391,136.66)
Subtotal of financial liabilities	(4,645.00)	(7,391,136.66)	(7,386,491.66)		(7,391,136.66)

2. Financial risk management objectives and policies

The Company's major financial instruments include: cash at bank and on hand, derivative financial instruments, notes receivable, accounts receivable, other receivables, notes payable, accounts payable, other payables, bank borrowings. Details of the financial instruments were disclosed in the relevant notes.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

11. OTHER SIGNIFICANT EVENTS *(continued)*

2. Financial risk management objectives and policies *(continued)*

Risks with respect to the above financial instruments include: credit risk, liquidity risk, interest rate risk and foreign currency risk.

(1) Credit risk

Credit risk is the risk to which the Company is exposed to on financial losses due to the failure of clients or financial instrument counterparties to fulfill their contractual obligations, mainly with respect to bank balances, trade and other receivables and financial derivative.

The Company maintains substantially all of its bank balances in several major large state banks in PRC. With strong support to those banks from the state, the Board believes these assets are not exposed to significant credit risk that would cause financial losses.

The Company mitigates its exposure to risks in respect of trade and other receivables by dealing with diversified customers with healthy financial positions. Certain new customers are required by the Company to make cash payment in order to minimise credit risk. The Company seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk. In addition, all receivable balances are monitored on an ongoing basis and overdue balances are followed up by senior management.

The credit risk on derivative instruments is not significant as the counterparties are high creditworthy banks rated by international credit-rating agencies.

The maximum exposure to credit risk at reporting date is the carrying amount of each class of financial assets shown on the consolidated financial statements.

(2) Liquidity risk

In respect of the management of liquidity risk, the Company monitors and maintains cash and cash equivalents at a level which is adequate, in the management's point of views, to finance the Company's operations and mitigate the effects of short-term fluctuations in cash flows. The Company's treasury department is responsible for maintaining a balance between continuity of funding and flexibility through the use of bank credit in order to meet the Company's liquidity requirements.

In order to mitigate the liquidity risk, the directors have carried out a detailed review of the liquidity of the Company, including maturity profile of its accounts and other payables, availability of borrowings and loan financing provided by Hisense Finance, and it is concluded that the Company has adequate funding to fulfill its short-term obligations and capital expenditure requirements.

(3) Interest rate risk

The Company is exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks, which are mostly short-term in nature whereas interest-bearing financial liabilities are primarily short-term bank borrowings. As at 31 December 2014, the Company's short-term bank borrowings were at fixed rate. As all the Company's borrowings were factored accounts receivable, any change in the interest rate is not considered to have significant impact on the Company's performance.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

11. OTHER SIGNIFICANT EVENTS *(continued)*

2. Financial risk management objectives and policies *(continued)*

(4) Foreign currency risk

Foreign currency risk is the risk of loss due to adverse change in exchange rates with respect to investments and transactions denominated in foreign currencies. The Group's monetary assets and transactions are mainly denominated in RMB, HKD, USD, JPY and EUR. The exchange rates between RMB, HKD, USD, JPY and EUR are not pegged, and there is fluctuation in exchange rates between RMB, USD, JPY and EUR.

The carrying amounts of the Company's monetary assets and liabilities denominated in foreign currencies at the end of reporting period are as follows:

Currency	Closing balance		Opening balance	
	Assets	Liabilities	Assets	Liabilities
USD	820,825,155.22	293,087,628.93	1,021,163,328.28	59,472,179.79
EUR	36,886,178.77	4,099,568.80	382,080,146.63	3,624,342.09

The following table indicates the approximate effect of reasonably possible foreign exchange rate changes on the net profit, to which the Group has significant exposure at the end of reporting period:

Sensitivity analysis of change in exchange rate:

Item	2014	2013
	Increase/Decrease in profit after tax	Increase/Decrease in profit after tax
USD to RMB		
Appreciates by 5%	19,790,157.24	36,063,418.07
Depreciates by 5%	(19,790,157.24)	(36,063,418.07)
EUR to RMB		
Appreciates by 5%	1,229,497.87	14,192,092.67
Depreciates by 5%	(1,229,497.87)	(14,192,092.67)

Sensitivity analysis of change in forward rate:

Item	2014	2013
	Increase/Decrease in profit after tax	Increase/Decrease in profit before tax
USD to RMB		
Appreciates by 5%	(12,480,000.00)	(15,187,500.00)
Depreciates by 5%	12,480,000.00	15,187,500.00
EUR to RMB		
Appreciates by 5%	(881,250.00)	(1,408,387.50)
Depreciates by 5%	881,250.00	1,408,387.50

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

11. OTHER SIGNIFICANT EVENTS *(continued)*

3. Capital management

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 31 December 2013.

The Company monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes bank and other borrowings, accounts payable, notes payable, other payables and debentures payables, less cash and cash equivalents. The gearing ratios as at the end of the reporting periods were as follows:

Item	2014	2013
Total debt	9,326,213,336.05	9,024,693,135.76
Including: Short-term borrowings	253,985,142.45	191,681,513.02
Accounts payable	3,465,854,583.60	3,480,510,368.16
Notes payable	1,528,195,526.41	1,391,098,638.68
Other payables	1,735,584,905.78	1,731,259,054.40
Less: Cash and cash equivalents	870,038,755.12	472,987,177.54
Net debt	8,456,174,580.93	8,551,705,958.22
Equity attributable to shareholders of parent	3,458,363,028.38	2,748,731,080.83
Capital and net debt	11,914,537,609.31	11,300,437,039.05
Gearing ratio	70.97%	75.68%

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

11. OTHER SIGNIFICANT EVENTS (continued)

4. Directors and supervisors' emoluments

The emoluments paid or payable to the directors and supervisors of the Company are as follows:

(1) As at 31 December 2014

Unit: RMB'0000

Name	Position	Emoluments of independent director	Salaries and allowances	Pension scheme contributions	Total
Executive director					
Tang Ye Guo	Chairman		96.1	3.87	99.97
Yu Shu Min	Director				—
Lin Lan	Director				—
Xiao Jian Lin	Director		85.22	3.37	88.59
Tian Ye	Director and President		133.59	3.87	137.46
Huang Xiao Jian	Director and Vice-president		98.18	2.16	100.34
Jia Shao Qian	Vice-president		68.86	3.22	72.08
Ren Li Ren	Former director and former president		50.59	3.76	54.35
Gan Yong He	Former director and former vice-president		25.39	0.22	25.61
Zhang Yu Qing	former vice-president		76.04	3.87	79.91
Wang Yun Li	former vice-president		90.43	3.84	94.27
Independent non-executive director					
Xu Xiang Yi	Independent non-executive director	9			9
Wang Ai Guo	Independent non-executive director	9			9
Wang Xin Yu	Independent non-executive director	24			24
Supervisor					
Liu Zhen Shun	Chairman of Supervisory Committee				
Shu Peng	Supervisor		26.03	0.69	26.72
Gao Yu Ling	Supervisor				
Zhang Jian Jun	Former supervisor		30.22		30.22
Total		42	780.65	28.87	851.52

Notes:

- (1) During the year, no emoluments were paid by the Company to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived or agreed to waive any emoluments during the year.
- (2) Mr. Tian Ye was appointed as director of the Company in June 2014 and as president of the Company in March 2015; Mr. Huang Xiao Jian was appointed as vice president of the Company in March 2014 and as director of the Company in June 2014; Mr. Liu Zhen Shun was appointed on 10 January 2014; Ms. Gao Yu Ling was appointed on 10 January 2014; Mr. Shu Peng was appointed in January 2015.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

11. OTHER SIGNIFICANT EVENTS *(continued)*

4. Directors and supervisors' emoluments *(continued)*

As at 31 December 2013

Unit: RMB'0000

Name	Position	Emoluments of independent director	Salaries and allowances	Pension scheme contributions	Total
Executive director					
Tang Ye Guo	Chairman		97.64	2.28	99.92
Yu Shu Min	Director				
Lin Lan	Director				
Xiao Jian Lin	Director				
Ren Li Ren	Director and President		86.46	2.13	88.59
Gan Yong He	Director and Vice-president		137.94	1.75	139.69
Independent non-executive director					
Xu Xiang Yi	Independent non-executive Director	9			9
Wang Ai Guo	Independent non-executive Director	9			9
Wang Xin Yu	Independent non-executive Director	24			24
Supervisor					
Liu Zhen Shun	Chairman of Supervisory Committee				
Zhang Jian Jun	Employee representative supervisor		33.77		33.77
Gao Yu Ling	Supervisor				
Guo Qing Cun	Former supervisor				
Liu Jiang Yan	Former supervisor				
Total		42.00	355.81	6.16	403.97

Note:

- (1) During the year, no emoluments were paid by the Company to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived or agreed to waive any emoluments during the year.
- (2) Mr. Liu Zhen Shun was appointed on 10 January 2014; Ms. Gao Yu Ling was appointed on 10 January 2014; Mr. Guo Qing Cun resigned on 10 January 2014; Ms. Liu Jiang Yan resigned on 10 January 2014.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

11. OTHER SIGNIFICANT EVENTS *(continued)*

4. Directors and supervisors' emoluments *(continued)*

(2) Five highest paid individuals

In 2014, four (2013: two) of the five highest paid individuals of the Company were directors. The aggregate of the emoluments in respect of the other one individual (2013: three) is as follows (in respect of the range of emoluments for 2014, all their emoluments were below RMB1,000,000; and in respect of the range of emoluments for 2013, emoluments of 2 individuals exceeded RMB1,000,000 and below 1,500,000, and those of one individual was below RMB1,000,000):

	<i>Unit: RMB'0000</i>	
Item	Amount for current period	Amount for previous period
Emolument	94.27	350

5. Key management personnel emoluments

	<i>Unit: RMB'0000</i>	
Item	2014	2013
Salaries and other short-term employee benefits	130.04	931.7
Retirement benefit scheme costs	4.56	27.34
Total	134.6	959.04

6. Retirement benefit scheme

The Company and its subsidiaries contributes mainly to a defined contribution pension scheme, which is administered by the provincial government, in respect of employees of the Company and its subsidiaries. According to such scheme, the Company and its subsidiaries shall make contributions to the pension fund at certain percentage of the total salaries and wages of their employees.

The total costs charged to the profit or loss approximately of RMB375,333,300 (2013: RMB289,864,200) represented contributions payable to the scheme by the Company and its subsidiaries at percentages specified by the scheme.

7. Leases

(1) Different categories of leased assets of the Company are as follows:

	<i>Unit: RMB'0000</i>	
Categories of leased assets under operating leases	Closing carrying amount	Opening carrying amount
Buildings and structures	3,145.94	3,394.63
Total	3,145.94	3,394.63

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

11. OTHER SIGNIFICANT EVENTS *(continued)*

7. Leases *(continued)*

(2) *The Company as lessor under operating lease*

The Company's investment properties are also leased to a number of tenants for different terms. The rental income for 2014 amounted to RMB8,110,400 (2013: RMB8,750,000).

The minimum lease payments receivable under non-cancellable operating leases at the end of reporting period are as follows:

Item	Unit: RMB'0000	
	Amount for the year	Amount for previous year
Within one year	177.14	570.31
Over one year but within five years	224.72	291.44
Total	401.86	861.75

(3) *The Company as lessee under operating lease*

The Company leases certain leasehold land and buildings and plant and machinery under operating leases with lease terms ranging from one to five years. The operating lease payments for the year ended 31 December 2014 were as follows:

Operating lease payments	Unit: RMB'0000	
	Amount for the year	Amount for previous year
Leasehold land and buildings	2,861.39	1,904.78
Plant and machinery		564.13
Total	2,861.39	2,468.91

(4) *The total future minimum lease payments under non-cancellable operating leases at the end of reporting period due as follows:*

Item	Unit: RMB'0000	
	Amount for the year	Amount for previous year
Within one year	852.87	889.83
Over one year but within five years	1,527.75	1,027.48
Total	2,380.62	1,917.31

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

11. OTHER SIGNIFICANT EVENTS *(continued)*

8. Capital commitment

Item	Closing balance	Unit: RMB'0000	
		Opening balance	
Commitments in respect of investment in subsidiaries and jointly controlled entity:			
— Authorized but not yet contracted			
— Contracted but not paid	44,277		21,124.04
Commitments in respect of acquisition of the property, plant and equipment of subsidiaries:			
— Contracted but not paid			

9. Dividends

No dividend was paid for the year 2014 and no amount was withdrawn from reserve fund to increase capital (no dividend was paid for 2013).

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT

1. Accounts receivable

(1) Accounts receivable by category

Category	Closing balance			
	Book value		Provision for bad debts	
	Amount	%	Amount	%
Individually significant and subject to separate provision for bad debts				
Ageing analysis	1,867,953,870.49	100.00	139,047,900.53	7.44
Greencool Companies				
Subtotal	1,867,953,870.49	100.00	139,047,900.53	7.44
Individually insignificant but subject to separate provision for bad debts				
Total	1,867,953,870.49	100.00	139,047,900.53	7.44

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Accounts receivable (continued)

(1) Accounts receivable by category (continued)

Continued from above table

Category	Opening balance			
	Book value		Provision for bad debts	
	Amount	%	Amount	%
Individually significant and subject to separate provision for bad debts				
Ageing analysis	807,479,424.07	95.43	152,560,754.49	18.89
Greencool Companies	38,689,983.28	4.57	22,726,941.64	58.74
Subtotal	846,169,407.35	100.00	175,287,696.13	20.72
Individually insignificant but subject to separate provision for bad debts				
Total	846,169,407.35	100.00	175,287,696.13	20.72

Accounts receivable in the group provided for bad debts by using ageing method:

Aging	Closing balance			Opening balance		
	Book value		Provision for bad debts	Book value		Provision for bad debts
	Amount	%		Amount	%	
Within three months	1,719,843,329.52	92.07		630,662,395.32	74.53	
Over three months but within six months	3,057,481.35	0.16	305,748.14	24,931,888.10	2.95	2,493,188.81
Over six months but within one year	12,621,814.46	0.68	6,310,907.23	3,635,149.94	0.43	1,817,574.97
Over one year	132,431,245.16	7.09	132,431,245.16	148,249,990.71	17.52	148,249,990.71
Total	1,867,953,870.49	100	139,047,900.53	807,479,424.07	95.43	152,560,754.49

(2) Movements in impairment provision for accounts receivable

	Opening balance	Provision for the year	Decrease for the year		Closing balance
			Reversal	Write-off	
2014	175,287,696.13	12,203,915.39	6,673,376.81	41,770,334.18	139,047,900.53

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Accounts receivable (continued)

(3) Accounts receivable that are written off

Name	Nature	Amount	Reason for write-off	Whether or not arising from related party transactions
Unrelated party	Payment for goods	57,733,375.82	Not recoverable due to long aging	No
Total		57,733,375.82		

Whereas: major accounts receivable written off are as follows:

Name	Nature	Amount	Reason for write-off	The procedure involved in performing write-off	Whether or not arising from related party transactions
Hefei Weixi	Payment for goods	18,229,589.24	Not recoverable due to long aging	Approval from Board of directors	No
Wuhan Changrong	Payment for goods	20,460,394.04	Not recoverable due to long aging	Approval from Board of directors	No
Total		38,689,983.28			

(4) As at 31 December 2014, there was no amount due from shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of accounts receivable. As at 31 December 2013, there was no amount due from shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of accounts receivable.

(5) Top five accounts receivable

No.	Relationship with the Company	Amount	Ageing	Percentage of the total accounts receivable (%)
Top 1	Subsidiary	1,187,935,176.53	Within three months	63.60
Top 2	Subsidiary	386,872,771.36	Within three months	20.71
Top 3	Subsidiary	44,829,785.25	Within three months	2.40
Top 4	Subsidiary	41,801,853.53	Within three months	2.24
Top 5	Subsidiary	27,821,143.75	Within three months	1.49
Total		1,689,260,730.42		90.44

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables

(1) Other receivables are disclosed by category as follows:

Category	Closing balance			
	Book value		Provision for bad debts	
	Amount	%	Amount	%
Individually significant and subject to separate provision for bad debts	127,393,675.52	14.88	3,800,000.00	2.98
Ageing analysis	728,892,677.94	85.12	17,948,914.69	2.46
Greencool Companies				
Subtotal	728,892,677.94	85.12	17,948,914.69	2.46
Individually insignificant but subject to separate provision for bad debts				
Total	856,286,353.46	100.00	21,748,914.69	2.54

Continued from above table

Category	Opening balance			
	Book value		Provision for bad debts	
	Amount	%	Amount	%
Individually significant and subject to separate provision for bad debts				
Ageing analysis	1,059,189,446.30	98.53	21,305,760.56	2.01
Greencool Companies	15,754,600.00	1.47	8,185,215.74	51.95
Subtotal	1,074,944,046.30	100.00	29,490,976.30	2.74
Individually insignificant but subject to separate provision for bad debts				
Total	1,074,944,046.30	100.00	29,490,976.30	2.74

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables (continued)

(1) Other receivables are disclosed by category as follows: (continued)

Other receivables in the category provided for bad debts by using ageing analysis:

Aging	Closing balance			Opening balance		
	Book value		Provision for bad debts	Book value		Provision for bad debts
	Amount	%		Amount	%	
Within three months	710,231,259.64	82.94		1,036,319,802.72	96.41	
Over three months but within six months				964,388.25	0.09	96,438.82
Over six months but within one year	1,425,007.20	0.17	712,503.59	1,391,867.18	0.13	695,933.59
Over one year	17,236,411.10	2.01	17,236,411.10	20,513,388.15	1.91	20,513,388.15
Total	728,892,677.94	85.12	17,948,914.69	1,059,189,446.30	98.54	21,305,760.56

(2) Movements in impairment provision for other receivables

	Opening balance	Provision for the year	Decrease for the year		Closing balance
			Reversal	Write-off	
2014	29,490,976.30		4,286,686.02	3,455,375.59	21,748,914.69

(3) Other receivables that are written off:

Name	Nature	Amount	Reason for write-off	Whether or not arising from related party transactions
Unrelated party	Payment for goods	3,455,375.59	Not recoverable due to long aging	No
Total		3,455,375.59		

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables (continued)

(3) Other receivables that are written off: (continued)

Whereas: major other receivables written-off are as follows:

Name	Nature of other receivables	Amount of other receivables	Reason for write-off	The procedure involved in performing write-off	whether or not arising from related party transactions
Shunde Yunlong Consultancy Service Limited	Debt/Balance due	1,455,375.57	Not recoverable due to long aging	Approval from Board of directors	No
Beijing Deheng Solicitors	Debt/Balance due	2,000,000.00	Not recoverable due to long aging	Approval from Board of directors	No
Total		3,455,375.57			

(4) As at 31 December 2014, there was no amount due from shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of other receivables. As at 31 December 2013, there was no amount due from shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of other receivables

(5) Top five other receivables

Name	Relationship with the Company	Amount	Aging	Percentage of the total other receivables (%)
Top 1	Subsidiary	207,156,876.99	Within three months	24.19
Top 2	Subsidiary	165,420,136.30	Within three months	19.32
Top 3	Unrelated party	127,393,675.52	Over one year	14.88
Top 4	Subsidiary	79,763,832.65	Within three months	9.32
Top 5	Subsidiary	63,588,915.14	Within three months	7.43
Total		643,323,436.60	—	75.14

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

3. Long-term equity investment

Investee	Accounting treatment	Investment cost	Opening balance	Changes	Closing balance	% equity interest held	% voting rights held	Impairment provision	Impairment	Cash dividend in the year
									provided in the year	
Huayi Compressor	Equity method	24,171,468.64	75,663,702.46	6,226,952.79	81,890,655.25	3.74	3.74			627,855.18
Attend	Equity method	2,000,000.00	3,169,216.09	(319,175.63)	2,850,040.46	20.00	20.00			
Hisense Whirlpool	Equity method	225,000,000.00	211,116,482.31	(39,616,078.84)	171,500,403.47	50.00	50.00			
Hisense Hitachi	Equity method	332,821,597.45	703,551,272.91	256,251,398.11	959,802,671.02	49.00	49.00			88,200,000.00
Subtotal of equity method		583,993,066.09	993,500,673.77	222,543,096.43	1,216,043,770.20					88,827,855.18
Guangdong Refrigerator	Cost method	155,552,425.85	155,552,425.85		155,552,425.85	70.00	70.00			
Kelon Air-conditioner	Cost method	281,000,000.00	281,000,000.00		281,000,000.00	60.00	60.00	59,381,641.00		
Guangdong Freezer	Cost method	15,668,880.00	15,668,880.00		15,668,880.00	44.00	44.00			
Kelon Household Electrical Appliance	Cost method	2,500,000.00	2,500,000.00		2,500,000.00	25.00	25.00			
Hisense Home Appliances ¹	Cost method	32,634,553.70	32,634,553.70	18,896,500.00	51,531,053.70	81.17	81.17			
Rongsheng Plastic	Cost method	53,270,064.00	53,270,064.00		53,270,064.00	44.92	44.92			
Kelon Mould ²	Cost method	50,323,475.20	50,323,475.20	(50,323,475.20)						
Wangao I&E	Cost method	600,000.00	600,000.00		600,000.00	20.00	20.00			
Kelon Jiake	Cost method	42,000,000.00	42,000,000.00		42,000,000.00	70.00	70.00			
Kelon Weili	Cost method					55.00	55.00			
Yingkou Refrigerator	Cost method	84,000,000.00	84,000,000.00		84,000,000.00	42.00	42.00			
Jiangxi Kelon	Cost method	147,763,896.00	147,763,896.00		147,763,896.00	60.00	60.00			
Hangzhou Kelon	Cost method	24,000,000.00	24,000,000.00		24,000,000.00	100.00	100.00			
Yangzhou Refrigerator	Cost method	252,356,998.00	252,356,998.00		252,356,998.00	74.33	74.33			
Zhuhai Kelon	Cost method	189,101,850.00	189,101,850.00		189,101,850.00	75.00	75.00			
Shenzhen Kelon	Cost method	95,000,000.00	95,000,000.00		95,000,000.00	95.00	95.00			
Kelon Development	Cost method	11,200,000.00	11,200,000.00		11,200,000.00	100.00	100.00			
Chengdu Refrigerator	Cost method	50,000,000.00	50,000,000.00		50,000,000.00	100.00	100.00			
Beijing Refrigerator	Cost method	92,101,178.17	92,101,178.17		92,101,178.17	55.00	55.00			
Shandong Air-conditioning	Cost method	567,175,477.74	567,175,477.74		567,175,477.74	100.00	100.00			
Zhejiang Air-conditioning	Cost method	54,523,643.83	54,523,643.83		54,523,643.83	51.00	51.00			
Hisense Mould	Cost method	121,628,013.09	121,628,013.09		121,628,013.09	78.70	78.70			10,877,281.00
Shandong Refrigerator	Cost method	275,000,000.00	275,000,000.00		275,000,000.00	100.00	100.00			
Subtotal of cost method		2,597,400,455.58	2,597,400,455.58	(31,426,975.20)	2,565,973,480.38			59,381,641.00		10,877,281.00
Total		3,181,393,521.67	3,590,901,129.35	191,116,121.23	3,782,017,250.58			59,381,641.00		99,705,136.18

Note: ^{*1} During the period, Pearl River Refrigerator transferred all its 30% equity interests in Hisense Home Appliances to the Company, and thereafter the Company held 100% equity interests in Hisense Home Appliances. During the period, the registered capital of Hisense Home Appliances was increased, and after the increase, the Company held 81.17% equity interests in Hisense Home Appliances.

^{*2} During the period, the Company transferred all its 40.22% equity interests in Kelon Mould to Hisense Mould.

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

4. Operating revenue and operating costs

(1) Operating revenue and operating costs

Item	Amount for the year	Amount for previous year
Revenue from principal operations	3,588,402,090.51	14,847,409,656.42
Revenue from other operations	109,276,029.82	575,806,705.13
Total operating revenue	3,697,678,120.33	15,423,216,361.55
Costs of principal operations	2,704,169,299.20	11,744,449,377.16
Costs of other operations	61,972,271.90	377,229,036.32
Total operating costs	2,766,141,571.10	12,121,678,413.48

(2) Principal operations (by products)

Product	Amount for the year		Amount for previous year	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Refrigerators and washing machines	1,885,135,759.83	1,510,163,413.14	8,893,323,086.44	7,024,127,644.83
Air-conditioners	1,703,266,330.68	1,194,005,886.06	5,954,086,569.98	4,720,321,732.33
Total	3,588,402,090.51	2,704,169,299.20	14,847,409,656.42	11,744,449,377.16

(3) Principal operations (by regions)

Region	Amount for the year		Amount for previous year	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Domestic	3,588,402,090.51	2,704,169,299.20	14,847,409,656.42	11,744,449,377.16
Overseas				
Total	3,588,402,090.51	2,704,169,299.20	14,847,409,656.42	11,744,449,377.16

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

4. Operating revenue and operating costs (continued)

(4) Operating revenue from the top five customers of the Company

No.	Amount for the year	Percentage of the total revenue from principal operations of the Company (%)
Top 1	388,888,410.60	10.84
Top 2	304,198,365.70	8.48
Top 3	112,599,723.95	3.14
Top 4	48,697,520.66	1.36
Top 5	48,640,824.70	1.36
Total	903,024,845.61	25.18

5. Investment gain

(1) Breakdown of investment gain

Item	Amount for the year	Amount for previous year
Gain from long-term equity investment under the cost method	10,877,281.00	39,330,018.20
Gain from available-for-sale financial assets during holding period	9,500,000.00	4,750,000.00
Gain from long-term equity investment under the equity method	311,516,852.93	299,785,829.53
Gain from disposal of long-term equity investment	7,206,524.80	
Total	339,100,658.73	343,865,847.73

(2) Gain from long-term equity investments under the cost method

Investee	Amount for the year	Amount for previous year
Beijing Refrigerator		15,400,000.00
Hisense Mould	10,877,281.00	23,930,018.20
Total	10,877,281.00	39,330,018.20

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

5. Investment gain (continued)

(3) Gain from available-for-sale financial assets during holding period

Investee	Amount for the year	Amount for previous year
Hisense International Marketing	9,500,000.00	4,750,000.00
Total	9,500,000.00	4,750,000.00

(4) Gain from long-term equity investment under the equity method:

Investee	Amount for the year	Amount for previous year
Huayi Compressor	7,000,709.29	6,029,708.70
Hisense Whirlpool	(39,616,078.84)	1,297,493.73
Attend	(319,175.63)	(116,634.72)
Hisense Hitachi	344,451,398.11	292,575,261.82
Total	311,516,852.93	299,785,829.53

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

6. Supplementary information to cash flows statement

Supplementary information	Amount for the year	Amount for previous year
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	964,079,696.22	527,264,002.07
Add: Provision for assets impairment	(62,556,739.39)	13,221,334.10
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets	26,073,649.96	27,038,192.20
Amortization of intangible assets	9,751,648.00	8,781,079.24
Amortization of long-term prepaid expenses	670,666.64	
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain denoted in "bracket")	175,297.41	100,318.32
Loss on retirement of fixed assets (Gain denoted in "bracket")		
Loss on change in fair value (Gain denoted in "bracket")		
Financial expenses (Gain denoted in "bracket")		
Investment loss (Gain denoted in "bracket")	(339,100,658.73)	(343,865,847.73)
Decrease in deferred tax assets (Increase denoted in "bracket")		
Increase in deferred tax liabilities (Decrease denoted in "bracket")		
Decrease in inventories (Increase denoted in "bracket")	1,722,180,928.99	(620,722,778.99)
Decrease in operating receivables (Increase denoted in "bracket")	1,555,687,319.49	(1,296,929,392.15)
Increase in operating payables (Decrease denoted in "bracket")	(4,251,728,237.42)	1,610,782,015.39
Others		
Net cash flows from operating activities	(374,766,428.83)	(74,331,077.55)
2. Significant investment and financing activities not involving cash receipts and payment:		
Liabilities converted into equity		
Convertible company debentures due within one year		
Fixed assets under finance leases		
3. Net movement in cash and cash equivalents:		
Cash at the end of the period	28,279,997.40	194,913,820.28
Less: Cash at the beginning of the period	194,913,820.28	342,912,430.57
Add: Cash equivalents at the end of the period		
Less: Cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	(166,633,822.88)	(147,998,610.29)

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

13. SUPPLEMENTARY INFORMATION

1. Breakdown of non-recurring profit or loss

Item	Amount for the year	Amount for previous year
Profit or loss from disposal of non-current assets	(2,343,557.57)	296,087.55
Return, reduction and exemption of taxes surpassing approval or without official approval document		
Government grants included in the gain or loss (excluding those government grants that are closely related to the enterprise's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	82,298,890.90	82,700,643.38
Capital occupation fees received from non-financial enterprises that are included in current profits or losses		
Gain arising under the circumstance where the investment cost for acquisition of subsidiaries, associates and joint ventures is lower than the fair value of the net assets attributable to the enterprise		
Gain or loss arising from non-monetary assets exchange		
Gain or loss arising from entrusted investment or entrusted asset management		
Asset impairment provided due to forced majeure (e.g. natural disasters)		
Gain or loss arising from debt restructuring		
Corporate restructuring expenses (e.g. staff placement costs and integration expenses)	(36,817,863.11)	(52,492,777.86)
Gain or loss arising from the difference between the fair value and transaction price in obviously unfair transactions		
Net current profit or loss of subsidiaries arising from business combination under common control from beginning of year to the combination date		
Gain or loss arising from contingencies irrelevant to the Company's normal business		
Gain or loss from changes in fair values of financial assets and liabilities held-for-trading except for effective hedging activities related to the Company's normal operations and investment gain from disposal of financial assets and liabilities held-for-trading and available-for-sale financial assets		
Reversal of impairment provision for accounts receivable individually tested for impairment	12,585,064.60	89,950,024.68
Gain or loss arising from entrusted loan		
Gain or loss arising from changes in fair value of investment properties measured subsequently by using fair value model		
Effect on current profit or loss of one-off adjustment to current profit or loss as required by taxation, accounting and other laws and regulations		
Custody fee income from entrusted operations		
Other non-operating income and expense other than the aforementioned items	39,015,647.68	14,306,916.33
Other profit or loss items within the meaning of non-recurring profit or loss		
Total non-recurring profit or loss	94,738,182.50	134,760,894.08
Less: Effect of income tax on non-recurring profit or loss	15,218,459.01	4,249,768.03
Net non-recurring profit or loss	79,519,723.49	130,511,126.05
Less: Net effect of non-recurring profit or loss attributable to minority interests (after tax)	(10,027,621.39)	(7,254,093.11)
Non-recurring profit or loss attributable to ordinary shareholders of the Company	89,547,344.88	137,765,219.16

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

13. SUPPLEMENTARY INFORMATION *(continued)*

2. Return on net asset and earnings per share

2014

Profit for the reporting period	Weighted average of return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	21.65	0.50	0.50
Net profit attributable to ordinary shareholders of the Company after non-recurring profit or loss	18.76	0.43	0.43

2013

Profit for the reporting period	Weighted average of return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	56.78	0.90	0.90
Net profit attributable to ordinary shareholders of the Company after non-recurring profit or loss	50.35	0.80	0.80

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

13. SUPPLEMENTARY INFORMATION (continued)

3. Illustration of abnormal balances for major items in financial statement of the Company and the reasons

Statement Item	Closing balance (or amount for the current year)	Opening balance (or amount for previous year)	% Change	Reasons for change
Cash at bank and on hand	870,663,755.12	473,787,177.54	83.77%	Mainly due to collection of notes receivable and increase in accounts receivable factoring during the reporting period
Notes receivable	991,796,937.82	2,160,801,733.50	(54.10%)	Mainly due to increase in collection of notes receivable due during the reporting period
Prepayments	498,209,306.68	352,903,571.02	41.17%	Mainly due to increase in construction prepayment during the current period
Deferred tax assets	106,813,348.23	36,616,861.02	191.71%	Mainly due to increases in the number of subsidiaries eligible for providing for deferred tax assets and the sustainable profit growth of the subsidiaries as at the end of the reporting period
Short-term borrowings	253,985,142.45	191,681,513.02	32.50%	Mainly due to increase in accounts receivable factoring during the current period
Taxes payable	174,792,592.21	86,555,036.75	101.94%	Mainly due to increase in income tax payable during the period
Impairment losses on assets	58,625,706.01	(66,379,836.60)	(188.32%)	Mainly due to reversal of provisions for the Greencool bad debts during the same period in previous year
Gain arising from changes in fair value	(74,339,051.01)	56,596,312.10	(231.35%)	Mainly due to changes in outstanding forward transactions and changes in transactions transferred out upon maturity during the current period
Payment of other cash related to operations	3,814,090,558.19	2,812,073,099.38	35.63%	Mainly due to increase in expense payment as a result of increase in the scale of sale
Cash paid for purchasing and constructing fixed assets, intangible assets and other long-term assets	766,186,788.01	565,717,025.69	35.44%	Mainly due to increases in investment by Shandong Refrigerator, a subsidiary of the Company
Proceeds from borrowings	1,332,590,807.75	406,785,264.38	227.59%	Mainly due to increase in financing activities during the current period
Cash paid for repayment of liabilities	1,264,519,716.22	244,645,738.20	416.88%	Mainly due to increase in financing activities during the current period
Cash paid for distribution of dividends, profit or interest expenses	26,947,098.71	15,790,611.76	70.65%	Mainly due to increase in interest expenses as a result of increase in financing activities during the current period

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

13. SUPPLEMENTARY INFORMATION (continued)

4. Five-year financial summary

Statement Item	<i>Unit: RMB'0000</i>				
	2014	2013	2012	2011	2010
Total operating revenue	2,653,442.09	2,436,002.13	1,895,891.53	1,848,866.32	1,769,032.36
Total profits	77,123.56	129,941.28	74,285.40	24,669.96	62,770.86
Income tax	5,972.51	5,361.89	1,054.84	2,125.04	3,158.83
Net profit	71,151.05	124,579.39	73,230.56	22,544.92	59,612.03
Net profit attributable to equity holders of the parent	67,247.86	121,566.96	71,776.47	22,701.51	58,527.77
Minority interests	3,903.19	3,012.43	1,454.09	(156.59)	1,084.26
Distribution of dividends					

Continued from above table

Statement Item	As at	As at	As at	As at	As at
	31 December 2014	31 December 2013	31 December 2012	31 December 2011	31 December 2010
Total assets	1,326,679.40	1,220,803.09	929,501.14	763,543.96	801,896.89
Total liabilities	932,621.34	902,469.32	742,180.34	647,462.47	710,802.11
Net assets	394,058.06	318,333.77	187,320.80	116,081.49	91,094.79
Total equity attributable to equity holders of the parent	345,836.30	274,873.11	151,204.22	80,512.36	54,124.14
Minority interests	48,221.76	43,460.66	36,116.58	35,569.13	36,970.65
Total equity	394,058.06	318,333.77	187,320.80	116,081.49	91,094.79

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

13. SUPPLEMENTARY INFORMATION (continued)

5. Supplementary information related to changes in accounting policies

The Company has made changes to relevant accounting policies pursuant to eight accounting principles including *Accounting Standards for Business Enterprises 2 – Long-term Equity Investments* (Revised 2014) issued by Ministry of Finance and retrospective restatements have been made to the comparable financial statements. The restated consolidated balance sheets as at 1 January 2013 and 31 December 2013 are as follows:

(1) Consolidated assets statement

Item	2013.1.1	2013.12.31
Current assets:		
Cash at bank and on hand	516,065,467.96	473,787,177.54
Financial assets at fair value through profit or loss	10,678,293.47	67,115,019.35
Notes receivable	1,558,766,192.61	2,160,801,733.50
Accounts receivable	1,455,882,205.49	1,644,771,822.27
Prepayments	304,301,601.58	352,903,571.02
Other receivables	342,722,165.14	546,337,496.66
Inventories	1,738,441,110.15	2,496,359,854.46
Other current assets	97,985,835.80	248,628,217.20
Total current assets	6,024,842,872.20	7,990,704,892.00
Non-current assets:		
Available-for-sale financial assets	4,000,000.00	4,000,000.00
Long-term equity investment	747,925,728.90	993,500,673.77
Investment properties	36,446,602.09	33,946,307.75
Fixed assets	1,909,832,448.93	2,368,500,692.73
Constructions in progress	68,344,253.58	253,977,558.18
Disposal of fixed assets		
Intangible assets	495,496,878.49	521,782,817.81
Long-term prepaid expenses	827,939.58	5,001,055.07
Deferred tax assets	7,294,688.02	36,616,861.02
Total non-current assets	3,270,168,539.59	4,217,325,966.33
Total assets	9,295,011,411.79	12,208,030,858.33

Notes to the Financial Statements

(Unless otherwise expressly stated, amounts are denominated in RMB)

13. SUPPLEMENTARY INFORMATION *(continued)*

5. Supplementary information related to changes in accounting policies *(continued)*

(2) Consolidated liabilities statement

Item	2013.1.1	2013.12.31
Current liabilities:		
Short-term borrowings	30,309,453.94	191,681,513.02
Financial liabilities at fair value through profit or loss	164,231.22	4,645.00
Notes payable	1,432,852,210.08	1,391,098,638.68
Accounts payable	2,335,425,936.47	3,480,510,368.16
Advances from customers	837,065,771.59	907,031,506.85
Compensations payable to employee	223,662,684.56	236,343,013.69
Taxes payable	45,681,952.70	86,555,036.75
Interests payable	202,930.49	
Dividends payable	2,067.02	9,002,067.02
Other payables	1,581,294,492.81	1,731,259,054.40
Other current liabilities	566,406,795.92	574,037,292.42
Total current liabilities	7,053,068,526.80	8,607,523,135.99
Non-current liabilities:		
Provisions	311,862,482.54	361,158,229.87
Deferred income	56,872,390.49	56,011,769.90
Deferred tax liabilities		
Total non-current liabilities	368,734,873.03	417,169,999.77
Total liabilities	7,421,803,399.83	9,024,693,135.76
Equity:		
Share capital	1,354,054,750.00	1,354,054,750.00
Capital reserve	2,091,357,299.28	2,092,858,847.28
Other comprehensive income	20,832,593.58	40,350,357.85
Surplus reserve	145,189,526.48	145,189,526.48
Undistributed profits	(2,099,392,002.85)	(883,722,400.78)
Total equity attributable to shareholders of the parent	1,512,042,166.49	2,748,731,080.83
Minority interests	361,165,845.47	434,606,641.74
Total equity	1,873,208,011.96	3,183,337,722.57
Total liabilities and equities	9,295,011,411.79	12,208,030,858.33