

Hisense 海信家电

海信家電集團股份有限公司

Hisense Home Appliances Group Co., Ltd.

Stock Code: 00921

Annual Report

2018



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Company Profile

Hisense Home Appliances Group Co., Ltd. (the “Company”) is a major manufacturer of white household electrical appliances in the People’s Republic of China (the “PRC” or “China”) under the brand names Hisense, Kelon and Ronshen, each of which have been recognised as “Well-known Trademarks in China”. Founded in 1984 and headquartered in Shunde District, Guangdong Province, the PRC, the Company is principally engaged in research and development, production and marketing of white household electrical appliances such as refrigerators, air-conditioners, washing machines, freezers and kitchen electrical appliances, as well as after-sale service. Its manufacturing bases are located in cities across the country, including Qingdao (Shandong Province), Shunde (Guangdong Province), Jiangmen (Guangdong Province), Yangzhou (Jiangsu Province), Huzhou (Zhejiang Province), and Chengdu (Sichuan Province) and the products are exported to many countries and regions domestically and internationally, which fulfil consumer demand across the world. In 1996 and 1999 respectively, the Company’s shares were listed on the main boards of The Stock Exchange of Hong Kong Limited and the Shenzhen Stock Exchange.

Refrigerators and washing machines business: Refrigerators and washing machines comprise one of the Company’s principal businesses. In this sector, the Company’s Hisense and Ronshen brands are among the most well-known in China, with Ronshen refrigerators ranked first in terms of the market share for the last 11 consecutive years.

Residential Air-conditioning business: Under its well-known Hisense and Kelon air-conditioner brands, the Company was the first to commit to the research and development, production and promotion of inverter air-conditioners in China. Having years of experience, the Company has maintained a consistent focus on developing technological innovations for inverter air-conditioners, improving product quality, and upgrading its industrial capabilities. This has enabled it to lead the development of national standards for inverter air-conditioners, and has earned a reputation as the industry’s “inverter expert”.

Central Air-conditioning business: Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. was established in 2003. A strong competitor in the central air-conditioner market, market share of the brand accounts for 22.3% in multi-split central air-conditioners, 0.2 percentage point only lower than the first place.

With the support of its strong technical team, the Company will continue to follow its “technology orientation and prudent operation” strategy of development and it will increase the competitiveness of its products through technological innovation, improved quality and added value of the products. Overall, the Company’s integrated capabilities will be continuously enhanced, including in the areas of technology, product grade, market scale, profitability and sustainability, to support a steady growth in scale, efficiency and market share.

Major Events Calendar

MARCH

Adhering to manufacturing “high-quality products”, Hisense Hitachi was awarded the Quality Trustworthy Advance Enterprise in China.

Hisense’s Warm Idol washer dryer won the “Gold Award” of AWE Award 2018.

MAY

Breaking through the limitations of traditional refrigerators and giving more possibilities to the living room scene, the high-end living room cabinet, “Hisense Bingbing Upright” refrigerator was officially launched, which facilitates the creation of “good living room” and “good life”.

AUGUST

Hisense’s God of Cookery series has been officially launched, which contributes to the development and expansion of the mid-to-high market of refrigerator products.

Hisense’s God of Cookery refrigerators, Male Idol X air conditioners and Warm Idol X9 washing machines were introduced to the IFA exhibition in Germany and won the “Product Innovation Award”, “Technology Innovation Award” and “Design Innovation Award” in 2018, respectively.

SEPTEMBER

The commercial cold chain company held a press release for Hisense Commercial 4.0 solutions with the theme of “experiencing the future with innovative technologies” and has actively developed differentiated products, enhanced product competitiveness and promoted the rapid growth of new industries.

OCTOBER

The Company changed its company name and stock name to “Hisense Home Appliances Group Co., Ltd.” and “Hisense HA”.

NOVEMBER

The Company launched a “cultural transmission of the quality of Ronshen” ceremony celebrating the 35th anniversary of Ronshen series, to demonstrate and share our remarkable achievement over the past 35 years. The brand has been widely recognized by the public with its mission of “maintaining high quality of Ronshen products”.

With its innovative technologies promoting green development, satisfying users’ needs for green lifestyle and building the core competitiveness of the Company, Hisense (Shandong) Air-Conditioning Co. Ltd., a subsidiary of the Company, was successfully shortlisted “Green Pioneers 2018”.

DECEMBER

Hisense Refrigerator adhered to performing social responsibilities and supporting public welfare, winning the 4th Red-top Public Welfare Award.

Hisense Comfort Home X610 air-purifying filter air-conditioner won the “People’s Ingenious Product Award (人民匠心產品獎)”.

Chairman's Statement

Dear Shareholders:

I am pleased to present the annual report of the Company for the year ended 31 December 2018 (the "Reporting Period") for shareholders' review.

During the Reporting Period, the refrigerator market remained sluggish during the Reporting Period. According to inferential statistics from the China Market Monitor Company Limited ("CMM"), cumulative retail volume in the refrigerator sector in 2018 decreased by 6.2% year-on-year while cumulative retail amounts only grew by 0.7% year-on-year. The domestic air-conditioner market slowed down after an upward trend. Due to the negative impacts from property market and the macroeconomic downturn in second half of 2018, the offline market in all levels of residential air-conditioner turned sales growth into a decline of over 10% in the second half of 2018. According to the inferential statistics from CMM, cumulative retail volume in the domestic air-conditioner sector grew by 2.3% year-on-year and cumulative retail amounts grew by 4.9% year-on-year in 2018. The growth acceleration of central air-conditioning market slowed. According to statistics from www.aicon.com.cn, as compared with the growth of approximately 20% in the domestic central air-conditioning market in 2017, the growth in the central air-conditioning market in 2018 was below 10%. Given the development trend of products and technologies, the entire industry continued to strengthen product structure reforms, promote innovative technology and grasp opportunities for enhancing consumption and product structure. The refrigerator products have been developed in a high-end way and the air-conditioner products have been manufactured focusing on inverters upgrading, high efficiency, health and comfort as well as consumption enhancement.

During the Reporting Period, the Company changed its name to "Hisense Home Appliances Group Co., Ltd.". Facing the complicated, rigorous and ever-changing operating environment, the Company adhered to its original vision, upheld the value of producing home appliances and continued to develop its core businesses. It implemented Hisense Home Appliances 3.0 strategies and set out a corporate vision of "revitalizing the national industry and sharing billion citizens with happiness", while adjusting and optimizing its internal structure and emphasizing on efficiency and capacities. The Company reached stable improvement in both business scale and efficiency, achieving operating revenues of RMB36.020 billion, representing a year-on-year increase of 7.56% and principal operating revenue of RMB32.791 billion, representing a year-on-year increase of 7.76%. Among which, revenue from the refrigerator and washing machine business recorded a year-on-year increase of 13.90%; revenue from the air-conditioner business recorded a year-on-year increase of 2.08%; the domestic sales business recorded a principal operating revenue of RMB22.039 billion, representing a year-on-year increase of 7.11%, whereas the export sales business recorded a principal operating revenue of RMB10.752 billion, representing a year-on-year increase of 9.10%. Net profits attributable to shareholders in the listed company reached RMB1.377 billion, in which net profits after deducting non-recurring gains or losses recorded a year-on-year increase of 12.36%. Earnings per share were RMB1.01. The Company continued to consolidate its assets management, accelerate the turnover of capital and reduce its inventory level. Turnover of inventories was accelerated by 1.23 days year-on-year. The Company's gearing ratio has significantly improved, which has decreased by 3.36 percentage points from the beginning to the end of the Reporting Period.

During the Reporting Period, our refrigerator company has adhered to its operating vision of "creating values for customers and producing products with high quality" and has been committed to maintaining continuous improvement in operation. The Company continued to promote the concept of providing products and technologies with advanced-techniques, healthy and living elements and has been committed to manufacturing leading products based on reliable techniques. It expanded network channels, enhanced sales efficiency, attached importance to promoting brand quality, innovative advertisement and sales model, rapidly promoted brand image and reputation, focused on exploring new businesses and strengthened development of commercial cold chain. The air-conditioning company upheld the strategies of "producing products with high quality", continued to develop innovative major and core technologies, adopted product upgrading measures that fulfill the requirements of "health and comfort" and enhanced product competitiveness continuously. Hisense Hitachi has launched a range of leading technological products, continued to maintain its strengths in technology and quality and strengthen cooperation with engineering companies and maintained stable growth through market segmentation.

Chairman's Statement

According to estimated statistics from CMM, it is expected that retail volume of refrigerators in 2019 will decrease by 4.4% year-on-year, while retail volumes of air-conditioners in the online market and offline market will drop by 14.3% and 8.3% year-on-year, respectively. Given the high inventory of the air-conditioning industry, operation of home appliances in 2019 will suffer from intensified pressure. In the face of the "severe" market conditions, the Company will enhance capacities, drive profit growth, adhere to the operating concept of "producing products with high-quality" and uphold the spirit of "generating synergic impacts, reforming, being innovative and enhancing efficiency", so as to capture chances for making profits and market segmentation. By improving sales, optimizing the strategy for producing products with high-quality, enhancing the delivery capacity of its supply chain, focusing on development of central air-conditioning industry, accelerating the development progress of major business sectors, enlarging its export scale, strictly controlling the capital risks and increasing its efficiency in capital utilization, the Company will endeavor to achieve sustainable and healthy development, transforming the Company to a world's leading manufacturer in the home appliances cluster.

In 2018, the business development of the Company has received the care and strong support from all shareholders, general staff, 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 our objectives will be gradually achieved through careful and in-depth planning. With 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 Home Appliances with you all.

Tang Ye Guo

Chairman

The PRC, 28 March 2019

Discussion and Analysis of Operation

I. INDUSTRY OVERVIEW

Refrigerator Market: According to inferential statistics from CMM, in 2018, the cumulative retail volume in the domestic refrigerator sector decreased by 6.2% year-on-year, and cumulative retail sales grew by only 0.7% year-on-year, indicating that the domestic refrigerator sector is still in a cold winter. From the perspective of product and technology development trends, the sector continued to seize opportunities to upgrade consumption and product structure with adjustments to technological innovations, and refrigerator products continued to develop in a high-end direction. According to offline statistics from CMM, in 2018, while the proportion of retail sales of multi-door refrigerator products continued to steadily increase, among which retail sales of five-door refrigerator products grew by 36.7% year-on-year, significantly exceeding the overall growth of the sector.

Residential Air-conditioner Market: During the Reporting Period, the domestic residential air-conditioner market fell. In the second half of 2018, the residential air-conditioner offline market changed from growth in the first half of the year to a decrease of more than 10%, affected by the negative impacts of real estate and macroeconomic downturns. CMM statistics show that cumulative retail sales volume increased by 2.3% year-on-year, and the cumulative retail sales amount increased by 4.9% year-on-year in the whole year. From the perspective of product technology, residential air-conditioning products continued to develop in the direction of frequency conversion, high energy efficiency, health and comfort; consumption continued to upgrade; the air-cooling + purifying integrated conditioner has gained prominence, and products with “dual temperature and humidity control” and “comfortable airflow functions have greatly increased their market share.

Central Air-conditioner Market: According to statistics from www.aicon.com.cn, in 2018 the overall capacity of domestic central air-conditioner market was about 100 billion. Growth of central air-conditioners in 2018 was less than 10% as compared to an approximate increase of 20% in 2017. From the perspective of pipelines, the home furnishing retail market’s overall capacity nearly saw no increase as compared to 2017 due to the impact of real estate regulation policies, and its percentage of overall central air-conditioner market decreased. The slow overall market increase of 2018 was mainly caused by the weak home furnishing retail market. Benefiting from the promotion of property fitting-out policies and other factors, growth in engineering project market was higher than expected. Super-large, small and middle-sized projects and auxiliary facilities for property projects saw a balanced development and continued to grow. From a product type perspective, the growth rate of multi-connected products – the largest and most crucial category in central air-conditioner market – was approximately 10% in 2018. They accounted for 48.5% of the overall central air-conditioner market, and their market share is steadily increasing.

II. ANALYSIS OF THE COMPANY’S OPERATION

During the Reporting Period, the Company’s name was changed to “Hisense Home Appliances Group Co., Ltd.”. Facing a complex, intense and changeable business environment, the Company focused on its core of home appliances and concentrated on operating its main business. It unveiled its Hisense home appliances 3.0 strategy, which set a new corporate vision of “revitalising national industry and making hundreds of millions of families happy” and optimised its internal organisational structure for improved efficiency and capability. The Company achieved operating revenues of RMB 36.02 billion, representing a year-on-year increase of 7.56%, and principal operating revenue of RMB 32.791 billion, representing a year-on-year increase of 7.76%. Revenue from the refrigerator and washing machine business accounted for 49.02% of the principal operating revenue, representing a year-on-year increase of 13.90%; revenue from the air-conditioner business accounted for 45.41% of the principal operating revenue, representing a year-on-year increase of 2.08%. The domestic sales business recorded a principal operating revenue of RMB 22.039 billion, representing a year-on-year increase of 7.11%, whereas the export sales business recorded a principal operating revenue of RMB 10.752 billion, representing a year-on-year increase of 9.10%. Net profits attributable to shareholders in the listed Company reached RMB 1.377 billion, of which net profits after deducting non-recurring gains or losses were representing a year-on-year increase of 12.36%. Earnings per share were RMB 1.01. The Company continued to strengthen capital management, accelerate the turnover of capital, and reduce its inventory level. Turnover of inventory was accelerated by 1.23 days year on year. The Company’s gearing ratio has continuously improved, decreasing by 3.36 percentage points during the Reporting Period.

Discussion and Analysis of Operation

The major work of each business is as follows:

1. The Refrigerator and Washing Machine Business

During the Reporting Period, the Refrigerator Company adhered to a philosophy of “creating value for customers and creating high-quality products” and was united in an effort to ensure a business recovery. Its major work was as follows: **(1) Continuing to promote technology, health and life-based products and technical concepts, and building the Company on technology and leading products.** The Company strives to create high-quality, advanced technology product that will be highly competitive and well received by users. The “God of Cooking” product series by Hisense Refrigerator achieved the aims of overall product improvement by offering excellent technology and performance and an enhanced user experience through humanised design. The series won the “Annual Product Innovation” award at IFA in Berlin, as well as the 14th Chinese Home Appliance Innovation Promotion Activity. The series also passed a special evaluation of the Zhidian Laboratory on “Home Appliances Suitable for Mothers and Children” by virtue of its full-spectrum purification system and excellent performance in humidity control, preservation, antibacterial and other test items. **(2) Expanding the network coverage and improving marketing efficiency.** The Company continued to maintain good strategic cooperative relationships with home appliance chains, important e-commerce platforms and third- and fourth-tier customers. The Company strengthened channel development, deepened market segmentation and planning, and explored other online market segments on the basis of maintaining and deepening strategic cooperation with important e-commerce platforms. The substantial growth of high-end product sales drove improvements in the overall market structure and scale. According to data from CMM, online retail sales of the “Ronshen” brand increased by 26.4% year on year, much higher than the 15.5% growth of the whole industry’s online retail sales. The Company carried out Hisense home appliance promotional activities to increase the sales scale of the whole category. Market share steadily increased. In 2018, the Company’s cumulative retail market share in refrigerator products increased by 1.29 percentage points year on year according to statistics from CMM. **(3) Communicating brand quality, innovative promotion and marketing, and increasing brand and product popularity.** The Company promoted its brand from the perspectives of current events, social public benefit and daily living. It communicated with consumers from different user groups via a correspondingly wide range of channels, and raised the brand’s profile through such means as exclusive offers and promotions. Brand communication was expanded and its image and influence improved through participation in publically beneficial activities, sponsorship of China Central Television programmes and other means. As for product promotion, the Company strengthened cross-industry cooperation and carried out joint promotions, and strove to build a brand flagship store to improve its image at the retail level. **(4) Expanding new industries and strengthening the development of commercial cold chains.** The Company streamlined its entire operational system, particularly in aspects of customer development and relationship maintenance, independent research and development, manufacturing and quality management, cooperation with important strategic customers, and in a rapidly increased scale of commercial cold chains. In 2018, the Company’s sales of display cabinets increased by 40% year on year and the scale of supermarkets and vending machines achieved an important breakthrough.

2. The Residential Air-conditioner Business

Though it faced a complex and changeable business environment during the Reporting Period, the Air-Conditioning Company continued to improve the competitiveness of its products and ensured profitability through user demand mining, technological innovation and other measures under the strategy of “manufacturing high-quality products”. The major work was as follows: **(1) Continued innovation in key and core technologies.** The Company continued to innovate in key and core technologies, to meet the consumer requirements for accurate humidity control, quick temperature control and energy efficiency. **(2) “Healthy and comfortable” product upgrades.** The Company launched Male Idol X series air conditioners with the 360-degree rotating air supply and humidity control functions, meeting user requirements for a comfortable air supply and precise humidity control. In the field of comfort frequency conversion, the Company launched industry-leading products such as purification integrated X610 air conditioners and fresh air integrated X630 air conditioners which enhanced product comfort from the perspective of “air cleanliness”. Product systems were further diversified and competitiveness was continuously improved. At the “2018 China’s Quality Summit Forum and the 15th Award Ceremony of Originality Award of the People’s Choice”, the Hisense X610 purified air conditioner and its “creating good air” concept was honoured with a “People’s Originality Product Award” for 2018 due to its air purification ability and excellent temperature, humidity, cleanliness and air comfort control performance.

Discussion and Analysis of Operation

3. The Central Air-conditioner Business

During the Reporting Period, Hisense Hitachi's launches several technology-led products. It also maintained a stable growth through consolidating cooperation with engineering companies and focusing on market segments and other strategies. Hisense Hitachi was awarded the "National Outstanding Supplier for Central Air-Conditioners Procured by Government for the year 2018" and became the only enterprise which gained such award within the central air-conditioner industry. The major work was as follows: **(1) Maintaining the technological leadership advantage.** The Company continued to push technological innovation and completed research and development and industrialisation of multiple general technologies and new platforms. Several of its scientific and technological projects received awards from the industry. For example, the "Air Source Heat Pump System with Self-Adjusting Ability of Refrigerant Volume in a Wide Temperature Zone" took a second prize Scientific and Technological Award from the China National Light Industry Council. The "Household Multi-Dimensional Intelligent Air Quality Management System" received first prize Scientific and Technological Award from the China Society for the Promotion of Science and Technology Commercialization. **(2) Maintaining the quality leader advantage.** The Company continued to fulfil its philosophy of "manufacturing high-quality products", and by implementing the "seven rules of quality management", it constantly improved product quality. Both quality process management ability and systems operation performance were steadily improved. The Company's adaptability to internal and external environments and its risk resistance were further enhanced. The Company passed ISO 9001:2015/ISO 14001:2015 new system certification, which helps to enhance user satisfaction. In March 2018, Hisense Hitachi was named as a "National Advanced Enterprise of Quality and Credit" and a "National Demonstration Enterprise of Integrity in Product and Service Quality" by the China Association for Quality Inspection. In December 2018, Hisense Hitachi obtained an IECQ QC080000 system certificate for the first time. It systematically managed the conformity of products and hazardous substances in the manufacturing process, practiced "green manufacturing", and improved the enterprise's environmental protection credentials.

Environmental policies and performance

The Group is committed to achieve sustainable development of the environment and has integrated it into the daily operations of the Group. The Group continued to promote green measures and awareness in its daily business operations, complied with the "6S Management System" and implemented various green office measures, such as: two-sided printing and copying, promoting the use of recycle bags and turning off idle lights and electrical appliances to reduce energy consumption. The Group insisted on the development strategy of "technology orientation", by launching technologically innovative projects to upgrade the energy saving technology and intelligentisation technology for household electrical appliances.

The Group continued to carry out technology improvement and efficiency enhancement projects to enhance efficiency, conserve energy and reduce consumption. The Group also formulated an environmental protection and resources conservation system and established a sound ISO14001 environmental management system and continuously maintained the effective operation of those systems. The ISO14001 environmental management system of the Group has passed the re-certification audit by the China Academy of Safety Science and Technology in November 2018, which assured the certification remained valid. The Company has established a sound occupational health and safety management system. 44 production safety management systems are formulated at the headquarter level according to relevant national laws and regulations, including "Standards for Evaluation of Occupational Health and Safety and Environmental Responsibility Targets", "Standards for Rewards and Penalties Management for Occupational Health and Safety and Environmental Governance", "Standards for Identification and Evaluation of Sources of Hazards and Environmental Factors", "Standards for Management under Laws, Regulations and Other Requirements" and "Standards for Environmental Safety Training". In addition, the equipment and facilities of its subordinate factories all have corresponding safe operation rules in place. The occupational health and safety management system of the Company has successfully passed the renewal verification of the certification authority, China Academy of Safety Science and Technology, in November 2018, which assured the certification of Hisense HA remained valid.

Discussion and Analysis of Operation

According to the requirements of relevant document by the State Administration of Work Safety, the Company has vigorously facilitated the establishment of A Grade Safe Production Standardization Enterprise, constantly intensified the basic management of production safety and increased the intrinsic safety of equipment and facilities, so as to create a safe, healthy and comfortable working environment for staff. During the reporting period, nine subsidiaries of the Company obtained national certificates for A grade enterprises on safe production standardization and two controlled subsidiaries of the Company obtained certificates for B grade enterprises on safe production standardization issued by the Shandong and Zhejiang respectively.

Compliance with laws and regulations

The Group's business is mainly carried out by its subsidiaries in mainland China, and the Company is dually listed on the Shenzhen Stock Exchange and Hong Kong Stock Exchange. Accordingly, the operations of the Group should comply with the relevant laws and regulations of mainland China and Hong Kong. During the Reporting Period, to the best knowledge of the Company, the Group has complied with the relevant laws and regulations of mainland China and Hong Kong which has a significant impact on the business and operations of the Group. There was no material breach of or non-compliance with the applicable laws and regulations which has a significant impact on the business and operations of the Group.

Relationships with staff, customers, suppliers and other persons

The Group continued to improve its occupational training system in order to provide equal opportunities for its staff. The training system enhances the quality of its staff and their career development. In order to provide comprehensive support and healthcare services to its staff, the Group also paid attention to their living environment through building new apartments, canteens and clinic, which were managed by a specialised institution of the Group.

The Group has established and implemented a strict quality control and inspection system over its products. In order to enhance the standard of products and services proactively, the Group has implemented a "30 days guaranteed return and replacement" return policy for all its household electrical appliances.

The Group conducted site inspections on its suppliers to ensure that the terms of agreements have been complied with. The Group has established close and stable relationships with a number of major suppliers, and past records of the Group showed that no significant shortages or delays were experienced when receiving supplies or services from the suppliers. During the Reporting Period, there has not been a major and significant dispute between the Group and the suppliers.

The Group adhered to the principle of "operating with integrity". The Code of Integrity applies to all staff of the Group and they should observe the rules of integrity involving shareholders, staff, customers, partners, government and society.

Discussion and Analysis of Operation

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

Reasons for retrospective adjustment or restatement: Correction of accounting errors

Details of the correction of accounting errors can be found in the announcement regarding Correction of Accounting Errors published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 28 March 2019.

Unit: RMB

| Item | 2018 | 2017 | | Increase or decrease as compared to last year (%) | 2016 | |
|--|-------------------|-------------------|-------------------|---|-------------------|-------------------|
| | | Before correction | After correction | | After correction | Before correction |
| Operating revenue (RMB) | 36,019,598,304.79 | 33,487,590,387.45 | 33,487,590,387.45 | 7.56 | 26,730,219,497.07 | 26,730,219,497.07 |
| Net profits attributable to shareholders of listed company (RMB) | 1,377,457,177.70 | 1,997,530,073.54 | 2,018,112,935.64 | -31.75 | 1,087,732,130.38 | 1,116,558,833.87 |
| Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB) | 1,161,082,586.93 | 1,012,806,955.02 | 1,033,389,817.12 | 12.36 | 997,923,876.59 | 1,026,750,580.08 |
| Net cash flow from operating activities (RMB) | 1,049,366,564.25 | 455,048,576.31 | 455,048,576.31 | 130.61 | 2,925,929,985.25 | 2,925,929,985.25 |
| Basic earnings per share (RMB/share) | 1.01 | 1.47 | 1.48 | -31.76 | 0.80 | 0.82 |
| Diluted earnings per share (RMB/share) | 1.01 | 1.47 | 1.48 | -31.76 | 0.80 | 0.82 |
| Weighted average rate of return on net assets (%) | 19.79 | 35.12 | 34.71 | -14.92 | 24.23 | 24.33 |

| Item | At the end of 2018 | At the end of 2017 | | Increase or decrease as compared to last year (%) | At the end of 2016 | |
|---|--------------------|--------------------|-------------------|---|--------------------|-------------------|
| | | Before correction | After correction | | After correction | Before correction |
| Total assets (RMB) | 21,827,905,038.40 | 21,473,666,822.72 | 21,607,452,386.34 | 1.02 | 19,055,058,608.32 | 19,173,160,840.00 |
| Net assets attributable to shareholders of listed company (RMB) | 7,351,824,364.87 | 6,445,303,673.87 | 6,579,089,237.49 | 11.75 | 4,867,466,177.17 | 4,985,568,408.85 |

Discussion and Analysis of Operation

QUARTERLY MAJOR FINANCIAL INDICATORS

| Item | <i>Unit: RMB</i> | | | |
|--|------------------|-------------------|------------------|------------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Operating revenue (RMB) | 8,974,222,298.65 | 11,396,536,990.93 | 8,437,634,566.46 | 7,211,204,448.75 |
| Net profits attributable to shareholders of listed company (RMB) | 282,882,785.69 | 508,751,744.66 | 355,255,733.77 | 230,566,913.58 |
| Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB) | 266,491,076.30 | 471,587,439.53 | 263,945,522.85 | 159,058,548.25 |
| Net cash flow from operating activities (RMB) | -676,019,105.62 | 1,312,966,761.53 | 1,201,292,051.53 | -788,873,143.19 |

(II) NON-RECURRING PROFIT AND LOSS ITEMS AND AMOUNTS

Applicable Not applicable

| Item | <i>Unit: RMB</i> | | |
|---|-----------------------|-----------------------|----------------------|
| | Amount of 2018 | Amount of 2017 | Amount of 2016 |
| Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets) | -613,768.58 | 787,734,808.88 | -15,647,219.04 |
| 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) | 213,299,858.04 | 151,239,597.39 | 104,597,125.81 |
| Profit and losses from assets which entrust others to invest or manage | 48,100,716.69 | | |
| Other non-operating income and expenses other than the aforementioned items | 13,866,327.84 | 113,236,402.15 | 24,049,500.83 |
| Less: Effect of income tax | 42,991,932.03 | 48,767,136.54 | 14,854,388.82 |
| Effect of minority interests (after tax) | 15,286,611.19 | 18,720,553.36 | 8,336,764.99 |
| Total | 216,374,590.77 | 984,723,118.52 | 89,808,253.79 |

Discussion and Analysis of Operation

(III) ANALYSIS OF PRINCIPAL BUSINESS

1. 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) | 2018 | 2017 | Increase or decrease as compared to corresponding period last year (%) |
|--|---------------------------|-------|-------|--|
| Home appliances manufacturing industry | Sales volume | 2,237 | 2,096 | 6.73 |
| | Production volume | 2,240 | 2,114 | 5.96 |
| | Inventory volume | 138 | 135 | 2.22 |

2. Composition of operating revenue

Unit: RMB

| Item | 2018 | | 2017 | | Increase or decrease as compared to corresponding period last year (%) |
|--|-------------------|---------------------------------|-------------------|---------------------------------|--|
| | Amount | Weight to operating revenue (%) | Amount | Weight to operating revenue (%) | |
| By industry | | | | | |
| Home appliances manufacturing industry | 32,791,068,580.61 | 91.04 | 30,430,053,508.06 | 90.87 | 7.76 |
| By product | | | | | |
| Refrigerators and washing machines | 16,072,977,215.28 | 44.62 | 14,110,925,211.40 | 42.14 | 13.90 |
| Air-conditioners | 14,891,475,954.73 | 41.34 | 14,587,570,871.00 | 43.56 | 2.08 |
| Others | 1,826,615,410.60 | 5.08 | 1,731,557,425.66 | 5.17 | 5.49 |
| By region | | | | | |
| Domestic | 22,039,246,655.83 | 61.19 | 20,575,313,709.67 | 61.44 | 7.11 |
| Overseas | 10,751,821,924.78 | 29.85 | 9,854,739,798.39 | 29.43 | 9.10 |

Discussion and Analysis of Operation

3. Composition of operating costs

Unit: RMB ten thousand

| Industry Category | Item | 2018 | | 2017 | | 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 | 2,414,360.96 | 92.56 | 2,221,770.42 | 92.43 | 8.67 |
| | Direct expense | 96,804.77 | 3.71 | 82,583.22 | 3.44 | 17.22 |
| | Others | 97,317.27 | 3.73 | 99,474.27 | 4.13 | -2.17 |

4. Expenses

Unit: RMB

| Expense Item | 2018 | 2017 | Increase or decrease as compared to corresponding period last year (%) | Reason for the significant changes |
|-----------------------------------|----------------|----------------|--|--|
| | | | | |
| Management expense | 425,693,468.96 | 426,240,869.34 | -0.13 | No significant changes |
| Research and development expenses | 686,772,325.33 | 618,493,863.77 | 11.04 | No significant changes |
| Finance expense | 34,610,575.42 | 9,777,593.76 | 253.98 | Because of the increase in handling fees |

Discussion and Analysis of Operation

5. Cash Flow

Unit: RMB

| Item | 2018 | 2017 | Increase or decrease as compared to corresponding period last year (%) |
|--|-------------------|-------------------|--|
| Sub-total of cash inflows from operating activities | 28,157,226,836.14 | 25,873,346,562.68 | 8.83 |
| Sub-total of cash outflows from operating activities | 27,107,860,271.89 | 25,418,297,986.37 | 6.65 |
| Net cash flows from operating activities | 1,049,366,564.25 | 455,048,576.31 | 130.61 |
| Sub-total of cash inflows from investing activities | 2,876,183,272.24 | 5,073,544,791.60 | -43.31 |
| Sub-total of cash outflows from investing activities | 2,647,770,326.20 | 4,342,463,973.07 | -39.03 |
| Net cash flows from investing activities | 228,412,946.04 | 731,080,818.53 | -68.76 |
| Sub-total of cash inflows from financing activities | 200,000,000.00 | 13,791,204.00 | 1,350.20 |
| Sub-total of cash outflows from financing activities | 1,361,175,775.74 | 1,033,958,292.64 | 31.65 |
| Net cash flows from financing activities | -1,161,175,775.74 | -1,020,167,088.64 | N/A |
| Net increase in cash and cash equivalents | 109,045,092.16 | 157,334,076.78 | -30.69 |

Explanations of the main contributing factors for significant year-on-year change of the relevant figures

Applicable Not applicable

The decrease in cash inflows from investment activities was mainly due to the decrease in wealth management products recovered after maturity;

The decrease in cash outflows from investment activities was mainly due to the decrease in the purchase of wealth management products;

The increase in cash inflows from financing activities was mainly due to short-term borrowings during the period;

The increase in cash outflows from financing activities was mainly due to the increase in short-term borrowings and dividends during the period.

Discussion and Analysis of Operation

6. Research and development inputs

For details of research and development inputs of the Company during the reporting period, please refer to relevant content of “II. ANALYSIS OF THE COMPANY’S OPERATION” under the “Discussion and Analysis of Operation”.

Description of research and development inputs of the Company

| Item | 2018 | 2017 | Change in proportion (%) |
|--|------------------|----------------|--------------------------|
| Number of research and development staff | 1,309 | 1,170 | 11.88 |
| Proportion of number of research and development staff (%) | 3.98 | 3.47 | 0.51 percentage point |
| Amount of research and development inputs (RMB) | 1,007,917,568.01 | 726,596,221.47 | 38.72 |
| Proportion of research and development inputs to operating revenue (%) | 2.80 | 2.17 | 0.63 percentage point |
| Amount of capitalized research and development inputs (RMB) | 0 | 0 | |
| Proportion of capitalized research and development inputs to research and development inputs | 0 | 0 | |

(IV) DESCRIPTION OF INDUSTRIES, PRODUCTS OR REGIONS ACCOUNTING FOR 10% OR ABOVE OF THE REVENUE OR PROFITS FROM OPERATING BUSINESSES OF THE COMPANY

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 | 32,791,068,580.61 | 26,084,829,925.12 | 20.45 | 7.76 | 8.51 | -0.55 |
| By products | | | | | | |
| Refrigerators and washing machines | 16,072,977,215.28 | 12,742,548,502.69 | 20.72 | 13.90 | 12.10 | 1.27 |
| Air-conditioners | 14,891,475,954.73 | 11,852,793,724.90 | 20.41 | 2.08 | 5.05 | -2.24 |
| Others | 1,826,615,410.60 | 1,489,487,697.53 | 18.46 | 5.49 | 7.30 | -1.38 |
| By region | | | | | | |
| Domestic | 22,039,246,655.83 | 16,065,246,541.47 | 27.11 | 7.11 | 7.96 | -0.57 |
| Overseas | 10,751,821,924.78 | 10,019,583,383.65 | 6.81 | 9.10 | 9.41 | -0.26 |

Discussion and Analysis of Operation

(V) ASSETS AND LIABILITIES POSITION

Significant changes in asset items

Unit: RMB

| Items | At the end of 2018 | | At the beginning of 2018 | | Change in proportion (%) | Explanation of significant changes |
|-----------------------------|--------------------|--------------------------------|--------------------------|--------------------------------|--------------------------|---|
| | Amount | Percentage to total assets (%) | Amount | Percentage to total assets (%) | | |
| Cash at bank and on hand | 3,648,463,609.61 | 16.71 | 2,996,028,194.89 | 13.87 | 2.84 | No major changes |
| Accounts receivable | 3,096,454,625.34 | 14.19 | 2,825,437,522.27 | 13.08 | 1.11 | No major changes |
| Inventories | 2,955,752,775.71 | 13.54 | 3,397,860,489.07 | 15.73 | -2.19 | No major changes |
| Investment properties | 22,511,361.05 | 0.10 | 24,997,438.39 | 0.12 | -0.02 | No major changes |
| Long-term equity investment | 3,326,783,023.78 | 15.24 | 2,509,631,188.19 | 11.62 | 3.62 | Mainly due to the recognition of investment income from the joint venture company Hisense Hitachi |
| Fixed assets | 3,263,931,920.41 | 14.95 | 3,252,289,033.55 | 15.06 | -0.11 | No major changes |
| Construction in progress | 84,296,518.04 | 0.39 | 148,361,940.80 | 0.69 | -0.30 | Mainly due to the completion of part of the project and transfer to fixed assets |

(VI) ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Unit: RMB

| Items | Amount 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 | Impairment provided during the period | Amount purchased during the period | Amount sold during the period | Amount 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) | 82,670.52 | 124,679.48 | | | 124,679.48 | | 207,350.00 |
| 2. Derivative financial assets | | | | | | | |
| 3. Other investments in debt | | | | | | | |
| 4. Other investments in equity instruments | | | | | | | |
| Sub-total of financial assets | 82,670.52 | 124,679.48 | | | 124,679.48 | | 207,350.00 |
| Investment Properties | | | | | | | |
| Productive biological assets | | | | | | | |
| Others | | | | | | | |
| Total | 82,670.52 | 124,679.48 | | | 124,679.48 | | 207,350.00 |
| Financial liabilities | -373,723.35 | -2,392,176.65 | | | -2,392,176.65 | | -2,765,900.00 |

Discussion and Analysis of Operation

(VII) CORE COMPETITIVENESS ANALYSIS

1. Technological advantages

The Company adheres to its development strategy of “technology orientation” and focuses on “intelligence” and “green” 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 over thousands of technical personnel. The Company is continuously committed to enhance its self-driven innovation capacity, 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 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. As the Company gradually accelerated the process of internationalization and continuously promoted the internationalisation of its own brands, the Company have been selected as one of the “Top Ten Chinese Brands Familiar to Foreigners” in five consecutive years. In 2018, the “BrandZ China Top 50 Brands” report was released, of which “Hisense” ranked among the top ten and was awarded “the fastest growing home appliance brand”. “Ronshen” has a long history, during the reporting period, the company held the 35th anniversary celebration with the theme of “Ronshen, Quality Inheritance”, to demonstrate and inherit the outstanding achievements in the past 35 years. The brand image of “Ronshen, Ronshen, Quality Assurance” rooted in the hearts of the people; “Kelon” focuses on air-conditioning for 35 years, accurately positioning customers’ needs, and continues to innovate technology on the basis of years of technological precipitation. It has launched a series of high-efficiency and healthy air conditioners to maintain the forefront of the industry in terms of product energy efficiency and temperature control technology.

3. Culture of integrity

“No person can find a place in society without integrity; and no business can flourish without credit”. Integrity is the Company’s core value, is a crucial element of our corporate culture, and as such is regarded as essential to the Company’s continuing operation. To ensure that all staff act in accordance with the values of “honesty, integrity, practicability and progressiveness” and that interactions between the Company and its stakeholders are in the same spirit as will as in compliance with law and regulation, the Company formulated a Code of Integrity which makes integrity a rule, a code and a normality pervading all its activities.

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

| Name of company | Company type | Major business | 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 | Production and sale of commercial air-conditioners | US\$46 million | 1,192,168.17 | 606,921.48 | 1,098,666.68 | 194,732.85 | 160,321.77 |

Acquisition and disposal of subsidiaries during the Reporting Period

Applicable Not applicable

Discussion and Analysis of Operation

(IX) Material changes of major assets

| Major assets | Description of the material changes |
|----------------------|---|
| Equity assets | Mainly due to the increase in recognised investment return in Hisense Hitachi, a joint venture company and the increase in investment in Hisense Financial Holdings |
| Fixed assets | No significant change |
| Intangible assets | No significant change |
| Projects in progress | Mainly due to the increase in investment on technological improvement in fixed assets |

(X) Particulars of disposal of major equity during the Reporting Period

Applicable Not applicable

IV. OUTLOOK

According to inferential statistics from CMM, the overall retail sales volume for the refrigerator industry in 2019 is expected to decrease by 4.4% year on year, while online and offline market retail sales volumes for the air-conditioner industry will respectively drop by 14.3% and 8.3% year on year. In conjunction with the impact of high industry inventory and other factors, operational pressure on home appliance enterprises is expected to be further aggravated in 2019. Facing a “winter”, the Company will focus its abilities on growth, fulfilling its promise of “manufacturing high-quality products”, pushing “collaboration”, “change”, “innovation” and “efficiency”, driving toward the industrial premium point and exploring market segment opportunities to achieve a robust and sustainable rate of development on the way to becoming a worldwide home appliance brand.

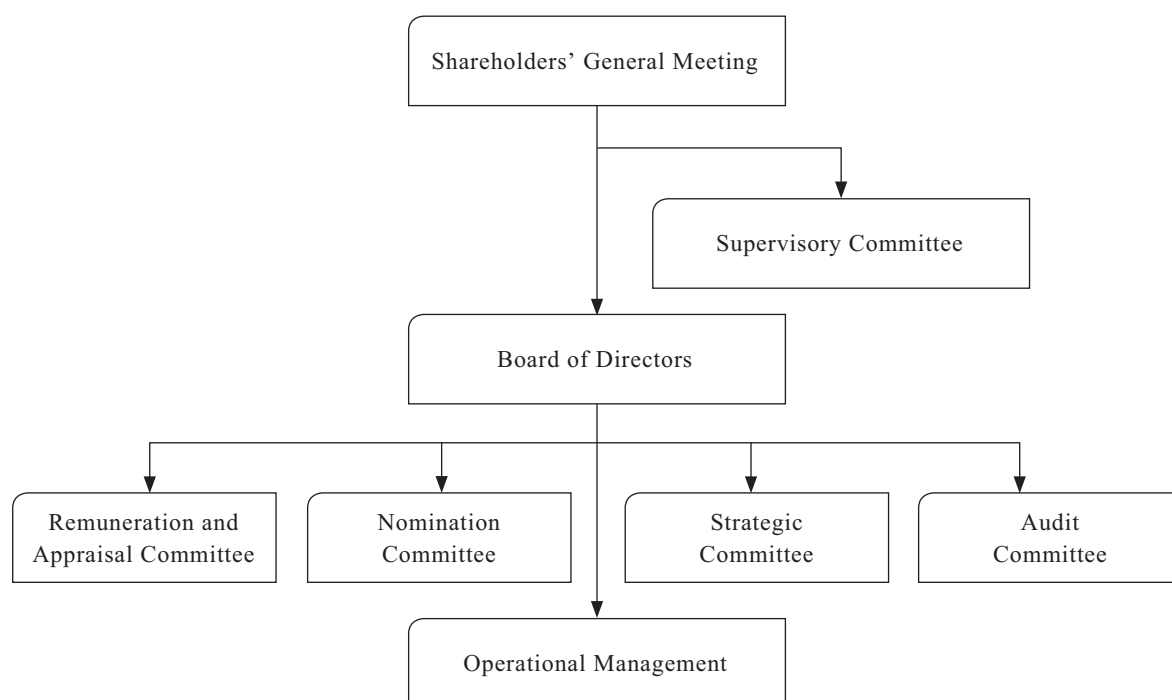
1. Improving marketing: Adjust the mechanism, create a high-end promotion atmosphere, highlight the main line, improve the sales proportion of mid- and high-end products. Upgrade the retail level image. Enhance e-commerce ability, accelerate large-scale growth of e-commerce and increase the share of e-commerce. Finely explore three- and four-tier markets with diversified, differentiated products.
2. Further develop the high-quality product strategy: Work primarily in the direction of “stressing the process, paying attention to experience, strengthening verification and performing the whole life cycle management”. Deepen and improve the high-quality product strategy.
3. Improve the supply chain’s delivery ability: Reduce the number of models in use and improve the efficiency of those that remain. Further improve the accuracy of market forecasts and plans. Enhance the universal and modular design level of components. Optimise the delivery mode and structure, raise the level of informatisation, reduce the order delivery cycle and improve punctuality of product delivery.
4. Intensify efforts to develop central air-conditioning business: Consolidate market base and enhance marketing capabilities; lay a solid foundation and increase export scale.
5. Accelerating the development of key industries: Create differentiated products, enhance product competitiveness and focus on cross-industry alliance to achieve a rapid increase in business scale and the benefits of “washing machines”, “commercial cold chains”, “environmental control appliances”, “kitchen appliances” and other businesses.
6. Increase the export scale and benefit: Enrich product lineups, improve product differentiation and the competitiveness of exported products. Increase the sales proportion of middle- and high-end products and continue to optimise the structure of exported products.
7. Strictly control capital risks and improve capital utilisation efficiency: Strengthen payment period controls, reduce the occupation of invalid capital, accelerate capital turnover and improve capital utilisation ability.

Corporate Governance Report

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, the Board and the supervisory committee were successfully re-elected, both have further revised the “Rules of Procedures for the Board” and the “Articles of Association” to continuously enhance the corporate governance system. The shareholders’ general meetings, meetings of the Board and its various specialized committees and the supervisory committee of the Company 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 matters of the Company. The Company has established and maintained different communication channels with its shareholders through 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 Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “Hong Kong Listing Rules”).

Corporate Governance Report

In 2018, one annual general meeting (“AGM”) and three extraordinary general meetings (“EGM”) on 18 January 2018, 3 August 2018 and 17 September 2018 have been held by the Company. The shareholding held by the shareholders attending the AGM, the EGM represented 41.43%, 54.54%, 41.27% and 40.49% of the then total issued shares of the Company respectively. The attendance records of the 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 | 4 | 2 | 0 | 50% |
| Mr. Jia Shao Qian | 4 | 1 | 0 | 25% |
| Mr. Liu Hong Xin | 4 | 0 | 0 | 0% |
| Mr. Lin Lan | 4 | 0 | 0 | 0% |
| Mr. Dai Hui Zhong | 4 | 0 | 0 | 0% |
| Mr. Wang Yun Li | 4 | 1 | 0 | 0% |
| Mr. Ma Jin Quan | 4 | 2 | 0 | 50% |
| Mr. Zhong Geng Shen <i>(Note 1)</i> | 3 | 1 | 0 | 33% |
| Mr. Cheung Sai Kit <i>(Note 2)</i> | 2 | 1 | 0 | 50% |
| Mr. Xu Xiang Yi <i>(Note 3)</i> | 1 | 1 | 0 | 100% |
| Mr. Liu Xiao Feng <i>(Note 4)</i> | 1 | 1 | 0 | 100% |

Notes:

1. Mr. Zhong Geng Shen was appointed as an independent non-executive Director from 26 June 2018.
2. Mr. Cheung Sai Kit was appointed as an independent non-executive Director from 3 August 2018.
3. Mr. Xu Xiang Yi ceased to be an independent non-executive Director with effect from 26 June 2018.
4. Mr. Liu Xiao Feng ceased to be an independent non-executive Director with effect from 3 August 2018.
5. All Directors who were unable to attend the general meetings in person had 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, Hong 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.
- (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 seeking to request for information such as the Company's Articles of Association, register of shareholders and minutes of shareholders' general meetings or inspect relevant information should provide written documentation to the Company as evidence for 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 Home Appliances Group Co., Ltd.
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 in person or appoint specific staff to respond to or give explanation for such enquiry or recommendation.

Corporate Governance Report

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 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 ninth session of the Board was elected and established at the annual general meeting of the Company held on 26 June 2015 with a term of office of 3 years. As at 1 January 2018, the Board comprised the executive Directors, namely Mr. Tang Ye Guo, Mr. Liu Hong Xin, Mr. Lin Lan, Mr. Dai Hui Zhong, Mr. Jia Shao Qian and Mr. Wang Yun Li and the independent non-executive Directors, namely Mr. Ma Jin Quan, Mr. Xu Xiang Yi and Mr Liu Xiao Feng.

As at 26 June 2018, the tenth session of the Board was elected and established at the annual general meeting of the Company, with a term of office of 3 years. As at the date of this report, the Board was composed of 8 Directors, the executive Directors were Mr. Tang Ye Guo (Chairman, President), Mr. Jia Shao Qian, Mr. Lin Lan, Mr. Dai Hui Zhong and Mr. Wang Yun Li and the independent non-executive Directors were Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit.

The following changes in the composition of the Board took place during the Reporting Period up to the date of this report:

- (i) Mr. Xu Xiang Yi ceased to be an independent non-executive Director from 26 June 2018;
- (ii) Mr. Tang Ye Guo, Mr. Liu Hong Xin, Mr. Lin Lan, Mr. Dai Hui Zhong, Mr. Jia Shao Qian and Mr. Wang Yun Li were elected as the executive Directors of the tenth session of the Board at the 2017 annual general meeting of the Company held on 26 June 2018;
- (iii) Mr. Ma Jin Quan and Mr. Zhong Geng Shen were elected as the independent non-executive Directors of the tenth session of the Board at the 2017 annual general meeting of the Company held on 26 June 2018;
- (iv) Mr. Liu Xiao Feng ceased to be an independent non-executive Director from 3 August 2018;
- (v) Mr. Cheung Sai Kit was elected as an independent non-executive Director of the tenth session of the Board at the 2018 second extraordinary general meeting of the Company held on 3 August 2018; and
- (vi) Mr. Liu Hong Xin ceased to be an executive Director from 1 February 2019.

Members of the Board do not have any relationship in finance, business, family or other significant aspects.

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.

Corporate Governance Report

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 34 to 35 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 2018, 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 of authority 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 Hong Kong 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 according to 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 2018, the Board of the Company held 13 meetings to discuss the Company's important operating items. The Directors attended the meetings in person, and their attendance records 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 | 13 | 13 | 0 | 100% |
| Mr. Jia Shao Qian | 13 | 13 | 0 | 100% |
| Mr. Liu Hong Xin | 13 | 13 | 0 | 100% |
| Mr. Lin Lan | 13 | 13 | 0 | 100% |
| Mr. Dai Hui Zhong | 13 | 13 | 0 | 100% |
| Mr. Wang Yun Li | 13 | 13 | 0 | 100% |
| Mr. Ma Jin Quan | 13 | 13 | 0 | 100% |
| Mr. Zhong Geng Shen <i>(Note 1)</i> | 7 | 7 | 0 | 100% |
| Mr. Cheung Sai Kit <i>(Note 2)</i> | 5 | 5 | 0 | 100% |
| Mr. Xu Xiang Yi <i>(Note 3)</i> | 6 | 8 | 0 | 100% |
| Mr. Liu Xiao Feng <i>(Note 4)</i> | 8 | 8 | 0 | 100% |

Notes:

1. Mr. Zhong Geng Shen was appointed as an independent non-executive Director from 26 June 2018.
2. Mr. Cheung Sai Kit was appointed as an independent non-executive Director from 3 August 2018.
3. Mr. Xu Xiang Yi ceased to be an independent non-executive Director with effect from 26 June 2018.
4. Mr. Liu Xiao Feng ceased to be an independent non-executive Director with effect from 3 August 2018.

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 detailed information 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. At the same time, 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. The Company has made available sufficient resources 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 for record, during which the minutes are available for Directors' inspection from time to time upon their request.

Corporate Governance Report

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.

Independent Non-Executive Directors

The Board comprises three independent non-executive Directors, accounting for one-third of the total number of Directors. The independent non-executive Directors appointed by the Company have complied with Rules 3.10(1) and (2), Rule 3.10A and Rule 3.13 of the Hong Kong Listing Rules and all of them are independent of and are not connected with any of the connected persons (as defined in the Hong Kong 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. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit are up to 25 June 2021.

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

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 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 Director, namely, Mr. Lin Lan and the independent non-executive Directors, namely, Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit (till 3 August 2018). Mr. Ma Jin Quan acted 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;

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- (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;
- (I) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions of other positions 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. Details of the remuneration policies of the Company are set out on pages 37 to 38 of this annual report.

The Remuneration and Appraisal Committee of the Board held 3 meetings 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 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. Ma Jin Quan <i>(Note 1)</i> | 3 | 3 | 0 | 100% |
| Mr. Liu Hong Xin | 3 | 3 | 0 | 100% |
| Mr. Lin Lan | 3 | 3 | 0 | 100% |
| Mr. Zhong Geng Shen <i>(Note 2)</i> | 1 | 1 | 0 | 100% |
| Mr. Cheung Sai Kit <i>(Note 3)</i> | 0 | 0 | 0 | — |
| Mr. Xu Xiang Yi <i>(Note 4)</i> | 2 | 2 | 0 | 100% |
| Mr. Liu Xiao Feng <i>(Note 5)</i> | 2 | 2 | 0 | 100% |

Notes:

1. Mr. Ma Jin Quan was appointed as a chairman of the Remuneration and Appraisal Committee with effect from 26 June 2018;
2. Mr. Zhong Geng Shen was appointed as a member of the Remuneration and Appraisal Committee with effect from 26 June 2018;
3. Mr. Cheung Sai Kit was appointed as a member of the Remuneration and Appraisal Committee with effect from 3 August 2018;
4. Mr. Xu Xiang Yi ceased to be a chairman of the Remuneration and Appraisal Committee with effect from 26 June 2018; and
5. Mr. Liu Xiao Feng ceased to be a member of the Remuneration and Appraisal Committee with effect from 26 June 2018.

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

- (i) the resolution in respect of the annual remuneration of the executive Director candidates and non-executive Director candidates of the tenth session of the Board;
- (ii) the resolution in respect of the pre-tax annual remuneration of Mr. Cheung Sai Kit, the candidate of independent non-executive Director of the tenth session of the Board, to be RMB240,000; and
- (iii) the resolution in respect of the election of Mr. Ma Jin Quan as the chairman of the Remuneration and Appraisal Committee of the tenth session of the Board 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 2018 are set out on pages 54 to 55 of this annual report.

Nomination Committee

The Board 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 independent non-executive Directors, namely, Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit (till 3 August 2018), and executive Directors, namely, Mr. Tang Ye Guo and Mr. Jia Shao Qian. Mr. Zhong Geng Shen acted 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 select the qualified Director candidates and senior management candidates and integrate the Company's business model and its specific needs, taking comprehensive consideration of factors such as age, gender, educational background, skills, professional knowledge, experience, etc. and to develop measurable goals to ensure the diversity of the Board members;
- (C) to examine the candidates 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, experience and diversity) 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 President; and
- (G) other matters authorized by the Board.

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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 held 3 meetings during the Reporting Period, and the attendance record of the members of the Nomination Committee is set out below:

| Name | The attendance of the meeting of the Nomination Committee of the Board | | | |
|-------------------------------------|---|--------------------------------------|-------------------------------------|------------------------------------|
| | 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. Zhong Geng Shen <i>(Note 1)</i> | 1 | 1 | 0 | 100% |
| Mr. Tang Ye Guo | 3 | 3 | 0 | 100% |
| Mr. Jia Shao Qian | 3 | 3 | 0 | 100% |
| Mr. Ma Jin Quan | 3 | 3 | 0 | 100% |
| Mr. Cheung Sai Kit <i>(Note 2)</i> | 0 | 0 | 0 | 100% |
| Mr. Xu Xiang Yi <i>(Note 3)</i> | 2 | 2 | 0 | 100% |
| Mr. Liu Xiao Feng <i>(Note 4)</i> | 2 | 2 | 0 | 100% |

Notes:

1. Mr. Zhong Geng Shen was appointed as a chairman of the Nomination Committee of the tenth session of the Board with effect from 26 June 2018.
2. Mr. Cheung Sai Kit was appointed as a member of the Nomination Committee with effect from 3 August 2018.
3. Mr. Xu Xiang Yi ceased to be a member of the Nomination Committee with effect from 26 June 2018.
4. Mr. Liu Xiao Feng ceased to be a member of the Nomination Committee with effect from 26 June 2018.

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

- (i) the resolution in respect of the re-election of the Board of the Company;
- (ii) the resolution in respect of the nomination of Mr. Cheung Sai Kit as candidate of an independent non-executive Director of the tenth session of the Board of the Company;
- (iii) the resolution in respect of the nomination of Mr. Zhong Geng Shen as the chairman of the Nomination Committee of the tenth session of the Board of the Company; and
- (iv) the resolution in respect of the nomination of candidates as senior management members of the Company.

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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 taking into account 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. In respect of the nomination of senior management, the Nomination Committee shall provide the Board with candidates for the position of its recommendation 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 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 tenth session of the Board comprised Mr. Tang Ye Guo, Mr. Jia Shao Qian, Mr. Lin Lan and Mr. Dai Hui Zhong. Mr. Tang Ye Guo acted as 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 members, 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. 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, 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 set up 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.

The major duties and authority of the Audit Committee are:

- (A) to monitor and evaluate the external audit function and propose to engage or change the external audit agency. 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;

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- (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 review the Company’s financial information and its disclosure. To monitor the integrity of the Company’s financial statements and annual report and accounts, interim report 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 judgements;
 - 3. significant adjustments resulting from the audit;
 - 4. the going concern assumptions and any qualifications;
 - 5. compliance with accounting standards; and
 - 6. compliance with the Hong Kong 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 monitor and evaluate the Company’s internal control. To review the Company’s financial controls, risk management and internal control systems;
- (G) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, 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) to monitor and examine the internal audit function, 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;
- (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;

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- (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 specified in its 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 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 Board are independent non-executive Directors. During the Reporting Period and up to the date hereof, the Audit Committee consisted of Mr. Cheung Sai Kit (since 3 August 2018), Mr. Ma Jin Quan and Mr. Zhong Geng Shen. Mr. Cheung Sai Kit acted as the chairman of the committee.

The Audit Committee of the Board of the Company held seven 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 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. Cheung Sai Kit <i>(Note 1)</i> | 3 | 3 | 0 | 100% |
| Mr. Ma Jin Quan | 7 | 7 | 0 | 100% |
| Mr. Zhong Geng Shen | 3 | 3 | 0 | 100% |
| Mr. Liu Xiao Feng <i>(Note 2)</i> | 4 | 4 | 0 | 100% |
| Mr. Xu Xiang Yi <i>(Note 3)</i> | 4 | 4 | 0 | 100% |

Notes:

1. Mr. Cheung Sai Kit was appointed as the chairman of the Audit Committee of the tenth session of the Board with effect from 3 August 2018.
2. Mr. Liu Xiao Feng ceased to be the chairman of the Audit Committee with effect from 26 June 2018.
3. Mr. Xu Xiang Yi ceased to be a member of the Audit Committee with effect from 26 June 2018.

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In 2018, 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 internal control for the year of 2017 and the final report for the audit work conducted by the auditing body for the year of 2017;
3. having considered and approved the resolution on the election of Mr. Liu Xiao Feng as the chairman of the Audit Committee of the ninth session of the Board;
4. having considered and approved the resolution on the reappointment of Ruihua Certified Public Accountants as the auditor of the Company for the year of 2018;
5. having considered and approved the resolution on the election of Mr. Cheung Sai Kit as the chairman of the Audit Committee of the tenth session of the Board;
6. 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; and
7. having reviewed the effectiveness of the Company's internal control system.

(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 and up to the date of this report, the Supervisory Committee was composed of two shareholders representative supervisors, namely Mr. Liu Zhen Shun, Mr. Yang Qing and one employee representative supervisor, Ms. Fan Wei, with Mr. Liu Zhen Shun acting as the chairman of the Supervisory Committee.

Details of the above-mentioned supervisors' biographies are set out on pages 35 to 36 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 has complied with the code provisions in the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Hong Kong Listing Rules.

Training of the Directors

In order to enhance the level of corporate management of the Directors, the secretary to the Board 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.

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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 <i>(Note)</i> |
|---------------------|--|
| Mr. Tang Ye Guo | b |
| Mr. Liu Hong Xin | b |
| Mr. Lin Lan | b |
| Mr. Dai Hui Zhong | b |
| Mr. Jia Shao Qian | b |
| Mr. Wang Yun Li | b |
| Mr. Ma Jin Quan | b |
| Mr. Zhong Geng Shen | b |
| Mr. Cheung Sai Kit | a, b |

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 up to the date of this report are as follows:

| POSITION | Chairman | Former President | President |
|-----------------------|---------------------|------------------------------------|------------------------|
| NAME | Mr. Tang Ye Guo | Mr. Jia Shao Qian | Mr. Tang Ye Guo |
| TERM OF OFFICE | 26 June 2006 to now | 1 March 2017 to 22 January 2019 | 23 January 2019 to now |

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 at least one meeting with the independent non-executive Directors without the presence of the executive Directors.

During the reporting period, the division of responsibilities between the Chairman and the president was clear. From 23 January 2019, Mr. Jia Shao Qian, the former President of the Company, ceased to serve as the President of the Company due to the work re-arrangement. The position of the President is concurrently held by Mr. Tang Ye Guo, the Chairman of the board.

Mr. Tang Ye Guo has concurrently served as the Chairman and President of the Company, which helps ensure the unified leadership of the Company and formulate and implement the operating strategies in a more effective and efficient way. The Board of the Company considers that leveraging the supervision of the Board and independent non-executive Directors as well as the effective control of the Company's internal check and balance mechanism, this arrangement will not cause any influence over the balance between rights and authority of the Board and the management of the Company.

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, outsourcing of business, financial reporting, comprehensive budgeting, contract management, internal information transmission and information system, and has carried out assessment on the effectiveness of the Company’s internal control in 2018. 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 of the Company 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 of the Company. 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 2018, 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.

As at the date of this report, members of the tenth session of the Board of the Company consider that there is no major uncertain event or circumstance which may materially affect the Company’s ability to continue as a going concern.

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 Hong Kong 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 2018, as considered and approved at the shareholders’ general meeting, the Company agreed to reappoint Ruihua Certified Public Accountants as the auditor of the Company for the year of 2018, 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 2018 and bear the corresponding travel expenses.

V. Company secretary

On 26 June 2018, the Board examined and approved the re-appointment of Ms. Wong Tak Fong as the company secretary of the Company to assist the Company in dealing with the Hong Kong 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, Ms. Huang Qian Mei, in her day-to-day work.

According to Rule 3.29 of the Hong Kong 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

Incumbent Directors:

Mr. Tang Ye Guo, aged 56, holds a doctorate degree in management, has successively held the positions of the chief accountant, the deputy general manager, the general manager and director of Hisense Electric Co., Ltd.. From August 2003 to September 2005, he served as an assistant to the president and the vice president of Hisense Company Limited, and the general manager and chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited. Mr. Tang was the chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited and a director of Hisense Electric Co., Ltd. and the president of the Company from September 2005 to June 2006. He has acted as the vice president of Hisense Company Limited and chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited 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 Company Limited and chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited and the chairman of the board of directors of the Company from April 2010 to January 2019. Since January 2019, Mr. Tang has been a director of Hisense Company Limited, the chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited and the Company's Chairman and President.

Mr. Jia Shao Qian, aged 46, holds a master degree in management, has served as a manager of the president office of Hisense Company Limited and the chief supervisor of Hisense Electric Co., Ltd., He has served as the vice president of the Company from January 2007 to June 2015 and he has served as a director and vice president of the Company from June 2015 to February 2017. He has been a director and president of the Company from March 2017 to January 2019. He currently serves as a director and executive vice president of Hisense Company Limited, a director of Qingdao Hisense Air-Conditioning Company Limited and the Company's director.

Mr. Lin Lan, aged 61, holder of a doctorate degree in mechanical engineering, 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) and the vice president of the Company. He served as a director of the Company from June 2006 to July 2006 and he has served as the vice president of Hisense Company Limited and a director of the Company from July 2006 to May 2007. He has been the vice-president of Hisense Company Limited, a director of Hisense Electric Co., Ltd. and a director of the Company from May 2007 to December 2009. He has been a director and vice-president of Hisense Company Limited, a director of Hisense Electric Co., Ltd. and a director of the Company since December 2009.

Mr. Dai Hui Zhong, aged 53, holds a bachelor degree, has served successively as the deputy general manager of Hisense Electric Co., Ltd.. From November 2014 to June 2015, he has served as the general manager of Hisense Electric Co., Ltd.. He has served as a director and general manager of Hisense Electric Co., Ltd. from June 2015 to October 2015 and he has served as a director of Hisense Company Limited and a director and general manager of Hisense Electric Co., Ltd. from October 2015 to January 2016. He has served as a director of Hisense Company Limited, a director of Hisense Electric Co., Ltd. and the president of the Company from January 2016 to June 2016. He has served as a director of Hisense Company Limited, a director of Hisense Electric Co., Ltd. and a director and president of the Company from June 2016 to February 2017. He has been a director of Hisense Company Limited, Hisense Electric Co., Ltd. and the Company since March 2017.

Mr. Wang Yun Li, aged 46, holds a bachelor degree, was the deputy sales general manager of Hisense Electric Co., Ltd. and the deputy general manager of the PRC marketing company of the Company. He was the vice president of the Company and the general manager of the PRC marketing company of the Company from December 2010 to January 2012. From February 2012 to March 2014, he was the vice president of the Company and the deputy general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.. From March 2014 to July 2015, he was the deputy general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.. From July 2015 to December 2015, he was the deputy head of the marketing and management department of Hisense Company Limited. He has served as the general manager of Hisense (Shandong) Air Conditioning Co., Ltd. from January 2016 to May 2016. He has served as the vice president of the Company from May 2016 to June 2016. He has been a director and vice president of the Company since June 2016.

Profiles of Directors, Supervisors & Members of the Senior Management

Mr. Ma Jin Quan, aged 76, holds a bachelor degree and is a senior engineer. He was the executive deputy factory manager of Shanxi Color Picture Tube Plant (陝西彩色顯像管總廠), the executive deputy general manager of IRICO Group Corporation (彩虹集團公司), the factory manager of Huanghe Machinery Plant (黃河機器製造廠), the chairman and general manager of Huanghe Mechanical and Electrical Joint Stock Company Limited (黃河機電股份有限公司), and the director and general manager of IRICO Group Corporation (彩虹集團公司). From November 2006 to June 2012, he was the external director of Panzhihua Iron & Steel (Group) Corporation (攀枝花鋼鐵(集團)公司). From April 2008 to April 2014, he acted as the independent director of China XD Electric Co., Ltd. (中國西電電氣股份有限公司) (listed on the Shanghai Stock Exchange). From May 2009 to May 2015, he acted as the independent director of Hisense Electric Co., Ltd. (青島海信電器股份有限公司) (listed on the Shanghai Stock Exchange). From November 2013 to the present, he has been an independent director of Xi'an Future International Information Co., Ltd. (西安未來國際信息股份有限公司) (listed on the New Third Board (新三板)). He has been an independent non-executive director of the Company since January 2017.

Mr. Zhong Geng Shen, aged 58, holds a doctorate degree in management of Nankai University, served as an associate professor at the School of Economics and the School of Management of Shandong University. He engaged in postdoctoral work at Inspur Group from March 2003 to July 2005. He currently serves as a professor at the School of Management and the department head of Business Administration of Shandong University, an executive director of Chinese Enterprise Management Research Association, a member of Shandong enterprises credit rating experts committee of the People's Bank of China (“中國人民銀行山東企業資信評級專家委員會”) and secretary general of Shandong Provincial Comparative Management Research Association (“山東省比較管理研究會”). He serves as an independent director of Shandong Publishing & Media Co., Ltd (a company listed on the Shanghai Stock Exchange) since July 2018 and an independent director of Shandong Yishui Rural Commercial Co., Ltd. (山東沂水農商行股份有限公司) since February 2019. He serves as an independent non-executive director of the Company since June 2018.

Mr. Cheung Sai Kit, aged 47, holds a bachelor degree and is a practising certified public accountant in Hong Kong, member of CPA Australia. He had served as the senior audit manager at BDO Limited and KPMG successively. From 2011 to September 2014, he served as the executive director of BDO Limited. He served as a counsellor of Moore Stephens CPA Limited from October 2014 to June 2016. He has been an executive director of Moore Stephens CPA Limited since July 2016. He serves as an independent non-executive director of the Company since August 2018.

Former Directors during the Reporting Period:

Mr. Liu Hong Xin, aged 52, holds a bachelor degree in management, has successively served as the general manager and the chairman of Hisense Electric Co., Ltd. He has been a director of the Company from October 2015 to February 2019.

Mr. Xu Xiang Yi, aged 63, holds a Ph. D. in Law, is currently the professor of school of Management, a Ph. D. supervisor in corporate management and the head of corporate governance research center of Shandong University. He has been an independent non-executive director of the Company from June 2012 to June 2018.

Mr. Liu Xiao Feng, aged 57, obtained a Ph.D. in Development Economics from the University of Cambridge. He served as a member of the board of directors at NM Rothschild & Sons (Hong Kong) Limited in Hong Kong, as a vice president of Investment Banking Department at JP Morgan Securities (Asia Pacific) Limited, a managing director at DBS Asia Capital Limited and a managing director of China Resources Capital Holdings Company Limited. He has been an independent non-executive director of the Company from September 2017 to August 2018.

Incumbent Supervisors:

Mr. Liu Zhen Shun, aged 49, holds a bachelor degree. He has served as the head of the legal department and the legal director of Hisense Company Limited. He was the deputy head of the legal affairs department, the deputy secretary of the discipline inspection committee of Hisense Company Limited 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 Company Limited from July 2012 to July 2018. He has served as the general manager of legal and intellectual properties department and the deputy secretary of the discipline inspection committee of Hisense Company Limited since July 2018. He has served as the chairman of the Supervisory Committee of the Company since January 2014.

Profiles of Directors, Supervisors & Members of the Senior Management

Mr. Yang Qing, aged 45, holder of a bachelor degree, has successively served as the finance manager of Qingdao Hisense Air-Conditioning Company Ltd, the finance manager of Qingdao Hisense Marketing Co., Ltd. and the assistant of the general manager of the marketing company of the Company. He has served as the head of the audit department of Hisense Company Limited from June 2013 to May 2014 and the chief accountant of 青島海信網絡科技股份有限公司 (Qingdao Hisense Cyber Technology Company Limited) from June 2014 to January 2017. He served as the deputy head of the financial management department of Hisense Company Limited from January 2017 to February 2018. He has served as the head of the operation and financial management department of Hisense Company Limited from February 2018 to January 2019. He has served as a supervisor of the Company since December 2015.

Ms. Fan Wei, aged 52, holds a bachelor degree, has served as the head and deputy head of the research and development centre of the Company. She was the head of the president office and deputy head of the technical quality department of the Company from December 2008 to February 2015 and the head of the president office of the Company since February 2015. She has served as a supervisor of the Company since June 2015.

Incumbent Senior Management Members:

Mr. Chen Xiao Lu, aged 42, holds a Master's Degree in management. He was the manager of finance department of the Company, head of finance department of property company of the Company and project manager of the finance and operation management centre of Hisense Company Limited. From February 2013 to January 2019, he served as the deputy general manager of operation and finance management department of Hisense Company Limited. He serves as the CFO and the chief accountant of the Company since January 2019.

Ms. Huang Qian Mei, aged 35, holds a double bachelor's degree with economics and management. She was the head of investor relations of the Company from August 2010 to October 2011. She was the securities affairs representative from October 2011 to March 2017. She has been the secretary of the board of the Company since March 2017.

Ms. Wong Tak Fong, aged 51, holds a master degree in Business Administration from the University of Bradford, the United Kingdom, and is a fellow member of the Institute of Chartered Secretaries and Administrators in the United Kingdom and the Hong Kong Institute of Chartered Secretaries and 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. from 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 of the Company from April 2011 to June 2012 and has been the company secretary of the Company since June 2012.

Former Senior Management Members during the Reporting Period:

Mr. Wang Zhi Gang, aged 49, holds a doctorate degree in refrigeration and cryogenic engineering, has successively served as the chief designer of the technical centre of Hisense Company Limited, the deputy department head of the commercial machines business department of Qingdao Hisense Air-Conditioning Company Limited, the department head of the product development department of Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd., Mr. Wang has been the deputy general manager of Guangdong Kelon Air-conditioner Co., Ltd from December 2008 to July 2014 and the deputy general manager of Hisense (Shandong) Air Conditioning Co., Ltd. from July 2014 to November 2015. He has served as the vice president of the Company from November 2015 to December 2015. He has served as a director and vice president of the Company from December 2015 to May 2016. He has served as a vice president of the company from May 2016 to January 2019.

Ms. Gao Yu Ling, aged 38, holds a master's degree in management. She has successively served as the deputy director of the finance centre of Hisense Electric Co., Ltd.. She was the deputy department head of the finance and operation management department of Hisense Company Limited from March 2013 to February 2015. She was a supervisor of the Company from January 2014 to December 2015. She has been the person in charge of finance of the Company from December 2015 to January 2019. She currently serves as the general manager of the operation and finance management department of Hisense Company Limited and a supervisor of Qingdao Hisense Air-Conditioning Company Limited.

Note: Hisense Company Limited and Qingdao Hisense Air-Conditioning Company Limited 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 company's main business covers the research and development, manufacture and marketing of refrigerators, household air-conditioners, central air-conditioners, freezers, washing machines, kitchen appliances and other electrical products, as well as commercial cold chain and environmental electrical appliances.

FINAL DIVIDEND

The Group recorded net profit attributable to shareholders of the listed company of RMB1,377 million for the year ended 31 December 2018. The Board proposed to pay all shareholders a cash dividend of RMB3.03 (tax inclusive) per 10 shares held by such shareholder (the "Proposed Dividend") on the basis of the total share capital of 1,362,725,370 shares of the Company as at 31 December 2018, without bonus issue and not to issue shares by way of conversion of capital reserve (For the year ended 31 December 2017, the Company paid to all shareholders a cash dividend of RMB4.4 (tax inclusive) per 10 shares held by such shareholders on the basis of the total share capital of the Company being 1,362,725,370 shares as at 31 December 2017).

The Proposed Dividend is subject to approval by the shareholders at the 2018 annual general meeting (the "Annual General Meeting"). Subject to the approval of the Proposed Dividend by the shareholders, the Proposed Dividend is expected to be paid on or about 15 August 2019. The total amount of profits to be so distributed is expected to be RMB412,905,787.11. Details of the payment of the Proposed Dividend will be announced after the conclusion of the Annual General Meeting.

RESERVES

Movements in the reserves of the Group during the Reporting Period are set out in Note 6 (25-28) to the financial statements.

DISTRIBUTABLE RESERVES

There were distributable reserves of the Company as at 31 December 2018 are set out in Note 6 (28) and Note 14 to the financial statements.

LIQUIDITY AND SOURCES OF FUNDS

For the year ended 31 December 2018, net cash generated from operating activities of the Group amounted to approximately RMB1,049 million (2017: net cash generated from operating activities amounted to approximately RMB455 million).

As at 31 December 2018, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB3,648 million (2017: RMB2,996 million), and no bank loans (2017: no bank loans).

Total capital expenditures of the Group for the year ended 31 December 2018 amounted to approximately RMB330 million (2017: RMB390 million).

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 31 December 2018, the Group had approximately 32,858 employees, mainly comprising 4,663 technical staff, 12,928 sales representatives, 367 financial staff, 732 administrative staff and 14,168 production staff. The Group had 33 employees with a doctorate degree, 914 with a master's degree and 31,911 with a bachelor's degree or below. For the year ended 31 December 2018, the Group's staff payroll amounted to RMB3,169 million (corresponding period in 2017 amounting to RMB2,866 million).

EMPLOYEES' TRAINING AND REMUNERATION POLICY

Employees and talented personnel are the basis for corporate development. Through the platform provided by Hisense College, the Company has established a three-tier training system, a well-rounded curriculum system and a training regulatory system. The Company has also actively promoted the building up of teacher resources internally and externally in order to effectively support the development of its management and technical team and enhance its human resources. Every year, the Company will formulate education and training programs for employees based on the annual operational strategy and human resources development needs.

Report of the Directors

The Company has provided a total of 12,946 course hours to a total of 165,000 participants during the Reporting Period. The courses mainly include areas such as corporate management, quality craftsmanship, corporate culture, production and manufacturing as well as technological research and development and they are provided for employees at different levels, ranging from base level staff who are responsible for works 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.

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2018, the Group did not have any property, plant and equipment (including leasehold land held for own use), investment properties and trade receivables (31 December 2017: Nil) which 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 6 (9-10) to the financial statements.

PENSION SCHEMES

Details of the Group's pension schemes for the year ended 31 December 2018 are set out in note 15 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 28 March 2019, based on publicly available information and to the best of their knowledge, 25% or above of the total issued share capital of the Company were held by the public. Therefore, the public float of the Company satisfies the requirement stipulated under the Hong Kong Listing Rules.

AUDIT COMMITTEE

The tenth session of the audit committee of the Company has reviewed the final results of the Group for the year ended 31 December 2018.

CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2019 will be approximately RMB61 million. The Group has sufficient funds to meet the funding requirement for purposes such as capital expenditure plans and daily operations.

TRUST DEPOSITS

As at 31 December 2018, 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.

Report of the Directors

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018, the Group did not have any long-term bank borrowings and its cash and cash equivalents amounted to RMB3,648 million (2017: RMB2,996 million), of which more than RMB3,473 million are denominated in Renminbi.

As at 31 December 2018, the Group's current liabilities amounted to RMB13,506 million, non-current liabilities amounted to RMB432 million, and shareholders' equity attributable to the shareholders of the Company amounted to RMB7,352 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 2018, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 63.86% (2017: 67.20%).

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The tenth 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 tenth 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 has 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 tenth 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 2018.

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the tenth session of the Board have reviewed the continuing connected transactions of the Group for the year 2018, and confirmed that these transactions were conducted in the ordinary course of business of the Company 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 have 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 have 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.

Report of the Directors

SHARE CAPITAL STRUCTURE

As at 31 December 2018, the share capital structure of the Company was as follows:

| Class of shares | Number of shares | Percentage to the total issued share capital |
|-----------------|------------------|--|
| A shares | 903,135,562 | 66.27% |
| H shares | 459,589,808 | 33.73% |
| Total | 1,362,725,370 | 100.00% |

TOP TEN SHAREHOLDERS

As at 31 December 2018, there were 39,996 (A shares: 39,943) 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 | 516,758,670 | 37.92% | 57.22% | 0 |
| HKSCC (Nominees) Limited ^{Note1} | Foreign legal person | 457,252,069 | 33.55% | 99.49% | 0 |
| Cental Huijin Investment Ltd. | State-owned legal person | 26,588,700 | 1.95% | 2.94% | 0 |
| Shanghai Gaoyi Asset Management Partnership – Gaoyi Linshan No. 1 Long-range Fund* 上海高毅資產管理合夥企業(有限合夥) – 高毅鄰山1號遠望基金 | Other | 21,077,056 | 1.55% | 2.33% | 0 |
| Bank of China – China International Fund Management Core Growth Stock Securities Investment Fund*中國銀行股份有限公司 – 上投摩根核心成長股票型證券投資基金 | Other | 16,191,143 | 1.19% | 1.79% | 0 |
| Bank of Communications – HSBC Jintrust Fund Management Stock Securities Investment Fund* 交通銀行股份有限公司 – 滙豐晉信大盤股票型證券投資基金 ^{Note2} | Other | 13,187,500 | 0.97% | 1.46% | 0 |
| The Hong Kong Securities Clearing Company (HKSCC) | Foreign legal person | 12,343,804 | 0.91% | 1.37% | 0 |
| Zhang Shao Wu | Domestic natural shareholders | 7,200,000 | 0.53% | 0.80% | 0 |

Report of the Directors

| 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 |
|---|-----------------------|--------------------|--|--|--|
| Agricultural Bank of China – Anxin Comparative Advantage Flexible Allocation of Mixed Securities Investment Fund* 中國農業銀行股份有限公司 – 安信比較優勢靈活配置混合型證券投資基金 | Other | 6,243,975 | 0.46% | 0.69% | 0 |
| Bank of Communications – HSBC Jintrust Fund Management Dynamic Strategy Hybrid Securities Investment Fund *交通銀行 – 滙豐晉信動態策略混合型證券投資基金 ^{Note 2} | Other | 5,582,836 | 0.41% | 0.62% | 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 holding of the company's 27.25 million H shares and held a total of 124,452,000 H shares of the Company as at the end of the Reporting Period, representing 9.13% of the total number of shares of the Company;
- The managers of Bank of Communications – HSBC Jintrust Fund Management Stock Securities Investment Fund* 交通銀行股份有限公司 – 滙豐晉信大盤股票型證券投資基金 and Bank of Communications – HSBC Jintrust Fund Management Dynamic Strategy Hybrid Securities Investment Fund* 交通銀行 – 滙豐晉信動態策略混合型證券投資基金 are HSBC Jintrust Fund Management Company Limited;
- As at the date being one month preceding the date of this announcement of result (that is, 28 March 2019), the total number of shareholders holding ordinary shares is 35,587.

Save as disclosed above, the Company is not aware of whether any shareholders is connected with each other or any of them is a party acting in concert with any of the other within the meaning of 《上市公司收購管理辦法》 (Administrative Measures for the Takeover of Listed Companies).

Report of the Directors

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 | 516,758,670 | RMB ordinary shares |
| HKSCC (Nominees) Limited ^{Note 1} | 457,252,069 | Overseas listed foreign shares |
| Cental Huijin Investment Ltd. | 26,588,700 | RMB ordinary shares |
| Shanghai Gaoyi Asset Management Partnership – Gaoyi Linshan No. 1 Long-range Fund* 上海高毅資產管理合夥企業（有限合夥） – 高毅鄰山1號遠望基金 | 21,077,056 | RMB ordinary shares |
| Bank of China – China International Fund Management Core Growth Stock Securities Investment Fund* 中國銀行股份有限公司 – 上投摩根核心 成長股票型證券投資基金 | 16,191,143 | RMB ordinary shares |
| Bank of Communications – HSBC Jintrust Fund Management Stock Securities Investment Fund* 交通銀行股份有限公司 – 滙豐晉信大盤股票型證券投資基金 ^{Note 2} | 13,187,500 | RMB ordinary shares |
| The Hong Kong Securities Clearing Company (HKSCC) | 12,343,804 | RMB ordinary shares |
| Zhang Shao Wu | 7,200,000 | RMB ordinary shares |
| Agricultural Bank of China – Anxin Comparative Advantage Flexible Allocation of Mixed Securities Investment Fund* 中國農業銀行股份有限公司 – 安信比較優勢 靈活配置混合型證券投資基金 | 6,243,975 | RMB ordinary shares |
| Bank of Communications – HSBC Jintrust Fund Management Dynamic Strategy Hybrid Securities Investment Fund* 交通銀行 – 滙豐晉信動態策略 混合型證券投資基金 ^{Note 2} | 5,582,836 | RMB ordinary shares |

Notes:

1. 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 holding of the company's 27.25 million H shares and held a total of 124,452,000 H shares of the Company as at the end of the Reporting Period, representing 9.13% of the total number of shares of the Company;
2. The managers of Bank of Communications – HSBC Jintrust Fund Management Stock Securities Investment Fund* 交通銀行股份有限公司 – 滙豐晉信大盤股票型證券投資基金 and Bank of Communications – HSBC Jintrust Fund Management Dynamic Strategy Hybrid Securities Investment Fund* 交通銀行 – 滙豐晉信動態策略混合型證券投資基金 are HSBC Jintrust Fund Management Company Limited.

Save as disclosed above, the Company is not aware of whether any shareholders is connected with each other or any of them is a party acting in concert with any of the other within the meaning of 《上市公司收購管理辦法》 (Administrative Measures for the Takeover of Listed Companies).

Report of the Directors

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 2018, 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 fall 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 Hong Kong Stock Exchange:

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 total number of shares in issue | Percentage of the respective type of shares |
|---|------------------------------------|----------------|-----------------------|---|---|
| Qingdao Hisense Air-conditioning Company Limited ^{Note} | Beneficial owner | A shares | 516,758,670 (L) | 37.92% | 57.22% |
| Qingdao Hisense Electric Holdings Company Limited ^{Note} | Interest of controlled corporation | A shares | 516,758,670 (L) | 37.92% | 57.22% |
| Hisense Company Limited ^{Note} | Interest of controlled corporation | A shares | 516,758,670 (L) | 37.92% | 57.22% |
| Hisense (Hong Kong) Company Limited ^{Note} | Beneficial owner | H shares | 124,452,000 (L) | 9.13% | 27.08% |
| Qingdao Hisense Electric Holdings Company Limited ^{Note} | Interest of controlled corporation | H shares | 124,452,000 (L) | 9.13% | 27.08% |
| Hisense Company Limited ^{Note} | Interest of controlled corporation | H shares | 124,452,000 (L) | 9.13% | 27.08% |

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

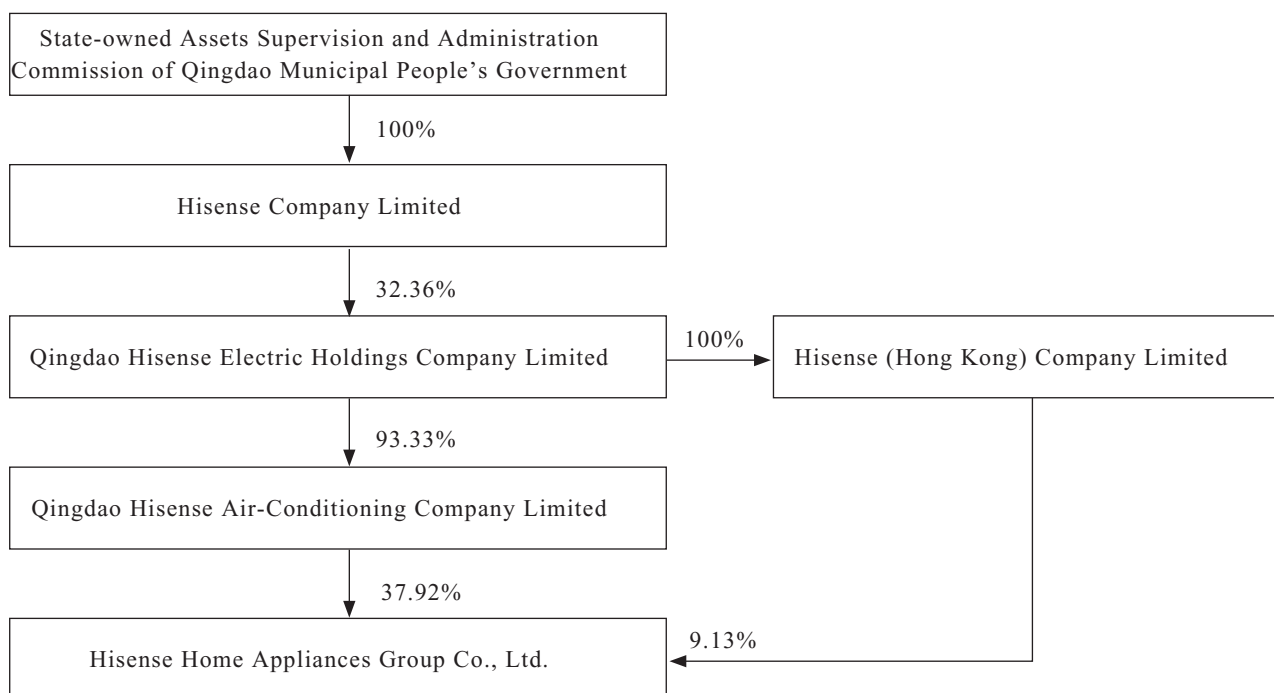
Note: Qingdao Hisense Air-conditioning Company Limited is a company directly owned as to 93.33% by Qingdao Hisense Electric Holdings Company Limited, whereas Hisense (Hong Kong) Company Limited is a company directly owned as to 100% by Qingdao Hisense Electric Holdings Company Limited. Qingdao Hisense 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.

Save as disclosed above, as at 31 December 2018, in so far as the Directors, supervisors and the 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

1. 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).
2. Hisense Company Limited was incorporated in August 1979 with its registered address at No. 17 Donghai West Road, Shinan, Qingdao. Zhou Houjian is the legal representative of Hisense Group, a wholly state-owned enterprise with the registered capital of RMB806,170,000. 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, leasing of immovable property; catering management services, catering services, conference services and parking services (projects which require permit/approval under the laws, commencement of operations of the businesses which require approval from the relevant department).
3. The ultimate beneficial controller of the Company is the State-owned Assets Supervision and Administration Commission of Qingdao Municipal People's Government.
4. Relationship between the Company and its beneficial controllers:



5. During the Reporting Period, there was no change in the controlling shareholders of the Company.

Report of the Directors

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

As at 31 December 2018, save as disclosed below, 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.

Long position in the shares of the Company

| Name of Director | Nature of interest | Number of A shares | Percentage to the relevant class of issued shares of the Company | Percentage to the total issued shares of the Company |
|-------------------|--------------------|--------------------|--|--|
| Mr. Tang Ye Guo | Beneficial owner | 831,600 | 0.092% | 0.061% |
| Mr. Jia Shao Qian | Beneficial owner | 404,360 | 0.045% | 0.030% |
| Mr. Wang Yun Li | Beneficial owner | 52,120 | 0.006% | 0.004% |

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2018, the aggregate amount of the Group's purchases from the top five suppliers was RMB4,100.16 million, representing 15.72% of the total purchase amount of the Group for the year and the aggregate sales amount to the top five customers was RMB15,538 million, representing 47.39% of the total sales amount of the Group for the year.

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 2018, as considered and approved at the shareholders' general meeting of the Company, the Company agreed to re-appoint Ruihua Certified Public Accountants as the auditor of the Company for the financial year of 2018, 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

Report of the Directors

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

Connected transactions during the reporting period

- (I) **On 28 November 2017, the Company entered into a Business Co-operation Framework Agreements, Agency Financing Procurement Framework Agreements, Financial Service Agreements, Financial Business Framework Agreements and Business Framework Agreements with Hisense Group and Hisense Electric, Hisense HK, Hisense Finance, Hisense Financial Holdings and Hisense Hitachi respectively. On 8 May 2018, the Company entered into the supplemental agreement to Business Framework Agreement with Hisense Hitachi.**

Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding approximately 37.92% of the issued shares of the Company and Hisense Hong Kong holds approximately 9.13% of the issued shares of the Company and Hisense Electric is owned as to 39.53% by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries (including without limitation Qingdao Hisense International Co., Ltd and its subsidiaries, and Hisense Commercial Trading) are connected persons of the Company according to the Hong Kong Listing Rules. Hisense Finance and Hisense Financial Holdings are subsidiaries of Hisense Group, Hisense Finance and Hisense Financial Holdings therefore are connected persons of the Company according to the Hong Kong Listing Rules. As certain directors of the Company are also directors of Hisense Hitachi, Hisense Hitachi is a connected person 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, the Business Framework Agreement with Hisense Hitachi can be found in the announcements and the circulars published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 28 November 2017 and 3 January 2018 respectively. Details of the Supplemental Agreement to Business Framework Agreement with Hisense Hitachi can be found in the announcements published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 8 May 2018.

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 28 November 2017.

The above transactions (other than the Business Framework Agreement and the supplemental agreement to the Business Framework Agreement with Hisense Hitachi) 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).

Report of the Directors

Specific information of the Business Co-operation Framework Agreement, the Financial Services Agreement, Financial Business Framework Agreements are 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 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. 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 18 January 2018 until 31 December 2018, which can be terminated before its expiration by mutual agreement of the parties.
- (2) Pricing for the mutual 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. Pricing for the mutual 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 mutual 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.
- (3) The annual caps under the Business Co-operation Framework Agreement are shown in the table below:

Unit: RMB ten thousand (Excluding VAT)

| 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 | 1,304,880 |
| | | Hisense Electric | 306 |
| | Sale of equipment by the Group | Hisense Group | 1,650 |
| | Sale of moulds by the Group | Hisense Group | 32,355 |
| | | Hisense Electric | 13,000 |
| | Sale of raw materials, parts and components by the Group | Hisense Group | 9,831 |
| | | Hisense Electric | 8,242 |

Report of the Directors

| Types of connected transactions | Division by products or services | Connected person | Annual cap |
|------------------------------------|---|------------------|------------|
| Provision of services | Provision of design, processing services and property services by the Group | Hisense Group | 2,834 |
| | Provision of labour services by the Group | Hisense Electric | 188 |
| Purchase of products and materials | Purchase of home electrical appliances products by the Group | Hisense Group | 91 |
| | | Hisense Electric | 76 |
| | Purchase of raw materials, parts and components by the Group | Hisense Group | 20,846 |
| | | Hisense Electric | 2,740 |
| Receipt of services | Receipt of material processing, installation and maintenance, property, medical, leasing, design, inspection, testing, property construction, management consultancy, technical support and information system maintenance by the Group | Hisense Group | 62,243 |
| | Receipt of property services by the Group | Hisense Electric | 2,005 |

2. The Financial Services Agreement with Hisense Finance and the Financial Business Framework Agreements with Hisense Financial Holdings.

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 complies with the regulations and operation requirements issued by the relevant regulatory authorities in its provision of financial services. 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:

- (1) The term of the Financial Services Agreement shall commence from 18 January 2018 until 31 December 2018, 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 note (電子銀行承兌匯票) services, draft discount services (票據貼現服務), 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).

Report of the Directors

- (3) 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 RMB6,500,000,000 (inclusive of interest) on any given day. The maximum balance of loan and electronic bank acceptance notes provided by Hisense Finance for the Group during the term of the Financial Services Agreement shall not exceed the cap of RMB6,000,000,000 (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 RMB3,000,000.

In order to further revitalize the company's reserve assets, obtain capital operation income, and improve the efficiency of capital operation, the Company entered into a Financial Business Framework Agreement with Hisense Financial Holdings. The main terms are as follows:

- (1) The term of the Financial Business Framework Agreement shall commence from 18 January 2018 until 31 December 2018, 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 daily closing balance of the recourse factoring services provided by Hisense Financial Holdings to the Company under the Financial Business Framework Agreement shall not exceed RMB100,000,000 (inclusive of interest). The aggregated annual value of the transactions conducted for the non-recourse factoring services provided by Hisense Financial Holdings to the Company under the Financial Business Framework Agreement during the term of the Financial Business Framework Agreement shall not exceed RMB500,000,000 (inclusive of interest).

(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 Group | Purchase | Finished goods | Agreed price | 25.76 | |
| Hisense Electric | Purchase | Finished goods | Agreed price | 7.08 | |
| Hisense Hitachi | Purchase | Finished goods | Agreed price | 3.22 | |
| Hisense Group | Purchase | Materials | Agreed price | 18,124.44 | 0.62 |
| Hisense Electric | Purchase | Materials | Agreed price | 1,259.84 | 0.04 |
| Hisense Hitachi | Purchase | Materials | Agreed price | 1,143.67 | 0.04 |
| Hisense Group | Receipt of services | Receipt of services | Agreed price | 38,249.32 | 1.31 |
| Hisense Electric | Receipt of services | Receipt of services | Agreed price | 1,229.96 | 0.04 |
| Hisense Hong Kong | Receipt of purchase financing agency services | Receipt of purchase financing agency services | Agreed price | 23,900.10 | 0.82 |
| Hisense Group | Sale | Finished goods | Agreed price | 982,783.94 | 27.28 |
| Hisense Electric | Sale | Finished goods | Agreed price | 71.34 | |
| Hisense Hitachi | Sale | Finished goods | Agreed price | 48,846.56 | 1.36 |
| Hisense Group | Sale | Materials | Agreed price | 7,680.90 | 0.21 |
| Hisense Electric | Sale | Materials | Agreed price | 2,443.54 | 0.07 |
| Hisense Hitachi | Sale | Materials | Agreed price | 265.62 | 0.01 |
| Hisense Group | Sale | Moulds | Market price | 6,953.33 | 0.19 |
| Hisense Electric | Sale | Moulds | Market price | 11,147.06 | 0.31 |
| Hisense Hitachi | Sale | Moulds | Market price | 1,490.18 | 0.04 |
| Hisense Group | Sale | Equipment | Market price | 460.26 | 0.01 |

Report of the Directors

| 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 Group | Provision of services | Provision of services | Agreed price | 2,367.74 | 0.07 |
| Hisense Electric | Provision of services | Provision of services | Agreed price | 89.80 | |
| Hisense Hitachi | Provision of services | Provision of services | Agreed price | 8.30 | |

As at the end of the Reporting Period, the Company and its subsidiaries had the balance of deposit of RMB3,377 million and interest income received of RMB32.1158 million, the actual balance of loan of RMB0 balance of electronic bank acceptance note of RMB3,416 million, the handling fee for opening accounts for electronic bank acceptance note of RMB3.4311 million and the payment of loan interests of RMB3.9875 million with Hisense Finance. The actual amount of discounted interest for the provision of draft discount services was RMB7.5374 million, the actual amount involved for the provision of settlement and sale of foreign exchange services was RMB69.5479 million and the actual service fee paid for the provision of agency services such as settlement services for receipt and payment of funds was RMB0.3215 million.

The Company and its subsidiaries had the actual balance of the recourse factoring services of RMB0 and the actual value of the transaction conducted for the non-recourse factoring services is RMB108.8144 million with Hisense Commercial Factoring.

(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 28 November 2018 | Hisense Group, Hisense International, Hisense Commercial Trading and Hisense Electric | Sell products and products to connected persons | RMB15,085.70 million |
| | | Hisense Group, Hisense International and Hisense Electric | Sell raw materials to connected persons | RMB161.42 million |
| | | Hisense Group, Hisense International and Hisense Electric | Sell moulds to connected persons | RMB228.32 million |
| | | Hisense International | Sell equipment to connected persons | RMB12.50 million |
| | | Hisense Group, Hisense International and Hisense Electric | Provision of services by the Group | RMB34.39 million |
| | | Hisense Group, Hisense International and Hisense Electric | Purchase products and products from connected persons | RMB278.29 million |
| | | Hisense Group, Hisense International and Hisense Electric | Purchase raw materials and products from connected persons | RMB267.90 million |

Report of the Directors

| No. | Agreement | Counterparty to the agreement | Particulars of connected transactions | Annual cap |
|-----|---|---|---|---|
| | | Hisense Group, Hisense International, Hisense Commercial Trading and Hisense Electric | Receipt the services provided by connected persons | RMB838.24 million |
| 2 | Purchase Financing Agency Framework Agreement | Hisense Hong Kong | Receipt of financing agency services by the Group to purchase imported raw materials, components and equipment | USD100,000,000 |
| 3 | Financial Services Agreement | Hisense Finance | The services to be provided by Hisense Finance to the Group include deposit services, loan and electronic bank acceptance note (電子銀行承兌匯票) services, draft discount services (票據貼現服務), 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). | <p>1. The maximum daily balance of the deposits placed by the Group with Hisense Finance at any time shall not exceed the cap of RMB8,000,000,000 (inclusive of interest) on any given day;</p> <p>2. The maximum balance of loan and electronic bank acceptance notes provided by Hisense Finance for the Group shall not exceed the cap of RMB9,000,000,000 (inclusive of interest and service fees);</p> <p>3. The annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services shall not exceed the cap of RMB50,000,000;</p> <p>4. The annual amount settled or sold by Hisense Finance for the Group shall not exceed the cap of US\$500,000,000;</p> <p>5. 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 RMB3,000,000.</p> |

Report of the Directors

| No. | Agreement | Counterparty to the agreement | Particulars of connected transactions | Annual cap |
|-----|--|-------------------------------|---|---|
| 4 | the Supplemental Agreement to the Financial Business Framework Agreement | Hisense Financial Holdings | The Group accepts factoring services and financial leasing business | The daily closing balance of the recourse factoring services provided by Hisense Financial Holdings to the Company shall not exceed RMB800,000,000 (inclusive of interest); The aggregated annual value of the transactions conducted for the non-recourse factoring services provided by Hisense Financial Holdings to the Company shall not exceed RMB400,000,000 (inclusive of interest); The daily closing balance of the financial leasing services shall not exceed RMB 300,000,000 (including interest). |

The signature date of the above agreement is November 26, 2018. The terms of the Business Co-operation Framework Agreement, Financial Services Agreement, the Financial Business Framework Agreement and the Purchase Financing Agency Framework Agreement commence from the date of which such agreements were approved by the independent shareholders (that is, 23 January 2019) until 31 December 2019. The relationship between the Group on one hand and Hisense Group, Hisense Electric, Hisense Hong Kong, Hisense Finance and Hisense Financial Holdings on the other hand has been disclosed above.

Details of the agreements 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 27 November 2018 and 7 January 2019 respectively.

Report of the Directors

CONNECTED TRANSACTIONS IN ACQUISITION AND SALE OF ASSETS OR EQUITY RIGHTS

During the reporting period, there were no connected transactions involving the acquisition or sale of assets or equity.

CONNECTED TRANSACTION IN RELATION TO JOINT EXTERNAL INVESTMENT

Unit: RMB ten thousand

| Joint venture parties | Connected relationship | Name of the joint venture company | Major business of the joint venture company | Registered capital of the joint venture company | Total assets of the joint venture company | Net asset of the joint venture company | Net profit of the joint venture company |
|--|---|---|---|---|---|--|---|
| Hisense Electric Co., Ltd. | Control led by the same beneficial controller | Qingdao Hisense Commercial Trading Development Co., Ltd* (青島海信商貿發展有限公司) | TV, air conditioners, household appliances and accessories, electronic products, communication equipment, communication equipment (except satellite antennas), sensing and control equipment wholesale, retail, agency sales, after-sales service, extended warranty services, marketing planning, security Sales, construction and technical services of monitoring equipment, e-commerce technical services, [Internet information services, Internet operations and promotion] (based on the issuance of licenses by telecommunications authorities to carry out business activities), exhibition display services, design, production, release, agency Domestic advertising, logistics design, supply chain management, cargo road transportation (according to the traffic management department issuing licenses to carry out business activities). | 10,000.00 | 12,241.38 | 9,605.50 | -178.89 |
| Progress of significant projects in progress of the joint venture company (if any) | | | | Not applicable. | | | |

Report of the Directors

CONNECTED CREDITOR'S RIGHTS AND LIABILITIES

During the reporting period, the company hasn't had any non-operational connected creditor's rights and liabilities.

OTHER MAJOR CONNECTED TRANSACTIONS

During the reporting period of the company, no other major connected transactions has been occurred.

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.

PUBLICATION OF ANNUAL REPORT ON THE INTERNET WEBSITES OF THE HONG KONG STOCK EXCHANGE AND THE COMPANY

All information about the annual report as required by Appendix 16 to the Hong Kong Listing Rules will be published on the Hong Kong Stock Exchange's website (<http://www.hkex.com.hk>) and the Company's website (<http://www.kelon.com>) in due course.

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

Unit: RMB ten thousand

| Name | Position | Gender | Age | Status | Total amount of remuneration before tax received from the Company | Whether receive remuneration from connected party of the Company |
|-----------------|------------------------------------|--------|-----|---------|---|--|
| Tang Ye Guo | Chairman and President | Male | 56 | Current | 327.34 | No |
| Jia Shao Qian | Director, Former President | Male | 46 | Current | 253.99 | No |
| Lin Lan | Director | Male | 61 | Current | 0 | Yes |
| Dai Hui Zhong | Director | Male | 53 | Current | 0 | Yes |
| Wang Yun Li | Director, Vice President | Male | 46 | Current | 193.48 | No |
| Ma Jin Quan | Independent non-executive Director | Male | 76 | Current | 14 | No |
| Zhong Geng Shen | Independent non-executive Director | Male | 58 | Current | 7 | No |

Report of the Directors

| Name | Position | Gender | Age | Status | Total amount of remuneration before tax received from the Company | Whether receive remuneration from connected party of the Company |
|----------------|---|---------------|------------|---------------|--|---|
| Cheung Sai Kit | Independent non-executive Director | Male | 47 | Current | 10 | No |
| Liu Zhen Shun | Chairman of Supervisory Committee | Male | 49 | Current | 0 | Yes |
| Yang Qing | Supervisor | Male | 45 | Current | 0 | Yes |
| Fan Wei | Supervisor | Female | 52 | Current | 58.40 | No |
| Chen Xiao Lu | the Chief Financial Officer | Male | 42 | Current | 0 | Yes |
| Huang Qian Mei | Secretary to the Board | Female | 35 | Current | 20.72 | No |
| Wong Tak Fong | Company Secretary | Female | 51 | Current | 16.92 | No |
| Liu Hong Xin | Former Director | Male | 52 | Resigned | 0 | Yes |
| Xu Xiang Yi | Former Independent non-executive Director | Male | 63 | Resigned | 7 | No |
| Liu Xiao Feng | Former Independent non-executive Director | Male | 57 | Resigned | 14 | No |
| Wang Zhi Gang | Former Vice President | Male | 49 | Resigned | 149.15 | No |
| Gao Yu Ling | Former Chief Financial Officer | Female | 38 | Resigned | 142.71 | No |
| Total | | | | | 1,214.71 | |

Report of the Directors

II. THE DECISION-MAKING PROCEDURES AND BASIS OF DETERMINATION OF THE REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration of the Directors of the Company is determined based on recommendations 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 recommendation 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 recommendation to the Board based on the senior management's experience, responsibilities, risk and pressure undertaken for operation under his/her management and his/her contribution to the Company. The said remuneration recommendation 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.

III. MATERIAL LITIGATION OR ARBITRATION OF THE COMPANY

Applicable Not applicable

There was no progress in the material litigation of the Company during the reporting period. Please refer to 2015 annual report for details.

IV. GUARANTEE ITEMS

There were no guarantees provided by the Company during the Reporting Period.

V. PARTICULARS OF ENTRUSTED WEALTH MANAGEMENT

Unit: RMB ten thousand

| Product Type | Source of funding for entrusted wealth management | Subscription amount of entrusted wealth management | Amount of undue principal and revenue | Overdue balance |
|----------------------------------|--|---|--|------------------------|
| Bank's wealth management product | self-owned funds | 123,000 | 54,000 | 0 |
| Total | | 123,000 | 54,000 | 0 |

During the reporting period, the Company did not have high-risk entrusted wealth management with single amount or low security, poor liquidity and no insurance, and there was no expectation that the entrusted wealth management could not recover the principal or other circumstances that might lead to impairment.

Report of the Directors

VI. DERIVATIVES INVESTMENT

Unit: RMB ten thousand

| 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 purchase during the Reporting Period | Amount of disposal during 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 profit and loss during the Reporting Period |
|--|--|--------------------------------|--|----------------|-----------------|---|--|--|---|---|---|--|
| | | | | | | | | | | | | |
| Bank | No | No | Forward foreign exchange contracts | 5,050.05 | 01 January 2018 | 31 December 2018 | 5,050.05 | 22,886.53 | 20,827.35 | 7,109.23 | 0.97 | -547.58 |
| Total | | | 5,050.05 | | | 5,050.05 | 22,886.53 | 20,827.35 | | 7,109.23 | 0.97 | -547.58 |
| Source of derivatives investment funding | | | | | | | | | | | Export trade receipts | |
| Litigation involved (if applicable) | | | | | | | | | | | Not applicable | |
| Date of the announcement disclosing the approval of derivatives investment by the Board (if any) | | | | | | | | | | | 30 March 2018 | |
| Date of the announcement disclosing the approval of derivatives investment during shareholders' meetings (if any) | | | | | | | | | | | Not applicable | |
| 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.) | | | 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 locks in the foreign exchange rates within a reasonable range to achieve the hedging purpose. 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 derivatives business. 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. | | | | | | | | | |
| 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 | | | 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 during the Reporting Period, 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-2.2675 million. Investment gain amounted to RMB-3.2083 million, resulting in a total profits or losses of RMB-5.4758 million. | | | | | | | | | |
| 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 | | | 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. | | | | | | | | | |
| Specific opinions of independent Directors on the derivatives investment and risk control of the Company | | | 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. | | | | | | | | | |

Report of the Directors

VII. DESCRIPTION OF CHANGES IN SCOPE OF CONSOLIDATION AS COMPARED TO FINANCIAL REPORT LAST YEAR

During the reporting period, the company did not change the scope of the consolidated statements.

VIII. REASON FOR CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ACCOUNTING TREATMENT AS COMPARED TO THE FINANCIAL REPORT FOR THE PRIOR YEAR

Description on the change in accounting policies of the Company during the Reporting period:

The Ministry of Finance promulgated Accounting Standards for Business Enterprises (“ASBE”) No. 22 — Recognition and Measurement of Financial Instruments (2017 revision) (Cai Kuai [2017] No. 7), ASBE No. 23 — Transfer of Financial Assets (2017 revision) (Cai Kuai [2017] No. 8), ASBE No. 24 — Hedge Accounting (2017 revision) (Cai Kuai [2017] No. 9) respectively on 31 March 2017, and promulgated ASBE No. 37 — Presentation of Financial Instruments (2017 revision) (Cai Kuai [2017] No.14) on 2 May 2017 (collectively referred to as “New FI Standards”), requiring that companies that are dually listed on domestic and foreign stock exchanges and companies that are listed on foreign stock exchanges and adopt International Financial Reporting Standards or Accounting Standards for Business Enterprises are required to apply the New FI Standards when preparing their financial statements since 1 January 2018. The Company has implemented the above New FI Standards in the time as required by the Ministry of Finance. The Group retroactively applies the New FI Standards. However, the Group does not restate categorization and estimation (including impairments) that is related to the data on the prior comparative financial statements and different from the New FI Standards.

a. Financial instrument classification and book value adjustment table at the first implementation date

| Item | 31 December 2017 (Before Adjustment) | Reclassification | Remeasurement | 1 January 2018 (After Adjustment) |
|--|--|------------------|---------------|---|
| Assets: | | | | |
| Financial assets measured at fair value | | | | |
| through profit or loss | 82,670.52 | -82,670.52 | | |
| Transactional financial assets | | 82,670.52 | | 82,670.52 |
| Accounts receivable | 2,833,227,741.68 | | -7,790,219.41 | 2,825,437,522.27 |
| Financial assets available-for-sale | 100,000.00 | -100,000.00 | | |
| Other equity investments | | 100,000.00 | -100,000.00 | |
| Deferred tax assets | 104,404,613.17 | | 434,850.57 | 104,839,463.74 |
| Liabilities: | | | | |
| Financial liabilities measured at fair value | | | | |
| through profit or loss | 373,723.35 | -373,723.35 | | |
| Transactional financial liabilities | | 373,723.35 | | 373,723.35 |
| Shareholders' equity: | | | | |
| Other comprehensive income | 13,390,695.59 | | -100,000.00 | 13,290,695.59 |
| Surplus reserves | 478,649,714.91 | | -28,312.50 | 478,621,402.41 |
| Retained profits | 2,646,203,617.29 | | -6,953,544.78 | 2,639,250,072.51 |
| Minority interests | 508,066,348.05 | | -373,511.56 | 507,692,836.49 |

Report of the Directors

b. Adjustment table of the impairment provision of financial assets at the first implementation date

| Measurement category | 31 December 2017 (Before Adjustment) | Reclassification | Remeasurement | 1 January 2018 (After Adjustment) |
|---|--|------------------|---------------|---|
| Impairment provision of Accounts receivable | 144,356,210.53 | | 7,790,219.41 | 152,146,429.94 |

The Ministry of Finance promulgated ASBE No. 14 — Revenue (2017 revision) (Cai Kuai [2017] No. 22) on 5 July 2017 (hereafter referred to as “New Revenue Standard”). It required that companies that are dually listed on domestic and foreign stock exchanges and companies that are listed on foreign stock exchanges and adopt International Financial Reporting Standards or Accounting Standards for Business Enterprises are required to apply the New FI Standards and the New Revenue Standard when preparing their financial statements since 1 January 2018. The Company has implemented the New Revenue Standard in the time as required by the Ministry of Finance. The Company shall adjust the opening balance of retained earnings and the amount of other related items in the financial statements in accordance with the cumulative effect of the first application of the New Revenue Standard (being 1 January 2018), where the data related to the annual financial statements of 2017 shall not be adjusted.

The impact of implementing new revenue standards on the company is as follows:

| The content of change | Item | 31 December 2017 (Before change) | 1 January 2018 (After change) |
|-----------------------|------------------------|--|-------------------------------------|
| Presentation | Contract liabilities | | 791,262,245.11 |
| Presentation | Advance from customers | 791,262,245.11 | |

There were no changes in accounting estimate of the Company during the Reporting Period.

Report of the Supervisory Committee

Dear Shareholders:

During the reporting period, the Supervisory Committee of Hisense Home Appliances Group Co., Ltd. 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 2018 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 6 meetings, details of which are summarized as follows:

- (1) The first meeting of the ninth session of the Supervisory Committee in 2018 was held on 29 March 2018, at which the 2017 annual report of the Company and related matters were considered and approved;
- (2) The second meeting of the ninth session of the Supervisory Committee in 2018 was held on 10 April 2018, at which the 2018 first quarterly report of the Company was considered and approved;
- (3) The third meeting of the ninth session of the Supervisory Committee in 2018 was held on 25 May 2018, at which the resolution on the election of the next session of the Supervisory Committee of the Company was considered and approved; and
- (4) The first meeting of the tenth session of the Supervisory Committee in 2018 was held on 26 June 2018, at which the resolution in respect of election of Mr. Liu Zhen Shun as the chairman of the tenth session of the Supervisory Committee was considered and approved.
- (5) The second meeting of the tenth session of the Supervisory Committee in 2018 was held on 29 August 2018, at which the 2018 interim report and its related matters of the Company were considered and approved.
- (6) The third meeting of the tenth session of the Supervisory Committee in 2018 was held on 25 October 2018, at which the 2018 third quarterly report of the Company was considered and approved.

II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2018

- (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 the 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 2018 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.

Report of the Supervisory Committee

- (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 Company had not made any significant disposal of assets.
- (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 2018 Internal Control Assessment Report, the Company's Supervisory Committee is of the view that:

With reference to the relevant requirements of the 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 2018 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 2018 Internal Control Assessment Report by the board of directors of the Company.

Definitions

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.

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

| | |
|---|---|
| “Company”, “the Company”, or “Hisense Appliances” | Hisense Home Appliances Group Co., Ltd. |
| “Hisense Air-Conditioning” | Qingdao Hisense Air-Conditioning Company Limited |
| “Hisense Commercial Trading” | Qingdao Hisense Commercial Trading Development Co., Ltd* 青島海信商貿發展有限公司 |
| “Hisense Electric” | Hisense Electric Co., Ltd. |
| “Hisense Group” | Hisense Company Limited |
| “Hisense Hitachi” | Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. |
| “Hisense Finance” | Hisense Finance Company Limited |
| “Hisense Financial Holdings” | Qingdao Hisense Financial Holdings Co., Ltd. |
| “Hisense Hong Kong” | Hisense (Hong Kong) Company Limited |
| “Hisense International” | Hisense International Co., Ltd*青島海信國際營銷股份有限公司 |
| “Hong Kong” | The Hong Kong Special Administrative Region of the People’s Republic of China |
| “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “RMB” | Renminbi |

Corporate Information

REGISTERED OFFICE IN CHINA

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The People's Republic of China.

PLACE OF BUSINESS IN HONG KONG

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SECRETARY FOR THE BOARD OF DIRECTORS & COMPANY SECRETARY

Secretary of the Board: Huang Qian Mei
Company Secretary: Wong Tak Fong

AUTHORIZED REPRESENTATIVES

Tang Ye Guo
Jia Shao Qian

INVESTOR COMMUNICATION CENTRE

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AUDITORS

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Dongcheng District Beijing



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Rui Hua Shen Zi [2019] 95020047

To the shareholders of Hisense Home Appliances Group Co., Ltd.

I. AUDIT OPINION

We have audited the financial statements of Hisense Home Appliances Group Co., Ltd. (the “Company” or “Hisense Appliances”), which comprise the consolidated and the Company’s balance sheets as at 31 December 2018, and the Company’s and consolidated income statements, the Company’s and consolidated cash flow statements and the Company’s and consolidated statements of changes in equity for 2018 and the notes to the financial statements.

In our opinion, the accompanying financial statements of Hisense Appliances present fairly, in all material aspects, Hisense Appliances’s and consolidated financial position as at 31 December 2018 and its and consolidated results of operations and cash flows for the year 2018 in accordance with the Accounting Standards for Business Enterprises.

II. BASIS OF AUDIT OPINION

We conducted our audit in accordance with China Standards on Auditing. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Hisense Appliances in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Chinese Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. KEY AUDIT MATTERS

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

(i) Provision for impairment of intangible assets with an indefinite useful life

1. Description

As stated in note 4(22) “Impairment of long-term assets”, intangible assets with an indefinite useful life will be tested for impairment annually, regardless of whether there is any indication of impairment. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment is made and an impairment loss are recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The intangible assets with an indefinite useful life of Hisense Appliances are trademarks. As stated in note 6(12) “Intangible assets”, as at 31 December 2018, the balance of trademarks was RMB524,409,198.95. After deducting the accumulated amortization of RMB134,130,255.55 in accordance with the original standards and the provision for impairment made of RMB286,061,116.40, their carrying amount was RMB104,217,827.00. The sufficiency of provision for impairment of trademarks has a material impact on the financial statements.

Hisense Appliances determines the recoverable amount of trademarks based on the valuation under the income approach. Management was required to make significant judgements in estimating the future cash flow and determining the relevant valuation parameters when carrying out the valuation under the income approach.

In view of the large amount involved in the matter and the need for management to make significant judgments, we treat the provision for impairment of intangible assets with an indefinite useful life as a key audit matter.

2. *Audit response*

Our main audit procedures for impairment of intangible assets with an indefinite useful life are as follows:

- (1) discussed with the valuation expert appointed by the management about the valuation method adopted, the estimation of future cash flow and the determination of the relevant valuation parameters;
- (2) by comparing historical cash flows, we reviewed the management's judgment on the future development trend, and evaluated the future cash flows estimated by the management;
- (3) reviewed the valuation method of impairment test and rationality of relevant valuation parameters based on the work conducted by our internal valuation experts;
- (4) reviewed the calculation of the provision for impairment of intangible assets with an indefinite useful life and the related accounting treatment.

(ii) Provision for declines in value of finished goods

1. *Description*

As stated in note 4(12) "Inventories", the finished goods of Hisense Appliances are measured at the lower of cost and net realizable value. As stated in note 6(6) "Inventories", as at 31 December 2018, the balance of finished goods was RMB2,496,876,656.27; the provision for declines in value of finished goods was RMB34,639,801.73; and the carrying amount of finished goods was RMB2,462,236,854.54. The sufficiency of provision for declines in value of finished goods has a material impact on the financial statements.

Hisense Appliances determines the net realisable value of finished goods based on the estimated selling price of finished goods less the estimated sales expenses and related taxes.

The management estimates the expected selling price of finished goods based on their conditions, and the management is required to make significant judgments in the estimation process.

In view of the large amount involved in the matter and the need for management to make significant judgments, we treat the provision for declines in value of finished goods as a key audit matter.

Auditor's Report

2. *Audit response*

Our main audit procedures for provision for declines in value of finished goods are as follows:

- (1) evaluated and tested key internal controls relating to the provision for declines in value of finished goods;
- (2) carried out stock counting procedures for the finished goods of Hisense Appliances, checked the quantity and condition of finished goods;
- (3) obtained the calculation table of provision for declines in value of finished goods of Hisense Appliances, selected certain product models on a sampling basis and compared their records and ageing in the table against the results of our stock counting;
- (4) by comparing historical selling prices of similar products and reviewing the trend in future selling prices of products based on seasonal and cyclical characteristics, we assessed the selling prices estimated by the management and checked the same against the actual selling prices subsequent to the balance sheet date;
- (5) by comparing historical selling expenses and relevant taxation and fees of similar products, we assessed the selling expenses and relevant taxation and fees estimated by the management and checked the same against the actual amount incurred subsequent to the balance sheet date;
- (6) selected certain finished goods and re-calculated their recoverable amount and the balance of provision for declines in value of finished goods as at the end of the period.

IV. OTHER INFORMATION

The management of Hisense Appliances is responsible for the other information. The other information comprises the information included in the 2018 annual report of Hisense Appliances, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Auditor's Report

V. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The management (the "Management") of Hisense Appliances is responsible for preparing of the financial statements that give a fair view in accordance with Accounting Standards for Business Enterprises, and designing, implementing and maintaining the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing Hisense Appliances's ability to continue as a going concern, disclosing matters (if applicable) in relation to the going concern, and using the going concern basis of accounting unless the management either intend to liquidate Hisense Appliances or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Hisense Appliances's financial reporting process.

VI. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with China Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- (1) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (4) conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Hisense Appliances's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Hisense Appliances to cease to continue as a going concern.
- (5) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Auditor's Report

- (6) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Hisense Appliances to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Ruihua Certified Public Accountants (LLP)

Beijing, the People's Republic of China

28 March 2019

Chinese Certified Public Accountant (engagement partner):
Hu Jia Qing

Chinese Certified Public Accountant: Zhang Hong Tao

Consolidated Balance Sheets

31 December 2018

Prepared by: Hisense Home Appliances Group Co., Ltd.

Unit: RMB

| Item | As at 31 December 2018 | As at 31 December 2017 |
|---|---------------------------|---------------------------|
| Current assets: | | |
| Cash at bank and on hand | 3,648,463,609.61 | 2,996,028,194.89 |
| Balances with clearing companies | | |
| Lending capital | | |
| Transactional financial assets | 207,350.00 | N/A |
| Financial assets at fair value through profit or loss | N/A | 82,670.52 |
| Derivative financial assets | | |
| Notes receivable and Accounts receivable | 6,068,203,234.09 | 6,350,259,386.45 |
| Including: Notes receivable | 2,971,748,608.75 | 3,517,031,644.77 |
| Accounts receivable | 3,096,454,625.34 | 2,833,227,741.68 |
| Prepayments | 224,120,738.37 | 239,594,948.71 |
| Insurance premium receivable | | |
| Receivables from reinsurers | | |
| Reserves for reinsurance contract receivable | | |
| Other receivables | 318,926,986.30 | 312,462,291.68 |
| Including: Interests receivable | 197,325.00 | 151,200.00 |
| Dividends receivable | | |
| Financial assets purchased under agreements to resell | | |
| Inventories | 2,955,752,775.71 | 3,397,860,489.07 |
| Contract assets | | N/A |
| Assets held for sale | | |
| Non-current assets due within one year | | |
| Other current assets | 1,081,172,953.81 | 1,551,317,129.32 |
| Total current assets | 14,296,847,647.89 | 14,847,605,110.64 |
| Non-current assets: | | |
| Disbursement of loans and advances | | |
| Investments in debt | | N/A |
| Available-for-sale financial assets | N/A | 100,000.00 |
| Other investments in debt | | N/A |
| Held-to-maturity investments | N/A | |
| Long-term receivables | | |
| Long-term equity investments | 3,326,783,023.78 | 2,509,631,188.19 |
| Other equity investment | | N/A |
| Other non-current financial assets | | N/A |
| Investment properties | 22,511,361.05 | 24,997,438.39 |
| Fixed assets | 3,263,931,920.41 | 3,252,289,033.55 |
| Construction in progress | 84,296,518.04 | 148,361,940.80 |
| Productive biological assets | | |
| Oil and gas assets | | |
| Intangible assets | 714,706,893.47 | 716,335,386.22 |
| Development costs | | |
| Goodwill | | |
| Long-term prepaid expenses | 25,349,762.41 | 3,727,675.38 |
| Deferred tax assets | 93,477,911.35 | 104,404,613.17 |
| Other non-current assets | | |
| Total non-current assets | 7,531,057,390.51 | 6,759,847,275.70 |
| Total assets | 21,827,905,038.40 | 21,607,452,386.34 |

Consolidated Balance Sheets

31 December 2018

| Item | As at 31 December 2018 | As at 31 December 2017 |
|--|---------------------------|---------------------------|
| Current liabilities: | | |
| Short-term borrowings | | |
| Borrowings from central bank | | |
| Receipt of deposits and deposits from other banks | | |
| Loans from other banks | | |
| Transactional financial liabilities | 2,765,900.00 | N/A |
| Financial liabilities at fair value through profit or loss | N/A | 373,723.35 |
| Derivative financial liabilities | | |
| Notes payable and Accounts payable | 9,815,704,300.63 | 10,379,862,551.66 |
| Advances from customers | | 791,262,245.11 |
| Contract liability | 716,041,073.75 | N/A |
| Proceeds from disposal of financial assets under agreements to repurchase | | |
| Handling fees and commission payable | | |
| Employee remunerations payable | 328,800,107.19 | 323,419,615.39 |
| Taxes payable | 230,675,886.53 | 265,563,541.86 |
| Other payables | 1,766,319,446.79 | 1,709,226,096.76 |
| Including: Interests payable | | |
| Dividends payable | | |
| Reinsured accounts payable | | |
| Reserves for reinsurance contract | | |
| Customer brokerage deposits | | |
| Securities underwriting brokerage deposits | | |
| Liabilities held for sale | | |
| Non-current liabilities due within one year | | |
| Other current liabilities | 646,178,914.93 | 639,347,580.40 |
| Total current liabilities | 13,506,485,629.82 | 14,109,055,354.53 |

Consolidated Balance Sheets

31 December 2018

| Item | As at 31 December 2018 | As at 31 December 2017 |
|---|---------------------------|---------------------------|
| Non-current liabilities: | | |
| Long-term borrowings | | |
| Bonds payable | | |
| Including: Preference shares | | |
| Perpetual debts | | |
| Long-term payables | | |
| Long-term employee remunerations payable | | |
| Provisions | 329,557,537.00 | 337,091,145.64 |
| Deferred income | 98,410,309.53 | 73,013,121.41 |
| Deferred tax liabilities | 4,044,585.32 | 1,137,179.22 |
| Other non-current liabilities | | |
| Total non-current liabilities | 432,012,431.85 | 411,241,446.27 |
| Total liabilities | 13,938,498,061.67 | 14,520,296,800.80 |
| Shareholders' equity: | | |
| Share capital | 1,362,725,370.00 | 1,362,725,370.00 |
| Other equity instruments | | |
| Including: Preference shares | | |
| Perpetual debts | | |
| Capital reserve | 2,076,473,214.56 | 2,078,119,839.70 |
| Less: treasury shares | | |
| Other comprehensive income | 16,896,290.49 | 13,390,695.59 |
| Special reserves | | |
| Surplus reserves | 556,272,909.16 | 478,649,714.91 |
| General risk provisions | | |
| Undistributed profit | 3,339,456,580.66 | 2,646,203,617.29 |
| Total equity attributable to shareholders of the parent | 7,351,824,364.87 | 6,579,089,237.49 |
| Minority interests | 537,582,611.86 | 508,066,348.05 |
| Total shareholders' equity | 7,889,406,976.73 | 7,087,155,585.54 |
| Total liabilities and shareholders' equity | 21,827,905,038.40 | 21,607,452,386.34 |

Legal representative: **Tang Ye Guo** Chief financial officer: **Chen Xiao Lu** Accounting supervisor: **Liang Hong Tao**

Balance Sheets of Parent Company

Unit: RMB

| Item | As at 31 December 2018 | As at 31 December 2017 |
|---|---------------------------|---------------------------|
| Current assets: | | |
| Cash at bank and on hand | 66,002,462.15 | 42,091,702.34 |
| Transactional financial assets | | N/A |
| Financial assets at fair value through profit or loss | N/A | |
| Derivative financial assets | | |
| Notes receivable and Accounts receivable | 8,028,474.24 | 9,632,170.78 |
| Including: Notes receivable | | |
| Accounts receivable | 8,028,474.24 | 9,632,170.78 |
| Prepayment | 21,794,567.90 | 24,180,185.94 |
| Other receivables | 1,230,184,848.21 | 1,235,500,456.32 |
| Including: Interests receivable | | |
| Dividends receivable | | |
| Inventories | 2,985.38 | 66,179.44 |
| Contract assets | | N/A |
| Assets held for sale | | |
| Non-current assets due within one year | | |
| Other current assets | 171,456,671.63 | 811,863,956.36 |
| Total current assets | 1,497,470,009.51 | 2,123,334,651.18 |
| Non-current assets: | | |
| Disbursement of advances and loans | | |
| Investments in debt | | N/A |
| Available-for-sale financial assets | N/A | 100,000.00 |
| Other investments in debt | | N/A |
| Held-to-maturity investments | N/A | |
| Long-term receivables | | |
| Long-term equity investments | 5,780,792,619.33 | 4,962,361,025.22 |
| Other equity investment | | N/A |
| Other non-current financial assets | | N/A |
| Investment properties | 6,912,776.00 | 8,297,036.00 |
| Fixed assets | 22,898,140.15 | 30,816,121.41 |
| Construction in progress | 563,292.29 | |
| Productive biological assets | | |
| Oil and gas assets | | |
| Intangible assets | 180,382,891.00 | 183,205,022.00 |
| Development costs | | |
| Goodwill | | |
| Long-term prepaid expenses | 224,869.24 | |
| Deferred tax assets | | |
| Other non-current assets | | |
| Total non-current assets | 5,991,774,588.01 | 5,184,779,204.63 |
| Total assets | 7,489,244,597.52 | 7,308,113,855.81 |

Balance Sheets of Parent Company

| Item | As at 31 December 2018 | As at 31 December 2017 |
|--|---------------------------|---------------------------|
| Current liabilities: | | |
| Short-term borrowings | | |
| Transactional financial liabilities | | N/A |
| Financial liabilities at fair value through profit or loss | N/A | |
| Derivative financial liabilities | | |
| Notes payable and Accounts payable | 287,857,101.70 | 281,776,799.72 |
| Advances from customers | 8,449,546.81 | 8,915,630.84 |
| Contract liability | | N/A |
| Employee remunerations payable | 4,469,560.66 | 2,512,848.08 |
| Taxes payable | 725,132.44 | 11,049,746.83 |
| Other payables | 692,710,246.35 | 693,422,000.94 |
| Including: Interests payable | | |
| Dividends payable | | |
| Liabilities held for sale | | |
| Non-current liabilities due within one year | | |
| Other current liabilities | 19,154,070.26 | 21,322,070.67 |
| Total Current Liabilities | 1,013,365,658.22 | 1,018,999,097.08 |
| Non-Current Liabilities: | | |
| Long-term borrowings | | |
| Bonds payable | | |
| Including: Preference shares | | |
| Perpetual debts | | |
| Long-term payables | | |
| Long-term employee remunerations payable | | |
| Provisions | 168,134,924.14 | 155,053,623.08 |
| Deferred income | 28,000,372.60 | 28,995,438.83 |
| Deferred tax liabilities | | |
| Other non-current liabilities | | |
| Total non-current liabilities | 196,135,296.74 | 184,049,061.91 |
| Total liabilities | 1,209,500,954.96 | 1,203,048,158.99 |
| Shareholders' equity: | | |
| Share capital | 1,362,725,370.00 | 1,362,725,370.00 |
| Other equity instruments | | |
| Including: Preference shares | | |
| Perpetual debts | | |
| Capital reserve | 2,261,470,878.87 | 2,263,036,253.20 |
| Less: Treasury shares | | |
| Other comprehensive income | 5,631,108.11 | 6,020,567.73 |
| Special reserves | | |
| Surplus reserves | 525,664,284.17 | 448,041,089.92 |
| Undistributed profit | 2,124,252,001.41 | 2,025,242,415.97 |
| Total shareholders' equity | 6,279,743,642.56 | 6,105,065,696.82 |
| Total liabilities and shareholders' equity | 7,489,244,597.52 | 7,308,113,855.81 |

Consolidated Income Statement

| | | | <i>Unit: RMB</i> | |
|---|--------------------------|--------------------------|------------------|--|
| Item | 2018 | 2017 | | |
| I. Total operating revenue | 36,019,598,304.79 | 33,487,590,387.45 | | |
| Including: Operating revenue | 36,019,598,304.79 | 33,487,590,387.45 | | |
| Interest income | | | | |
| Insurance premium earned | | | | |
| Income from handling fees and commission | | | | |
| II. Total operating costs | 35,641,100,116.57 | 33,159,445,480.99 | | |
| Including: Operating costs | 29,171,524,760.00 | 26,969,830,953.33 | | |
| 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 | | | | |
| Taxes and surcharges | 311,637,390.87 | 325,301,170.51 | | |
| Sales expenses | 5,005,944,320.73 | 4,771,756,662.02 | | |
| Management expenses | 425,693,468.96 | 426,240,869.34 | | |
| Research and development expenses | 686,772,325.33 | 618,493,863.77 | | |
| Financial expenses | 34,610,575.42 | 9,777,593.76 | | |
| Including: Interest expense | 3,987,499.99 | | | |
| Interest income | 36,481,903.61 | 28,856,412.64 | | |
| Impairment losses on assets | 2,550,168.03 | 38,044,368.26 | | |
| Impairment losses on credit | 2,367,107.23 | N/A | | |
| Add: Other income | 302,603,027.45 | 125,483,420.20 | | |
| Investment gain (loss expressed with “-”) | 828,685,091.63 | 1,582,980,508.56 | | |
| Including: Share of profit of associates and joint ventures | 783,792,628.40 | 769,755,573.15 | | |
| Net open hedge income (loss expressed with “-”) | | N/A | | |
| Gain from changes in fair values (loss expressed with “-”) | -2,267,497.17 | -9,986,122.87 | | |
| Foreign exchange gains (loss expressed with “-”) | | | | |
| Gains on disposal of asset (loss expressed with “-”) | 1,210,083.22 | 4,136,179.65 | | |
| III. Operating profits (loss denoted by “-”) | 1,508,728,893.35 | 2,030,758,892.00 | | |
| Add: Non-operating incomes | 74,020,079.75 | 237,692,697.13 | | |
| Less: Non-operating expenses | 17,843,104.64 | 15,577,352.42 | | |
| IV. Total profit (total loss denoted by “-”) | 1,564,905,868.46 | 2,252,874,236.71 | | |
| Less: Income tax expenses | 141,831,492.77 | 181,067,121.45 | | |
| V. Net profits (net loss denoted by “-”) | 1,423,074,375.69 | 2,071,807,115.26 | | |
| (1) Net profit from continuing operations (net loss denoted by “-”) | 1,423,074,375.69 | 2,071,807,115.26 | | |
| (2) Net profit from discontinued operations (net loss denoted by “-”) | | | | |
| Net profit attributable to shareholders of the parent | 1,377,457,177.70 | 2,018,112,935.64 | | |
| Profit and loss of minority interests (net loss denoted by “-”) | 45,617,197.99 | 53,694,179.62 | | |

Consolidated Income Statement

| Item | 2018 | 2017 |
|---|-------------------------|-------------------------|
| VI. Other comprehensive income after tax, net | 3,618,965.46 | -11,293,988.72 |
| Other comprehensive income after tax attributable to owners of the parent, net | 3,605,594.90 | -11,493,035.75 |
| (1) Items not to be reclassified into profit or loss | | |
| 1. Changes arising from remeasurement of defined benefit plan | | |
| 2. Other comprehensive income that cannot be transferred to profit or loss under the equity method | | |
| 3. Changes in fair value of other equity instruments investment | | N/A |
| 4. Changes in the fair value of the company's own credit risk | | N/A |
| 5. Others | | |
| (2) Items to be reclassified into profit or loss | 3,605,594.90 | -11,493,035.75 |
| 1. Other comprehensive income that is convertible into gains and losses under the equity method | -289,459.62 | -4,588,457.44 |
| 2. Changes in fair value of other investments in debt | | N/A |
| 3. Gains and losses from changes in fair value of available-for-sale financial assets | N/A | |
| 4. The amount of financial assets reclassified into other comprehensive income | | |
| 5. Held-to-maturity investments are reclassified as gains and losses on available-for-sale financial assets | N/A | |
| 6. Credit impairment provisions for other debt investment | | N/A |
| 7. Cash flow hedge reserve | | |
| 8. Differences on translation of foreign currency financial statements | 3,895,054.52 | -6,904,578.31 |
| 9. Others | | |
| Other comprehensive income after tax attributable to minority interests, net | 13,370.56 | 199,047.03 |
| VII. Total comprehensive income | 1,426,693,341.15 | 2,060,513,126.54 |
| Total comprehensive income attributable to shareholders of the parent | 1,381,062,772.60 | 2,006,619,899.89 |
| Total comprehensive income attributable to minority interests | 45,630,568.55 | 53,893,226.65 |
| VIII. Earnings per share: | | |
| (1) Basic earnings per share | 1.01 | 1.48 |
| (2) Diluted earnings per share | 1.01 | 1.48 |

Legal representative: **Tang Ye Guo** Chief financial officer: **Chen Xiao Lu** Accounting supervisor: **Liang Hong Tao**

Income Statement of Parent Company

| | | | <i>Unit: RMB</i> | |
|---|-----------------------|-------------------------|------------------|--|
| Item | 2018 | 2017 | | |
| I. Total operating revenue | 73,837,941.71 | 78,595,047.97 | | |
| Less: Operating costs | 60,992,608.85 | 70,301,723.54 | | |
| Taxes and surcharges | 6,018,581.95 | 12,011,278.68 | | |
| Sales expenses | 60,923,538.74 | 40,095,768.22 | | |
| Management expenses | 27,109,234.24 | 24,311,207.98 | | |
| Research and development expenses | | | | |
| Financial expenses | -15,433,489.02 | 29,663,792.40 | | |
| Including: Interest expense | | | | |
| Interest income | 2,504,478.78 | | | |
| Impairment losses on assets | | -3,647,307.68 | | |
| Impairment losses on credit | -461,798.54 | N/A | | |
| Add: Other income | 2,169,413.94 | 1,005,262.80 | | |
| Investment gain (loss expressed with “-”) | 840,443,395.85 | 1,495,930,540.80 | | |
| Including: Share of profit of associates and joint ventures | 782,822,386.92 | 770,725,814.63 | | |
| Net open hedge income (loss expressed with “-”) | | N/A | | |
| Gain from changes in fair values (loss expressed with “-”) | | | | |
| Gains on disposal of asset (loss expressed with “-”) | -529.00 | | | |
| II. Operating profits (loss denoted by “-”) | 777,301,546.28 | 1,402,794,388.43 | | |
| Add: Non-operating incomes | 1,078,312.34 | 87,329,470.71 | | |
| Less: Non-operating expenses | 1,864,791.16 | 3,039,775.40 | | |
| III. Total profit (total loss denoted by “-”) | 776,515,067.46 | 1,487,084,083.74 | | |
| Less: Income tax expenses | | | | |
| IV. Net profits (net loss denoted by “-”) | 776,515,067.46 | 1,487,084,083.74 | | |
| (1) Net profit from continuing operations (net loss denoted by “-”) | 776,515,067.46 | 1,487,084,083.74 | | |
| (2) Net profit from discontinued operations (net loss denoted by “-”) | | | | |
| V. Other comprehensive income after tax, net | -289,459.62 | -4,588,457.44 | | |
| (1) Items not to be reclassified into profit or loss | | | | |
| 1. Changes arising from remeasurement of defined benefit plan | | | | |
| 2. Other comprehensive income that cannot be transferred to profit or loss under the equity method | | | | |
| 3. Changes in fair value of other equity instruments investment | | N/A | | |
| 4. Changes in the fair value of the company’s own credit risk | | N/A | | |
| 5. Others | | | | |
| (2) Items to be reclassified into profit or loss | -289,459.62 | -4,588,457.44 | | |
| 1. Other comprehensive income that is convertible into gains and losses under the equity method | -289,459.62 | -4,588,457.44 | | |
| 2. Changes in fair value of other investments in debt | | N/A | | |
| 3. Gains and losses from changes in fair value of available-for-sale financial assets | | N/A | | |
| 4. The amount of financial assets reclassified into other comprehensive income | | N/A | | |
| 5. Held-to-maturity investments are reclassified as gains and losses on available-for-sale financial assets | | N/A | | |
| 6. Credit impairment provisions for other debt investment | | N/A | | |
| 7. Cash flow hedge reserve | | | | |
| 8. Differences on translation of foreign currency financial statements | | | | |
| 9. Others | | | | |
| VI. Total comprehensive income | 776,225,607.84 | 1,482,495,626.30 | | |
| VII. Earnings per share: | | | | |
| (1) Basic earnings per share | | | | |
| (2) Diluted earnings per share | | | | |

Consolidated Cash Flow Statement

Unit: RMB

| Item | 2018 | 2017 |
|--|--------------------------|--------------------------|
| I. Cash flows from operating activities: | | |
| Cash received from sales of goods and rendering of services | 26,105,882,573.53 | 24,042,927,835.44 |
| 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 | 1,267,772,435.41 | 1,235,372,350.75 |
| Other cash received concerning operating activities | 783,571,827.20 | 595,046,376.49 |
| Subtotal of cash inflows from operating activities | 28,157,226,836.14 | 25,873,346,562.68 |
| Cash paid for purchases of commodities and receipt of services | 18,570,325,803.56 | 16,796,069,906.09 |
| 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 | 3,169,188,048.40 | 2,865,603,481.83 |
| Cash paid for taxes and surcharges | 1,223,056,073.41 | 1,296,001,487.92 |
| Cash paid for other operating activities | 4,145,290,346.52 | 4,460,623,110.53 |
| Subtotal of cash outflows from operating activities | 27,107,860,271.89 | 25,418,297,986.37 |
| Net cash flows from operating activities | 1,049,366,564.25 | 455,048,576.31 |
| II. Cash flows from investing activities: | | |
| Cash received from recovery of investments | 12,542,200.00 | 242,792,800.00 |
| Cash received from investment income | 48,100,716.69 | 25,927,396.48 |
| Net cash received from disposals of fixed assets, intangible assets and other long-term assets | 5,540,355.55 | 12,272,558.16 |
| Net cash received from disposal of subsidiaries and other operation units | | 862,552,036.96 |
| Cash received relating to other investing activities | 2,810,000,000.00 | 3,930,000,000.00 |
| Subtotal of cash inflows from investing activities | 2,876,183,272.24 | 5,073,544,791.60 |
| Cash paid for acquisition of fixed assets, intangible assets and other long-term assets | 330,020,326.20 | 390,213,973.07 |
| Cash paid for investments | 47,750,000.00 | 242,250,000.00 |
| Cash paid for acquiring subsidiaries and other operation units | | |
| Cash paid relating to other investing activities | 2,270,000,000.00 | 3,710,000,000.00 |
| Subtotal of cash outflows from investing activities | 2,647,770,326.20 | 4,342,463,973.07 |
| Net cash flows from investing activities | 228,412,946.04 | 731,080,818.53 |

Consolidated Cash Flow Statement

| Item | 2018 | 2017 |
|---|--------------------------|--------------------------|
| III. Cash flows from financing activities: | | |
| Cash received from capital contribution | | 13,791,204.00 |
| Including: Cash contribution to subsidiaries from minority shareholders' investment | | 13,791,204.00 |
| Cash received from borrowings | 200,000,000.00 | |
| Cash received from issuance of bonds | | |
| Cash received relating to other financing activities | | |
| Subtotal of cash inflows from financing activities | 200,000,000.00 | 13,791,204.00 |
| Cash paid for repayment of borrowings | 200,000,000.00 | |
| Cash paid for distribution of dividends, profit or payment of interest expenses | 619,102,646.78 | 424,432,075.93 |
| Including: Dividend and profit paid to minority shareholders by subsidiaries | 15,515,983.99 | 15,614,464.93 |
| Cash paid relating to other financing activities | 542,073,128.96 | 609,526,216.71 |
| Subtotal of cash outflows from financing activities | 1,361,175,775.74 | 1,033,958,292.64 |
| Net cash flows from financing activities | -1,161,175,775.74 | -1,020,167,088.64 |
| IV. Effects of foreign exchange rate changes on cash and cash equivalents | -7,558,642.39 | -8,628,229.42 |
| V. Net increase in cash and cash equivalents | 109,045,092.16 | 157,334,076.78 |
| Add: Balance of cash and cash equivalents at the beginning of the period | 952,318,970.66 | 794,984,893.88 |
| VI. Balance of cash and cash equivalents at the end of the period | 1,061,364,062.82 | 952,318,970.66 |

Cash Flow Statement of Parent Company

| | <i>Unit: RMB</i> | |
|---|-------------------------|-------------------------|
| Item | 2018 | 2017 |
| I. Cash flows from operating activities: | | |
| Cash received from sales of goods and rendering of services | 60,146,612.21 | 51,848,980.30 |
| Tax rebates received | | |
| Cash received concerning other operating activities | 594,391,985.46 | 854,418,357.21 |
| Subtotal of cash inflows from operating activities | 654,538,597.67 | 906,267,337.51 |
| Cash paid for purchases of commodities and receipt of labor services | | 10,123,333.73 |
| Cash paid to and for employees | 57,071,024.64 | 59,813,014.91 |
| Cash paid for taxes and surcharges | 24,456,758.27 | 7,307,162.77 |
| Cash paid for other operating activities | 599,724,793.07 | 666,038,934.56 |
| Subtotal of cash outflow from operating activities | 681,252,575.98 | 743,282,445.97 |
| Net cash flows from operating activities | -26,713,978.31 | 162,984,891.54 |
| II. Cash flow from investing activities: | | |
| Cash received from recovery of investments | 12,542,200.00 | 242,792,800.00 |
| Cash received from investment income | 57,621,008.93 | 131,203,478.11 |
| Net cash received from disposals of fixed assets, intangible assets and other long-term assets | 14,869.00 | 15.00 |
| Net cash received from disposals of subsidiaries and other operation units | | 862,560,000.00 |
| Cash received relating to other investing activities | 1,850,000,000.00 | |
| Subtotal of cash inflows from investing activities | 1,920,178,077.93 | 1,236,556,293.11 |
| Cash paid for acquisition of fixed assets, intangible assets and other long-term assets | 759,231.85 | 164,371.00 |
| Cash paid for investments | 50,000,000.00 | 240,000,000.00 |
| Net cash paid for acquisition of subsidiaries and other operation units | | |
| Cash paid relating to other investing activities | 1,210,000,000.00 | 800,000,000.00 |
| Subtotal of cash outflows from investing activities | 1,260,759,231.85 | 1,040,164,371.00 |
| Net cash flows from investing activities | 659,418,846.08 | 196,391,922.11 |
| III. Cash flows from financing activities: | | |
| Cash received from capital contribution | | |
| Cash received from borrowings | | |
| Cash received from issuance of bonds | | |
| Cash received relating to other financing activities | | |
| Subtotal of cash inflows from financing activities | | |
| Cash paid for repayment of borrowings | | |
| Cash paid for distribution of dividends, profit or payment of interest expenses | 599,599,162.80 | 408,817,611.00 |
| Cash paid relating to other financing activities | | |
| Subtotal of cash outflows from financing activities | 599,599,162.80 | 408,817,611.00 |
| Net cash flows from financing activities | -599,599,162.80 | -408,817,611.00 |
| IV. Effects of foreign exchange rate changes on cash and cash equivalents | -9,234,945.16 | |
| V. Net increase in cash and cash equivalents | 23,870,759.81 | -49,440,797.35 |
| Add: Balance of cash and cash equivalents at the beginning of the period | 42,041,702.34 | 91,482,499.69 |
| VI. Balance of cash and cash equivalents at the end of the period | 65,912,462.15 | 42,041,702.34 |

Consolidated Statement of Changes in Owners' Equity

Amount for current period

Unit: RMB

| Item | 2018 | | | | | | | | | | | Total owners' equity | |
|---|--|-------------------|--------------------------|--|------------------|-----------------|----------------------------|------------------|------------------|-------------------------|--------------------|----------------------|-----------------------|
| | Attributable to the owners of the parent | | | | | | | | | | Minority interests | | |
| | Share capital | Preference shares | Other equity instruments | | Capital reserve | Treasury shares | Less: comprehensive income | Special reserves | Surplus reserves | General risk provisions | | | Undistributed profits |
| I. Closing balance of previous year | 1,362,725,370.00 | | | | 2,088,891,556.36 | | 7,370,127.86 | | 460,339,686.31 | | 2,525,976,933.34 | 508,066,348.05 | 6,953,370,021.92 |
| Add: Changes in accounting policies | | | | | | | -100,000.00 | | -28,312.50 | | -6,953,544.78 | -373,511.56 | -7,455,368.84 |
| Correction for error in previous period | | | | | -10,771,716.66 | | 6,020,567.73 | | 18,310,028.60 | | 120,226,683.95 | | 133,785,563.62 |
| Business combination involving entities under common control | | | | | | | | | | | | | |
| Other | | | | | | | | | | | | | |
| II. Opening balance for the year | 1,362,725,370.00 | | | | 2,078,119,839.70 | | 13,290,695.59 | | 478,621,402.41 | | 2,639,250,072.51 | 507,692,836.49 | 7,079,700,216.70 |
| III. Movements in the current period | | | | | | | | | | | | | |
| (Decreases denoted in "-") | | | | | -1,646,625.14 | | 3,695,594.90 | | 77,651,506.75 | | 700,206,508.15 | 29,889,775.37 | 809,706,760.03 |
| (1) Total comprehensive income | | | | | | | 3,695,594.90 | | | | 1,377,457,177.70 | 45,630,568.55 | 1,426,693,341.15 |
| (2) Owners' contributions and capital reductions | | | | | -81,250.81 | | | | | | | -224,809.19 | -306,060.00 |
| 1. Ordinary shares contributed by shareholders | | | | | | | | | | | | -202,818.82 | -202,818.82 |
| 2. Capital contributions by holders of other equity instruments | | | | | | | | | | | | | |
| 3. Amount of share-based payment included in owners' equity | | | | | | | | | | | | | |
| 4. Other | | | | | -81,250.81 | | | | | | | -21,990.37 | -103,241.18 |
| (3) Profit Distribution | | | | | | | | | 77,651,506.75 | | -677,250,669.55 | -15,515,983.99 | -615,115,146.79 |
| 1. Appropriations to surplus reserve | | | | | | | | | 77,651,506.75 | | -77,651,506.75 | | |
| 2. Appropriations to general risk provisions | | | | | | | | | | | | | |
| 3. Distribution to owners (or shareholders) | | | | | | | | | | | -599,599,162.80 | -15,515,983.99 | -615,115,146.79 |
| 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. Changing amount of defined benefit plan carried forward to retained earnings | | | | | | | | | | | | | |
| 5. Other comprehensive income carried forward to retained earnings | | | | | | | | | | | | | |
| 6. Others | | | | | | | | | | | | | |
| (5) Special reserves | | | | | | | | | | | | | |
| 1. Provided during the period | | | | | | | | | | | | | |
| 2. Used during the period | | | | | | | | | | | | | |
| (6) Other | | | | | | | -1,565,374.33 | | | | | | -1,565,374.33 |
| IV. Closing balance for the period | 1,362,725,370.00 | | | | 2,076,473,214.56 | | 16,896,290.49 | | 556,272,909.16 | | 3,339,456,580.66 | 537,502,611.86 | 7,889,406,976.73 |

Consolidated Statement of Changes in Owners' Equity

Amount for previous period

Unit: RMB

| Item | 2017 | | | | | | | | | | | Total owners' equity | |
|---|--|-----------------|--------|-----------------|----------------------------------|----------------------------|-------------------------|------------------|------------------|-------------------------|-----------------------|-----------------------|--------------------|
| | Attributable to the owners of the parent | | | | Less: Other comprehensive income | | | Special reserves | Surplus reserves | General risk provisions | Undistributed profits | | Minority interests |
| Share capital | Preference shares | Perpetual debts | Others | Capital reserve | Treasury shares | Other comprehensive income | General risk provisions | | | | | Undistributed profits | |
| I. Closing balance for previous year | 1,362,725,370.00 | | | | 2,082,861,943.89 | | 14,274,706.17 | | 313,689,564.15 | | 1,083,914,592.96 | 455,993,877.28 | 5,323,460,054.45 |
| Add: Changes in accounting policies | | | | | | | | | | | | | |
| Correction for error in previous period | | | | | -10,460,643.94 | | 10,609,025.17 | | 16,251,742.39 | | 101,702,108.06 | | 118,102,231.68 |
| Business combination involving entities under common control | | | | | | | | | | | | | |
| Other | | | | | | | | | | | | | |
| II. Opening balance for the year | 1,362,725,370.00 | | | | 2,082,401,299.95 | | 24,883,731.34 | | 329,941,306.54 | | 1,185,616,701.02 | 455,993,877.28 | 5,441,562,286.13 |
| III. Movements in the current period | | | | | | | | | | | | | |
| (Decreases denoted in "-") | | | | | -4,281,460.25 | | -11,493,035.75 | | 148,708,408.37 | | 1,460,586,916.27 | 52,072,470.77 | 1,645,593,299.41 |
| (1) Total comprehensive income | | | | | | | -11,493,035.75 | | | | 2,018,112,935.64 | 53,893,226.65 | 2,060,513,126.54 |
| (2) Owners' contributions and capital reductions | | | | | -2,505.05 | | | | | | | 13,793,709.05 | 13,791,204.00 |
| 1. Ordinary shares contributed by owners | | | | | | | | | | | | 13,791,204.00 | 13,791,204.00 |
| 2. Capital contributions by holders of other equity instruments | | | | | | | | | | | | | |
| 3. Amount of share-based payment included in owners' equity | | | | | | | | | | | | | |
| 4. Other | | | | | -2,505.05 | | | | | | | 2,505.05 | |
| (3) Profit Distribution | | | | | | | | | 148,708,408.37 | | -557,526,019.37 | -15,614,464.93 | -424,432,075.93 |
| 1. Appropriations to surplus reserve | | | | | | | | | 148,708,408.37 | | -148,708,408.37 | | |
| 2. Appropriations to general risk provisions | | | | | | | | | | | | | |
| 3. Distribution to owners (or shareholders) | | | | | | | | | | | -408,817,611.00 | -15,614,464.93 | -424,432,075.93 |
| 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. Changing amount of defined benefit plan carried forward to retained earnings | | | | | | | | | | | | | |
| 5. Other comprehensive income carried forward to retained earnings | | | | | | | | | | | | | |
| 6. Others | | | | | | | | | | | | | |
| (5) Special reserves | | | | | | | | | | | | | |
| 1. Provided during the period | | | | | | | | | | | | | |
| 2. Used during the period | | | | | | | | | | | | | |
| (6) Other | | | | | -4,278,955.20 | | | | | | | | -4,278,955.20 |
| IV. Closing balance for the period | 1,362,725,370.00 | | | | 2,078,119,839.70 | | 13,390,695.59 | | 478,649,714.91 | | 2,646,203,617.29 | 508,066,348.05 | 7,087,155,585.54 |

Statement of Changes in Owners' Equity of the Parent Company

Amount for current period

Unit: RMB

| Item | Share capital | Other equity instruments | | Others | 2018 | | Special reserves | Surplus reserves | Undistributed profits | Total owners' equity |
|---|------------------|--------------------------|-----------------|------------------|-----------------------|----------------------------|------------------|------------------|-----------------------|----------------------|
| | | Preference shares | Perpetual debts | | Less: Treasury shares | Other comprehensive income | | | | |
| I. Closing balance in previous year | 1,362,725,370.00 | | | 2,273,807,969.86 | | | 429,731,061.32 | 1,905,015,732.02 | 5,971,280,133.20 | |
| Add: Changes in accounting policies | | | | | | | -100,000.00 | -28,312.50 | -383,124.97 | |
| Correction for error in previous period | | | | -10,771,716.66 | | | 6,020,567.73 | 18,310,028.60 | 120,226,683.95 | 133,785,563.62 |
| Other | | | | | | | | | | |
| II. Opening balance for the year | 1,362,725,370.00 | | | 2,263,036,253.20 | | | 5,920,567.73 | 448,012,777.42 | 2,024,987,603.50 | 6,104,682,571.85 |
| III. Movements in the current period | | | | | | | | | | |
| (Decreases denoted in "-") | | | | -1,565,374.33 | | | -289,459.62 | 77,651,506.75 | 99,264,397.91 | 175,061,070.71 |
| (1) Total comprehensive income | | | | | | | -289,459.62 | | 776,515,067.46 | 776,225,607.84 |
| (2) Owners' contributions and capital reductions | | | | | | | | | | |
| 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 | | | | | | | | | | |
| 4. Other | | | | | | | | | | |
| (3) Profit Distribution | | | | | | | | 77,651,506.75 | -677,250,669.55 | -599,599,162.80 |
| 1. Appropriations to surplus reserve | | | | | | | | 77,651,506.75 | -77,651,506.75 | |
| 2. Distribution to owners (or shareholders) | | | | | | | | | -599,599,162.80 | -599,599,162.80 |
| 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. Changing amount of defined benefit plan carried forward to retained earnings | | | | | | | | | | |
| 5. Other comprehensive income carried forward to retained earnings | | | | | | | | | | |
| 6. Others | | | | | | | | | | |
| (5) Special reserves | | | | | | | | | | |
| 1. Provided during the period | | | | | | | | | | |
| 2. Used during the period | | | | | | | | | | |
| (6) Other | | | | -1,565,374.33 | | | | | | -1,565,374.33 |
| IV. Closing balance for the period | 1,362,725,370.00 | | | 2,261,470,878.87 | | | 5,631,108.11 | 525,664,284.17 | 2,124,252,001.41 | 6,279,743,642.56 |

Statement of Changes in Owners' Equity of the Parent Company

Amount for previous period

Unit: RMB

| Item | Share capital | Other equity instruments | | Others | 2017 | | Special reserves | Surplus reserves | Undistributed profits | Total owners' equity |
|---|------------------|--------------------------|-----------------|------------------|-----------------------|----------------------------|------------------|------------------|-----------------------|----------------------|
| | | Preference shares | Perpetual debts | | Less: Treasury shares | Other comprehensive income | | | | |
| I. Closing balance in previous year | 1,362,725,370.00 | | | 2,277,775,852.34 | | | 283,080,939.16 | 993,982,243.54 | 4,917,564,405.04 | |
| Add: Changes in accounting policies | | | | | | | | | | |
| Correction for error in previous period | | | | -10,460,643.94 | | 10,609,025.17 | 16,251,742.39 | 101,702,108.06 | 118,102,231.68 | |
| Other | | | | | | | | | | |
| II. Opening balance for the year | 1,362,725,370.00 | | | 2,267,315,208.40 | | 10,609,025.17 | 299,332,681.55 | 1,095,684,351.60 | 5,035,666,636.72 | |
| III. Movements in the current period | | | | | | | | | | |
| (Decreases denoted in "-") | | | | -4,278,955.20 | | -4,588,457.44 | 148,708,408.37 | 929,558,064.37 | 1,069,399,060.10 | |
| (1) Total comprehensive income | | | | | | -4,588,457.44 | | 1,487,084,083.74 | 1,482,495,626.30 | |
| (2) Owners' contributions and capital reductions | | | | | | | | | | |
| 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 | | | | | | | | | | |
| 4. Other | | | | | | | | | | |
| (3) Profit Distribution | | | | | | | 148,708,408.37 | -557,526,019.37 | -408,817,611.00 | |
| 1. Appropriations to surplus reserve | | | | | | | 148,708,408.37 | -148,708,408.37 | | |
| 2. Distribution to owners (or shareholders) | | | | | | | | -408,817,611.00 | -408,817,611.00 | |
| 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. Changing amount of defined benefit plan carried forward to retained earnings | | | | | | | | | | |
| 5. Other comprehensive income carried forward to retained earnings | | | | | | | | | | |
| 6. Others | | | | | | | | | | |
| (5) Special reserves | | | | | | | | | | |
| 1. Provided during the period | | | | | | | | | | |
| 2. Used during the period | | | | | | | | | | |
| (6) Other | | | | -4,278,955.20 | | | | | -4,278,955.20 | |
| IV. Closing balance for the period | 1,362,725,370.00 | | | 2,263,036,253.20 | | 6,020,567.73 | 448,041,089.92 | 2,025,242,415.97 | 6,105,065,696.82 | |

Notes to the Financial Statements for 2018

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

1. COMPANY PROFILE

Hisense Home Appliances Group Co., Ltd. (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 longer 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. 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”.

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.

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”).

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. On 10 June 2010, the Company issued 362,048,187 additional A shares to Qingdao Hisense Air-Conditioning under seasoned offering. On 30 June 2010, the registered capital of the Company changed from RMB992,006,563.00 to RMB1,354,054,750.00.

Notes to the Financial Statements for 2018

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

1. COMPANY PROFILE *(continued)*

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.

On 19 June 2015, upon the satisfaction of the conditions to the second 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 4,229,810 new shares issued upon the exercise of options were approved for listing.

On 10 October 2018, the name of the Company changed from Hisense Kelon Electrical Holdings Company Limited to Hisense Home Appliances Group Co., Ltd..

As at 31 December 2018, the total number of shares of the Company was 1,362,725,370 and the registered share capital of the Company was RMB1,362,725,370.00; of which, the shareholding of the Company held by Qingdao Hisense Air-Conditioning was 37.92%.

Scope of operations of the Company:

The Company and its subsidiaries are principally engaged in development and manufacture of household appliances such as refrigerators and air-conditioners, domestic and overseas sales of product, provision of after-sale services and transportation of products.

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 financial statements were approved at the meeting held on 28 March 2019 by the Board of the Company.

In 2018, there were a total of 37 subsidiaries consolidated into the Company, details of which are set out in note 8 "Interests in other entities". The number of subsidiaries of the Company remained unchanged as compared with last year.

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 42 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 15 February 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 for 2018

(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 2018 and the operating results, cash flows and other related information of the Company for the year 2018. 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(26) “Income” for details. For the explanation on significant accounting judgments and estimates made by the management, please refer to note 4(33) “Significant Accounting Judgments and Estimates”.

(1) Accounting period

The Company’s accounting periods are divided into annual and interim periods. An interim period refers to a reporting period less than a full accounting year. The Company adopts a calendar year, being the period from 1 January to 31 December of each year, as its financial year.

(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 or Euro 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 for 2018

(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.

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.

Notes to the Financial Statements for 2018

(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)*

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 Publication 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) “Preparation of consolidated financial statements”. 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(13) “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.

(5) Preparation of consolidated financial statements

1. Criteria for the recognition of scope of consolidated financial statements

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.

Notes to the Financial Statements for 2018

(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*

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.

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(13) "Long term equity investment" or note 4(9) "Financial instrument".

Notes to the Financial Statements for 2018

(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)*

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(13)ii(iv)) “Disposal of long-term equity investment” 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.

(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(13)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

Cash and cash equivalents of the Company include cash on hand, deposits readily available for payment, and highly liquid investments with a short maturity of generally within three months when acquired that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

Notes to the Financial Statements for 2018

(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

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.

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 average 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.

Notes to the Financial Statements for 2018

(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)*

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 average exchange rates for the current period. 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.

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 Company recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of a financial instrument.

1. Classification, recognition and measurement of financial assets

Based on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, the Company will classify its financial assets as: financial assets carried at amortised cost; financial assets at fair value through other comprehensive income; financial assets at fair value through profit or loss.

Financial assets are measured at fair value on initial recognition. The relevant transaction cost of financial assets at fair value through profit or loss is directly included in profit or loss of the current period, and that of other types of financial assets is included in the amount initially recognised. Accounts receivable or notes receivable arising from sales of goods or rendering services, without significant financing component, are initially recognised based on the transaction price expected to be entitled by the Company.

1 Financial assets carried at amortised cost

The financial asset is held by the Company within a business model whose objective is to hold financial assets in order to collect contractual cash flows, the contractual cash flow characteristics of financial assets are consistent with features of a basic lending arrangement, which means the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company subsequently measured such financial assets using the effective interest method. Gains or losses arising from amortisation or impairment are recognised in the profit or loss of the current period.

Notes to the Financial Statements for 2018

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

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

(9) Financial instruments *(continued)*

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

2 Financial assets at fair value through other comprehensive income

The Company's business model for managing such financial assets is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flow characteristics of such financial assets are consistent with the basic lending arrangements. Such financial assets are measured at fair value through other comprehensive income, but impairment losses or gains, exchange gains and losses, and interest income calculated by effective interest method are recognised in the current profit and loss.

In addition, the Company may designate part of the non-trading equity instruments as financial assets at fair value through other comprehensive income. The Company may include relevant dividend income of such financial assets in the current profit and loss, and include changes in fair value in other comprehensive income. Upon the derecognition of such financial assets, the accumulated gains or losses previously included in other comprehensive will be carried forward to retained earnings rather than included in the current profit or loss.

3 Financial assets at fair value through profit or loss

The Company classifies the financial assets which are not financial assets carried at amortised cost and financial assets at fair value through other comprehensive income as financial assets at fair value through profit or loss. In addition, upon initial recognition, the Company designates some financial assets as financial assets at fair value through profit or loss in order to eliminate or significantly reduce the accounting mismatch. The Company will subsequently measure such financial assets at fair value and changes in fair value will be included in the current profit or loss.

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

On initial recognition, financial liabilities are classified as financial liabilities at fair value through profit or loss and other financial liabilities. For financial liabilities at fair value through profit or loss, the related transaction expense is directly recognised in profit or loss for the current period. For other financial liabilities, the related transaction expense is included in the amount of initial recognition.

1 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss, including transactional financial liabilities (with derivative instruments which are financial liabilities), and financial liabilities at fair value through profit or loss on initial recognition.

Transactional financial liabilities (with derivative instruments which are financial liabilities) are subsequently measured at fair value. Except for those involving the hedge accounting, changes in fair value will be included in the current profit or loss.

For financial liabilities designated as financial liabilities at fair value through profit or loss, when such liabilities are arising from the change in fair value of the financial liabilities that are attributable to changes in its own credit risk of the Company and derecognition, their accumulated changing amount of fair value arising from changes in its own credit risk which are included in other comprehensive income will be carried forward to retained earnings. The remaining changes in fair value will be included in the profit or loss. If the handling of such impact of changes in its own credit risk of such financial liabilities would create, or enlarge, an accounting mismatch, in which case the gains or losses (including the amount of the changes in the company's credit risk) will also presented in profit or loss.

Notes to the Financial Statements for 2018

(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 liabilities (continued)*

2 Other financial liabilities

Excluding the financial liabilities and financial guarantee contracts which are formed because transfers of financial assets do not meet the derecognition conditions or continuing involvements in the transferred financial assets are noted, other financial liabilities are classified as financial liabilities measured at amortised cost and subsequently measured at amortised cost. Gains or losses arising from derecognition or amortisation are included in the profit or loss.

3. *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.

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.

Notes to the Financial Statements for 2018

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

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

(9) Financial instruments *(continued)*

4. *Derecognition of financial liabilities*

If the current obligation of the financial liabilities (or a part thereof) have been discharged, the financial liabilities (or part of the financial liabilities) are derecognised. If the Company (as the borrower) and the lender sign an agreement to replace the original financial liabilities with new financial liabilities, and the new financial liabilities are substantially different from the original financial liabilities, the original financial liabilities will be derecognised and new financial liabilities will be recognised. As for substantive changes made to the contract terms (whole or in part) of the original financial liabilities, the original financial liabilities will be derecognised, and financial liabilities after term revision will be recognised as new financial liabilities.

If the financial liabilities (or a part thereof) are derecognised, the difference between the carrying amount and the consideration paid (including the transferred non-cash assets or liabilities assumed) is recognised in profit or loss for the current period.

5. *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 net 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.

6. *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 technique. 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. At the time of valuation, the Company adopts valuation techniques that are applicable in the current circumstances and that are sufficient to support the use of data and other information, and are selected to be consistent with the characteristics of assets or liabilities considered by market participants in transactions in related assets or liabilities. Enter values and use the relevant observable input values as much as possible. Unobservable input values are used where the relevant observable input values are not available or are not practicable.

7. *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 refinancing), repurchase, sale or cancellation of equity instruments is accounted for as the change in equity. Transaction costs related to equity transactions are charged to equity. The Company does not recognise the change in fair value of equity instruments.

For the dividends (including the “interests” arising from the instruments classified as equity instruments) distributed during the term of the Company’s equity instruments, such distribution will be treated as profit distribution.

Notes to the Financial Statements for 2018

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

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

(10) Impairment of financial assets

Financial assets with their impairment loss to be recognised by the Company are financial assets at amortised cost and lease receivable, which include notes receivable, accounts receivable and other receivables, etc.. In addition, the Company shall also make provision for impairment of contract assets and part of the financial guarantee contracts and recognise their credit impairment loss in accordance with the accounting policies as stated in this section.

(1) Recognition method of impairment provision

Based on the expected credit loss, the Company makes impairment provisions for each of the above items with the measurement methods (being general approach or simplified approach) of expected credit loss applicable to them, and recognises their credit impairment loss.

Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Company discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls. In particular, the credit-impaired financial assets purchased or originated by the Company shall discount based on the credit-adjusted effective interest rate of such financial assets.

General approach for measuring expected credit loss means that the Company assesses whether credit risk of financial assets (including other applicable items such as contract assets) has increased significantly since the initial recognition on each balance sheet date. If the credit risk has increased significantly since the initial recognition, the Company measures loss provision based on the amount of expected credit losses for the entire duration of the life; if the credit risk has not increased significantly since the initial recognition, the Company measures the loss provision based on the amount of expected credit loss over the next 12 months. The Company considers all reasonable and evidenced information, including forward-looking information, when assessing expected credit loss.

For financial instruments with lower credit risk on balance sheet date, the Company assumes that their credit risk has not increased significantly since the initial recognition and chooses to measure loss provision based on the expected credit loss within the next 12 months.

(2) Criteria for judging significant increases in credit risk after initial recognition

If a financial asset's probability of default within the expected duration of the life as determined on balance sheet date is significantly higher than its probability of default within the expected duration of the life as determined on initial recognition, this shows that the credit risk of such financial asset is significantly increased. Except for special circumstances, the Company adopts the changes in default risks within the next 12 months as reasonable estimates for changes in default risks within the entire duration of the life, so as to determine whether credit risk is significantly increase or not after initial recognition.

(3) Assessment method of expected credit loss on a group basis

The Company conducts individual assessment on the credit risk of financial assets with obviously different credit risks. For examples, assessment will be conducted on the receivables for which there are disputes, lawsuit or arbitration; the receivables for which there are obvious evidences showing that the debtor is not likely able to perform the repayment obligation, etc.

In addition to financial assets with individually assessed credit risks, the Company divides financial assets into different groups based on common risk characteristics, and assess their credit risks on a group basis.

Notes to the Financial Statements for 2018

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

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

(10) Impairment of financial assets *(continued)*

(4) *Accounting treatment method of impairment of financial assets*

As at the end of the period, the Company calculated the expected credit losses of various types of financial assets. If the expected credit loss is higher than the carrying amount of its current impairment provision, the difference is recognised as the impairment loss; if it is less than the carrying amount of the current impairment provision, the difference is recognised as the impairment gain.

(5) *Determination of credit losses of various types of financial assets*

1 Notes receivable

The Company calculates loss provision of notes receivable based on the amount equivalent to the expected credit loss within the entire duration of the life. Based on the credit risk characteristics of notes receivable, the Company divides them into different groups:

| Item | Basis for determination of groups |
|-----------------------------|--|
| Bank acceptance notes | Acceptor being a bank with less credit risk |
| Commercial acceptance notes | Based on the credit risk of the acceptor (same as accounts receivable) |

2 Accounts receivable and contract assets

For accounts receivable and contract assets which do not contain significant financing components, the Company measures the loss provision based on the amount of expected credit losses equivalent to the entire duration of the life.

For receivables, contract assets and lease receivable which contain significant financing components, the Company always chooses to measure the loss provision based on the amount of expected credit losses equivalent to the entire duration of the life.

In addition to accounts receivable and contract assets with individually assessed credit risks, based on their credit risk characteristics, the Company divides them into different groups:

| Item | Basis for determination of groups |
|----------------------------------|---|
| Ageing analysis | This group is based on the using of ageing of receivables as the credit risk characteristics. |
| Receivables from related parties | This group is based on receivables from related parties |
| Other receivables | This group is based on accounts receivable from special business |

Notes to the Financial Statements for 2018

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

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(10) Impairment of financial assets (continued)

(5) Determination of credit losses of various types of financial assets (continued)

3 Other receivables

Based on whether the credit risk of other receivables is significantly increased or not after initial recognition, the Company measures impairment loss by using the amount of expected credit losses equivalent to the entire duration of the life or within the next 12 months. In addition to other receivables with individually assessed credit risks, based on their credit risk characteristics, the Company divides them into different groups:

| Item | Basis for determination of groups |
|----------------------------------|---|
| Ageing analysis | This group is based on the using of ageing of other receivables as the credit risk characteristics. |
| Receivables from related parties | This group is based on other receivables from related parties |
| Other receivables | This group is based on other receivable from special business |

(11) Contract assets

For outstanding contract consideration to be settled by customers, performance obligations performed by the Company in accordance with the contracts and the right to charge fees from customers which is not unconditional (i.e., depending on the passage of time only), the Company presents such items as contract assets in the balance sheets. The Company presents a net contract asset or a net contract liability under the same contract, while contract assets and contract liabilities under different contracts are not offset.

For the determination and accounting treatment methods of the expected credit loss of contract assets, please see note 4(10) "Impairment of financial assets".

(12) Inventories

1. Classification of inventories

Inventories are classified into: raw materials, work in progress, 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.

Notes to the Financial Statements for 2018

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

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

(12) Inventories *(continued)*

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 sales price less the estimated sales 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.

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.

(13) 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. The long-term equity investment of the Company that is not able to control, jointly control or significantly influence on the investee is recognised as the financial assets at fair value through profit or loss. In particular, if such long-term equity investment is non-transactional, the Company may choose to designate it as the financial assets at fair value through other comprehensive income at the time of initial recognition. The related accounting policies refers to Note IV(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 for 2018

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

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

(13) 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 for 2018

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

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

(13) 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 for 2018

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

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

(13) 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.

(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.

Notes to the Financial Statements for 2018

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

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

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

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

(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.

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.

Notes to the Financial Statements for 2018

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

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

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

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

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

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(22) "Impairment of long-term assets".

(14) 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 property is initially measured at cost. Subsequent expenditures related to an investment property shall be included in cost of investment property only when the economic benefits associated with the asset will likely flow to the Group and its cost can be measured reliably. All other expenditures on investment property shall be included in profit or loss for the current period when incurred.

The Company adopts cost method for subsequent measurement of investment property, which is depreciated or amortised using the same policy as that for buildings and land use rights.

The method for impairment test of investment property and measurement of impairment provision are detailed in note 4(22) "Impairment of long-term assets".

In the event that an owner-occupied property or inventories is converted to an investment property (or vice versa), upon the conversion, the property shall be stated at the carrying amount prior to the conversion.

If an investment property is disposed of or if it withdraws permanently from use and no economic benefit will be obtained from the disposal, the recognition of it as an investment property shall be terminated. When an investment property is sold, transferred, retired or damaged, the amount of proceeds on disposal of the property net of the carrying amount and related tax and surcharges is recognised in profit or loss for the current period.

(15) 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;
- (ii) The cost of the fixed asset can be reliably measured.

Notes to the Financial Statements for 2018

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

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(15) Fixed assets (continued)

2. Depreciation of fixed assets

Fixed assets are depreciated by categories using the straight-line method over their useful life. Depreciations are provided since the following month after 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 |

Estimated net residual value of a fixed asset is the estimated amount that the Company would obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the stage and in the condition expected at the end of its useful life.

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

Please see note 4(22) "Impairment of long-term assets" for recognition of provision for impairment of fixed assets of the Company.

4. Explanation on other matters

Subsequent expenditures incurred for a fixed asset shall be included in the cost of the fixed asset, only if it is probable that economic benefits associated with the asset will flow to the Company and the relevant cost can be measured reliably. Other subsequent expenditures shall be charged to profit or loss when incurred.

Fixed assets are derecognised when there is no economic benefit arising from disposal or expected use or disposal of fixed assets. When a fixed asset is sold, transferred, retired or damaged, the Company shall recognise the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes in profit or loss for the current period.

The Company reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at each year-end. A change in the useful life or estimated net residual value of a fixed asset or the depreciation method used shall be accounted for as a change in accounting estimate.

(16) 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.

Notes to the Financial Statements for 2018

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

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

(16) Construction in progress *(continued)*

3. *Provision for impairment of construction in progress*

Please see note 4(22) "Impairment of long-term assets" for the recognition of provision for impairment on construction in progress.

(17) 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.

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.

Notes to the Financial Statements for 2018

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

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

(17) Borrowing costs *(continued)*

3. Calculation of capitalized borrowing costs *(continued)*

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.

(18) 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.

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.

During the end of the period, the Company shall check the useful life and the amortization method of intangible assets with limited useful life and carry out accounting estimate change in case that a change happens. In addition, the Company shall check the useful life of intangible assets with indefinite useful life, if there are evidences showing that the intangible assets can bring economic benefit for the Company within the foreseeable period, the Company shall estimate the useful life and carry out amortization according to the amortization policy for intangible assets with finite useful life.

(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.

Notes to the Financial Statements for 2018

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

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

(18) Intangible asset *(continued)*

2. *Subsequent measurement of intangible assets (continued)*

- (iv) Impairment of intangible assets

Please see note 4(22) "Impairment of long-term assets" for the recognition of provision for impairment of intangible assets.

(19) 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.

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.

(20) 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.

Notes to the Financial Statements for 2018

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

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

(21) Contract liability

A contract liability represents the Company's obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If the customer has paid the contract consideration or the Company has obtained the unconditional rights to consideration before the Company transfers goods to the customer, the Company will present the amount received or receivable as a contract liability at the time of actual payment by the customer or the due date of the amount to be paid by the customer, which is the earlier. The Company presents a net contract asset or a net contract liability under the same contract, while contract assets and contract liabilities under different contracts are not offset.

(22) Impairment of long-term assets

The Company will judge if there is any indication of impairment as at the balance sheet date in respect of noncurrent non-financial assets such as fixed assets, construction in progress, intangible assets with a finite useful life, investment properties measured at cost, and long-term equity investments in subsidiaries, joint controlled entities and associates. If there is any evidence indicating that an asset may be impaired, recoverable amount shall be estimated for impairment test. Goodwill, intangible assets with an indefinite useful life and intangible assets not ready for use will be tested for impairment annually, regardless of whether there is any indication of impairment.

If the impairment test result shows that the recoverable amount of an asset is less than its carrying amount, the impairment provision will be made according to the difference and recognised as an impairment loss. The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. An asset's fair value is the price in a sale agreement in an arm's length transaction. If there is no sale agreement but the asset is traded in an active market, fair value shall be determined based on the bid price. If there is neither sale agreement nor active market for an asset, fair value shall be based on the best available information. Costs of disposal are expenses attributable to disposal of the asset, including legal fee, relevant tax and surcharges, transportation fee and direct expenses incurred to prepare the asset for its intended sale. The present value of the future cash flows expected to be derived from the asset over the course of continued use and final disposal is determined as the amount discounted using an appropriately selected discount rate. Provisions for assets impairment shall be made and recognised for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Company shall determine the recoverable amount of the asset group to which the asset belongs. The asset group is the smallest group of assets capable of generating cash flows independently.

An impairment loss recognised on the aforesaid assets shall not be reversed in a subsequent period in respect of the restorable value.

Notes to the Financial Statements for 2018

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

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

(23) 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.

(24) Provisions

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

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.

Notes to the Financial Statements for 2018

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

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

(25) 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*

The equity-settled share-based payment in return for employees' services shall be measured based on the fair value of equity instruments granted to the employees on the grant date. If the equity-settled share-based payment cannot be vested until the services are completed in vesting period or until the prescribed performance conditions are met, then within the vesting period, the amount of fair value should, based on the best estimate of the number of vested equity instruments, be included in relevant costs or expenses according to the straight-line method, and the capital reserves should be increased accordingly when the equity instruments can be vested upon grant.

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. The effect of the above estimate is included in relevant costs or expenses for the period and the capital reserve is adjusted accordingly. 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*

When there is changes in the Company's share-based payment plans, if the modification increases the fair value of the equity instruments granted, corresponding recognition of service increases in accordance with the increase in the fair value of the equity instruments. Increase in the fair value of equity instruments refers to the differences between the fair values of the date of modification. If the modification reduces the total fair value of shares paid or is not conducive to the use of other employees' share-based payment plans, it will continue to be accounted for, as if the change had not occurred, unless the Company cancelled some or all of the equity instruments granted.

During the vesting period, if the equity instruments granted are cancelled, the Company would treat the cancelled equity instruments granted as accelerated vesting, and the amount within the remaining period should be recognized immediately in profit or loss while recognizing the capital reverses. If employees or other parties can meet non-vesting conditions but do not meet within the vesting period, the Company will treat it as cancelled equity instruments granted.

Notes to the Financial Statements for 2018

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

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

(26) Revenue

The Company should recognize revenue when the customer acquires control of relevant goods after the contracts between the Company and the customer meeting the following conditions: parties to the contracts have approved such contract and committed that they would perform their respective obligations; the contracts specified the rights and obligations of all parties on the goods transferred or services provided; the contracts have clear payment terms on the goods transferred; the contracts are of commercial nature, namely that the performance of the contracts will change risks, time or amount of the future cash flows of the Company; the consideration entitled to the Company from the transfer of goods to the customer is likely to be withdrawn.

From the effective date of the contract, the Company identifies each individual performance obligations and allocates the transaction price proportionally to each individual performance obligation based on the relative proportion of the individual selling price of the commodities promised by each individual performance obligation. When determining the transaction price, the impact of variable consideration, major financing components in the contract, non-cash consideration, and customer consideration are considered.

For each individual performance obligation in the contract, the Company will recognize the transaction price allocated to the individual performance obligation as revenue in accordance with the performance progress period during the relevant performance period, if one of the following conditions is met: the customer obtains and consumes the economic benefits of the Company's performance as the Company performs it; the customer can control the products under construction in the course of the Company's performance; The goods produced during the performance of the Company have irreplaceable uses and the Company has the right to receive payments for the portion of the performance that has been completed to date. In addition, the performance of the contract is determined by the input method or the output method according to the nature of the transferred goods. When the performance of the contract cannot be reasonably determined, if the expenses incurred by the Company are expected to be compensated, the revenue will be recognized according to the amount of costs incurred until the performance of the contract can be achieved reasonably.

If one of the above conditions is not met, the Company will distribute the transaction price confirmation revenue of the individual performance obligation when the customer obtains control of the relevant commodity. When determining whether the customer has obtained control of the commodity, the Company will consider the following situations: the Company has the current right to collect the payment for the goods, which means that the customer has a current payment obligation for the goods; the Company has transferred the legal title of the item to the customer, which means that the customer has already own the legal title of the item; the Company has transferred the goods in kind to the customer, that is, the customer has possessed the goods in kind; the Company has transferred the main risks and rewards of ownership of the goods to the customer, that is, the customer has obtained the main risks and rewards of ownership of the goods; the customer has accepted the goods. The other indications that the customer has obtained control of the goods.

Notes to the Financial Statements for 2018

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

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

(27) Assets related to contract costs

If the Company expects to recover the incremental cost of the contract, it is recognized as an asset as the contract acquisition cost. However, if the asset amortization period does not exceed one year, such incremental cost is included in the profit or loss of the current period.

The cost incurred from performing a contract is regarded as the contract performance cost and recognized as an asset in the event that such cost is beyond the scope of other accounting standards for business enterprises other than the Accounting Standard for Business Enterprises No. 14 – Revenue (2017 revision) and the following conditions are met: (1) the costs relate directly to an existing contract or to a specifically identifiable anticipated contract, including direct labour, direct materials, allocations of overheads (or similar costs), costs that are explicitly chargeable to the customer and other costs that are incurred only because the Company entered into the contract; (2) the costs generate or enhance resources of the Company that will be used in satisfying performance obligations in the future; and (3) the costs are expected to be recovered.

Assets related to contract costs are amortized on the same basis as the recognition of revenue on commodities related to the asset and are included in the current profit or loss.

The Company recognises an impairment loss in profit or loss to the extent that the carrying amount of an asset related to contract costs exceeds: (1) remaining amount of consideration that the Company expects to receive in exchange for the goods or services to which the asset relates; less (2) the costs that relate directly to transferring those goods or services. The factors of impairment in the previous period have changed, so that if the difference between the above (1) minus (2) is higher than the book value of the asset, it should be transferred back to the original provision for impairment of assets, and included in the current profit or loss, but the reversed book value of the subsequent asset shall not exceed the book value of the asset on the date of reversal, assuming no provision for impairment.

(28) Government grants

Government grants are monetary assets or non-monetary assets transferred from the government to the Company at no consideration, excluding capital considerations from the government as an owner of the Company. Government grants are divided into asset-related government grants and income-related government grants.

Government grants obtained for acquisition or construction of long-term assets or other forms of long-term asset formation are classified as related to assets. Other government grants are classified as related to revenue. If related government documents do not specify the objective of the grants, the grants are classified as related to assets or income as follows: (1) In case a project for which the grants are granted is specified in such documents, the grants are classified as related to assets and income based on the budgeted ratio of the expenditure on asset formation and the expenditure recorded as expenses, where such ratio should be reviewed and, if necessary, changed on each balance sheet date; and (2) in case of general description without specifying any project in such documents, the grants are classified as related to income.

If a government grant is in the form of monetary asset, the item shall be measured at the amount received or receivable. If a government grant is in the form of non-monetary asset, the item shall be measured at fair value. If fair value is not reliably determinable, the item shall be measured at a nominal amount and recognized immediately in profit or loss for the period.

Notes to the Financial Statements for 2018

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

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

(28) Government grants *(continued)*

Government grants are generally recognized when received and measured at the amount actually received, but are measured at the amount likely to be received when there is conclusive evidence at the end of the period that the Company will meet related requirements of such grants and will be able to receive the grants. The government grants so measured should also satisfy the following conditions: (1) the amount of the grants be confirmed with competent authorities in written form or reasonably deduced from related requirements under financial fund management measures officially released without material uncertainties; (2) the grants be given based on financial support projects and fund management policies officially published and voluntarily disclosed by local financial authorities in accordance with the Requirements for Disclosure of Government Information, where such policies should be open to any company satisfying conditions required and not specifically for certain companies; (3) the date of payment be specified in related documents and the payment thereof will be covered by corresponding budget to ensure such grants will be paid on time as specified; (4) pursuant to the specific situation between the Company and such grants, other relevant conditions (if any) should be satisfied.

A government grant related to an asset shall be recognized as deferred income, and included in profit or loss over the useful life of the asset based on reasonable and systemic methods. For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss over the periods in which the related costs or losses are recognised; where the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the current period.

At the same time, if the government grants contain both assets related and income related, the accounting treatment will depend on the different parts of government grants; if it is difficult to distinguish, the whole government grants are classified as the income-related government grants.

The government grants related to daily activities of the Company, depending on the essence of economic business, are recognized in other income or used to offset relevant cost and expenses, otherwise, recognized in non-operating income or non-operating expenses.

For the repayment of a government grant already recognized, if there is any balance of related deferred income, the repayment shall be set-off against the book balance of deferred income, and any excess shall be recognized in profit or loss for the period; if there is other circumstance, the repayment shall be recognized immediately in profit or loss for the period.

(29) 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.

Notes to the Financial Statements for 2018

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

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

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

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.

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.

Notes to the Financial Statements for 2018

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

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

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

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.

(30) 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;
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.

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.

(31) Operating leases

(1) *The Company as lessee under operating leases*

Lease payment for operating lease is recognized as related asset cost or profits and losses for the current period using the straight-line method over the lease term. The initial direct cost is accounted in profit or loss for the current period. Contingent rental is recognized as profit or loss for the current period upon occurrence.

(2) *The Company as lessor under operating leases*

Rental income is recognized in profit or loss for the current period using the straight-line method over the lease term. The initial direct cost where the amount is significant is capitalized when incurred, and accounted for as profit or loss for the current period on the same basis as recognition of rental income over the entire lease period; the initial direct cost where the amount is less significant is included in the profit or loss for the period when incurred. Contingent rental is recognized as profit or loss for the current period upon occurrence.

Notes to the Financial Statements for 2018

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

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

(32) Changes in significant accounting policies and accounting estimates

1. Changes in accounting policies

1 Changes in accounting policies as a result of implementing the New FI Standards

The Ministry of Finance promulgated Accounting Standards for Business Enterprises (“ASBE”) No. 22 — Recognition and Measurement of Financial Instruments (2017 revision) (Cai Kuai [2017] No. 7), ASBE No. 23 — Transfer of Financial Assets (2017 revision) (Cai Kuai [2017] No. 8), ASBE No. 24 — Hedge Accounting (2017 revision) (Cai Kuai [2017] No. 9) respectively on 31 March 2017, and promulgated ASBE No. 37 — Presentation of Financial Instruments (2017 revision) (Cai Kuai [2017] No.14) on 2 May 2017 (collectively referred to as “New FI Standards”), requiring that companies that are dually listed on domestic and foreign stock exchanges and companies that are listed on foreign stock exchanges and adopt International Financial Reporting Standards or Accounting Standards for Business Enterprises apply the New FI Standards when preparing their financial statements since 1 January 2018. The Company has implemented the above New FI Standards in the time as required by the Ministry of Finance.

All recognized financial assets are measured at amortised cost or fair value subsequent to initial recognition under the new financial instrument standards. On the implementation date of the New FI Standards, through assessing the business model of the management on financial assets based on the Company’s existing facts and conditions on that date, and through assessing the features of contract cash flows of the financial assets based on the facts and conditions at the initial recognition of the financial assets, the financial assets are classified into three categories: measured at amortised cost, measured at fair value through other comprehensive income and measured at fair value through profit or loss for the current period. In particular, for equity instruments investment at fair value through other comprehensive income, when such financial assets derecognised, the accumulated gains or losses previously included in other comprehensive income will be carried forward to retained earnings from other comprehensive income, rather than included in the profit or loss.

Under the New FI Standards, based on the expected credit loss, the Company made impairment provision for financial assets at amortised cost, debt investments at fair value through other comprehensive income, rental receivable, contractual assets and financial guarantee contracts, and recognised the provision for credit loss of impairment.

The Company has applied the New FI Standards retroactively. In case of classification and measurement (including impairment) involving inconsistency between the comparative figures in financial statements in prior period and requirements of the New FI Standards, the Company will not make restatement.

Notes to the Financial Statements for 2018

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

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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

1. Changes in accounting policies (continued)

1 Changes in accounting policies as a result of implementing the New FI Standards (continued)

A. Financial instrument classification and book value adjustment table at the first implementation date

| Item | 31 December 2017 (Before Adjustment) | Reclassification | Remeasurement | 1 January 2018 (After Adjustment) |
|---|--|------------------|---------------|--------------------------------------|
| Assets: | | | | |
| Financial assets measured at fair value through profit or loss | 82,670.52 | -82,670.52 | | |
| Transactional financial assets | | 82,670.52 | | 82,670.52 |
| Accounts receivable | 2,833,227,741.68 | | -7,790,219.41 | 2,825,437,522.27 |
| Financial assets available-for-sale | 100,000.00 | -100,000.00 | | |
| Other equity investments | | 100,000.00 | -100,000.00 | |
| Deferred tax assets | 104,404,613.17 | | 434,850.57 | 104,839,463.74 |
| Liabilities: | | | | |
| Financial liabilities measured at fair value through profit or loss | 373,723.35 | -373,723.35 | | |
| Transactional financial liabilities | | 373,723.35 | | 373,723.35 |
| Shareholders' equity: | | | | |
| Other comprehensive income | 13,390,695.59 | | -100,000.00 | 13,290,695.59 |
| Surplus reserves | 478,649,714.91 | | -28,312.50 | 478,621,402.41 |
| Undistributed profit | 2,646,203,617.29 | | -6,953,544.78 | 2,639,250,072.51 |
| Minority interests | 508,066,348.05 | | -373,511.56 | 507,692,836.49 |

B. Adjustment table of the impairment provision of financial assets at the first implementation date

| Measurement category | 31 December 2017 (Before Adjustment) | Reclassification | Remeasurement | 1 January 2018 (After Adjustment) |
|---|--|------------------|---------------|--------------------------------------|
| Impairment provision of Accounts receivable | 144,356,210.53 | | 7,790,219.41 | 152,146,429.94 |

2 Changes in accounting policies as a result of implementing the New Revenue Standard

The Ministry of Finance promulgated ASBE No. 14 — Revenue (2017 revision) (Cai Kuai [2017] No. 22) on 5 July 2017 (hereafter referred to as “New Revenue Standard”). It required that companies that are dually listed on domestic and foreign stock exchanges and companies that are listed on foreign stock exchanges and adopt International Financial Reporting Standards or Accounting Standards for Business Enterprises apply the New FI Standards and the New Revenue Standard when preparing their financial statements since 1 January 2018. The Company has implemented the New Revenue Standard in the time as required by the Ministry of Finance.

To implement the New Revenue Standard, the Company reassessed the recognition, measurement and presentation of major contract revenues. The Company shall adjust the opening (being 1 January 2018) balance of retained earnings and the amount of other related items in the financial statements in accordance with the cumulative effect of the first application of the New Revenue Standard, where the data related to the annual financial statements of 2017 shall not be adjusted.

Notes to the Financial Statements for 2018

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

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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

1. Changes in accounting policies (continued)

- 2 Changes in accounting policies as a result of implementing the New Revenue Standard (continued)

The impact of implementing new revenue standards on the company is as follows:

| The content of change | Item | 1 January 2018 (After change) | 31 December 2017 (Before change) |
|-----------------------|-------------------------|----------------------------------|-------------------------------------|
| Presentation | Contract liability | 791,262,245.11 | |
| Presentation | Advances from customers | | 791,262,245.11 |

2. Changes in accounting estimates

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

(33) 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. Revenue recognition

As stated in note 4(26) "Revenue", the Company makes the following significant accounting judgements and estimates in terms of revenue recognition: identifying customer contracts; estimating the recoverability of the considerations that are entitled to be obtained by transferring goods to customers; identifying the performance obligation in the contract; estimating the variable consideration in the contract and cumulative revenue recognised where it is highly probable that a significant reversal therein will not occur when the relevant uncertainty is resolved; assessing whether there is a significant financing component in the contract; estimating the individual selling price of the individual performance obligation in the contract; determining whether the performance obligation is performed in a certain period of time or at a certain point in time; the determination of the progress of the contract, etc.

The Company makes judgements primarily based on historical experiences and works. Changes in these significant judgements and estimates can have significant impacts on the operating revenues, operating costs, and profit or loss of the current or subsequent periods.

Notes to the Financial Statements for 2018

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

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

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

2. *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.

3. *Impairment of financial assets*

The Company uses the expected credit loss model to assess the impairment of financial assets. The application of the expected credit loss model requires significant judgements and estimations, and all reasonable and evidenced information, including forward-looking information, should be considered. In making such judgements and estimations, the Company infers the expected changes in the debtor’s credit risk based on the historical repayment data in combination with economic policies, macroeconomic indicators, industry risks, external market environment, technical environment and customers’ situation.

4. *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.

5. *Provision for impairment of long term assets*

At the balance sheet date, the Company makes its judgment as to whether there is any evidence indicating potential impairment of non-current assets other than financial assets. Intangible assets with indefinite useful life shall be tested for impairment when there is any indication of impairment in addition to the annual impairment testing. Other non-current assets other than financial assets shall be tested for impairment if there is any evidence indicating that their carrying amount cannot be recovered.

When the carrying amount of an asset or asset groups is higher than the recoverable amount, which is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset, it indicates impairment.

The net amount of the fair value less costs of disposal is determined by making reference to the price in a sale agreement in an arm’s length transaction or the observable market price less the incremental costs directly attributable to such assets disposal.

In projecting the present value of the future cash flows, critical judgments shall be made to the output, selling price and relevant operating costs of such assets (or asset groups) and the discount rate applied in calculating the discount. In estimating the recoverable amount, the Company may adopt all relevant materials including the projections as to the output, selling price and relevant operating costs based on reasonable and supportive assumptions.

Notes to the Financial Statements for 2018

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

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

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

6. *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.

7. *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.

8. *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.

9. *Sales discount*

In recognising revenue from sales of goods, the Company estimates the relevant expenses in accordance with the terms of the sales agreement and deducts the sales discounts provided to customers from the revenue from sales of goods.

10. *Provisions*

Provision for matters including product quality guarantee shall be recognised in terms of contract, current knowledge and historical experience. If the contingent event has formed a practical obligation which probably results in outflow of economic benefits from the Company, a projected liability shall be recognised on the basis of the best estimate of the expenditures to settle relevant practical obligation. Recognition and measurement of the projected liability significantly rely on the management's judgments in consideration of the assessment of factors including relevant risks and uncertainties related to the contingent events.

In particular, the Company makes provisions for after-sales quality maintenance commitments to the customers in respect of sold and repaired goods. In making provisions, the Company considers recent repair experience and data, but recent repair experience may not be able to reflect the future repair situation. Any increase or decrease in such provisions may affect the profit or loss in the future years.

Notes to the Financial Statements for 2018

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

5. TAXATION

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

| Type of taxes | Tax basis | Tax rate |
|---------------------------------------|--|---|
| Value-added tax | Output value-added tax is computed at 16%, 13%, 10%, 6%, 5% and 3% of taxable income. Value-added tax is computed on the difference after deduction of input value-added tax. Input value-added tax is not deductible for value-added tax to which simple collection method is applicable. | 16%, 13%, 10%, 6%, 5%, 3% |
| City maintenance and construction tax | Turnover tax payable | 5%, 7% |
| Education surcharges | Turnover tax payable | 3% |
| Enterprise income tax | Taxable income | 25%/for details, please see the table below |

Note: The overseas subsidiaries of the Company shall pay tax in accordance with local tax laws where they are located.

The rates of value-added tax for the taxable sales or imports of goods of the Company were 17% and 11% respectively. Pursuant to “Notice on adjustment on Value-added Tax Rates” (Cai Shui [2018] No.32), the applicable rates are adjusted to 16% and 10% respectively since 1 May 2018.

Notes on taxpayers subject to different enterprise income tax rates

| Name of tax payer | Income tax rate |
|---|-----------------|
| Guangdong Kelon Mould Co., Ltd. | 15% |
| Hisense (Shandong) Air-Conditioning Co., Ltd. | 15% |
| Qingdao Hisense Mould Co., Ltd. | 15% |
| Hisense (Shandong) Refrigerator Co., Ltd. | 15% |
| Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd. | 15% |
| Hisense (Chengdu) Refrigerator Co., Ltd. | 15% |
| Kelon International Incorporation (KII) | 8.25%/16.5% |
| Pearl River Electric Refrigerator Co., Ltd. | 16.5% |
| Kelon Development Co., Ltd. | 16.5% |
| Hisense Mould (Deutschland) GmbH | 15% |

Notes to the Financial Statements for 2018

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

5. TAXATION (continued)

(2) Tax preferences and approvals

Guangdong Kelon Mould Co., Ltd., a subsidiary of the Company, received the Certificate of Hightech Enterprise (Number: GR201744002498) dated 9 November 2017 which was jointly issued by Guangdong Science and Technology Department, Guangdong Provincial Finance Bureau, Guangdong Provincial Office State Administration of Taxation and Guangdong Provincial Local Taxation Bureau, with an effective period of three years (2017, 2018 and 2019). Pursuant to the tax preference regulation on High-tech Enterprise, this subsidiary is entitled to the preferential enterprise income tax rate of 15% in 2017, 2018 and 2019.

Hisense (Shandong) Air-conditioning Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201737100982) dated 4 December 2017 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 (2017, 2018 and 2019). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2017, 2018 and 2019.

Qingdao Hisense Mould Co., Ltd., a subsidiary of the Company, received the Certificate of Hightech Enterprise (Number: GR201737100218) dated 19 September 2017 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 (2017, 2018 and 2019). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2017, 2018 and 2019.

Hisense (Shandong) Refrigerator Co., Ltd., a subsidiary of the Company, received the Certificate of Hightech Enterprise (Number: GR201737100767) dated 4 December 2017 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 (2017, 2018 and 2019). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2017, 2018 and 2019.

Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201632000323) dated 20 October 2016 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 (2016, 2017 and 2018). According to the relevant tax preference regulation on Hightech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2016, 2017 and 2018.

Hisense (Chengdu) Refrigerator Co., Ltd, a subsidiary of the Company, received a Letter of Chuan Jing Xin Chan Ye Han [2014] No.176 issued by Economic and Information Commission of Sichuan in 7 March 2014. The principle business of Chengdu Refrigerator was recognized as the state incentive items. According to the tax treaty in relation to western development policy, the applicable enterprises income tax for this subsidiary is 15% from 2014 to 2020.

The subsidiaries of the Company which were incorporated in Hong Kong are subject to an enterprise income tax on the estimated assessable profits derived from or arising in Hong Kong at the following rates: (1) for KII: a rate of 8.25% is applied to the part which is not exceeded HK\$2,000,000, while a rate of 16.5% is applied to the part which is exceeded HK\$2,000,000; (2) for other Hong Kong subsidiaries: a rate of 16.5% is applied to all of them (the rates of profit tax for each company in 2017 were 16.5%).

Hisense Mould (Deutschland) GmbH, a subsidiary of the Company in Germany, is entitled to enterprise income tax rate of 15% (the income tax rate in 2017 was 15%) in respect of its taxable profits as stipulated in German law.

(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.

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise specified, opening balances refer to balances as at 1 January 2018, whereas closing balances refer to balances as at 31 December 2018, and the current period refers to 2018, whereas the previous period refers to 2017 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 |
|--|-------------------------|-------------------------|
| Cash on hand | 3,847.53 | 7,953.54 |
| Bank deposits | 1,061,360,215.29 | 952,311,017.12 |
| Other cash at bank and on hand | 2,587,099,546.79 | 2,043,709,224.23 |
| Total | 3,648,463,609.61 | 2,996,028,194.89 |
| Including: Total amount deposited overseas | 26,661,008.13 | 180,063,603.76 |

Notes to cash at bank and on hand:

Other cash at bank and on hand at the end of the period represented mainly security deposit.

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

| Item | Closing balance | Opening balance |
|------------------|-------------------------|-------------------------|
| Security deposit | 2,587,099,546.79 | 2,043,709,224.23 |
| Total | 2,587,099,546.79 | 2,043,709,224.23 |

2. Transactional financial assets

(1) Category

| Item | Closing balance | Opening balance |
|---|-------------------|------------------|
| Financial assets at fair value through profit or loss | 207,350.00 | 82,670.52 |
| Including: Derivative financial assets | 207,350.00 | 82,670.52 |
| Total | 207,350.00 | 82,670.52 |

(2) Notes to transactional financial assets

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 transactional financial assets or liabilities based on the difference between the quoted price of the outstanding forward contracts and the forward rates as at the end of the year.

3. Notes receivable and Accounts receivable

| Item | Closing balance | Opening balance |
|---------------------|-------------------------|-------------------------|
| Notes receivable | 2,971,748,608.75 | 3,517,031,644.77 |
| Accounts receivable | 3,096,454,625.34 | 2,825,437,522.27 |
| Total | 6,068,203,234.09 | 6,342,469,167.04 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Notes receivable and Accounts receivable (continued)

(1) Notes receivable

① Classification of notes receivable

| Category | Closing balance | Opening balance |
|-----------------------------|-------------------------|-------------------------|
| Bank acceptance notes | 2,834,552,582.64 | 3,438,917,579.17 |
| Commercial acceptance notes | 137,196,026.11 | 78,114,065.60 |
| Total | 2,971,748,608.75 | 3,517,031,644.77 |

② Pledged notes receivable as at the end of the year

| Item | Pledged amounts as at the end of the year |
|-----------------------|--|
| Bank acceptance notes | 911,347,559.44 |
| Total | 911,347,559.44 |

③ Notes endorsed as at the end of the year but not due as at the balance sheet date

| Item | Amount derecognized as at the end of the year | Amount not derecognized as at the end of the year |
|-----------------------------|---|---|
| Bank acceptance notes | 3,933,891,235.59 | |
| Commercial acceptance notes | 326,375,547.89 | |
| Total | 4,260,266,783.48 | |

④ As at the end of the year, there were no notes receivable that were reclassified into accounts receivable due to failure of the issuers to settle the notes.

⑤ As shown by provision for bad debts

| Category | Book value | | Provision for bad debts | | Carrying amount |
|---|-------------------------|---------------|-------------------------|---|-------------------------|
| | Amount | % | Amount | % | |
| Separate provision for bad debts for notes receivable | | | | | |
| Provision for bad debts for notes receivable on a group basis | 2,971,748,608.75 | 100.00 | | | 2,971,748,608.75 |
| Including: | | | | | |
| Bank acceptance notes | 2,834,552,582.64 | 95.38 | | | 2,834,552,582.64 |
| Commercial acceptance notes | 137,196,026.11 | 4.62 | | | 137,196,026.11 |
| Total | 2,971,748,608.75 | 100.00 | | | 2,971,748,608.75 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Notes receivable and Accounts receivable (continued)

(1) Notes receivable (continued)

⑤ As shown by provision for bad debts (continued)

(continued)

| Category | Opening balance | | | | Carrying amount |
|--|-------------------------|---------------|-------------------------|---|-------------------------|
| | Book value | | Provision for bad debts | | |
| | Amount | % | Amount | % | |
| Separate provision for bad debt receivables for notes receivable | | | | | |
| Provision for bad debts for notes receivable on a group basis | 3,517,031,644.77 | 100.00 | | | 3,517,031,644.77 |
| Including: | | | | | |
| Bank acceptance notes | 3,438,917,579.17 | 97.78 | | | 3,438,917,579.17 |
| Commercial acceptance notes | 78,114,065.60 | 2.22 | | | 78,114,065.60 |
| Total | 3,517,031,644.77 | 100.00 | | | 3,517,031,644.77 |

A. Among the group, provision for bad debts for Notes receivable by Bank acceptance notes

| Item | Closing balance | | % |
|---|-------------------------|-------------------------|---|
| | Notes receivable | Provision for bad debts | |
| Endorser being the bank with less credit risk | 2,834,552,582.64 | | |
| Total | 2,834,552,582.64 | | |

B. Among the group, provision for bad debts for Notes receivable by Commercial acceptance notes

| Item | Closing balance | | % |
|---|-----------------------|-------------------------|---|
| | Notes receivable | Provision for bad debts | |
| Endorser being the connected person with less credit risk | 137,196,026.11 | | |
| Total | 137,196,026.11 | | |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Notes receivable and Accounts receivable (continued)

(2) Accounts receivable (continued)

① Analysis based on recorded date is as follows

| Aging | Closing balance |
|---|-------------------------|
| Within three months | 2,762,702,194.47 |
| Over three months but within six months | 141,501,772.55 |
| Over six months but within one year | 44,637,494.79 |
| Over one year | 301,022,572.82 |
| Total | 3,249,864,034.63 |

② As shown by method for provision for bad debts

| Category | Closing balance | | | | |
|--|-------------------------|---------------|-------------------------|-------------|-------------------------|
| | Book value | | Provision for bad debts | | Carrying amount |
| | Amount | % | Amount | % | |
| Separate provision for bad debts for accounts receivable | | | | | |
| Provision for bad debts for accounts receivable on a group basis | 3,249,864,034.63 | 100.00 | 153,409,409.29 | 4.72 | 3,096,454,625.34 |
| Including: | | | | | |
| Aging analysis method | 1,197,878,888.43 | 36.86 | 120,987,402.35 | 10.10 | 1,076,891,486.08 |
| Receivables from related parties | 1,562,827,594.94 | 48.09 | | | 1,562,827,594.94 |
| Other amount | 489,157,551.26 | 15.05 | 32,422,006.94 | 6.63 | 456,735,544.32 |
| Total | 3,249,864,034.63 | 100.00 | 153,409,409.29 | 4.72 | 3,096,454,625.34 |

(continued)

| Category | Opening balance | | | | |
|--|-------------------------|---------------|-------------------------|-------------|-------------------------|
| | Book value | | Provision for bad debts | | Carrying amount |
| | Amount | % | Amount | % | |
| Separate provision for bad debts for accounts receivable | | | | | |
| Provision for bad debts for accounts receivable on a group basis | 2,977,583,952.21 | 100.00 | 152,146,429.94 | 5.11 | 2,825,437,522.27 |
| Including: | | | | | |
| Aging analysis method | 1,342,209,878.81 | 45.08 | 127,246,970.51 | 9.48 | 1,214,962,908.30 |
| Receivables from related parties | 1,156,599,476.17 | 38.84 | 62,950.00 | 0.01 | 1,156,536,526.17 |
| Other amount | 478,774,597.23 | 16.08 | 24,836,509.43 | 5.19 | 453,938,087.80 |
| Total | 2,977,583,952.21 | 100.00 | 152,146,429.94 | 5.11 | 2,825,437,522.27 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Notes receivable and Accounts receivable (continued)

(2) Accounts receivable (continued)

② As shown by method for provision for bad debts (continued)

A. Among the group, provision for bad debts for Accounts receivable by aging analysis method:

| Ageing | Closing balance | | % |
|---|-------------------------|-------------------------|--------------|
| | Accounts receivable | Provision for bad debts | |
| Within three months | 1,055,314,400.94 | 2,110,628.82 | 0.20 |
| Over three months but within six months | 22,852,151.57 | 2,285,215.16 | 10.00 |
| Over six months but within one year | 6,241,555.11 | 3,120,777.56 | 50.00 |
| Over one year | 113,470,780.81 | 113,470,780.81 | 100.00 |
| Total | 1,197,878,888.43 | 120,987,402.35 | 10.10 |

Note: This group is based on the aging of Accounts receivable as credit risk characteristic and the provision for bad debts is made based on the expected credit loss of each aging section.

B. Among the group, provision for bad debts for Accounts receivable by receivables from related parties:

| Ageing | Closing balance | | % |
|-----------------|-------------------------|-------------------------|---|
| | Accounts receivable | Provision for bad debts | |
| Within one year | 1,562,827,594.94 | | |
| Total | 1,562,827,594.94 | | |

C. Among the group, provision for bad debts for Accounts receivable by other amount:

| Category | Closing balance | | % |
|--------------|-----------------------|-------------------------|-------------|
| | Accounts receivable | Provision for bad debts | |
| Other amount | 489,157,551.26 | 32,422,006.94 | 6.63 |
| Total | 489,157,551.26 | 32,422,006.94 | 6.63 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Notes receivable and Accounts receivable (continued)

(2) Accounts receivable (continued)

③ Provision for bad debts

| Category | Opening balance | Changes during the year | | | Closing balance |
|----------------------------------|-----------------------|-------------------------|-------------------------|-------------------|-----------------------|
| | | Provision | Recoveries or reversals | Write-off | |
| Aging analysis method | 127,246,970.51 | 2,326,559.66 | 7,830,949.03 | 755,178.79 | 120,987,402.35 |
| Receivables from related parties | 62,950.00 | | 62,950.00 | | |
| Other amount | 24,836,509.43 | 7,585,497.51 | | | 32,422,006.94 |
| Total | 152,146,429.94 | 9,912,057.17 | 7,893,899.03 | 755,178.79 | 153,409,409.29 |

④ Accounts receivable written-off during the year

| Item | Written-off amount |
|---------------------------------|--------------------|
| Accounts receivable written-off | 755,178.79 |

⑤ Top five accounts receivable by closing balance of debtors.

The total top five accounts receivable of the Company by closing balance of debtors amounted to RMB1,911,553,292.00, accounting for 58.82% of the closing balance of account receivable. A provision for bad debts of RMB21,754,477.50 in total was made as at the end of the year.

4. Prepayments

(1) Prepayments presented by ageing as follows

| Ageing | Closing balance | | Opening balance | |
|-----------------|-----------------------|---------------|-----------------------|---------------|
| | Amount | % | Amount | % |
| Within one year | 218,757,240.97 | 97.61 | 238,817,912.89 | 99.68 |
| Over one year | 5,363,497.40 | 2.39 | 777,035.82 | 0.32 |
| Total | 224,120,738.37 | 100.00 | 239,594,948.71 | 100.00 |

The Company had no prepayments of significant amount with ageing of over one year as at the end of the period.

(2) Top five prepayments by supplier based on closing balance

The total top five prepayments of the Company by supplier based on closing balance amounted to RMB117,710,388.07, accounting for 52.52% of total closing balance of prepayments.

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Other receivables

| Item | Closing balance | Opening balance |
|---------------------|-----------------------|-----------------------|
| Interest receivable | 197,325.00 | 151,200.00 |
| Other receivables | 318,729,661.30 | 312,311,091.68 |
| Total | 318,926,986.30 | 312,462,291.68 |

(1) Interest receivable

- ① Classification of interest receivable

| Item | Closing balance | Opening balance |
|----------------|-------------------|-------------------|
| Margin deposit | 197,325.00 | 151,200.00 |
| Total | 197,325.00 | 151,200.00 |

Note: There was no provision for bad debts for interest receivable as at the beginning and end of the year.

(2) Other receivables

- ① Disclosure by aging

| Aging | Book value as at the end of the year |
|---|--------------------------------------|
| Within three months | 141,727,410.04 |
| Over three months but within six months | 5,248,407.05 |
| Over six months but within one year | 1,861,819.15 |
| Over one year | 280,679,956.05 |
| Total | 429,517,592.29 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Other receivables (continued)

(2) Other receivables (continued)

② Classification by nature of the amount

| Nature of the amount | Book value as at the end of the year | Book value as at the beginning of the year |
|----------------------------------|--|--|
| Security deposit | 37,719,922.09 | 44,751,111.88 |
| Refund of tax for exports | 89,444,742.96 | 87,754,444.67 |
| Balance with Greencool Companies | 224,630,200.00 | 224,630,200.00 |
| Other current account | 77,722,727.24 | 65,886,322.41 |
| Total | 429,517,592.29 | 423,022,078.96 |

Including: Current account with Greencool Companies and specific third parties

| Name | Closing balance | | Opening balance | |
|---|-----------------------|----------------------------|-----------------------|----------------------------|
| | Amount | Provision for bad debts | Amount | Provision for bad debts |
| Jinan San Ai Fu Chemical Co., Ltd. ("Jinan San Ai Fu") | 81,600,000.00 | | 81,600,000.00 | |
| 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 | 2,000,000.00 | 2,000,000.00 |
| 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 | 224,630,200.00 | 60,030,000.00 | 224,630,200.00 | 60,030,000.00 |

From October 2001 to July 2005, the Greencool Companies through the third Parties incurred a series of unusual cash inflows and outflows with the Company. The companies are collectively the "specific third party", please see note 11 (6) "The Greencool Companies had a series of transactions or unusual cash inflows and outflows through the following "Specific Third Party Companies" for details.

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Other receivables (continued)

(2) Other receivables (continued)

③ Provision for bad debts

| Provision for bad debts | First stage Expected credit loss in the next 12 months | Second stage Expected credit loss in the lifetime (without credit impairment) | Third stage Expected credit loss in the lifetime (with credit impairment) | Total |
|--|---|---|---|-----------------------|
| Balance as at 1 January 2018 | 16,005,553.44 | 17,801,117.16 | 76,904,316.68 | 110,710,987.28 |
| During the year, the balance of other receivables as at 1 January 2018: | | | | |
| – transferred to second stage | 1,072,672.31 | | | 1,072,672.31 |
| – transferred to third stage | | | | |
| – reversed to second stage | | | | |
| – reversed to first stage | | | | |
| Provision for the year | | 681,940.26 | | 681,940.26 |
| Reversal for the year | 332,991.17 | | | 332,991.17 |
| Written-off for the year | | | | |
| Charge off for the year | 272,005.38 | | | 272,005.38 |
| Other changes | | | | |
| Balance as at 31 December 2018 | 15,400,556.89 | 18,483,057.42 | 76,904,316.68 | 110,787,930.99 |

Note: Except for separate assessment, the Company assessed whether the credit risk of financial instruments since its initial recognition was significantly increased based on the aging, and estimated the expected credit loss of other receivables with ageing of over one year in the lifetime.

④ Provision for bad debts

| Category | Opening balance | Changes during the year | | | Closing balance |
|-------------------------------------|-----------------------|-------------------------|----------------------------|-------------------|-----------------------|
| | | Provision | Recoveries or reversals | Write-off | |
| Individual provision | 60,030,000.00 | | | | 60,030,000.00 |
| Aging analysis method | 36,012,902.90 | 681,940.26 | 221,512.52 | 272,005.38 | 36,201,325.26 |
| Receivables from related parties | 51,998.90 | | 51,998.90 | | |
| Other amount | 14,616,085.48 | | 59,479.75 | | 14,556,605.73 |
| Total | 110,710,987.28 | 681,940.26 | 332,991.17 | 272,005.38 | 110,787,930.99 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Other receivables (continued)

(2) Other receivables (continued)

⑤ Other receivables written-off during the year

| Item | Amount |
|-------------------------------|------------|
| Other receivables written-off | 272,005.38 |

⑥ Top five other receivables by debtor as at the end of the year

| No. | Nature of the amount | Amount | Ageing | Percentage of total other receivables (%) | Provision for bad debts Closing balance |
|--------------|---|-----------------------|---------------------|---|---|
| Top 1 | Current account with Greencool Companies and specific third party | 81,600,000.00 | Over three years | 19.00 | |
| Top 2 | Current account with Greencool Companies and specific third party | 58,030,000.00 | Over three years | 13.51 | 58,030,000.00 |
| Top 3 | Refund of tax for exports | 46,489,486.11 | Within three months | 10.82 | |
| Top 4 | Refund of tax for exports | 42,955,256.85 | Within three months | 10.00 | |
| Top 5 | Current account with Greencool Companies and specific third party | 28,600,000.00 | Over three years | 6.66 | |
| Total | | 257,674,742.96 | - | 59.99 | 58,030,000.00 |

6. Inventories

(1) Classification of inventories

| Item | Book value | Closing balance | |
|-------------------|-------------------------|---------------------------------|-------------------------|
| | | Provision for declines in value | Carrying amount |
| Raw materials | 340,991,232.79 | 31,589,211.92 | 309,402,020.87 |
| Works in progress | 193,523,003.64 | 9,409,103.34 | 184,113,900.30 |
| Finished goods | 2,496,876,656.27 | 34,639,801.73 | 2,462,236,854.54 |
| Total | 3,031,390,892.70 | 75,638,116.99 | 2,955,752,775.71 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Inventories (continued)

(1) Classification of inventories (continued)

Continued from above table

| Item | Opening balance | | |
|-------------------|-------------------------|---------------------------------|-------------------------|
| | Book value | Provision for declines in value | Carrying amount |
| Raw materials | 609,145,133.73 | 31,735,734.13 | 577,409,399.60 |
| Works in progress | 258,956,246.38 | 9,514,899.24 | 249,441,347.14 |
| Finished goods | 2,611,182,335.06 | 40,172,592.73 | 2,571,009,742.33 |
| Total | 3,479,283,715.17 | 81,423,226.10 | 3,397,860,489.07 |

(2) Provision for declines in value of inventories

| Item | Increase for the year | | | Decrease for the year | | Closing balance |
|-------------------|-----------------------|------------------------|--------|--------------------------|--------|----------------------|
| | Opening balance | Provision for the year | Others | Recovered or written-off | Others | |
| Raw materials | 31,735,734.13 | 3,231,642.01 | | 3,378,164.22 | | 31,589,211.92 |
| Works in progress | 9,514,899.24 | 610,594.71 | | 716,390.61 | | 9,409,103.34 |
| Finished goods | 40,172,592.73 | 8,619,815.75 | | 14,152,606.75 | | 34,639,801.73 |
| Total | 81,423,226.10 | 12,462,052.47 | | 18,247,161.58 | | 75,638,116.99 |

(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 and consumption for production |
| Works in progress | | |
| Finished goods | | |

7. Other current assets

| Item | Closing balance | Opening balance |
|--------------------------------|-------------------------|-------------------------|
| Wealth management products | 540,000,000.00 | 1,080,000,000.00 |
| Prepaid tax and tax deductible | 478,614,757.60 | 431,399,110.00 |
| Prepaid expenses | 62,558,196.21 | 39,918,019.32 |
| Total | 1,081,172,953.81 | 1,551,317,129.32 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Long-term equity investments

| Investee | Opening balance | Increase in investment | Decrease in investment | Change for the year | | | | Closing balance | Closing balance of provision for impairment |
|--|-------------------------|------------------------|------------------------|--|---|------------------------|--|-----------------|---|
| | | | | Gains or losses from investment recognised using equity method | Adjustment for other comprehensive income | Other change in equity | Declaration of cash dividend or profit | | |
| I. Joint ventures | | | | | | | | | |
| Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. | 2,125,852,095.55 | | | 750,896,755.51 | | | | | 2,876,748,851.06 |
| Qingdao Hisense Commercial Trading Development Co., Ltd | 1,279,758.52 | 47,756,241.14 | | -1,008,517.92 | | | | | 48,027,481.74 |
| Subtotal | 2,127,131,854.07 | 47,756,241.14 | | 749,888,237.59 | | | | | 2,924,776,332.80 |
| II. Associates | | | | | | | | | |
| Qingdao Hisense Financial Holdings Co., Ltd. | 244,913,770.50 | | | 16,491,283.61 | 260,835.06 | | 2,400,000.00 | | 259,265,889.17 |
| Hisense International Co., Ltd. | 137,585,563.62 | | | 17,413,107.20 | -550,294.68 | -1,565,374.33 | 10,142,200.00 | | 142,740,801.81 |
| Subtotal | 382,499,334.12 | | | 33,904,390.81 | -289,459.62 | -1,565,374.33 | 12,542,200.00 | | 402,006,690.98 |
| III. Others | | | | | | | | | |
| Jiangxi Kelon Combine Electrical Appliances Co., Ltd. | 11,000,000.00 | | | | | | | | 11,000,000.00 |
| Subtotal | 11,000,000.00 | | | | | | | | 11,000,000.00 |
| Total | 2,520,631,188.19 | 47,756,241.14 | | 783,792,628.40 | -289,459.62 | -1,565,374.33 | 12,542,200.00 | | 3,337,783,023.78 |

- Note:
- As Jiangxi Kelon Combine Electrical Appliances Co., Ltd., a subsidiary of the Company, has been declared in liquidation, it has not been included in the consolidated financial statements and impairment has been fully provided for the investment cost.
 - Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. is hereinafter referred to as “Hisense Hitachi”.
 - Qingdao Hisense Financial Holdings Co., Ltd is hereinafter referred to as “Hisense Financial Holdings”.
 - The Company increased the capital of Qingdao Hisense Commercial Trading Development Co., Ltd (formerly known as Qingdao Hisense Electric Business Co., Ltd., hereinafter “Hisense Commercial Trading”). The shareholding of the Company changed from 45% to 50% after capital increase.
 - Hisense International Co., Ltd is hereinafter referred to as “Hisense International”.
 - As at the end of the Reporting Period, all the joint ventures and associates of the Company were unlisted companies.

Including:

| Item | Closing balance | Opening balance |
|-----------------------|-------------------------|-------------------------|
| Unlisted investments: | | |
| Equity method | 3,326,783,023.78 | 2,509,631,188.19 |
| Joint ventures | 2,924,776,332.80 | 2,127,131,854.07 |
| Associates | 402,006,690.98 | 382,499,334.12 |
| Total | 3,326,783,023.78 | 2,509,631,188.19 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Investment properties

(1) Investment properties measured at cost

| Item | Buildings and structures | Land use rights | Construction in progress | Total |
|--|--------------------------|-----------------|--------------------------|---------------|
| I. Original carrying amount | | | | |
| 1. Opening balance | 69,762,765.07 | | | 69,762,765.07 |
| 2. Increase for the year | 128,924.77 | | | 128,924.77 |
| (1) Transferred from construction in progress | 128,924.77 | | | 128,924.77 |
| 3. Decrease for the year | | | | |
| 4. Closing balance | 69,891,689.84 | | | 69,891,689.84 |
| II. Accumulated depreciation and accumulated amortisation | | | | |
| 1. Opening balance | 44,765,326.68 | | | 44,765,326.68 |
| 2. Increase for the year | 2,615,002.11 | | | 2,615,002.11 |
| (1) Provision made or amortisation | 2,615,002.11 | | | 2,615,002.11 |
| 3. Decrease for the year | | | | |
| 4. Closing balance | 47,380,328.79 | | | 47,380,328.79 |
| III. Provision for impairment | | | | |
| 1. Opening balance | | | | |
| 2. Increase for the year | | | | |
| 3. Decrease for the year | | | | |
| 4. Closing balance | | | | |
| IV. Carrying amount | | | | |
| 1. Carrying amount as at the end of the year | 22,511,361.05 | | | 22,511,361.05 |
| 2. Carrying amount as at the beginning of the year | 24,997,438.39 | | | 24,997,438.39 |

(2) Amount of investment properties without ownership certificates and reason

| Item | Carrying amount | Reason for failure to obtain ownership certificates |
|-------------------|-----------------|--|
| Mee King Building | 3,077,484.57 | Due to historical reasons; in the process of application |

(3) Depreciation expenses for 2018 amounted to RMB2,615,002.11, and depreciation expenses for 2017 amounted to RMB2,532,385.39.

(4) As at 31 December 2018, no investment properties were pledged by the Company.

(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 for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Fixed assets

| Item | Closing balance | Opening balance |
|--------------------------|-------------------------|-------------------------|
| Fixed assets | 3,263,102,695.51 | 3,251,808,744.32 |
| Disposal of fixed assets | 829,224.90 | 480,289.23 |
| Total | 3,263,931,920.41 | 3,252,289,033.55 |

(1) Fixed assets

① Particulars of fixed assets

| Item | Buildings and structures | Machinery and equipment | Furniture, fixtures and | | | Total |
|--|--------------------------|-------------------------|-------------------------|----------------|------------------|------------------|
| | | | office equipment | Motor vehicles | Moulds | |
| I. Original carrying amount | | | | | | |
| 1. Opening balance | 2,250,830,368.97 | 3,276,351,791.21 | 438,510,148.18 | 35,463,548.32 | 1,756,173,021.62 | 7,757,328,878.30 |
| 2. Increase for the year | 77,639,349.26 | 266,030,557.57 | 65,496,493.04 | 4,188,746.09 | 245,874,395.40 | 659,229,541.36 |
| (1) Additions | 8,744,857.50 | 123,813,211.19 | 34,198,371.81 | 3,008,720.60 | 180,320,682.39 | 350,085,843.49 |
| (2) Transfer from construction in progress | 68,894,491.76 | 142,217,346.38 | 31,298,121.23 | 1,180,025.49 | 65,553,713.01 | 309,143,697.87 |
| 3. Decrease for the year | 1,108,880.00 | 72,487,734.13 | 17,430,613.58 | 979,709.21 | 92,628,411.30 | 184,635,348.22 |
| (1) Disposal or retirement | 1,108,880.00 | 72,487,734.13 | 17,430,613.58 | 979,709.21 | 92,628,411.30 | 184,635,348.22 |
| 4. Closing balance | 2,327,360,838.23 | 3,469,894,614.65 | 486,576,027.64 | 38,672,585.20 | 1,909,419,005.72 | 8,231,923,071.44 |
| II. Accumulated depreciation | | | | | | |
| 1. Opening balance | 956,577,237.15 | 1,708,221,840.43 | 315,717,815.46 | 23,130,972.73 | 1,351,313,248.58 | 4,354,961,114.35 |
| 2. Increase for the year | 87,776,720.35 | 244,493,042.33 | 47,824,388.00 | 4,470,037.55 | 250,460,439.21 | 635,024,627.44 |
| (1) Provision made | 87,776,720.35 | 244,493,042.33 | 47,824,388.00 | 4,470,037.55 | 250,460,439.21 | 635,024,627.44 |
| 3. Decrease for the year | 619,499.45 | 61,779,007.30 | 13,075,853.94 | 853,476.42 | 87,144,265.60 | 163,472,102.71 |
| (1) Disposal or retirement | 619,499.45 | 61,779,007.30 | 13,075,853.94 | 853,476.42 | 87,144,265.60 | 163,472,102.71 |
| 4. Closing balance | 1,043,734,458.05 | 1,890,935,875.46 | 350,466,349.52 | 26,747,533.86 | 1,514,629,422.19 | 4,826,513,639.08 |
| III. Provision for impairment | | | | | | |
| 1. Opening balance | 13,592,332.05 | 122,391,166.53 | 2,253,538.21 | 318,608.61 | 12,003,374.23 | 150,559,019.63 |
| 2. Increase for the year | | | | | | |
| (1) Provision made | | | | | | |
| 3. Decrease for the year | 415,144.70 | 5,033,681.33 | 687,955.60 | | 2,115,501.15 | 8,252,282.78 |
| (1) Disposal or retirement | 415,144.70 | 5,033,681.33 | 687,955.60 | | 2,115,501.15 | 8,252,282.78 |
| 4. Closing balance | 13,177,187.35 | 117,357,485.20 | 1,565,582.61 | 318,608.61 | 9,887,873.08 | 142,306,736.85 |
| IV. Carrying amount | | | | | | |
| 1. Carrying amount as at the end of the year | 1,270,449,192.83 | 1,461,601,253.99 | 134,544,095.51 | 11,606,442.73 | 384,901,710.45 | 3,263,102,695.51 |
| 2. Carrying amount as at the beginning of the year | 1,280,660,799.77 | 1,445,738,784.25 | 120,538,794.51 | 12,013,966.98 | 392,856,398.81 | 3,251,808,744.32 |

For 2018, the fixed assets transferred from construction in progress amounted to RMB309,143,697.87; for 2017, the fixed assets transferred from construction in progress amounted to RMB285,263,115.09.

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Fixed assets (continued)

(1) Fixed assets (continued)

② Depreciation expenses for 2018 amounted to RMB635,024,627.44, and depreciation expenses for 2017 amounted to RMB672,441,370.57.

③ As at the end of the year, no fixed asset was idle transitorily.

④ As at the end of the year, no fixed asset was held under finance lease.

⑤ The rent out fixed asset under operating lease

| Item | Closing carrying amount |
|--------------------------|-------------------------|
| Buildings and structures | 43,606,704.02 |
| Total | 43,606,704.02 |

⑥ As at the end of the year, no fixed asset was held for sale.

⑦ As at the end of the year, fixed asset which has not obtained the ownership certificate

| Item | Carrying amount | Reason for failure to obtain ownership certificates |
|--------------------------|-----------------|---|
| Buildings and structures | 306,769,029.90 | Achieved scheduled availability and were reclassified as fixed assets, the issuance of ownership certificate is in progress |

⑧ As at the end of the year, no building or structure was pledged.

(2) Disposal of fixed assets

| Item | Closing balance | Opening balance |
|--------------------------|-------------------|-------------------|
| Disposal of fixed assets | 829,224.90 | 480,289.23 |
| Total | 829,224.90 | 480,289.23 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Constructions in progress

| Item | Closing balance | Opening balance |
|--------------------------|----------------------|-----------------------|
| Construction in progress | 84,296,518.04 | 148,361,940.80 |
| Total | 84,296,518.04 | 148,361,940.80 |

(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 |
| MES system | 4,518,221.10 | | 4,518,221.10 | 6,176,994.48 | | 6,176,994.48 |
| Transformation of equipment of Shandong Refrigerator | 6,724,827.56 | | 6,724,827.56 | 4,172,307.77 | | 4,172,307.77 |
| Upgrade and transformation of Shunde Freezer | | | | 33,187,341.21 | | 33,187,341.21 |
| Upgrade and transformation of Shunde Refrigerator | | | | 14,785,159.64 | | 14,785,159.64 |
| Production line of Shangqiu Kelon | 7,770,917.67 | 7,770,917.67 | | 7,770,917.67 | 7,770,917.67 | |
| Transformation of warehouse | 1,654,671.61 | | 1,654,671.61 | | | |
| Technology transformation project of Jiangmen | 8,794,068.32 | | 8,794,068.32 | | | |
| Others | 62,604,729.45 | | 62,604,729.45 | 90,040,137.70 | | 90,040,137.70 |
| Total | 92,067,435.71 | 7,770,917.67 | 84,296,518.04 | 156,132,858.47 | 7,770,917.67 | 148,361,940.80 |

(2) Movements in key constructions in progress

| Name of project | Budget | Opening balance | Increase for the year | Transferred to fixed assets | Other % Decrease | Contribution in budget | Progress | Source of funding | Closing balance |
|--|---------------|-----------------------|-----------------------|-----------------------------|---------------------|------------------------|--------------------|-------------------|----------------------|
| MES system | 25,884,417.52 | 6,176,994.48 | 9,329,473.61 | 5,056,832.71 | 5,931,414.28 | 92.32 | Not completed | Self-funding | 4,518,221.10 |
| Transformation of equipment of Shandong Refrigerator | 25,347,801.59 | 4,172,307.77 | 6,902,944.29 | 4,350,424.50 | | 99.76 | Not completed | Self-funding | 6,724,827.56 |
| Upgrade and transformation of Shunde Freezer | 59,392,776.40 | 33,187,341.21 | 17,436,204.45 | 50,515,426.00 | 108,119.66 | 100.00 | Completed | Self-funding | |
| Upgrade and transformation of Shunde Refrigerator | 14,785,159.64 | 14,785,159.64 | | 14,785,159.64 | | 100.00 | Completed | Self-funding | |
| Production line of Shangqiu Kelon | | 7,770,917.67 | | | | | Pending retirement | Self-funding | 7,770,917.67 |
| Transformation of warehouse | 24,431,034.48 | | 1,654,671.61 | | | 6.77 | Not completed | Self-funding | 1,654,671.61 |
| Technology transformation project of Jiangmen | 12,863,277.75 | | 11,016,290.57 | 2,222,222.25 | | 85.64 | Not completed | Self-funding | 8,794,068.32 |
| Others | | 90,040,137.70 | 205,481,113.58 | 232,213,632.77 | 702,889.06 | | | | 62,604,729.45 |
| Total | | 156,132,858.47 | 251,820,698.11 | 309,143,697.87 | 6,742,423.00 | | | | 92,067,435.71 |

Note: All constructions in progress of the Company were self-financed, without capitalisation of borrowing cost and interest.

(3) As at the end of the year, the Company had made no provision for constructions in progress.

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Intangible assets

(1) Particulars of intangible assets

| Item | Land use rights | Trademarks | Know-how | Others | Total |
|--|-----------------|----------------|---------------|----------------|------------------|
| I. Original carrying amount | | | | | |
| 1. Opening balance | 850,225,738.33 | 524,409,198.95 | 73,100,447.88 | 120,861,260.18 | 1,568,596,645.34 |
| 2. Increase for the year | 7,500,000.00 | | | 26,080,751.21 | 33,580,751.21 |
| (1) Additions | 7,500,000.00 | | | 26,080,751.21 | 33,580,751.21 |
| 3. Decrease for the year | 96,339.91 | | | 3,484,324.22 | 3,580,664.13 |
| (1) Disposal or retirement | 96,339.91 | | | 3,484,324.22 | 3,580,664.13 |
| 4. Closing balance | 857,629,398.42 | 524,409,198.95 | 73,100,447.88 | 143,457,687.17 | 1,598,596,732.42 |
| II. Accumulated amortisation | | | | | |
| 1. Opening balance | 237,662,246.69 | 134,130,255.55 | 71,296,138.61 | 71,482,205.93 | 514,570,846.78 |
| 2. Increase for the year | 17,033,204.09 | | 47,300.09 | 18,128,739.78 | 35,209,243.96 |
| (1) Provision made | 17,033,204.09 | | 47,300.09 | 18,128,739.78 | 35,209,243.96 |
| 3. Decrease for the year | 96,339.91 | | | 2,562,113.17 | 2,658,453.08 |
| (1) Disposal or retirement | 96,339.91 | | | 2,562,113.17 | 2,658,453.08 |
| 4. Closing balance | 254,599,110.87 | 134,130,255.55 | 71,343,438.70 | 87,048,832.54 | 547,121,637.66 |
| III. Provision for impairment | | | | | |
| 1. Opening balance | 50,012,843.19 | 286,061,116.40 | | 1,616,452.75 | 337,690,412.34 |
| 2. Increase for the year | | | | | |
| (1) Provision made | | | | | |
| 3. Decrease for the year | | | | 922,211.05 | 922,211.05 |
| (1) Disposal or retirement | | | | 922,211.05 | 922,211.05 |
| 4. Closing balance | 50,012,843.19 | 286,061,116.40 | | 694,241.70 | 336,768,201.29 |
| IV. Carrying amount | | | | | |
| 1. Carrying amount as at the end of the year | 553,017,444.36 | 104,217,827.00 | 1,757,009.18 | 55,714,612.93 | 714,706,893.47 |
| 2. Carrying amount as at the beginning of the year | 562,550,648.45 | 104,217,827.00 | 1,804,309.27 | 47,762,601.50 | 716,335,386.22 |

(2) Land use rights which certificates of ownership are pending

| Item | Carrying amount | Reason for not completing certificate of ownership |
|-----------------|-----------------|---|
| Land use rights | 7,350,000.00 | Due to the transfer to intangible assets as a result of reaching the scheduled completion, thus the certificate of ownership is pending |

(3) Notes to intangible assets:

- (i) Amortization of intangible assets amounted to RMB35,209,243.96 for 2018, compared to that of RMB34,030,643.63 for 2017.
- (ii) As at the end of the year, no land use rights were pledged.
- (iii) Trademarks were not amortized due to indefinite useful lives, and no provision was made for impairment of trademarks after tested for impairment as at the end of the year.

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Long-term prepaid expenses

| Item | Opening balance | Increase for the year | Amortization for the year | Other deductions | Closing balance | Reason for other deductions |
|----------------------------|---------------------|-----------------------|---------------------------|------------------|----------------------|-----------------------------|
| Long-term prepaid expenses | 3,727,675.38 | 25,949,523.57 | 4,327,436.54 | | 25,349,762.41 | |
| Total | 3,727,675.38 | 25,949,523.57 | 4,327,436.54 | | 25,349,762.41 | |

14. Deferred tax assets/deferred tax liabilities

(1) Breakdown of deferred tax assets

| Item | Closing balance | | Opening balance | |
|------------------------------------|---------------------------------|----------------------|---------------------------------|-----------------------|
| | Deductible temporary difference | Deferred tax assets | Deductible temporary difference | Deferred tax assets |
| Provision for impairment of assets | 111,484,310.22 | 26,510,952.43 | 116,877,313.35 | 27,311,928.01 |
| Accrued expenses | 340,564,327.95 | 53,064,892.60 | 401,527,220.72 | 62,295,335.79 |
| Others | 57,330,654.64 | 13,902,066.32 | 61,560,122.70 | 15,232,199.94 |
| Total | 509,379,292.81 | 93,477,911.35 | 579,964,656.77 | 104,839,463.74 |

(2) Breakdown of deferred tax liabilities

| Item | Closing balance | | Opening balance | |
|--------------------------------|------------------------------|--------------------------|------------------------------|--------------------------|
| | Taxable temporary difference | Deferred tax liabilities | Taxable temporary difference | Deferred tax liabilities |
| Accelerated depreciation | 26,815,802.13 | 4,022,370.32 | 7,498,524.25 | 1,124,778.64 |
| Transactional financial assets | 148,100.00 | 22,215.00 | 82,670.52 | 12,400.58 |
| Total | 26,963,902.13 | 4,044,585.32 | 7,581,194.77 | 1,137,179.22 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Deferred tax assets/deferred tax liabilities (continued)

(3) Breakdown of unrecognized deferred tax assets

| Item | Closing balance | Opening balance |
|---------------------------------|-------------------------|-------------------------|
| Deductible temporary difference | 1,617,489,258.61 | 1,590,975,051.93 |
| Deductible tax loss | 724,387,742.31 | 517,117,141.18 |
| Total | 2,341,877,000.92 | 2,108,092,193.11 |

(4) The deductible tax losses for unrecognized deferred tax assets will expire in following timeframe

| Year | Closing balance | Opening balance | Remark |
|--------------|-----------------------|-----------------------|--------|
| 2018 | | 39,298,092.37 | |
| 2019 | 8,953,494.74 | 8,953,494.74 | |
| 2020 | 43,870,384.16 | 76,582,300.52 | |
| 2021 | 162,073,127.94 | 162,073,127.94 | |
| 2022 | 14,596,962.86 | 15,538,216.45 | |
| 2023 | 119,404,426.86 | | |
| 2024 | | | |
| 2025 | | | |
| 2026 | | 17,838,726.89 | |
| 2027 | 135,746,143.11 | 151,763,949.92 | |
| 2028 | 194,034,068.02 | | |
| Infinite | 45,709,134.62 | 45,069,232.35 | |
| Total | 724,387,742.31 | 517,117,141.18 | |

15. Transactional financial liabilities

| Item | Closing balance | Opening balance |
|---|---------------------|-------------------|
| Transactional financial liabilities | 2,765,900.00 | 373,723.35 |
| Including: Derivative financial liabilities | 2,765,900.00 | 373,723.35 |
| Total | 2,765,900.00 | 373,723.35 |

Note to transactional financial liabilities:

It represented mainly the outstanding forward exchange settlement and sale contracts entered into by the Company and banks, which were recognized as the transactional financial assets or liabilities based on the difference between the quoted price of the outstanding forward contracts and the forward rates as at the end of the year.

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Notes payable and Accounts payable

| Category | Closing balance | Opening balance |
|------------------|-------------------------|--------------------------|
| Notes payable | 5,442,369,087.15 | 6,141,025,710.22 |
| Accounts payable | 4,373,335,213.48 | 4,238,836,841.44 |
| Total | 9,815,704,300.63 | 10,379,862,551.66 |

(1) Notes payable

| Category | Closing balance | Opening balance |
|-----------------------------|-------------------------|-------------------------|
| Bank acceptance notes | 3,348,110,396.41 | 3,168,085,830.99 |
| Commercial acceptance notes | 2,094,258,690.74 | 2,972,939,879.23 |
| Total | 5,442,369,087.15 | 6,141,025,710.22 |

Note: There were no outstanding notes payable due as at the end of the year.

(2) Accounts payable

Ageing analysis of accounts payable based on the date of recognition is as follows:

| Ageing | Closing balance | Opening balance |
|-----------------|-------------------------|-------------------------|
| Within one year | 4,259,455,773.64 | 4,127,751,339.22 |
| Over one year | 113,879,439.84 | 111,085,502.22 |
| Total | 4,373,335,213.48 | 4,238,836,841.44 |

(3) As at 31 December 2018, accounts payable with ageing of over one year amounted to RMB113,879,439.84 (31 December 2017: RMB111,085,502.22), which represented mainly raw material payable and was not settled yet.

17. 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 | 320,237,042.98 | 2,956,685,150.07 | 2,950,237,550.89 | 326,684,642.16 |
| 2. Post-employment benefits – defined contribution plans | 3,182,572.41 | 213,813,725.74 | 214,880,833.12 | 2,115,465.03 |
| 3. Termination benefits | | 4,069,664.39 | 4,069,664.39 | |
| Total | 323,419,615.39 | 3,174,568,540.20 | 3,169,188,048.40 | 328,800,107.19 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. 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 | 312,555,109.93 | 2,579,767,635.55 | 2,573,148,672.80 | 319,174,072.68 |
| 2. Staff welfare | 2,809,366.39 | 154,312,208.14 | 153,255,709.14 | 3,865,865.39 |
| 3. Social insurance | 1,018,562.68 | 117,864,164.62 | 118,147,708.27 | 735,019.03 |
| Including: Medical insurance | 740,786.46 | 99,210,705.59 | 99,465,292.32 | 486,199.73 |
| Work-related injury insurance | 212,558.08 | 6,758,201.89 | 6,807,617.00 | 163,142.97 |
| Maternity insurance | 65,218.14 | 11,895,257.14 | 11,874,798.95 | 85,676.33 |
| 4. Housing provident funds | 1,184,902.89 | 85,951,823.98 | 86,358,948.34 | 777,778.53 |
| 5. Labour union funds and employee education funds | 2,669,101.09 | 18,789,317.78 | 19,326,512.34 | 2,131,906.53 |
| Total | 320,237,042.98 | 2,956,685,150.07 | 2,950,237,550.89 | 326,684,642.16 |

(3) Defined contribution plans are as follows

| Item | Opening balance | Increase for the year | Decrease for the year | Closing balance |
|----------------------------|---------------------|-----------------------|-----------------------|---------------------|
| 1. Basic pension insurance | 2,527,968.49 | 206,113,531.85 | 207,257,224.98 | 1,384,275.36 |
| 2. Unemployment insurance | 654,603.92 | 7,700,193.89 | 7,623,608.14 | 731,189.67 |
| Total | 3,182,572.41 | 213,813,725.74 | 214,880,833.12 | 2,115,465.03 |

Note 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.

18. Taxes payable

| Item | Closing balance | Opening balance |
|---------------------------------------|-----------------------|-----------------------|
| Value-added tax | 101,309,697.64 | 81,072,908.93 |
| Enterprise income tax | 60,061,568.67 | 96,643,432.48 |
| Individual Income Tax | 2,538,157.23 | 5,347,376.88 |
| City maintenance and construction tax | 7,371,309.05 | 7,975,848.05 |
| Real estate tax | 7,113,980.39 | 9,959,715.41 |
| Land use tax | 6,593,369.74 | 7,536,241.24 |
| Educational surcharges | 5,280,889.58 | 5,716,255.91 |
| Others | 40,406,914.23 | 51,311,762.96 |
| Total | 230,675,886.53 | 265,563,541.86 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Other payables

| Item | Closing balance | Opening balance |
|---------------|-------------------------|-------------------------|
| Other payable | 1,766,319,446.79 | 1,709,226,096.76 |
| Total | 1,766,319,446.79 | 1,709,226,096.76 |

(1) Other payables by nature

| Item | Closing balance | Opening balance |
|---|-------------------------|-------------------------|
| Current account | 1,255,876,333.80 | 1,255,703,007.32 |
| Deposit and margin | 355,959,708.60 | 335,897,718.01 |
| Payment for project and equipment | 123,716,979.36 | 86,858,946.40 |
| Amount payable to Greencool Companies and specific third party | 30,766,425.03 | 30,766,425.03 |
| Total | 1,766,319,446.79 | 1,709,226,096.76 |

(2) Significant other payables with ageing of over 1 year

| Name | Closing balance | Reason for unsettlement or carrying forward |
|-------------------|-----------------|---|
| Zhuhai Longjia | 17,766,425.03 | Current account with specific third party |
| Jiangxi Greencool | 13,000,000.00 | Balance with Greencool Companies |

20. Contract liability

(1) Contract liability

| Item | Closing balance | Opening balance |
|------------------|-----------------------|-----------------------|
| Advance payments | 716,041,073.75 | 791,262,245.11 |
| Total | 716,041,073.75 | 791,262,245.11 |

Note: As at 31 December 2018, the contract liability was advance payments and were not recognized as revenue as the relevant products had not been sold. The contract liability with ageing of over one year amounted to RMB59,027,314.88 (as at 31 December 2017: RMB48,520,918.92).

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. Other current liabilities

| Item | Closing balance | Opening balance | Reasons for the balance |
|-------------------|-----------------------|-----------------------|---|
| Installation fees | 337,119,912.36 | 345,046,680.30 | Installation fee provided for but not yet paid in respect of goods sold |
| Sales discounts | 142,382,652.93 | 112,056,773.38 | Incurred but not yet settled |
| Others | 166,676,349.64 | 182,244,126.72 | Incurred but not yet settled |
| Total | 646,178,914.93 | 639,347,580.40 | |

22. Provisions

| Item | Closing balance | Opening balance |
|--------------------------|-----------------------|-----------------------|
| Pending litigation | 7,503,856.34 | 5,795,550.00 |
| Provision for warranties | 298,263,680.66 | 307,505,595.64 |
| Others | 23,790,000.00 | 23,790,000.00 |
| Total | 329,557,537.00 | 337,091,145.64 |

23. Deferred income

| Item | Closing balance | Opening balance |
|-----------------|----------------------|----------------------|
| Deferred income | 98,410,309.53 | 73,013,121.41 |
| Total | 98,410,309.53 | 73,013,121.41 |

| Item | Opening balance | Increase for the year | Decrease for the year | Closing balance | Reason for occurrence |
|-------------------|----------------------|-----------------------|-----------------------|----------------------|-----------------------------------|
| Government grants | 73,013,121.41 | 45,802,285.10 | 20,405,096.98 | 98,410,309.53 | Amortization of government grants |
| Total | 73,013,121.41 | 45,802,285.10 | 20,405,096.98 | 98,410,309.53 | - |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. Deferred income (continued)

Of which, items relating to government grants:

| Liabilities | Opening balance | New grants received during the year | Amount included in other income during the year | Other changes | Closing balance | Related to assets/revenue |
|---|----------------------|-------------------------------------|---|---------------|----------------------|---------------------------|
| State debenture projects for technical advancement and industry upgrade | 21,450,000.00 | | | | 21,450,000.00 | Related to assets |
| Technology reform project for design and production of high-precision smart moulds | 1,306,666.67 | | 280,000.00 | | 1,026,666.67 | Related to assets |
| Production technology reform project for energy-saving household SBS large-size refrigerator | 112,500.00 | | 112,500.00 | | | Related to assets |
| Transformation project on system integration technology of green supply chain of freezers | 11,520,000.00 | | | | 11,520,000.00 | Related to assets |
| The invested guidance fund within the budget of central government for development of national service industry for 2018 (2018年中央預算內投資國家服務業發展引導資金) | | 5,300,000.00 | 265,000.00 | | 5,035,000.00 | Related to assets |
| Others | 38,623,954.74 | 40,502,285.10 | 19,747,596.98 | | 59,378,642.86 | Related to assets |
| Total | 73,013,121.41 | 45,802,285.10 | 20,405,096.98 | | 98,410,309.53 | |

24. Share capital

| Categories of shares | Opening balance | Change for the year (+,-) | | | | Subtotal | Closing balance |
|--|-------------------------|---------------------------|-------------|-------------------------|--------|----------|-------------------------|
| | | Issue of new shares | Bonus issue | Conversion from reserve | Others | | |
| Restricted floating shares | | | | | | | |
| subject to terms of lock-up | 1,100,497.00 | | | | | | 1,100,497.00 |
| Including: Other domestic shares | 1,100,497.00 | | | | | | 1,100,497.00 |
| Including: Shares held by domestic natural persons | 1,100,497.00 | | | | | | 1,100,497.00 |
| Unrestricted floating shares not subject to terms of lock-up | 1,361,624,873.00 | | | | | | 1,361,624,873.00 |
| Including: RMB ordinary shares | 902,035,065.00 | | | | | | 902,035,065.00 |
| Overseas listed foreign shares | 459,589,808.00 | | | | | | 459,589,808.00 |
| Total number of shares | 1,362,725,370.00 | | | | | | 1,362,725,370.00 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. Capital reserve

(1) Changes in capital reserve

| Item | Opening balance | Increase for the year | Decrease for the year | Closing balance |
|-----------------------|-------------------------|-----------------------|-----------------------|-------------------------|
| Share premium | 1,974,061,180.93 | | 81,250.81 | 1,973,979,930.12 |
| Other capital reserve | 104,058,658.77 | | 1,565,374.33 | 102,493,284.44 |
| Total | 2,078,119,839.70 | | 1,646,625.14 | 2,076,473,214.56 |

(2) Notes to change in capital reserve:

The decrease in other capital reserve during the year was mainly due to the changes in other interests of Hisense International.

26. Other comprehensive income

| Item | Opening balance | Amount incurred in the year | | | | | 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 | Attributable to minority interest after tax | |
| 1. Other comprehensive income that would not be reclassified subsequently to profit or loss | -100,000.00 | | | | | | -100,000.00 |
| Including: Changes in the fair value of other equity instruments investment | -100,000.00 | | | | | | -100,000.00 |
| 2. Other comprehensive income that would be reclassified subsequently to profit or loss | 13,390,695.59 | 3,618,965.46 | | | 3,605,594.90 | 13,370.56 | 16,996,290.49 |
| Including: Share of other comprehensive income of investee that would be reclassified into profit or loss under equity method | 6,020,567.73 | -289,459.62 | | | -289,459.62 | | 5,731,108.11 |
| Difference arising from translation of financial statements presented in foreign currency | 7,370,127.86 | 3,908,425.08 | | | 3,895,054.52 | 13,370.56 | 11,265,182.38 |
| Total other comprehensive income | 13,290,695.59 | 3,618,965.46 | | | 3,605,594.90 | 13,370.56 | 16,896,290.49 |

27. Surplus reserve

| Item | Opening balance | Increase for the year | Decrease for the year | Closing balance |
|---------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Statutory surplus reserve | 478,621,402.41 | 77,651,506.75 | | 556,272,909.16 |
| Total | 478,621,402.41 | 77,651,506.75 | | 556,272,909.16 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. Undistributed profits

| Item | Amount for the year | Amount for previous year |
|--|---------------------|--------------------------|
| Undistributed profits at the end of the previous year before adjustment | 2,525,976,933.34 | 1,083,914,592.96 |
| Adjustment for total undistributed profits as at the beginning of the year (+ for increase and-for decrease) | 113,273,139.17 | 101,702,108.06 |
| Undistributed profits as at the beginning of the year after adjustment | 2,639,250,072.51 | 1,185,616,701.02 |
| Add: Net profits attributable to the shareholders of the parent in current year | 1,377,457,177.70 | 2,018,112,935.64 |
| Less: Appropriation of statutory surplus reserve | 77,651,506.75 | 148,708,408.37 |
| Dividends payable on ordinary shares | 599,599,162.80 | 408,817,611.00 |
| Undistributed profits at the end of the year | 3,339,456,580.66 | 2,646,203,617.29 |

29. Operating revenue and operating costs

(1) Operating revenue and operating costs

| Item | Amount for the year | Amount for previous year |
|-----------------------------------|--------------------------|--------------------------|
| Revenue from principal operations | 32,791,068,580.61 | 30,430,053,508.06 |
| Revenue from other operations | 3,228,529,724.18 | 3,057,536,879.39 |
| Total operating revenue | 36,019,598,304.79 | 33,487,590,387.45 |
| Costs of principal operations | 26,084,829,925.12 | 24,038,279,128.40 |
| Costs of other operations | 3,086,694,834.88 | 2,931,551,824.93 |
| Total operating costs | 29,171,524,760.00 | 26,969,830,953.33 |

(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 | 16,072,977,215.28 | 12,742,548,502.69 | 14,110,925,211.40 | 11,366,758,054.95 |
| 2. Air-conditioners | 14,891,475,954.73 | 11,852,793,724.90 | 14,587,570,871.00 | 11,283,422,898.42 |
| 3. Others | 1,826,615,410.60 | 1,489,487,697.53 | 1,731,557,425.66 | 1,388,098,175.03 |
| Total | 32,791,068,580.61 | 26,084,829,925.12 | 30,430,053,508.06 | 24,038,279,128.40 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. 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 | 22,039,246,655.83 | 16,065,246,541.47 | 20,575,313,709.67 | 14,880,565,691.25 |
| Overseas | 10,751,821,924.78 | 10,019,583,383.65 | 9,854,739,798.39 | 9,157,713,437.15 |
| Total | 32,791,068,580.61 | 26,084,829,925.12 | 30,430,053,508.06 | 24,038,279,128.40 |

(4) Operating revenue from the top five customers of the Company

The percentage of top five customers of the Company to the total revenue from principal operation for the year is 47.39%, of which, the percentage of top one customer is 20.26%.

30. Tax and surcharges

| Item | Amount for the year | Amount for previous year |
|---------------------------------------|-----------------------|--------------------------|
| City maintenance and construction tax | 74,154,235.89 | 74,163,495.07 |
| Education surcharges | 53,828,463.75 | 53,913,808.24 |
| Real estate tax | 25,124,444.04 | 26,174,438.29 |
| Land use tax | 14,649,621.98 | 15,801,748.27 |
| Others | 143,880,625.21 | 155,247,680.64 |
| Total | 311,637,390.87 | 325,301,170.51 |

Note: For details of the standard charge rate of various taxes and surcharges, please see note 5 "Taxation".

31. Sales expenses

| Item | Amount for the year | Amount for previous year |
|----------------|-------------------------|--------------------------|
| Sales expenses | 5,005,944,320.73 | 4,771,756,662.02 |
| Total | 5,005,944,320.73 | 4,771,756,662.02 |

32. Management expenses

| Item | Amount for the year | Amount for previous year |
|---------------------|-----------------------|--------------------------|
| Management expenses | 425,693,468.96 | 426,240,869.34 |
| Total | 425,693,468.96 | 426,240,869.34 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. Research and development expenses

| Item | Amount for the year | Amount for previous year |
|-----------------------------------|------------------------|-----------------------------|
| Research and development expenses | 686,772,325.33 | 618,493,863.77 |
| Total | 686,772,325.33 | 618,493,863.77 |

34. Financial expenses

| Item | Amount for the year | Amount for previous year |
|------------------------|------------------------|-----------------------------|
| Interest expenses* | 3,987,499.99 | |
| Less: Interest incomes | 36,481,903.61 | 28,856,412.64 |
| Exchange gain or loss | 1,324,681.18 | 32,092,103.57 |
| Others | 65,780,297.86 | 6,541,902.83 |
| Total | 34,610,575.42 | 9,777,593.76 |

* Interest expenses for 2018 were wholly interests on bank borrowings of which the last term of repayment is within five years.

35. Impairment losses on assets

| Item | Amount for the year | Amount for previous year |
|------------------------------------|------------------------|-----------------------------|
| 1. Bad debt loss | – | 25,807,453.99 |
| 2. Decline in value of inventories | 2,550,168.03 | 8,748,070.36 |
| 3. Impairment loss on fixed assets | | 3,488,843.91 |
| Total | 2,550,168.03 | 38,044,368.26 |

36. Impairment loss on credit

| Item | Amount for the year | Amount for previous year |
|--|------------------------|-----------------------------|
| Loss of bad debts of Notes receivable and Accounts receivable | 2,018,158.14 | |
| Loss of bad debts of other receivables | 348,949.09 | |
| Total | 2,367,107.23 | |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. Other gain

| Item | Amount for the year | Amount for previous year | Included in the amount of non- recurring profit and loss of that year |
|---|------------------------|-----------------------------|--|
| Immediate refund of value-added tax | 133,437,668.48 | 89,375,758.70 | |
| Other government grants related to daily operation | 169,165,358.97 | 36,107,661.50 | 169,165,358.97 |
| Total | 302,603,027.45 | 125,483,420.20 | 169,165,358.97 |

38. Investment gain

| Item | Amount for the year | Amount for previous year |
|---|------------------------|-----------------------------|
| Gain from long-term equity investment by the equity method | 783,792,628.40 | 769,755,573.15 |
| Gain from disposal of long-term equity investment | | 789,851,622.56 |
| Gain from disposal of financial assets measured at fair value whose change is included in the current profit and loss | -3,208,253.46 | -2,554,083.63 |
| Gain from investment in wealth management products | 48,100,716.69 | 25,927,396.48 |
| Total | 828,685,091.63 | 1,582,980,508.56 |

Gain from long-term equity investments by the equity method

| Item | Amount for the year | Amount for previous year |
|----------------------------|------------------------|-----------------------------|
| Hisense Hitachi | 750,896,755.51 | 732,001,382.03 |
| Hisense Financial Holdings | 16,491,283.61 | 4,913,770.50 |
| Hisense Commercial Trading | -1,008,517.92 | -970,241.48 |
| Hisense International | 17,413,107.20 | 33,810,662.10 |
| Total | 783,792,628.40 | 769,755,573.15 |

Note: The gains from equity investment under the equity method of the Company for the current period were all generated from non-listed investments.

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 |
|---|------------------------|-----------------------------|
| Transactional financial assets | 124,679.48 | -9,612,399.52 |
| Including: Gain from changes in fair value of derivative financial instruments | 124,679.48 | -9,612,399.52 |
| Transactional financial liabilities | -2,392,176.65 | -373,723.35 |
| Including: Gain from changes in fair value of derivative financial instruments | -2,392,176.65 | -373,723.35 |
| Total | -2,267,497.17 | -9,986,122.87 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. Gains on disposal of assets

| Item | Amount for the year | Amount for previous year | Amount included in non-recurring profit or loss of the current year |
|---|---------------------|--------------------------|---|
| Gains on disposal of non-current assets (loss expressed with “-”) | 1,210,083.22 | 4,136,179.65 | 1,210,083.22 |
| Including: Gains on disposal of fixed assets (loss expressed with “-”) | 1,210,083.22 | 4,136,179.65 | 1,210,083.22 |
| Total | 1,210,083.22 | 4,136,179.65 | 1,210,083.22 |

41. Non-operating income

| Item | Amount for the year | Amount for previous year | Amount included in non-recurring profit or loss of the current year |
|--|----------------------|--------------------------|---|
| Gain from scrapping of non-current assets | 2,688,023.83 | 2,077,154.44 | 2,688,023.83 |
| Including: Fixed assets | 2,688,023.83 | 2,077,154.44 | 2,688,023.83 |
| Government grants not related to daily operation of the enterprise | 44,134,499.07 | 115,131,935.89 | 44,134,499.07 |
| Others | 27,197,556.85 | 120,483,606.80 | 27,197,556.85 |
| Total | 74,020,079.75 | 237,692,697.13 | 74,020,079.75 |

Government grants recognized in the profits or losses:

| Item | Amount for the year | | Amount for previous year | | Related to assets/revenue |
|---|----------------------------------|--------------------------|----------------------------------|--------------------------|---------------------------|
| | Included in non-operating income | Included in other income | included in non-operating income | Included in other income | |
| Immediate refund of value-added tax | | 133,437,668.48 | | 89,375,758.70 | Related to revenue |
| Financial support funds jointly built by the Pearl River Delta and the Guangdong-Northwest Industry Design, manufacturing and technical transformation project of high-precision intelligent mold | | 100,000,000.00 | | | Related to revenue |
| Energy-saving household SBS large refrigerator production technology transformation project | | 280,000.00 | | 280,000.00 | Related to assets |
| The invested guidance fund within the budget of central government for development of national service industry for 2018 | | 112,500.00 | | 450,000.00 | Related to assets |
| Other government grants related to assets | | 265,000.00 | | | Related to assets |
| Other government grants related to daily operation | | 19,747,596.98 | | 8,529,492.71 | Related to assets |
| Government grants not related to daily operation | 44,134,499.07 | | 115,131,935.89 | | Related to revenue |
| Total | 44,134,499.07 | 302,603,027.45 | 115,131,935.89 | 125,483,420.20 | |

Notes to the Financial Statements for 2018

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

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

42. Non-operating expenses

| Item | Amount for the year | Amount for previous year | Amount included in non-recurring profit or loss of the current year |
|---|------------------------|-----------------------------|--|
| Loss on scrapping of non-current assets | 4,511,875.63 | 8,330,147.77 | 4,511,875.63 |
| Including: Fixed assets | 4,511,875.63 | 8,330,147.77 | 4,511,875.63 |
| Others | 13,331,229.01 | 7,247,204.65 | 13,331,229.01 |
| Total | 17,843,104.64 | 15,577,352.42 | 17,843,104.64 |

43. Income tax expense

(1) *Income tax expense statement*

| Item | Amount for the year | Amount for previous year |
|--------------------------------------|------------------------|-----------------------------|
| Current income tax expenses | 127,562,534.28 | 187,778,829.75 |
| Including: PRC Enterprise income tax | 127,528,410.13 | 177,445,449.35 |
| Hong Kong profit tax | 34,124.15 | 10,333,380.40 |
| Deferred income tax expenses | 14,268,958.49 | -6,711,708.30 |
| Total | 141,831,492.77 | 181,067,121.45 |

(2) *Reconciliation of accounting profit and income tax expenses is as follows:*

| Item | Amount for the year |
|--|------------------------|
| Total profits | 1,564,905,868.46 |
| Income tax expense calculated at statutory (or applicable) tax rates | 391,226,467.12 |
| Effect of application of different tax rate to certain subsidiaries | -27,529,340.36 |
| Adjustment to income tax in previous year | 3,059,594.96 |
| Effect of non-taxable income | -193,467,772.44 |
| Effect of non-deductible cost, expense and loss | 2,035,514.47 |
| Effect of utilization of deductible losses unrecognized as deferred tax assets in previous period | -20,130,881.28 |
| Effect of deductible temporary difference or deductible loss unrecognized as deferred tax assets in current period | 43,301,712.84 |
| Changes in opening balance of deferred tax assets/liabilities arising from changes in tax rate | |
| Effect of super deduction of research and development expense | -56,663,802.54 |
| Others | |
| Income tax expense | 141,831,492.77 |

Notes to the Financial Statements for 2018

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

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

44. 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 | 1,377,457,177.70 | 2,018,112,935.64 |
| Non-recurring profit and loss attributable to ordinary shareholders of the Company during the reporting period | F | 216,374,590.77 | 984,723,118.52 |
| Net profits after non-recurring profit and loss attributable to ordinary shareholders of the Company during the reporting period | P2=P1-F | 1,161,082,586.93 | 1,033,389,817.12 |
| 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 | 1,362,725,370.00 | 1,362,725,370.00 |
| 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 | 1,362,725,370.00 | 1,362,725,370.00 |
| Basic earnings per share attributable to ordinary shareholders of the Company | Y1=P1/S | 1.01 | 1.48 |
| Basic earnings per share attributable to ordinary shareholders of the Company after non-recurring profit and loss | Y2=P2/S | 0.85 | 0.76 |
| Diluted earnings per share attributable to ordinary shareholders of the Company | Y3=(P1+P3)/X2 | 1.01 | 1.48 |
| Diluted earnings per share attributable to ordinary shareholders of the Company after non-recurring profit and loss | Y4=(P2+P4)/X2 | 0.85 | 0.76 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

45. Other comprehensive income

Please see note 6(26) Other comprehensive income for details.

46. Notes to cash flows statement

(1) Other cash receipt related to operating activities

| Item | Amount for the year | Amount for previous year |
|-------------------|------------------------|-----------------------------|
| Interest incomes | 36,708,927.30 | 28,705,212.64 |
| Government grants | 211,550,000.52 | 118,635,200.01 |
| Others | 535,312,899.38 | 447,705,963.84 |
| Total | 783,571,827.20 | 595,046,376.49 |

(2) Other cash payment related to operating activities

| Item | Amount for the year | Amount for previous year |
|--|-------------------------|-----------------------------|
| Cash payments for management expenses | 368,248,903.85 | 503,518,169.52 |
| Cash payments for sales expenses | 2,756,533,952.54 | 3,042,806,184.71 |
| Bank charges | 25,411,344.36 | 27,664,434.48 |
| Others | 995,096,145.77 | 886,634,321.82 |
| Total | 4,145,290,346.52 | 4,460,623,110.53 |

(3) Other cash receipt related to investing activities

| Item | Amount for the year | Amount for previous year |
|--|-------------------------|-----------------------------|
| Disposal of wealth management products upon maturity | 2,810,000,000.00 | 3,930,000,000.00 |
| Total | 2,810,000,000.00 | 3,930,000,000.00 |

(4) Other cash payment related to investing activities

| Item | Amount for the year | Amount for previous year |
|---|-------------------------|-----------------------------|
| Acquisition of wealth management products | 2,270,000,000.00 | 3,710,000,000.00 |
| Total | 2,270,000,000.00 | 3,710,000,000.00 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

46. Notes to cash flows statement (continued)

(5) Other cash payments related to financing activities

| Item | Amount for the year | Amount for previous year |
|------------------|-----------------------|--------------------------|
| Security deposit | 542,073,128.96 | 609,526,216.71 |
| Total | 542,073,128.96 | 609,526,216.71 |

47. 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 | 1,423,074,375.69 | 2,071,807,115.26 |
| Add: Provision for assets impairment | 2,550,168.03 | 38,044,368.26 |
| Impairment loss on credit | 2,367,107.23 | |
| Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets | 637,639,629.55 | 674,973,755.96 |
| Amortization of intangible assets | 35,209,243.96 | 34,030,643.63 |
| Amortization of long-term prepaid expenses | 4,327,436.54 | 4,788,141.47 |
| Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain denoted in "-") | -1,210,083.22 | -4,136,179.65 |
| Loss on retirement of fixed assets (Gain denoted in "-") | 1,823,851.80 | 6,252,993.33 |
| Loss on change in fair value (Gain denoted in "-") | 2,267,497.17 | 9,986,122.87 |
| Financial expenses (Gain denoted in "-") | 13,222,445.15 | |
| Investment loss (Gain denoted in "-") | -828,685,091.63 | -1,582,980,508.56 |
| Decrease in deferred tax assets (Increase denoted in "-") | 11,361,552.39 | -7,141,892.65 |
| Increase in deferred tax liabilities (Decrease denoted in "-") | 2,907,406.10 | 430,184.35 |
| Decrease in inventories (Increase denoted in "-") | 447,892,822.47 | -742,416,760.10 |
| Decrease in operating receivables (Increase denoted in "-") | 202,271,801.86 | -553,468,423.54 |
| Increase in operating payables (Decrease denoted in "-") | -907,653,598.84 | 504,879,015.68 |
| Others | | |
| Net cash flows from operating activities | 1,049,366,564.25 | 455,048,576.31 |
| 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 | 1,061,364,062.82 | 952,318,970.66 |
| Less: Cash at the beginning of the period | 952,318,970.66 | 794,984,893.88 |
| 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 | 109,045,092.16 | 157,334,076.78 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

47. Supplementary information to cash flows statement (continued)

(2) Details of cash and cash equivalents

| Item | Amount for the year | Amount for previous year |
|---|------------------------|-----------------------------|
| 1. Cash | 1,061,364,062.82 | 952,318,970.66 |
| Including: Cash on hand | 3,847.53 | 7,953.54 |
| Bank deposits that are readily available for payment | 1,061,360,215.29 | 952,311,017.12 |
| 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 year | 1,061,364,062.82 | 952,318,970.66 |
| Including: Cash and cash equivalents of the parent or subsidiaries subject to restrictions on use | | |

48. Assets with limited ownership or use rights

| Item | Closing carrying amount | Reason for limitation |
|--------------------------|----------------------------|---|
| Cash at bank and on hand | 2,587,099,546.79 | As secured amount |
| Notes receivable | 911,347,559.44 | As collaterals for bank acceptance notes |
| Total | 3,498,447,106.23 | |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

49. Monetary items in foreign currencies

(1) Monetary items in foreign currencies

| Item | Closing balance of foreign currency | Translation rate | Closing balance denominated in RMB |
|--------------------------|-------------------------------------|------------------|------------------------------------|
| Cash at bank and on hand | | | |
| Including: USD | 21,794,783.02 | 6.8632 | 149,581,954.82 |
| EUR | 2,785,696.31 | 7.8473 | 21,860,194.65 |
| HKD | 4,152,313.87 | 0.8762 | 3,638,257.41 |
| GBP | 55,567.96 | 8.6762 | 482,118.73 |
| Accounts receivable | | | |
| Including: USD | 24,019,323.92 | 6.8632 | 164,849,423.93 |
| EUR | 8,106,666.43 | 7.8473 | 63,615,443.48 |
| Other receivables: | | | |
| Including: USD | 81,770.00 | 6.8632 | 561,203.86 |
| EUR | 45,119.96 | 7.8473 | 354,069.86 |
| HKD | 6,233.94 | 0.8762 | 5,462.18 |
| Accounts payable | | | |
| Including: USD | 3,230,714.03 | 6.8632 | 22,173,036.53 |
| EUR | 180,233.98 | 7.8473 | 1,414,350.11 |
| Other payables: | | | |
| Including: USD | 9,961,160.14 | 6.8632 | 68,365,434.27 |
| EUR | 279,417.94 | 7.8473 | 2,192,676.40 |
| Japanese Yen | 75,000.00 | 0.061887 | 4,641.53 |

(2) Overseas operating entities

| Name | Principal place of business | Functional currency | Whether there is change of functional currency |
|---|-----------------------------|---------------------|--|
| Kelon International Incorporation | Hong Kong | HKD | No |
| Pearl River Electric Refrigerator Co., Ltd. | Hong Kong | HKD | No |
| Kelon Development Co., Ltd. | Hong Kong | HKD | No |
| Hisense Mould (Deutschland) GmbH | Germany | EUR | No |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

50. Government grants

(1) Basic information of government grants

| Category | Amount | Item | Amount of government grants newly included in the profit or loss of the year |
|--------------------|-----------------------|----------------------|--|
| Related to assets | 45,802,285.10 | Deferred income | 11,939,284.11 |
| Related to revenue | 282,197,930.47 | Other gain | 282,197,930.47 |
| Related to revenue | 44,134,499.07 | Non-operating income | 44,134,499.07 |
| Total | 372,134,714.64 | | 338,271,713.65 |

(2) There was no refund of government grants for the year.

51. 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 | 16,072,977,215.28 | 14,891,475,954.73 | 1,826,615,410.60 | | 32,791,068,580.61 |
| 2. Revenue from inter-segment transactions | | | 1,679,689,240.87 | -1,679,689,240.87 | |
| 3. Gain from investment in associates and joint ventures | -504,258.96 | 750,392,496.55 | 33,904,390.81 | | 783,792,628.40 |
| 4. Depreciation and amortization | 378,205,070.55 | 200,061,104.69 | 94,582,698.27 | | 672,848,873.51 |
| 5. Gain arising from changes in fair value | | | -2,267,497.17 | | -2,267,497.17 |
| 6. Impairment losses on assets | -8,592,868.32 | 11,078,664.23 | 2,431,479.35 | | 4,917,275.26 |
| 7. Total profit (losses) | 328,778,851.86 | 1,061,850,269.85 | 216,333,643.07 | -42,056,896.32 | 1,564,905,868.46 |
| 8. Total assets | 17,745,245,158.47 | 10,289,848,161.85 | 3,035,032,607.60 | -9,242,220,889.52 | 21,827,905,038.40 |
| 9. Total liabilities | 12,223,207,963.39 | 5,624,142,112.77 | 1,687,647,022.55 | -5,596,499,037.04 | 13,938,498,061.67 |
| 10. Additions to other non-current assets other than long-term equity investments | -160,593,587.31 | 57,442,506.42 | 56,874,509.54 | | -46,276,571.35 |

Notes to the Financial Statements for 2018

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51. 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 | 14,110,925,211.40 | 14,587,570,871.00 | 1,731,557,425.66 | | 30,430,053,508.06 |
| 2. Revenue from inter-segment transactions | | | 1,532,162,384.83 | -1,532,162,384.83 | |
| 3. Gain from investment in associates and joint ventures | -485,120.74 | 731,516,261.29 | 38,724,432.60 | | 769,755,573.15 |
| 4. Depreciation and amortization | 397,085,954.36 | 213,982,047.99 | 97,936,397.24 | | 709,004,399.59 |
| 5. Gain arising from changes in fair value | -4,716,426.32 | -4,716,426.32 | -553,270.23 | | -9,986,122.87 |
| 6. Impairment losses on assets | 3,420,192.57 | 31,900,224.52 | 2,723,951.17 | | 38,044,368.26 |
| 7. Total profit (losses) | 77,095,307.72 | 1,249,018,672.67 | 968,771,362.27 | -42,011,105.95 | 2,252,874,236.71 |
| 8. Total assets | 16,371,138,556.05 | 11,497,620,081.72 | 3,943,091,446.57 | -10,204,397,698.00 | 21,607,452,386.34 |
| 9. Total liabilities | 11,027,922,339.72 | 7,721,893,570.20 | 1,804,121,334.07 | -6,033,640,443.19 | 14,520,296,800.80 |
| 10. Additions to other non-current assets other than long-term equity investments | -30,992,581.07 | -132,175,143.60 | -8,512,160.76 | | -171,679,885.43 |

(2) Geographic Information

| Region | Amount for the year/closing balance | Amount of previous year/opening balance |
|-------------------------------------|-------------------------------------|---|
| Revenue from domestic transactions | 22,039,246,655.83 | 20,575,313,709.67 |
| Revenues from overseas transactions | 10,751,821,924.78 | 9,854,739,798.39 |
| Total | 32,791,068,580.61 | 30,430,053,508.06 |
| Non-current assets – Domestic | 7,519,372,027.42 | 6,747,344,235.43 |
| Non-current assets – Overseas | 11,685,363.09 | 12,837,890.84 |
| Total | 7,531,057,390.51 | 6,760,182,126.27 |

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 for 2018

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

7. CHANGE IN SCOPE OF CONSOLIDATION

There is no changes in the consolidation scope for the year.

8. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Composition of enterprise group

| Name of subsidiary | Abbreviation | Principal place of business | Place of registration | Business nature | Shareholding percentage (%) | | Method for acquisition |
|--|---------------------------|-----------------------------|-----------------------|-----------------------|-----------------------------|----------|-----------------------------|
| | | | | | Direct | Indirect | |
| Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. | Guangdong Refrigerator | Foshan | Foshan | Manufacturing | 70 | 30 | Establishment or investment |
| Guangdong Kelon Air-conditioner Co., Ltd. (i) | Guangdong Air-conditioner | Foshan | Foshan | Manufacturing | 60 | | Establishment or investment |
| Hisense Ronshen (Guangdong) Freezer Co., Ltd. | Guangdong Freezer | Foshan | Foshan | Manufacturing | 44 | 56 | Establishment or investment |
| Hisense (Guangdong) Kitchen and Bath System Co., Ltd. | Hisense K&B | Foshan | Foshan | Manufacturing | 81.17 | | Establishment or investment |
| Foshan Shunde Rongsheng Plastic Co., Ltd. | Rongsheng Plastic | Foshan | Foshan | Manufacturing | 44.92 | 25.13 | Establishment or investment |
| Guangdong Kelon Mould Co., Ltd. | Kelon Mould | Foshan | Foshan | Manufacturing | | 70.11 | Establishment or investment |
| Guangdong Huao Electronics Co., Ltd. (i) | Huao Electronics | Foshan | Foshan | Manufacturing | | 70 | Establishment or investment |
| Guangdong Foshan Shunde Kelon Property Service Co., Ltd. | Kelon Property | Foshan | Foshan | Provision of services | 80 | 20 | Establishment or investment |
| Foshan Shunde Wangao Import & Export Co., Ltd. | Wangao I&E | Foshan | Foshan | Trading | 20 | 80 | Establishment or investment |
| Guangdong Kelon Jiake Electronics Co., Ltd. | Kelon Jiake | Foshan | Foshan | Manufacturing | 70 | 30 | Establishment or investment |
| Guangdong Kelon Weili Electrical Appliances Co., Ltd. | Kelon Weili | Zhongshan | Zhongshan | Manufacturing | 55 | 25 | Establishment or investment |
| Hisense Ronshen (Yingkou) Refrigerator Co., Ltd. | Yingkou Refrigerator | Yingkou | Yingkou | Manufacturing | 42 | 36.79 | Establishment or investment |
| Jiangxi Kelon Industrial Development Co., Ltd. | Jiangxi Kelon | Nanchang | Nanchang | Manufacturing | 60 | 40 | Establishment or investment |
| Jiangxi Kelon Combine Electrical Appliances Co., Ltd. (ii) | Combine | Nanchang | Nanchang | Manufacturing | | 55 | Establishment or investment |
| Hangzhou Kelon Electrical Co., Ltd. | Hangzhou Kelon | Hangzhou | Hangzhou | Manufacturing | 100 | | Establishment or investment |
| Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd. | Yangzhou Refrigerator | Yangzhou | Yangzhou | Manufacturing | 74.33 | 25.67 | Establishment or investment |
| Shangqiu Kelon Electrical Co., Ltd. | Shangqiu Kelon | Shangqiu | Shangqiu | Manufacturing | | 100 | Establishment or investment |
| Zhuhai Kelon Electrical Industrial Development Co., Ltd. | Zhuhai Kelon | Zhuhai | Zhuhai | Manufacturing | 75 | 25 | Establishment or investment |

Notes to the Financial Statements for 2018

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

8. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

(1) Composition of enterprise group (continued)

| Name of subsidiary | Abbreviation | Principal place of business | Place of registration | Business nature | Shareholding percentage (%) | | Method for acquisition |
|---|--|-----------------------------|------------------------|-----------------|-----------------------------|----------|---|
| | | | | | Direct | Indirect | |
| Shenzhen Kelon Purchase Co., Ltd. | Shenzhen Kelon | Shenzhen | Shenzhen | Trading | 95 | 5 | Establishment or investment |
| Pearl River Electric Refrigerator Co., Ltd. | Pearl River Refrigerator | Hong Kong | Hong Kong | Trading | | 100 | Establishment or investment |
| Kelon Development Co., Ltd. | Kelon Development | Hong Kong | Hong Kong | Investment | 100 | | Establishment or investment |
| Kelon International Incorporation | KII | Hong Kong | British Virgin Islands | Trading | | 100 | Establishment or investment |
| Hisense (Chengdu) Refrigerator Co., Ltd. | Chengdu Refrigerator | Chengdu | Chengdu | Manufacturing | 100 | | Establishment or investment |
| Hisense (Shandong) Refrigerator Ltd. | Shandong Refrigerator | Qingdao | Qingdao | Manufacturing | 100 | | Establishment or investment |
| Guangdong Hisense Refrigerator Marketing Co., Ltd. | Refrigerator Marketing Company | Foshan | Foshan | Trading | | 78.82 | Establishment or investment |
| Qingdao Hisense Air-conditioner Marketing Co., Ltd. | Airconditioner Marketing Company | Qingdao | Qingdao | Trading | | 75.57 | Establishment or investment |
| Hisense (Guangdong) Air-Conditioner Company Limited | Hisense Guangdong Air-Conditioner | Jiangmen | Jiangmen | Manufacturing | | 100 | Establishment or investment |
| Hisense (Guangdong) Mould Plastic Company Limited | Hisense Guangdong Mould Plastic | Jiangmen | Jiangmen | Manufacturing | | 100 | Establishment or investment |
| Jiangmen Hisense Electrical Appliances Co., Ltd. | Jiangmen Hisense Electrical Appliances | Jiangmen | Jiangmen | Manufacturing | | 100 | Establishment or investment |
| Hisense (Beijing) Electric Co., Ltd. | Beijing Refrigerator | Beijing | Beijing | Manufacturing | 55 | | Business combination under common control |
| Hisense (Shandong) Air-Conditioning Co. Ltd. | Shandong Air-conditioning | Qingdao | Qingdao | Manufacturing | 100 | | Business combination under common control |
| Hisense (Zhejiang) Air-conditioning Co., Ltd. | Zhejiang Air-conditioning | Huzhou | Huzhou | Manufacturing | | 100 | Business combination under common control |
| Qingdao Hisense Mould Co., Ltd. | Hisense Mould | Qingdao | Qingdao | Manufacturing | 78.70 | | Business combination under common control |

Notes to the Financial Statements for 2018

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

8. INTERESTS IN OTHER ENTITIES *(continued)*

1. Interests in subsidiaries *(continued)*

(1) Composition of enterprise group (continued)

| Name of subsidiary | Abbreviation | Principal place of business | Place of registration | Business nature | Shareholding percentage (%) | | Method for acquisition |
|---|--------------------------|-----------------------------|-----------------------|-----------------|-----------------------------|----------|---|
| | | | | | Direct | Indirect | |
| Hisense (Nanjing) Electric Company Limited | Nanjing Refrigerator | Nanjing | Nanjing | Manufacturing | | 60 | Business combination under common control |
| Hisense (Zhejiang) Washing Machine Co., Ltd. | Zhejiang Washing Machine | Huzhou | Huzhou | Manufacturing | | 100 | Business combination not under common control |
| Qingdao Hisense Commercial Cold Chain Co., Ltd. | Commercial Cold Chain | Qingdao | Qingdao | Manufacturing | | 70 | Establishment or investment |
| Hisense Changsha Electronic Commerce Co., Ltd. | Changsha Electronic | Changsha | Changsha | Trading | | 100 | Establishment or investment |
| Hisense Mould (Deutschland) GmbH | German Hisense Mould | Germany | Germany | Manufacturing | | 100 | Establishment or investment |

Notes:

- (i) The Company holds 60% equity interest in Guangdong Air-conditioner and 70% equity interest in Huaao Electronics. However, as the Company has undertaken to provide them with financial support, bear 100% of their losses and enjoy 100% of their voting rights, they have been accounted for as long-term equity investment at a 100% shareholding percentage;
- (ii) The Company holds 55% equity interest in Combine. As Combine had been declared in liquidation, it has not been included in the consolidated financial statements;
- (iii) All subsidiaries incorporated in the PRC are companies with limited liability, save for Refrigerator Marketing Company, Air-conditioner Marketing Company and Commercial Cold Chain which are joint-stock companies with limited liability.

Notes to the Financial Statements for 2018

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

8. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

(2) Principal non-wholly-owned subsidiaries

| Name of subsidiary | Percentage of minority interest (%) | Gain or loss attributable to minority interests for the year | Dividends paid to minority interests for the year | Closing balance of minority interests |
|-----------------------------------|-------------------------------------|--|---|---------------------------------------|
| Refrigerator Marketing Company | 21.18 | 5,416,787.73 | 170,172.00 | 53,164,090.00 |
| Air-conditioner Marketing Company | 24.43 | 7,991,300.51 | 6,951,300.00 | 46,117,063.02 |

(3) Major financial information of principal non-wholly-owned subsidiaries:

Unit: RMB'0000

| Name of subsidiary | Closing balance | | | | | |
|-----------------------------------|-----------------|--------------------|--------------|---------------------|-------------------------|-------------------|
| | Current assets | Non-current assets | Total assets | Current liabilities | Non-current liabilities | Total liabilities |
| Refrigerator Marketing Company | 685,273.14 | 2,149.34 | 687,422.48 | 662,327.03 | | 662,327.03 |
| Air-conditioner Marketing Company | 255,120.84 | 1,513.95 | 256,634.79 | 237,755.80 | | 237,755.80 |

(continued)

| Name of subsidiary | Opening balance | | | | | |
|-----------------------------------|-----------------|--------------------|--------------|---------------------|-------------------------|-------------------|
| | Current assets | Non-current assets | Total assets | Current liabilities | Non-current liabilities | Total liabilities |
| Refrigerator Marketing Company | 571,012.13 | 2,201.67 | 573,213.80 | 550,486.40 | | 550,486.40 |
| Air-conditioner Marketing Company | 395,938.30 | 1,386.82 | 397,325.12 | 378,815.86 | | 378,815.86 |

| Name of subsidiary | Amount for the year | | | | Amount for 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 | 1,073,235.45 | 2,556.93 | 2,556.93 | 64,443.46 | 935,066.04 | 119.86 | 119.86 | -43,962.28 |
| Air-conditioner Marketing Company | 922,180.56 | 3,271.41 | 3,271.41 | -3,959.94 | 914,428.08 | 7,906.17 | 7,906.17 | 14,626.86 |

Notes to the Financial Statements for 2018

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

8. INTERESTS IN OTHER ENTITIES *(continued)*

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

(1) *Note to change in the ownership interest in subsidiary*

The Company acquired 2% equity interests of Hisense Mould (Deutschland) GmbH during the year. The indirect shareholding of the Company in Hisense Mould (Deutschland) GmbH changed from 98% to 100% after the acquisition, and the Company still has control over it.

(2) *Impact of the transaction on minority interests and equity attributable to owners of the parent company*

| Item | Hisense Mould (Deutschland) GmbH |
|--|--|
| Cost of purchase/consideration for disposal | 240,869.22 |
| – Cash | 240,869.22 |
| Total cost of purchase/consideration for disposal | 240,869.22 |
| Less: Share of net assets of subsidiary based on the shareholding percentage acquired/disposed of | 159,618.41 |
| Difference | 81,250.81 |
| Including: Adjustment to capital reserves | 81,250.81 |
| Adjustment to surplus reserves | |
| Adjustment to undistributed profits | |

3. Interests in joint ventures or associates

(1) *Significant joint ventures or associates*

| Name of joint venture or associate | Principal place of business | Place of registration | Business nature | Shareholding percentage (%) | | Accounting method for investment in joint ventures or associates |
|---------------------------------------|--------------------------------|--------------------------|--------------------------------|--------------------------------|----------|--|
| | | | | Direct | Indirect | |
| Hisense Hitachi | Qingdao | Qingdao | Manufacturing | 49.00 | | Equity method |
| Hisense Financial Holdings | Qingdao | Qingdao | Financial services industry | 24.00 | | Equity method |
| Hisense Commercial Trading | Qingdao | Qingdao | Trading | 50.00 | | Equity method |
| Hisense International | Overseas | Qingdao | Trading | 12.67 | | Equity method |

Notes to the Financial Statements for 2018

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

8. INTERESTS IN OTHER ENTITIES *(continued)*

3. Interests in joint ventures or associates *(continued)*

(2) Major financial information of significant associates

RMB'0000

| Item | Closing balance/ Amount for the year | Opening balance/ Amount for previous year |
|---|---|---|
| | Hisense Hitachi | Hisense Hitachi |
| Current assets | 904,574.76 | 817,748.63 |
| Including: Cash and cash equivalents | 186,878.62 | 521,555.24 |
| Non-current assets | 287,593.41 | 145,782.95 |
| Total assets | 1,192,168.17 | 963,531.58 |
| Current liabilities | 569,789.92 | 504,131.66 |
| Non-current liabilities | 15,456.78 | 10,357.71 |
| Total liabilities | 585,246.70 | 514,489.36 |
| Minority interest | 23,362.11 | 19,357.18 |
| Equity attributable to shareholders of the parent company | 583,559.37 | 429,685.04 |
| Share of net assets based on shareholding percentage | 285,944.09 | 210,545.67 |
| Adjustments | | |
| – Goodwill | | |
| – Unrealized profit from intra-group transactions | | |
| – Others | 1,730.80 | 2,039.54 |
| Carrying amount of equity investments in joint ventures | 287,674.89 | 212,585.21 |
| Fair value of investments in joint ventures with public quoted prices | | |
| Operating revenue | 1,098,666.68 | 940,177.24 |
| Net profit | 160,321.77 | 156,717.76 |
| Net profit from discontinued operations | | |
| Other comprehensive income | | |
| Total comprehensive income | 160,321.77 | 156,717.76 |
| Dividend received from joint ventures during the year | | 22,956.50 |

Notes to the Financial Statements for 2018

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

8. INTERESTS IN OTHER ENTITIES *(continued)*

3. Interests in joint ventures or associates *(continued)*

(3) Aggregated financial information of insignificant joint ventures and associates

RMB'0000

| Item | Closing balance/ Amount for the year | Opening balance/ Amount for previous year |
|---|---|--|
| Joint ventures: | | |
| Total carrying amount of investments | 4,802.75 | 127.98 |
| Amounts in aggregate in proportion to the shareholdings: | | |
| – Net profit | -100.85 | -97.02 |
| – Other comprehensive income | | |
| – Total comprehensive income | -100.85 | -97.02 |
| Associates: | | |
| Total carrying amount of investments | 40,200.67 | 38,249.93 |
| Amounts in aggregate in proportion to the shareholdings: | | |
| – Net profit | 3,390.44 | 3,872.44 |
| – Other comprehensive income | -28.95 | -458.85 |
| – Total comprehensive income | 3,361.49 | 3,413.59 |

Notes to the Financial Statements for 2018

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

9. RISKS RELATING TO FINANCIAL INSTRUMENTS

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.

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 domestic financial institutions with higher credit rating. 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.

Notes to the Financial Statements for 2018

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

9. RISKS RELATING TO FINANCIAL INSTRUMENTS *(continued)*

(2) Liquidity risk *(continued)*

As at the balance sheet date, the undiscounted contractual cash flows of financial assets and financial liabilities of the Company based on maturity date were as follows:

31 December 2018

| Item | Within 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total |
|-------------------------------------|--------------------------|--------------|--------------|------------------|--------------------------|
| Financial assets | | | | | |
| Cash at bank and on hand | 3,648,463,609.61 | | | 3,648,463,609.61 | |
| Transactional financial assets | 207,350.00 | | | | 207,350.00 |
| Notes receivable | 2,971,748,608.75 | | | | 2,971,748,608.75 |
| Accounts receivable | 3,249,864,034.63 | | | | 3,249,864,034.63 |
| Other receivables | 429,517,592.29 | | | | 429,517,592.29 |
| Other current assets | 540,000,000.00 | | | | 540,000,000.00 |
| Total | 10,839,801,195.28 | | | | 10,839,801,195.28 |
| Financial liabilities | | | | | |
| Transactional financial liabilities | 2,765,900.00 | | | 2,765,900.00 | |
| Notes payable | 5,442,369,087.15 | | | | 5,442,369,087.15 |
| Accounts payable | 4,373,335,213.48 | | | | 4,373,335,213.48 |
| Other payables | 1,766,319,446.79 | | | | 1,766,319,446.79 |
| Other current liabilities | 646,178,914.93 | | | | 646,178,914.93 |
| Total | 12,230,968,562.35 | | | | 12,230,968,562.35 |

Notes to the Financial Statements for 2018

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

9. RISKS RELATING TO FINANCIAL INSTRUMENTS (continued)

(2) Liquidity risk (continued)

31 December 2017

| Item | Within 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total |
|-------------------------------------|--------------------------|--------------|--------------|------------------|--------------------------|
| Financial assets | | | | | |
| Cash at bank and on hand | 2,996,028,194.89 | | | 2,996,028,194.89 | |
| Financial assets at fair value | | | | | |
| through profit or loss | 82,670.52 | | | | 82,670.52 |
| Notes receivable | 3,517,031,644.77 | | | | 3,517,031,644.77 |
| Accounts receivable | 2,977,583,952.21 | | | | 2,977,583,952.21 |
| Other receivables | 423,022,078.96 | | | | 423,022,078.96 |
| Other current assets | 1,551,317,129.32 | | | | 1,551,317,129.32 |
| Total | 11,465,065,670.67 | | | | 11,465,065,670.67 |
| Financial liabilities | | | | | |
| Financial liabilities at fair value | | | | | |
| through profit or loss | 373,723.35 | | | | 373,723.35 |
| Notes payable | 6,141,025,710.22 | | | | 6,141,025,710.22 |
| Accounts payable | 4,238,836,841.44 | | | | 4,238,836,841.44 |
| Other payables | 1,709,226,096.76 | | | | 1,709,226,096.76 |
| Other current liabilities | 639,347,580.40 | | | | 639,347,580.40 |
| Total | 12,728,809,952.17 | | | | 12,728,809,952.17 |

The maturity of bank and other borrowings were analyzed as follows:

The Company had no bank and other borrowings as at 31 December 2018 and 31 December 2017.

Notes to the Financial Statements for 2018

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

9. RISKS RELATING TO FINANCIAL INSTRUMENTS *(continued)*

(3) Interest rate risk

The Company is exposed to interest rate risk due to changes in interest rates of interestbearing 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 2018, the Company had no bank borrowings. As such, any change in the interest rate is not considered to have significant impact on the Company's performance.

(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 | 314,992,582.61 | 90,538,470.80 | 530,948,560.89 | 40,863,002.66 |
| EUR | 85,829,707.99 | 3,607,026.51 | 59,787,423.79 | 5,442,353.92 |

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 | Current year Increase/Decrease in profit after tax | Previous year Increase/Decrease in profit after tax |
|-------------------|--|---|
| USD to RMB | | |
| Appreciates by 5% | 8,417,029.19 | 18,378,208.43 |
| Depreciates by 5% | -8,417,029.19 | -18,378,208.43 |
| EUR to RMB | | |
| Appreciates by 5% | 3,083,350.55 | 2,037,940.12 |
| Depreciates by 5% | -3,083,350.55 | -2,037,940.12 |

Sensitivity analysis of change in forward rate:

| Item | Current year Increase/Decrease in profit after tax | Previous year Increase/Decrease in profit before tax |
|-------------------|--|--|
| USD to RMB | | |
| Appreciates by 5% | -281,250.00 | -25,515.00 |
| Depreciates by 5% | 281,250.00 | 25,515.00 |
| EUR to RMB | | |
| Appreciates by 5% | -93,750.00 | -221,501.25 |
| Depreciates by 5% | 93,750.00 | 221,501.25 |

Notes to the Financial Statements for 2018

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

10. DISCLOSURE OF FAIR VALUE

1. Fair value of assets and liabilities measured at fair value as at the end of the year

| Item | Fair value as at the end of the year | | | Total |
|--|--------------------------------------|--------------------------------|--------------------------------|---------------------|
| | Level 1 Fair value measurement | Level 2 Fair value measurement | Level 3 Fair value measurement | |
| I. Fair value measurement on a recurring basis | | | | |
| (i) Transactional financial assets | | | | |
| 1. Financial assets at fair value through profit or loss | | 207,350.00 | | 207,350.00 |
| (1) Derivative financial assets | | 207,350.00 | | 207,350.00 |
| Total assets measured at fair value on a recurring basis | | 207,350.00 | | 207,350.00 |
| (ii) Transactional financial liabilities | | | | |
| Including: Derivative financial liabilities | | 2,765,900.00 | | 2,765,900.00 |
| Total Liabilities measured at fair value on a recurring basis | | 2,765,900.00 | | 2,765,900.00 |

2. Valuation techniques and qualitative and quantitative information for level 2 items measured on and not on a recurring basis

As at the balance sheet date, the Company had obtained forward rate quotations from contracted banks, which were determined based on the remaining term to maturity. The fair values of forward exchange contracts were determined by multiplying the difference between the quotations and agreed exchange rate for forward exchange contracts by the amount for forward exchange settlement.

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Particulars of the parent and the ultimate shareholder

| <i>(Amount Unit: RMB '0000)</i> | | | | | |
|----------------------------------|----------------------------------|----------------------------|----------------------|----------------------|--|
| 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 |

Notes to the Financial Statements for 2018

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

1. Particulars of the parent and the ultimate shareholder (continued)

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 | Creditability code |
|----------------------------------|--------------------|---|--|--|--------------------|
| Qingdao Hisense Air-conditioning | 67,479 | 37.92 | 37.92 | State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government | 913702126143065147 |
| Hisense Group | 80,617 | | | State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government | 913702001635787718 |

2. Subsidiaries of the Company

Please see note 8(1) "Interests in subsidiaries".

3. Joint ventures and associates of the Company

For details of the joint ventures and associates of the Company, please see note 8(3) "Interests in joint ventures or associates".

4. Greencool Companies

| Name of related parties of Greencool Companies | Relationship with the Company |
|--|---|
| Guangdong Greencool | Former controlling shareholder of the Company |
| Jiangxi Greencool Electrical Appliance Co., Ltd. ("Jiangxi Greencool") | Related party of Guangdong Greencool |

5. Other related parties of the Company

| Name of other related parties | Relationship with the Company |
|---|--|
| Hisense Finance Co., Ltd. ("Hisense Finance") | Subsidiary of ultimate holding company |
| Hisense Electric Co., Ltd. ("Hisense Electric") | Subsidiary of ultimate holding company |
| Beijing Xuehua Group Company Limited ("Xuehua Group") | Minority shareholder of Beijing Refrigerator |
| Hisense (Hong Kong) Company Limited ("Hisense Hong Kong") | Subsidiary of ultimate holding company |

6. 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 |
|-----------------------|-------------------------------|
| Jinan San Ai Fu | Specific Third Party Company |
| Jiangxi Keda | Specific Third Party Company |
| Zhuhai Longjia | Specific Third Party Company |
| Zhuhai Defa | Specific Third Party Company |
| Wuhan Changrong | Specific Third Party Company |
| Deheng Solicitors | Specific Third Party Company |
| Shangqiu Bingxiong | Specific Third Party Company |

Notes to the Financial Statements for 2018

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

7. 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 Electric and its subsidiaries | Finished goods | Agreed price | 70,818.11 | | 75,050.43 | |
| Hisense Group and its subsidiaries | Finished goods | Agreed price | 257,571.30 | | 873,505.79 | |
| Hisense Hitachi | Finished goods | Agreed price | 32,191.45 | | | |
| Subtotal of purchase of finished goods | | | 360,580.86 | | 948,556.22 | |
| Hisense Electric and its subsidiaries | Raw materials | Agreed price | 12,598,359.90 | 0.04 | 8,796,675.91 | 0.03 |
| Hisense Group and its subsidiaries | Raw materials | Agreed price | 181,244,374.83 | 0.62 | 103,252,819.20 | 0.38 |
| Hisense Hitachi | Raw materials | Agreed price | 11,436,716.47 | 0.04 | 12,307,303.17 | 0.05 |
| Subtotal of purchase of raw materials | | | 205,279,451.20 | 0.70 | 124,356,798.28 | 0.46 |
| Hisense Group and its subsidiaries | Equipment | Agreed price | | | 547,740.68 | |
| Subtotal of purchase of equipment | | | | | 547,740.681 | |
| Hisense Electric and its subsidiaries | Receipt of services | Agreed price | 12,299,624.76 | 0.04 | 19,506,182.48 | 0.07 |
| Xuehua Group | Receipt of services | Agreed price | 568,563.75 | | 1,309,109.21 | |
| Hisense Group and its subsidiaries | Receipt of services | Agreed price | 382,493,229.52 | 1.31 | 432,323,058.19 | 1.60 |
| Subtotal of receipt of services | | | 395,361,418.03 | 1.35 | 453,138,349.88 | 1.68 |
| Hisense Hong Kong | Financing purchase | | 239,001,035.63 | 0.82 | 334,271,237.67 | 1.24 |
| Subtotal of financing purchase | | | 239,001,035.63 | 0.82 | 334,271,237.67 | 1.24 |

Notes to the Financial Statements for 2018

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

7. Related party transactions *(continued)*

(1) Purchase of goods/receipt of services (continued)

- (1) The Company and Hisense Group and Hisense Electric entered into a Business Cooperation Framework Agreement on 28 November 2017. 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 RMB880,010,000.
- (2) The Company and Hisense Hitachi entered into a Business Framework Agreement on 28 November 2017. 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 RMB19,630,000.
- (3) The Company and Hisense Hong Kong entered into a Financing Purchase Framework Agreement on 28 November 2017. During the effective period of the agreement, the transaction in which the Company engaged Hisense Hong Kong to perform financing purchase as its agent was subject to an aggregate cap of US\$100,000,000.

The above agreements were considered and approved at the ninth interim meeting of the Company's ninth session of the board of directors in 2017 convened on 28 November 2017 and the first extraordinary general meeting in 2018 convened on 18 January 2018 respectively.

- (4) The Company and Hisense Hitachi entered into the Supplemental Agreement to the Business Framework Agreement with Hisense Hitachi on 8 May 2018. During the effective period of the agreement, the transaction with the Company as the purchaser was subject to an aggregate cap (exclusive value-add tax) of RMB44,630,000.

The above agreements were considered and approved at the first interim meeting of the Company's ninth session of the board of directors in 2018 convened on 8 May 2018 and the annual general meeting in 2017 convened on 26 June 2018 respectively.

- (5) The above transactions with Hisense Group and its subsidiaries, Hisense Electric and its subsidiaries, Hisense Hong Kong, constitute continuous connected transactions under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the relevant disclosure requirement and shareholders' approval requirement under Chapter 14A of the Listing Rules with respect to such continuing connected transactions (with the exceptions of the Purchase Financing Agency Framework Agreement between the Company and Hisense Hong Kong, which was made on normal commercial terms and in the interest of the Company, without any charge on the Group's assets for the financial assistance. As such, the connected transactions between the Company and Hisense Hong Kong were exempted from the requirements of reporting, announcement and shareholders' approval according to rules 14A.65(4) and 14A.76(1) (b) under the Listing Rules).

Other than the above transactions, the transactions with related parties conducted in 2018 as disclosed in note 11 of the financial statements in the 2018 annual report do not constitute connected transactions under Chapter 14A of the Listing Rules.

Notes to the Financial Statements for 2018

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

7. 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 | 713,423.93 | | 680,391.91 | |
| Hisense Hitachi | Finished goods | Agreed price | 488,465,628.95 | 1.36 | 390,788,245.61 | 1.17 |
| Hisense Group and its subsidiaries | Finished goods | Agreed price | 9,827,839,380.01 | 27.28 | 7,398,969,252.35 | 22.09 |
| Subtotal of sale of finished goods | | | 10,317,018,432.89 | 28.64 | 7,790,437,889.87 | 23.26 |
| Hisense Group and its subsidiaries | Raw materials | Agreed price | 76,808,996.15 | 0.21 | 42,640,908.22 | 0.13 |
| Hisense Hitachi | Raw materials | Agreed price | 2,656,194.08 | 0.01 | 1,990,509.55 | 0.01 |
| Hisense Electric and its subsidiaries | Raw materials | Agreed price | 24,435,391.01 | 0.07 | 27,265,414.73 | 0.08 |
| Subtotal of sale of raw materials | | | 103,900,581.24 | 0.29 | 71,896,832.50 | 0.22 |
| Hisense Group and its subsidiaries | Moulds | Market price | 69,533,265.03 | 0.19 | 321,894,265.52 | 0.96 |
| Hisense Hitachi | Moulds | Market price | 14,901,757.52 | 0.04 | 20,374,358.94 | 0.06 |
| Hisense Electric and its subsidiaries | Moulds | Market price | 111,470,607.06 | 0.31 | 76,538,803.48 | 0.23 |
| Subtotal of sale of moulds | | | 195,905,629.62 | 0.54 | 418,807,427.94 | 1.25 |
| Hisense Group and its subsidiaries | Equipment | Agreed price | 4,602,574.89 | 0.01 | 279,327.48 | |
| Subtotal of purchase of equipment | | | 4,602,574.89 | 0.01 | 279,327.48 | |
| Hisense Electric and its subsidiaries | Provision of services | Agreed price | 897,957.20 | | 98,737.76 | |
| Hisense Group and its subsidiaries | Provision of services | Agreed price | 23,677,417.72 | 0.07 | 20,968,161.82 | 0.06 |
| Hisense Hitachi | Provision of services | Agreed price | 83,003.90 | | 131,599.66 | |
| Xue hua Guoup | Provision of services | Agreed price | 458,450.45 | | | |
| Subtotal of rendering of services | | | 25,116,829.27 | 0.07 | 21,198,499.24 | 0.06 |

Notes to the Financial Statements for 2018

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

7. Related party transactions *(continued)*

(2) Sale of goods/rendering of service (continued)

- (1) The Company and Hisense Group and Hisense Electric entered into a Business Cooperation Framework Agreement on 28 November 2017. 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 RMB13,732,860,000.
- (2) The Company and Hisense Hitachi entered into a Business Framework Agreement on 28 November 2017. 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 RMB785,230,000.

The above agreements were considered and approved at the ninth interim meeting of the Company's ninth session of the board of directors in 2017 convened on 28 November 2017 and the first extraordinary general meeting in 2018 convened on 18 January 2018 respectively.

- (3) On 8 May 2018, the Company entered into the Supplemental Agreement to the Business Framework Agreement with Hisense Hitachi, during the term of which the Company recorded a total cap transaction amount of RMB805,230,000 (exclusive value-add tax) from the supply and the provision of services.

The above agreements were approved at the 2018 first extraordinary general meeting of the ninth session of the Board held on 8 May 2018 and the 2017 annual general meeting held on 26 June 2018, respectively.

- (4) The above transactions with Hisense Group and its subsidiaries, Hisense Electric and its subsidiaries, constitute continuous connected transactions under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the relevant disclosure requirement and shareholders' approval requirement under Chapter 14A of the Listing Rules.

Other than the above transactions, the transactions with related parties conducted in 2018 as disclosed in note 11 of the financial statements in the 2018 annual report do not constitute connected transactions under Chapter 14A of the Listing Rules.

Notes to the Financial Statements for 2018

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

7. 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 | 71.88 | 2016-3-4 | 2018-2-28 | Import letter of credit | Yes |
| Subtotal | | 71.88 | - | - | | |

Notes to related party guarantees:

In January 2016, Hisense Group and the business department of Qingdao branch of Agricultural Bank entered into a Maximum Guarantee Contract (No. 84100520160000554), 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 1 January 2016 to 30 May 2016.

(4) Key management personnel emoluments

Please see note 15(4) for details.

(5) Other connected transactions

As at 31 December 2018, the Company and its subsidiaries had the balance of deposit of RMB3,377,221,200, and balance of electronic bank acceptance note of RMB3,415,841,900 with Hisense Finance. For the year, loan interest, amount of discounted interest, the handling fee for opening accounts for electronic bank acceptance note and settlement services for receipt and payment of funds paid by the Company to Hisense Finance amounted to RMB3.9875 million, RMB7.5374 million, RMB3.4311 million and RMB321,500. The Company received interest income from bank deposits of RMB32.1158 million from Hisense Finance. The actual amount involved for the provision of settlement and sale of foreign exchange services provided by Hisense Finance to the Company was RMB69.5479 million and the amount for provision of discounted notes was RMB361.1704 million.

In 2018, the Company and its subsidiaries had the balance of the non-recourse factoring services of RMB108,814,405.08 with Hisense Commercial Factoring with the handling fee of RMB831,927.82 paid. The balance of the recourse factoring services was RMB315,873,010.28 with the handling fee of RMB6,183,629.45.

Notes to the Financial Statements for 2018

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

8. 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 | 85,311,108.33 | | 44,914,566.88 | |
| Notes receivable | Hisense Group and its subsidiaries | 67,929,615.51 | | 24,265,961.53 | |
| Notes receivable | Hisense Hitachi | 47,813,870.45 | | 17,468,894.11 | |
| Subtotal | | 201,054,594.29 | | 86,649,422.52 | |
| Accounts receivable | Hisense Electric and its subsidiaries | 31,764,053.34 | | 30,059,041.39 | |
| Accounts receivable | Hisense Group and its subsidiaries | 1,505,686,585.24 | | 1,096,554,035.84 | 62,950.00 |
| Accounts receivable | Hisense Hitachi | 25,376,956.36 | | 29,986,398.94 | |
| Subtotal | | 1,562,827,594.94 | | 1,156,599,476.17 | 62,950.00 |
| Other receivables | Hisense Electric and its subsidiaries | 910,200.00 | | 10,000.00 | |
| Other receivables | Hisense Group and its subsidiaries | 1,500,538.73 | | 67,474.16 | 51,998.90 |
| Subtotal | | 2,410,738.73 | | 77,474.16 | 51,998.90 |
| Prepayments | Hisense Group and its subsidiaries | 4,133,893.99 | | 1,908,430.82 | |
| Subtotal | | 4,133,893.99 | | 1,908,430.82 | |

Notes to the Financial Statements for 2018

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

8. Receivables from and payables to related parties *(continued)*

(2) Payables to related parties

| Item | Related party | Closing balance | Opening balance |
|------------------|---------------------------------------|-----------------------|----------------------|
| Note payable | Hisense Group and its subsidiaries | 4,675,971.69 | 5,650,000.00 |
| Subtotal | | 4,675,971.69 | 5,650,000.00 |
| Accounts payable | Hisense Group and its subsidiaries | 202,607,355.00 | 32,607,968.92 |
| Accounts payable | Hisense Hitachi | 4,123,205.14 | 1,797,741.86 |
| Accounts payable | Hisense Electric and its subsidiaries | 660,817.88 | |
| Subtotal | | 207,391,378.02 | 34,405,710.78 |
| Other payables | Hisense Group and its subsidiaries | 21,380,056.82 | 17,871,480.24 |
| Other payables | Hisense Electric and its subsidiaries | 9,054.98 | |
| Other payables | Xuehua Group and its subsidiaries | 226,531.15 | 185,656.11 |
| Subtotal | | 21,615,642.95 | 18,057,136.35 |
| Advances | Hisense Group and its subsidiaries | 222,644.93 | 2,010,825.02 |
| Subtotal | | 222,644.93 | 2,010,825.02 |

9. 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 |
|--------------------------------------|--------------------|--------------------------------------|--|
| Other receivables | Jinan San Ai Fu | 81,600,000.00 | 81,600,000.00 |
| | Jiangxi Keda | 13,000,200.00 | 13,000,200.00 |
| | Zhuhai Longjia | 28,600,000.00 | 28,600,000.00 |
| | Zhuhai Defa | 21,400,000.00 | 21,400,000.00 |
| | Wuhan Changrong | 20,000,000.00 | 20,000,000.00 |
| | Deheng Solicitors | 2,000,000.00 | 2,000,000.00 |
| | Shangqiu Bingxiong | 58,030,000.00 | 58,030,000.00 |
| Subtotal of other receivables | | 224,630,200.00 | 224,630,200.00 |
| Other payables | Zhuhai Longjia | 17,766,425.03 | 17,766,425.03 |
| Subtotal of other payables | | 17,766,425.03 | 17,766,425.03 |

Notes to the Financial Statements for 2018

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

10. Transactions with Greencool Companies

| Item | Related party | At the end of the year Book value | At the beginning of the year Book value |
|-----------------------------------|-------------------|-----------------------------------|---|
| Other payables | Jiangxi Greencool | 13,000,000.00 | 13,000,000.00 |
| Subtotal of other payables | | 13,000,000.00 | 13,000,000.00 |

12. SHARE-BASED PAYMENT

None.

13. COMMITMENTS AND CONTINGENCIES

1. Significant commitments

(1) Capital commitments

Unit: RMB'0000

| Item | Closing balance | Opening balance |
|--|-----------------|-----------------|
| Commitments in respect of investment in subsidiaries and jointly controlled entity (commitment to purchase long-term assets): | | |
| – Authorized but not contracted | | |
| – Contracted but not paid | 6,068.16 | 4,585.21 |
| Commitments in respect of acquisition of the property, plant and equipment of subsidiaries (commitment for external investment): | | |
| – Contracted but not paid | | |

(2) Operating lease commitments

Please see note 15(6) lease for details

2. Contingencies

(1) Contingent liabilities arising from pending litigations and arbitration and their financial impacts

As at 31 December 2018, the Company was involved, as defendant, in litigations with amount of RMB21,175,313.23, and provision of RMB7,503,856.34 had been made.

Notes to the Financial Statements for 2018

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

14. SUBSEQUENT EVENTS

1. Profit distribution

On 28 March 2019, the Proposed Profit Distribution Plan for 2018 was considered and approved at the first meeting of 2019 of the tenth session of the Board of the Company: Based on the total share capital of 1,362,725,370 shares of the Company as at 31 December 2018, a cash dividend of RMB3.03 (tax inclusive) was to be paid to all shareholders for every 10 shares held, amounting to a total distribution profit of RMB412,905,787.11. The undistributed profit would be rolled over for distribution in subsequent years. There will be no issue of bonus share and no transfer of capital reserve to share capital during the year. Such resolution is subject to the approval at 2018 annual general meeting of the Company.

2. Impact of implementing the new accounting standards since 1 January 2019

The Ministry of Finance promulgated Accounting Standards for Business Enterprises No. 21 – Leases (2018 revision) (Cai Hui [2018] No.35, hereinafter the “New Leasing Standard”) on 7 December 2018, requiring that companies that are dually listed on domestic and foreign stock exchanges and companies that are listed on foreign stock exchanges and adopt International Financial Reporting Standards or Accounting Standards for Business Enterprises are required to apply the New Leasing Standard when preparing their financial statements since 1 January 2019. The Company has implemented the above New Leasing Standard since 1 January 2019 and amended relevant accounting policies in accordance with the requirements under the above New Leasing Standard.

The main content relating to the changes in the accounting policies is set out below:

The New Leasing Standard defines leasing as “a contract which the leaser transfers the right of use of assets to the lessee for consideration within a certain period of time”, and further explains that if a party to the contract transfers the right of use of an identified asset or several identified assets for consideration within a certain period of time, such contract is regarded as leasing or includes leasing. At the same time, the New Leasing Standard also provides regulations in respect of how to divide leasing and non-leasing components under the same contract and the circumstances which several contracts shall be aggregated as a leasing contract for accounting treatment.

Under the New Leasing Standard, the lessee shall no longer divide leasing into operating lease or financing lease, and shall recognise right-of-use assets and lease liabilities of all other leases other than short-term leases and low-value asset leases using a unified accounting treatment model, and make provision for impairment and interest expenses respectively.

The New Leasing Standard clearly stipulates that a major event or change within the controllable scope of the lessee occurs, and if the lessee is reasonably confirmed that the corresponding option will be exercised, the lessee shall re-evaluate the option to renew the lease and purchase options to be reasonably exercised by the lessee or the lease termination option not to be exercised. Changes in leases refer to the changes in the lease scope, lease consideration, and lease term other than the original contract terms. The company shall regard such changes as a separate lease for accounting treatment or remeasure the lease liabilities.

3. Inclusion of Hisense Hitachi in the consolidated financial statements

The Board of the Company held a meeting on 5 March 2019 for consideration and approval of the “Resolution on Transfer of Equity Interest of Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. and Amendments to the Articles of Association of Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.” (《關於受讓青島海信日立空調系統有限公司股權暨修訂青島海信日立空調系統有限公司章程的議案》). Upon the agreement of the Board of the Company, the Company and Unitecs Corporation (株式會社聯合貿易) entered into the Equity Transfer Agreement. The Company received 0.2% of equity interest of Hisense Hitachi held by Unitecs Corporation with a consideration of RMB25.00 million. In addition, the board of directors of Hisense Hitachi agreed to amend certain articles of the articles of association of Hisense Hitachi and adjust the structure of the board of directors as well as the agreed shareholdings of the directors designated by each of the shareholders. Upon the completion of the equity transfer and amendments to the articles of association of Hisense Hitachi, the Company will hold 49.2% of equity interests of Hisense Hitachi. At the same time, the number of board members of Hisense Hitachi will be increased from seven to nine. In particular, the number of board members to be designated by the Company will be increased from three to five. The Company also consolidates Hisense Hitachi into its account.

Notes to the Financial Statements for 2018

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

15. OTHER SIGNIFICANT EVENTS

1. Assets and liabilities measured at fair value

| Item | Opening balance | Amount of financial assets/ liabilities | Gain or loss from change in fair value | Impairment provision for the year | Closing balance |
|--|-------------------|---|--|-----------------------------------|---------------------|
| Financial assets | | | | | |
| Derivative financial assets | 82,670.52 | | 124,679.48 | | 207,350.00 |
| Subtotal of financial assets | 82,670.52 | | 124,679.48 | | 207,350.00 |
| Financial liabilities | | | | | |
| Derivative financial liabilities | 373,723.35 | | -2,392,176.65 | | 2,765,900.00 |
| Subtotal of financial liabilities | 373,723.35 | | -2,392,176.65 | | 2,765,900.00 |

2. 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 2018 and 31 December 2017.

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 | End of the year | Beginning of the year |
|---|-------------------|-----------------------|
| Total debt | 13,938,498,061.67 | 14,520,296,800.80 |
| Including: Short-term borrowings | | |
| Accounts payable | 4,373,335,213.48 | 4,238,836,841.44 |
| Notes payable | 5,442,369,087.15 | 6,141,025,710.22 |
| Other payables | 1,766,319,446.79 | 1,709,226,096.76 |
| Less: Cash and cash equivalents | 1,061,364,062.82 | 952,318,970.66 |
| Net debt | 12,877,133,998.85 | 13,567,977,830.14 |
| Equity attributable to shareholders of parent | 7,351,824,364.87 | 6,572,007,380.21 |
| Capital and net debt | 20,228,958,363.72 | 20,139,985,210.35 |
| Gearing ratio | 63.66% | 67.37% |

Notes to the Financial Statements for 2018

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

15. OTHER SIGNIFICANT EVENTS (continued)

3. 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 2018

Unit: RMB'0000

| Name | Position | Emoluments of independent director | Salaries and allowances | Pension scheme contributions | Total |
|---|---|------------------------------------|-------------------------|------------------------------|-----------------|
| Executive directors | | | | | |
| Tang Ye Guo | Chairman | | 317.84 | 9.50 | 327.34 |
| Liu Hong Xin | Director | | | | |
| Lin Lan | Director | | | | |
| Dai Hui Zhong | Director | | | | |
| Jia Shao Qian | Director and president | | 245.83 | 8.16 | 253.99 |
| Wang Yun Li | Director and vice president | | 185.32 | 8.16 | 193.48 |
| Wang Zhi Gang | Former director and vice president | | 140.99 | 8.16 | 149.15 |
| Independent non-executive director | | | | | |
| Ma Jin Quan | Independent non-executive director | 14.00 | | | 14.00 |
| Xu Xiang Yi | Former independent non-executive director | 7.00 | | | 7.00 |
| Liu Xiao Feng | Former independent non-executive director | 14.00 | | | 14.00 |
| Zhong Geng Shen | Independent non-executive director | 7.00 | | | 7.00 |
| Cheung Sai Kit | Independent non-executive director | 10.00 | | | 10.00 |
| Supervisors | | | | | |
| Liu Zhen Shun | Chairman of the Supervisory Committee | | | | |
| Yang Qing | Supervisor | | | | |
| Fan Wei | Supervisor | | 54.65 | 3.75 | 58.40 |
| Total | | 52.00 | 944.63 | 37.73 | 1,034.36 |

- (i) Note: 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.
- (ii) Mr. Zhong Geng Shen was appointed as the independent director of the Company in June 2018; Mr. Cheung Sai Kit was appointed as the independent director of the Company in August 2018.

Notes to the Financial Statements for 2018

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

15. OTHER SIGNIFICANT EVENTS (continued)

3. Directors and supervisors' emoluments (continued)

(2) As at 31 December 2017

Unit: RMB'0000

| Name | Position | Emoluments of independent director | Salaries and allowances | Pension scheme contributions | Total |
|---|---|---|----------------------------|------------------------------------|-----------------|
| Executive director | | | | | |
| Tang Ye Guo | Chairman | | 317.83 | 9.06 | 326.89 |
| Liu Hong Xin | Director | | | | |
| Lin Lan | Director | | | | |
| Dai Hui Zhong | Director | | 11.67 | | 11.67 |
| Jia Shao Qian | Director and vice-president | | 195.20 | | 195.20 |
| Wang Yun Li | Director and vice-president | | 219.49 | 8.00 | 227.49 |
| Wang Zhi Gang | Former director and vice-president | | 155.63 | 8.00 | 163.63 |
| Independent non-executive director | | | | | |
| Ma Jin Quan | Independent non-executive director | 14.00 | | | 14.00 |
| Xu Xiang Yi | Independent non-executive director | 14.00 | | | 14.00 |
| Liu Xiao Feng | Independent non-executive director | 6.55 | | | 6.55 |
| Wang Xin Yu | Former independent non-executive director | 17.45 | | | 17.45 |
| Wang Ai Guo | Former independent non-executive director | | | | |
| Supervisor | | | | | |
| Liu Zhen Shun | Chairman of Supervisory Committee | | | | |
| Yang Qing | Supervisor | | | | |
| Fan Wei | Supervisor | | 76.96 | 2.33 | 79.29 |
| Total | | 52.00 | 976.78 | 27.39 | 1,056.17 |

- (i) 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.
- (ii) Mr. Liu Xiao Feng was appointed as the independent director of the Company in September 2017.

Notes to the Financial Statements for 2018

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

15. OTHER SIGNIFICANT EVENTS (continued)

3. Directors and supervisors' emoluments (continued)

(3) Five highest paid individuals

In 2018, four (2017: four) of the five highest paid individuals of the Company were directors. The aggregate of the emoluments in respect of the other one individual (2017: one) is as follows (in respect of the range of emoluments for 2018, emoluments of one individual exceeded RMB3,000,000 and below RMB3,500,000, that of one individual exceeded RMB2,000,000 and below RMB2,500,000, and those of three individuals exceeded RMB1,500,000 and below RMB2,000,000; in respect of the range of emoluments for 2017, those of one individual exceeded RMB3,000,000 and below RMB3,500,000, those of one individual exceeded RMB2,000,000 and below RMB2,500,000, and those of three individuals exceeded RMB1,500,000 and below RMB2,000,000):

Unit: RMB'0000

| Item | Amount for current period | Amount for previous period |
|--|---------------------------|----------------------------|
| Salaries, allowance and pension scheme contributions | 166.30 | 171.66 |

4. Key management personnel emoluments

Unit: RMB'0000

| Item | Amount of the year | Amount of previous year |
|--|--------------------|-------------------------|
| Directors and supervisors | | |
| Emoluments, salaries and allowances of independent directors | 996.63 | 1,028.78 |
| Pension scheme contributions | 37.73 | 27.39 |
| Emoluments of other key management personnel | | |
| Salaries and allowances | 169.88 | 132.97 |
| Pension scheme contributions | 10.47 | 10.24 |
| Total | 1,214.71 | 1,199.38 |

Note: Key management personnel refers to the senior management who has the authority and responsibility for planning, directing and controlling the corporate activities.

5. Pension 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.

Notes to the Financial Statements for 2018

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

15. OTHER SIGNIFICANT EVENTS (continued)

6. Leases

(1) Different categories of leased assets of the Company are as follows:

Unit: RMB'0000

| Categories of leased assets under operating leases | Closing carrying amount | Opening carrying amount |
|--|-------------------------|-------------------------|
| Buildings and structures | 6,611.81 | 6,250.83 |
| Total | 6,611.81 | 6,250.83 |

(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 2018 amounted to RMB27,757,100 (2017: RMB29,352,600). The minimum lease payments receivable under non-cancellable operating leases at the end of reporting period are as follows:

Unit: RMB'0000

| Item | Amount for the year | Amount for previous year |
|-------------------------------------|---------------------|--------------------------|
| Within one year | 1,872.38 | 862.45 |
| Over one year but within five years | 1,673.92 | 221.36 |
| Total | 3,546.30 | 1,083.81 |

(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 2018 were as follows:

Unit: RMB'0000

| Operating lease payments | Amount for the year | Amount for previous year |
|------------------------------|---------------------|--------------------------|
| Leasehold land and buildings | 3,899.60 | 3,373.77 |
| Plant and machinery | 466.88 | 48.29 |
| Total | 4,366.48 | 3,422.06 |

Notes to the Financial Statements for 2018

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

15. OTHER SIGNIFICANT EVENTS (continued)

6. Leases (continued)

(4) *The total future minimum lease payments under non-cancellable operating leases at the end of reporting period due as follows:*

Unit: RMB'0000

| Item | Amount for the year | Amount for previous year |
|-------------------------------------|---------------------|--------------------------|
| Within one year | 2,515.75 | 1,488.40 |
| Over one year but within five years | 2,704.35 | 1,766.40 |
| Total | 5,220.10 | 3,254.80 |

7. Auditors' remuneration

In 2018, as considered and approved at the shareholders' general meeting, the Company agreed to reappoint Ruihua Certified Public Accountants as the auditor of the Company for the year of 2018, 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 2018 and bear the corresponding travel expenses.

8. Correction of previous errors

(1) *Retroactive restatement method*

| Content of correction of accounting errors | Handling procedure | Names of affected financial statement items at each of comparative period | Accumulative affected amount |
|---|--|---|------------------------------|
| According to the guidelines under the Case Analysis of Implementing Accounting Standards for Business Enterprises by Listed Companies (2017) of the CSRC: "The criteria for judgement of significant influence is that a company has the right to designate directors for the investee, and judgement shall focus on whether the investor has the right to participate in the operation and impose significant influence over the investee, rather than focusing on whether the investor is exercising such right", to further standardize the accounting treatment and improve the quality of disclosure of accounting information, the Company makes accounting corrections in accordance with relevant requirements under the accounting policy of the Accounting Standards for Business Enterprises No. 2 — Long-term equity investments, and uses the equity method to calculate the total share capital of Hisense International held by the Company. | The correction and retrospective adjustment of accounting errors was considered and approved by the 2019 first meeting of the tenth board of directors of the Company on 28 March 2019 | Financial assets available-for-sale | -3,800,000.00 |
| | | Long-term equity investment | 137,585,563.62 |
| | | Capital reserves | -10,771,716.66 |
| | | Other comprehensive incomes | 6,020,567.73 |
| | | Undistributed profit | 120,226,683.95 |
| | | Surplus reserves | 18,310,028.60 |
| | | Investment gain | 20,582,862.10 |
| | | Total profits | 20,582,862.10 |
| | | Net profits | 20,582,862.10 |
| | | Total comprehensive income | 15,994,404.66 |

Note: The accumulative affected amount set out in the above table refers to the affected amount of the 2017 financial statements.

Notes to the Financial Statements for 2018

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT

1. Notes receivable and Accounts receivable

| Item | Closing balance | Opening balance |
|---------------------|---------------------|---------------------|
| Accounts receivable | 8,028,474.24 | 9,349,045.81 |
| Total | 8,028,474.24 | 9,349,045.81 |

(1) Accounts receivable

- ① Ageing analysis based on invoice day is as follows

| Ageing | Closing balance |
|---|-----------------------|
| Within three months | 2,265,561.31 |
| Over three months but within six months | |
| Over six months but within one year | 7,633,913.25 |
| Over one year | 108,531,422.29 |
| Total | 118,430,896.85 |

- ② As shown by provision for bad debts

| Category | Closing balance | | | | Book value |
|--|-----------------------|---------------|-----------------------|--------------|---------------------|
| | Book value | | Book value | | |
| | Amount | % | Amount | % | |
| Separate provision of bad debt receivables and Accounts receivable | | | | | |
| Provision for bad debts for Accounts receivable on a group basis | 118,430,896.85 | 100.00 | 110,402,422.61 | 93.22 | 8,028,474.24 |
| Including: | | | | | |
| Aging analysis method | 108,775,442.62 | 91.85 | 108,531,910.33 | 99.78 | 243,532.29 |
| Receivables from related parties | 2,021,540.98 | 1.71 | | | 2,021,540.98 |
| Other amount | 7,633,913.25 | 6.44 | 1,870,512.28 | 24.50 | 5,763,400.97 |
| Total | 118,430,896.85 | 100.00 | 110,402,422.61 | 93.22 | 8,028,474.24 |

Notes to the Financial Statements for 2018

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Notes receivable and Accounts receivable (continued)

(1) Accounts receivable (continued)

② As shown by provision for bad debts (continued)

(continued)

| Category | Opening balance | | | | Book value |
|--|-----------------------|---------------|-----------------------|--------------|---------------------|
| | Book value | | Book value | | |
| | Amount | % | Amount | % | |
| Separate provision of bad debt receivables and Accounts receivable | | | | | |
| Provision for bad debts for Accounts receivable on a group basis | 119,893,941.55 | 100.00 | 110,544,895.74 | 92.20 | 9,349,045.81 |
| Including: | | | | | |
| Aging analysis method | 110,241,459.54 | 91.95 | 108,955,039.74 | 98.83 | 1,286,419.80 |
| Receivables from related parties | 2,018,568.76 | 1.68 | | | 2,018,568.76 |
| Other amount | 7,633,913.25 | 6.37 | 1,589,856.00 | 20.83 | 6,044,057.25 |
| Total | 119,893,941.55 | 100.00 | 110,544,895.74 | 92.20 | 9,349,045.81 |

A. Among the group, provision for bad debts for Accounts receivable by aging analysis method:

| Ageing | Closing balance | | |
|---|-----------------------|-------------------------|--------------|
| | Accounts receivable | Provision for bad debts | (%) |
| Within three months | 244,020.33 | 488.04 | 0.20 |
| Over three months but within six months | | | |
| Over six months but within one year | | | |
| Over one year | 108,531,422.29 | 108,531,422.29 | 100.00 |
| Total | 108,775,442.62 | 108,531,910.33 | 99.78 |

Note: This group is based on the aging of Accounts receivable as credit risk characteristic and made provision for bad debts based on the expected credit loss of each aging section.

Notes to the Financial Statements for 2018

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Notes receivable and Accounts receivable (continued)

(1) Accounts receivable (continued)

② As shown by provision for bad debts (continued)

B. Among the group, provision for bad debts for Accounts receivable by receivables from related parties:

| Ageing | Closing balance | | (%) |
|-----------------|---------------------|-------------------------|-----|
| | Accounts receivable | Provision for bad debts | |
| Within one year | 2,021,540.98 | | |
| Total | 2,021,540.98 | | |

C. Among the group, provision for bad debts for Accounts receivable by other amount:

| Category | Closing balance | | (%) |
|--------------|---------------------|-------------------------|--------------|
| | Accounts receivable | Provision for bad debts | |
| Other amount | 7,633,913.25 | 1,870,512.28 | 24.50 |
| Total | 7,633,913.25 | 1,870,512.28 | 24.50 |

③ Provision for bad debts

| Category | Opening balance | Changes during the year | | Closing balance | |
|-----------------------|-----------------------|-------------------------|-------------------------|-------------------|-----------------------|
| | | Provision | Recoveries or reversals | | Write-off |
| Aging analysis method | 108,955,039.74 | 188,830.08 | 427,912.10 | 184,047.39 | 108,531,910.33 |
| Other amount | 1,589,856.00 | 280,656.28 | | | 1,870,512.28 |
| Total | 110,544,895.74 | 469,486.36 | 427,912.10 | 184,047.39 | 110,402,422.61 |

Notes to the Financial Statements for 2018

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT *(continued)*

1. Notes receivable and Accounts receivable *(continued)*

(1) Accounts receivable (continued)

- ④ Accounts receivable written-off during the year

| Item | Written-off amount |
|---------------------------------|--------------------|
| Accounts receivable written-off | 184,047.39 |

- ⑤ Top five accounts receivable by closing balance of debtors.

The total top five accounts receivable of the Company by closing balance of debtors amounted to RMB38,625,888.41, accounting for 32.61% of the closing balance of account receivable. A provision for bad debts of RMB33,787,104.66 in total was made as at the end of the year.

2. Other receivables

| Item | Closing balance | Opening balance |
|-------------------|-------------------------|-------------------------|
| Other receivables | 1,230,184,848.21 | 1,235,500,456.32 |
| Total | 1,230,184,848.21 | 1,235,500,456.32 |

(1) Other receivables

- ① Disclosure by ageing

| Ageing | Closing balance |
|---|-------------------------|
| Within three months | 1,229,485,848.21 |
| Over three months but within six months | |
| Over six months but within one year | 30,000.00 |
| Over one year | 21,669,475.85 |
| Total | 1,251,185,324.06 |

Notes to the Financial Statements for 2018

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables (continued)

(1) Other receivables (continued)

② Classification by nature of the amount

| Nature of the amount | Book value as at the end of the year | Book value as at the beginning of the year |
|-----------------------|--|--|
| Security deposit | 1,368,000.00 | 1,368,000.00 |
| Other current account | 1,249,817,324.06 | 1,255,686,304.97 |
| Total | 1,251,185,324.06 | 1,257,054,304.97 |

③ Provision for bad debts

| Provision for bad debts | First stage Expected credit loss in the next 12 months | Second stage Expected credit loss in the lifetime (without credit impairment) | Third stage Expected credit loss in the lifetime (without credit impairment) | Total |
|---|--|--|---|----------------------|
| Balance as at 1 January 2018 | 758,660.42 | 3,920,871.55 | 16,874,316.68 | 21,553,848.65 |
| During the year, the book value of other receivables as at 1 January 2018: | | | | |
| – transferred to second stage | | | | |
| – transferred to third stage | | | | |
| – reversed to second stage | | | | |
| – reversed to first stage | | | | |
| Provision for the year | | | | |
| Reversal for the year | 9,660.42 | 493,712.38 | | 503,372.80 |
| Written-off for the year | | | | |
| Charge off for the year | 50,000.00 | | | 50,000.00 |
| Other changes | | | | |
| Balance as at 31 December 2018 | 699,000.00 | 3,427,159.17 | 16,874,316.68 | 21,000,475.85 |

Note: Except for separate assessment, the Company assessed whether the credit risk of financial instruments since its initial recognition was significantly increased based on the aging, and estimated the expected credit loss of other receivables with an age of over one year in the lifetime.

Notes to the Financial Statements for 2018

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables (continued)

(1) Other receivables (continued)

④ Provision for bad debts

| Category | Opening balance | Changes during the year | | Closing balance |
|-----------------------|----------------------|-------------------------|-------------------------|----------------------|
| | | Provision | Recoveries or reversals | |
| Aging analysis method | 20,869,848.65 | | 503,372.80 | 20,316,475.85 |
| Other amount | 684,000.00 | | | 684,000.00 |
| Total | 21,553,848.65 | | 503,372.80 | 21,000,475.85 |

⑤ Other receivables written-off during the year

| Item | Written-off amount |
|--|--------------------|
| Other receivables that are written-off | 50,000.00 |

⑥ Top five other receivables by debtor as at the end of the year

| No. | Nature of the amount | Amount | Aging | Percentage of total other receivables (%) | Provision for bad debts Closing balance |
|--------------|--------------------------------------|-----------------------|---------------------|---|---|
| Top 1 | Inter-group current account payments | 187,897,940.45 | Within three months | 15.02 | |
| Top 2 | Inter-group current account payments | 183,732,583.86 | Within three months | 14.68 | |
| Top 3 | Inter-group current account payments | 182,281,173.16 | Within three months | 14.57 | |
| Top 4 | Inter-group current account payments | 143,306,855.59 | Within three months | 11.45 | |
| Top 5 | Inter-group current account payments | 118,809,977.50 | Within three months | 9.50 | |
| Total | – | 816,028,530.56 | – | 65.22 | |

Notes to the Financial Statements for 2018

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

3. Long-term equity investments

(1) Breakdown of long-term equity investments

| Item | Closing balance | | | Opening balance | | |
|--|-------------------------|----------------------|-------------------------|-------------------------|----------------------|-------------------------|
| | Book value | Impairment provision | Carrying amount | Book value | Impairment provision | Carrying amount |
| Investments in subsidiaries | 2,513,391,236.55 | 59,381,641.00 | 2,454,009,595.55 | 2,513,391,236.55 | 59,381,641.00 | 2,454,009,595.55 |
| Investments in associates and joint ventures | 3,326,783,023.78 | | 3,326,783,023.78 | 2,508,351,429.67 | | 2,508,351,429.67 |
| Total | 5,840,174,260.33 | 59,381,641.00 | 5,780,792,619.33 | 5,021,742,666.22 | 59,381,641.00 | 4,962,361,025.22 |

(2) Investments in subsidiaries

| Investee | Opening balance | Increase for the year | Decrease for the year | Closing balance | Provision for impairment made during the year | Closing balance of provision for impairment |
|---------------------------|-------------------------|-----------------------|-----------------------|-------------------------|---|---|
| Guangdong Refrigerator | 155,552,425.85 | | | 155,552,425.85 | | |
| Guangdong Air-conditioner | 281,000,000.00 | | | 281,000,000.00 | | 59,381,641.00 |
| Guangdong Freezer | 15,668,880.00 | | | 15,668,880.00 | | |
| Hisense K&B | 51,531,053.70 | | | 51,531,053.70 | | |
| Rongsheng Plastic | 53,270,064.00 | | | 53,270,064.00 | | |
| Wangao I&E | 600,000.00 | | | 600,000.00 | | |
| Kelon Jiake | 42,000,000.00 | | | 42,000,000.00 | | |
| Yingkou Refrigerator | 84,000,000.00 | | | 84,000,000.00 | | |
| Jiangxi Kelon | 147,763,896.00 | | | 147,763,896.00 | | |
| Hangzhou Kelon | 24,000,000.00 | | | 24,000,000.00 | | |
| Yangzhou Refrigerator | 252,356,998.00 | | | 252,356,998.00 | | |
| Zhuhai Kelon | 189,101,850.00 | | | 189,101,850.00 | | |
| Shenzhen Kelon | 95,000,000.00 | | | 95,000,000.00 | | |
| Kelon Development | 11,200,000.00 | | | 11,200,000.00 | | |
| Chengdu Refrigerator | 50,000,000.00 | | | 50,000,000.00 | | |
| Beijing Refrigerator | 92,101,178.17 | | | 92,101,178.17 | | |
| Shandong Air-conditioning | 567,175,477.74 | | | 567,175,477.74 | | |
| Hisense Mould | 121,628,013.09 | | | 121,628,013.09 | | |
| Shandong Refrigerator | 275,000,000.00 | | | 275,000,000.00 | | |
| Kelon Property | 4,441,400.00 | | | 4,441,400.00 | | |
| Total | 2,513,391,236.55 | | | 2,513,391,236.55 | | 59,381,641.00 |

Notes to the Financial Statements for 2018

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

3. Long-term equity investments (continued)

(3) Investments in associates and joint ventures

| Investee | Opening balance | Increase in investment | Decrease in investment | Change for the year | | |
|----------------------------|-------------------------|------------------------|------------------------|--|---|------------------------|
| | | | | Gains or losses from investment recognised using equity method | Adjustment for other comprehensive income | Other change in equity |
| I. Joint ventures | | | | | | |
| Hisense Hitachi | 2,125,852,095.55 | | | 750,896,755.51 | | |
| Hisense Commercial Trading | | 50,006,241.14 | | -1,978,759.40 | | |
| Subtotal | 2,125,852,095.55 | 50,006,241.14 | | 748,917,996.11 | | |
| II. Associates | | | | | | |
| Hisense Financial Holdings | 244,913,770.50 | | | 16,491,283.61 | 260,835.06 | |
| Hisense Internatinal | 137,585,563.62 | | | 17,413,107.20 | -550,294.68 | -1,565,374.33 |
| Subtotal | 382,499,334.12 | | | 33,904,390.81 | -289,459.62 | -1,565,374.33 |
| Total | 2,508,351,429.67 | 50,006,241.14 | | 782,822,386.92 | -289,459.62 | -1,565,374.33 |

(continued)

| Investee | Change for the year | | | | Closing balance | Closing balance of provision for impairment |
|----------------------------|--|-------------------------------|-----------------|-------------------------|-----------------|---|
| | Declaration of cash dividend or profit | Provision for impairment made | Other decreases | Closing balance | | |
| I. Joint ventures | | | | | | |
| Hisense Hitachi | | | | 2,876,748,851.06 | | |
| Hisense Commercial Trading | | | | 48,027,481.74 | | |
| Subtotal | | | | 2,924,776,332.80 | | |
| II. Associates | | | | | | |
| Hisense Financial Holdings | 2,400,000.00 | | | 259,265,889.17 | | |
| Hisense Internatinal | 10,142,200.00 | | | 142,740,801.81 | | |
| Subtotal | 12,542,200.00 | | | 402,006,690.98 | | |
| Total | 12,542,200.00 | | | 3,326,783,023.78 | | |

Notes to the Financial Statements for 2018

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

4. Operating revenue and operating costs

| Item | Amount for the year | Amount for previous year |
|-----------------------------------|------------------------|-----------------------------|
| Revenue from principal operations | 995,014.63 | -2,842,989.59 |
| Revenue from other operations | 72,842,927.08 | 81,438,037.56 |
| Total operating revenue | 73,837,941.71 | 78,595,047.97 |
| Costs of principal operations | | 67,328.45 |
| Costs of other operations | 60,992,608.85 | 70,234,395.09 |
| Total operating costs | 60,992,608.85 | 70,301,723.54 |

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 | 30,410,182.64 | 131,203,478.11 |
| Gain from long-term equity investment under the equity method | 782,822,386.92 | 770,725,814.63 |
| Gain from disposal of long-term equity investment | | 594,001,248.06 |
| Gain from investment in wealth management products | 27,210,826.29 | |
| Total | 840,443,395.85 | 1,495,930,540.80 |

(2) Gain from long-term equity investments under the cost method

| Investee | Amount for the year | Amount for previous year |
|----------------------|------------------------|-----------------------------|
| Hisense K&B | 12,114,596.00 | 15,795,569.40 |
| Hisense Mould | 18,295,586.64 | 23,407,908.71 |
| Chengdu Refrigerator | | 92,000,000.00 |
| Total | 30,410,182.64 | 131,203,478.11 |

(3) Gain from long-term equity investment under the equity method:

| Investee | Amount for the year | Amount for previous year |
|----------------------------|------------------------|-----------------------------|
| Hisense Hitachi | 750,896,755.51 | 732,001,382.03 |
| Hisense Financial Holdings | 16,491,283.61 | 4,913,770.50 |
| Hisense Commercial Trading | -1,978,759.40 | |
| Hisense International | 17,413,107.20 | 33,810,662.10 |
| Total | 782,822,386.92 | 770,725,814.63 |

Notes to the Financial Statements for 2018

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

17. SUPPLEMENTARY INFORMATION

1. Breakdown of non-recurring profit or loss

| Item | Amount | Amount for previous year Notes |
|---|-----------------------|--------------------------------------|
| Profit or loss from disposal of non-current assets | -613,768.58 | |
| 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 normal operation and business and are received with fixed amounts or with fixed percentage in compliance with national policies) | 213,299,858.04 | |
| 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 | 48,100,716.69 | |
| 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) | | |
| 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 transactional financial assets and liabilities except for effective hedging activities related to the Company's normal operations and investment gain from disposal of financial transactional assets and liabilities and available-for-sale financial assets | | |
| Reversal of impairment provision for accounts receivable individually tested for impairment | | |
| 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 | 13,866,327.84 | |
| Other profit or loss items within the meaning of non-recurring profit or loss | | |
| Subtotal | 274,653,133.99 | |
| Effect of income tax | 42,991,932.03 | |
| Effect of minority interests (after tax) | 15,286,611.19 | |
| Total | 216,374,590.77 | |

Notes to the Financial Statements for 2018

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

17. SUPPLEMENTARY INFORMATION (continued)

2. Return on net asset and earnings per share

2018

| 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 | 19.79 | 1.01 | 1.01 |
| Net profit attributable to ordinary shareholders of the Company after non-recurring profit or loss | 16.68 | 0.85 | 0.85 |

2017

| 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 | 34.71 | 1.48 | 1.48 |
| Net profit attributable to ordinary shareholders of the Company after non-recurring profit or loss | 17.77 | 0.76 | 0.76 |

Notes to the Financial Statements for 2018

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

17. SUPPLEMENTARY INFORMATION (continued)

3. Five-year financial summary

Unit: RMB'0000

| Statement item | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|--------------|--------------|--------------|--------------|--------------|
| Total operating revenue | 3,601,959.83 | 3,348,759.04 | 2,673,021.95 | 2,347,160.29 | 2,653,442.09 |
| Total profits | 156,490.59 | 225,287.43 | 129,916.82 | 63,736.92 | 78,619.29 |
| Income tax | 14,183.15 | 18,106.71 | 12,874.77 | 7,937.78 | 5,972.51 |
| Net profit | 142,307.44 | 207,180.72 | 117,042.05 | 55,799.14 | 72,646.78 |
| Net profit attributable to equity holders of the parent | 137,745.72 | 201,811.30 | 111,655.88 | 59,405.01 | 68,743.59 |
| Minority interests | 4,561.72 | 5,369.42 | 5,386.17 | -3,605.87 | 3,903.19 |

Continued from above table

| Statement item | As at 31 December 2018 | As at 31 December 2017 | As at 31 December 2016 | As at 31 December 2015 | As at 31 December 2014 |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Total assets | 2,182,790.50 | 2,160,745.24 | 1,917,316.08 | 1,437,477.65 | 1,332,867.50 |
| Total liabilities | 1,393,849.81 | 1,452,029.68 | 1,373,159.85 | 981,900.77 | 932,621.34 |
| Net assets | 788,940.70 | 708,715.56 | 544,156.23 | 455,576.89 | 400,246.16 |
| Total equity attributable to equity holders of the parent | 735,182.44 | 657,908.93 | 498,556.84 | 412,597.72 | 352,024.40 |
| Minority interests | 53,758.26 | 50,806.63 | 45,599.39 | 42,979.17 | 48,221.76 |
| Total Equity | 788,940.70 | 708,715.56 | 544,156.23 | 455,576.89 | 400,246.16 |

Notes to the Financial Statements for 2018

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

17. SUPPLEMENTARY INFORMATION (continued)

4. Supplemental information relating to changes in accounting policies and correction of previous significant errors

As stated in this note 15(8) "Correction of previous errors", the Company made correction to the previous significant errors for the year 2018, and retroactively restated the comparative financial statements. The consolidated balance sheets as at 1 January 2017 and 31 December 2017 after retroactively adjustment and retroactively restatement are as follows:

Retroactively restated consolidated balance sheets

Prepared by Hisense Home Appliances Group Co., Ltd.

Unit: RMB

| Item | 31 December 2018 | 31 December 2017 | 1 January 2017 |
|---|--------------------------|--------------------------|--------------------------|
| Current assets: | | | |
| Cash at bank and on hand | 3,648,463,609.61 | 2,996,028,194.89 | 2,227,421,330.74 |
| Transactional financial assets | 207,350.00 | N/A | N/A |
| Financial assets at fair value through profit or loss for the current period | N/A | 82,670.52 | 9,695,070.04 |
| Derivative financial assets | | | |
| Notes receivable and Accounts receivable | 6,068,203,234.09 | 6,350,259,386.45 | 6,006,582,252.43 |
| Including: Notes receivable | 2,971,748,608.75 | 3,517,031,644.77 | 3,281,453,069.10 |
| Accounts receivable | 3,096,454,625.34 | 2,833,227,741.68 | 2,725,129,183.33 |
| Prepayments | 224,120,738.37 | 239,594,948.71 | 174,049,069.34 |
| Other receivables | 318,926,986.30 | 312,462,291.68 | 245,420,469.20 |
| Including: Interest receivable | 197,325.00 | 151,200.00 | |
| Dividend receivable | | | |
| Inventories | 2,955,752,775.71 | 3,397,860,489.07 | 2,660,044,996.38 |
| Contract assets | | N/A | N/A |
| Holding assets for sale | | | |
| Non-current assets due within one year | | | |
| Other current assets | 1,081,172,953.81 | 1,551,317,129.32 | 1,678,765,851.25 |
| Total current assets | 14,296,847,647.89 | 14,847,605,110.64 | 13,001,979,039.38 |

Notes to the Financial Statements for 2018

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

17. SUPPLEMENTARY INFORMATION (continued)

4. Supplemental information relating to changes in accounting policies and correction of previous significant errors (continued)

Retroactively restated consolidated balance sheets (continued)

| Item | 31 December 2018 | 31 December 2017 | 1 January 2017 |
|-------------------------------------|--------------------------|--------------------------|--------------------------|
| Non-current assets: | | | |
| Investments in debt | | N/A | N/A |
| Financial assets available-for-sale | N/A | 100,000.00 | 100,000.00 |
| Other investments in debt | | N/A | N/A |
| Held to maturity investments | N/A | | |
| Long-term receivables | | | |
| Long-term equity investments | 3,326,783,023.78 | 2,509,631,188.19 | 1,749,285,827.68 |
| Other equity investment | | N/A | N/A |
| Other non-current financial assets | | N/A | N/A |
| Investment properties | 22,511,361.05 | 24,997,438.39 | 26,456,837.73 |
| Fixed assets | 3,263,931,920.41 | 3,252,289,033.55 | 3,482,633,488.52 |
| Construction in progress | 84,296,518.04 | 148,361,940.80 | 72,942,458.27 |
| Productive biological assets | | | |
| Oil and gas assets | | | |
| Intangible assets | 714,706,893.47 | 716,335,386.22 | 737,341,935.68 |
| Development expenditure | | | |
| Goodwill | | | |
| Long-term prepaid expenses | 25,349,762.41 | 3,727,675.38 | 5,158,532.22 |
| Deferred tax assets | 93,477,911.35 | 104,404,613.17 | 97,262,720.52 |
| Other non-current assets | | | |
| Total non-current assets | 7,531,057,390.51 | 6,759,847,275.70 | 6,171,181,800.62 |
| Total assets | 21,827,905,038.40 | 21,607,452,386.34 | 19,173,160,840.00 |

Notes to the Financial Statements for 2018

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

17. SUPPLEMENTARY INFORMATION *(continued)*

4. Supplemental information relating to changes in accounting policies and correction of previous significant errors *(continued)*

Retroactively restated consolidated balance sheets (continued)

| Item | 31 December 2018 | 31 December 2017 | 1 January 2017 |
|--|--------------------------|--------------------------|--------------------------|
| Current liabilities: | | | |
| Short-term borrowings | | | |
| Transactional financial liabilities | 2,765,900.00 | N/A | N/A |
| Financial liabilities at fair value through profit or loss for the current period | N/A | 373,723.35 | |
| Derivative financial liabilities | | | |
| Notes payable and Accounts payable | 9,815,704,300.63 | 10,379,862,551.66 | 9,595,123,139.16 |
| Advances from customers | | 791,262,245.11 | 831,778,792.45 |
| Securities underwriting brokerage deposits | | | |
| Employee remunerations payable | 328,800,107.19 | 323,419,615.39 | 334,204,436.58 |
| Taxes payable | 230,675,886.53 | 265,563,541.86 | 222,919,921.87 |
| Other payable | 1,766,319,446.79 | 1,709,226,096.76 | 1,661,704,359.95 |
| Including: Interests payable | | | |
| Dividends payable | | | |
| Contract liability | 716,041,073.75 | N/A | N/A |
| Holding liabilities for sale | | | |
| Non-current liabilities due within one year | | | |
| Other current liabilities | 646,178,914.93 | 639,347,580.40 | 715,840,695.57 |
| Total current liabilities | 13,506,485,629.82 | 14,109,055,354.53 | 13,361,571,345.58 |

Notes to the Financial Statements for 2018

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

17. SUPPLEMENTARY INFORMATION (continued)

4. Supplemental information relating to changes in accounting policies and correction of previous significant errors (continued)

Retroactively restated consolidated balance sheets (continued)

| Item | 31 December 2018 | 31 December 2017 | 1 January 2017 |
|---|--------------------------|--------------------------|--------------------------|
| Non-current liabilities: | | | |
| Long-term borrowings | | | |
| Bonds payable | | | |
| Including: preferred stock | | | |
| Perpetual bond | | | |
| Long-term payables | | | |
| Long-term employee remunerations payable | | | |
| Provisions | 329,557,537.00 | 337,091,145.64 | 314,632,715.41 |
| Deferred income | 98,410,309.53 | 73,013,121.41 | 54,687,498.01 |
| Deferred tax liability | 4,044,585.32 | 1,137,179.22 | 706,994.87 |
| Other non-current liabilities | | | |
| Total non-current liabilities | 432,012,431.85 | 411,241,446.27 | 370,027,208.29 |
| Total liabilities | 13,938,498,061.67 | 14,520,296,800.80 | 13,731,598,553.87 |
| Shareholders' equity | | | |
| Share capital | 1,362,725,370.00 | 1,362,725,370.00 | 1,362,725,370.00 |
| Other equity instruments | | | |
| Including: Preferred stock | | | |
| Perpetual bond | | | |
| Capital reserves | 2,076,473,214.56 | 2,078,119,839.70 | 2,082,401,299.95 |
| Less: Treasury stock | | | |
| Other comprehensive incomes | 16,896,290.49 | 13,390,695.59 | 24,883,731.34 |
| Special reserves | | | |
| Surplus reserves | 556,272,909.16 | 478,649,714.91 | 329,941,306.54 |
| General risk reserves | | | |
| Undistributed profit | 3,339,456,580.66 | 2,646,203,617.29 | 1,185,616,701.02 |
| Total equity attributable to shareholders of the Parent | 7,351,824,364.87 | 6,579,089,237.49 | 4,985,568,408.85 |
| Minority interests | 537,582,611.86 | 508,066,348.05 | 455,993,877.28 |
| Total shareholders' equity | 7,889,406,976.73 | 7,087,155,585.54 | 5,441,562,286.13 |
| Total liabilities and shareholders' equity | 21,827,905,038.40 | 21,607,452,386.34 | 19,173,160,840.00 |

Hisense Home Appliances Group Co., Ltd.
28 March 2019