

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



INTERIM REPORT 2019

Hisense Home Appliances Group Co., Ltd. ("the company") the board of directors (the "board") hereby release the company and the subsidiary (referred to "the group") as of the six months ended June 30, 2019 ("the reporting period") unaudited interim results, and the comparison of the same period in 2018, the interim results announcement via reviewing the company's audit committee.

Financial data prepared in accordance with Chinese accounting standards for enterprises (unless otherwise indicated, the unit of amount is RMB)

I. AUDITOR'S REPORT

Whether the interim report has already been audited or not

Yes No

The interim financial report of the Company has not been audited.

II. FINANCIAL STATEMENTS

The unit in the financial statements of the financial report is: RMB

1. CONSOLIDATED BALANCE SHEETS

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

30 June 2019

Item	Unit: RMB	
	30 June 2019	31 December 2018
Current assets:		
Cash at bank and on hand	5,030,265,550.50	3,648,463,609.61
Balances with clearing companies		
Loans to banks and other financial institutions		
Financial assets held-for-trading	143,200.00	207,350.00
Financial assets at fair value through profit or loss for the current period		
Derivative financial assets		
Notes and accounts receivable	6,819,526,195.20	6,068,203,234.09
Including: Notes receivable	2,277,732,761.70	2,971,748,608.75
Accounts receivable	4,541,793,433.50	3,096,454,625.34
Receivables financing		
Prepayments	217,192,594.30	224,120,738.37
Insurance premium receivable		
Receivables from reinsurers		
Reserves for reinsurance contract receivable		
Others receivables	298,640,168.80	318,926,986.30
Including: Interests receivable	484,127.77	197,325.00
Dividend receivable		
Financial assets purchased under agreements to resell		
Inventories	2,876,113,754.53	2,955,752,775.71
Contract assets		
Assets held for sale		
Non-current assets due within one year		
Other current assets	2,277,465,389.40	1,081,172,953.81
Total current assets	17,519,346,852.73	14,296,847,647.89
Non-current assets:		
Disbursement of loans and advances		
Bond investments		
Financial assets available-for-sale		
Other bond investments		
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	3,067,382,465.36	3,326,783,023.78
Other equity instrument investments		
Other non-current financial assets		
Investment properties	21,202,762.38	22,511,361.05
Fixed assets	3,182,667,991.93	3,263,931,920.41
Construction in progress	56,466,509.48	84,296,518.04
Productive biological assets		
Oil and gas assets		

1. CONSOLIDATED BALANCE SHEETS — *Continued*

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

30 June 2019

Unit: RMB

Item	30 June 2019	31 December 2018
Right-of-use assets	41,491,784.18	
Intangible assets	711,132,986.36	714,706,893.47
Development costs		
Goodwill		
Long-term prepaid expenses	24,063,891.51	25,349,762.41
Deferred tax assets	85,293,886.22	93,477,911.35
Other non-current assets		
Total non-current assets	7,189,702,277.42	7,531,057,390.51
Total assets	24,709,049,130.15	21,827,905,038.40
Current liabilities:		
Short-term borrowings		
Borrowings from central bank		
Loans to banks and other financial institutions		
Financial liabilities held-for-trading	435,190.00	2,765,900.00
Financial liabilities at fair value through profit or loss for the current period		
Derivative financial liabilities		
Notes and accounts	11,501,783,495.11	9,815,704,300.63
Advances from customers		
Proceeds from disposal of financial assets under agreements to repurchase		
Receipt of deposits and deposits from other banks		
Customer brokerage deposits		
Securities underwriting brokerage deposits		
Employee remunerations payable	313,396,619.96	328,800,107.19
Taxes payable	197,758,150.48	230,675,886.53
Other payables	2,461,683,065.69	1,766,319,446.79
Including: Interests payable		
Dividends payable	412,905,787.11	
Handling fees and commission payable		
Reinsured accounts payable		
Contract liabilities	322,470,065.38	716,041,073.75
Liabilities held for sale		
Non-current liabilities due within one year		
Other current liabilities	955,921,040.81	646,178,914.93
Total current liabilities	15,753,447,627.43	13,506,485,629.82

1. CONSOLIDATED BALANCE SHEETS — *Continued*

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

30 June 2019

Unit: RMB

Item	30 June 2019	31 December 2018
Non-current liabilities:		
Insurance contract liabilities		
Long-term borrowings		
Bonds payable		
Including: Preference shares		
Perpetual debts		
Lease liabilities	37,607,919.24	
Long-term payables		
Long-term employee remunerations payable		
Accrued Liabilities	337,955,208.48	329,557,537.00
Deferred income	123,848,392.31	98,410,309.53
Deferred tax liabilities	10,089,315.32	4,044,585.32
Other non-current liabilities		
Total non-current liabilities	509,500,835.35	432,012,431.85
Total liabilities	16,262,948,462.78	13,938,498,061.67
Shareholders' equity:		
Share capital	1,362,725,370.00	1,362,725,370.00
Other equity instruments		
Including: Preference shares		
Perpetual debts		
Capital reserves	2,076,473,214.56	2,076,473,214.56
Less: treasury shares		
Other comprehensive income	22,618,996.53	16,896,290.49
Special reserves		
Surplus reserves	556,272,909.16	556,272,909.16
General risk provisions		
Undistributed profit	3,886,297,261.90	3,339,456,580.66
Total equity attributable to shareholders of the parent	7,904,387,752.15	7,351,824,364.87
Minority interests	541,712,915.22	537,582,611.86
Total shareholders' equity	8,446,100,667.37	7,889,406,976.73
Total liabilities and shareholders' equity	24,709,049,130.15	21,827,905,038.40

Legal representative: Tang Ye Guo

Chief financial officer: Chen Xiao Lu

Accounting supervisor: Liang Hong Tao

2. BALANCE SHEETS OF PARENT COMPANY

Unit: RMB

Item	30 June 2019	31 December 2018
Current assets:		
Cash at bank and on hand	338,913,323.58	66,002,462.15
Financial assets held-for-trading		
Financial assets at fair value through profit or loss for the current period		
Derivative financial assets		
Notes and accounts receivable	5,070,305.82	8,028,474.24
Including: Notes receivable		
Accounts receivable	5,070,305.82	8,028,474.24
Receivables financing		
Prepayments	27,952,011.99	21,794,567.90
Others receivables	1,247,120,114.88	1,230,184,848.21
Including: Interests receivable		
Dividend receivable		
Inventories	21,168.08	2,985.38
Contract assets		
Assets held for sale		
Non-current assets due within one year		
Other current assets	660,891,544.45	171,456,671.63
Total current assets	2,279,968,468.80	1,497,470,009.51
Non-current assets:		
Bond investments		
Financial assets available-for-sale		
Other bond investments		
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	5,521,392,060.91	5,780,792,619.33
Other equity instrument investments		
Other non-current financial assets		
Investment properties	6,220,646.00	6,912,776.00
Fixed assets	19,247,354.67	22,898,140.15
Construction in progress	4,702,116.45	563,292.29
Productive biological assets		
Oil and gas assets		
Right-of-use assets		
Intangible assets	179,006,254.00	180,382,891.00
Development costs		
Goodwill		
Long-term prepaid expenses	232,986.24	224,869.24
Deferred tax assets		
Other non-current assets		
Total non-current assets	5,730,801,418.27	5,991,774,588.01
Total assets	8,010,769,887.07	7,489,244,597.52

2. BALANCE SHEETS OF PARENT COMPANY — *Continued*

Item	<i>Unit: RMB</i>	
	30 June 2019	31 December 2018
Current liabilities:		
Short-term borrowings		
Financial liabilities held-for-trading		
Financial liabilities at fair value through profit or loss for the current period		
Derivative financial liabilities		
Notes and accounts payable	287,103,136.58	287,857,101.70
Advances from customers	8,385,984.00	8,449,546.81
Contract liabilities		
Employee remunerations payable	3,195,718.33	4,469,560.66
Taxes payable	3,180,504.66	725,132.44
Other payables	1,106,428,036.71	692,710,246.35
Including: Interests payable		
Dividends payable	412,905,787.11	
Liabilities held for sale		
Non-current liabilities due within one year		
Other current liabilities	16,065,297.94	19,154,070.26
Total current liabilities	1,424,358,678.22	1,013,365,658.22
Non-current liabilities:		
Long-term borrowings		
Bonds payable		
Including: Preference shares		
Perpetual debts		
Lease liabilities		
Long-term payables		
Long-term employee remunerations payable		
Accrued Liabilities	177,305,055.60	168,134,924.14
Deferred income	27,514,735.50	28,000,372.60
Deferred tax liabilities		
Other non-current liabilities		
Total non-current liabilities	204,819,791.10	196,135,296.74
Total liabilities	1,629,178,469.32	1,209,500,954.96
Shareholders' equity:		
Share capital	1,362,725,370.00	1,362,725,370.00
Other equity instruments		
Including: Preference shares		
Perpetual debts		
Capital reserves	2,261,470,878.87	2,261,470,878.87
Less: treasury shares		
Other comprehensive income	12,297,290.60	5,631,108.11
Special reserves		
Surplus reserves	525,664,284.17	525,664,284.17
Undistributed profit	2,219,433,594.11	2,124,252,001.41
Total shareholders' equity	6,381,591,417.75	6,279,743,642.56
Total liabilities and shareholders' equity	8,010,769,887.07	7,489,244,597.52

Legal representative: Tang Ye Guo

Chief financial officer: Chen Xiao Lu

Accounting supervisor: Liang Hong Tao

3. CONSOLIDATED INCOME STATEMENT

Item	<i>Unit: RMB</i>	
	First half of 2019	First half of 2018
I. Total operating revenue	18,950,275,309.93	20,370,759,289.58
Including: Operating revenue	18,950,275,309.93	20,370,759,289.58
Interest income		
Insurance premium earned		
Income from handling fees and commission		
II. Total operating costs	18,505,571,940.20	19,971,447,150.13
Including: Operating costs	15,091,028,662.14	16,624,633,310.44
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	150,663,690.48	161,071,308.45
Selling expenses	2,624,883,463.85	2,643,873,486.50
General and administrative expenses	241,004,121.20	214,080,347.92
Research and development expenses	377,178,975.93	319,451,060.26
Financial expenses	14,787,894.44	13,267,112.63
Including: Interest expenses	973,801.85	2,472,249.99
Interest income	24,740,076.79	15,885,956.22
Credit impairment loss	8,530,913.64	-1,421,593.67
Impairment losses on assets	-2,505,781.48	-3,507,882.40
Add: Other income	107,479,058.57	90,355,764.85
Investment income (Loss denoted by "-")	498,007,782.36	407,429,356.48
Including: Share of profit of associates and jointly controlled entities	487,374,859.09	379,639,880.70
Investment income from derecognition of financial assets at amortised cost (Loss denoted by "-")		
Foreign exchange gains (Loss denoted by "-")		
Gain net exposure to hedging (Loss denoted by "-")		
Gains from changes in fair value (Loss denoted by "-")	2,266,560.00	-2,443,607.21
Gains on disposal of assets (Loss denoted by "-")	586,691.50	471,937.85
III. Operating profits (loss denoted by "-")	1,053,043,462.16	895,125,591.42
Add: Non-operating income	66,745,068.73	47,013,064.01
Less: Non-operating expenses	10,841,854.97	11,896,255.36
IV. Total profit (total loss denoted by "-")	1,108,946,675.92	930,242,400.07
Less: Income tax expenses	122,414,482.21	111,675,938.47
V. Net profits (net loss denoted by "-")	986,532,193.71	818,566,461.60
(I) Classified on a going concern basis		
1. Net profit from continuing operations (net loss denoted by "-")	986,532,193.71	818,566,461.60
2. Net profit from discontinued operations (net loss denoted by "-")		
(II) Classified by ownership of equity		
1. Net profit attributable to owners of the parent	959,746,468.35	791,634,530.35
2. Profit and loss of minority interests	26,785,725.36	26,931,931.25
VI. Other comprehensive income after tax, net	5,722,706.04	-1,640,657.30
Other comprehensive income after tax attributable to owners of the parent, net	5,722,706.04	-1,640,657.30
(I) Items not to be reclassified into profit or loss		
1. Changes arising from remeasurement of defined benefit plans		
2. Other comprehensive income not to be reclassified into profit or loss under the equity method		
3. Change in fair value of other equity instrument investments		
4. Changes in fair value of enterprise's own credit risk		
5. Others		
(II) Items to be reclassified into profit or loss	5,722,706.04	-1,640,657.30
1. Other comprehensive income to be reclassified into profit or loss under the equity method	6,666,182.49	-1,468,978.44
2. Change in fair value of other debt investments		
3. Gains or losses from changes in fair value of available-for-sale financial assets		
4. Financial assets reclassified into other comprehensive income		
5. Gains or losses from reclassifying held-to maturity investments to available-for-sale financial assets		
6. Credit impairment provision for other debt instruments		
7. Reserve for cash flow hedging		
8. Differences on translation of foreign currency financial statements	-943,476.45	-171,678.86
9. Others		
Other comprehensive income after tax attributable to minority interests, net		
VII. Total comprehensive income	992,254,899.75	816,925,804.30
Total comprehensive income attributable to owners of the parent	965,469,174.39	789,993,873.05
Total comprehensive income attributable to minority interests	26,785,725.36	26,931,931.25
VIII. Earnings per share:		
(I) Basic earnings per share	0.70	0.58
(II) Diluted earnings per share	0.70	0.58

Legal representative: Tang Ye Guo

Chief financial officer: Chen Xiao Lu

Accounting supervisor: Liang Hong Tao

4. INCOME STATEMENT OF PARENT COMPANY

Item	<i>Unit: RMB</i>	
	First half of 2019	First half of 2018
I. Operating revenue	39,338,014.57	37,396,412.12
Less: Operating costs	34,573,929.98	32,349,596.88
Taxes and surcharges	3,037,458.42	3,075,516.45
Selling expenses	12,891,204.35	30,060,673.31
General and administrative expenses	13,312,223.59	12,595,711.44
Research and development expenses		
Financial expenses	-2,378,758.80	-5,238,553.34
Including: Interest expenses		
Interest income	934,076.08	1,117,159.93
Credit impairment loss	-354,860.88	-820,101.17
Impairment losses on assets		
Add: Other income	507,897.10	537,545.40
Investment income (Loss denoted by "-")	535,221,711.34	431,172,689.06
Including: Share of profit of associates and jointly controlled entities	487,374,859.09	380,269,351.36
Investment income from derecognition of financial assets at amortised cost (Loss denoted by "-")		
Gain net exposure to hedging (Loss denoted by "-")		
Gains from changes in fair value (Loss denoted by "-")		
Gains on disposal of assets (Loss denoted by "-")		
II. Operating profits (Loss denoted by "-")	513,986,426.35	397,083,803.01
Add: Non-operating income	103,789.73	203,223.91
Less: Non-operating expenses	6,002,836.27	3,134,750.49
III. Total profit (Total loss denoted by "-")	508,087,379.81	394,152,276.43
Less: Income tax expenses		
IV. Net profits (Net loss denoted by "-")	508,087,379.81	394,152,276.43
(I) Net profit from continuing operations (net loss denoted by "-")	508,087,379.81	394,152,276.43
(II) Net profit from discontinued operations (net loss denoted by "-")		
V. Other comprehensive income after tax, net	6,666,182.49	-1,468,978.44
(I) Items not to be reclassified into profit or loss		
1. Changes arising from remeasurement of defined benefit plans		
2. Other comprehensive income not to be transferred into profit or loss under the equity method		
3. Change in fair value of other equity instrument investments		
4. Changes in fair value of enterprise's own credit risk		
5. Others		
(II) Items to be reclassified into profit or loss	6,666,182.49	-1,468,978.44
1. Other comprehensive income to be reclassified into profit or loss under the equity method	6,666,182.49	-1,468,978.44
2. Change in fair value of other debt investments		
3. Gains or losses from changes in fair value of available-for-sale financial assets		
4. Financial assets reclassified into other comprehensive income		
5. Gains or losses from reclassifying held-to maturity investments to available-for-sale financial assets		
6. Credit impairment provision for other debt instruments		
7. Reserve for cash flow hedging		
8. Differences on translation of foreign currency financial statements		
9. Others		
VI. Total comprehensive income	514,753,562.30	392,683,297.99
VII. Earnings per share:		
(1) Basic earnings per share		
(2) Diluted earnings per share		

Legal representative: Tang Ye Guo

Chief financial officer: Chen Xiao Lu

Accounting supervisor: Liang Hong Tao

5. CONSOLIDATED CASH FLOW STATEMENT

Unit: RMB

Item	First half of 2019	First half of 2018
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	13,398,803,503.74	13,292,660,158.09
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		
Cash received from interests, fees and commissions		
Net increase in capital borrowed		
Net increase in repurchase business capital		
Net income from trading securities as broker		
Tax rebates received	651,864,270.54	695,000,022.44
Other cash received concerning operating activities	299,181,255.66	380,981,372.84
Subtotal of cash inflows from operating activities	14,349,849,029.94	14,368,641,553.37
Cash paid for purchases of commodities and receipt of services	8,123,396,535.83	9,514,548,526.13
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		
Net increase from financial assets held-for-trading		
Net increase from lending capital		
Cash paid for interests, fees and commissions		
Cash paid for policyholders' dividend		
Cash paid to and for employees	1,764,780,527.01	1,678,076,600.33
Cash paid for taxes and surcharges	640,693,975.21	673,202,913.76
Cash paid for other operating activities	1,851,882,000.90	1,865,865,857.24
Subtotal of cash outflows from operating activities	12,380,753,038.95	13,731,693,897.46
Net cash flows from operating activities	1,969,095,990.99	636,947,655.91
II. Cash flows from investing activities:		
Cash received from recovery of investments	753,441,600.00	12,542,200.00
Cash received from investment income	12,582,123.27	28,060,935.88
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	363,388.04	583,149.66
Net cash received from disposals of subsidiaries and other operation units		
Cash received relating to other investing activities	790,000,000.00	1,580,000,000.00
Subtotal of cash inflows from investing activities	1,556,387,111.31	1,621,186,285.54
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	129,728,799.89	145,808,725.00
Cash paid for investments		
Net increase in pledge loans		
Cash paid for acquiring subsidiaries and other operation units		
Cash paid relating to other investing activities	1,980,000,000.00	1,730,000,000.00
Subtotal of cash outflows from investing activities	2,109,728,799.89	1,875,808,725.00
Net cash flows from investing activities	-553,341,688.58	-254,622,439.46

5. CONSOLIDATED CASH FLOW STATEMENT — Continued

Item	Unit: RMB	
	First half of 2019	First half of 2018
III. Cash flows from financing activities:		
Cash received from capital contribution		
Including: Cash contribution to subsidiaries from minority shareholders' investment		
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
Cash paid for repayment of borrowings		
Cash paid for distribution of dividends, profit or payment of interest expenses	23,380,327.66	12,833,922.68
Including: Dividend and profit paid to minority shareholders by subsidiaries	22,406,525.81	12,833,922.68
Cash paid relating to other financing activities	687,192,376.72	365,328,088.72
Subtotal of cash outflows from financing activities	710,572,704.38	378,162,011.40
Net cash flows from financing activities	-710,572,704.38	-178,162,011.40
IV. Effects of foreign exchange rate changes on cash and cash equivalents	-484,076.00	-1,039,001.59
V. Net increase in cash and cash equivalents	704,697,522.03	203,124,203.46
Add: Balance of cash and cash equivalents at the beginning of the period	1,061,364,062.82	952,318,970.66
VI. Balance of cash and cash equivalents at the end of the period	1,766,061,584.85	1,155,443,174.12

Legal representative: Tang Ye Guo

Chief financial officer: Chen Xiao Lu

Accounting supervisor: Liang Hong Tao

6. CASH FLOW STATEMENT OF PARENT COMPANY

Unit: RMB

Item	First half of 2019	First half of 2018
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	99,758,843.17	248,365,385.03
Tax rebates received		
Cash received concerning other operating activities	48,307,603.93	145,421,628.03
Subtotal of cash inflows from operation activities	148,066,447.10	393,787,013.06
Cash paid for purchases of commodities and receipt of labor services		
Cash paid to and for employees	40,059,361.17	30,531,159.10
Cash paid for taxes and surcharges	996,889.82	16,555,620.65
Cash paid for other operating activities	140,865,206.50	277,681,415.82
Subtotal of cash outflow from operating activities	181,921,457.49	324,768,195.57
Net cash flows from operating activities	-33,855,010.39	69,018,817.49
II. Cash flow from investing activities:		
Cash received from recovery of investments	753,441,600.00	10,142,200.00
Cash received from investment income	47,846,852.25	45,188,741.70
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		
Net cash received from disposals of subsidiaries and other operation units		
Cash received relating to other investing activities	310,000,000.00	1,200,000,000.00
Subtotal of cash inflows from investing activities	1,111,288,452.25	1,255,330,941.70
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	4,522,580.43	91,616.75
Cash paid for investments		
Net cash paid for acquisition of subsidiaries and other operation units		
Cash paid relating to other investing activities	800,000,000.00	1,050,000,000.00
Subtotal of cash outflows from investing activities	804,522,580.43	1,050,091,616.75
Net cash flows from investing activities	306,765,871.82	205,239,324.95
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		
Cash paid relating to other financing activities		
Subtotal of cash outflows from financing activities		
Net cash flows from financing activities		
IV. Effects of foreign exchange rate changes on cash and cash equivalents		
V. Net increase in cash and cash equivalents	272,910,861.43	274,258,142.44
Add: Balance of cash and cash equivalents at the beginning of the period	65,952,462.15	42,041,702.34
VI. Balance of cash and cash equivalents at the end of the period	338,863,323.58	316,299,844.78

Legal representative: Tang Ye Guo

Chief financial officer: Chen Xiao Lu

Accounting supervisor: Liang Hong Tao

7. CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Amount for current period

Unit: RMB

Item	Current period														Total shareholders' equity
	Attributable to shareholders of the parent													Minority interests	
	Share capital	Other equity instruments			Capital reserve	Less:	Other comprehensive income	Special reserves	Surplus reserves	General risk provisions	Undistributed profits	Other	Subtotals		
Preference shares		Perpetual debts	Others	Treasury shares											
I. Closing balance of previous year	1,362,725,370.00				2,076,473,214.56		16,896,290.49		556,272,909.16		3,339,456,580.66		7,351,824,364.87	537,582,611.86	7,889,406,976.73
Add: Changes in accounting policies															
Correction for error in previous period															
Business combination involving entities under common control															
Others															
II. Opening balance for the year	1,362,725,370.00				2,076,473,214.56		16,896,290.49		556,272,909.16		3,339,456,580.66		7,351,824,364.87	537,582,611.86	7,889,406,976.73
III. Movements in the current period															
(Decreases denoted in "-")															
(1) Total comprehensive income							5,722,706.04				546,840,681.24		552,563,387.28	4,130,303.36	556,693,690.64
(2) Owners' contributions and capital reductions															
1. Ordinary shares contributed by owners															
2. Capital contributions by holders of other equity instruments															
3. Amount of sharebased payment included in owners' equity															
4. Others															
(3) Profit Distribution															
1. Appropriations to surplus reserve															
2. Appropriations to general risk provisions															
3. Distribution to owners (shareholders)															
4. Others															
(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. Retained earnings transferred from the changes in defined benefit plan															
5. Retained earnings transferred from the changes in other comprehensive income															
6. Others															
(5) Special reserves															
1. Provided during the period															
2. Used during the period															
(6) Others															
IV. Closing balance for the period	1,362,725,370.00				2,076,473,214.56		22,618,996.53		556,272,909.16		3,886,297,261.90		7,904,387,752.15	541,712,915.22	8,446,100,667.37

Legal representative: Tang Ye Guo

Chief financial officer: Chen Xiao Lu

Accounting supervisor: Liang Hong Tao

7. CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY — *Continued*

Amount for previous year

Unit: RMB

Item	Previous period												Total shareholders' equity		
	Attributable to shareholders of the parent											Minority interests			
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provisions	Undistributed profits			Other	Subtotals
Preference shares		Perpetual debts	Others												
I. Closing balance for 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		6,445,303,673.87	508,066,348.05	6,953,370,021.92
Add: Changes in accounting policies							-100,000.00		-28,312.50		-6,953,544.78		-7,081,857.28	-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		120,226,663.95		133,785,563.62		133,785,563.62
Business combination involving entities under common control															
Others															
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		6,572,007,380.21	507,692,636.49	7,079,700,216.70
III. Movements in the current period															
(Decreases denoted in "-")					-1,646,625.14		3,605,594.90		77,651,506.75		700,206,508.15		779,816,984.66	29,889,775.37	809,706,760.03
(1) Total comprehensive income							3,605,594.90		77,651,506.75		1,377,457,177.70		1,381,062,772.60	45,630,568.55	1,426,693,341.15
(2) Owners' contributions and capital reductions					-81,250.81								-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 sharebased payment included in owners' equity															
4. Others					-81,250.81								-81,250.81	-21,990.37	-103,241.18
(3) Profit Distribution								77,651,506.75		-677,250,669.55		-599,599,162.80	-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 (shareholders)										-599,599,162.80		-599,599,162.80	-15,515,983.99	-615,115,146.79	
4. Others															
(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. Retained earnings transferred from the changes in defined benefit plan															
5. Retained earnings transferred from the changes in other comprehensive income															
6. Others															
(5) Special reserves															
1. Provided during the period															
2. Used during the period															
(6) Others					-1,565,374.33								-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		7,351,824,364.87	537,582,611.86	7,889,406,976.73

Legal representative: Tang Ye Guo

Chief financial officer: Chen Xiao Lu

Accounting supervisor: Liang Hong Tao

8. STATEMENT OF CHANGES IN OWNERS' EQUITY OF THE PARENT COMPANY

Amount for current period

Unit: RMB

Item	First half of 2019											
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Others	Total shareholders' equity
		Preference shares	Perpetual debts	Others								
I. Closing balance of previous year	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
Add: Changes in accounting policies												
Correction for error in previous period												
Others												
II. Opening balance for the year	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
III. Movements in the current period												
(Decreases denoted in "-")							6,666,182.49			95,181,592.70		101,847,775.19
(1) Total comprehensive income							6,666,182.49			508,087,379.81		514,753,562.30
(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. Others												
(3) Profit Distribution										-412,905,787.11		-412,905,787.11
1. Appropriations to surplus reserve												
2. Distribution to owners (shareholders)										-412,905,787.11		-412,905,787.11
3. Distribution to shareholders												
4. Others												
(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. Retained earnings transferred from the changes in defined benefit plan												
5. Retained earnings transferred from the changes in other comprehensive income												
6. Others												
(5) Special reserves												
1. Provided during the period												
2. Used during the period												
(6) Others												
IV. Closing balance for the period	1,362,725,370.00				2,261,470,878.87		12,297,290.60		525,664,284.17	2,219,433,594.11		6,381,591,417.75

Legal representative: Tang Ye Guo

Chief financial officer: Chen Xiao Lu

Accounting supervisor: Liang Hong Tao

8. STATEMENT OF CHANGES IN OWNERS' EQUITY OF THE PARENT COMPANY — *Continued*

Amount for previous year

Unit: RMB

Item	Previous period											
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Others	Total shareholders' equity
		Preference shares	Perpetual debts	Others								
I. Closing balance for 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	-254,812.47	-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
Others												
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. Others												
(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 (shareholders)											-599,599,162.80	-599,599,162.80
3. Distribution to shareholders												
4. Others												
(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. Retained earnings transferred from the changes in defined benefit plan												
5. Retained earnings transferred from the changes in other comprehensive income												
6. Others												
(5) Special reserves												
1. Provided during the period												
2. Used during the period												
(6) Others					-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

Legal representative: Tang Ye Guo

Chief financial officer: Chen Xiao Lu

Accounting supervisor: Liang Hong Tao

NOTES TO THE FINANCIAL STATEMENTS*Half year of 2019*

(Unless otherwise stated, all amounts are denominated in Renminbi)

I. COMPANY PROFILE

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

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

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

On 13 December 2006, 26.43% of the total share capital of the Company held by Guangdong Greencool Enterprises Development Company Limited was transferred to Qingdao Hisense Air-Conditioning Company Limited ("Qingdao Hisense Air-Conditioning"). Upon completion of the share transfer, Guangdong Greencool, the former single largest shareholder of the Company, no 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 object), to fund the acquisition of 100% equity interests in Hisense (Shandong) Air-Conditioner Co., Ltd., 51% equity interests in Hisense (Zhejiang) Air-Conditioner Co., Ltd., 49% equity interests in Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. ("Hisense Hitachi"), 55% equity interests in Hisense (Beijing) Electrical Co., Ltd., 78.70% equity interests in Qingdao Hisense Mould Co., Ltd. and the white goods marketing businesses and assets including refrigerators and airconditioners of Qingdao Hisense Marketing Co., Ltd. ("Hisense Marketing").

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

I. COMPANY PROFILE — *Continued*

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

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

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

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 was changed from Hisense Kelon Electrical Holdings Company Limited to Hisense Home Appliances Group Co., Ltd.

As at 30 June 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 home appliances (such as refrigerators) development and manufacture, domestic and overseas sales of products, provision of after-sale services and transportation of own 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.

This financial statements was approved by the Board of the Company on 22 August 2019.

During the first half of 2019, there were a total of 37 subsidiaries consolidated into the Company, details of which are set out in note VIII "Interests in other entities". There was no change in subsidiaries consolidated as compared with last year.

II. 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.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS — Continued

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.

III. 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 30 June 2019 and the operating results, cash flows and other related information of the Company for the half year then ended. In addition, the financial statements also comply with the disclosure requirements as contained in the Information Disclosure Regulations for Companies Publicly Issuing Securities No. 15 — General Provisions for Financial Statements (Revised 2014) issued by China Securities Regulatory Commission relating to financial statements and notes thereto in all material respects.

IV. 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 IV.26 “Income” for details. For the explanation on significant accounting judgments and estimates made by the management, please refer to note IV.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.

IV. 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**

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.

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.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**4. Accounting treatment for business combinations involving entities under common and not under common control — Continued****(2) Business combination involving entities not under common control — Continued**

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

For a business combination involving entities not under common control that is achieved in stages, the Company shall determine whether the business combination shall be treated as “a bundle of transactions” in accordance with the determination standards as contained in the “Circular on the 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 IV.5(2)). 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 IV.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 period.

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.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**5. Preparation of consolidated financial statements****(1) Criteria for the recognition of scope of consolidation**

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

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

(2) Preparation of consolidated financial statements

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

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

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

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

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**5. Preparation of consolidated financial statements — Continued****(2) Preparation of consolidated financial statements — Continued**

When the control over a subsidiary is lost due to disposal of a portion of equity investment or otherwise, the remaining equity interest is re-measured at the fair value on the date when the control ceased. The difference between the sum of the consideration received from disposal of equity interest and the fair value of the remaining equity interest, and the net assets of the former subsidiary attributable to the Company since the acquisition date as calculated based on its original shareholding percentage in that subsidiary, is recognised as the investment income for the period when the loss of control occurred. Other comprehensive incomes in relation to the equity investment of the subsidiary shall be, upon the loss of control, accounted for in accordance with the same basis as that the acquiree adopts in directly disposing of relevant assets or liabilities, that is, except for the changes arising from remeasurement of net assets or liabilities relating to the defined benefit plan of that subsidiary, the balance shall be transferred to investment income for the current year. Subsequent measurement of the remaining equity interests shall be in accordance with relevant accounting standards such as "Accounting Standards for Business Enterprises 2 — Long-term Equity Investments" or "Accounting Standards for Business Enterprises 22 — Recognition and Measurement of Financial Instruments", which are detailed in note IV.13 "Long term equity investment" or note IV.9 "Financial instrument".

The Company shall determine whether a series of transactions in relation to disposal of equity investment in or even loss of control over a subsidiary in stages should be treated as a bundle of transactions. When the economic effects and terms and conditions of the transactions in relation to the disposal of equity investment met one or more of the following situations, the series of transactions shall normally be accounted for as a bundle of transactions: (i) these transactions are entered into simultaneously or after considering the mutual consequences of each individual transaction; (ii) these transactions need to be considered as a whole in order to achieve a deal in commercial sense; (iii) the occurrence of an individual transaction depends on the occurrence of one or more individual transaction(s) in the series; (iv) The result of an individual transaction is not economical, but it would be economical after taking into account the other transactions in the series. When the transactions are not treated as a bundle of transactions, each of the individual transactions shall be accounted for as the "portion disposal of long term equity investment in a subsidiary which would not lead to loss of control" (detailed in note IV.13(2)④ "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.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**6. Classification of joint arrangements and accounting treatment for joint operations**

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

The investment in joint ventures is accounted for using the equity method in accordance with the accounting policies as set out in note IV.13(2)② "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.

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.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**8. Foreign currency transactions and translation of financial statements in foreign currency — Continued****(2) Translation of monetary items and non-monetary items in foreign currencies**

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 spot 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.

IV. 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 spot average exchange rates approximate thereto. The effect of exchange rate changes on cash is presented separately as an adjustment item in the cash flow statement.

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

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 recognised in profit or loss for the period. For partial disposals of equity interests in foreign operations which are associates or joint ventures, the exchange differences arising from the translation of financial statements in foreign currency of the foreign operation is reclassified to profit or loss for the period in which the disposal took place on a pro rata basis.

9. Financial instruments

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

(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; and 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.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**9. Financial instruments — Continued****(1) Classification, recognition and measurement of financial assets — Continued****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.

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 income 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.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**9. Financial instruments — Continued****(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 include financial liabilities held-for-trading (with derivative instruments which are financial liabilities) and financial liabilities at fair value through profit or loss on initial recognition.

Financial liabilities held-for-trading (with derivative instruments which are financial liabilities) are subsequently measured at fair value. Except for those involving 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 be included in profit or loss.

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.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**9. Financial instruments — Continued****(3) Basis for recognition and measurement of transfer of financial assets**

The financial asset will be derecognised 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 accordingly, the relevant liability. The extent of 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 financial asset transferred 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 derecognition 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 derecognised 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 is derecognised; where substantially all the risks and rewards of ownership of the financial asset have been retained, the financial asset is not derecognised; 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.

(4) Derecognition of financial liabilities

If the current obligation of the financial liabilities (or a part thereof) has been discharged, the financial liabilities (or that part of the financial liabilities) are derecognised. If the Company (as 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 the new financial liabilities will be recognised. As for substantive changes made to the contract terms of the original financial liabilities (or a part thereof), the original financial liabilities will be derecognised, and the financial liabilities with revised terms 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.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**9. Financial instruments — Continued****(5) Offsetting financial assets and financial liabilities**

Where the Company has a legal right to offset the recognised financial assets and financial liabilities and such right may be enforced at present and there are plans for netting or realising the financial assets and settling 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 financial liabilities are separately presented in the balance sheet without offsetting against each other.

(6) Determination of fair value for financial assets and financial liabilities

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. The relevant observable input values are used 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 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.

IV. 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 mainly 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 shall make impairment provision 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 be discounted based on the credit-adjusted effective interest rate of such financial assets.

The general approach for measuring expected credit loss means that the Company assesses whether the 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 initial recognition, the Company measures loss provision based on the amount of lifetime expected credit losses; 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 the 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 lifetime as determined on the balance sheet date is significantly higher than its probability of default within the expected lifetime as determined on initial recognition, this shows that the credit risk of such financial asset is significantly increased. Except in 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 lifetime, so as to determine whether credit risk is significantly increased or not after initial recognition.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued

10. Impairment of financial assets — Continued

(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.

(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 impairment loss; if it is less than the carrying amount of the current impairment provision, the difference is recognised as impairment gain.

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

1 Notes receivable

The Company calculates the loss provision of notes receivable based on the amount equivalent to the lifetime expected credit loss. 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)

IV. 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

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 lifetime expected credit losses.

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 lifetime expected credit losses.

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

Item	Basis for determination of groups
Ageing analysis	This group is based on the use of ageing of receivables as a credit risk characteristic.
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

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 12-month or lifetime expected credit losses. 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 use of ageing of other receivables as a credit risk characteristic.
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

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**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), such items are stated as contract assets in the balance sheet. The shall be presented on a net basis contract assets or contract liabilities under the same contract shall be presented on a net basis, while contract assets and contract liabilities under different contracts will not be offset.

For the determination and accounting treatment methods of the expected credit loss of contract assets, please see note IV.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.

(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, and materials ready for sale, is determined based on the estimated selling price less the estimated selling and distribution costs and related taxes in the ordinary course of business;

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

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

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.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**12. Inventories — Continued**

(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. Long-term equity investment without control or joint control or significant influence of the Group is accounted for as financial assets at fair value through profit or loss for the period. In case such equity investment is not held for sale, then the Company may choose to designate such equity investment as financial assets measured at fair value through other comprehensive income. For details on its accounting policy, please refer 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.

(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.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**13. Long-term equity investments — Continued****(1) Determination of investment cost — Continued**

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.

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 nonmonetary 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.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**13. Long-term equity investments — Continued****(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.

① *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.

② *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.

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 recognized 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 longterm 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".

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**13. Long-term equity investments — Continued****(2) Subsequent measurement and recognition of profit or loss — Continued****② Long-term equity investments accounted for by using the equity method — Continued**

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.

③ 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.

④ 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 IV.5(2) "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.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**13. Long-term equity investments — Continued****(2) Subsequent measurement and recognition of profit or loss — Continued****④ Disposal of long-term equity investment — Continued**

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.

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.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**13. Long-term equity investments — Continued****(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 IV.22 "Impairment on 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 IV.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:

- ① When it is probable that the economic benefits associated with the fixed asset will flow into the Company;
- ② The cost of the fixed asset can be reliably measured.

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

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

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 IV.22 "Impairment on long term assets" for recognition of provision for impairment of fixed assets of the Company.

(4) Other explanations

Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset and if it is probable that economic benefits associated with the asset will flow to the Company and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures shall be charged to profit or loss when incurred.

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognised. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognised in profit or loss for the period.

The Company reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least once at each financial year-end, and account for any change as a change in an accounting estimate.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**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.

(3) Provision for impairment loss on construction in progress

Please see note IV.22 "Impairment on 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:

- ① 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;
- ② The borrowing costs have been incurred;
- ③ The acquisition and construction or production activities necessary to prepare the asset for its intended use or for sale have already commenced.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**17. Borrowing costs — Continued****(2) Period of capitalization of the borrowing costs**

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

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

(3) Calculation of capitalized borrowing costs

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

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

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

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

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**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**① 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.

② 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.

③ 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.

④ Impairment of intangible assets

Please see note IV.22 "Impairment on long term assets" for the recognition of provision for impairment of intangible assets.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**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:
 - ① It is technically feasible to complete the intangible asset so that it will be available for use or sale;
 - ② Management intends to complete and to use or sell the intangible asset;
 - ③ 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;
 - ④ There are adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible assets;
 - ⑤ 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.

IV. 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 consideration has been received or is receivable by the Company. If the customer has paid the contract consideration or the Company has obtained the unconditional right 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, whichever is earlier. The contract assets or contract liabilities under the same contract shall be presented on a net basis, while contract assets and contract liabilities under different contracts will not be offset.

22. Impairment on long term assets

At balance sheet date, the Company will assess whether there are any indications of impairment on non-current and non-financial assets such as fixed assets, construction in progress, intangible asset with finite useful life, investment properties accounted for using cost model, long-term equity investments in joint ventures and associates. If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated and impairment test will be performed. Impairment test will be performed on goodwill, intangible asset with infinite useful life and intangible asset which are not yet ready for use each year, regardless of whether any indications for impairment exist.

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 and an impairment loss are recognized 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. Fair value of an asset is determined based on the transaction amount in arm's length transaction; when there are no transactions but has an active market for the asset, the fair value is determined based on the bid price in the market; when there no transactions and active market for the asset, the fair value is estimated based on the best information available. Costs to sell include legal fee, taxes, logistics charges and other expenses that incurred directly to bring the asset to saleable condition. Present value of the future cash flows expected to be derived from the asset is calculated by discounting the expected future cash flows from continuous use of the asset and disposal of the asset using an appropriate discount rate. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

IV. 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. Nonmonetary 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: (1) The obligation is a current obligation borne by the Company; (2) it is likely that an outflow of economic benefits will be resulted from the performance of the obligation; and (3) 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.

IV. 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.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**26. Revenue**

Revenue is recognized when the customer obtains control of the goods, subject to the fulfilment of the following conditions under the contract entered into the Company and customers: the parties has approved the contract and undertaken to fulfil their respective obligations; the contract clearly states the parties to the contract and their rights and obligations relating to the transferred goods and rendered services; the contract clearly stated the payment terms relating to the transferred goods; the contract has commercial substance that the fulfilment of the contract will result in changes in the risk, time frame or amount of the future cash flow risk of the Company; the collection of the consideration that the Company is entitled to for transferring the goods is probable.

On the effective date of the contract, the Company identifies each performance obligation under such contracts and allocate the transaction price to each performance obligation based on the percentage of respective unit price of a good guaranteed by each performance obligation. The determination of the transaction price has taken into account the impact of factors, such as variable consideration, the significant financing component exist in the contract, non-cash consideration, consideration payable to the customers.

For each of the performance obligations under the Contract, if one of the following conditions is fulfilled, the Company shall recognised the transaction price which was allocated to each of the performance obligations as income based on the progress of performance within a certain period: the Client has received and consumed simultaneously all of the economics benefits; When the customer simultaneously receives and consumes the benefits provided by the Company when the Company performs its obligations under the contract; When the customer is able to control the commodity in progress in the course of performance by the Company under the contract; The product produced by the Company under the contract is irreplaceable and the Company has the right to payment for performance completed to date. The stage of fulfilment are determined based on the nature of the transferred goods with the adoption of input method or output-based method. When the progress of performance cannot be reasonably determined, if the costs incurred by the Group are expected to be recoverable, the revenue will be recognised to the extent of the costs incurred until the progress of performance can be reasonably determined.

If one of the above conditions is not fulfilled, the Company shall recognised the transaction price which was allocated to each of the performance obligations as income when the customer is able to control the commodity. When determining whether the customer has obtained control of the goods, the Group will consider the following indications: the enterprise has the current right to receive payment for the goods, which is when the customers has the current payment obligations for the goods; the enterprise has transferred the legal title of the goods to the client, which is when the client possesses the legal title of the goods; the Group has transferred the physical possession of goods to the customer, which is when the customer obtain physical possession of the goods; the Group has transferred all of the substantial risks and rewards of ownership of the goods to the customer, which is when the client obtain all of the substantial risks and rewards of ownership of the goods to the customer; when the customer has accepted the goods, which is when other information indicates that the customer has obtained control of the goods.

IV. 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 recognised as an asset as the contract acquisition cost. However, if the asset amortisation 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 recognised 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 amortised 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. If the factors of impairment in the previous period have changed, such that 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 there is 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 longterm 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.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**28. Government grants — Continued**

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.

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 are offset with relevant cost and expenditure, 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.

IV. 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.

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

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

- (1) The component is able to generate revenues and incur expenses in the course of ordinary activities;
- (2) The operating results of the component are regularly reviewed by the Company's management in order to make decisions about resources to be allocated to the segment and to assess its performance; and
- (3) Information on financial position, operating results and cash flows of the component is available to the Company. The accounting policies of operating segments are the same with the major accounting policies of the Company.

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 intergroup current account balances. Transfer price between operating segments is calculated based on terms similar to those of the transactions with other parties.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**31. Leases**

Lease is a contract in which the Company transfers or obtains the right of use of an identified asset or several identified assets under control for the exchange or payment of consideration within a certain period of time.

(1) The Company as lessee under leases

The Company recognises the right-of-use assets and lease liabilities for all leases at the inception of the lease, except for short-term leases and leases of low-value asset for which the simplified approach is elected.

Right-of-use assets are initially measured at cost, which consists of: (1) the amount of the initial measurement of the lease liability; (2) any lease payments made at or before the inception of the lease less any lease incentives received, if any; (3) initial direct expenses; (4) costs to dismantle and remove a leased asset, restore the site on which it is located or restore the leased assets to the condition required by the terms and conditions of the lease. The Company depreciates the right-of-use assets under the depreciation requirements of Accounting Standards for Business Enterprises No. 4 – Fixed Assets (as detailed in Note IV.15 "Fixed Assets"); and under the requirements of Accounting Standards for Business Enterprises No. 8 – Assets Impairment, which determines whether the right-of-use assets are impaired and accounted for the identified impairment losses (as detailed in Note IV.22 "Impairment on long term assets").

The lease liabilities shall be initially measured at the present value of the lease payments that have not been paid at the inception of the lease. Lease payments represent the payments made by the Company to the lessor in relation to the right to use the leased assets within the lease term, which include: (1) fixed payments and in-substance fixed payments less any relevant lease incentives, if any; (2) variable lease payments subject to an index or a rate, which are initially measured using the index or rate as at the commencement date; (3) the exercise price under the purchase option if the Group is reasonably certain to exercise; (4) payments for termination of a lease if the lease term reflects the Group exercising the option to terminate; (5) expected payments based on the guaranteed residual values provided by the Company. The Company shall measure the interest expenses on the lease liabilities in each period during the lease term at a constant periodic rate and the amounts shall be included in the current profit or loss or capitalised in the underlying assets.

The Company's variable lease payments not included in the measurement of lease liabilities are recorded in the current profit or loss or related asset costs when incurred.

For short-term leases and leases of low-value assets, the Company applies a simplified method to account for the relevant asset costs or current profit and loss in each period during the lease term using the straight-line method or other systematic method.

If there are changes in the lease scope, consideration and term beyond the original contract term of the lease the Company shall account for it as a separate lease or not based on their respective changes. If it is not treated as a separate lease, the Company shall remeasure the lease liability at the present value calculated at lease payment after the change and the revised discount rate as at the effective date of lease change, with corresponding adjustment made to the book value of the right-of-use asset. The Company shall record the residual value in the current profit or loss if the carrying value of the right-of-use assets is reduced to zero where the lease liability is required to be further reduced.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**31. Leases — Continued****(2) The Company as lessor under leases****1 Lease classification**

The Company classifies leases into finance leases and operating leases based on the substance of transactions at the commencement date of the lease. Finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Operating leases are leases other than finance leases.

2 Operating leases

The Company recognises lease receipts under operating leases as rental income in each period during the lease term using the straight-line method or other systematic method. The initial direct cost related to operating lease is capitalised 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; receipt from variable lease payments not included in lease payments in relation to operating lease is included in the profit or loss for the period upon incurrence.

3 Finance leases

At the commencement date of the lease, the Company recognises finance lease receivables and derecognises finance lease assets.

The finance lease receivables are initially measured at the sum of the unguaranteed residual value and the present value discounted at the interest rate implicit in the lease over the unearned lease receipts as at the commencement date of the lease. The lease receipts include: A. lessee's fixed payments and in-substance fixed payments less any relevant lease incentives if any; B. variable lease payments subject to an index or rate, which are initially measured using the index or rate as at the commencement date; C. the exercise price under the purchase option if the lessee is reasonably certain to exercise; D. payments for termination of a lease if the lease term reflects the lessee exercising the option to terminate; E. the guaranteed residual values provided by the lessee, any parties related to the lessee and independent third parties who have the financial capability to perform the guarantee obligation.

The Company's variable lease payments not included in measurement on net investment in leases are recorded in the current profit or loss when incurred.

IV. 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 Lease Standards

The Ministry of Finance issued the Accounting Standards for Business Enterprises No. 21-Leases (2018 Amendments) (Cai Hui (2018) No.35) on 7 December 2018, which requires companies that are listed both domestically and overseas, and companies that are listed overseas and adopt the International Financial Reporting Standards or the Accounting Standards for Business Enterprises in the preparation of financial reports to implement the New Lease Standard with effect from 1 January 2019. The Company has implemented the Lease Standard from the time as the Ministry of Finance requires.

Under the New Lease Standard, for contracts that already existed before the date of initial adoption, the Company elected not to reassess whether the contracts are or contain a lease at the date of initial adoption. For lease contracts with the Company as the lessee, the Company elected to adjust only the cumulative impact of the lease contracts outstanding on 1 January 2019. The cumulative affected amount of initial adoption of retained earnings and other relevant items in the financial statements at the beginning of initial adoption period (i.e. 1 January 2019) were adjusted, and no adjustment was made for the information of comparable period. In particular: For operating leases at the date of initial adoption, the Company measures lease liability based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial adoption; and the unpaid rent payables provided based on the accrual basis under the original lease standard will be included in the remaining lease payments.

Impacts of adopting the New Lease Standard to the Company are as follows:

Changes	31 December 2018 Amount (before changes)	Reclassification	Remeasurement	1 January 2019 Amount (after changes)
Assets:				
Other current assets	1,081,172,953.81		-5,214,007.11	1,075,958,946.70
Right-of-use assets			46,360,081.84	46,360,081.84
Liabilities:				
Lease liabilities			41,146,074.73	41,146,074.73

(2) Changes in accounting estimates

There were no changes in the accounting estimates of the Company in the current period.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**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 IV.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 revenue, operating costs, and profit or loss of the current or subsequent periods.

(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.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**33. Critical accounting judgements and estimates — Continued****(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, being 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.

(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.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**33. Critical accounting judgements and estimates — Continued****(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 year.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

V. TAXATION

1. The types and rates of taxes applicable to the Group

Type of taxes	Tax basis	Tax rate
Value-added tax	Sales tax is computed on 16%, 13%, 11%, 10%, 6%, 5% and 3%, respectively, of the taxable income. Value-added tax is computed on the difference after deduction of input value-added tax of the current period. Input value-added tax is not deductible for value-added tax to which simple collection method is applicable.	16%, 13%, 11%, 10%, 6%, 5%, 3%
City maintenance and construction tax	Turnover tax payable	5%, 7%
Education surcharges	Turnover tax payable	3%
Corporate 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 16% and 10% respectively. Pursuant to the "Announcement on Relevant Policies for Deepening Value-Added Tax Reform" promulgated by the Ministry of Finance, State Taxation Administration and General Administration of Customs (Announcement No. 39 of 2019 of the Ministry of Finance, State Taxation Administration and General Administration of Customs), the applicable rates are adjusted to 13% and 9% respectively since 1 April 2019.

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 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%

2. Tax preferences and approvals

Guangdong Kelon Mould Co., Ltd., a subsidiary of the Company, received the High-tech Enterprise Certificate (certificate number: GR201744002498) dated 9 November 2017 which was jointly issued by the Guangdong Provincial Science and Technology Department, Guangdong Provincial Department of Finance, Guangdong State Administration of Taxation and the Guangdong Local Taxation Bureau. 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.

V. TAXATION — Continued**2. Tax preferences and approvals — Continued**

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 Enterprises, 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 Enterprises, 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 Enterprises, the applicable enterprise income tax rate for this subsidiary is 15% in 2016, 2017 and 2018. The re-assessment of High/New Technology Enterprises status for Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd. in 2019 is under progress, and according to relevant requirements of State Taxation Administration, the preferential tax rate of 15% is effective temporarily during the re-assessment period.

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 on 7 March 2014. The principle business of Chengdu Refrigerator was recognised as a state incentive item. According to the tax treaty in relation to western development policy, the applicable enterprise 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 profit 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 not exceed HK\$2,000,000, while a rate of 16.5% is applied to the part which exceed HK\$2,000,000; (2) for other Hong Kong subsidiaries: a rate of 16.5% is applied to all of them (the rate of profit tax for each company in 2018 was 16.5%).

Hisense Mould (Deutschland) GmbH, a subsidiary of the Company incorporated in Germany, is entitled to enterprise income tax rate of 15% (the income tax rate in 2018 was 15%) in respect of its taxable profits as stipulated in German law.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

V. TAXATION — *Continued*

3. Other illustrations

Other taxes in the PRC, including, among others, real estate tax, land use tax, local education surcharges, vehicle and vessel tax, stamp duty and withholding individual income tax, are calculated and payable in accordance with the relevant regulations of the State tax laws.

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise specified, opening balances refer to balances as at 1 January 2019, whereas closing balances refer to balances as at 30 June 2019; and the current period refers to the first half of 2019, whereas the previous period refers to the first half of 2018 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:	2,537.32	3,847.53
Bank deposits:	1,766,059,047.53	1,061,360,215.29
Other cash at bank and on hand:	3,264,203,965.65	2,587,099,546.79
Total	5,030,265,550.50	3,648,463,609.61
Including: Total amount deposited overseas	16,781,293.28	26,661,008.13

Notes to cash at bank and on hand:

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

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

Item	Closing balance	Opening balance
Security deposit	3,264,203,965.65	2,587,099,546.79
Total	3,264,203,965.65	2,587,099,546.79

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**2. Financial assets held-for-trading****(1) Classification**

Item	Closing balance	Opening balance
Financial assets at fair value through profit or loss for the current period	143,200.00	207,350.00
Including: Derivative financial assets	143,200.00	207,350.00
Total	143,200.00	207,350.00

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

Derivative financial assets mainly represented the outstanding forward exchange settlement and sale contracts entered into by the Company and banks, which were recognized as the financial assets or liabilities held-for-trading based on the difference between the quoted price of the outstanding forward contracts and the forward rates as at the end of the period.

3. Notes and accounts receivable

Item	Closing balance	Opening balance
Notes receivable	2,277,732,761.70	2,971,748,608.75
Accounts receivable	4,541,793,433.50	3,096,454,625.34
Total	6,819,526,195.20	6,068,203,234.09

(1) Notes receivable**① Classification of notes receivable**

Category	Closing balance	Opening balance
Bank acceptance notes	2,064,593,481.23	2,834,552,582.64
Commercial acceptance notes	213,139,280.47	137,196,026.11
Total	2,277,732,761.70	2,971,748,608.75

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — *Continued*

3. Notes and accounts receivable — *Continued*

(1) Notes receivable — *Continued*

② Pledged notes receivable as at the end of the period:

Item	Pledged amounts as at the end of the period
Bank acceptance notes	833,835,917.11
Total	833,835,917.11

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

Item	Amount derecognized as at the end of the period	Amount not derecognized as at the end of the period
Bank acceptance notes	3,534,486,741.29	
Commercial acceptance notes	4,505,961.24	
Total	3,538,992,702.53	

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

3. Notes and accounts receivable — Continued

(1) Notes receivable — Continued

⑤ Classified according to bad debt provision method

Category	Ending Balance				Book value
	Book balance		Bad debt provision		
	Amount	Percentage (%)	Amount	Provision Percentage (%)	
Bills receivables that are impairment provided on an individual basis					
Bills receivables assessed for impairment collectively	2,277,732,761.70	100.00			2,277,732,761.70
Including:					
Bank acceptance notes	2,064,593,481.23	90.64			2,064,593,481.23
Commercial acceptance notes	213,139,280.47	9.36			213,139,280.47
Total	2,277,732,761.70	100.00			2,277,732,761.70

(Continued)

Category	Beginning Balance				Book value
	Book balance		Bad debt provision		
	Amount	Percentage (%)	Amount	Provision Percentage (%)	
Bills receivables that are impairment provided on an individual basis					
Bills receivables assessed for impairment collectively	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 — *Continued*

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — *Continued*

3. Notes and accounts receivable — *Continued*

(1) Notes receivable — *Continued*

⑤ *Classified according to bad debt provision method — Continued*

A. Bills receivables assessed for impairment collectively by the portfolios of bank acceptance notes

Item	Ending Balance		
	Bills receivables	Provision for bad debts	Provision Percentage (%)
The acceptors are banks with low credit risk	2,064,593,481.23		
Total	2,064,593,481.23		

B. Bills receivables assessed for impairment collectively by the portfolios of commercial acceptance notes

Item	Ending Balance		
	Bills receivables	Bills receivables	Bills receivables
The acceptors are related parties with low credit risk	213,139,280.47		
Total	213,139,280.47		

(2) Accounts receivable

① *Accounts receivable based on the date of recognition is as follows*

Age	Closing Carrying Amount
With 3 months	4,175,796,592.50
Over 3 months but within 6 months	112,030,948.68
Over 6 months but within 1 year	110,854,226.23
Over 1 year	307,803,510.91
Total	4,706,485,278.32

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

3. Notes and accounts receivable — Continued

(2) Accounts receivable — Continued

② Classified according to bad debt provision method

Category	Book balance		Ending Balance		Book value
	Amount	Percentage (%)	Bad debt provision		
			Amount	Provision Percentage (%)	
Bills receivables that are impairment provided on an individual basis					
Bills receivables assessed for impairment collectively	4,706,485,278.32	100.00	164,691,844.82	3.50	4,541,793,433.50
Including:					
Ageing analysis	2,212,341,975.79	47.01	124,088,054.92	5.61	2,088,253,920.87
Receivables from related parties	2,004,294,411.01	42.59			2,004,294,411.01
Other amounts	489,848,891.52	10.40	40,603,789.90	8.29	449,245,101.62
Total	4,706,485,278.32	100.00	164,691,844.82	3.50	4,541,793,433.50

Category	Book balance		Beginning Balance		Book value
	Amount	Percentage (%)	Bad debt provision		
			Amount	Provision Percentage (%)	
Bills receivables that are impairment provided on an individual basis					
Bills receivables assessed for impairment collectively	3,249,864,034.63	100.00	153,409,409.29	4.72	3,096,454,625.34
Including:					
Ageing analysis	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 accounts	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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — *Continued*

3. Notes and accounts receivable — *Continued*

(2) *Accounts receivable* — *Continued*

② *Classified according to bad debt provision method* — *Continued*

- A. Accounts receivable in portfolio of which provision was made using ageing analysis method:

Age	Ending Balance		
	Accounts receivable	Bad debt provision	Provision Percentage (%)
With 3 months	2,070,166,787.03	4,139,290.24	0.20
Over 3 months but within 6 months	21,137,422.35	2,113,742.24	10.00
Over 6 months but within 1 year	6,405,487.94	3,202,743.97	50.00
Over 1 year	114,632,278.47	114,632,278.47	100.00
Total	2,212,341,975.79	124,088,054.92	5.61

Note: This portfolio takes the account age of receivables as credit risk characteristics of which bad debt provisions are based on the expected credit losses for each age group.

- B. Accounts receivable in portfolio of which provision was made using receivables from related parties:

Age	Ending Balance		
	Accounts receivable	Bad debt provision	Provision Percentage (%)
Within 1 year	2,004,294,411.01		
Total	2,004,294,411.01		

- C. Accounts receivable in portfolio of which provision was made using other accounts:

Item	Ending Balance		
	Accounts receivable	Bad debt provision	Provision Percentage (%)
Other accounts	489,848,891.52	40,603,789.90	8.29
Total	489,848,891.52	40,603,789.90	8.29

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

3. Notes and accounts receivable — Continued

(2) Accounts receivable — Continued

③ Bad debt provision

Category	Beginning Balance	Changes for the period			Closing balance
		Provision	Recovery or reversal	Write-down or write-off	
Ageing analysis	120,987,402.35	5,421,942.47	2,241,298.06	79,991.84	124,088,054.92
Receivables from related parties					
Other accounts	32,422,006.94	11,041,997.26	2,852,700.18	7,514.12	40,603,789.90
Total	153,409,409.29	16,463,939.73	5,093,998.24	87,505.96	164,691,844.82

④ Accounts receivable written-off during the period

Item	Amount
Accounts receivable that are written off	87,505.96

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 RMB2,831,643,984.63, accounting for 60.16% of the closing balance of accounts receivable. A provision for bad debts of RMB26,769,459.28 in total was made as at the end of the period.

4. Prepayments

(1) Prepayments are presented by aging as follows:

Age	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within one year	210,979,984.89	97.14	218,757,240.97	97.61
Over one year	6,212,609.41	2.86	5,363,497.40	2.39
Total	217,192,594.30	100.00	224,120,738.37	100.00

The Company had no prepayments with ageing of one year and significant amount 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 RMB116,441,174.43, accounting for 53.61% of total closing balance of prepayments.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**5. Other receivables**

Item	Closing balance	Opening balance
Interests receivable	484,127.77	197,325.00
Other receivables	298,156,041.03	318,729,661.30
Total	298,640,168.80	318,926,986.30

(1) Interest receivable**① Classification of interest receivable**

Item	Closing balance	Opening balance
Margin deposit	484,127.77	197,325.00
Total	484,127.77	197,325.00

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	106,292,994.97
Over three months but within six months	6,098,839.02
Over six months but within one year	12,663,297.53
Over one year	281,049,812.65
Total	406,104,944.17

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. 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 period	Book value as at the beginning of the period
Security deposit	30,669,512.39	37,719,922.09
Refund of tax for exports		89,444,742.96
Balance with Greencool Companies	224,630,200.00	224,630,200.00
Other current account	150,805,231.78	77,722,727.24
Total	406,104,944.17	429,517,592.29

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 XI.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 — *Continued*

Half year of 2019

VI. 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 2019	15,400,556.89	18,483,057.42	76,904,316.68	110,787,930.99
During the year, the balance of other receivables as at 1 January 2019:				
- transferred to second stage	913,579.94			913,579.94
- transferred to third stage				
- reversed to second stage				
- reversed to first stage				
Provision for the year	715,520.81			715,520.81
Reversal for the year	3,554,548.66			3,554,548.66
Written-off for the year				
Charge off for the year				
Other changes				
Balance as at 30 June 2019	12,561,529.04	18,483,057.42	76,904,316.68	107,948,903.14

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	36,201,325.26	715,520.81	511,438.66		36,405,407.41
Receivables from related parties					
Other amount	14,556,605.73		3,043,110.00		11,513,495.73
Total	110,787,930.99	715,520.81	3,554,548.66		107,948,903.14

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

5. Other receivables — Continued

(2) Other receivables — Continued

⑤ Other receivables written-off during the period

There was no other receivables written-off during the period.

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

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	20.09	
Top 2	Current account with Greencool Companies and specific third party	58,030,000.00	Over three years	14.29	58,030,000.00
Top 3	Current account with Greencool Companies and specific third party	28,600,000.00	Over three years	7.04	
Top 4	Current account with Greencool Companies and specific third party	21,400,000.00	Over three years	5.27	
Top 5	Current account with Greencool Companies and specific third party	20,000,000.00	Over three years	4.92	
Total		209,630,000.00		51.61	58,030,000.00

6. Inventories

(1) Classification of inventories

Item	Closing balance		
	Book value	Provision for declines in value	Carrying amount
Raw materials	329,543,795.24	30,914,009.07	298,629,786.17
Works in progress	204,579,179.82	9,643,694.93	194,935,484.89
Finished goods	2,407,637,749.96	25,089,266.49	2,382,548,483.47
Total	2,941,760,725.02	65,646,970.49	2,876,113,754.53

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. 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	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

(2) Provision for declines in value of inventories

Item	Opening balance	Increase for the period		Decrease for the period		Closing balance
		Provision for the period	Others	Recovered or written-off	Others	
Raw materials	31,589,211.92	326,700.00		1,001,902.85		30,914,009.07
Works in progress	9,409,103.34	258,584.57		23,992.98		9,643,694.93
Finished goods	34,639,801.73	827,709.57		10,378,244.81		25,089,266.49
Total	75,638,116.99	1,412,994.14		11,404,140.64		65,646,970.49

(3) Basis of the provision for declines in value of inventories and reasons for the reversal or write-off during the period

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 period
Raw materials	The lower of the cost and net realizable value	Removal due to sales
Works in progress		
Finished goods		

7. Other current assets

Item	Closing balance	Opening balance
Wealth management products	1,730,000,000.00	540,000,000.00
Prepaid tax and tax deductible	486,991,687.57	478,614,757.60
Long-term prepaid expenses	60,473,701.83	57,344,189.10
Total	2,277,465,389.40	1,075,958,946.70

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

8. Long-term equity investment

Investee	Opening balance	Change for the period							Closing balance	Closing balance of provision for impairment	
		Increase in investment	Decrease in investment	Gains or losses from investment recognised using equity method	Adjustment for other comprehensive income	Other change in equity	Declaration of cash dividend or profit	Provision for impairment made			Other decreases
I. Joint ventures											
Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.	2,876,748,851.06			463,771,280.41			734,510,000.00			2,606,010,131.47	
Qingdao Hisense Commercial Trading Development Co., Ltd.	48,027,481.74			-1,631,120.55						46,396,361.19	
Subtotal	2,924,776,332.80			462,140,159.86			734,510,000.00			2,652,406,492.66	
II. Associates											
Hisense Financial Holdings Co., Ltd.	259,265,889.17			22,173,792.69	6,051,684.52					287,491,366.38	
Hisense International Co., Ltd.	142,740,801.81			3,060,906.54	614,497.97		18,931,600.00			127,484,606.32	
Subtotal	402,006,690.98			25,234,699.23	6,666,182.49		18,931,600.00			414,975,972.70	
III. Others											
Jiangxi Kelon Combine Electrical Appliances Co., Ltd.	11,000,000.00									11,000,000.00	11,000,000.00
Subtotal	11,000,000.00									11,000,000.00	11,000,000.00
Total	3,337,783,023.78			487,374,859.09	6,666,182.49		753,441,600.00			3,078,382,465.36	11,000,000.00

- Note: 1. 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.
2. Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. was hereinafter referred to as "Hisense Hitachi".
3. Hisense Financial Holdings Co., Ltd. (青島海信金融控股有限公司) was hereinafter referred to as "Hisense Financial Holdings".
4. Qingdao Hisense Commercial Trading Development Co., Ltd is hereinafter referred to as "Hisense Commercial Trading".
5. Hisense International Co., Ltd is hereinafter referred to as "Hisense International".
6. As at the end of the Reporting Period, all the joint ventures and associates of the Company were unlisted companies.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — *Continued*

8. Long-term equity investment — *Continued*

Whereas:

Item	Closing balance	Opening balance
Non-listed investment:		
Equity method	3,067,382,465.36	3,326,783,023.78
Joint venture	2,652,406,492.66	2,924,776,332.80
Associate	414,975,972.70	402,006,690.98
Total	3,067,382,465.36	3,326,783,023.78

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	69,891,689.84			69,891,689.84
2. Increase for the period				
(1) Transferred from construction in progress				
3. Decrease for the period				
4. Closing balance	69,891,689.84			69,891,689.84
II. Accumulated depreciation and accumulated amortisation				
1. Opening balance	47,380,328.79			47,380,328.79
2. Increase for the period	1,308,598.67			1,308,598.67
(1) Provision made or amortisation	1,308,598.67			1,308,598.67
3. Decrease for the period				
4. Closing balance	48,688,927.46			48,688,927.46
III. Provision for impairment				
1. Opening balance				
2. Increase for the period				
3. Decrease for the period				
4. Closing balance				
IV. Carrying amount				
1. Carrying amount as at the end of the period	21,202,762.38			21,202,762.38
2. Carrying amount as at the beginning of the period	22,511,361.05			22,511,361.05

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — *Continued*

9. Investment properties — *Continued*

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

Item	Carrying amount	Reason for failure to obtain ownership certificates
Mee King Building	2,736,376.24	Due to historical reasons; in the process of application

(3) Depreciation expenses for the half year of 2019 amounted to RMB1,308,598.67, and depreciation expenses for the half year of 2018 amounted to RMB1,306,404.44.

(4) As at 30 June 2019, 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.

10. Fixed assets

Item	Closing balance	Opening balance
Fixed assets	3,177,185,038.17	3,263,102,695.51
Disposal of fixed assets	5,482,953.76	829,224.90
Total	3,182,667,991.93	3,263,931,920.41

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — *Continued*

10. Fixed assets — *Continued*

(1) Fixed assets

① Particulars of fixed assets

Item	Buildings and structures	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Moulds	Total
A. Cost						
1. Opening 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
2. Additions in the period	11,586,763.74	86,672,787.10	10,958,256.09	859,137.92	172,779,144.44	282,856,089.29
(1) Purchase	10,958,916.68	40,521,136.05	3,313,642.24	544,137.93	80,107,870.40	135,445,703.30
(2) Transferred from construction in progress	627,847.06	46,151,651.05	7,644,613.85	314,999.99	92,671,274.04	147,410,385.99
3. Reductions in the period	9,093,700.25	15,370,069.71	19,648,039.08	302,699.50	48,364,747.03	92,779,255.57
(1) Disposal or retirement	9,093,700.25	15,370,069.71	19,648,039.08	302,699.50	48,364,747.03	92,779,255.57
4. Closing balance	2,329,853,901.72	3,541,197,332.04	477,886,244.65	39,229,023.62	2,033,833,403.13	8,421,999,905.16
B. Accumulated depreciation						
1. Opening 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
2. Additions in the period	43,309,207.47	141,491,587.09	9,482,032.76	1,925,488.23	123,155,913.61	319,364,229.16
(1) Provision	43,309,207.47	141,491,587.09	9,482,032.76	1,925,488.23	123,155,913.61	319,364,229.16
3. Reductions in the period	4,287,732.35	9,429,176.49	17,411,176.41	272,903.50	8,407,259.67	39,808,248.42
(1) Disposal or retirement	4,287,732.35	9,429,176.49	17,411,176.41	272,903.50	8,407,259.67	39,808,248.42
4. Closing balance	1,082,755,933.17	2,022,998,286.06	342,537,205.87	28,400,118.59	1,629,378,076.13	5,106,069,619.82
C. Impairment provision						
1. Opening balance	13,177,187.35	117,357,485.20	1,565,582.61	318,608.61	9,887,873.08	142,306,736.85
2. Additions in the period		2,193,556.39				2,193,556.39
(1) Provision		2,193,556.39				2,193,556.39
3. Reductions in the period		5,607,938.08	55,299.99		91,808.00	5,755,046.07
(1) Disposal or retirement		5,607,938.08	55,299.99		91,808.00	5,755,046.07
4. Closing balance	13,177,187.35	113,943,103.51	1,510,282.62	318,608.61	9,796,065.08	138,745,247.17
D. Carrying amount						
1. Closing carrying amount	1,233,920,781.20	1,404,255,942.47	133,838,756.16	10,510,296.42	394,659,261.92	3,177,185,038.17
2. Opening carrying amount	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

In the first half of 2019, the fixed assets transferred from construction in progress amounted to RMB147,410,385.99 (the previous period: RMB198,258,076.62).

② Depreciation expense for the first half of 2019 amounted to RMB319,364,229.16 and amounted to RMB319,047,699.40 for the first half of 2018.

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

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**10. Fixed assets — Continued****(1) Fixed assets — Continued**

⑥ The rent out fixed asset under operating lease

Item	Closing carrying amount
Buildings and structures	44,391,002.32
Total	44,391,002.32

⑦ As at the end of the period, no fixed asset was held for sale.

⑧ As at the end of the period, fixed asset which has not obtained the ownership certificate

Item	Carrying amount	Reasons of not obtaining the ownership certificate
Buildings and structures	309,103,798.54	Achieved scheduled availability and were reclassified as fixed assets, the issuance of ownership certificate is in progress

⑨ As at the end of the period, no building or structure was pledged.

(2) Disposal of fixed assets

Item	Closing balance	Opening balance
Disposal of fixed assets	5,482,953.76	829,224.90
Total	5,482,953.76	829,224.90

11. Constructions in progress

Item	Closing balance	Opening balance
Constructions in progress	56,466,509.48	84,296,518.04
Total	56,466,509.48	84,296,518.04

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

11. Constructions in progress — Continued

(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	4,191,194.53		4,191,194.53	4,518,221.10		4,518,221.10
Transformation of equipment of Shandong Refrigerator	3,748,871.27		3,748,871.27	6,724,827.56		6,724,827.56
Production line of Shangqiu Kelon	7,770,917.67	7,770,917.67		7,770,917.67	7,770,917.67	
Transformation of warehouse	5,824,557.09		5,824,557.09	1,654,671.61		1,654,671.61
Technology transformation project of Jiangmen				8,794,068.32		8,794,068.32
Others	42,701,886.59		42,701,886.59	62,604,729.45		62,604,729.45
Total	64,237,427.15	7,770,917.67	56,466,509.48	92,067,435.71	7,770,917.67	84,296,518.04

(2) Movements in major projects of construction in progress

Name of project	Budget	Opening balance	Increase for the year	Transferred to fixed assets	Other reductions	% Contribution in budget	Progress	Source of funding	Closing balance
MES system	25,884,417.52	4,518,221.10	31,747.76	358,774.33		92.45	Not completed	Self-funding	4,191,194.53
Transformation of equipment of Shandong Refrigerator	28,499,901.74	6,724,827.56	3,152,100.15	6,128,056.44		99.79	completed	Self-funding	3,748,871.27
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	4,169,885.48			23.84	completed	Self-funding	5,824,557.09
Technology transformation project of Jiangmen	8,794,068.32	8,794,068.32		8,794,068.32		100.00	Completed	Self-funding	
Others		62,604,729.45	126,871,355.91	132,129,486.90	14,644,711.87		Not completed	Self-funding	42,701,886.59
Total	87,609,422.06	92,067,435.71	134,225,089.30	147,410,385.99	14,644,711.87				64,237,427.15

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 period, the Company had made no provision for constructions in progress.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**12. Right-of-use assets**

Item	Property	Others	Total
A. Cost:			
1. Opening balance	46,360,081.84		46,360,081.84
2. Additions in the period	5,851,776.02		5,851,776.02
3. Reductions in the period			
4. Closing balance	52,211,857.86		52,211,857.86
B. Accumulated depreciation			
1. Opening balance			
2. Additions in the period	10,720,073.68		10,720,073.68
(1) Provision	10,720,073.68		10,720,073.68
3. Reductions in the period			
(1) Disposal			
4. Closing balance	10,720,073.68		10,720,073.68
C. Impairment provision			
1. Opening balance			
2. Additions in the period			
(1) Provision			
3. Reductions in the period			
(1) Disposal			
4. Closing balance			
D. Carrying amount			
1. Closing carrying amount	41,491,784.18		41,491,784.18
2. Opening carrying amount	46,360,081.84		46,360,081.84

Note: right-of-use assets are the properties leased by the Group for operation.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — *Continued*

13. Intangible assets

(1) *Particulars of intangible assets*

Item	Land use rights	Trademarks	Know-how	Others	Total
A. Cost					
1. Opening balance	857,629,398.42	524,409,198.95	73,100,447.88	143,457,687.17	1,598,596,732.42
2. Additions in the period				15,403,559.61	15,403,559.61
(1) Purchase				15,403,559.61	15,403,559.61
3. Reductions in the period					
(1) Disposal or retirement					
4. Closing balance	857,629,398.42	524,409,198.95	73,100,447.88	158,861,246.78	1,614,000,292.03
B. Accumulated amortization					
1. Opening balance	254,599,110.87	134,130,255.55	71,343,438.70	87,048,832.54	547,121,637.66
2. Additions in the period	8,321,473.44		23,650.00	10,632,343.28	18,977,466.72
(1) Provision	8,321,473.44		23,650.00	10,632,343.28	18,977,466.72
3. Reductions in the period					
(1) Disposal or retirement					
4. Closing balance	262,920,584.31	134,130,255.55	71,367,088.70	97,681,175.82	566,099,104.38
C. Impairment provision					
1. Opening balance	50,012,843.19	286,061,116.40		694,241.70	336,768,201.29
2. Additions in the period					
(1) Provision					
3. Reductions in the period					
(1) Disposal or retirement					
4. Closing balance	50,012,843.19	286,061,116.40		694,241.70	336,768,201.29
D. Carrying amount					
1. Closing carrying amount	544,695,970.92	104,217,827.00	1,733,359.18	60,485,829.26	711,132,986.36
2. Opening carrying amount	553,017,444.36	104,217,827.00	1,757,009.18	55,714,612.93	714,706,893.47

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

13. Intangible assets — Continued

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

Item	Carrying amount	Reason for not completing certificate of ownership
Land use rights	7,275,000.00	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:

- ① Amortization of intangible assets amounted to RMB18,977,466.72 for the first half of 2019, compared to that of RMB16,727,202.22 in the first half of 2018.
- ② As at the end of the period, no land use rights were pledged.
- ③ Trademarks were not amortized due to indefinite useful lives, and no provision was made for impairment of trademarks after tested for impairment at the end of the period.

14. Long-term prepaid expenses

Item	Opening balance	Additions in the period	Amortization in the period	Other deductions	Closing balance	Reasons for Other deductions
Long-term prepaid expenses	25,349,762.41	4,198,188.01	5,484,058.91		24,063,891.51	
Total	25,349,762.41	4,198,188.01	5,484,058.91		24,063,891.51	

15. 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	134,049,140.11	30,044,136.62	111,484,310.22	26,510,952.43
Accrued expenses	300,364,889.41	45,054,733.41	340,564,327.95	53,064,892.60
Others	41,118,511.48	10,195,016.19	57,330,654.64	13,902,066.32
Total	475,532,541.00	85,293,886.22	509,379,292.81	93,477,911.35

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**15. Deferred tax assets/deferred tax liabilities — Continued****(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	53,248,279.54	10,053,515.32	26,815,802.13	4,022,370.32
Financial assets held-for-trading	143,200.00	35,800.00	148,100.00	22,215.00
Total	53,391,479.54	10,089,315.32	26,963,902.13	4,044,585.32

(3) Details of unrecognised deferred tax assets

Item	Closing balance	Opening balance
Deductible temporary difference	1,989,476,835.62	1,617,489,258.61
Deductible tax losses	452,936,779.21	724,387,742.31
Total	2,442,413,614.83	2,341,877,000.92

16. Financial liabilities held-for-trading

Item	Closing balance	Opening balance
Financial liabilities held-for-trading	435,190.00	2,765,900.00
Including: Derivative financial liabilities	435,190.00	2,765,900.00
Total	435,190.00	2,765,900.00

Notes to financial liabilities held-for-trading:

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**17. Notes and accounts payable**

Item	Closing balance	Opening balance
Notes payable	6,586,679,627.10	5,442,369,087.15
Accounts payable	4,915,103,868.01	4,373,335,213.48
Total	11,501,783,495.11	9,815,704,300.63

(1) Notes payable

Category	Closing balance	Opening balance
Bank acceptance notes	4,316,399,902.82	3,348,110,396.41
Commercial acceptance notes	2,270,279,724.28	2,094,258,690.74
Total	6,586,679,627.10	5,442,369,087.15

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

(2) Accounts payable

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

Age	Closing balance	Opening balance
Within one year	4,796,243,879.24	4,259,455,773.64
Over one year	118,859,988.77	113,879,439.84
Total	4,915,103,868.01	4,373,335,213.48

As at 30 June 2019, accounts payable with ageing of over one year amounted to RMB118,859,988.77 (31 December 2018: RMB113,879,439.84), which represented mainly raw material payable and was not settled yet.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

18. Compensations payable to employee

(1) *Compensations payable to employee are listed as follows:*

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
1. Short-term compensations	326,684,642.16	1,639,496,284.94	1,655,413,861.95	310,767,065.15
2. Post-employment benefit-defined contribution plans	2,115,465.03	109,376,601.54	109,012,511.76	2,479,554.81
3. Termination benefits		504,153.30	354,153.30	150,000.00
Total	328,800,107.19	1,749,377,039.78	1,764,780,527.01	313,396,619.96

(2) *Short-term compensations are as follows:*

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
1. Wages and salaries, bonuses, allowances and subsidies	319,174,072.68	1,428,308,107.56	1,447,093,449.00	300,388,731.24
2. Staff welfare	3,865,865.39	80,979,504.91	78,415,735.57	6,429,634.73
3. Social insurance	735,019.03	66,726,656.81	66,813,658.32	648,017.52
Including: Medical insurance	486,199.73	57,957,727.83	58,033,808.28	410,119.28
Work-related injury insurance	163,142.97	2,176,368.67	2,232,733.62	106,778.02
Maternity insurance	85,676.33	6,592,560.31	6,547,116.42	131,120.22
4. Housing provident funds	777,778.53	56,029,594.65	56,125,442.42	681,930.76
5. Labor union funds and employee education funds	2,131,906.53	7,452,421.01	6,965,576.64	2,618,750.90
Total	326,684,642.16	1,639,496,284.94	1,655,413,861.95	310,767,065.15

(3) *Defined contribution plans are as follows:*

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
1. Basic pension insurance	1,384,275.36	105,287,041.85	104,940,593.30	1,730,723.91
2. Unemployment insurance	731,189.67	4,089,559.69	4,071,918.46	748,830.90
Total	2,115,465.03	109,376,601.54	109,012,511.76	2,479,554.81

Notes to compensations payable to employee:

- (1) There were no defaulted payables included in compensations payable to employee.
- (2) Arrangements in respect of expected payout time and amount for employee compensations payable: calculated in the current month and paid in the following month.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**19. Taxes payable**

Item	Closing balance	Opening balance
Value-added tax	56,869,273.93	101,309,697.64
Enterprise income tax	59,699,927.16	60,061,568.67
Others	81,188,949.39	69,304,620.22
Total	197,758,150.48	230,675,886.53

20. Other payables

Item	Closing balance	Opening balance
Other payables	2,461,683,065.69	1,766,319,446.79
Total	2,461,683,065.69	1,766,319,446.79

(1) Other payables by nature

Item	Closing balance	Opening balance
Current account	1,600,487,159.79	1,255,876,333.80
Deposit and margin	321,260,030.81	355,959,708.60
Payment for project and equipment	96,263,662.95	123,716,979.36
Amount payable to Greencool Companies and specific third party	30,766,425.03	30,766,425.03
Dividends payable	412,905,787.11	
Total	2,461,683,065.69	1,766,319,446.79

(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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**21. Contract liabilities****(1) Contract liabilities**

Item	Closing balance	Opening balance
Advances on sales	322,470,065.38	716,041,073.75
Total	322,470,065.38	716,041,073.75

Note: As at 30 June 2019, contract liabilities with ageing of over one year amounted to RMB52,087,529.09 (31 December 2018: RMB59,027,314.88) and were not recognised as revenue yet as at the end of the period as the relevant products had not been sold.

22. Other current liabilities

Item	Closing balance	Opening balance	Reasons for the balance
Installation fees	488,615,621.39	337,119,912.36	Installation fee provided for but not yet paid in
Sales discounts	207,422,723.38	142,382,652.93	Incurred but not yet settled
Others	259,882,696.04	166,676,349.64	Incurred but not yet settled
Total	955,921,040.81	646,178,914.93	

23. Lease liabilities

Item	Closing balance	Opening balance
Lease liabilities	37,607,919.24	41,146,074.73
Total	37,607,919.24	41,146,074.73

24. Provisions

Item	Closing balance	Opening balance
Pending litigation	13,503,856.34	7,503,856.34
Provision for warranties	300,661,352.14	298,263,680.66
Others	23,790,000.00	23,790,000.00
Total	337,955,208.48	329,557,537.00

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

25. Deferred income

Item	Closing balance	Opening balance
Deferred income	123,848,392.31	98,410,309.53
Total	123,848,392.31	98,410,309.53

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance	Reason for occurrence
Government grants	98,410,309.53	41,494,888.50	16,056,805.72	123,848,392.31	Amortization of government grants
Total	98,410,309.53	41,494,888.50	16,056,805.72	123,848,392.31	-

Of which, items relating to government grants:

Liabilities	Opening balance	New grants received during the period	Amount included in other income during the period	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	1,026,666.67		140,000.00		886,666.67	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)	5,035,000.00		265,000.00		4,770,000.00	Related to assets
Others	59,378,642.86	41,494,888.50	15,651,805.72		85,221,725.64	Related to assets
Total	98,410,309.53	41,494,888.50	16,056,805.72		123,848,392.31	

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — *Continued*

26. Share capital

Categories of shares	Opening balance	Change for the period (+,-)				Subtotal	Closing balance
		Issue of new shares	Bonus issue	Conversion from reserve	Others		
Restricted floating shares subject to lock-up	1,100,497.00				-89,887.00	-89,887.00	1,010,610.00
Including: Other domestic shares	1,100,497.00				-89,887.00	-89,887.00	1,010,610.00
Including: Shares held by domestic natural persons	1,100,497.00				-89,887.00	-89,887.00	1,010,610.00
Unrestricted floating shares not subject to lock-up	1,361,624,873.00				89,887.00	89,887.00	1,361,714,760.00
Including: RMB ordinary shares	902,035,065.00				89,887.00	89,887.00	902,124,952.00
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

27. Capital reserve

(1) *Changes in capital reserve*

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
Share premium	1,973,979,930.12			1,973,979,930.12
Other capital reserve	102,493,284.44			102,493,284.44
Total	2,076,473,214.56			2,076,473,214.56

(2) *Notes to changes in capital reserve:*

There was no change in the capital reserve during the period.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

28. Other comprehensive income

Item	Opening balance	Amount incurred in the period					Closing balance
		Amount before income tax for the period	Less: Amount included in other comprehensive income in previous period and 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 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	16,996,290.49	5,722,706.04			5,722,706.04		22,718,996.53
Including: Share of other comprehensive income of investee that would be reclassified into profit or loss under equity method	5,731,108.11	6,666,182.49			6,666,182.49		12,397,290.60
Difference arising from translation of financial statements presented in foreign currency	11,265,182.38	-943,476.45			-943,476.45		10,321,705.93
Total other comprehensive income	16,896,290.49	5,722,706.04			5,722,706.04		22,618,996.53

29. Surplus reserve

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
Statutory surplus reserve	556,272,909.16			556,272,909.16
Total	556,272,909.16			556,272,909.16

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — *Continued*

30. Undistributed profits

Item	Amount for the period	Amount for previous period
Undistributed profits at the end of the previous period before adjustment	3,339,456,580.66	2,525,976,933.34
Adjustment for total undistributed profits as at the beginning of the period (+ for increase and - for decrease)		113,273,139.17
Undistributed profits as at the beginning of the period after adjustment	3,339,456,580.66	2,639,250,072.51
Add: Net profits attributable to the shareholders of the parent in current period	959,746,468.35	1,377,457,177.70
Less: Appropriation of statutory surplus reserve		77,651,506.75
Dividends payable on ordinary shares	412,905,787.11	599,599,162.80
Undistributed profits at the end of the period	3,886,297,261.90	3,339,456,580.66

31. Operating revenue and operating costs

(1) *Operating revenue and operating costs*

Item	Amount for the period	Amount for previous period
Revenue from principal operations	17,329,449,608.54	18,439,652,550.65
Revenue from other operations	1,620,825,701.39	1,931,106,738.93
Total operating revenue	18,950,275,309.93	20,370,759,289.58
Costs of principal operations	13,580,858,060.22	14,788,200,733.98
Costs of other operations	1,510,170,601.92	1,836,432,576.46
Total operating costs	15,091,028,662.14	16,624,633,310.44

(2) *Principal operations (by products)*

Products	Amount for the period		Amount for previous period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
1. Refrigerators and washing machines	7,659,743,689.33	5,865,410,061.74	7,922,828,341.20	6,398,661,638.28
2. Air-conditioners	8,914,777,401.66	7,098,682,342.34	9,648,456,857.31	7,679,113,408.34
3. Others	754,928,517.55	616,765,656.14	868,367,352.14	710,425,687.36
Total	17,329,449,608.54	13,580,858,060.22	18,439,652,550.65	14,788,200,733.98

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**31. Operating revenue and operating costs — Continued****(3) Principal operations (by region)**

Region	Amount for the period		Amount for previous period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Domestic	10,996,497,355.33	7,772,316,325.62	12,421,473,427.49	9,040,237,068.69
Overseas	6,332,952,253.21	5,808,541,734.60	6,018,179,123.16	5,747,963,665.29
Total	17,329,449,608.54	13,580,858,060.22	18,439,652,550.65	14,788,200,733.98

(4) Operating revenue from the top five customers

The percentage of top five customers of the Company to the total revenue from principal operation for the period is 51.92%, of which the percentage of top one customer is 23.36%.

32. Tax and surcharges

Item	Amount for the period	Amount for previous period
City maintenance and construction tax	30,043,038.70	28,286,310.63
Education surcharges	21,224,933.63	19,755,406.73
Others	99,395,718.15	113,029,591.09
Total	150,663,690.48	161,071,308.45

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

33. Sales expenses

Item	Amount for the period	Amount for previous period
sales expenses	2,624,883,463.85	2,643,873,486.50
Total	2,624,883,463.85	2,643,873,486.50

Note: In the first half of 2019, the sales expenses were mainly installation and maintenance fees, promotional fees, warehousing and logistics fees, and employee compensation expenses, which accounting for more than 70% of the total sales expenses (first half year of 2018: more than 70%).

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**34. Management expenses**

Item	Amount for the period	Amount for previous period
Management expenses	241,004,121.20	214,080,347.92
Total	241,004,121.20	214,080,347.92

Note: In the first half of 2019, the administrative expenses were mainly employee compensation expenses, depreciation and amortization expenses, and administrative expenses, which accounting for more than 80% of the total administrative expenses (first half year of 2018: more than 80%).

35. R&D expenses

Item	Amount for the period	Amount for previous period
R&D expenses	377,178,975.93	319,451,060.26
Total	377,178,975.93	319,451,060.26

Note: In the first half of 2019, the sales expenses were mainly employee compensation expenses, depreciation and amortization expenses, and direct investment expenses, which accounting for more than 80% of the total sales expenses (first half year of 2018: more than 80%).

36. Financial expenses

Item	Amount for the period	Amount for previous period
Interest expenses*	973,801.85	2,472,249.99
Less: Interest income	24,740,076.79	15,885,956.22
Exchange gain or loss	2,504,516.23	1,752,989.08
Others	36,049,653.15	24,927,829.78
Total	14,787,894.44	13,267,112.63

* Interest expenses for the half year of 2019 were the interest expenses from lease liabilities, the interests on bank borrowings of the last instalment of repayment within five years.

37. Impairment losses on assets

Item	Amount for the period	Amount for previous period
Loss on decline in value of inventories	-4,699,337.87	-3,507,882.40
Impairment loss on fixed assets	2,193,556.39	
Total	-2,505,781.48	-3,507,882.40

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

38. Impairment loss on credit

Item	Amount for the period	Amount for previous period
Loss of bad debts of Notes receivable and Accounts receivable	11,369,941.49	3,551,580.97
Loss of bad debts of other receivables	-2,839,027.85	-4,973,174.64
Total	8,530,913.64	-1,421,593.67

39. Other income

Item	Amount for the period	Amount for previous period	Amount included in non-recurring profit or loss of the current period
Refund of value-added tax	67,079,870.42	57,935,837.05	
Other government grants related to daily operation	40,399,188.15	32,419,927.80	40,399,188.15
Total	107,479,058.57	90,355,764.85	40,399,188.15

40. Investment gain

Item	Amount for the period	Amount for previous period
Investment income of other equity instruments invested in the holding period	487,374,859.09	379,639,880.70
Investment gain from disposal of financial assets at fair value through profit or loss	-1,949,200.00	-271,460.10
Investment gain from wealth management products	12,582,123.27	28,060,935.88
Total	498,007,782.36	407,429,356.48

Gain from long-term equity investment under the equity method

Investee	Amount for the period	Amount for previous period
Hisense Hitachi	463,771,280.41	372,776,271.64
Hisense Financial Holdings	22,173,792.69	8,674,363.22
Hisense Commercial Trading	-1,631,120.55	-629,470.66
Hisense International	3,060,906.54	-1,181,283.50
Total	487,374,859.09	379,639,880.70

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**41. Gain arising from changes in fair value**

Sources of gain arising from changes in fair value	Amount for the period	Amount for previous period
Financial assets held-for-trading	-64,150.00	-81,730.56
Including: Gain from changes in fair value of derivative financial instruments	-64,150.00	-81,730.56
Financial liabilities held-for-trading	2,330,710.00	-2,361,876.65
Including: Gain from changes in fair value of derivative financial instruments	2,330,710.00	-2,361,876.65
Total	2,266,560.00	-2,443,607.21

42. Gains on disposal of assets

Item	Amount for the period	Amount for previous period	Amount included in non-recurring profit or loss of the current period
Gains on disposal of non-current assets	586,691.50	471,937.85	586,691.50
Including: Gains on disposal of fixed assets (Loss expressed with “-”)	586,691.50	471,937.85	586,691.50
Total	586,691.50	471,937.85	586,691.50

43. Non-operating income

Item	Amount for the period	Amount for previous period	Amount included in non-recurring profit or loss of the current period
Gain from scrapping of non-current assets	1,607,408.12	1,059,975.06	1,607,408.12
Including: fixed assets	1,607,408.12	1,059,975.06	1,607,408.12
Government grants not related to daily operation of the enterprise	53,200,482.44	20,547,265.28	53,200,482.44
Others	11,937,178.17	25,405,823.67	11,937,178.17
Total	66,745,068.73	47,013,064.01	66,745,068.73

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

43. Non-operating income — Continued

Government grants recognized in the profits or losses:

Item	Amount for the period		Amount for previous period		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		67,079,870.42		57,935,837.05	Related to revenue
Design, manufacturing and technical transformation project of high-precision intelligent mold		140,000.00		140,000.00	Related to assets
The invested guidance fund within the budget of central government for development of national service industry for 2018		265,000.00			Related to assets
Other government grants related to assets		15,651,805.72		4,652,668.14	Related to assets
Other government grants related to daily operation		24,342,382.43		27,627,259.66	Related to revenue
Government grants not related to daily operation	53,200,482.44		20,547,265.28		Related to revenue
Total	53,200,482.44	107,479,058.57	20,547,265.28	90,355,764.85	

44. Non-operating expenses

Item	Amount for the period	Amount for previous period	Amount included in non-recurring profit or loss of the current period
Loss on scrapping of non-current assets	1,908,757.06	1,680,409.68	1,908,757.06
Including: fixed assets	1,908,757.06	1,680,409.68	1,908,757.06
Others	8,933,097.91	10,215,845.68	8,933,097.91
Total	10,841,854.97	11,896,255.36	10,841,854.97

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**45. Income tax expenses****(1) Income tax expenses**

Item	Amount for the period	Amount for previous period
Current income tax	108,185,727.08	118,458,277.21
Including: PRC Enterprise income tax		
Hong Kong profit tax	108,185,727.08	118,458,277.21
Deferred tax expenses	14,228,755.13	-6,782,338.74
Total	122,414,482.21	111,675,938.47

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

Item	Amount for the period
Total profits	1,108,946,675.92
Income tax expense calculated at statutory (or applicable) tax rates	345,627,272.82
Effect of application of different tax rate to certain subsidiaries	-27,402,580.92
Adjustment to income tax in previous period	6,985,961.79
Effect of non-taxable income	-137,578,956.02
Effect of non-deductible cost, expense and loss	511,097.82
Effect of utilization of deductible losses unrecognized as deferred tax assets in previous period	-41,590,231.40
Effect of deductible temporary difference or deductible loss unrecognized as deferred tax assets in current period	2,989,805.49
Changes in opening balance of deferred tax assets/liabilities arising from changes in tax rate	
Effect of super deduction of research and development expense	-27,127,887.37
Others	
Income tax expense	122,414,482.21

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

46. Calculation of basic and diluted earnings per share

Item		Amount for the period	Amount for previous period
Net profits attributable to ordinary shareholders of the Company of the reporting period	P1	959,746,468.35	791,634,530.35
Non-recurring item attributable to ordinary shareholders of the Company of the reporting period	F	80,900,159.79	53,556,014.52
Net profits after non-recurring item attributable to ordinary shareholders of the Company of the reporting period	P2=P1-F	878,846,308.56	738,078,515.83
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 item attributable to ordinary shareholders of the Company	P4		
Weighted average number of ordinary shares	S	1,362,725,370.00	1,362,725,370.00
Add: Additional weighted average number of ordinary shares assuming conversion of all dilutive potential ordinary shares to ordinary shares	X1		
Weighted average number of ordinary shares in the 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	0.70	0.58
Basic earnings per share attributable to ordinary shareholders of the Company after non-recurring items	Y2=P2/S	0.64	0.54
Diluted earnings per share attributable to ordinary shareholders of the Company	Y3=(P1 P3)/X2	0.70	0.58
Diluted earnings per share attributable to ordinary shareholders of the Company after non-recurring items	Y4=(P2 P4)/X2	0.64	0.54

47. Other comprehensive incomes

Please see note VI.28 "Other comprehensive income" for details.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**48. Notes to cash flows statement****(1) Other cash receipt related to operating activities**

Item	Amount for the period	Amount for previous period
Interest incomes	24,453,274.02	15,905,649.30
Government grants	119,037,753.37	111,508,261.99
Other	155,690,228.27	253,567,461.55
Total	299,181,255.66	380,981,372.84

(2) Other cash payment related to operating activities

Item	Amount for the period	Amount for previous period
Cash payments	1,642,108,304.12	1,637,178,183.48
Other	209,773,696.78	228,687,673.76
Total	1,851,882,000.90	1,865,865,857.24

(3) Other cash receipt related to investing activities

Item	Amount for the period	Amount for previous period
Disposal of wealth management products upon maturity	790,000,000.00	1,580,000,000.00
Total	790,000,000.00	1,580,000,000.00

(4) Other cash payment related to investing activities

Item	Amount for the period	Amount for previous period
Acquisition of wealth management products	1,980,000,000.00	1,730,000,000.00
Total	1,980,000,000.00	1,730,000,000.00

(5) Other cash payments related to financing activities

Item	Amount for the period	Amount for previous period
Security deposit	677,104,418.86	365,328,088.72
Lease expenses	10,087,957.86	
Total	687,192,376.72	365,328,088.72

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**49. Supplementary information on cash flows statement****(1) Supplementary information on cash flows statement**

Supplementary information	Amount for the period	Amount for previous period
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	986,532,193.71	818,566,461.60
Add: Provision for assets impairment	-2,505,781.48	-3,507,882.40
Loss on credit impairment	8,530,913.64	-1,421,593.67
Depreciation of fixed assets , depletion of oil and gas assets and depreciation of productive biological assets	331,392,901.51	320,354,103.84
Amortization of intangible assets	18,977,466.72	16,727,202.22
Amortization of long-term prepaid expenses	5,484,058.91	1,178,675.37
Loss on disposals of fixed assets, intangible and other longterm assets (Gain denoted in "-")	-586,691.50	-471,937.85
Loss on scrapping of fixed assets (Gain denoted in "-")	301,348.94	620,434.62
Loss on change in fair value (Gain denoted in "-")	-2,266,560.00	2,443,607.21
Financial expenses (Gain denoted in "-")	973,801.85	2,472,249.99
Investment loss (Gain denoted in "-")	-498,007,782.36	-407,429,356.48
Decrease in deferred tax assets (Increase denoted in "-")	8,184,025.13	-6,771,856.92
Increase in deferred tax liabilities (Decrease denoted in "-")	6,044,730.00	-10,481.82
Decrease in inventory (Increase denoted in "-")	89,630,167.68	-298,823,501.10
Decrease in operating receivables (Increase denoted in "-")	-1,170,321,035.39	-1,648,786,734.48
Increase in operating payables (Decrease denoted in "-")	2,186,732,233.63	1,841,808,265.78
Others		
Net cash flows from operating activities	1,969,095,990.99	636,947,655.91
2. Significant investing and financing activities not involving cash receipts and payment:		
Liabilities converted into equity		
Convertible company debentures due within one year		
Fixed assets under finance leases		
3. Net movement in cash and cash equivalents:		
Cash at the end of the period	1,766,061,584.85	1,155,443,174.12
Less: Cash at the beginning of the period	1,061,364,062.82	952,318,970.66
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	704,697,522.03	203,124,203.46

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**49. Supplementary information on cash flows statement — Continued****(2) Details of cash and cash equivalents**

Item	Amount for the period	Amount for previous period
1. Cash	1,766,061,584.85	1,155,443,174.12
Including: Cash on hand	2,537.32	5,453.38
Bank deposit that are readily available for payment	1,766,059,047.53	1,155,437,720.74
Other cash that are readily available for payment		
2. Cash equivalents		
Including: Bond investments due within three months		
3. Cash and cash equivalents as at the end of the period	1,766,061,584.85	1,155,443,174.12
Including: Cash and cash equivalents of the parent or subsidiaries subject to restrictions on use		

50. Assets with limited ownership or use rights

Item	Closing carrying amount	Reason for limitation
Monetary funds	3,264,203,965.65	As secured amount
Notes receivables	833,835,917.11	As collaterals for bank acceptance notes
Total	4,098,039,882.76	

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**51. 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	10,010,024.11	6.8747	68,815,912.77
EUR	2,423,042.30	7.8170	18,940,921.65
HKD	1,350,106.33	0.8797	1,187,634.53
GBP	55,565.58	8.7113	484,048.46
Accounts receivable			
Including: USD	13,150,975.56	6.8747	90,409,011.67
EUR	5,083,937.29	7.8170	39,741,137.78
Other receivables:			
Including: USD	134,786.89	6.8747	926,619.40
EUR	32,806.00	7.8170	256,444.50
HKD	414,720.01	0.8797	364,812.60
Accounts payable			
Including: USD	876,552.80	6.8747	6,026,037.53
EUR	57,517.62	7.8170	449,615.25
Other payables:			
Including: USD	3,075,745.17	6.8747	21,144,825.34
EUR	99,872.08	7.8170	780,700.05

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**51. Monetary items in foreign currencies — Continued****(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

52. 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	41,494,888.50	Deferred income	10,663,460.22
Related to revenue	91,422,252.85	Other gain	91,422,252.85
Related to revenue	53,200,482.44	Non-operating income	53,200,482.44
Total	186,117,623.79		155,286,195.51

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

53. 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 the period	Refrigerators and washing machines	Air-conditioners	Others	Inter-segment elimination	Total
1. Revenue from external sales	7,659,743,689.33	8,914,777,401.66	754,928,517.55		17,329,449,608.54
2. Revenue from Inter-segment			828,152,745.34	-828,152,745.34	
3. Gain from investment in associates and jointly controlled entities	-815,560.28	462,955,720.14	25,234,699.23		487,374,859.09
4. Depreciation and amortization	194,348,715.49	114,788,623.84	41,233,028.90		350,370,368.23
5. Gain from changes in fair value			2,266,560.00		2,266,560.00
6. Impairment losses on assets	1,997,694.12	431,649.47	3,595,788.57		6,025,132.16
7. Total profit (Total loss)	278,109,311.05	777,277,815.49	78,515,970.70	-24,956,421.32	1,108,946,675.92
8. Total assets	18,398,418,501.84	13,256,822,058.57	3,241,425,643.63	-10,187,617,073.89	24,709,049,130.15
9. Total liabilities	12,279,011,172.67	8,576,063,321.52	1,684,459,567.99	-6,276,585,599.40	16,262,948,462.78
10. Additions to other non-current assets other than long-term equity investments	-80,997,563.28	20,794,613.15	-68,111,686.38		-128,314,636.51

Continued from above table

Amount for previous period	Refrigerators and washing machines	Air-conditioners	Others	Inter-segment elimination	Total
1. Revenue from external sales	7,922,828,341.20	9,648,456,857.31	868,367,352.14		18,439,652,550.65
2. Revenue from Inter-segment			857,738,034.96	-857,738,034.96	
3. Gain from investment in associates and jointly controlled entities	-314,735.33	372,461,536.31	7,493,079.72		379,639,880.70
4. Depreciation and amortization	195,618,680.70	103,030,565.55	38,432,059.81		337,081,306.06
5. Gain from changes in fair value			-2,443,607.21		-2,443,607.21
6. Impairment losses on assets	-5,646,597.36	1,115,973.34	-398,852.05		-4,929,476.07
7. Total profit (Total loss)	105,589,542.84	738,395,199.57	105,253,826.39	-18,996,168.73	930,242,400.07
8. Total assets	16,386,441,287.17	13,760,463,626.00	3,853,800,221.21	-9,402,888,447.74	24,597,816,686.64
9. Total liabilities	10,946,010,474.75	9,987,436,686.16	1,851,271,388.12	-5,475,762,908.39	17,308,955,640.64
10. Additions to other non-current assets other than long-term equity investments	-69,016,710.87	35,297,606.87	16,358,808.22		-17,360,295.78

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — *Continued*

53. Segment information — *Continued*

(2) *Geographic Information*

Region	Amount for the period/closing balance	Amount for previous period/ opening balance
Revenue from domestic transactions	10,996,497,355.33	12,421,473,427.49
Revenues from overseas transactions	6,332,952,253.21	6,018,179,123.16
Total	17,329,449,608.54	18,439,652,550.65
Non-current assets — Domestic	7,178,791,091.83	7,565,732,109.26
Non-current assets — Overseas	10,911,185.59	11,685,363.09
Total	7,189,702,277.42	7,577,417,472.35

The Company mainly operates in Mainland China, where the majority of non-current assets are located, Therefore it is not necessary to present further details of the regional information.

VII. CHANGE IN SCOPE OF CONSOLIDATION

There was no change in the scope of consolidation during the reporting period.

VIII. 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 Airconditioner Co., Ltd. ⁽¹⁾	Guangdong Airconditioner	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. ⁽¹⁾	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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VIII. INTERESTS IN OTHER ENTITIES — Continued

1. Interests in subsidiaries — Continued

(1) Composition of enterprise groups — Continued

Name of subsidiary	Abbreviation	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Method for acquisition
					Direct	Indirect	
Jiangxi Kelon Combine Electrical Appliances Co., Ltd. ^(a)	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
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 Airconditioner Marketing Co., Ltd.	Airconditioner Marketing Company	Qingdao	Qingdao	Trading		75.57	Establishment or investment
Hisense (Guangdong) AirConditioner 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) AirConditioning Co. Ltd.	Shandong Airconditioning	Qingdao	Qingdao	Manufacturing	100		Business combination under common control
Hisense (Zhejiang) Airconditioning Co., Ltd.	Zhejiang Airconditioning	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
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	Deutschland	Germany	Germany	Manufacturing		100	Establishment or investment

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

VIII. INTERESTS IN OTHER ENTITIES — *Continued*

1. Interests in subsidiariess — *Continued*

(1) *Composition of enterprise groups — Continued*

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;

(2) *Principal non-wholly-owned subsidiaries*

Name of subsidiary	Percentage of minority interest (%)	Gain or loss attributable to minority interests for the period	Dividends paid to minority interests for the period	Closing balance of minority interests
Refrigerator Marketing Company	21.18	3,671,115.52	4,807,359.00	52,017,007.60
Air-conditioner Marketing Company	24.43	8,351,862.60	2,884,050.00	51,588,932.33

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

RMB'0000

Name of subsidiary	Closing balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Refrigerator Marketing Company	631,394.02	1,734.04	633,128.06	608,568.56		608,568.56
Air-conditioner Marketing Company	513,526.44	1,524.33	515,050.77	493,933.73		493,933.73

(Continued)

Name of subsidiary	Opening 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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

VIII. INTERESTS IN OTHER ENTITIES — Continued

2. 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	Provision of financial services	24.00		Equity method
Hisense Commercial Trading	Qingdao	Qingdao	Trading	50.00		Equity method
Hisense International	Overseas	Qingdao	Trading	12.67		Equity method

(2) Major financial information of significant joint ventures

Item	RMB'0000	
	Closing balance/ Amount for the period	Opening balance/ Amount for previous period
	Hisense Hitachi	Hisense Hitachi
Current assets	874,738.24	904,574.76
Including: Cash and cash equivalents	30,408.60	186,878.62
Non-current assets	312,921.65	287,593.41
Total assets	1,187,659.89	1,192,168.17
Current liabilities	616,748.32	569,789.92
Non-current liabilities	16,900.77	15,456.78
Total liabilities	633,649.09	585,246.70
Minority interest	25,389.18	23,362.11
Equity attributable to shareholders of the parent company	528,621.62	583,559.37
Share of net assets based on shareholding percentage	259,024.59	285,944.09
Adjustments		
- Goodwill		
- Unrealized profit from intra-group transactions		
- Others	1,576.42	1,730.80
Carrying amount of equity investments in joint ventures	260,601.01	287,674.89
Fair value of investments in joint ventures with public quoted prices		
Operating revenue	604,132.15	543,762.47
Net profit	99,309.18	79,639.07
Net profit from discontinued operations		
Other comprehensive income		
Total comprehensive income	99,309.18	79,639.07
Dividend received from joint ventures during the period	73,451.00	

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

VIII. INTERESTS IN OTHER ENTITIES — *Continued*

2. Interests in joint ventures or associates — *Continued*

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

Item	RMB'0000	
	Closing balance/ Amount for the period	Opening balance/ Amount for previous period
Joint ventures:		
Total carrying amount of investments	4,639.64	4,802.75
Amounts in aggregate in proportion to the shareholdings:		
- Net profit	-163.11	-62.95
- Other comprehensive income		
- Total comprehensive income	-163.11	-62.95
Associates:		
Total carrying amount of investments	41,497.60	40,200.67
Amounts in aggregate in proportion to the shareholdings:		
- Net profit	2,523.47	749.31
- Other comprehensive income	666.62	-146.90
- Total comprehensive income	3,190.09	602.41

IX. 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.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

IX. RISKS RELATING TO FINANCIAL INSTRUMENTS — Continued

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.

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:

30 June 2019

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets					
Cash at bank and on hand	5,030,265,550.50				5,030,265,550.50
Financial assets					
held-for-trading	143,200.00				143,200.00
Notes receivable	2,277,732,761.70				2,277,732,761.70
Accounts receivable	4,706,485,278.32				4,706,485,278.32
Other receivables	406,104,944.17				406,104,944.17
Other current assets	1,730,000,000.00				1,730,000,000.00
Total	14,150,731,734.69				14,150,731,734.69
Financial liabilities					
Financial liabilities					
held-for-trading	435,190.00				435,190.00
Notes payable	6,586,679,627.10				6,586,679,627.10
Accounts payable	4,915,103,868.01				4,915,103,868.01
Other payables	2,461,683,065.69				2,461,683,065.69
Other current liabilities	955,921,040.81				955,921,040.81
Total	14,919,822,791.61				14,919,822,791.61

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

IX. RISKS RELATING TO FINANCIAL INSTRUMENTS — Continued**2. Liquidity risk — Continued**

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
Financial assets at fair value					
through profit or loss	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					
Financial liabilities at fair					
value through profit or loss					
for the current period	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

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

As at 30 June 2019 and 31 December 2018, the Company has no bank and other borrowings.

IX. 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 30 June 2019, the Company has no bank borrowings. As such, any changes in the interest rate are 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 and EUR. The exchange rates between RMB, HKD, USD and EUR are not pegged, and there is fluctuation in exchange rates between RMB, USD 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	160,151,543.84	27,170,862.87	314,992,582.61	90,538,470.80
EUR	58,938,503.93	1,230,315.30	85,829,707.99	3,607,026.51

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	Amount for the period Increase/Decrease in profit after tax	Amount for previous period Increase/Decrease in profit after tax
USD to RMB		
Appreciates by 5%	4,986,775.54	11,750,460.32
Depreciates by 5%	-4,986,775.54	-11,750,460.32
EUR to RMB		
Appreciates by 5%	2,164,057.07	2,545,609.27
Depreciates by 5%	-2,164,057.07	-2,545,609.27

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

IX. RISKS RELATING TO FINANCIAL INSTRUMENTS — *Continued*

4. Foreign currency risk — *Continued*

Sensitivity analysis of change in forward rate:

Item	Amount for the period Increase/Decrease in profit after tax	Amount for previous period Increase/Decrease in profit after tax
USD to RMB		
Appreciates by 5%	-206,250.00	-450,000.00
Depreciates by 5%	206,250.00	450,000.00
EUR to RMB		
Appreciates by 5%	-150,000.00	-39,195.00
Depreciates by 5%	150,000.00	39,195.00

X. DISCLOSURE OF FAIR VALUE

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

Item	Fair value as at the end of the period			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) Financial assets held-for-trading				
1. Financial assets at fair value through profit or loss		143,200.00		143,200.00
(1) Derivative financial assets		143,200.00		143,200.00
Total assets measured at fair value on a recurring basis		143,200.00		143,200.00
(ii) Financial liabilities held-for-trading				
Including: Derivative financial liabilities		435,190.00		435,190.00
Total liabilities measured at fair value on a recurring basis		435,190.00		435,190.00

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.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

XI. RELATED PARTIES AND RELATED TRANSACTIONS

1. Particulars of the parent

(Unit: RMB'0000)

Name of the Parent	Relationship	Category of enterprise	Place of registration	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 Holding shareholder	State wholly-owned	Qingdao	Zhou Houjian	Entrusted operation of state-owned assets; manufacture and sales of household appliances, communication, products and services

Continued from above table

Name of the Parent	Registered capital	Shareholding of the parent (%)	Voting rights of the parent (%)	Ultimate holding company	Creditability code
Qingdao Hisense Air-conditioning	67,479	37.92	37.92	State-owned Assets Supervision and Administration Commission of Qingdao Municipal	913702126143065147
Hisense Group	80,617			State-owned Assets Supervision and Administration Commission of Qingdao Municipal	913702001635787718

2. Subsidiaries of the Company

Please see note VIII.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 VIII.2 "Interests in joint ventures or associates".

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

XI. RELATED PARTIES AND RELATED TRANSACTIONS — *Continued*

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 of other related parties 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) Co., Ltd. ("Hisense HK")	Subsidiary of ultimate holding company

6. The Greencool Companies had a series of transactions or unusual cash flows through the following "Specific Third Party Companies"

Name of related party	Relationship with the Company
Jinan San Ai Fu	Specific Third Party Company
Jianxi Keda	Specific Third Party Company
Zhuhai Longjia	Specific Third Party Company
Zhuhai Defa	Specific Third Party Company
Wuhan Changrong	Specific Third Party Company
DeHeng Law Offices	Specific Third Party Company
Shangqiu Bingxiong	Specific Third Party Company

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

XI. RELATED PARTIES AND RELATED TRANSACTIONS — Continued

7. Related party transactions

(1) Purchase of goods/receipt of services

Related Party	Particulars of related parties transactions	Pricing and decision-making procedures of related parties transactions	Amount for the Period		Amount for previous period	
			Amount	Percentage to similar transaction (%)	Amount	Percentage to similar transaction (%)
Hisense Group	Purchase of finished goods	Agreed Price	108,219.81		39,962.06	
Hisense International	Purchase of finished goods	Agreed Price			3,232.76	
Hisense Commercial Trading	Purchase of finished goods	Agreed Price			56,307.70	
Hisense Hitachi	Purchase of finished goods	Agreed Price			32,191.45	
Subtotal of purchase of finished good			108,219.81		131,693.97	
Hisense Group	Purchase of raw materials	Agreed Price	89,781,279.02	0.59	87,876,274.10	0.53
Hisense Electric	Purchase of raw materials	Agreed Price	4,302,894.40	0.03	3,142,807.20	0.02
Hisense International	Purchase of raw materials	Agreed Price			10,265.85	
Hisense Hitachi	Purchase of raw materials	Agreed Price	12,302,368.99	0.08	4,686,703.99	0.03
Subtotal of purchase of raw materials			106,386,542.41	0.70	95,716,051.14	0.58
Hisense Group	Receipt of services	Agreed Price	245,562,282.41	1.63	189,807,673.56	1.14
Hisense Electric	Receipt of services	Agreed Price	4,360,302.98	0.03	6,336,424.13	0.04
Hisense International	Receipt of services	Agreed Price	1,808,677.15	0.01	2,252,445.30	0.01
Hisense Commercial Trading	Receipt of services	Agreed Price	35,496,173.96	0.24	3,067,366.96	0.02
Xuehua Group	Receipt of services	Agreed Price	344,596.20		327,004.96	
Subtotal of receipt of services			287,572,032.70	1.91	201,790,914.91	1.21
Hisense HK	Financing Agency	Agreed Price	150,866,921.74	1.00	171,598,410.50	1.03
Subtotal of financing purchase			150,866,921.74	1.00	171,598,410.50	1.03

XI. RELATED PARTIES AND RELATED TRANSACTIONS — Continued**7. Related party transactions — Continued****(1) Purchase of goods/receipt of services — Continued**

The Company and Hisense Group, Hisense Electric and Hisense Commercial Trading entered into a Business Cooperation Framework Agreement on 26 November 2018. During the effective period of the agreement, the transaction with the Company as the purchaser and recipient of services was subject to an aggregate cap (exclusive of value-added tax) of RMB1,384,430,000.

The Company and Hisense Hitachi entered into a Business Framework Agreement on 26 November 2018. During the effective period of the agreements, the transaction with the Company as the purchaser was subject to an aggregate cap (exclusive of value-added tax) of RMB12,720,000.

The Company and Hisense HK entered into a Financing Purchase Framework Agreement on 26 November 2018. During the effective period of the agreement, the transaction in which the Company engaged Hisense HK 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 fourth interim meeting of the Company's tenth session of the board of directors in 2018 convened on 26 November 2018 and the first extraordinary general meeting in 2019 convened on 23 January 2019 respectively.

The above transactions with Hisense Group, Hisense Electric, Hisense HK, 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 HK, 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 HK 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 2019 as disclosed in note XI of the financial statements in the 2019 interim report do not constitute connected transactions under Chapter 14A of the Listing Rules.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

XI. RELATED PARTIES AND RELATED TRANSACTIONS — Continued

7. Related party transactions — Continued

(2) Sale of goods/rendering of service

Name of related party	Particulars of related transactions	Pricing policies and procedures for decision-making	Amount for the period		Amount for previous period	
			Amount	Percentage to similar transaction (%)	Amount	Percentage to similar transaction (%)
Hisense Group	Sale of finished goods	Agreed price	84,593,394.68	0.45	117,593,010.71	0.58
Hisense Electric	Sale of finished goods	Agreed price	123,169.71		1,189,521.97	0.01
Hisense International	Sale of finished goods	Agreed price	5,793,450,136.80	30.57	5,442,049,024.24	26.71
Hisense Commercial Trading	Sale of finished goods	Agreed price	143,964,618.67	0.76	91,143,443.52	0.45
Hisense Hitachi	Sale of finished goods	Agreed price	264,929,171.73	1.40	254,961,622.12	1.25
Subtotal of sales amount of finished product			6,287,060,491.59	33.18	5,906,936,622.56	29.00
Hisense Group	Materials	Agreed price	6,476,144.41	0.03	6,511,272.18	0.03
Hisense Electric	Materials	Agreed price	6,723,685.25	0.04	6,913,959.97	0.03
Hisense International	Materials	Agreed price	23,293,230.62	0.12	26,848,730.36	0.13
Hisense Hitachi	Materials	Agreed price	2,657,258.03	0.01	1,158,968.81	0.01
Subtotal of sales amount of raw materials			39,150,318.31	0.20	41,432,931.32	0.20
Hisense Electric	Sale of mould	Market price	39,091,236.56	0.21	55,081,747.72	0.27
Hisense International	Sale of mould	Market price	14,337,791.87	0.08	40,270,112.02	0.20
Hisense Hitachi	Sale of mould	Market price	2,444,512.77	0.01	11,156,800.62	0.05
Subtotal of sales amount of moulds			55,873,541.20	0.30	106,508,660.36	0.52
Hisense Group	Rendering of service	Agreed price	6,719,028.15	0.04	5,719,705.77	0.03
Hisense Electric	Rendering of service	Agreed price	916,163.08		1,022,398.21	0.01
Hisense International	Rendering of service	Agreed price	2,282,692.27	0.01	968,757.68	
Xuehua Group	Rendering of service	Agreed price	458,450.45		458,450.45	
Subtotal of rendering of service			10,376,333.95	0.05	8,169,312.11	0.04

XI. RELATED PARTIES AND RELATED TRANSACTIONS — Continued**7. Related party transactions — Continued****(2) Sale of goods/rendering of service — Continued**

The Company and Hisense Group, Hisense Electric and Hisense Commercial Trading entered into a Business Cooperation Framework Agreement on 26 November 2018. 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 RMB15,522,330,000.

The Company and Hisense Hitachi entered into a Business Framework Agreement on 26 November 2018. During the effective period of the agreements, the transaction with the Company as the supplier and service provider was subject to an aggregate cap (exclusive of value-added tax) of RMB748,230,000.

The above agreements were considered and approved at the fourth interim meeting of the Company's tenth session of the board of directors in 2018 convened on 26 November 2018 and the first extraordinary general meeting in 2019 convened on 23 January 2019 respectively.

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 2019 as disclosed in note XI of the financial statements in the 2019 interim report do not constitute connected transactions under Chapter 14A of the Listing Rules.

(3) Other connected transactions

As at 30 June 2019, the Company and its subsidiaries had the balance of deposit of RMB4,823,322,700, and balance of electronic bank acceptance note of RMB4,441,086,500 with Hisense Finance. For the period, 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 RMB0.00 million, RMB600,100, RMB2.3710 million and RMB340,300. The Company received interest income from bank deposits of RMB23.3452 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 RMB138.6243 million and the amount for provision of discounted notes was RMB48.0430 million.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

XI. RELATED PARTIES AND RELATED 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	115,841,703.52		85,311,108.33	
Notes Receivable	Hisense Group and its subsidiaries	46,237,891.03		43,611,242.54	
Notes Receivable	Hisense Hitachi	49,916,851.88		47,813,870.45	
Notes Receivable	Hisense International	94,670,957.15		24,318,372.97	
Subtotal		306,667,403.58		201,054,594.29	
Accounts Receivable	Hisense Electric and its subsidiaries	37,116,603.00		31,764,053.34	
Accounts Receivable	Hisense Group and its subsidiaries	82,994,248.29		79,104,110.15	
Accounts Receivable	Hisense International	1,818,011,331.22		1,420,212,909.28	
Accounts Receivable	Hisense Commercial Trading	22,125,122.65		6,369,565.81	
Accounts Receivable	Hisense Hitachi	44,047,105.85		25,376,956.36	
Subtotal		2,004,294,411.01		1,562,827,594.94	
Other Receivables	Hisense Electric and its subsidiaries	914,928.94		910,200.00	
Other Receivables	Hisense Group and its subsidiaries	1,085,490.51		1,450,072.00	
Other Receivables	Hisense International	87,401.49		5,462.18	
Other Receivables	Hisense Commercial Trading			45,004.55	
Subtotal		2,087,820.94		2,410,738.73	
Prepayments	Hisense Group and its subsidiaries	72,294.00		3,774,874.54	
Prepayments	Hisense International	364,785.72		359,019.45	
Prepayments	Hisense Hong Kong	5,704.49			
Subtotal		442,784.21		4,133,893.99	

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

XI. RELATED PARTIES AND RELATED TRANSACTIONS — *Continued*

8. Receivables from and payables to related parties — *Continued*

(2) Amount due to Related Parties from Listed Companies

Item	Related Parties	Closing Balance	Opening Balance
Note payable	Hisense Group and its subsidiaries		4,675,971.69
Subtotal			4,675,971.69
Accounts Payable	Hisense Electric and its subsidiaries	1,647,474.58	660,817.88
Accounts Payable	Hisense Group and its subsidiaries	227,681,351.53	191,874,280.43
Accounts Payable	Hisense International	507,118.89	
Accounts Payable	Hisense Commercial Trading	6,156,764.09	4,123,205.14
Accounts Payable	Hisense Hitachi		10,733,074.57
Subtotal		235,992,709.09	207,391,378.02
Other Payables	Hisense Group and its subsidiaries	11,006,543.82	20,766,104.76
Other payables	Hisense Electric and its subsidiaries	134,919.63	9,054.98
Other payables	Hisense International	144,902.37	3,952.06
Other payables	Hisense Commercial Trading	3,420,043.23	610,000.00
Other payables	Hisense Hitachi	1,528.00	
Other Payables	Xuehua Group and its subsidiaries	100,859.00	226,531.15
Subtotal		14,808,796.05	21,615,642.95
Advances from Customers	Hisense Group and its subsidiaries	2,418,681.16	169,190.99
Advances from Customers	Hisense International	42,823.48	53,453.94
Subtotal		2,461,504.64	222,644.93

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

XI. RELATED PARTIES AND RELATED TRANSACTIONS — Continued**9. Transactions with “specific third party companies”**

Item	Related Parties	Closing Carrying Amount	Opening Carrying Amount
	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
Other Receivables	Zhuhai Defa	21,400,000.00	21,400,000.00
	Wuhan Changrong	20,000,000.00	20,000,000.00
	DeHeng Law Offices	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

10. Transactions with Greencool Companies

Item	Related parties	Closing Carrying Amount	Opening Carrying Amount
Other Payables	Jiangxi Greencool	13,000,000.00	13,000,000.00
Subtotal of other payables		13,000,000.00	13,000,000.00

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

XII. SHARE-BASED PAYMENT

Nil.

XIII. COMMITMENTS AND CONTINGENCIES

1. Significant commitments

(1) Capital commitments

Item	Unit: RMB'0000	
	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	6,981.78	6,068.16
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 XV.4 "Lease" for details.

2. Contingencies

Contingent liabilities arising from pending litigations and arbitration and their financial impacts

As at 30 June 2019, the Company was involved, as defendant, in litigations with amount of RMB30,004,985.11, and provision of RMB13,503,856.34 had been made.

XIV. SUBSEQUENT EVENTS

On 3 August 2019, Hisense (Shandong) Refrigerator Co., Ltd., a subsidiary of the Company, entered into an equity transfer agreement to transfer 60% of its share interests held by Hisense (Nanjing) Electric Company Limited. The relevant share transfer has not been completed as at the date of this report.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

XV. OTHER SIGNIFICANT EVENTS

1. Assets and liabilities measured at fair value

Item	Opening Balance	Amount of Financial Assets/liabilities	Gain/(loss) from change in fair value	Impairment provision for the period	Closing Balance
Financial Assets					
Derivative financial assets	207,350.00		-64,150.00		143,200.00
Subtotal of financial Assets	207,350.00		-64,150.00		143,200.00
Financial liabilities					
Derivative financial liabilities	2,765,900.00		2,330,710.00		435,190.00
Subtotal of financial liabilities	2,765,900.00		2,330,710.00		435,190.00

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 Company 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 periods ended 30 June 2019 and 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

XV. OTHER SIGNIFICANT EVENTS — Continued

2. Capital Management — Continued

The Company monitors capital using a gearing ratio, which is net debt divided by the adjusted 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	Closing Balance	Opening Balance
Total Debt	16,262,948,462.78	13,979,644,136.40
Including: Short-term borrowings		
Accounts payable	4,915,103,868.01	4,373,335,213.48
Notes payable	6,586,679,627.10	5,442,369,087.15
Other Payables	2,461,683,065.69	1,766,319,446.79
Less: Cash and Cash equivalents	1,766,061,584.85	1,061,364,062.82
Net Debt	14,496,886,877.93	12,918,280,073.58
Equity attributable to shareholders of the Parent	7,904,387,752.15	7,351,824,364.87
Capital and net debt	22,401,274,630.08	20,270,104,438.45
Gearing Ratio	64.71%	63.73%

3. Retirement Benefit Scheme

The Company contributes mainly to a defined contribution pension scheme, which is administered by the provincial government, in respect of employees of the Company and subsidiaries. According to such scheme, the Company and subsidiaries shall pay an amount, calculated at several percentages of the total salaries and wages of the employees, to a retirement fund.

4. 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	6,559.38	6,611.81
Total	6,559.38	6,611.81

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

XV. OTHER SIGNIFICANT EVENTS — Continued**4. Leases — Continued****(2) The Company as lessor under operating lease**

The Company's investment properties are also leased to a number of tenants for different terms. The rental income for the half year of 2019 amounted to RMB17,784,100 (half year of 2018: RMB18,437,200). The minimum rent receivables under non-cancellable operating leases at the end of reporting period are follows:

Item	<i>Unit: RMB'0000</i>	
	Amount for the Period	Amount for previous Period
Within one year	1,106.64	924.94
Over one year but within five years, inclusive	559.46	805.23
Total	1,666.10	1,730.17

(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 from one to five years. The operating lease payments for the period ended 30 June 2019 was as follows:

Operating lease payments	<i>Unit: RMB'0000</i>	
	Amount for the Period	Amount for previous period
Leasehold land and buildings	1,938.50	1,658.94
Plant and machinery		1.61
Total	1,938.50	1,660.55

(4) The total future minimum lease payments under non-cancellable operating leases at the end of reporting period falling due are as follows:

Item	<i>Unit: RMB'0000</i>	
	Amount for the period	Amount for previous period
Within one year	2,081.17	1,259.20
Over one year but within five years	2,100.59	1,993.28
Total	4,181.76	3,252.48

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT

1. Notes receivable and Accounts receivable

Item	Closing balance	Opening balance
Accounts receivable	5,070,305.82	8,028,474.24
Total	5,070,305.82	8,028,474.24

(1) Accounts receivable

① Ageing analysis based on invoice day is as follows

Ageing	Closing balance
Within three months	238,415.10
Over three months but within six months	
Over six months but within one year	6,374,610.95
Over one year	108,531,422.30
Total	115,144,448.35

② As shown by provision for bad debts

Category	Closing balance				Book value
	Book value		Book value		
	Amount	(%)	Amount	(%)	Book value
Separate provision of bad debt receivables and Accounts receivable					
Provision for bad debts for Accounts receivable on a group basis	115,144,448.35	100.00	110,074,142.53	95.60	5,070,305.82
Including:					
Aging analysis method	108,769,837.39	94.46	108,531,910.24	99.78	237,927.15
Receivables from related parties	2,023,497.70	1.76			2,023,497.70
Other amount	4,351,113.26	3.78	1,542,232.29	35.44	2,808,880.97
Total	115,144,448.35	100.00	110,074,142.53	95.60	5,070,305.82

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

XVI. 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	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

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	238,415.10	487.95	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	108,769,837.39	108,531,910.24	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 — Continued

Half year of 2019

XVI. 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	2,023,497.70		
Total	2,023,497.70		

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	4,351,113.26	1,542,232.29	35.44
Total	4,351,113.26	1,542,232.29	35.44

③ Provision for bad debts

Category	Opening balance	Changes during the period			Closing balance
		Provision	Recoveries or reversals	Write-off	
Aging analysis method	108,531,910.33		328,280.08		108,203,630.25
Other amount	1,870,512.28				1,870,512.28
	110,402,422.61		328,280.08		110,074,142.53

④ Accounts receivable written-off during the period

There was no accounts receivable written-off during the period.

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 RMB34,000,293.75, accounting for 29.53% of the closing balance of account receivable. A provision for bad debts of RMB32,114,446.37 in total was made as at the end of the period.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT — Continued**2. Other receivables**

Item	Closing balance	Opening balance
Other receivables	1,247,120,114.88	1,230,184,848.21
Total	1,247,120,114.88	1,230,184,848.21

(1) Other receivables**① Disclosure by ageing**

Ageing	Closing balance
Within three months	1,246,296,166.90
Over three months but within six months	98,367.19
Over six months but within one year	
Over one year	21,699,475.85
Total	1,268,094,009.94

② Classification by nature of the amount

Nature of the amount	Book value as at the end of the period	Book value as at the beginning of the period
Security deposit	1,368,000.00	1,368,000.00
Other current account	1,266,726,009.94	1,249,817,324.06
Total	1,268,094,009.94	1,251,185,324.06

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT — Continued

2. Other receivables — Continued

(1) 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 (without credit impairment)	Total
Balance as at 1 January 2019	699,000.00	3,427,159.17	16,874,316.68	21,000,475.85
During the year, the book value of other receivables as at 1 January 2019:				
- transferred to second stage				
- transferred to third stage				
- reversed to second stage				
- reversed to first stage				
Provision for the year	9,419.21			9,419.21
Reversal for the year	36,000.00			36,000.00
Written-off for the year				
Charge off for the year				
Other changes				
Balance as at 30 June 2019	672,419.21	3,427,159.17	16,874,316.68	20,973,895.06

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.

④ Provision for bad debts

Category	Opening balance	Changes during the period			Closing balance
		Provision	Recoveries or reversals	Write-off	
Aging analysis method	20,316,475.85	9,419.21	36,000.00		20,289,895.06
Other amount	684,000.00				684,000.00
Total	21,000,475.85	9,419.21	36,000.00		20,973,895.06

⑤ Other receivables written-off during the period

There was no other receivable that are written-off during the period.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT — *Continued*

2. Other receivables — *Continued*

(1) Other receivables — *Continued*

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

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	188,639,925.01	Within three months	14.88	
Top 2	Inter-group current account payments	184,458,119.97	Within three months	14.55	
Top 3	Inter-group current account payments	182,281,173.16	Within three months	14.37	
Top 4	Inter-group current account payments	143,332,687.85	Within three months	11.30	
Top 5	Inter-group current account payments	138,281,459.07	Within three months	10.90	
Total		836,993,365.06		66.00	

3. Long-term equity investments

(1) Breakdown of long-term equity investments

Item	Closing balance		
	Book value	Impairment provision	Carrying amount
Investments in subsidiaries	2,513,391,236.55	59,381,641.00	2,454,009,595.55
Investments in associates and joint ventures	3,067,382,465.36		3,067,382,465.36
Total	5,580,773,701.91	59,381,641.00	5,521,392,060.91
Item	Opening balance		
	Book value	Impairment provision	Carrying amount
Investments in subsidiaries	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
Total	5,840,174,260.33	59,381,641.00	5,780,792,619.33

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT — *Continued*

3. Long-term equity investments — *Continued*

(2) Investments in subsidiaries

Investee	Opening balance	Increase for the period	Decrease for the period	Closing balance	Provision for impairment made during the period	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 — Continued

Half year of 2019

XVI. 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 period		
				Gains or losses from investment recognised using equity method	Adjustment for other comprehensive income	Other change in equity
I. Joint ventures						
Hisense Hitachi	2,876,748,851.06			463,771,280.41		
Hisense Commercial Trading	48,027,481.74			-1,631,120.55		
Subtotal	2,924,776,332.80			462,140,159.86		
II. Associates						
Hisense Financial Holdings	259,265,889.17			22,173,792.69	6,051,684.52	
Hisense Internatinal	142,740,801.81			3,060,906.54	614,497.97	
Subtotal	402,006,690.98			25,234,699.23	6,666,182.49	
Total	3,326,783,023.78			487,374,859.09	6,666,182.49	

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2019

XVI. 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 — Continued*

(continued)

Investee	Change for the period			Closing balance	Closing balance of provision for impairment
	Declaration of dividend or profit	Provision for impairment made	Other decreases		
I. Joint ventures					
Hisense Hitachi	734,510,000.00			2,606,010,131.47	
Hisense Commercial Tradingl				46,396,361.19	
Subtotal	734,510,000.00			2,652,406,492.66	
II. Associates					
Hisense Financial Holdings				287,491,366.38	
Hisense Internatinal	18,931,600.00			127,484,606.32	
Subtotal	18,931,600.00			414,975,972.70	
Total	753,441,600.00			3,067,382,465.36	

4. Operating revenue and operating costs

Item	Amount for the period	Amount for previous period
Revenue from principal operations	179,176.84	725,459.41
Revenue from other operations	39,158,837.73	36,670,952.71
Total operating revenue	39,338,014.57	37,396,412.12
Costs of principal operations	-18,182.70	
Costs of other operations	34,592,112.68	32,349,596.88
Total operating costs	34,573,929.98	32,349,596.88

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

XVI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT — Continued**5. Investment gain****(1) Breakdown of investment gain**

Item	Amount for the period	Amount for previous period
Gain from long-term equity investment under the cost method	44,462,400.20	30,410,182.64
Gain from long-term equity investment under the equity method	487,374,859.09	380,269,351.36
Gain from investment in wealth management products	3,384,452.05	20,493,155.06
Total	535,221,711.34	431,172,689.06

(2) Gain from long-term equity investment under the equity method:

Investee	Amount for the period	Amount for previous period
Hisense Hitachi	463,771,280.41	372,776,271.64
Hisense Financial Holdings	22,173,792.69	8,674,363.22
Hisense Commercial Trading	-1,631,120.55	
Hisense International	3,060,906.54	-1,181,283.50
Total	487,374,859.09	380,269,351.36

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2019

XVII. SUPPLEMENTARY INFORMATION**1. Breakdown of non-recurring profit or loss**

Item	Amount	Notes
Profit or loss from disposal of non-current assets	285,342.56	
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)	93,599,670.59	
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	12,582,123.27	
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 financial assets and liabilities held-for-trading except for effective hedging activities related to the Company's normal operations and investment gain from disposal of financial assets and liabilities held-for-trading and available-for-sale financial assets		
Reversal of impairment provision for accounts receivable individually tested for impairment		
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	3,004,080.26	
Other profit or loss items within the meaning of non-recurring profit or loss		
Subtotal	109,471,216.68	
Effect of income tax	17,481,138.14	
Effect of minority interests (after tax)	11,089,918.75	
Total	80,900,159.79	

NOTES TO THE FINANCIAL STATEMENTS — Continued*Half year of 2019***XVII. SUPPLEMENTARY INFORMATION — Continued****2. Return on net asset and earnings per share****First half of 2019**

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	12.36	0.70	0.70
Net profit attributable to ordinary shareholders of the Company after non-recurring profit or loss	11.32	0.64	0.64

First half of 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	11.52	0.58	0.58
Net profit attributable to ordinary shareholders of the Company after non-recurring profit or loss	10.74	0.54	0.54

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019. No interim dividend was paid for the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

I. OVERVIEW

(I) INDUSTRY OVERVIEW

During the Reporting Period, domestic refrigerator sales wandered at a low level. According to inferential statistics from the China Market Monitor Company Limited ("CMM"), as of June 2019, cumulative retail volume in the refrigerator sector increased by 1.3% year-on-year. By contrast, performance of the domestic air-conditioner market was bleak and the growth of market size turned negative. According to inferential statistics from the CMM, as of June 2019, cumulative retail volume in the air-conditioner market decreased by 5.6% year-on-year. According to the Report on Central Air-conditioning Market of China in the First Half of 2019 issued by aircon (艾肯), as affected by the downturn of the home furnishing retail market, the overall volume of the domestic central air-conditioning market in the first half of 2019 decreased by 2.1% year-on-year. In terms of export market, the size of the market maintained a growth trend, but the market environment was increasingly complicated due to the existence of factors such as trade friction.

(II) ANALYSIS OF COMPANY'S OPERATION

During the Reporting Period, the Company adhered to its business philosophy of "making good, high-quality products" and achieved sustaining and healthy development with a steadily improving operational efficiency. The Company achieved operating revenues of RMB18.950 billion, representing a year-on-year decrease of 6.97%, and principal operating revenue of RMB17.329 billion, representing a year-on-year decrease of 6.02%. Revenue from the refrigerator and washing machine business accounted for 44.20% of the principal operating revenue, representing a year-on-year decrease of 3.32%; and revenue from the air-conditioner business accounted for 51.44% of the principal operating revenue, representing a year-on-year decrease of 7.60%. The domestic sales business recorded a principal operating revenue of RMB10.996 billion, representing a year-on-year decrease of 11.47%, whereas the export sales business recorded a principal operating revenue of RMB6.333 billion, representing a year-on-year increase of 5.23%. Net profits attributable to shareholders in the listed company reached RMB0.960 billion, representing a year-on-year increase of 21.24%, in which net profits after deducting non-recurring gains or losses were RMB0.879 billion, representing a year-on-year increase of 19.07%. Earnings per share were RMB0.70. The Company continued to improve fund management, accelerate funds turnover and reduce inventory level. The turnover of inventories was reduced by 4.57 days year-on-year.

The major works of each business are as follows:

I. OVERVIEW — *Continued***(II) ANALYSIS OF COMPANY'S OPERATION** — *Continued***1. The Refrigerator and Washing Machine Business**

During the Reporting Period, our refrigerator company implemented cost control by means of “technology”, “procurement” etc. with remarkable results. At the same time, we adhered to the high-end product strategy and constantly optimised product mix. Gross profit margin has a year-on-year significant increase of 4.19 percentage points and total profit of the business increased significantly, with our profitability further strengthened. In terms of products, we accurately grasped users’ needs to create products that “users will love” and launched Ronshen X7, an American-style side-by-side refrigerator with “free insertion design”, which is the first of its kind in the side-by-side refrigerator arena. We also launched Italian-style three-door refrigerator and super large air-cooled two-door refrigerator under the Hisense God of Cookery series which have “the biggest capacity and the thinnest body in similar products of the industry” and satisfy the needs of high-end users of small families. They also boast frosted glass panel which is new in the industry, truly realizing “small yet beautiful”. The Hisense “Bingbing L6” upright freezer was also launched which is the first to introduce “-40°C” deep-freezing technology into family upright freezers. The product mix and competitiveness of the Company have been further enhanced. According to CMM offline statistics, as of June 2019, the Company’s cumulative retail market share in mid-and high-end refrigerators and freezers increased by 2.4% and 1.8% respectively. In addition, the Company unceasingly innovated its way of brand promotion. It enhanced brand image and influence through initiatives such as “producing delicacy documentaries”, “continuously carrying out student financial aid activities to establish our brands’ charity-supporting image”, sponsoring CCTV programmes and new media broadcasting. Commercial cold chain continued its efforts, fully utilising cross-industry alliance to establish cross-industry strategic partnership. The scale and profitability of the business achieved significant growth year-on-year.

2. The Residential Air-conditioner Business

During the Reporting Period, facing the severe pressure of “a shrinking domestic sales market” and “intensive price war”, our air-conditioner company adhered to the high-end strategy and actively optimised export product mix. At the same time, we planned and developed competitive products targeting major foreign markets and actively expanded the scale of export. We achieved good growth in export revenue scale of air-conditioners. Furthermore, through exploring user needs and developing a series of comfortable inverter products, our product competitiveness has been continuously upgraded. At the 2018-2019 China Air-conditioning Industry Summit Forum, “Hisense” was awarded as “Quality Leading Brand of Air-conditioning Industry 2018-2019” and Hisense “Prince Charming X” (男神 X) Air Conditioner was awarded as “Leading Product of Comfortable Inverter of the Air-conditioning Industry 2018-2019” for our R&D and promotion of comfortable inverter products. Furthermore, the Company focused on its major customers, expanded high-quality network with great effort, actively developed new retail channels and further consolidated and strengthened channel building for the “Hisense” and “Kelon” brands. Comprehensive progress has been made in brand building through merchant activities, product packaging, society-oriented marketing, etc., further lifting the public awareness and reputation of our brands.

I. OVERVIEW — Continued**(II) ANALYSIS OF COMPANY'S OPERATION — Continued****3. The Central Air-conditioners Business**

During the Reporting Period, under the environment of a downturn in the central air-conditioning industry, Hisense Hitachi continuous growth in business scale and profits. The major works are as follows: enriching product portfolio by launching new product series including Hitachi full DC inverter multi-connected SET-FREE A series and Hitachi central air-conditioning new ecology indoor product series, which maintained our products' leading position; strengthening resource advantage by complementing and strategic cooperation with real estate developments which strongly supported growth of the overall business scale; adhering to high-end product strategy and improving high-end product sales capability from channel to retail level to support further improvement of profitability; actively participating in the development and exchanges of the industry and the Company has been included as a "council member unit" of the Refrigeration and Air-conditioning Heat Exchanger Technology Alliance; emphasizing on synergistic progress of the business development of the Company and the innovation and development of regional economy, with the Company's project "Building a platform for the research of key technology and products of high performance and large capacity inverter multi-connected air-conditioners" has been approved as a development and construction project of the Shandong Peninsula National Innovation Zone for 2019.

4. Risks faced by the Company and contingency measures

The major risks we face are as follows:

- (1) Macroeconomic cyclical fluctuation risk: Under the pressure of macroeconomic downturn, the demand for household appliances will decline and the consumption power will not be sufficient, thus affecting the scale of sales of the Company.
- (2) Continued cost pressure: if the price of raw materials increases significantly, it will adversely affect the profitability of the Company; and the continuously increasing human resources and labour costs, logistics and transportation costs, installation services costs, etc. will all have a negative impact on the Company's profitability.
- (3) Trade protectionism is prevalent, and the downward pressure on exports is increasing.
- (4) Exchange rate fluctuation risk: The fluctuation of the RMB exchange rate directly affects the competitiveness of the Company's export products, thus affecting the operating of the Company's export business.

I. OVERVIEW — *Continued*

(II) ANALYSIS OF COMPANY'S OPERATION — *Continued*

4. ***Risks faced by the Company and contingency measures*** — *Continued*

For the second half of 2019, major tasks of the Company are as follows:

- (1) By leveraging the advantages of “whole category of household appliances” to expand sales, vigorously develop e-commerce channels and enhance diversified retail channels, we will ensure stable scale.
- (2) Continue to vigorously promote high-end products and continue to optimize the sales structure to ensure higher profitability.
- (3) Improve the scale and efficiency of our export by improving customer development plan and optimizing export product structure.
- (4) Continue to strengthen fund management, reduce ineffective capital occupation and accelerate cash flows.

II. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD

(I) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

Did the Company has to make retrospective adjustment to or restatement of the accounting data of prior years?

Yes No

Reasons for retrospective adjustment or restatement: Correction of accounting errors

Details of 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.

Items	Reporting Period	Co responding period last year		Increase or decrease as compared to corresponding period last year (%)
		Before correction	After correction	
Operating revenue (RMB)	18,950,275,309.93	20,370,759,289.58	20,370,759,289.58	-6.97
Net profits attributable to shareholders of listed company (RMB)	959,746,468.35	802,958,013.85	791,634,530.35	21.24
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	878,846,308.56	749,401,999.33	738,078,515.83	19.07
Net cash flow from operating activities (RMB)	1,969,095,990.99	636,947,655.91	636,947,655.91	209.15
Basic earnings per share (RMB/share)	0.70	0.59	0.58	20.69
Diluted earnings per share (RMB/share)	0.70	0.59	0.58	20.69
Weighted average rate of return on net assets (%)	12.36	11.90	11.52	0.84 percentage point

Items	End of the Reporting Period	End of last year		Increase or decrease as compared to end of last year (%)
		Before correction	After correction	
Total assets (RMB)	24,709,049,130.15	21,827,905,038.40	21,827,905,038.40	13.20
Net assets attributable to shareholders of listed company (RMB)	7,904,387,752.15	7,351,824,364.87	7,351,824,364.87	7.52

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

Item	Amount	Unit: RMB Description
Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)	285,342.56	
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)	93,599,670.59	
Profit and losses from assets which entrust others to invest or manage	12,582,123.27	
Other non-operating income and expenses other than the aforementioned items	3,004,080.26	
Minus: Effect of income tax	17,481,138.14	
Effect of minority interests (after tax)	11,089,918.75	
Total	80,900,159.79	-

II. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD — Continued

(III) ANALYSIS OF PRINCIPAL BUSINESS

Changes of major financial information as compared to corresponding period in previous year

Unit: RMB

Items	Closing Balance (current period)	Opening balance (corresponding period last year)	Change (%)	Reasons of change
Cash at bank and on hand	5,030,265,550.50	3,648,463,609.61	37.87	Mainly due to the continued improvements in the operating results of the Company
Other current assets	2,277,465,389.40	1,075,958,946.70	111.67	Mainly due to the increase in the balance of wealth management products purchased at the end of this reporting period
Construction in progress	56,466,509.48	84,296,518.04	-33.01	Mainly due to the completion of part of the construction transferring to fixed assets
Other payables	2,461,683,065.69	1,766,319,446.79	39.37	Mainly due to the increase in dividends payable
Contract liabilities	322,470,065.38	716,041,073.75	-54.96	Mainly due to the decrease in advance on sales
Other current liabilities	955,921,040.81	646,178,914.93	47.93	Mainly due to the increase in accrued expenses with the increase in scale during the peak season of sales
Operating revenue	18,950,275,309.93	20,370,759,289.58	-6.97	No significant changes
Operating costs	15,091,028,662.14	16,624,633,310.44	-9.22	No significant changes
Sales expenses	2,624,883,463.85	2,643,873,486.50	-0.72	No significant changes
Management expenses	241,004,121.20	214,080,347.92	12.58	No significant changes
Financial expenses	14,787,894.44	13,267,112.63	11.46	No significant changes
Non-operating income	66,745,068.73	47,013,064.01	41.97	Mainly due to the increase in other government subsidies received
Income tax expenses	122,414,482.21	111,675,938.47	9.62	No significant changes
Net cash flow from operating activities	1,969,095,990.99	636,947,655.91	209.15	Mainly due to the continued improvements in the operating results of the Company
Cash received relating to other operating activities	790,000,000.00	1,580,000,000.00	-50.00	Mainly due to the reduction of expired wealth management products
Net cash flow from investing activities	-553,341,688.58	-254,622,439.46	Not Applicable	Mainly due to the reduction of expired wealth management products
Cash received from borrowings		200,000,000.00	-100.00	Mainly due to short borrowings accrued in corresponding period in last term while no short borrowings accrued in this period
Cash paid relating to other financing activities	687,192,376.72	365,328,088.72	88.10	Mainly due to the increase in net cash flow from investing activities
Net cash flow from financing activities	-710,572,704.38	-178,162,011.40	Not Applicable	Mainly due to the increase in net cash flow from investing activities
Net increase in cash and cash equivalents	704,697,522.03	203,124,203.46	246.93	Mainly due to the continued improvements in the operating results of the Company

II. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD — *Continued*

(IV) DESCRIPTION OF PRINCIPAL BUSINESS SEGMENTS

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 (percentage point)
By industry						
Home appliances manufacturing industry	17,329,449,608.54	13,580,858,060.22	21.63	-6.02	-8.16	1.83
By product						
Refrigerators and washing machines	7,659,743,689.33	5,865,410,061.74	23.43	-3.32	-8.33	4.19
Air-conditioners	8,914,777,401.66	7,098,682,342.34	20.37	-7.60	-7.56	-0.04
Others	754,928,517.55	616,765,656.14	18.30	-13.06	-13.18	0.11
By region						
Mainland	10,996,497,355.33	7,772,316,325.62	29.32	-11.47	-14.03	2.10
Overseas	6,332,952,253.21	5,808,541,734.60	8.28	5.23	1.05	3.79

III. CORE COMPETITIVENESS ANALYSIS

1. Technological advantages

The Company adheres to its operating philosophy of “technology orientation” and focuses on “intelligent” 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 thousands of technical personnel. The Company is always 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. At the same time, the Company takes the advantage of opportunities created by Hisense Group in sports marketing, accelerating the process of company internationalization and carrying self-brand global developing strategy forward constantly.

III. CORE COMPETITIVENESS ANALYSIS — Continued
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 airconditioners 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 2019, 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 airconditioning 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.

IV. MAJOR SUBSIDIARIES AND COMPANIES IN WHICH THE COMPANY HAS EQUITY INTEREST

Name of company	Company type	Major product or service	Registered capital	Total assets (RMB ten thousand)	Net assets (RMB ten thousand)	Operating revenue (RMB ten thousand)	Operating profit (RMB ten thousand)	Net profits (RMB ten thousand)
Hisense Hitachi	A company in which the Company has equity interest	Production and sale of commercial air-conditioners	US\$46 million	1,187,659.89	554,010.80	604,132.15	118,703.52	99,309.18

LIQUIDITY AND SOURCES OF CAPITAL

Net cash generated from operating activities of the Group was approximately RMB1,969 million for the six months ended 30 June 2019 (for the six months ended 30 June 2018: RMB636 million).

As at 30 June 2019, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB5,030 million (as at 30 June 2018: RMB3,564 million) and bank loans amounting to approximately RMB0 million (as at 30 June 2018: RMB200 million).

Total capital expenditures of the Group for the six months ended 30 June 2019 amounted to approximately RMB130 million (for the six months ended 30 June 2018: RMB146 million).

GEARING RATIO

As at 30 June 2019, the Group's gearing ratio (calculated according to the formula: total liabilities divided by total assets) was 66% (as at 30 June 2018: 70%).

TRUST DEPOSITS

As at 30 June 2019, 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.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 June 2019, the Group had approximately 30,816 employees, mainly comprising 3,979 technical staff, 11,432 sales representatives, 347 financial staff, 599 administrative staff and 14,459 production staff. The Group had 34 employees with a doctorate degree, 857 with a master's degree and 3,745 with a bachelor's degree. There were 771 employees who occupied mid-level positions or above in the Group according to the national standards. For the six months ended 30 June 2019, the Group's staff payroll amounted to RMB1,764 million (corresponding period in 2018 amounted to RMB1,678 million).

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 30 June 2019, the Group's property, plant and equipment (including leasehold land held for own use) and investment properties and trade receivables of approximately RMB0 million (31 December 2018: RMB0 million) were pledged as security for the Group's borrowings.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

Since part of the purchase and 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.

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 Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "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 in the Reporting Period.

SHARE CAPITAL STRUCTURE

As at 30 June 2019, the share capital structure of the Company was as follows:

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

TOP TEN SHAREHOLDERS

As at 30 June 2019, there were 27,430 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 Co., Ltd.	State-owned legal person	516,758,670	37.92%	57.22%	0
HKSCC Nominees Limited ^{Note 1}	Foreign legal person	457,243,069	33.55%	99.49%	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	60,000,000	4.40%	6.64%	0
The Hong Kong Securities Clearing Company (HKSCC) ^{Note 2}	Foreign legal person	44,124,701	3.24%	4.89%	0
Central Huijin Investment Ltd.	State-owned legal person	26,588,700	1.95%	2.94%	0
Zhang Shao Wu	Domestic natural person	7,200,000	0.53%	0.80%	0
Bank of Communications Limited - HSBC Jinxin Market Index Equity 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	Other	7,174,401	0.53%	0.79%	0
Agricultural Bank of China - Bosera Yulon Flexible Allocation of Mixed Securities Investment Fund*中國農業銀行股份有限公司-博時裕隆靈活配置混合型證券投資基金	Other	4,773,630	0.35%	0.53%	0
China CITIC Bank Corporation - Bank of China Investment Management New Motion Stock Security Investment Fund*中信銀行股份有限公司-中銀新動力股票型證券投資基金	Other	4,500,000	0.33%	0.50%	0
National Social Security Funds Composition No.102全國社保基金一零二組合	Other	4,380,707	0.32%	0.49%	0

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of tradable shares held	Class of shares
Qingdao Hisense Air-conditioning Co.,Ltd.	516,758,670	RMB ordinary shares
HKSCC Nominees Limited <i>Note 1</i>	457,243,069	Overseas listed foreign 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	60,000,000	RMB ordinary shares
The Hong Kong Securities Clearing Company (HKSCC) <i>Note 2</i>	44,124,701	RMB ordinary shares
Central Huijin Investment Ltd.	26,588,700	RMB ordinary shares
Zhang Shao Wu	7,200,000	RMB ordinary shares
Bank of Communications Limited – HSBC Jinxin Market Index Equity 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	7,174,401	RMB ordinary shares
Agricultural Bank of China – Bosera Yulon Flexible Allocation of Mixed Securities Investment Fund* 中國農業銀行股份有限公司 – 博時裕隆靈活配置混合型證券投資基金	4,773,630	RMB ordinary shares
China CITIC Bank Corporation – Bank of China Investment Management New Motion Stock Security Investment Fund* 中信銀行股份有限公司 – 中銀新動力股票型證券投資基金	4,500,000	RMB ordinary shares
National Social Security Funds Composition No.102 全國社保基金一零二組合	4,380,707	RMB ordinary shares

Note 1: HKSCC Nominees Limited is the nominal shareholder of the Company's non-registered shareholders in H shares. The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, among which, Hisense HK, a party acting in concert with the controlling shareholder of the Company. By the end of the reporting period, Hisense HK held a total of 124.452 million shares of H shares of the company, representing 9.13% of the total number of shares of the Company.

Note 2: HKSCC Limited is the nominal shareholder of the Company's non-registered shareholders in A shares through Shenzhen Connect. The shares held by HKSCC Limited are held on behalf of a number of its account participants.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES

So far as is known to any Directors, supervisors and the chief executive of the Company, as at 30 June 2019, 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 Stock Exchange of Hong Kong Limited:

LONG POSITION OR SHORT POSITION IN THE SHARES OF THE COMPANY

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

The letter "L" stands for a long position, the letter "S" stands for a short position and the letter "P" stands for lending pool.

Note: Hisense Air-conditioning is a company directly owned as to 93.33% by Qingdao Hisense Electric Holdings Company Limited, whereas Hisense HK 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 Group and is accustomed or obliged to act in accordance with the directions or instructions of Hisense Group. By virtue of the SFO, Qingdao Hisense Electric Holdings Company Limited and Hisense Group were deemed to be interested in the same parcel of A shares of which Hisense Air-conditioning was interested and in the same parcel of H shares of which Hisense HK was interested.

Save as disclosed above, as at 30 June 2019, in so far as the Directors, supervisors and chief executive of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

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

As at 30 June 2019, save as disclosed below, none of the members of the Board, supervisors and the chief executive of the Company and their respective associates 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 Stock Exchange of Hong Kong Limited pursuant to the Model Code.

LONG POSITION IN THE SHARES OF THE COMPANY

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the interim results announcement for the period ended 30 June 2019.

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 Listing Rules.

SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARES INTERIM RESULTS ANNOUNCEMENT

I. PARTICULARS OF CONNECTED TRANSACTIONS IN RELATION TO ORDINARY BUSINESS OCCURRED DURING THE REPORTING PERIOD

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	10.82	
Hisense Group	Purchase	Materials	Agreed Price	8,978.13	0.59
Hisense Electric	Purchase	Materials	Agreed Price	430.29	0.03
Hisense Hitachi	Purchase	Materials	Agreed Price	1,230.24	0.08
Hisense Group	Receipt of Services	Receipt of Services	Agreed Price	24,556.23	1.63
Hisense Electric	Receipt of Services	Receipt of Services	Agreed Price	436.03	0.03
Hisense International	Receipt of Services	Receipt of Services	Agreed Price	180.87	0.01
Hisense Commercial Trading	Receipt of Services	Receipt of Services	Agreed Price	3,549.62	0.24
Hisense Hong Kong	Agency Financing	Agency Financing	Agreed Price	15,086.69	1.00
Hisense Group	Sale	Finished Goods	Agreed Price	8,459.34	0.45
Hisense Electric	Sale	Finished Goods	Agreed Price	12.32	
Hisense International	Sale	Finished Goods	Agreed Price	579,345.01	30.57
Hisense Commercial Trading	Sale	Finished Goods	Agreed Price	14,396.46	0.76
Hisense Hitachi	Sale	Finished Goods	Agreed Price	26,492.92	1.40
Hisense Group	Sale	Materials	Agreed Price	647.61	0.03
Hisense Electric	Sale	Materials	Agreed Price	672.37	0.04
Hisense International	Sale	Materials	Agreed Price	2,329.32	0.12
Hisense Hitachi	Sale	Materials	Agreed Price	265.73	0.01
Hisense Electric	Sale	Moulds	Agreed Price	3,909.12	0.21
Hisense International	Sale	Moulds	Agreed Price	1,433.78	0.08
Hisense Hitachi	Sale	Moulds	Agreed Price	244.45	0.01
Hisense Group	Provisions of Services	Provisions of Services	Agreed Price	671.90	0.04
Hisense Electric	Provisions of Services	Provisions of Services	Agreed Price	91.62	
Hisense International	Provisions of Services	Provisions of Services	Agreed Price	228.27	0.01

As at the end of the Reporting Period, the Company had the balance of deposit of approximately RMB4.823 billion and interest income received of approximately RMB23.3452 million, the actual balance of loan of RMB0 million, balance of electronic bank acceptance bill of approximately RMB4.441 billion, and the handling fee for opening accounts for electronic bank acceptance bill of approximately RMB2.371 million with Hisense Finance. The loan interest paid is RMB0 million. The actual amount of discounted interest for the provision of draft discount services was approximately RMB0.6001 million, the actual amount involved for the provision of settlement and sale of foreign exchange services was approximately RMB138.6243 million and the actual service fee paid for the provision of agency services such as settlement services for receipt and payment of funds was approximately RMB3,403,00.73. The Company has a recourse in the Hisense Financial Holdings, and the balance of commercial factoring business is RMB0 million; The balance of non-recourse commercial factoring business is RMB0 million.

II. CONNECTED TRANSACTION IN RELATION TO JOINT EXTERNAL INVESTMENT

Applicable Not applicable

III. PARTICULARS OF GUARANTEES

Applicable Not applicable

IV. DERIVATIVES INVESTMENT

Unit: RMB (in 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 amount of profit and loss during the Reporting Period
Bank	No	No	Forward foreign exchange contracts	7,109.23	1 January 2019	30 June 2019	7,109.23	7,986.21	8,187.55	6,907.89	0.87	31.74

Source of derivatives investment funding

Export trade payment

Date of the announcement disclosing the approval of derivatives investment by the Board (if any)

29 March 2019

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 determines a reasonable range of foreign exchange rates 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 business of foreign exchange derivatives. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.

IV. DERIVATIVES INVESTMENT — *Continued*

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, which are recognized as financial assets or liabilities held-for-trading 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 2.2666 million. Investment gain amounted to RMB-1.9492 million, resulting in a total profits or losses of RMB 0.3174 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.

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

DEFINITIONS

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

"Company", "the Company"	Hisense Home Appliances Group Co., Ltd.;
"Hisense Air-Conditioning"	Qingdao Hisense Air-Conditioning Company Limited;
"Hisense Electric"	Hisense Electric Co., Ltd.;
"Hisense Finance"	Hisense Finance Co., Ltd.;
"Hisense Financial Holdings"	Qingdao Hisense Financial Holdings Co., Ltd.;
"Hisense Group"	Hisense Company Limited;
"Hisense Hitachi"	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.;
"Hisense International"	Hisense International Co., Ltd
"Hisense Commercial Trading"	Qingdao Hisense Commercial Trading Development Co., Ltd
"Hisense HK"	Hisense (Hong Kong) Company Limited;
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"RMB"	Renminbi, the lawful currency of the PRC; and
"%"	Per cent.