

Hisense 海信家電

海信家電集團股份有限公司

Hisense Home Appliances Group Co., Ltd.

Stock Code: 000921 (A Shares)
00921 (H Shares)

Hisense



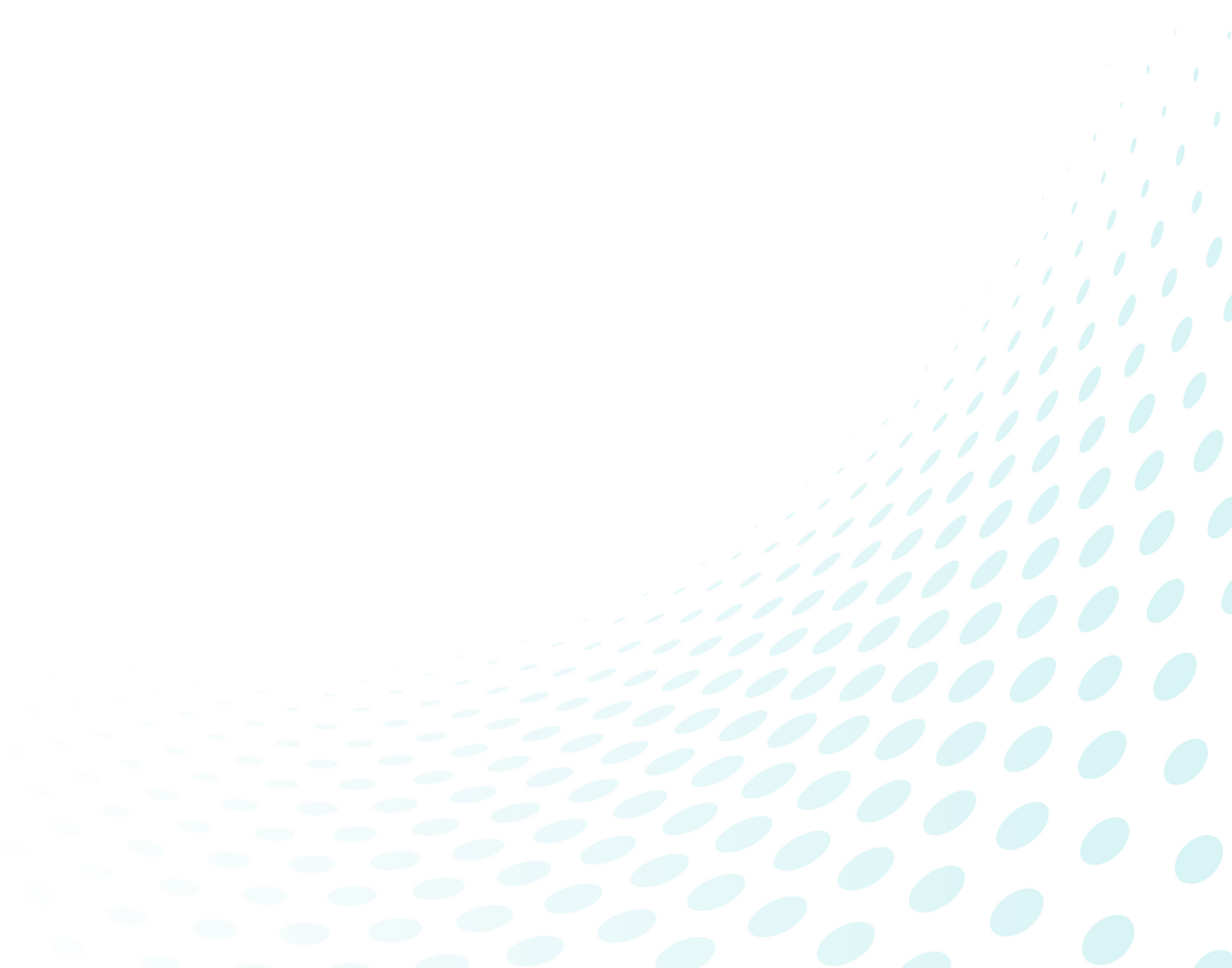
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Company Profile

Hisense Home Appliances Group Co., Ltd. (the “**Company**” or “**Hisense**”, together with its subsidiaries, the “**Group**”) was founded in 1984 and headquartered in Shunde District, Guangdong Province, the PRC. The Company is principally engaged in the research and development, manufacturing and marketing of electrical appliance products such as refrigerators, central air-conditioners, residential air-conditioners, freezers, washing machines, commercial cold chain and kitchen appliances. During the Reporting Period, the Company completed the acquisition of Sanden Holdings Corporation to realize the expansion into automobile air-conditioning compressor and automobile air-conditioning industry. Products of the Company cover eight major brands, namely Hisense, Ronshen, Kelon, HITACHI, YORK, gorenje, ASKO and SANDEN. The Company’s shares were listed on the main boards of the Hong Kong Stock Exchange and the Shenzhen Stock Exchange in 1996 and 1999, respectively.

Heating, Ventilation and Air-conditioner (“HVAC”) Business: The Company’s subsidiary Hisense Hitachi has strong competitiveness in the central air-conditioner market, and its “Hitachi”, “Hisense” and “York” brand multi-split central air-conditioners products with leading technology level and excellent product quality are well-known in the market and are the domestic multi-split central air-conditioners market leader. Under its well-known Hisense and Kelon air-conditioner brands, the Company was the first to commit to the research and development, production and promotion of inverter air-conditioners in China. The Company has maintained a consistent focus on developing technological innovations, product quality improvement, and industrial capabilities upgrading, and achieved rapid and deep penetration of niche markets.

Refrigerator and Washing Machine Business: The Company has two well-known brands, “Hisense” refrigerator and “Ronshen” refrigerator. During the Reporting Period, The Company continued to focus on satisfying user needs and improving user experience by launching the “ultra-thin” refrigerator products. The Company launched the Hisense vacuum-ultra-thin refrigerator and Rongshen WILL SPACE ultra-space series refrigerators to meet the user needs for “small size and large capacity”. The Company further enriched its high-end product matrix and further enhanced its product competitiveness. According to the AVC inferential statistics, a number of the Company’s high-end products have entered the Top 20 best-sellers list and the offline annual cumulative market share of Ronshen high-end refrigerators increased by 3.2% on a year-on-year basis. Meanwhile, The Company actively explored overseas business, resulting in a new high in the exporting scale of refrigerator products. According to the statistics shown on the website of www.chinaiol.com, the Company’s cumulative refrigerator exporting ranked first in the industry in 2021.

Automobile Air-conditioner Compressor and Integrated Thermal Management Business: The Company’s subsidiary Sanden company focuses on electric compressors for automotive air-conditioning, new energy automotive air-conditioning products and integrated thermal management systems, continuing to promote the upgrading of key technologies for core components such as electric compressors and heat pumps as well as integrated thermal management systems. As the world’s leading first-tier manufacturer of automotive air conditioning compressors and automotive air conditioning systems, the “Sanden” brand has a strong global presence.

Looking forward to the future development, with the mission of “committing to technological innovation, leading the intelligent core of advanced manufacturing, and making hundreds of millions of families happy with high quality products and services”, the Company abides by the values of “honesty and integrity, pragmatic innovation, customer first and integrity, sustainable management”, and is committed to creating high quality products and become the most trusted brand for consumers worldwide.

The Company will actively promote the strategy of smart new life, give full play to the home appliance category and Hisense Group’s leading edge of intelligent technology, continue to upgrade the home appliance smart terminal, improve the intelligent scene and ecological construction, realize the seamless connection from smart home to smart community and smart city, create a simple and loving quality of life, and build a perfect picture of smart new life. The Company will continue to increase investment in integrated thermal management systems for automobiles from strategic height, realize the leap from an automotive parts and components supplier to a system solutions provider.

Major Events Calendar

JANUARY

Launched the industry's first – 40°C deep-freeze vertical freezer, a further breakthrough in deep-freeze technology.

Led by the Company, the “Specification for the Evaluation of Deep-Freezing and Freshness Technology in Domestic Electric Freezers”, the first group standard for deep-freezing and freshness in the domestic refrigerator industry of China was released.

MARCH

Vacuum – that's true freshness, the brand-new Hisense Vacuum – Full Metal Refrigerator debuted at the 2021AWE (China Appliance and Consumer Electronics Expo).

APRIL

With its “healthy” and “eco-friendly” design concept, outstanding product design and AI intelligent care user experience, Hisense's intelligent care washing machine has been recognized by the international design community and won the Germany iF Design Award 2021.

MAY

Completed the acquisition of Sanden Holdings Corporation (listed on the Tokyo Stock Exchange of Japan, stock code: 6444) to expand into the automotive air conditioning compressor, automotive air-conditioner and integrated thermal management system industries.

JULY

At the first China Healthy Home Industry Green Development Conference, Hisense Air-Conditioning was awarded three certifications: “Healthy Home – Sound Quality +”, “Healthy Home – Fast Cooling and Heating” and “Healthy Home – Thermal Comfort”.

SEPTEMBER

Awarded the Top 100 Listed Companies on the Main Board of China by the 15th China Listed Companies Value Review.

Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. was awarded the “National Quality Benchmark Enterprise in 2021”.

OCTOBER

Hisense's washing machines won the 2021 China Washing Machine – Drying Machine Industry Health Care Leadership Brand Award, and Hisense's G30 washing and drying set won the 2021 China Washing Machine – Drying Machine Industry Leading Product Award for High-end Drying.

Major Events Calendar

NOVEMBER

Hisense's multi-connected central air-conditioning product won the "Nanshan Award" (南山獎), the highest honour in the air purification industry, for the second consecutive year, as well as the "11.28 National Air Purification Festival – Outstanding Contribution Award".

DECEMBER

For the seventh time, Hisense refrigerator has been awarded the "Red Top Charity Award" (紅頂公益獎) for its years of continuous dedication in helping students.

Hisense Vacuum – Slim Refrigerator and Rongsheng WILL SPACE Ultra Space Series Refrigerators were launched to meet the needs of users with "small size and large capacity", further improving the high-end product matrix.

Chairman's Statement

Dear shareholders,

The business environment in 2021 was complex and ever-changing with a surge of uncertainties. The soaring raw material price and shipping cost, coupled with the shortage of core material supply, have caused a series of problems and brought huge challenges to business operation. Facing such severe challenges, all members in the Company have worked relentlessly together to overcome the predicament and successfully weathered the storm to achieve simultaneous growth in domestic and overseas business. The Company realized an operating revenue of over RMB67.6 billion, representing a year-on-year increase of 40%.

During the Reporting Period, the Company stayed true to its strategy of “developing high-quality products” by adopting the user-oriented approach to create popular high-end new products with technological sense, intelligence and full-suite coverage that meet the consumption demand of different users. The Company adhered to its high-end strategy to improve its product mix and steadily increase the share of high-end products. According to the AVC statistics, the Company's home air-conditioners, refrigerators, freezers and washing machines achieved a year-on-year increase in offline high-end market share, of which Ronshen refrigerator registered a year-on-year increase of 3.2% in offline high-end market share while multiple high-end products were listed as the top 20 best sellers of the year. The Company has also strived to develop overseas business and strengthened production and sales coordination to enhance the competitiveness of overseas products. The scale of overseas refrigerator sales hit a new high as the Company topped the cumulative refrigerator export value of the industry in 2021 according to the statistics available at ChinaIOL.com. The 2B business segment also performed well. The Company's commercial cold chain business continued to surge as its operating revenue increased by 54% year-on-year during the Reporting Period. According to the “Annual Research Report on China's Light Commercial Refrigeration Equipment Industry” released by ChinaIOL.com, Hisense beverage cabinet ranks first in the industry four years in a row and has become the global strategic partner of multiple renowned beverage brands. The central air-conditioning sector continued to consolidate its leadership in products, quality and technology and further delve into the concept of intelligence and health, resulting in a record high in sales volume as it realized an operating revenue of RMB18.4 billion, representing a year-on-year growth of 38%. Hisense Hitachi was accredited as the “National Quality Benchmark Enterprise of 2021” by China Association for Quality. Hisense multi-split central air conditioner series won the “Nanshan Award (南山獎)”, the highest honour in China's air purification sector, two years in a row, further consolidating its supremacy in the multi-split central air conditioning sector. The Company has also further expanded its 2B business presence. During the Reporting Period, the Company successfully acquired Sanden Holdings Corporation, a global leading automotive air conditioning compressors and automotive air conditioning systems manufacturer and supplier, expanding its business reach into the automotive air conditioning compressor, automotive air-conditioner and integrated thermal management system industries.

Chairman's Statement

The Company adheres to the principle of “building an enterprise on the basis of technology” and commits to technological innovation. By upholding ESG development philosophy, the Company actively responds to the “dual-carbon” strategy of the State and sets “healthy, low-carbon and intelligence” as its technological development direction. With the increase in R&D investment, together with continuous reinforcement in technological strength and development in green and intelligent products, the Company is able to achieve constant innovation and breakthroughs in products and technologies to ensure its products remain highly competitive. During the Reporting Period, the Company led the formulation of the industry standard of “Specification for Evaluating Fresh Air Function of Air Conditioners in Room” and continued to upgrade fresh air and healthy air conditioning, committing to become an all-around natural air steward to protect the health of users. The “Research and Application of Key Technologies for Intelligent, Energy-saving and Low-carbon IoT Multi-split Air-conditioning Units” of Hisense Hitachi has won the Science and Technology Award from China National Light Industry Council. The “Hisense HFC-245fa Reduction Demonstration Project” (reduce carbon dioxide emission by upgrading and replacing the foaming technology of home refrigerators) is appreciated by the United Nations Development Programme as it drives China’s cold chain sector moving towards low-carbon and environmental friendly direction. During the Reporting Period, the Company promoted its strategy of new intelligent life-style by positioning itself to creating quality living in simple and caring fashion and upgraded the intelligent technology of home appliances, improved the intelligent scene and ecological development as well as enriched the level of intelligence and user experience.

In 2022, we are set to face a lot of opportunities and challenges with green, healthy, low-carbon and intelligence becoming the new themes of consumption in the post-pandemic era. Technologies like 5G, artificial intelligence and new energy vehicles are under robust development. Considering the expedition of “carbon peak emissions and carbon neutrality” policy around the globe, “intelligence” and “integration” will bring opportunities to the development of home appliance industry under the mainstream development approach of “go-green, low-carbon, high efficiency and energy saving”. Moreover, home appliances with functions which enhance health, comfort and intelligence are favored by consumers given their upgraded demand in personalization and customization. The Company has prepared well to embrace new opportunities and challenges. The Company will keep devoting efforts in technological innovation, venturing further into strategy regarding intelligent new life and leading the state-of-the-art manufacturing process with intelligence as its core. By continuing to create high-quality products that are well-received by consumers, the Company is able to warm families with technology and make hundreds of millions of families happy with high-quality products and services.

Facing the new chapter ahead, the Company is full of confidence and expectation and will endeavour to make a better life for people. By achieving win-win solutions for its shareholders, the Company will create a bright future altogether.

Dai Hui Zhong

Chairman

I. INDUSTRY OVERVIEW

Heating, Ventilation and Air-conditioner (“HVAC”) Industry: During the Reporting Period, the performance of the HVAC industry varied by products. Central air-conditioning products reversed the decline of the past two years, and according to the statistics shown on the website at www.aicon.com.cn, the domestic central air-conditioner market increased by over 25% during the Reporting Period. Domestic residential air-conditioning products continued the downward trend in sales volume and prices. According to the AVC (奧維雲網) inferential statistics, the cumulative retail volume of domestic residential air-conditioners decreased by 8.7% on a year-on-year basis in 2021, while the cumulative retail sales decreased by 1.2% on a year-on-year basis. As we entered the post COVID-19 pandemic era and coupled with the “dual carbon” policy, green, healthy and intelligent are the keynotes of the development of home appliances. In addition, the development of HVAC products are in the direction of energy conservation, environmental protection, comfortability, health, intelligence and being scenario-based when technology is concerned.

Refrigerator and Washing Machine Industry: During the Reporting Period, the demand in the refrigerator market remained weak. According to the AVC inferential statistics, the cumulative sales volume of domestic refrigerator industry decreased by 2.1% on a year-on-year basis in 2021. In light of the sluggish growth of scale coupled with the adverse impact of the significant increase in raw material costs, the profit margin of enterprises was squeezed and “actively optimising product mix and focusing on mid to high end products” became the industry consensus. Products followed the trend of high-end and intelligence. The washing machine market achieved stable sales volume and growth in sales amount. According to the AVC inferential statistics, the cumulative retail volume of domestic washing machines increased by 0.8% on a year-on-year basis in 2021, while the cumulative retail sales increased by 7.3% on a year-on-year basis. Focusing on high-end intelligent laundry service, high-end, quality and healthy products continued to be the mainstream development trend of washing machine products.

Automotive Air-conditioner Compressor and Integrated Thermal Management Industry: During the Reporting Period, the growth of automobile production scale slowed down, but the performance of new energy vehicles was eye-catching, with the global production of new energy vehicles increased by more than 57% on a year-on-year basis. The continuous development of the vehicle market led to the continued growth of automotive air conditioning compressor and integrated thermal management market. The domestic new energy vehicle market also experienced rapid development and has shifted from being policy-driven to market-driven. The electrification of automobile air-conditioning compressors and the development of automotive air conditioners towards integrated thermal management systems remained unchanged.

II. ANALYSIS OF THE COMPANY'S OPERATION

During the Reporting Period, the Company achieved operating revenue of RMB67.563 billion, representing a year-on-year increase of 39.61%. As for product types, the operating revenue of the HVAC business amounted to RMB30.403 billion, representing a year-on-year increase of 30.00% while the operating revenue of the refrigerator and washing machine business amounted to RMB23.018 billion, representing a year-on-year increase of 23.03%. Further, the operating revenue of other businesses amounted to RMB7.342 billion, representing a year-on-year increase of 319.67%. Meanwhile, the Group's domestic sales business recorded an operating revenue of RMB37.602 billion, representing a year-on-year increase of 28.75%, and the export sales business recorded an operating revenue of RMB23.160 billion, representing a year-on-year increase of 58.21%. Net profits attributable to shareholders of the Company reached RMB973 million, representing a year-on-year decrease of 38.40%, such an increase was mainly attributable to the operating loss of residential air-conditioning. Earnings per share were RMB0.71. The Company continued to strengthen its capital management and improved its cash cycle by 1.82 days on a year-on-year basis under comparable calibers.

The major performance of each business is as follows:

1. HVAC Business

During the Reporting Period, both the central air-conditioner business and residential air-conditioner business achieved growth of over 20%, and Hisense Hitachi achieved a year-on-year increase in operating revenue of 38.11%. Major tasks were as follows:

- (1) firmly implementing the Company's strategy of making good and high quality products, and actively fulfilling its ESG development philosophy:** The Company continued to strengthen its technological advantages and deeply cultivated green intelligent products. Hisense Hitachi's "Key Technology Research and Application of Intelligent Energy-saving and Low-carbon Internet of Things Multi-connected Air-conditioning Unit" won the Science and Technology Award of the China National Light Industry Council. The Company actively responded to the call of the state's dual carbon policy. In the "11.28 Air-conditioner Purification Festival (11.28 全民空淨節)" in 2021, Hisense central air-conditioner was awarded the "Nanshan Award (南山獎)" again, the highest honour in the air purification industry, and it was also awarded the "11.28 Air-conditioner Purification Festival Outstanding Contribution Award (11.28 全民空淨節-卓越貢獻獎)". This showed that the product competitiveness of the Company's central air-conditioners is unanimously recognised in the industry. The Company's residential air-conditioning business focused on new fresh air products. It presided over the formulation of the industry evaluation standard of "Room Air-Conditioners with Fresh Air Ventilation Function", and continued to upgrade the air-conditioners with new fresh air, while striving to create an all-weather natural air-conditioners to protect the health of users.
- (2) Continuously advancing the strategy of intelligent home appliances:** The Company improved the technical layout of intelligent home appliances to further strengthen the intelligence level and intelligent interaction capability of its products, and to further enhance the user interaction experience. The Company released the industry's first scenario-based central air-conditioners, namely, the "Hisense central air conditioner artificial intelligence household series", to realize the interaction scenario through the intelligent panel, thereby providing users with multi-scenarios customized intelligent solutions and bringing artificial intelligence technology to empower intelligent and healthy lifestyle.
- (3) Actively exploring overseas business:** The Company strengthened the coordination of manufacturing and sale, and enhanced the competitiveness of overseas products, resulting in a new high in the exporting scale of HVAC air-conditioning products and a stable growth in the exporting share.

2. Refrigerator and Washing Machine Business

During the Reporting Period, the profitability of the Company's refrigerator and washing machine business declined on a year-on-year basis due to factors such as soaring raw material prices. Amidst the operating pressure, the Company focused on the refrigerator and washing machine business and strove to optimize its product mix. Major tasks were as follows:

- (1) Improving the product matrix and focusing on enhancing product competitiveness:** The Company continued to focus on satisfying user needs and improving user experience by launching the “ultra-thin” refrigerator products. During the Reporting Period, the Company launched the Hisense vacuum-ultra-thin refrigerator and Rongshen WILL SPACE ultra-space series refrigerators to meet the user needs for “small size and large capacity”. The Company further enriched its high-end product matrix and further enhanced its product competitiveness. According to the AVC inferential statistics, a number of the Company's high-end products have entered the Top 20 best-sellers list and the offline annual cumulative market share of Rongshen high-end refrigerators increased by 3.2% on a year-on-year basis. In terms of washing machines, the Company has developed a washing and drying package based on its core “steaming, ironing and washing” technology and has improved the high-end all-metal inner drum three-dimensional power products and a series of high-end health care products to provide users with a better washing and caring experience. With its outstanding performance in technological innovation and laundry care, Hisense Washing Machine won the “2021 China Washing Machine and Dryer Industry Health Care Leading Brand Award (2021年度中國洗衣機·乾衣機行業健康洗護領軍品牌獎)” and Hisense G30 Washing and Drying Package won the “2021 China Washing Machine and Dryer Industry High-end Drying and Care Leading Product Award (2021年度中國洗衣機·乾衣機行業高端烘護領軍產品獎)”.
- (2) Actively exploring overseas business:** The Company strengthened the coordination of manufacturing and sale and enhanced the competitiveness of overseas products, resulting in a new high in the exporting scale of refrigerator products. According to the statistics shown on the website of www.chinaiol.com, the Company's cumulative refrigerator exporting ranked first in the industry in 2021.

3. Automobile Air Conditioner Compressor and Integrated Thermal Management Business

During the Reporting Period, the Company initially completed the business integration of Sanden Company and has since focused on the “electrification, intelligence, networking and sharing” of automobiles. The Company remapped the global sales network of Sanden Company in automobile air conditioner compressors and integrated thermal management system by regions, and formulated customer strategies. In accordance with the principle of dual-engine drive of technology and market, the Company has formulated the future technology roadmap and technology pre-research projects for Sanden Company. It also optimized the supply chain of Sanden Company and consolidated the advantages of customer resources. Major tasks were as follows:

- (1) **Formulating global customer development strategy and consolidating the advantages of customer resources:** In the second half of 2021, the Company made several key customer visits to consolidate the advantages of Sanden Company customer resources through enhanced communication, formulated a global customer development strategy and enhanced subsequent business cooperation.
- (2) **Improving the product management mechanism and adhering to the technology-leading development strategy:** The Company has optimized product management structure and strengthened the unified and global product planning, and product management capabilities. It also integrated and optimized global R&D resources, clarified the division of labor and positioning, increased R&D investment, strengthened technology pre-research to provide stable product support for the improvement and long-term development of Sanden Company.
- (3) **Leveraging synergies to enhance product competitiveness:** Leveraging the synergies within the Group, the Company introduced excellent supplier resources for Sanden Company by taking advantage of its global supply chain resources and implemented global procurement of bulk materials to help Sanden Company reduce procurement costs. It also integrated logistics resources to reduce logistics costs and greatly shortened the shipping and product delivery cycles. In addition, the Company introduced cost analysis tools to continuously optimize product cost; and launched a number of manufacturing efficiency improvement efforts by drawing on the efficiency improvement experience of the Group’s home appliances.

Environmental policies and performance

The Group closely integrated its energy conservation and emissions reduction efforts with its corporate operational strategy. This was done in full compliance with the laws, regulations and requirements of relevant systems of the Company for the purposes of further improving the environmental management system, specifying job responsibilities and detailed appraisal rules, strengthening supervision and management over the operation of environmental protection facilities and regulated environmental protection work. The Group's environmental protection work is always unremitting.

In December 2021, the Company passed the recertification audit of ISO14001 environmental management system by the certification authority, and the certification certificate continues to be valid.

The Group fine-tuned its green manufacturing system on an ongoing basis and comprehensively embedded advanced manufacturing philosophy into its product life cycle, covering green design, green manufacturing, low-carbon use and green recycling, with the aim to complete the acceptance of the “HFC-245fa Reduction Demonstration Project” that enables the reduction of greenhouse gas emissions through renovating the foaming technology of household refrigerator production lines, from which the consumption of HFC-245fa (pentafluoropropane, which is mainly used for the foaming of refrigerator insulation materials, and contains hydrofluorocarbons, a potent greenhouse gas that can cause global warming) can be effectively reduced and thereby reducing carbon dioxide emission.

The Group actively responds to the national “dual carbon” strategy and leads the transformation and upgrading of its enterprises with intelligent manufacturing and green manufacturing. The Group has established four state-level “green factories”, one state-level “green supply chain” and two provincial “green factories” until now. In 2021, a number of the Group’s products have been awarded the “Energy Efficiency Star” in the “Energy Star” Equipment and Product Catalogue. Several of the Group’s multiconnected central air conditioning products have obtained the low-carbon product certificate from China refrigeration and air-conditioning industry.

Meanwhile, the Group maintains a refined system of occupational health and safety management. Its production safety management systems are developed at headquarters level in accordance with national laws and regulations. Corresponding rules for safe operation are also in place regarding the equipment and facilities of the Group’s subordinate factories. During the Reporting Period, the Company’s occupational health and safety management system passed its recertification audit by the China Academy of Safety Science and Technology in December 2021, ensuring that the certification remains valid. Two subsidiaries of the Company maintained their national certificates for level 2 enterprises on safe production standardization.

Compliance with laws and regulations

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

Relationships with staff, customers, suppliers and other persons

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

The Group has established and implemented a strict quality control and inspection system over its products. The Company has implemented a “guaranteed return and replacement for quality issues within 30 days” return promise for all its household electrical appliances. Meanwhile, the Company constantly improves the differentiated service experience in accordance with market demand. Some high-end products are subject to long-term warranty services such as 10-year warranty for presses and 12-year warranty for inverter motors, which boosts the added value of products and user satisfaction.

The Group has established close and stable relationships with a number of major suppliers, and past records of the Group showed that no significant shortages or delays were experienced when the Group received supplies or services from the suppliers. During the Reporting Period, there was no major or significant dispute between the Group and its suppliers.

The Group adhered to the principle of “operating with integrity”. The Code of Integrity applies to all staff of the Group and they should observe the rules of integrity while interacting with various stakeholders including the shareholders, customers, partners, government and society.

Further discussions on the Group's environmental policies and performance, compliance with laws and regulations, and relationships with key stakeholders are also contained in the 2021 Environmental, Social and Governance Report of the Company published on 30 March 2022.

III. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD

(I) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

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

Yes No

Unit: RMB

Item	2021	2020	Increase or decrease as compared to last year (%)	2019
Operating revenue (RMB)	67,562,603,666.81	48,392,870,703.11	39.61	37,453,043,968.74
Net profits attributable to shareholders of listed company (RMB)	972,581,491.39	1,578,882,732.14	-38.40	1,793,669,013.19
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	666,126,470.35	1,096,068,604.60	-39.23	1,226,400,481.95
Net cash flow from operating activities (RMB)	4,313,780,760.27	5,962,707,809.84	-27.65	2,005,337,052.56
Basic earnings per share (RMB/share)	0.71	1.16	-38.79	1.32
Diluted earnings per share (RMB/share)	0.71	1.16	-38.79	1.32
Weighted average rate of return on net assets (%)	9.64	16.99	-7.35 percentage points	22.21

Item	At the end of 2021	At the end of 2020	Increase or decrease as compared to last year (%)	At the end of 2019
Total assets (RMB)	55,948,549,486.98	41,811,635,813.53	33.81	33,990,663,543.85
Net assets attributable to shareholders of listed company (RMB)	10,342,355,185.33	9,779,115,580.43	5.76	8,721,593,732.62

Note: On 31 May 2021, the Company completed the approval procedures and the equity payment for the acquisition of Sanden Company, and Sanden Company was included in the Company's consolidated financial statements. As of the end of the Reporting Period, the settlement audit of Sanden Company has been completed. The balance sheet at the end of this Reporting Period included the balance sheet data of Sanden Company, and the income statement and cash flow statement for this Reporting Period included the statement data of Sanden Company from June to December 2021. Excluding the effect of consolidation of Sanden Company, the Company achieved an operating revenue of RMB62.449 billion for the Reporting Period, representing a year-on-year increase of 29.05%, and net profit attributable to shareholders of the Company was RMB1.128 billion, representing a year-on-year decrease of 28.58%.

Management Discussion and Analysis

(II) QUARTERLY MAJOR FINANCIAL INDICATORS

Unit: RMB

Item	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenue	13,934,855,063.93	18,488,959,646.54	17,643,390,799.61	17,495,398,156.73
Net profits attributable to shareholders of listed company	218,041,374.16	397,333,717.64	311,058,053.59	46,148,346.00
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company	133,465,991.53	321,318,449.25	224,793,618.33	-13,451,588.76
Net cash flow from operating activities	-52,228,509.71	2,136,855,449.60	1,408,895,094.76	820,258,725.62

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

Applicable Not Applicable

Unit: RMB

Item	2021	2020	2019	Description
Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)	3,535,383.13	23,149,183.27	161,553,026.75	
Government grants recognised 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)	219,822,004.71	236,769,593.38	207,585,345.39	
Profit and losses from assets which entrust others to invest or manage	103,919,806.78	103,945,862.69	55,224,136.96	
Except for effective hedging operations related to the Company's normal business operations, gain or loss from changes in fair values of transactional financial assets, derivative financial assets, transactional financial liabilities and derivative financial liabilities, and investment gain from the disposal of transactional financial assets, derivative financial assets, transactional financial liabilities, derivative financial liabilities and other investments in debt	39,567,358.88	10,010,794.53		
Other non-operating income and expenses other than the aforementioned items	57,837,694.36	204,984,818.62	13,629,718.63	
Other profit and loss items that satisfy the definition of non-recurring profit and loss		10,012,040.17	50,909,442.00	
Less: Effect of income tax	78,433,576.30	61,586,354.09	2,786,974.99	
Effect of minority interests (after tax)	39,793,650.52	44,471,811.03	-81,153,836.50	
Total	306,455,021.04	482,814,127.54	567,268,531.24	

(IV) ANALYSIS OF PRINCIPAL BUSINESS

1. Composition of operating revenue

Unit: RMB

Item	2021		2020		Increase or decrease as compared to corresponding period last year (%)
	Amount	Weighting to operating revenue (%)	Amount	Weighting to operating revenue (%)	
Total of operating revenue	67,562,603,666.81		48,392,870,703.11		39.61
By industry					
Home appliances					
Manufacturing industry	60,762,227,036.98	89.93	43,844,644,902.95	90.60	38.59
By product					
HVAC	30,402,508,314.77	45.00	23,386,192,179.17	48.33	30.00
Refrigerators and washing machines	23,017,878,500.74	34.07	18,709,002,118.33	38.66	23.03
Others	7,341,840,221.47	10.86	1,749,450,605.45	3.61	319.67
By region					
Domestic	37,601,996,641.67	55.66	29,205,488,972.24	60.35	28.75
Overseas	23,160,230,395.31	34.27	14,639,155,930.71	30.25	58.21
By sales model					
Direct sales	39,818,677,809.46	58.93	27,825,480,427.12	57.50	43.10
Distribution	20,943,549,227.52	31.00	16,019,164,475.83	33.10	30.74

Note: During the Reporting Period, the Company acquired and consolidated Sanden Company. On a comparable basis, the Company's revenue for 2021 would have been RMB62.449 billion, an increase of 29.05% year-over-year.

Management Discussion and Analysis

2. Description of industries, products or regions accounting for 10% or above of the revenue or profits from operating businesses of the company

Unit: RMB

Item	Revenue from major operating businesses	Costs of major operating businesses	Gross profit margin (%)	Increase or decrease in revenue from major operating businesses as compared to corresponding period last year (%)	Increase or decrease in costs of major 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	60,762,227,036.98	47,781,456,257.13	21.36	38.59	47.24	-4.62
By products						
HVAC	30,402,508,314.77	22,412,241,525.76	26.28	30.00	36.81	-3.67
Refrigerators and washing machines	23,017,878,500.74	19,166,515,895.96	16.73	23.03	30.51	-4.78
Others	7,341,840,221.47	6,202,698,835.41	15.52	319.67	348.25	-5.38
By region						
Domestic	37,601,996,641.67	26,597,217,725.01	29.27	28.75	38.74	-5.09
Overseas	23,160,230,395.31	21,184,238,532.12	8.53	58.21	59.50	-0.74
By sales model						
Direct sales	39,818,677,809.46	33,976,712,046.62	14.67	43.10	50.10	-3.98
Distribution	20,943,549,227.52	13,804,744,210.51	34.09	30.74	40.63	-4.63

Note: The significant increase or decrease in revenue and cost of main business of other major products as compared to the same period of the previous year was mainly due to the increase in sales scale of each of the Company's other major products and the consolidation of Sanden Company during the Reporting Period. On a comparable basis, the revenue of the Company's other major products was RMB2.229 billion in 2021, representing a year-over-year increase of 27.39%.

3. Whether the company's income from sales of goods larger than its income from provision of services

Yes No

Industry category	Item	Unit	2021	2020	Increase or decrease as compared to corresponding period last year (%)
Home appliances manufacturing industry	Sales volume	Ten thousand units	3,588	3,072	16.80
	Production volume	Ten thousand units	3,615	3,080	17.37
	Inventory volume	Ten thousand units	204	177	15.25

4. Composition of operating costs

Unit: RMB'0000

Industry category	Item	2021		2020		Increase or decrease as compared to corresponding period last year (%)
		Amount	Weighting to operating costs (%)	Amount	Weighting to operating costs (%)	
Home appliances Manufacturing industry	Raw materials	4,441,615.01	92.96	2,982,892.93	91.92	48.90
	Direct expense	185,769.64	3.89	139,530.55	4.30	33.14
	Others	150,760.98	3.16	122,763.60	3.78	22.81

The year-over-year increase in raw materials was mainly due to the growth in production scale and the increase in bulk material prices, while the year-over-year increase in direct expenses was mainly due to the growth in production scale.

5. Expenses

Unit: RMB

Expense Item	2021	2020	Increase or decrease as compared to corresponding period last year (%)	Reason for the significant changes
Sales expense	7,672,002,974.36	6,891,389,066.25	11.33	No significant changes
Management expense	1,326,886,898.17	619,163,555.38	114.3	Mainly due to the growth of the Company's scale and the consolidation of Sanden Company in the Reporting Period
Research and development expenses	1,986,668,028.13	1,284,848,949.46	54.62	Mainly due to increased investment in research and development
Finance expense	56,663,964.54	-109,880,006.83	N/A	Mainly due to the decrease in interest income

6. Research and development inputs

For details of research and development inputs of the Company during the Reporting Period, please refer to relevant content of "III. (VI) CORE COMPETITIVENESS ANALYSIS" under the "Management Discussion and Analysis" section.

Research and development staff of the Company

Item	2021	2020	Change in proportion (%)
Number of research and development staff	2892	1691	71.02
Proportion of number of research and development staff (%)	5.99%	4.28%	1.71 percentage points
Academic Structure of research and development Staff			
Undergraduate	1374	782	75.70
Master or above	1067	665	60.45
Age composition of research and development staff			
Under 30 years old	763	449	69.93
30~40 years old	1382	936	47.65
Over 40 years old	747	306	144.12

Description of research and development inputs of the Company

Item	2021	2020	Change in proportion (%)
Amount of research and development inputs (RMB)	2,149,419,026.20	1,532,348,263.57	40.27
Proportion of research and development inputs to operating revenue (%)	3.18	3.17	0.01 percentage points
Amount of capitalised research and development inputs (RMB)	0	0	0
Proportion of capitalised research and development inputs to research and development inputs	0	0	0

Reasons for and effects of significant changes in the composition of the Company's research and development staff

Applicable Not Applicable

The larger year-over-year change in the number of research and development staff was mainly due to the Company's increased investment in research and development staff and the consolidation of Sanden Company.

7. Cash Flow

Item	2021	2020	Unit: RMB Increase or decrease as compared to corresponding period last year (%)
Sub-total of cash inflows from operating activities	60,633,707,570.46	41,196,926,173.02	47.18
Sub-total of cash outflows from operating activities	56,319,926,810.19	35,234,218,363.18	59.84
Net cash flows from operating activities	4,313,780,760.27	5,962,707,809.84	-27.65
Sub-total of cash inflows from investing activities	17,544,425,926.76	12,102,168,856.45	44.97
Sub-total of cash outflows from investing activities	21,967,714,447.82	16,002,723,454.97	37.27

Management Discussion and Analysis

Item	2021	2020	Increase or decrease as compared to corresponding period last year (%)
Net cash flows from investing activities	-4,423,288,521.06	-3,900,554,598.52	N/A
Sub-total of cash inflows from financing activities	5,920,569,096.47	411,836,500.00	1,337.6
Sub-total of cash outflows from financing activities	4,445,646,368.95	2,924,294,190.93	52.02
Net cash flows from financing activities	1,474,922,727.52	-2,512,457,690.93	N/A
Net increase in cash and cash equivalents	1,261,974,222.42	-447,904,024.01	N/A

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

Applicable Not applicable

The increase in cash inflows from operating activities was mainly due to the growth in the Company's size during the Reporting Period.

The increase in cash outflows from operating activities was mainly due to the growth in the Company's size during the Reporting Period.

The year-on-year increase in cash inflows from investing activities was mainly due to the increase in the collection of wealth management and time deposits after maturity during the Reporting Period.

The year-on-year increase in cash outflows from investing activities was mainly due to the increase in wealth management purchases and new time deposits during the Reporting Period.

The increase in cash inflows from financing activities was mainly due to the increase in borrowings from subsidiaries and changes in guarantee deposits on bills during the Reporting Period.

The increase in cash outflows from financing activities was mainly due to the repayment of loans by subsidiaries during the Reporting Period.

(V) ANALYSIS OF ASSETS AND LIABILITIES

1. Significant changes in asset items

Unit: RMB

Item	At the end of 2021		At the end of 2020		Change in proportion (percentage point)	Explanation of significant changes
	Amount	Percentage to total assets (%)	Amount	Percentage to total assets (%)		
Cash at bank and on hand	7,022,572,498.74	12.55	7,110,772,454.16	17.01	-4.46	No significant changes
Accounts receivable	8,757,077,378.05	15.65	6,594,103,859.23	15.77	-0.12	Mainly due to the growth of the Company's scale and the consolidation of Sanden Company in the Reporting Period
Inventories	8,436,699,059.69	15.08	4,295,262,485.11	10.27	4.81	Mainly due to the consolidation of Sanden Company
Contract assets	10,202,598.50	0.02	-	-	-	No significant changes
Long-term equity investments	1,436,216,842.15	2.57	523,754,399.78	1.25	1.32	Mainly due to the consolidation of Sanden Company
Investment property	235,340,080.78	0.42	36,648,535.29	0.09	0.33	Mainly due to the consolidation of Sanden Company
Fixed assets	5,188,754,013.36	9.27	3,879,403,505.69	9.28	-0.01	Mainly due to the consolidation of Sanden Company
Construction in progress	665,964,066.15	1.19	228,887,385.20	0.55	0.64	Mainly due to the consolidation of Sanden Company and the increase in investment in the technological improvements
Right to use assets	209,678,045.05	0.37	68,097,563.78	0.16	0.21	Mainly due to the consolidation of Sanden Company
Short-term borrowings	2,858,984,229.49	5.11	22,026,317.50	0.05	5.06	Mainly due to the consolidation of Sanden Company
Contract liabilities	1,147,112,513.32	2.05	1,100,531,262.91	2.63	-0.58	No significant changes
Long-term borrowings	32,382,835.84	0.06	-	-	-	Mainly due to the consolidation of Sanden Company
Leasing liabilities	395,949,053.40	0.71	28,356,873.04	0.07	0.64	Mainly due to the consolidation of Sanden Company

Management Discussion and Analysis

2. Assets and liabilities measured at fair value

Unit: RMB

Item	Amount at the beginning of the period	Gain or loss from change in fair value during the period	Accumulated changes in fair value accounted in equity	Impairment provided during the period	Amount purchased during the period	Amount sold during the period	Other changes	Amount at the end of the period
Financial assets								
1. Financial assets held for trading (excluding derivative financial assets)	2,610,010,794.53	39,567,358.88			15,723,000,000.00	12,743,000,000.00	-10,498,410.95	5,619,079,742.46
2. Derivative financial assets	10,887,680.20	-5,511,637.20	251,613.72				1,134,234.77	6,761,891.49
3. Other investments in debt	4,241,240,626.01					571,561,565.07		3,669,679,060.94
4. Other investments in equity instruments			-2,496,836.77		634,293.39		40,570,455.63	38,707,912.25
Sub-total of financial assets	6,862,139,100.74	34,055,721.68	-2,245,223.05	-	15,723,634,293.39	13,314,561,565.07	31,206,279.45	9,334,228,607.14
Investment properties								
Productive biological assets								
Others								
Total	6,862,139,100.74	34,055,721.68	-2,245,223.05	-	15,723,634,293.39	13,314,561,565.07	31,206,279.45	9,334,228,607.14
Financial liabilities	201,236.00	-				201,236.00	244.38	244.38

Other changes in content

Other changes are mainly due to the consolidation of Sanden Company.

(VI) CORE COMPETITIVENESS ANALYSIS

1. Technological and product strength

The Company, with “technologically oriented” as its operating philosophy, adheres to the strategy of “producing high-quality products” and builds its core competitiveness through continuous technological innovation and the introduction of high-quality products. The Company operates several technological innovation facilities, including State-level enterprise technology centre, enterprise post-doctoral scientific research station, State-recognised laboratory and State-level industrial design centre. To satisfy the demands of different markets worldwide as well as understand trends in core technology development and core technology resources, the Company has established R&D institutions domestically and abroad to gradually improve its global R&D system. During the Reporting Period, the Company has increased its R&D investment, which saw the investment in household electrical appliances continue to rise, with R&D expense registering a significant increase of 55% as compared to that of last year. This helped the Company steadily boost the competitiveness of its products and support the long-term and stable growth of operating revenue.

Heating, ventilation and air-conditioning (“HVAC”) business: The Company has upgraded its home multi-split central air conditioner series, which are equipped with independent temperature and humidity control, based on the national dual carbon policy as well as energy saving and emission reduction requirements, and realized smart cloud access for its products through 5G wireless connection. The Company has launched a compact total heat exchanger and fresh air unit, which can efficiently recover indoor cold and heat in tandem with the influx of outdoor fresh air, reduce power load of air conditioners significantly and excel in energy saving. Moreover, the unit is equipped with various purification models, such as formaldehyde removal, negative ion sterilization and internal circulation purification, which provide users with effective low-carbon and healthy indoor air solutions. The Company continues its effort in integrating the functions of temperature adjustment, fresh air and purification to optimize its algorithms in comfortability, sleeping and energy management, from which to deliver multi-dimensional air services ranging from health, comfortability, intelligence to energy-saving. By optimizing technology, the Company has overcome challenges and improved the performance of HVAC from energy-saving, carbon reduction, vibration reduction and quietness as well as safety and stability perspectives. The Company is the first to establish the innovative approach of focusing on the life scene of users, handing them options and initiatives in healthy breathing through the introduction of first generation indoor air technology, the application of air purification technology, the improvement in the comfortability in temperature compensation technology and integrated air supply technology as well as the comprehensive upgrade of fresh air air-conditioners in terms of technology, function and experience as driven by technological innovation. During the Reporting Period, the Company led the development of fresh air air-conditioners industry by presiding over the drafting of the first fresh air industry standard for home air-conditioner sector in China. Hisense “Fresh Air” has a total of 3 standards being listed on the 2021 Enterprise Standard Leader Event, which ranks first, and is the only leader with fresh air standard, in the industry.

Refrigerators and washing machines: With the technological development direction of “healthy, low-carbon, and intelligent” in place, the Company achieved breakthroughs in the blue light preservation technology that prolongs the storage period of fruits and vegetables, the metal thin-walled forming technology that reduces carbon emissions, the energy efficiency improvement technology of refrigerators that reduces the energy consumption of the entire device, the intelligent control technology applicable to the extension of intelligent kitchen scene and the ultra-thin layer foaming technology that meets the requirements of small size and large volume, and maintained its leadership in the industry. With constant innovation in the core functions of “ion steaming, ironing and streaming” of washing machines, the Company is able to improve its steam cabin treatment technology and further extend its leadership in clothing care. Through flexible adjustment in clothing care steam volume and temperature, the Company is able to achieve precise care over all types of clothing and perform exceptionally well in caring functions such as wrinkles removal, cleaning, odor removal and sterilization. In terms of drying technology, the Company has introduced high-volume drying and anti-cloth tangling intelligent control technology with the aim to tackle the pain points of slow drying speed and uneven drying. In the China Household Electric Appliance Innovative Achievement Presentation 2021 organized by the China Household Electric Appliance Research Institute, Hisense’s high air-volume heat pump clothes drying technology was honoured with the “Technology Innovation Achievement of the Year Award”.

Automotive air conditioning compressor and integrated thermal management business: With the rapid development of the new energy vehicle industry there have been higher and newer demands in the market for automotive air conditioning and thermal management products in the industry sub-sectors. As a professional supplier of automotive air conditioning compressors and automotive air conditioning systems, Sanden Company focuses on electric compressors for automotive air-conditioning, new energy automotive air-conditioning products and integrated thermal management systems, continuing to promote the upgrading of key technologies for core components such as electric compressors and heat pumps as well as integrated thermal management systems.

2. Brand advantages

The Company’s products are released under eight brands, namely Hisense, Ronshen, Kelon, Hitachi, York, gorenje, Asko and Sanden. Such rich brand line-up has allowed the Company to enjoy an excellent brand reputation and solid customer base. With the range of products covered by different brands and their product characteristics, the Company is able to meet the needs of different users. Overseas awareness and influence of the Hisense brand are both rising in accordance with the Company’s ongoing international expansion strategy. Meanwhile, Hisense keeps strengthening its marketing effort in sports by sponsoring EURO2016, World Cup 2018, EURO2020 and World Cup 2022, with the aim to significantly boost its brand popularity in international market through these top sporting events in the world. The “BrandZ China Top 50 Brands” report has ranked Hisense in the top ten for a number of years. Ronshen boasts a long history and has revitalized itself with the new brand proposition of “remain fresh even after seven days of storage”, and has become increasingly popular among the young people. Kelon has focused on air-conditioning for decades and has positioned itself as a professional and practical brand that caters to the precise needs of users. Leveraging on the strengths of the Hitachi, Hisense and York brands, the Company has been able to retain its leadership in the multi-split central air-conditioner sector. As the world’s leading first-tier manufacturer of automotive air conditioning compressors and automotive air conditioning systems, the “Sanden” brand has a strong global presence.

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 and is a crucial element of its 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 innovation” and that interactions between the Company and its stakeholders are in the same spirit as well as in compliance with laws and regulations, the Company formulated a Code of Integrity which makes integrity a rule, a code and a normality pervading all its activities.

(VII) MAJOR SUBSIDIARIES AND COMPANIES IN WHICH THE COMPANY HAS EQUITY INTEREST

Major Subsidiaries and Participating Companies Affecting 10% or More of the Company’s Net Profit

Name of company	Company type	Major business	Registered capital	Total assets (RMB ten thousand)	Net assets (RMB ten thousand)	Operating revenue (RMB ten thousand)	Operating profit (RMB ten thousand)	Net profit attributable to shareholders of the Company (RMB ten thousand)
Hisense Hitachi	Subsidiary	Production and sale of commercial air-conditioners	USD150million	1,855,684.31	756,851.46	1,841,158.12	315,343.98	241,894.40

Acquisition and disposal of subsidiaries during the Reporting Period

Name of company	Acquisition and disposal of subsidiaries during the Reporting Period	Impact on overall production operations and results
Sanden Holdings Corporation	Acquisition	This will facilitate the Company’s expansion into the automotive equipment industry, including automotive air conditioning compressors and automotive air conditioners.
Hisense Japan Automobile Air Conditioning System Contract Association	Investment establishment	This will facilitate the commencement of the Company’s acquisition business.

For details of the changes in the scope of consolidation of the Company during the Reporting Period, please refer to note7.

(IX) SIGNIFICANT DISPOSALS OF EQUITY INTERESTS DURING THE REPORTING PERIOD

Applicable Not applicable

IV. OUTLOOK

(I) THE COMPANY'S DEVELOPMENT STRATEGY

With the mission of “committing to technological innovation, leading the intelligent core of advanced manufacturing, and making hundreds of millions of families happy with high quality products and services”, the Company abides by the values of “honesty and integrity, pragmatic innovation, customer first and sustainable management”, and is committed to creating high quality products and become the most trusted brand for consumers worldwide.

The Company will actively promote the strategy of smart new life, give full play to the home appliance category and Hisense Group's leading edge of intelligent technology, continue to upgrade the home appliance smart terminal, improve the intelligent scene and ecological construction, realize the seamless connection from smart home to smart community and smart city, create a simple and loving quality of life, and build a perfect picture of smart new life. The Company will continue to increase investment in integrated thermal management systems for automobiles from strategic height, realize the leap from an automotive parts and components supplier to a system solutions provider.

(II) BUSINESS HIGHLIGHTS FOR 2022

In 2022, the Company will continuously adhere to the strategic thought of “doing longer and better”, focus on the following key tasks, strive to build product strength, marketing strength, manufacturing capability and brand strength, and build the ability of sustainable and healthy development of the Company.

- 1. Enhancing marketing capabilities and accelerating growth in scale:** Vigorously developing key markets, focusing on emerging channels, adhering to high-end promotion routes, increasing brand promotion efforts, and continuing to improve sales structure to achieve long-term steady growth in scale and profitability.
- 2. Focusing on the new intelligent living strategy and improving the intelligence level of home appliance products:** Focusing on improving the intelligence level of and intelligent interaction capabilities of products, significantly increasing the proportion of intelligent home appliance products in the network products to create a very simple and useful interaction experience.
- 3. Implementing advanced manufacturing strategy, strengthening supply chain synergy and enhancing global delivery capability:** Improving global industrial layout, strengthening the order placing system, continuously enhancing the delivery capability of supply chain, and optimizing the synergy of supply chain structure and informatization to realize high quality delivery of orders.

- 4. Improving the quality management standards of the whole process and reducing quality loss:** Paying close attention to quality, refining the management standards, improving quality standards and building reputation for quality through the whole life cycle quality control from supply chain, production and manufacturing, factory inspection, logistics supervision and market feedback.
- 5. Strengthening independent brand strategy, continuing to focus on sports marketing, and promoting healthy growth in overseas market:** Continuing to strengthen the strategic direction of “Hisense brand”, strengthening the synergy of production and sales, and promoting new breakthroughs in overseas business development; taking the opportunity of Hisense becoming the official sponsor of the 2022 Qatar World Cup to continue to make efforts in sports marketing and actively expand the scale of overseas sales.
- 6. Adhering to the technology leading development strategy and actively deploying new energy series products:** Adhering to the technology leading development strategy, actively developing high voltage new energy series products to meet the needs of the rapidly developing new energy vehicle industry; continuously deepening integrated thermal management core components layout, continuing to invest in core products such as ultra-high voltage compressors, new generation vehicle thermal management systems and new refrigerants to lay the foundation for further development.
- 7. Sticking to prudent operation and preventing capital risks:** Continuing to adhere to prudent operation, strengthening capital risk control, optimizing accounting period management, reducing abnormal capital occupation and improving capital turnover efficiency.

(III) RISKS FACED BY THE GROUP INCLUDE:

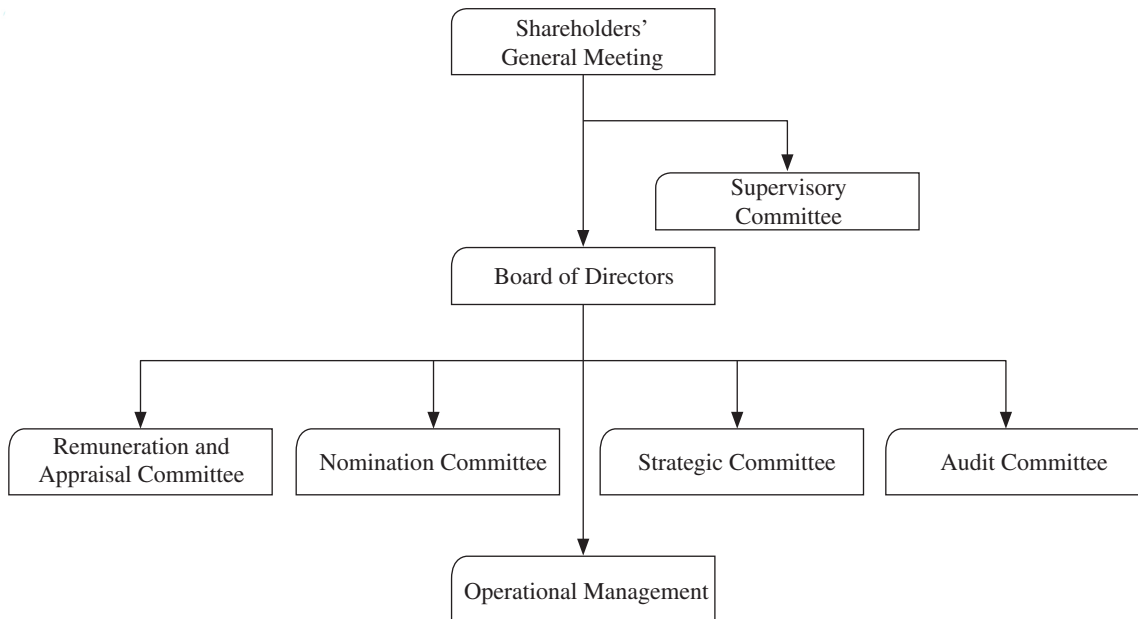
- 1. Macroeconomic cyclical fluctuation risk:** There are more uncertainties in current global and domestic macro environments due to the impact of the Federal Reserve’s monetary policy shift and the spread of COVID-19 mutants. If the macroeconomic growth continues to slow down, it may lead to a lack of consumer momentum, which will in turn affect the consumer demand for home appliances.
- 2. Risk of fluctuations in raw material prices:** If the prices of raw materials increase further, the Company’s product costs will be adversely affected. The rising labor and service costs and installation and maintenance costs may also adversely affect the Company’s profitability.
- 3. Supply chain risk:** The increasing risk of global supply chain disruption and shortage of core components have adversely affected the Company’s production cost and delivery capacity.
- 4. Exchange rate fluctuation risk:** If the RMB exchange rate fluctuates sharply, it will directly affect the cost competitiveness of the Company’s overseas products, thereby affecting the profitability of its overseas business.
- 5. Market risks brought about by protectionism and trade barriers:** In order to protect their own economic interests, some countries and regions have imposed higher tariffs and compulsory certification, resulting in increased operating costs which many indirectly affect the competitiveness and profitability of the Company’s overseas business.

Corporate Governance Report

Sound corporate governance is the basic assurance to the long-term healthy and stable development of a corporation, whereas continued enhancement of the governance level is a necessary measure to maintain the healthy development of the Company. During the Reporting Period, the Company had further revised the “Entrusted Wealth Management System”, “Internal Control System for Forward Foreign Exchange Fund Transactions” and other institutional documents to continuously enhance the corporate governance system. The shareholders’ general meetings, meetings of the board of directors of the Company (the “**Board**”) and its various specialised committees and the supervisory committee of the Company performed their functions, coordinated with each other and maintained effective check and balance in accordance with the laws, regulations and the relevant systems, which continuously enhanced the level of corporate governance of the Company.

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the “**Corporate Governance Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “**Hong Kong Listing Rules**”) as its own code to govern its corporate governance practices.

(I) CORPORATE GOVERNANCE STRUCTURE:



(a) Corporate governance structure:

As the highest authority of the Company, the shareholders, at general meetings, exercise their functions and powers in accordance with the laws to make decisions on significant matters of the Company. The Company has established and maintained different communication channels with its shareholders through publication of announcements on the websites of the Company, the Hong Kong Stock Exchange and the Shenzhen Stock Exchange, as well as by e-mail, telephone.

Corporate Governance Report

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

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

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

In 2021, one annual general meeting ("AGM") was held by the Company and three extraordinary general meetings ("EGMs") were held by the Company on 22 January 2021, 25 May 2021 and 17 September 2021, respectively. The shareholding held by the shareholders attending the AGM and each of the three EGMs represented 50.64%, 18.44%, 48.31% and 22.79% of the then total issued shares of the Company, respectively. The attendance records of the directors of the Company (the "Directors") are set out in the following table:

**Attendance of the general meetings of the Company
in 2021 by the Directors**

Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Dai Hui Zhong	4	0	0	0%
Mr. Lin Lan	4	0	0	0%
Mr. Jia Shao Qian	4	0	0	0%
Mr. Fei Li Cheng	4	0	0	0%
Mr. Xia Zhang Zhua ^(Note 1)	2	2	0	100%
Ms. Gao Yu Ling ^(Note 2)	0	0	0	N/A
Mr. Ma Jin Quan	4	1	0	25%
Mr. Zhong Geng Shen	4	1	0	25%
Mr. Cheung Sai Kit	4	1	0	25%
Mr. Tang Ye Guo ^(Note 3)	1	0	0	0%
Mr. Duan Yue Bin ^(Note 4)	4	3	0	75%

Notes:

1. Mr. Xia Zhang Zhua has been appointed as an executive Director with effect from 25 June 2021;
2. Ms. Gao Yu Ling has been appointed as an executive Director with effect from 19 January 2022;
3. Mr. Tang Ye Guo has ceased to be the Chairman of the Company with effect from 25 June 2021;
4. Mr. Duan Yue Bin has ceased to be the Chairman and the President of the Company with effect from 28 October 2021; and;

All Directors who were unable to attend the general meetings in person had applied for leave in writing before the commencement of the general meetings.

Rights of Shareholders

Procedures for shareholders in relation to requisition of the convening of shareholders' extraordinary general meeting or class meeting

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

- (1) Shareholders holding individually or in aggregate more than 10% of the shares of the Company are entitled to propose to convene a shareholders' extraordinary general meeting or a class meeting to the Board in writing. The Board shall, pursuant to laws, administrative regulations and the Articles of Association of the Company, provide written feedback on whether it agrees or disagrees to convene the extraordinary general meeting within 10 days after receipt of the written request.
- (2) If the Board agrees to convene the extraordinary general meeting or class meeting, it shall issue a notice to convene such shareholders' general meeting or class meeting within five (5) days of its decision, and any changes to the original request in the notice shall be made only with the consent of the relevant shareholder(s). If the Board decides against convening the extraordinary general meeting or the class meeting, or if it has failed to provide its feedback within ten (10) days after receiving the request, shareholders individually or jointly holding more than 10% of the shares of the Company are entitled to propose to convene an extraordinary general meeting or a class meeting to the Supervisory Committee in writing.
- (3) If the Supervisory Committee agrees to convene the extraordinary general meeting or class meeting, it shall issue a notice to convene such extraordinary general meeting or class meeting within five (5) days of receipt of the written request, and any changes to the original request in the notice shall be made only with the consent of the relevant shareholder(s). If the Supervisory Committee fails to issue a notice of extraordinary general meeting or class meeting within the prescribed period, the Supervisory Committee shall be deemed not convening or chairing an extraordinary general meeting or class meeting. Shareholders individually or jointly holding more than 10% of the shares of the Company for ninety (90) consecutive days may themselves convene and chair such meeting.

Procedures by which enquiries may be made by shareholders

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

The Securities Department, Hisense Home Appliances Group Co., Ltd.
No. 8 Ronggang Road, Ronggui Street,
Shunde District, Foshan City, Guangdong Province,
the People's Republic of China
Postal code: 528303
Phone number: 86-757-28362570
E-mail address: hxjdzqb@hisense.com

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

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

Procedures for putting forward proposals at shareholders' general meeting

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

As regard the procedures for proposing a person for election as a Director, please refer to the procedures available on the website of the Company at <http://hxjd.hisense.cn>.

(b) The Board of Directors

The Nomination Committee has been established under the Board. The Nomination Committee will select and make suggestions on the candidates for the positions of Directors and the selection criteria and procedures and the same will be submitted to the Board for consideration and approval, and Directors will be elected at the shareholders' general meetings. The eleventh session of the Board was elected and established at the annual general meeting of the Company held on 25 June 2021 with a term of office of 3 years. As as 1 January 2021, the Board comprised the executive Directors, namely Mr. Duan Yu Bin, Mr. Lin Lan, Mr. Jia Shao Qian, Mr. Dai Hui Zhong, Mr. Fei Li Cheng and Mr. Xia Zhang Zhua and the independent non-executive Directors, namely Mr. Ma Jin Quan, Mr. Zhong Qing Shen and Mr. Cheung Sai Kit.

As at the date of this report, the Board comprised nine Directors, including six executive Directors, namely Mr. Mr. Dai Hui Zhong (Chairman and President), Mr. Lin Lan, Mr. Jia Shao Qian, Mr. Dai Hui Zhong, Mr. Fei Li Cheng, Mr. Xia Zhang Zhua and Ms. Gao Yu Ling, and three independent non-executive Directors, namely, Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit. The following changes in the composition of the Board and important executive functions took place during the Reporting Period and up to the date of this report:

- (i) Mr. Duan Yue Bin has ceased to be an executive Director and the president of the Company with effect from 28 October 2021;
- (ii) Mr. Dai Hui Zhong has been appointed as the Chairman and President of the Company with effect from 28 October 2021; and
- (iii) Ms. Gao Yu Ling has been appointed as an executive Director of the Company with effect from 19 January 2022.

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

Board Diversity Policy

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

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

Members of the Board have different backgrounds with extensive experience in various fields such as science and technology, corporate management and finance and accounting. The biographies and roles of the Directors are set out on pages 48 to 49 of this annual report.

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

The Board is also responsible for overseeing the preparation of the accounts for each fiscal period to ensure that such accounts truly and fairly reflect the Company's business operation, results and cash flow performance during that period. The Operational Management of the Company provides proper explanation and sufficient information to the Board so as to enable it to make an informed assessment on the financial information and other information submitted to it for approval. In preparing the accounts for the year ended 31 December 2021, the Directors:

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

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

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

In 2021, the Board of the Company held 14 meetings to discuss the Company's important operating matters. The Directors attended the meetings in person, and their attendance records are set out in the following table:

Attendance of the meetings of the Board in 2021 by the Directors				
Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Dai Hui Zhong	14	14	0	100%
Mr. Lin Lan	14	14	0	100%
Mr. Jia Shao Qian	14	14	0	100%
Mr. Fei Li Cheng	14	14	0	100%
Mr. Xia Zhang Zhua <i>(Note 1)</i>	6	6	0	100%
Ms. Gao Yu Ling <i>(Note 2)</i>	0	0	0	N/A
Mr. Ma Jin Quan	14	14	0	100%
Mr. Zhong Geng Shen	14	14	0	100%
Mr. Cheung Sai Kit	14	14	0	100%
Mr. Tang Ye Guo <i>(Note 3)</i>	8	8	0	100%
Mr. Duan Yue Bin <i>(Note 4)</i>	11	11	0	100%

Notes:

1. Mr. Xia Zhang Zhua has been appointed as an executive Director with effect from 25 June 2021;
2. Ms. Gao Yu Ling has been appointed as an executive Director with effect from 19 January 2022;
3. Mr. Tang Ye Guo has ceased to be the Chairman of the Company with effect from 25 June 2021; and;
4. Mr. Duan Yue Bin has ceased to be the Chairman and the President of the Company with effect from 28 October 2021.

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

The Board is responsible for corporate governance, supervision of the management in establishment of a compliant organisation structure and system, compliance with the Corporate Governance Code and other laws and regulations in the ordinary course of management and other functions set out in code provision D.3.1 in the Corporate Governance Code. During the Reporting Period, the Board and the specialised committees have reviewed the compliance of the Company's policies and practices on corporate governance, the training and continuous professional development of the Directors and senior management and the Company's internal control and risk management systems.

Independent Non-Executive Directors

The Board comprises three independent non-executive Directors, accounting for not less than one-third of the total number of Directors. The independent non-executive Directors appointed by the Company have complied with Rules 3.10(1) and 3.10(2), Rule 3.10A and Rule 3.13 of the Hong Kong Listing Rules and all of them are independent of and are not connected with the Company and any of the connected persons (as defined in the Hong Kong Listing Rules) of the Company. The Company has received a confirmation of independence from each of the independent non-executive Directors. The term of office of Mr. Ma Jin Quan will expire on 8 January 2023 and the terms of office of Mr. Zhong Geng Shen and Mr. Cheung Sai Kit will expire on 24 June 2024.

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

Specialised Committees of the Board

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

Remuneration and Appraisal Committee

The Board has established the Remuneration and Appraisal Committee with specific written terms of reference. During the Reporting Period and up to the date of this report, the Remuneration and Appraisal Committee consisted of two executive Directors, namely, Mr. Lin Lan, Mr. Jia Shao Qian and three independent non-executive Directors, namely, Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit. Mr. Ma Jin Quan acted as the chairman of the committee.

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

- (A) to analyse the appraisal standard of the Directors and senior management and to carry out the appraisal and make recommendations based on the actual conditions of the Company;
- (B) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- (C) to make recommendations in situations where Directors or senior management accept responsibilities and resign or are proposed to be dismissed for their defaults and failure to perform their duties;
- (D) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- (E) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- (F) to make recommendations to the Board for the remuneration of independent non-executive Directors;
- (G) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- (H) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management (adopted the approach under code provision B.1.2(c)(ii) of the Corporate Governance Code). This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- (I) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions of other positions in the Group;
- (J) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and

(K) other duties provided under applicable regulatory rules and other matters authorised by the Board.

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

The Remuneration and Appraisal Committee of the Board held four meetings during the Reporting Period and the attendance record of the members of the Remuneration and Appraisal Committee is set out below:

**Attendance of the meeting of the Remuneration and
Appraisal Committee of the Board in 2021 by the committee members**

Name	Number of meeting which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Ma Jin Quan	4	4	0	100%
Mr. Lin Lan	4	4	0	100%
Mr. Jia Shao Qian	4	4	0	100%
Mr. Zhong Geng Shen	4	4	0	100%
Mr. Cheung Sai Kit	4	4	0	100%

In 2021, the Remuneration and Appraisal Committee had mainly reviewed the particulars of the remuneration of directors, supervisors and senior management of the Company as disclosed in the 2020 annual report.

Members of the Remuneration and Appraisal Committee confirmed that the remuneration of the Directors, supervisors and senior management during the Reporting Period is in line with the remuneration appraisal system set up by the Company and the remuneration policies have been strictly implemented. Details of the remuneration of the Directors, the supervisors and the senior management of the Company for the year ended 31 December 2021 are set out on pages 76 to 77 of this annual report.

Nomination Committee

The Board has established the Nomination Committee with specific written terms of reference. During the Reporting Period and up to the date of this report, the Nomination Committee comprised executive Directors, namely, Mr. Dai Hui Zhong, Mr. Jia Shao Qian and three independent non-executive Directors, namely, Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit. Mr. Zhong Geng Shen acted as the chairman of the committee.

The major duties and authority of the Nomination Committee are:

- (A) to analyse the standard and process for selection of candidates for the positions of Director and senior management and make recommendations to the Board;
- (B) to select candidates qualified to become Directors and senior management candidates according to the Company's business model and its specific needs, taking comprehensive consideration of factors such as age, gender, educational background, skills, professional knowledge, experience, etc. and to set up measurable goals to ensure the diversity of the Board members;
- (C) to examine the candidates for the positions of Director and senior management and make recommendations to the Board;
- (D) to review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategies;
- (E) to assess the independence of the independent non-executive Directors;
- (F) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the President; and
- (G) other matters authorised by the Board.

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

Corporate Governance Report

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

**Attendance of the meetings of the
Nomination Committee of the Board in 2021 by the committee members**

Name	Number of meeting which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Zhong Gong Shen	3	3	0	100%
Mr. Dai Hui Zhong	1	1	0	100%
Mr. Jia Shao Qian	3	3	0	100%
Mr. Ma Jin Quan	3	3	0	100%
Mr. Cheung Sai Kit	3	3	0	100%
Mr. Tang Ye Guo <i>(Note 1)</i>	1	1	0	100%
Mr. Duan Yue Bin <i>(Note 2)</i>	1	1	0	100%

Notes:

1. Mr. Tang Ye Guo has ceased to be a member of the Nomination Committee of the Company with effect from 25 June 2021; and
2. Mr. Duan Yue Bin has ceased to be a member of the Nomination Committee of the Company with effect from 28 October 2021.

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

- (i) the resolution in respect of general election of the Board;
- (ii) the resolution in respect of Mr. Zhong Geng Shen as the Chairman of the Nomination Committee of the Eleventh Session of the Board;
- (iii) the resolution in respect of Mr. Duan Yue Bin as a candidate for the office of President of the Company;
- (iv) the resolution in respect of Ms. Gao Yu Ling as a candidate for the office of financial controller of the Company and as the chief accountant of the Company;
- (v) the resolution in respect of Ms. Huang Qian Mei as a candidate for the office of secretary of the Board;
- (vi) the resolution in respect of Ms. Wong Tak Fong as a candidate for the office of company secretary of the Company;
- (vii) the resolution in respect of Mr. Dai Hui Zhong as a candidate for the office of President of the Company; and
- (viii) the resolution in respect of Ms. Gao Yu Ling as a candidate for election as an executive director of the Eleventh Session of the Board.

The Nomination Committee conducts extensive searches for candidates of Directors or senior management within the Company and in the open market, etc. after considering the Company's requirements for new Directors or senior management. With the consent to nomination from the candidates, the Nomination Committee will convene the Nomination Committee meeting in accordance with relevant laws and regulations, the Articles of Association of the Company and the Terms of Reference for Nomination Committee taking into account the Company's actual situation, examine the qualifications of the initial nominees according to the requirements for the position of Directors or senior management and form a resolution which would be recorded and submitted to the Board for its consideration. In respect of the nomination of senior management, the Nomination Committee shall provide the Board with candidates for the position of its recommendation together with relevant materials one (1) month before the nomination. During the Reporting Period, the Nomination Committee strictly implemented the nomination procedures and recommendation criteria in accordance with the nomination policy enacted.

Strategic Committee

The Board has established the Strategic Committee with specific written terms of reference. During the Reporting Period and up to the date of this report, the Strategic Committee of the tenth session of the Board comprised the executive Directors, namely, Mr. Dai Hui Zhong, Mr. Lin Lan, Mr. Jia Shao Qian, Mr. Fei Li Cheng and Mr. Xia Zhang Zhua. Mr. Dai Hui Zhong acted as the chairman of the committee.

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

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

Audit Committee

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

The major duties and authority of the Audit Committee are:

- (A) to supervise and assess the external audit function and make recommendations on the appointment or change the external audit agency. To be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditing body, and to approve the remuneration and terms of engagement of the external auditing body, and any questions of its resignation or dismissal;
- (B) to review and monitor the independence and objectivity of the external auditing body and the effectiveness of the audit process in accordance with applicable standards; the Audit Committee should discuss with the auditing body the nature and scope of the audit and reporting obligations before the audit commences;
- (C) to develop and implement policy on engaging an external auditing body to supply non-audit services. For this purpose, “external auditing body” includes any entity that is under common control, ownership or management with the auditing body or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (D) to examine the Company’s financial information and its disclosure. To monitor the integrity of the Company’s financial statements and annual report and accounts, interim report and quarterly reports, and to review significant financial reporting judgments presented in these statements and reports. In reviewing these statements and reports before submission to the Board, the committee should focus particularly on:
 - 1. any changes in accounting policies and practices;
 - 2. areas involving major judgements;
 - 3. significant adjustments resulting from the audit;
 - 4. the going concern assumptions and any qualifications;
 - 5. compliance with accounting standards; and
 - 6. compliance with the Hong Kong Listing Rules and legal requirements in relation to financial reporting;
- (E) regarding item (D) above:
 - 1. members of the committee should liaise with the Board and senior management and the committee must meet, at least twice a year, with the Company’s auditing body; and
 - 2. the committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, and it should give due consideration to any matters that have been raised by the Company’s staff responsible for the accounting and financial reporting function, compliance officer or auditing body;

- (F) to supervise and assess the Company's internal control. To review the Company's financial controls, risk management and internal control systems;
- (G) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to establish effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (H) to consider major findings of investigation on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (I) to supervise and assess the internal audit function, to be responsible for co-ordination between the internal and external auditing bodies, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to examine, review and monitor its effectiveness;
- (J) to examine and review the Company's financial and accounting policies and practices;
- (K) to review the explanatory letter on audit work provided to the management by the external auditing body, any material queries raised by the auditing body to management about the accounting records, financial accounts or systems of control and management's response;
- (L) to ensure that the Board will provide a timely response to the issues raised in the explanatory letter on audit work provided to the management by the external auditing body;
- (M) to report to the Board on the matters specified in its terms of reference;
- (N) to examine and review the following arrangements set by the Company: the arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (O) to act as the key representative body for overseeing the Company's relationship with the external auditing body;
- (P) to establish a whistle-blowing mechanism to pay attention to and openly handle the enquiries and complaints made by the staff, customers, suppliers and investors of the Company and social media on the truthfulness, accuracy and completeness of the financial information;
- (Q) to make recommendations regarding the establishment and modification of corporate governance mechanism and to provide effective supervision over the implementation of resolutions of the Board by senior management of the Company; and
- (R) to be responsible for matters pursuant to the laws and regulations and the Articles of Association of the Company, and such other matters as the Board may authorise.

Corporate Governance Report

All members of the Audit Committee are independent non-executive Directors. During the Reporting Period and up to the date of this report, the Audit Committee consisted of Mr. Cheung Sai Kit, Mr. Ma Jin Quan and Mr. Zhong Geng Shen. Mr. Cheung Sai Kit acted as the chairman of the committee.

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

Attendance of the meetings of the Audit Committee of the Board in 2021 by the committee members

Name	Number of meeting which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Cheung Sai Kit	7	7	0	100%
Mr. Ma Jin Quan	7	7	0	100%
Mr. Zhong Geng Shen	7	7	0	100%

In 2021, the Audit Committee accomplished the following major tasks:

1. having reviewed the annual, interim and quarterly financial results and reports of the Company;
2. having considered and approved the report on internal control for the year of 2020 and the final report for the audit work conducted by the auditing body for the year of 2020;
3. having considered and approved the resolution on the re-appointment of ShineWing Certified Public Accountants LLP as the auditor of the Company for the year of 2021;
4. To consider and approve the resolution in respect of the election of Mr. Cheung Sai Kit, an independent non-executive director, as the Chairman the Audit Committee of the Eleventh Session of the Board of Directors of the Company.
5. having reviewed the connected transactions of the Company to ensure that the connected transactions were in compliance with the principles of fairness, impartiality and transparency with sufficient protection of the medium and minority shareholders' interests;
6. having reviewed the effectiveness of the Company's risk management and internal control systems; and
7. having made suggestions regarding significant matters of the Company and reminded the management of the relevant risks.

(c) Supervisory Committee

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

On 1 January 2021, the Supervisory Committee comprised two shareholders representative supervisors, namely Mr. Liu Zhen Shun and Ms. Gao Yu Ling and one employee representative supervisor, Ms. Fan Wei, with Mr. Liu Zhen Shun acting as the chairman of the Supervisory Committee.

At the annual general meeting of the Company held on 25 June 2021, Ms. Sun Jia Hui was elected as the 11th Supervisory Committee Representative Supervisor. As at the date of this report, the Supervisory Committee of the Company comprised two shareholders representative supervisors, namely Mr. Liu Zhen Shun and Ms. Sun Jia Hui and one employee representative supervisor, Mr. Yin Zhi Xin with Mr. Liu Zhen Shun acting as the chairman of the Supervisory Committee. During the Reporting Period and up to the date of this report, the following changes took place in the composition of the Supervisory Committee:

- (i) Ms. Gao Yu Ling has ceased to be the representative supervisor of shareholders on 24 June 2021;
- (ii) Ms. Sun Jia Hui has been elected as the representative supervisor of the shareholders of the Eleventh Session of the Supervisory Committee of the Company at the 2020 Annual General Meeting held on 25 June 2021; and
- (iii) Mr. Yin Zhi Xin has been elected as the employee representative supervisor of the eleventh session of the Supervisory Committee of the Company at the fifth meeting of the sixth staff congress held on June 10, 2021.

Please also refer to the Report of the Supervisory Committee set out on pages 49 of this annual report.

(II) COMPLIANCE WITH THE CG CODE

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

Training of the Directors

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

The secretary to the Board maintains records of training attended by the Directors. During the Reporting Period and up to the date of this Report, details of the training attended by each of the incumbent Directors are set out in the table below:

Name	Type of training (Note)
Mr. Dai Hui Zhong	b
Mr. Lin Lan	b
Mr. Jia Shao Qian	b
Mr. Fei Li Cheng	b
Mr. Xia Zhang Zhua	a, b
Ms. Gao Yu Ling	a, b
Mr. Ma Jin Quan	a, b
Mr. Zhong Geng Shen	a, b
Mr. Cheung Sai Kit	a, b

Notes:

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

Chairman and President

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

Position	Former Chairman	Former Chairman	Former Chairman	Former President	President
Name	Mr. Tang Ye Guo	Mr. Duan Yue Bin	Mr. Dai Hui Zhong	Mr. Duan Yue Bin	Mr. Dai Hui Zhong
Term of office	26 June 2006 to 25 June 2021	25 June 2021 to 28 October 2021	28 October 2021 to present	5 March 2020 to 28 October 2021	28 October 2021 to present

The Chairman shall be responsible for presiding over the general meetings, convening and presiding over the Board meetings, ensuring that the Board is in effective proper operation to review and discuss all the significant issues in a timely and effective manner, reviewing the implementation of the Board's resolutions as well as discharging his duties as the legal representative of the Company. The President shall be in charge of the management of the production and operation of the Company, and is responsible for organising the implementation of the Board's resolutions and the Company's annual operational and investment plans and making decisions on other issues within the scope of the delegation by the Board. During the Reporting Period, the Chairman held at least one meeting with the independent non-executive Directors without the presence of the executive Directors.

Since 25 June 2021, Mr. Tang Ye Guo, the Chairman of the Company, has ceased to serve as the Chairman of the Company due to work adjustment and the position of the Chairman has been held by Mr. Duan Yue Bin.

Since 28 October 2021, Mr. Duan Yue Bin, the Chairman and President of the Company, has ceased to serve as the Chairman and President of the Company due to work adjustment and the position of the Chairman and President has been held by Mr. Dai Hui Zhong.

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

Internal Control and Risk Management

During the Reporting Period, pursuant to the provisions and requirements of the "Basic Norms for Enterprise Internal Control" and its ancillary guidelines, with the objectives of enhancing the level of corporate operation and management and risk prevention ability, as well as reasonably ensuring the compliance of the Company's operation with laws and regulations, the safety of assets, the truthfulness and completeness of the financial reports and relevant information, optimising the efficiency and efficacy of operation and promoting the implementation of strategies for sustainable development by the Company, and taking into account the Company's internal control and risk management systems and assessment method and on the basis of daily supervision and specific supervision of internal control and risk management, the Company has determined the scope of assessment in internal control and risk management that puts emphasis on the areas of organisational structure, development strategies, human resources, social responsibility, corporate culture, funding activities, procurement business, asset management, sales business, research and development, engineering project, outsourcing of business, financial reporting, comprehensive budgeting, contract management, internal information transmission and information system, and other compliance and risk management matters and has carried out assessment on the effectiveness of the Company's internal control and risk management systems in 2020. Conclusions were drawn in respect of the effectiveness of the internal control and risk management systems: during the Reporting Period, the Company has established internal control and risk management mechanisms for all businesses and matters included in the scope of assessment, and the internal control and risk management systems have been effectively executed to achieve the objectives of the Company's internal control and risk management systems without significant defect.

During the Reporting Period, the internal audit department of the Group has conducted an assessment on the effectiveness of the risk management and internal control systems of the Group and the assessment result was positive.

The Board has conducted an annual review of the effectiveness of the internal control and risk management systems of the Company during the Reporting Period. During the course of the review, the Board considered that the Company had established an appropriate internal control and risk management systems for the Company based on the actual situation and was not aware of any significant defect in the internal control and risk management systems of the Company. In addition, the Company has engaged ShineWing Certified Public Accountants LLP to perform independent audit on the effectiveness of the Company's internal control and risk management systems and an audit report has been issued. The auditor is of the view that as at 31 December 2021, the Company has maintained effective internal control and risk management systems related to financial reporting in accordance with the "Basic Norms for Enterprise Internal Control" and the relevant requirements in all material respects.

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

The Board is responsible for the internal control and risk management systems of the Group, including reviewing their effectiveness. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group's internal control and risk management systems have been developed by the Board with the following features and processes:

1. the management, with the assistance of the Group's front-line personnel, identifies risks that may affect the Group's business and operations;
2. the management assesses the risks identified by considering their impacts on the business and the likelihood of occurrence of the adverse events associated with the risks;
3. the management prioritises the risks based on their probability and the severity of impact on the business;
4. the management reports regularly to the Board for the Board's formulation of the risk management strategies and internal control processes to prevent, avoid and mitigate the risks;
5. the management performs ongoing and periodic monitoring of the risks to ensure that appropriate internal control processes are in place and material internal control defects can be resolved and reports its findings and results to the Board regularly; and
6. the Board, with the assistance of the Audit Committee and the management, reviews the risk management strategies and internal control processes on a regularly basis.

Inside Information

The Company has formulated a policy on disclosure of inside information to ensure that inside information is handled and disseminated properly and in accordance with the applicable laws and regulations. The business departments and the department heads within the Group are responsible for monitoring any changes and developments and reporting any potential or suspected inside information events to the Board. Based on the information reported and obtained, the Board assesses whether any of the information constitutes inside information which needs to be released to the public with the advice of the internal legal team of the Group. Should public disclosure be required, the Board will determine the scope of information to be disclosed and the timing of disclosure. If and when appropriate, the Board may seek independent professional advice to ensure that the Company complies with the disclosure requirements. The Company discloses information to the public through channels including websites of its own and the Hong Kong Stock Exchange, with an aim to achieve fair and timely disclosure of information.

(III) SECURITIES TRANSACTIONS BY DIRECTORS

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

(IV) AUDITOR

On 25 June 2021, as considered and approved at the shareholders’ general meeting, the Company re-appointed ShineWing Certified Public Accountants LLP as the auditor of the Company for the year of 2021, and the Board was authorised to fix their remuneration.

The Company has agreed to pay a remuneration of approximately RMB2,100,000 and RMB900,000 to the auditors for the provision of audit services for financial reporting and internal control respectively for the year ended 31 December 2021 and bear the corresponding travel expenses. During the Reporting Period, no non audit service was provided by the auditors to the Group.

The Directors acknowledged their responsibility for preparing the accounts that give a true and fair view on the Group’s financial position on a going-concern basis and other financial disclosures. A statement by the auditors of the Company in respect of their reporting responsibilities is set out in the Auditor’s Report section contained in this annual report.

(V) COMPANY SECRETARY

On 25 June 2021, the Board considered and approved the re-appointment of Ms. Wong Tak Fong as the company secretary of the Company to assist the Company in dealing with the Hong Kong Listing Rules compliance matters. Ms Wong Tak Fong is the Company’s external personnel. She can contact and communicate with the secretary of the Board of the Company, Ms. Huang Qian Mei, in her day-to-day work. According to Rule 3.29 of the Hong Kong Listing Rules, Ms. Wong Tak Fong has taken no less than 15 hours of relevant professional training during the Reporting Period.

Profiles of Directors, Supervisors and Members of the Senior Management

Incumbent Directors

Mr. Dai Hui Zhong, aged 56, Bachelor's degree, served successively as the vice-general manager of Qingdao Hisense Mould Co., Ltd., a director and the general manager of Hisense Electric Co., Ltd. (now renamed as Hisense Visual Technology Co., Ltd.), the chairman and president of Hisense Broadband Multimedia Technology (BVI) Inc., and vice president and senior vice president of Hisense Company Limited. Mr. Dai has been the director of Hisense Visual, the Chairman and the President of the Company. He has been the Chairman and the President since October 2021.

Mr. Lin Lan, aged 64, Doctor of mechanical engineering, served as the vice chairman of Hisense Group and vice president of the Company. Mr. Lin has been the director of Hisense Group, the director of Hisense Visual and the director of the Company. He has been the director of the Company since June 2006.

Mr. Jia Shao Qian, aged 49, Master of Management, served successively as the vice president and the president of the Company. Mr. Jia serves as the director and the president of Hisense Group, the director of Hisense Air-Conditioning and the Company's director. He has been the director of the Company since June 2015.

Mr. Fei Li Cheng, aged 58, served successively the manager of a branch of Qingdao Television Factory*(青島電視機廠), the general manager of Qingdao Micro-electromechanical Factory*(青島微電機廠), the vice general manager of Qingdao Hisense Digital, Audio and Video Co., Ltd.*(青島海信數字音像有限公司), the general manager of Qingdao Hisense Mould Co., Ltd.*(青島海信模具有限公司) and the general manager of Hisense Hitachi. Mr. Fei serves as the director of Hisense Air Conditioning, the director of the Company and the president of air-conditioning company of the Company. He has been the director of the Company since June 2019.

Mr. Xia Zhang Zhua, aged 43, holds a bachelor's degree in engineering, served successively a senior engineer of Huawei Technologies Co., Ltd.*(華為技術有限公司), the director, assistant general manager and deputy general manager of the research and development centre of Qingdao Hisense Media Network Technology Co., Ltd.*(青島海信傳媒網絡技術有限公司) and the deputy general manager of VIDAA Technology Co., Ltd.*(聚好看科技股份有限公司). Mr. Xia serves as the director of the Company and the general manager of Home Appliance research and development Center. He has been the director of the Company since June 2021.

Ms. Gao Yu Ling, aged 40, holds a Master of management degree, served successively as the deputy director of the finance center of Hisense Electric Co., Ltd., the chief financial officer and chief accountant of the Company, the general manager and deputy chief accountant of financial and operation management department of Hisense Company Limited, the general manager and deputy chief accountant of financial and operation management department of Hisense Group. Ms. Gao has been the supervisor of Hisense Air-Conditioning, the director and the chief financial officer and chief accountant of the Company. She has been the director of the Company since January 2022 and has been the chief financial officer and chief accountant of the Company since June 2021.

Mr. Ma Jin Quan, aged 79, senior engineer, served successively the executive deputy factory director of Shanxi Color Picture Tube Plant*(陝西彩色顯像管總廠), the executive deputy general manager of IRICO Group Corporation*(彩虹集團公司), the factory director of Huanghe Machinery Plant*(黃河機器製造廠), the chairman and general manager of Huanghe Mechanical and Electrical Joint Stock Company Limited*(黃河機電股份有限公司), and the director and general manager of IRICO Group Corporation*(彩虹集團公司), the external director of Panzhihua Iron & Steel (Group) Corporation*(攀枝花鋼鐵(集團)公司), the independent director of China XD Electric Co., Ltd.*(中國西電電氣股份有限公司) (listed on the Shanghai Stock Exchange), the independent director of Hisense Electric Co., Ltd., and the independent director of Xi'an Future International Information Co., Ltd.*(西安未來國際信息股份有限公司). Mr. Ma has been the independent non-executive director of the Company since January 2017.

Profiles of Directors, Supervisors and Members of the Senior Management

Mr. Zhong Geng Shen, aged 61, Doctor of Management of Nankai University, served as an associate professor at the School of Economics and the School of Management of Shandong University, engaged in postdoctoral work at Inspur Group- Peking University from March 2003 to July 2005. He currently serves as a professor at the School of Management of Shandong University, an executive director of Chinese Enterprise Management Research Association, a member of Shandong enterprises credit rating experts committee of the People's Bank of China*(中國人民銀行山東企業資信評級專家委員會) and secretary general of Shandong Provincial Comparative Management Research Association*(山東省比較管理研究會). He serves as an independent director of Shandong Publishing & Media Co., Ltd, an independent director of Shandong Yishui Rural Commercial Co., Ltd.*(山東沂水農村商業銀行股份有限公司) and an independent director of Luyin Investment Group Co.*(魯銀投資集團股份有限公司). Mr. Zhong has been the independent non-executive director of the Company since June 2018.

Mr. Cheung Sai Kit, aged 50, Certified Public Accountant in Hong Kong and a member of CPA Australia, He had served as the senior audit manager at BDO Limited and KPMG successively. He served as the executive director of BDO Limited and a counsellor of Moore Stephens CPA Limited. He has been an executive director of Moore Stephens CPA Limited. Mr. Cheung has been the independent non-executive director of the Company since August 2018.

Incumbent Supervisors

Mr. Liu Zhen Shun, aged 52, Bachelor degree, served successively as the head of the legal affairs department, the general manager of legal and intellectual properties department and the deputy secretary of Hisense Company Limited. Mr. Liu serves as the general manager of legal and intellectual properties department and the Secretary of Committee for Discipline Inspection of Hisense Group. He has been the chairman of the Supervisory Committee of the Company since January 2014.

Ms. Sun Jia Hui, aged 33, Master of Management of Shandong University, served successively as the audit supervisor and the head of business analysis of Hisense Company Limited, the vice-general manager of finance and operation management department of Hisense Visual, and served as the head of operation management department under the finance and operation management department of Hisense Company Limited. Ms. Sun has been the vice-general manager of finance and operation management department of Hisense Group, and the Company's supervisor. She has been the supervisor of the Company since June 2021.

Mr. Yin Zhi Xin, aged 33, Bachelor's degree, served as the head of marketing management department of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd, the director of brand department of Guangdong Hisense Refrigerator Marketing Co., Ltd, and the vice-general manager of the Company's customer and brand operations department. Mr. Yin has been the supervisor and the head of the president office of the Company. He has been the supervisor of the Company since June 2021.

Profiles of Directors, Supervisors and Members of the Senior Management

Incumbent Senior Management Members

Ms. Huang Qian Mei, aged 38, Bachelor of Economics and Management, served as the securities affairs representative of the Company. She has been the secretary of the board of the Company since March 2017.

Ms. Wong Tak Fong, aged 54, Master of Business Administration from the University of Bradford in the United Kingdom, is a fellow member of the Institute of Chartered Secretaries and Administrators in the United Kingdom and the Hong Kong Institute of Chartered Secretaries and a fellow member of the Taxation Institute of Hong Kong. She acted as the managing director of General Bright Consultants Ltd., had been the chief financial officer of Diamond Dragon Fashion Ltd (鑽龍時裝有限公司) and acted as a joint company secretary of the Company. She has been the company secretary of the Company since June 2012.

Note: Hisense Group and Hisense Air-Conditioning mentioned in the above profiles are substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”).

Mr. Lin Lan and Mr. Jia Shao Qian are directors or senior management of Hisense Group as at the date of this report. Mr. Jia Shao Qian and Mr. Fei Li Cheng are the directors of Hisense Air-conditioning. Hisense Group and Hisense Air-conditioning were deemed to have an interest in the shares of the Company, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Ms. Gao Yu Ling is the supervisor of Hisense Air-Conditioning. Hisense Air-Conditioning is a company which was interested in the shares of the Company as at the date of this report, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

PRINCIPAL BUSINESSES

The Group is principally engaged in research and development, manufacturing and marketing of electrical products such as refrigerators, household air-conditioners, central air-conditioners, freezers, washing machines, kitchen appliances, etc and automotive air conditioner compressor and integrated thermal management system.

BUSINESS REVIEW

A fair review of the business of the Company and further discussion and analysis of the Group's activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a discussion of the risks faced by the Group, important events affecting the Group that have occurred since the end of the Reporting Period, and an indication of the likely future developments of the Group's business, can be found in the Chairman's Statement, the Management Discussion and Analysis and the Corporate Governance Report in this annual report.

In addition, the Group's environmental, employee, customer and supplier matters and compliance with the relevant laws and regulations that have a significant impact on the Company can be found in the Management Discussion and Analysis and the Corporate Governance Report in this annual report, and the 2021 Environmental, Social and Governance Report of the Company published on 30 March 2022, respectively.

These discussions form part of this Report of the Directors.

PROFIT DISTRIBUTION POLICIES

According to the Articles of Association of the Company, the profit distribution policy of the Company is as follows:

1. The profit distribution of the Company shall focus on giving reasonable investment return to its investors. The profit distribution policies shall maintain continuity and stability, and shall not be adjusted at will to lower the level of return to shareholders once such policies have been confirmed.
2. Form, condition and proportion of profit distribution of the Company:
 - (1) The Company may distribute dividends in cash, in shares or in a combination of both cash and shares.
 - (2) In distributing dividends in cash, the Company shall also meet the following conditions:
 - (i) the distributable profits of the Company for the year (i.e. the profits after tax of the Company after making up for losses and making allocations to the statutory common reserve fund) shall be a positive figure;
 - (ii) the auditor shall issue a standard unqualified audit report on the financial report of the Company for the year;
 - (iii) the cash flows of the Company shall meet the normal operation and long-term development of the Company.

- (3) In principle, the dividends distributed by the Company in cash in the year shall not be less than 10% of the distributable profits realised in the year, and the accumulated profits distributed by the Company in cash in the last three years shall not be less than thirty (30) percent of the average annual distributable profits realised in the last three years. The remaining distributable profits shall be used to support the sustainable development of the Company.
 - (4) Conditions for distributing dividends in shares: Under the pre-requisite of ensuring reasonable share capital size and shareholding structure, the Company may distribute dividends in shares when the valuation of its shares is within a reasonable range, in order to provide return to its shareholders and share its corporate value.
 - (5) The profits distributed by the Company shall not exceed the accumulated distributable profits.
3. In the event that the Company realises distributable profits, the Company may distribute interim cash dividends or distribute dividends in shares based on its profitability and capital requirements.
 4. Adjustment process of profit distribution policies:
 - (1) If the Company needs to adjust its profit distribution policies due to significant changes in external operating environment or its own operation, it shall consider from the perspective of the protection of shareholders' interests, discuss in details and explain the reasons therefor. The Board shall put forward a proposal for adjusting the profit distribution policies based on actual situation, and the independent non-executive Directors and the Supervisory Committee shall issue examination opinions in this regard. The proposal shall be submitted to the shareholders' general meeting for the passing by the shareholders (including proxies) with voting rights representing two-thirds or more of the voting rights present at the meeting.
 - (2) The opinions of the independent non-executive Directors and the shareholders shall be given due consideration in the course of discussion, formulation and amendment to the profit distribution policies of the Company. The Company shall hear the opinions of the shareholders on its profit distribution policies through investor telephone consultation, on-site survey and investor interactive platform, etc.

The Company strictly executes the profit distribution policies and establishes the profit distribution proposal in accordance with its Articles of Association. The cash dividend policy of the Company is established and executed in accordance with relevant requirements under the Articles of Association of the Company and the requirements at the shareholder's general meeting. The distribution standards and proportions are clearly stated and the relevant decision making procedures systems of the profit distribution policies are complete, and the independent non-executive Directors have issued independent opinion in respect of the proposed profit distribution policy of the Company for the year, and diligently served their obligations and properly exercised their role.

Please refer to the circular of the Company dated 10 May 2019 for further details on the Shareholders' Return Plan for the Next Three Years (2019-2021) of the Company, which has been approved by the shareholders of the Company at the 2018 annual general meeting held by the Company on 26 June 2019.

FINAL DIVIDEND

As audited by ShineWing Certified Public Accountants LLP, the net profit attributable to the shareholders of the Company (recognised in parent company) for the year ended 31 December 2021 is RMB1,331,733,452.19. Pursuant to the relevant requirements of the Articles of Association of the Company, RMB19,168,416.61 is allocated to the statutory common reserve fund; undistributed profits at the beginning of the year 2021 of RMB2,401,839,551.13 is added; and the distributed profits of RMB472,865,703.39 is deducted. The actual distributable profits is RMB3,241,538,883.32.

The Board proposed to pay all shareholders a cash dividend of RMB2.14 (tax inclusive) per 10 shares held by the shareholders (the “**Proposed Dividend**”) on the basis of the Company’s total number of 1,362,725,370 shares as at the date of disclosure of the 2021 A Share Annual Report, without bonus issue and not to issue shares by way of conversion of capital reserve (For the year ended 31 December 2020, the Company paid to all shareholders a cash dividend of RMB3.47 (tax inclusive) per 10 shares held by the shareholders on the basis of the total number of 1,362,725,370 shares of the Company as of 31 December 2020).

The Proposed Dividend is subject to approval by the shareholders at the 2021 annual general meeting (the “**Annual General Meeting**”). Subject to the approval of the Proposed Dividend by the shareholders, the Proposed Dividend is expected to be paid on or about 15 August 2022. The total amount of profits to be so distributed is expected to be RMB291,623,229.18. Details of the payment of the Proposed Dividend will be announced after the conclusion of the Annual General Meeting.

RESERVES

Movements in the reserves of the Group during the Reporting Period are set out in note 6 (40-43) to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2021 are set out in note 6 (43) and note 14 to the financial statements.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

For the year ended 31 December 2021, net cash generated from operating activities of the Group amounted to approximately RMB4,314 million (2020: net cash generated from operating activities amounted to approximately RMB5,963 million).

As at 31 December 2021, the Group had cash and cash equivalents (including bank deposits, cash and guarantee balances) amounting to approximately RMB7,023 million (2020: RMB7,111million), of which more than RMB5,436 million are denominated in Renminbi (2020: RMB6,856 million), and loans amounting to RMB3,948 million (as 2020: RMB22 million).

Total capital expenditures of the Group for the year ended 31 December 2021 amounted to approximately RMB1,107 million (2020: RMB614 million).

Report of the Directors

As at 31 December 2021, the Group's current liabilities amounted to RMB38,012 million, non-current liabilities amounted to RMB2,345 million, and shareholders' equity attributable to the shareholders of the Company amounted to RMB10,342 million.

Details of the Group's capital structure are set out in note 9(2) to the financial statements.

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 31 December 2021, the Group had approximately 48,263 employees, mainly comprising 7,535 technical staff, 13,518 sales representatives, 422 financial staff, 833 administrative staff and 25,955 production staff. The Group had 64 employees with a doctorate degree, 1,850 with a master's degree and 46,349 with a bachelor's degree or below. For the year ended 31 December 2021, the Group's staff payroll amounted to RMB5,340 million (2020: RMB4,275 million).

EMPLOYEES' TRAINING AND REMUNERATION POLICY

Employees and talents are the cornerstone and guarantee of enterprise development. The Company always carries out the employment method of "selection → recruitment → education → promotion → retention", devotes to the improvement of employees quality and overall team ability, and creates a broad development platform for employees. The company takes training as the driving force to improve the quality and career development of employees, and has built a three-level training system with the main line of "improving job competency" to implement staff training responsibilities at each level and provide employees with opportunities for learning and development.

In 2021, the Company actively carried out various employee training activities. In keeping with the Company's annual business strategy's focus on "value to the user", "product innovation" and "digital marketing", offline training using flipped classrooms and workshops was carried out along with online learning. This has improved the overall capability of cadres and their reserve talents, and accelerated the growth of reserves. For new employees, induction and systematic training including a mentor system, "rotational internship" and "fixed-position internship" is offered to assist them in quickly gaining essential job skills adapt to the corporate culture. For existing employees, specific training is provided to address departmental and individual weaknesses. The Company's training models include "internal and external training", "project and topical exercises", "job rotation" and others, under which are programs such as corporate management, production quality, corporate culture, production and manufacturing, and technology R&D.

The Group continues to optimize employee development system and adopts a dual-channel development mechanism which emphasizes on "professional over management in terms of promotion channel". In 2021, the Group reshuffled its management standards and evaluation system of admission qualifications for all professions while reviewing the job title of all employees on an annual basis, through which employees were presented with multiple development platforms to work out their career planning.

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

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2021, the Group did not have major property, plant and equipment (including leasehold land held for own use), investment properties and trade receivables (31 December 2020: nil) which were pledged as security for the Group's borrowings.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Reporting Period are set out in note 6 (14-15) to the financial statements.

PENSION SCHEMES

Details of the Group's pension schemes for the Reporting Period are set out in note 15 to the financial statements.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

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

PUBLIC FLOAT

The Directors confirm that as at 30 March 2022, based on publicly available information and to the best of their knowledge, 25% or above of the total issued share capital of the Company were held by the public. Therefore, the public float of the Company satisfies the requirement stipulated under the Hong Kong Listing Rules.

AUDIT COMMITTEE

The eleventh session of the audit committee of the Company has reviewed the final results of the Group for the year ended 31 December 2021.

CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2022 will be approximately RMB226.31 million. The Group has sufficient funds to meet the funding requirement for purposes such as capital expenditure plans and daily operations.

TRUST DEPOSITS

As of 31 December 2021, 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.

GEARING RATIO

As of 31 December 2021, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 72.13% (2020: 65.54%).

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Reporting Period, none of the Directors or their respective close associates (as defined in the Hong Kong Listing Rules) had any interest in a business that competed or might compete with the businesses of the Company and its subsidiaries.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACTS OF SIGNIFICANCE

The Directors of the eleventh session of the Board and the supervisors of the Company do not and did not directly or indirectly hold any material interests in any transaction, arrangement or contract of significance of the Company or its subsidiaries subsisting during or at the end of the Reporting Period.

THE COMPANY AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save for the transactions contemplated under the agreements mentioned in the section headed "Particulars of material connected transactions of the Company during the Reporting Period" below, no contract of significance or contract of significance for the provision of services (as defined under note 15.2 of Appendix 16 to the Hong Kong Listing Rules) to which the Company and the controlling shareholders nor any of their subsidiaries was a party and in which a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Reporting Period or at any time during the Reporting Period.

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NONEXECUTIVE DIRECTORS

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

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY THE AUDITOR

After auditing the continuing connected transactions of the Group, the auditor of the Company confirmed that nothing has come to its attention that causes it to believe that (i) the relevant continuing connected transactions of the Group have not been approved by the Board; (ii) the transactions involving the provision of goods or services by the Group were not, in all material respects, carried out in accordance with the pricing policies of the Company; (iii) the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) the aggregate amount of each of the disclosed continuing connected transactions has exceeded the maximum aggregate annual caps disclosed in the previous announcements made by the Company in respect of each of the disclosed continuing connected transactions.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its code for securities transaction by Directors. After having made specific enquiries to the Directors, all Directors confirmed that they had acted in full compliance with the Model Code during their term of office.

SHARE CAPITAL STRUCTURE

As at 31 December 2021, the share capital structure of the Company was as follows:

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

Report of the Directors

TOP TEN SHAREHOLDERS

As at 31 December 2021, there were 21,830 (A shares: 21,784) shareholders of the Company (the “Shareholders”) in total, of which the top ten Shareholders were as follows:

Name of Shareholder	Nature of Shareholder	Number of shares held	Percentage to the total issued shares of the Company	Percentage to the relevant class of issued shares of the Company	Number of shares held subject to trading moratorium
Qingdao Hisense Air-conditioning Company Limited	Domestic general legal person	516,758,670	37.92%	57.22%	0
HKSCC Nominees Limited ^{Note 1}	Foreign legal person	457,763,567	33.59%	99.60%	
The Hong Kong Securities Clearing Company (HKSCC) ^{Note 2}	Foreign legal person	77,719,856	5.70%	8.61%	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	65,000,000	4.77%	7.20%	0
Industrial Bank Co., Ltd. – Fullgoal Xing Yuan Preferred 12-Month Holding Period Hybrid Securities Investment Fund* (興業銀行股份有限公司 – 富國興遠優選12個月持有期混合型證券投資基金)	Other	18,453,611	1.35%	2.04%	0
China Construction Bank Corporation – Huaxia Xinghe Hybrid Securities Investment Fund* (中國建設銀行股份有限公司 – 華夏興和混合型證券投資基金)	Other	13,464,699	0.99%	1.49%	0
National Social Security Fund Portfolio No.102* (全國社保基金 – 二零二組合)	Other	13,240,636	0.97%	1.47%	0
Bank of China Limited – Merchants Ruiwen Hybrid Securities Investment Fund* (中國銀行股份有限公司 – 招商瑞文混合型證券投資基金)	Other	9,730,825	0.71%	1.08%	0

Report of the Directors

Name of Shareholder	Nature of Shareholder	Number of shares held	Percentage to the total issued shares of the Company	Percentage to the relevant class of issued shares of the Company	Number of shares held subject to trading moratorium
Zhang Shao Wu	Domestic natural person	7,200,000	0.53%	0.80%	0
China Construction Bank Corporation – Harvest New Consumer Securities Investment Fund* (中國建設銀行股份有限公司 – 嘉實新消費股票型證券投資基金)	Other	4,217,128	0.31%	0.47%	0

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 (Hong Kong) Company Limited, a party acting in concert with the controlling shareholder of the Company. By the end of this Reporting Period, Hisense (Hong Kong) Company Limited held a total of 124,452,000 H shares of the Company as representing 9.13% of the total number of shares of the Company.

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

Among the above shareholders, Qingdao Hisense Air Conditioning Company Limited and Hisense (Hong Kong) Company Limited are related and have no relationship with other shareholders, nor are they parties acting in concert as stipulated in the Administrative Measures for the Takeover of Listed Companies (《上市公司收購管理辦法》). Save as disclosed above, the Company is not aware of whether any shareholders is connected with each other or any of them is a party acting in concert with any of the other within the meaning of Administrative Measures for the Takeover of Listed Companies.

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of tradable shares held	Class of shares
Qingdao Hisense Air-conditioning Company Limited	516,758,670	RMB ordinary shares
HKSCC Nominees Limited	457,763,567	Overseas listed foreign shares
HKSCC	77,719,856	RMB ordinary shares
Shanghai Gaoyi Asset Management Partnership – Gaoyi Linshan No.1 Long-range Fund* (上海高毅資產管理合夥企業(有限合夥) – 高毅鄰山1號遠望基金)	65,000,000	RMB ordinary shares
Industrial Bank Co., Ltd. – Fullgoal Xing Yuan Preferred 12-Month Holding Period Hybrid Securities Investment Fund* (興業銀行股份有限公司 – 富國興遠優選12個月持有期混合型證券投資基金)	18,453,611	RMB ordinary shares
China Construction Bank Corporation – Huaxia Xinghe Hybrid Securities Investment Fund* (中國建設銀行股份有限公司 – 華夏興和混合型證券投資基金)	13,464,699	RMB ordinary shares
National Social Security Fund Portfolio No.102* (全國社保基金一零二組合)	13,240,636	RMB ordinary shares
Bank of China Limited – Merchants Ruiwen Hybrid Securities Investment Fund* (中國銀行股份有限公司 – 招商瑞文混合型證券投資基金)	9,730,825	RMB ordinary shares
Zhang Shao Wu	7,200,000	RMB ordinary shares
China Construction Bank Corporation – Harvest New Consumer Securities Investment Fund* (中國建設銀行股份有限公司 – 嘉實新消費股票型證券投資基金)	4,217,128	RMB ordinary shares

* For identification purposes only

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

So far as is known to the Directors, supervisors and the chief executives of the Company, as at 31 December 2021, the following persons (other than the Directors, supervisors and the chief executives 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 SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange:

Interests or short position in the shares of the Company

Name of Shareholder	Capacity	Type of shares	Number of shares held	Percentage of the total number of shares in issue	Percentage of the respective types of shares
Qingdao Hisense Airconditioning Company Limited ^{Note}	Beneficial owner	A shares	516,758,670(L)	37.92%	57.22%
Hisense Group Holdings Co., Ltd. ^{Note}	Interest of controlled corporation	A shares	516,758,670(L)	37.92%	57.22%
Hisense (Hong Kong) Company Limited ^{Note}	Beneficial owner	H shares	124,452,000(L)	9.13%	27.08%
Hisense Group Holdings Co., Ltd ^{Note}	Interest of controlled corporation	H shares	124,452,000(L)	9.13%	27.08%

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

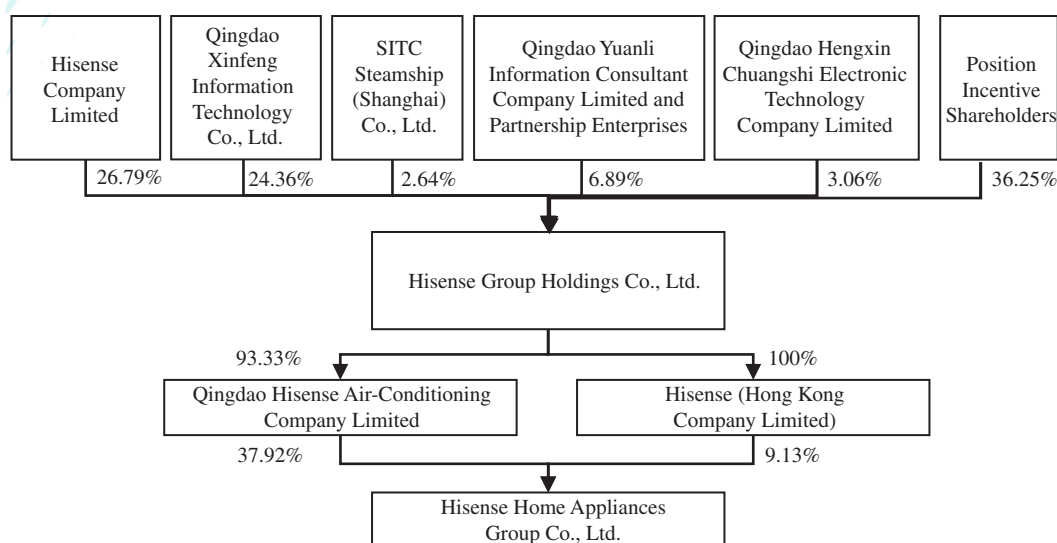
Note: Qingdao Hisense Air-conditioning Company Limited is a company 93.33% directly owned by Hisense Group Holdings Co., Ltd., whereas Hisense (Hong Kong) Company Limited is a company directly wholly-owned by Hisense Group Holdings Co., Ltd. By virtue of the SFO, Hisense Group Holdings Co., Ltd. was deemed to be interested in the same parcel of A shares of which Qingdao Hisense Air-conditioning Company Limited was interested and in the same parcel of H shares of which Hisense (Hong Kong) Company Limited was interested.

Save as disclosed above, as at 31 December 2021, in so far as the Directors, supervisors and the chief executives of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Report of the Directors

PARTICULARS OF THE CONTROLLING SHAREHOLDERS OF THE COMPANY

1. Qingdao Hisense Air-Conditioning Company Limited, the controlling shareholder of the Company, was incorporated on 17 November 1995. Its registered address is at Changsha Road, Hi-tech Industrial Zone, Qingdao, the PRC, its legal representative is Mr. Dai Hui Zhong and its registered capital is RMB674.79 million. Its business scope includes the development and manufacture of air-conditioning products and injection moulds and the provision of after-sale repairing services for its products (Permit/licence shall be obtained for the operation of the businesses above if they fall into the requirements of licensure).
2. The Company has no actual controller.
3. Diagram of property rights and control relationships of the Company;



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

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

As at 31 December 2021, save as disclosed below, none of the members of the Board, supervisors and the chief executives of the Company held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be maintained by the Group pursuant to section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Long position in the shares of the Company

Name of Director	Nature of interest	Number of A shares	Percentage to the issued A shares of the Company	Percentage to the total issued shares of the Company
Mr. Jia Shao Qian	Beneficial owner	404,360	0.045%	0.030%

SALES TO MAJOR CUSTOMERS AND MAJOR SUPPLIERS

Sales to major customers of the Company

Total sales to top 5 customers (RMB)	21,632,145,171.17	21,632,145,171.17
Total sales to top 5 customers as a percentage of the total sales for the year (%)	32.02	32.02
Total sales to top 5 customers which are related parties as a percentage of the total sales for the year (%)	22.40	22.40

Information on top 5 customers of the Company

No.	Name of customer	Sales (RMB)	As a percentage of the total sales for the year (%)
1	The first	10,800,544,250.43	15.99
2	The second	4,431,428,927.93	6.56
3	The third	2,971,282,362.32	4.40
4	The fourth	2,068,302,030.85	3.06
5	The fifth	1,360,587,599.64	2.01
Total		21,632,145,171.17	32.02

Explanation on the other situation of major customers

Applicable Not applicable

Among the top 5 customers, the first, third and fifth customers are controlled by Hisense Group and have connected relationship with the Company. Except for this, other customers have no connected relationship with the Company. The Company, the Company's indirect controlling shareholder and certain directors, supervisors and senior management have direct or indirect interests in the fifth customer.

Major suppliers of the Company

Total purchases from top 5 suppliers (RMB)	6,580,308,700.34
Total purchases from top 5 suppliers as a percentage of the total purchases for the year (%)	12.13
Total purchases from top 5 suppliers which are related parties as a percentage of the total purchases for the year (%)	0

Report of the Directors

Information on top 5 suppliers of the Company

No.	Name of suppliers	Purchases (RMB)	As a percentage of the total purchases for the year (%)
1	The first	2,289,863,214.11	4.22
2	The second	1,483,523,705.35	2.73
3	The third	1,143,206,830.19	2.11
4	The fourth	857,389,275.95	1.58
5	The fifth	806,325,674.74	1.49
Total		6,580,308,700.34	12.13

Explanation on the other situation of major suppliers

Applicable Not applicable

The top 5 suppliers have no connected relationship with the Company. The Company, the Company's indirect controlling shareholder and directors, supervisors and senior management have no direct or indirect interests in major suppliers.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDITOR

On 25 June 2021, as considered and approved at the shareholders' general meeting, the Company agreed to re-appoint ShineWing Certified Public Accountants LLP as the auditor of the Company for the year 2021, and the Board was authorised to fix their remuneration.

PRE-EMPTIVE RIGHTS

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

TAXATION

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

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities.

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

Connected transactions during the Reporting Period

- (I) On 5 November 2019, the Company entered into (i) a purchase financing agency framework agreement, and (ii) a financial business framework agreement with Hisense Hong Kong and Hisense Finance Holdings respectively. On 30 October 2020, the Company entered into (i) a business co-operation framework agreement, and (ii) a financial services agreement with Hisense Group Limited, Qingdao Hisense Electric Holdings Company Limited* (青島海信電子產業控股股份有限公司) (now renamed as Hisense Group Holdings Co., Ltd., “**Hisense Group**”) and its subsidiaries, and Hisense Finance respectively. On 27 December 2021, the Company entered into a business co-operation agreement with Johnson Hitachi. (Termination and replacement of the original business cooperation agreement signed on January 22, 2021).

Hisense Air-conditioning is a connected person of the Company by virtue of it being a substantial shareholder of the Company, holding approximately 37.92% of the issued shares of the Company. Hisense Hong Kong holds approximately 9.13% of the issued shares of the Company. Hisense Visual Technology is 30.002% owned by Hisense Group. Hisense Group and its subsidiaries (including but not limited to Hisense Visual Technology, Hisense International and Hisense Marketing Management) are connected persons of the Company pursuant to the Hong Kong Listing Rules. Hisense Finance and Hisense Financial Holdings are subsidiaries of Hisense Group. Hisense Finance and Hisense Financial Holdings therefore are connected persons of the Company pursuant to the Hong Kong Listing Rules. Pursuant to the Hong Kong Listing Rules, Johnson Hitachi, being the holding company of two substantial shareholders of Hisense Hitachi (namely Johnson Controls – Hitachi Air Conditioning Trading (Hong Kong) Limited and Johnson Controls – Hitachi Air Conditioning Taiwan Co., Ltd), becomes a connected person of the Company at subsidiary level.

Details of the business co-operation framework agreement with Hisense Group Limited, Hisense Group and its subsidiaries, the financial services agreement with Hisense Finance, and the financial business framework agreement with Hisense Financial Holdings can be found in the announcement and the circular published on the website of the Hong Kong Stock Exchange on 6 November 2019, 30 October 2020 and 6 November 2019. Details of the business co-operation agreement with Johnson Hitachi can be found in the announcement published on the website of the Hong Kong Stock Exchange on 22 January 2021 and 28 December 2021.

As Hisense Group is the controlling shareholder of both Hisense Hong Kong and the Company, Hisense Hong Kong is a connected person of the Company under the Shenzhen Listing Rules. Hisense Hong Kong is also a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. Since the financial assistance arrangement under the purchase financing agency framework agreement would be for the benefit of the Company on normal commercial terms where no security over the assets of the Company was to be granted in respect of the financial assistance, such arrangement was exempt from the reporting, announcement and independent shareholders’ approval requirements pursuant to the Hong Kong Listing Rules. Details of the purchase financing agency framework agreement can be found in the announcement published on the website of the Hong Kong Stock Exchange on 6 November 2019.

The above transactions constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. The Company confirmed that it had complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules for the relevant connected transactions (other than the purchase financing agency framework agreement which is exempt from the reporting, announcement and independent shareholders’ approval requirements pursuant to the Hong Kong Listing Rules).

The particulars of the business co-operation framework agreement, the financial services agreement and the financial business framework agreement are as follows:

1. *Business co-operation framework agreement with Hisense Group Limited, Hisense Group and its subsidiaries*

On one hand, the supply of home electrical appliances, raw materials and parts and components, equipment and moulds by the Group to Hisense Group and its subsidiaries can help lower the production costs of the Group as a result of the increase in production level, which, in turn, enhances the market competitiveness of the Group's products. At the same time, the Group can continue to develop overseas market and enhance brand competitiveness and awareness. The Group can also increase market share by selling products through the online platform of Hisense Group and its subsidiaries which reduces the product circulation links. Provision of services to Hisense Group and its subsidiaries will increase the income of the Group. On the other hand, taking into account the product quality, prices and services provided by Hisense Group and its subsidiaries, purchases of home electrical appliances, equipment, raw materials and parts and components from Hisense Group and its subsidiaries and engagement of their services can meet the manufacture needs of the Company and the development of related business, and can also help reduce costs. As such, the Company entered into the business co-operation framework agreement with Hisense Group and its subsidiaries on 30 October 2020, the principal terms of which are as follows:

- (1) The business co-operation framework agreement shall commence from 22 January 2021, being the date on which the agreement was approved by the shareholders of the Company at the first 2021 extraordinary general meeting of the Company, until 31 December 2021, which can be terminated before its expiration by mutual agreement of the parties.
- (2) Pricing for the mutual purchase of home electrical appliances between the Group on the one hand and Hisense Group and its subsidiaries on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances. Pricing for the mutual purchase of raw materials and parts and components between the Group on the one hand and Hisense Group and its subsidiaries on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of similar raw materials, parts and components. Pricing for the sales of equipment by the Group to Hisense Group and its subsidiaries is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of similar equipment. Pricing for the sales of moulds by the Group to Hisense Group and its subsidiaries is determined by the open bidding process. Pricing for the mutual provision of services between the Group on the one hand and Hisense Group and its subsidiaries on the other hand is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services in the industry.

- (3) The annual caps under the business co-operation framework agreement are shown in the table below:

Unit: RMB'0000 (exclusive of value-added tax)

Types of connected transactions	Division by products or services	Connected person	Annual cap	
Sale of products and materials	Sale of home electrical appliances products by the Group	Hisense Group	31,927	
		Hisense International	1,857,108	
		Hisense Marketing Management	65,791	
		Hisense Visual Technology	435	
	Sale of raw materials, parts and components by the Group	Hisense Group	35,135	
		Hisense International	9,000	
		Hisense Visual Technology	366	
		Sale of moulds by the Group	Hisense Group	200
			Hisense International	7,000
			Hisense Visual Technology	7,950
	Provision of services	Provision of property, processing and installation services by the Group	Hisense Group	2,459
		Provision of property services by the Group	Hisense International	414
Provision of property, processing and installation services by the Group		Hisense Visual Technology	1,076	

Report of the Directors

Types of connected transactions	Division by products or services	Connected person	Annual cap
Purchase of products and materials	Purchase of home electrical appliances products by the Group	Hisense Group	392
		Hisense International	32,112
		Hisense Visual Technology	233
	Purchase of raw materials, parts and components by the Group	Hisense Group	70,086
		Hisense International	3,500
		Hisense Visual Technology	7,418
Receipt of services	Receipt of employee health management, material processing, installation and maintenance, distribution, property, leasing, design, inspection, agency, management consulting, technical support, and information system development and maintenance services by the Group	Hisense Group ^{Note}	91,372
		Hisense International	3,659
		Hisense Marketing Management	28,819
		Hisense Visual Technology	3,297

Note: Following the completion of the Mixed Ownership Reform, part of the service function of Hisense Group Limited has been succeeded by Hisense Group which joined as a party to the Existing Business Co-operation Framework Agreement, under which it acknowledged the continuing connected transactions conducted between the Group and Hisense Group Limited and/or its subsidiaries and agreed to succeed the rights and obligations of Hisense Group Limited under the Existing Business Co-operation Framework Agreement, including the relevant Caps, upon the completion of the Mixed Ownership Reform. Before the completion of the Mixed Ownership Reform, the cap in respect of property services (including property management and property leasing) to be provided by Hisense Group Limited was RMB34,710,000. In addition to its cap of RMB22,940,000 in respect of the same services, Hisense Group succeeded the abovementioned cap of Hisense Group Limited. Before the completion of the Mixed Ownership Reform, the cap in respect of information system development and maintenance services to be provided by Hisense Group Limited was RMB4,670,000. In addition to its cap of RMB128,190,000 in respect of the same services, Hisense Group succeeded the abovementioned cap of Hisense Group Limited. Before the completion of the Mixed Ownership Reform, the cap in respect of employee health management and technical support services to be provided by Hisense Group Limited was RMB17,220,000. Hisense Group succeeded the abovementioned cap of Hisense Group Limited and included the abovementioned cap under the services of distribution, leasing, design, agency, training, employee health management and technical support services.

2. *Financial services agreement with Hisense Finance and the financial business framework agreements with Hisense Financial Holdings*

The Group is expected to benefit from the rates on loans and deposits offered by Hisense Finance to the Group, which will be equal to or more favourable than those offered by the PRC commercial banks, and, at the same time, Hisense Finance's better understanding of the operations of the Group should allow the provision of more expedient and efficient services than those offered by the PRC commercial banks. On the other hand, Hisense Finance is regulated by China Banking Regulatory Commission (中國銀行業監管管理委員會) and complies with the regulations and operation requirements issued by the relevant regulatory authorities in its provision of financial services. The primary customers of Hisense Finance are the companies within Hisense Group. In general, as the risks exposed to Hisense Finance are less than those exposed to the financial institutions with a broad and unrestricted customer base, Hisense Finance is able to safeguard the customers' funds more effectively. As such, the Company entered into the financial services agreement with Hisense Finance on 30 October 2020, the principal terms of which are as follows:

- (1) The term of the financial services agreement shall commence from 22 January 2021, being the date on which the agreement was approved by the independent shareholders of the Company at the first 2021 extraordinary general meeting of the Company, until 31 December 2021, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.
- (2) The services to be provided by Hisense Finance Company to the Group include deposit services, loan and electronic bank acceptance bill (電子銀行承兌匯票) services, draft discount services (票據貼現服務), settlement and sale of foreign exchange services (結售匯服務) and agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務).

- (3) The maximum daily closing balance of the deposits placed by the Group with Hisense Finance Company at any time during the term of the financial services agreement shall not exceed the cap of RMB18,500,000,000 (inclusive of interest) on any given day. The maximum closing balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the financial services agreement shall not exceed the cap of RMB11,500,000,000 (inclusive of interest and service fees). The annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services during the term of the financial services agreement shall not exceed the cap of RMB50,000,000. The annual amount settled or sold by Hisense Finance for the Group during the term of the financial services agreement shall not exceed the cap of US\$300,000,000. The annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務) during the term of the financial services agreement shall not exceed the cap of RMB3,000,000.

In order to further revitalise the company's reserve assets, obtain capital operation income, and improve the efficiency of capital operation, the Company entered into a financial business framework agreement with Hisense Financial Holdings on 5 November 2019. The main terms are as follows:

- (1) The term of the financial business framework agreement shall commence from 17 January 2020, being the date on which the agreement was approved by the shareholders of the Company at the first 2020 extraordinary general meeting of the Company, until 31 December 2021, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.
- (2) The daily closing balance of the recourse factoring services provided by Hisense Financial Holdings to the Company under the financial business framework agreement shall not exceed RMB800,000,000 (inclusive of interest). The aggregated annual value of the transactions conducted for the non-recourse factoring services provided by Hisense Financial Holdings to the Group under the financial business framework agreement during the term of the financial business framework agreement shall not exceed RMB400,000,000 (inclusive of interest). The daily closing balance of the financial leasing services provided by Hisense Financial Holdings to the Company under the financial business framework agreement shall not exceed RMB300,000,000 (inclusive of interest).

Report of the Directors

(II) **Connected transactions conducted in the ordinary course of operation during the Reporting Period, details of which are as follows:**

Connected party	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	193.90	0.00
Hisense Visual Technology	Purchase	Finished goods	Agreed price	35.81	0.00
Hisense International	Purchase	Finished goods	Agreed price	16,852.10	0.31
Johnson Hitachi	Purchase	Finished goods	Agreed price	783.31	0.01
Hisense Group	Purchase	Materials	Agreed price	51,098.15	0.94
Hisense Visual Technology	Purchase	Materials	Agreed price	4,433.20	0.08
Hisense International	Purchase	Materials	Agreed price	917.43	0.02
Johnson Hitachi	Purchase	Materials	Agreed price	89,121.62	1.64
Hisense Group	Receipt of services	Receipt of services	Agreed price	72,823.06	1.34
Hisense Visual Technology	Receipt of services	Receipt of services	Agreed price	3,265.81	0.06
Hisense International	Receipt of services	Receipt of services	Agreed price	726.09	0.01
Hisense Marketing Management	Receipt of services	Receipt of services	Agreed price	22,649.17	0.42
Johnson Hitachi	Receipt of services	Receipt of services	Agreed price	2,543.34	0.05
Hisense Hong Kong	Agency Financing	Agency Financing	Agreed price	63,802.92	1.18
Hisense Group	Sale	Finished goods	Agreed price	20,159.90	0.30
Hisense Visual Technology	Sale	Finished goods	Agreed price	362.33	0.01
Hisense International	Sale	Finished goods	Agreed price	1,667,148.66	24.68
Hisense Marketing Management	Sale	Finished goods	Agreed price	56,544.13	0.84
Johnson Hitachi	Sale	Finished goods	Agreed price	22,382.06	0.33
Hisense Group	Sale	Materials	Agreed price	25,016.13	0.37
Hisense Visual Technology	Sale	Materials	Agreed price	9.69	0.00
Hisense International	Sale	Materials	Agreed price	8,941.06	0.13
Johnson Hitachi	Sale	Materials	Agreed price	569.96	0.01
Hisense Visual Technology	Sale	Moulds	Agreed price	4,230.86	0.06
Hisense International	Sale	Moulds	Agreed price	3,203.02	0.05
Hisense Group	Provision of services	Provision of services	Agreed price	917.87	0.01
Hisense Visual Technology	Provision of services	Provision of services	Agreed price	397.35	0.01
Hisense International	Provision of services	Provision of services	Agreed price	308.78	0.00

Report of the Directors

As of the end of the Reporting Period, the Group had the balance of deposit of RMB14.784 billion, recognised interest income of RMB282 million, the actual balance of loan of RMB450 million, the balance of electronic bank acceptance bill of RMB8.448 billion, the handling fee for opening accounts for electronic bank acceptance bill of RMB9.5396 million and the recognised interest on loans of RMB12.4366 million with Hisense Finance. For the Reporting Period, the actual amount of discounted interest for the provision of draft discount services was RMB4.1182 million, the actual amount involved in the provision of settlement and sale of foreign exchange services was RMB054.3786 million and the actual service fee paid for the provision of agency services such as settlement services for receipt and payment of funds was RMB1.1322 million.

During the Reporting Period, the Group had the actual balance of the recourse factoring services of RMB nil with Hisense Financial Holdings, the actual value of the transaction conducted for the non-recourse factoring services was RMB nil with Hisense Financial Holdings and the actual performance of the financial leasing business was RMB nil.

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

No.	Agreement	Connected persons	Type of connected transactions	Annual cap (exclusive of value-added tax)
1	Business co-operation framework agreement	Hisense Group, Hisense International, Hisense Visual Technology and/or their respective subsidiaries	Purchase of home electrical appliances products from connected persons	RMB310,500,000
		Hisense Group, Hisense International, Hisense Visual Technology, Hisense HongKong and/or their respective subsidiaries	Purchase of raw materials, parts and components from connected persons	RMB2,081,460,000
		Hisense Group, Hisense International, Hisense Marketing Management and Hisense Visual Technology and/or their respective subsidiaries	Provision of services by connected persons	RMB1,494,200,000
		Hisense Group, Hisense International, Hisense Marketing Management and Hisense Visual Technology and/or their respective subsidiaries	Sale of home electrical appliances products to connected persons	RMB25,036,390,000
		Hisense Group, Hisense International, and Hisense Visual Technology and/or their respective subsidiaries	Sales of raw materials, parts and components to connected persons	RMB930,750,000
		Hisense International, and Hisense Visual Technology and/or their respective subsidiaries	Sale of moulds to connected persons	RMB129,190,000
		Hisense Group, Hisense International, Hisense Marketing Management and Hisense Visual Technology and/or their respective subsidiaries	Provision of services to connected persons	RMB473,390,000

No.	Agreement	Connected persons	Type of connected transactions	Annual cap (exclusive of value-added tax)
2	Financial services agreement	Hisense Finance	The services to be provided by Hisense Finance to the Group include deposit services, loan and electronic bank acceptance bill (電子銀行承兌匯票) services, draft discount services (票據貼現服務), settlement and sale of foreign exchange services (結售匯服務) and agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務).	<p>1、 The maximum daily closing balance of the deposits placed by the Company with Hisense Finance at any time shall not exceed the cap of RMB27,000,000,000 (inclusive of interest) on any given day.</p> <p>2、 The daily closing balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group shall not exceed the cap of RMB18,000,000,000 (inclusive of interest and service fees) on any given day.</p> <p>3、 The annual discount interest payable by the Company to Hisense Finance for the provision of draft discount services shall not exceed the cap of RMB50,000,000.</p> <p>4、 The annual amount settled or sold by Hisense Finance for the Company shall not exceed the cap of US\$300,000,000.</p> <p>5、 The annual amount of the service fees payable by the Company to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務) shall not exceed the cap of RMB3,000,000.</p>

The date of the above agreements is 16 November 2021. The terms of the business co-operation framework agreement and financial services agreement commenced from the date of which such agreements were approved by the independent shareholders (that is, 19 January 2022) until 31 December 2022. The relationships between the Group and Hisense Group and its subsidiaries and Hisense Finance have been disclosed above.

Details of the above agreements can be found in the announcement and the circular published on the website of the Hong Kong Stock Exchange on 17 November 2021 and 4 January 2022 respectively.

CONNECTED TRANSACTIONS IN ACQUISITION AND SALE OF ASSETS OR EQUITY RIGHTS

Connected persons	Connected transaction type	Connected transaction content	Connected transaction pricing principles	Connected Transfer price (in ten thousand)	Connected Transaction settlement method
Qingdao Hisense Real Estate Company Limited	Purchase of assets from connected parties by the Company	Apartments	Agreement pricing	11203.50	Cash

The above transactions constitute connected transactions under Chapter 14A of the Hong Kong Listing Rules. The Company confirmed that it had complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules for the relevant connected transactions. Details of the above agreements can be found in the announcement published on the website of the Hong Kong Stock Exchange on 16 October 2021.

CONNECTED TRANSACTIONS IN RELATION TO JOINT EXTERNAL INVESTMENT

The Company had no connected transactions with joint external investments during the Reporting Period.

CONNECTED CREDITOR'S RIGHTS AND LIABILITIES

During the Reporting Period, the Company did not have any non-operational connected creditor's rights and liabilities.

OTHER MAJOR CONNECTED TRANSACTIONS

At the Fifth Extraordinary Meeting of the Tenth Session of the Board of Directors of the Company in 2020, the "Motion on the Loan from the Company to Qingdao Hisense Financial Holdings Limited" was considered and approved and the "Loan Contract" was signed between the Company and Hisense Financial Holdings on 27 July 2020, whereby the Company intended to borrow a total amount of US\$57 million from Hisense Financial Holdings for a term of 24 months. For details of the above transaction, please refer to the announcement of the Company published on the website of the Hong Kong Stock Exchange on 27 July 2020.

At the First Meeting of the Tenth Session of the Board of Directors of the Company in 2021, the "Proposal for the Company to Borrow from Qingdao Hisense Financial Holdings Limited" was considered and approved and the "Loan Contract" was signed between the Company and Hisense Financial Holdings Limited on 30 March 2021, under which the Company intended to borrow a total amount of US\$60 million (or equivalent amount in other currencies) from Hisense Financial Holdings Limited for a term of 24 months. For details of the above transaction, please refer to the Company's announcement published on the website of the Hong Kong Stock Exchange on March 30, 2021.

At the First Meeting of the Eleventh Session of the Board of Directors of the Company in 2021, the "Resolution on the Company's Borrowing from Hisense Group Holdings Limited" was considered and approved, and the "Loan Contract" was signed between the Company and Hisense Group on August 30, 2021, under which the Company intended to borrow from Hisense Group up to a daily closing balance of US\$500 million (or equivalent amount in other currencies) for a period of two years from the date of approval of this item at the general meeting of the Company. The term of the loan is two years from the date of approval of the Company's general meeting. For details of the above transactions, please refer to the announcement and circular of the Company dated 30 August 2021 published on the website of the Hong Kong Stock Exchange.

Report of the Directors

The above transactions constitute connected transactions under Chapter 14A of the Hong Kong Listing Rules. The Company confirmed that it had complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules for the relevant connected transactions

RELATED PARTY TRANSACTIONS

Details of significant related party transactions undertaken by the Group during the Reporting Period in the ordinary course of business are set out in note 11.2 to the financial statements. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules.

CORPORATE GOVERNANCE CODE

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

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

This annual report, containing all information as required by Appendix 16 to the Hong Kong Listing Rules, has been published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) and the website of the Company (<http://hxjd.hisense.cn>).

Report of the Directors

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

I. PARTICULARS OF THE REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD

Unit: RMB ten thousand

Name	Position	Gender	Age	Status	Total amount of remuneration before tax received from the Company	Whether remuneration was received from connected party of the Company
Dai Hui Zhong	Chairman, President	Male	56	Current	90.54 ^{Note 1}	Yes
Lin Lan	Director	Male	64	Current	0.00	Yes
Jia Shao Qian	Director	Male	49	Current	0.00	Yes
Fei Li Cheng	Director	Male	58	Current	570.33 ^{Note 2}	No
Xia Zhang Zhua	Director	Male	43	Current	147.72 ^{Note 3}	Yes
Gao Yu Ling	Director, Chief Financial Officer	Female	40	Current	109.63 ^{Note 4}	Yes
Ma Jin Quan	Independent non-executive Director	Male	79	Current	14.00	No
Zhong Geng Shen	Independent non-executive Director	Male	61	Current	14.00	No
Cheung Sai Kit	Independent non-executive Director	Male	50	Current	24.00	No
Liu Zhen Shun	Chairman of Supervisory Committee	Male	52	Current	0.00	Yes
Sun Jia Hui	Supervisor	Female	33	Current	0.00	Yes
Yin Zhi Xin	Supervisor	Male	33	Current	67.95	No
Huang Qian Mei	Secretary to the Board	Female	38	Current	41.61	No
Wong Tak Fong	Company Secretary	Female	54	Current	16.62	No

Report of the Directors

Name	Position	Gender	Age	Status	Total amount of remuneration before tax received from the Company	Whether remuneration was received from connected party of the Company
Tang Ye Guo	Former Chairman	Male	59	Resigned	197.39	Yes
Duan Yue Bin	Former Chairman and Former Vice President	Male	41	Resigned	196.80	Yes
Fan Wei	Former Staff Representative Supervisor	Female	55	Resigned	86.00	No
Liang Hong Tao	Former Chief Financial Officer	Female	41	Resigned	65.18	No
Total	-	-	-	-	1641.76	-

Notes:

1. The Directors do not receive remuneration in their capacities as directors. The above remuneration was received by Mr. Dai Hui Zhong in his capacity as the Chairman and President of the Company from November to December during the Reporting Period.
2. The Directors do not receive remuneration in their capacities as directors. The above remuneration was received by Mr. Fei Li Cheng in his capacity as the general manager of the Company's subsidiary during the Reporting Period.
3. The Directors do not receive remuneration in their capacities as directors. The above remuneration was received by Mr. Xia Zhang Zhua in his capacity as the general manager of the Company's home appliance research and development center from February to December during the Reporting Period. Prior to his appointment as a senior management of the Company, the remuneration was received from related parties of the Company.
4. The Directors do not receive remuneration in their capacities as directors. The above remuneration was received by Ms. Gao Yu Ling in her capacity as the chief financial officer of the Company from June to December during the Reporting Period. Prior to her appointment as a senior management of the Company, the remuneration was received from related parties of the Company.

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

The remuneration of the Directors is determined based on the recommendation made to the Board by the remuneration and appraisal committee of the Board on the basis of the duties of the Directors and the remuneration level of other listed companies in the same industry, and is subject to consideration and approval by the Board and the shareholders at general meetings.

The remuneration of the supervisors is determined based on the recommendation made by the supervisory committee on the basis of the duties of the supervisors and the remuneration level of other listed companies in the same industry and is subject to consideration and approval by the Board and the shareholders at general meetings.

The remuneration and appraisal committee of the Board makes remuneration recommendation to the Board based on the senior management's experience, responsibilities, risk and pressure undertaken for operation under his/her management and his/her contribution to the Company. The said remuneration recommendation is determined and approved by the Board. The final remuneration received by the senior management is also linked with his/her annual performance review.

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

III. MATERIAL LITIGATION OR ARBITRATION OF THE COMPANY

There was no progress in the material litigation and arbitration of the Company during the Reporting Period.

IV. GUARANTEE ITEMS

Unit: RMB (in ten thousand)

External guarantees by the Company and its subsidiaries (excluding guarantees to subsidiaries)

Name of the guarantee object	Date of disclosure of the announcement related to the guarantee		Actual date of occurrence of guarantee		Type of guarantee	Collateral (if any)	Counter-guarantee situation (if any)	Guarantee period	Whether the performance completed	Whether to guarantee for related parties
	amount	quota	(date of agreement)	Actual guarantee amount						
SANPAK ENGINEERING INDUSTRIES(PVT) LTD.	2 March 2021	PKR 650,000,000 (equivalent to RMB22,899,500)	25 March 2019	PKR 561,840,000 (equivalent to RMB19,793,600)	Joint and several liability guarantee	-	-	25 March 2019 – 31 March 2022	No	No
Total amount of external guarantees approved during the Reporting Period (A1)		0	Total actual amount of external guarantees incurred during the Reporting Period (A2)							762.51
Total amount of approved external guarantees at the end of the Reporting Period (A3)		0	Total actual external guarantee balance at the end of the Reporting Period (A4)							1,979.36 ^{Note 2}

Company's guarantees to subsidiaries

Name of the guarantee object	Date of disclosure of the announcement related to the guarantee		Actual date of occurrence		Type of guarantee	Collateral (if any)	Counter-guarantee situation (if any)	Guarantee period	Whether the performance completed	Whether to guarantee for related parties
	Guarantee amount	Guarantee quota	(date of guarantee agreement)	Actual guarantee amount						
Hisense Japan Automobile Air Conditioning System Contract Company			25 June 2021	19.57 billion yen (equivalent to RMB 1.084 billion)	Joint and several liability guarantee	-	-	25 June 2021-28 April 2022	No	No
Kolon Development Limited	8 May 2021	35.3 billion yen (equivalent to RMB1.956 billion)	20 August 2021	4 billion yen (equivalent to RMB 0.222 billion)	Joint and several liability guarantee	-	-	20 August 2021-2 September 2022	No	No
Kolon Development Limited			16 September 2021	3 billion yen (equivalent to RMB 0.166 billion)	Joint and several liability guarantee	-	-	16 September 2021-30 September 2022	No	No
KELON INTERNATIONAL INC.	14 April 2021	RMB0.7 billion	16 August 2021	RMB0.28 billion	Joint and several liability guarantee			16 August 2021-16 August 2022	No	No
Total amount of guarantees to subsidiaries approved during the Reporting Period (B1)		RMB2.656 billion	Total actual amount incurred for guarantees to subsidiaries during the Reporting Period (B2)							RMB1.752 billion
Total amount of guarantees to subsidiaries approved at the end of the Reporting Period (B3)		RMB2.656 billion	Total actual guarantee balances to subsidiaries at the end of the Reporting Period (B4)							RMB1.752 billion

Report of the Directors

Subsidiaries' guarantees to subsidiaries

Name of the guarantee object	Date of disclosure of the announcement related to the guarantee amount	Guarantee amount	Actual date of occurrence		Type of guarantee	Collateral (if any)	Counter-guarantee situation (if any)	Guarantee period	Whether the performance completed	Whether to guarantee for related parties
			(date of guarantee agreement)	Actual guarantee amount						
SANDEN VIKAS (INDIA) PRIVATE LIMITED.	N/A	INR 1,158,750,000 (equivalent to RMB96,876,500)	31 March 2020	0	Joint and several liability guarantee	-	-	31 March 2020 – 31 July 2021	Yes	No
SANDEN VIKAS (INDIA) PRIVATE LIMITED.	N/A	US\$12,650,000 (equivalent to RMB80,652,600)	16 January 2020	INR 959,811,000 (equivalent to RMB80,246,000)	Joint and several liability guarantee	-	-	16 January 2020-26 March 2025	No	No
Total amount of guarantees to subsidiaries approved during the Reporting Period (C1)		0	Total actual amount incurred for guarantees to subsidiaries during the Reporting Period (C2)							486.47
Total amount of guarantees to subsidiaries approved at the end of the Reporting Period (C3)		0	Total actual guarantee balances to subsidiaries at the end of the Reporting Period (C4)							8,024.60 ^{Note 2}
Total company guarantees (the sum of the first three major items)										
Total amount of guarantee approved during the Reporting Period (A1+B1+C1)		265,614.95	Total actual amount of guarantees incurred during the Reporting Period (A2+B2+C2)							176,486.63
Total amount of approved guarantees at the end of the Reporting Period (A3+B3+C3)		265,614.95	Total actual guarantee balance at the end of the Reporting Period (A4+B4+C4)							185,241.61
Total actual guarantees (i.e. A4+B4+C4) as a percentage of the company's net assets										17.91%
Among them:										
Balance of guarantees provided to shareholders, beneficial owners and their related parties (D)										0
Balance of debt guarantees provided directly or indirectly for the guaranteed objects with a gearing ratio exceeding 70% (E)										8,024.60
Amount of the portion of total guarantees exceeding 50% of net assets (F)										0
Total amount of the above three guarantees (D+E+F)										8,024.60
For unexpired guarantee contracts, a description of the guarantee liability that has occurred or potential joint and several liability with evidence during the Reporting Period (if any)										No
Description of external guarantees provided in violation of prescribed procedures (if any)										No

Note 1: Note on the joint and several liability guarantee provided by the Company to Sanden Company: After Sanden Company has unanimously approved the forgiveness of its ADR debts of 63 billion yen by all ADR creditors, the amount of remaining ADR debts is approximately 35.3 billion yen. Pursuant to the share purchase agreement signed between the Company and Sanden Company and the final confirmation of both parties, as an alternative to the Company providing joint and several liability guarantee for the remaining ADR debts of Sanden Company, all remaining ADR debts of Sanden Company shall be paid as soon as possible after the closing, but not later than three months after the closing date. Upon completion of the transaction, the Company will not be required to provide joint and several liability guarantee for all the remaining ADR debts of Sanden Company, but will provide a new joint and several liability guarantee to Sanden Company, Hisense Japan Automobile Air Conditioning System Contract Company or the Company's wholly-owned subsidiary KELON Development Company Limited which directly holds 100% equity interest in Hisense Japan Automobile Air Conditioning System Contract Company, in respect of the new loan arising from the aforesaid payment, with the amount of the new joint and several liability guarantee not exceeding the amount of the remaining ADR debts.

Note 2: Except for the above-mentioned guarantees, all guarantees of the Company during the Reporting Period were its original guarantees before the Company acquired Sanden Company, which became guarantees of the Company as a result of the inclusion of Sanden Company into the scope of the Company's consolidated statements of income during the Reporting Period.

V. PARTICULARS OF ENTRUSTED WEALTH MANAGEMENT

Unit: RMB ten thousand

Product Type	Source of funding for entrusted wealth management	Subscription amount of entrusted wealth management	Amount of undue principal and revenue	Overdue Balance
Wealth management products of banks	Self-owned funds	596,000.00	558,000.00	0
Total		596,000.00	558,000.00	0

During the Reporting Period, the Company did not have high-risk entrusted wealth management, the individual amount of which was significant or low security, poor liquidity, and no capital protection, and the Company was not aware of any circumstances indicating the possibility that the principal of the entrusted wealth management could not be recovered or other circumstances that might lead to impairment of the Group's entrusted wealth management.

VI. DERIVATIVES INVESTMENT

Unit: RMB ten thousand

Name of operator of derivatives investment	Whether it is a connected relationship	Type of transaction or not	Type of derivatives investment	Initial investment of derivatives	Effective Date	Expiry Dare	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	43,481.43	01 January 2021	31 December 2021	43,481.43	527,461.84	382,649.31	0	188,293.97	18.21	4,759.98
Total				43,481.43	-	-	43,481.43	527,461.84	382,649.31	0	188,293.97	18.21	4,759.98

Source of derivatives investment funding Export trade receipts

Litigation involved (if applicable) Not applicable

Date of the announcement disclosing the approval of derivatives investment by the Board (if any) 30 March 2021

Date of the announcement disclosing the approval of derivatives investment at shareholders' meetings (if any) 25 June 2021

Risk analysis of positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.) The derivatives business of the Company mainly represents the forward foreign exchange contracts used to avoid the risk of foreign exchange fluctuations related to the overseas sales receivables. The Company locks in the foreign exchange rates within a reasonable range to achieve the hedging purpose. The Company has formulated the "Management Measures for the Foreign Exchange Capital Business" and the "Internal Control System for Forward Foreign Exchange Capital Transactions". The measures specifically regulate the basic principles, operation rules, risk control measures and internal controls that shall be followed when engaging in the derivatives business. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.

Changes in market price or product fair value of invested derivatives during the Reporting Period, where specific methods and relevant assumptions and parameters are used, they shall be disclosed in the analysis of derivatives' fair value The assessment of the fair value of the derivatives carried out by the Company mainly represents the outstanding foreign exchange forward contracts entered into by the Company and banks during the Reporting Period, which are recognised as transactional financial assets or liabilities based on the difference between the quotation of the outstanding foreign exchange forward contracts and the forward exchange rate as at the end of the Reporting Period. During the Reporting Period, the Company recognised a gain on change in fair value of the derivatives of RMB-5.5116 million. Investment gain amounted to RMB53.1114 million, resulting in a total profits or losses of RMB47.5998 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 the last reporting period.

Specific opinions of independent nonexecutive 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.

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

For details of the changes in the scope of consolidation of the Company during the Reporting Period, please refer to note 7.

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

Applicable Not applicable

Report of the Supervisory Committee

During the Reporting Period, the Supervisory Committee of the Company has faithfully discharged its duties to protect the lawful interests of the Company, its staff and shareholders in compliance with the relevant requirements of the Company Law of the PRC, the Shenzhen Listing Rules and the Hong Kong Listing Rules and the Articles of Association of the Company. We would like to report to you the work of the Supervisory Committee during 2021 in accordance with the Articles of Association of the Company:

I. WORK OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

During the Reporting Period, the Supervisory Committee held a total of 6 meetings, details of which are summarised as follows:

- (1) the first meeting of the tenth session of the Supervisory Committee in 2021 was held on 30 March 2021, at which the 2020 annual report of the Company and related matters were considered and approved.
- (2) the second meeting of the tenth session of the Supervisory Committee in 2021 was held on 28 April 2021, at which the 2021 first quarterly report of the Company was considered and approved.
- (3) the third meeting of the tenth session of the Supervisory Committee in 2021 was held on 2 June 2021, at which the General Election of the Supervisory Committee of the Company was considered and approved.
- (4) the first meeting of the eleventh session of the Supervisory Committee in 2021 was held on 25 June 2021, at which to elect Mr. Liu Zhen Shun as the Chairman of the Eleventh Session of the Supervisory Committee of the Company was considered and approved.
- (5) the second meeting of the eleventh session of the Supervisory Committee in 2021 was held on 30 August 2021, at which the 2021 interim report of the Company was considered and approved.
- (6) the third meeting of the eleventh session of the Supervisory Committee in 2021 was held on 28 October 2021, at which the 2021 third quarterly report of the Company was considered and approved.

II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2021

- (1) Operation of the Company in compliance with law During the Reporting Period, the Company continued to perfect its various management systems, and the Company's decision-making processes were in compliance with law.

The convening procedures, the motions and the voting procedures of the Company's shareholders' general meetings and board meetings all complied with the laws and regulations and the requirements of the Articles of Association of the Company. The Directors and senior management were diligent and responsible, and conscientiously implemented the resolutions of the shareholders' general meetings and Board meetings, and have not acted in violation of the laws, regulations or the Articles of Association of the Company or prejudiced the Company's interests during the execution of their duties in the Company.

- (2) Examination of the Company's financial situation

ShineWing Certified Public Accountants LLP has audited the Company's financial statements for the year ended 31 December 2021 and issued an auditor's report with standard unqualified opinion. The Supervisory Committee is of the view that the opinion expressed in the auditor's report was fair and objective and the current financial statements have truthfully and fairly reflected the financial condition and operating results of the Company.

- (3) During the Reporting Period, the Company had not made any investments which were funded by capital raising activities.
- (4) During the Reporting Period, the Company had not made any significant disposal of assets.
- (5) During the Reporting Period, the connected transactions which the Company entered into with connected parties were fair and reasonable and the prices were fairly determined without prejudicing the interests of any independent shareholders and the Company.
- (6) Opinion of the Company's Supervisory Committee on the Company's 2021 internal control assessment Report.

After reviewing the Company's 2021 Internal Control Assessment Report, the Company's Supervisory Committee is of the view that:

With reference to the relevant requirements of the Basic Norms for Enterprise Internal Control and the Guidelines of the Shenzhen Stock Exchange for the Standardised Operation of Listed Companies, the Company's existing internal control and risk management systems are basically sound and cover all levels and segments of the Company's operation, are in compliance with the requirements of the relevant laws and regulations, and suit the actual needs of the Company's operating activities. Each of the internal control and risk management systems is able to exert relatively effective control of the different segments in the Company's operation, and is capable of preventing, timely discovering and rectifying possible errors in the Company's operation process, controlling the relevant risks, protecting the safety and completeness of the Company's assets, ensuring the truthfulness, accuracy and timeliness of the accounting records and accounting information. The Company's 2021 Internal Control Assessment Report has fully, objectively and truly reflected the actual internal control and risk management situation of the Company, and we agree to the issue of the 2021 Internal Control Assessment Report by the Board.

Definitions

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

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

“Company”, “Hisense Home Appliances”	Hisense Home Appliances Group Co., Ltd. *(海信家電集團股份有限公司), a joint stock limited incorporated in the PRC with limited liability, whose shares are listed on the main board of the Hong Kong Stock Exchange and the Shenzhen Stock Exchange
“Hisense Air-Conditioning”	Qingdao Hisense Air-Conditioning Company Limited *(青島海信空調有限公司), a company incorporated in the PRC with limited liability and indirectly controlled by Hisense Group, which holds approximately 37.92% of the issued shares of the Company
“Hisense Finance”	Hisense Finance Co., Ltd.*(海信集團財務有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group
“Hisense Financial Holdings”	Qingdao Hisense Financial Holdings Co., Ltd. *(青島海信金融控股有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group
“Hisense Group”	Hisense Company Holdings Limited*(海信集團控股股份有限公司), a company incorporated in the PRC with limited liability
“Hisense Hitachi”	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. *(青島海信日立空調系統有限公司), a company incorporated in the PRC with limited liability and a subsidiary of the Company
“Hisense Hong Kong”	Hisense (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of Hisense Group, which holds approximately 9.13% of the issued shares of the Company
“Hisense International”	Hisense International Co., Ltd*(青島海信國際營銷股份有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group
“Hisense Marketing Management”	Hisense Marketing Management Co., Ltd.*(海信營銷管理有限公司), a company incorporated in the PRC with limited liability and 50% owned by the Company
“Hisense Visual Technology”	Hisense Visual Technology Co., Ltd. *(海信視像科技股份有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group, whose shares are listed on the main board of Shanghai Stock Exchange
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Johnson Hitachi”	Johnson Controls-Hitachi Air Conditioning Holding (UK) Ltd.
“PRC”	the People’s Republic of China
“Reporting Period”	1 January 2021 to 31 December 2021

Definitions

“Sanden Company”	Sanden Holdings Corporation, a joint stock corporation organised under the laws of Japan, whose shares are listed on the First Section of the Tokyo Stock Exchange
“INR”	Indian Rupee, the lawful currency of India
“PKR”	Pakistani Rupee, the lawful currency of Pakistan
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	the United States dollars, the lawful currency of the United States
“Yen”	Japanese Yen, the lawful currency of Japan

* *For identification purposes only*

Corporate Information

REGISTERED OFFICE IN CHINA

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

PLACE OF BUSINESS IN HONG KONG

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

SECRETARY FOR THE BOARD OF DIRECTORS & COMPANY SECRETARY

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

AUTHORIZED REPRESENTATIVES

Dai Hui Zhong
Xia Zhang Zhua

INVESTOR COMMUNICATION CENTRE

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AUDITORS

ShineWing Certified Public Accountants
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Beidajie, Dongcheng District, Beijing,
the People's Republic of China



信永中和會計師事務所

ShineWing

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XYZH/2022QDAA40151

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

I. AUDIT OPINION

We have audited the financial statements of Hisense Home Appliances Group Co., Ltd. (the “Company” or “Hisense Appliances”), which comprise the consolidated and the Parent Company’s balance sheets as at 31 December 2021, and the Parent Company’s and consolidated income statements, the Parent Company’s and consolidated cash flow statements, the Parent Company’s and consolidated statements of changes in equity for 2021 and the notes to the financial statements.

In our opinion, the accompanying financial statements of Hisense Appliances present fairly, in all material aspects, Hisense Appliances’s and the Parent Company’s consolidated financial position as at 31 December 2021 and its and the Parent Company’s consolidated results of operations and cash flows for the year 2021 in accordance with the Accounting Standards for Business Enterprises.

II. BASIS OF AUDIT OPINION

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

III. KEY AUDIT MATTERS

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

1. Provision for declines in value of finished goods

Key audit matters	Audit response
<p>As stated in note 4(15) "Inventories" of the financial statement, the finished goods of Hisense Appliances are measured at the lower of cost and net realizable value. As stated in note 6(8) "Inventories", as at 31 December 2021, the balance of finished goods was RMB5,762,299,638.71; the provision for declines in value of finished goods was RMB52,599,750.15; and the carrying amount of finished goods was RMB5,709,699,888.56. The sufficiency of provision for declines in value of finished goods has a material impact on the financial statements.</p> <p>Hisense Appliances determines the net realisable value of finished goods based on the estimated selling price of finished goods less the estimated sales expenses and related taxes.</p> <p>The management estimates the expected selling price of finished goods based on their conditions, and the management is required to make significant judgments in the estimation process.</p> <p>In view of the large amount involved in the matter and the need for management to make significant judgments, we treat the provision for declines in value of finished goods as a key audit matter.</p>	<p>(1) Evaluated and tested key internal controls relating to the provision for declines in value of finished goods;</p> <p>(2) Carried out stock counting procedures for the finished goods of Hisense Appliances, checked the quantity and condition of finished goods;</p> <p>(3) Obtained the calculation table of provision for declines in value of finished goods of Hisense Appliances, selected certain product models on a sampling basis and compared their records and ageing in the table against the results of our stock counting;</p> <p>(4) By comparing historical selling prices of similar products and reviewing the trend in future selling prices of products based on seasonal and cyclical characteristics, we assessed the selling prices estimated by the management and checked the same against the actual selling prices subsequent to the balance sheet date;</p> <p>(5) By comparing historical selling expenses and relevant taxation and fees of similar products, we assessed the selling expenses and relevant taxation and fees estimated by the management and checked the same against the actual amount incurred subsequent to the balance sheet date;</p> <p>(6) Selected certain finished goods and re-calculated their recoverable amount and the balance of provision for declines in value of finished goods as at the end of the period.</p>

2. Related party transactions and receivables from related party

Key audit matters	Audit response
<p>As described in “Note 11(2) to the Financial Statements. 7. Related Party Transactions/(3). Balance of related parties”, Hisense Appliances has a relatively large amount of related transactions, and as of 31 December 2021, it had account receivables from related party of RMB4,110,174,401.47. In view of the large amount of related party transactions and receivables from related party, whether it actually occurred or existed has a material impact on financial statements, therefore, we take related party transactions and receivables from related party as the key audit matters.</p>	<ol style="list-style-type: none">(1) assessed and tested the effectiveness of management's design and operation of internal controls relating to related party transactions and receivables from related party;(2) obtained a list of related parties compiled by the management and checked it with information obtained from other public sources;(3) Obtained the details of related transactions and receivables from related parties prepared by the management to understand the business reasons for the related transactions and verify the fairness of the related transactions;(4) Inspected relevant information such as contracts or agreements, invoices, declarations and other related information of related transactions, and performed correspondence verification procedures for significant related transactions and accounts receivable from related parties;(5) Checked repayment of receivable after the period;(6) Obtained an understanding of the authorization and approval process of related transactions and reviewed the presentation and disclosure of the related contents in the financial statements.

IV. OTHER INFORMATION

The management of Hisense Appliances (the management) is responsible for the other information. The other information comprises the information included in the 2021 annual report of Hisense Appliances, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

The management is responsible for preparing the financial statements in accordance with Accounting Standards for Business Enterprises, to guarantee the fair of financial statements, and designing, implementing and maintaining the necessary internal control to avoid the material misstatement of financial statements which is due to fraud or error.

In preparing the financial statements, the management is responsible for assessing Hisense Appliances's sustainable business capacity, disclosing matters (if applicable) in relation to the going concern, and using the going concern assumption unless the management either intend to liquidate Hisense Appliances or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

Auditor's Report

- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Hisense Appliances to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

ShineWing Certified Public Accountants

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

Chinese Certified Public Accountants: Lin Qing

Beijing, PRC

30 March 2022

Financial Statements

The units of the statements in the financial notes are: RMB

1. CONSOLIDATED BALANCE SHEETS

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

Unit: RMB

31 December 2021

Item	Note	As at 31 December 2021	As at 31 December 2020
Current assets:			
Cash at bank and on hand	VI.1	7,022,572,498.74	7,110,772,454.16
Balances with clearing companies			
Lending capital			
Transactional financial assets	VI.2	5,625,841,633.95	2,620,898,474.73
Derivative financial assets			
Notes receivable	VI.3	228,252,631.50	548,498,540.36
Accounts receivable	VI.4	8,757,077,378.05	6,594,103,859.23
Factoring of accounts receivables	VI.5	3,669,679,060.94	4,241,240,626.01
Prepayments	VI.6	346,069,599.65	224,425,215.31
Insurance premium receivable			
Receivables from reinsurers			
Reserves for reinsurance contract receivable			
Other receivables	VI.7	484,042,296.38	398,205,694.16
Including: Interest receivable			
Dividends receivable		153,473,105.41	
Financial assets purchased under agreements to resell			
Inventories	VI.8	8,436,699,059.69	4,295,262,485.11
Contract assets	VI.9	10,202,598.50	
Assets held for sale			
Non-current assets due within one year	VI.10	2,210,937,867.57	
Other current assets	VI.11	2,908,448,659.96	4,198,014,186.53
Total current assets		39,699,823,284.93	30,231,421,535.60
Non-current assets:			
Disbursement of loans and advances			
Investments in debt			
Other investments in debt			
Long-term receivables			
Long-term equity investments	VI.12	1,436,216,842.15	523,754,399.78
Other equity investment	VI.13	38,707,912.25	
Other non-current financial assets			
Investment properties	VI.14	235,340,080.78	36,648,535.29
Fixed assets	VI.15	5,188,754,013.36	3,879,403,505.69
Construction in progress	VI.16	665,964,066.15	228,887,385.20
Productive biological assets			
Oil and gas assets			
Right-of-use assets	VI.17	209,678,045.05	68,097,563.78
Intangible assets	VI.18	1,644,453,450.06	1,745,045,423.43
Development costs			
Goodwill	VI.19	226,408,877.76	132,571,746.36
Long-term prepaid expenses	VI.20	26,229,463.77	33,335,296.27
Deferred tax assets	VI.21	897,868,944.38	704,014,028.34
Other non-current assets	VI.22	5,679,104,506.34	4,228,456,393.79
Total non-current assets		16,248,726,202.05	11,580,214,277.93
Total assets		55,948,549,486.98	41,811,635,813.53

Financial Statements

The units of the statements in the financial notes are: RMB

Item	Note	As at 31 December 2021	As at 31 December 2020
Current liabilities:			
Short-term borrowings	VI.23	2,858,984,229.49	22,026,317.50
Borrowings from central bank			
Loans from other banks			
Transactional financial liabilities	VI.24	244.38	201,236.00
Derivative financial liabilities			
Notes payable	VI.25	11,513,955,689.58	10,775,376,397.87
Accounts payable	VI.26	11,779,280,708.56	7,291,829,266.10
Advances from customers			
Contract liability	VI.27	1,147,112,513.32	1,100,531,262.91
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	VI.28	928,635,430.98	649,954,046.76
Taxes payable	VI.29	725,413,062.43	498,918,207.73
Other payables	VI.30	3,425,374,535.37	2,011,559,493.31
Including: Interest payable			
Dividends payable			
Handling fees and commission payable			
Reinsured accounts payable			
Liabilities held for sale			
Non-current liabilities due within one year	VI.31	171,349,860.51	29,562,279.68
Other current liabilities	VI.32	5,462,375,607.34	4,339,380,802.73
Total current liabilities		38,012,481,881.96	26,719,339,310.59

Financial Statements

The units of the statements in the financial notes are: RMB

Item	Note	As at 31 December 2021	As at 31 December 2020
Non-current liabilities:			
Reserves for reinsurance contract			
Long-term borrowings	VI.33	32,382,835.84	
Bonds payable			
Including: Preference shares			
Perpetual debts			
Lease liabilities	VI.34	395,949,053.40	28,356,873.04
Long-term payables			
Long-term employee remunerations payable	VI.35	143,732,252.27	
Provisions	VI.36	1,417,289,726.72	483,878,615.22
Deferred income	VI.37	152,987,034.48	99,076,794.22
Deferred tax liabilities	VI.21	174,217,456.30	74,465,181.93
Other non-current liabilities	VI.38	28,258,009.23	
Total non-current liabilities		2,344,816,368.24	685,777,464.41
Total liabilities		40,357,298,250.20	27,405,116,775.00
Shareholders' equity:			
Share capital	VI.39	1,362,725,370.00	1,362,725,370.00
Other equity instruments			
Including: Preference shares			
Perpetual debts			
Capital reserve	VI.40	2,069,245,101.87	2,061,712,990.12
Less: treasury shares			
Other comprehensive income	VI.41	93,569,998.57	37,578,293.42
Special reserves			
Surplus reserves	VI.42	711,971,309.99	692,802,893.38
General risk provisions			
Undistributed profit	VI.43	6,104,843,404.90	5,624,296,033.51
Total equity attributable to shareholders of the parent		10,342,355,185.33	9,779,115,580.43
Minority interests		5,248,896,051.45	4,627,403,458.10
Total shareholders' equity		15,591,251,236.78	14,406,519,038.53
Total liabilities and shareholders' equity		55,948,549,486.98	41,811,635,813.53

Legal representative: **Dai Hui Zhong** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Zhou Min**

Financial Statements

The units of the statements in the financial notes are: RMB

2. BALANCE SHEETS OF PARENT COMPANY

Unit: RMB

Item	Note	As at 31 December 2021	As at 31 December 2020
Current assets:			
Cash at bank and on hand		65,854,079.72	157,802,638.95
Transactional financial assets		1,427,181,155.16	622,057,041.10
Derivative financial assets			
Notes receivable			
Accounts receivable	XVI.1	278,843,591.76	2,343,496.83
Factoring of accounts receivables			
Prepayment		18,778,548.16	21,098,279.96
Other receivables	XVI.2	1,143,227,303.10	1,279,228,418.26
Including: Interest receivable			
Dividends receivable			
Inventories		309.22	309.22
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets		24,231,899.63	3,731,742.43
Total current assets		2,958,116,886.75	2,086,261,926.75
Non-current assets:			
Investments in debt			
Other investments in debt			
Long-term receivables			
Long-term equity instrument investments	XVI.3	5,543,047,859.99	5,558,706,576.01
Other equity investment			
Other non-current financial assets			
Investment properties		2,758,436.00	4,126,682.00
Fixed assets		15,659,335.59	18,140,286.17
Construction in progress		46,769.62	
Productive biological assets			
Oil and gas assets			
Right-of-use assets			
Intangible assets		166,683,233.00	169,272,118.00
Development costs			
Goodwill			
Long-term prepaid expenses			66,157.24
Deferred tax assets			
Other non-current assets			
Total non-current assets		5,728,195,634.20	5,750,311,819.42
Total assets		8,686,312,520.95	7,836,573,746.17

Financial Statements

The units of the statements in the financial notes are: RMB

Item	Note	As at 31 December 2021	As at 31 December 2020
Current liabilities:			
Short-term borrowings			
Transactional financial liabilities			
Derivative financial liabilities			
Notes payable			
Accounts payable		366,291,830.13	271,513,085.62
Advances from customers			
Contract liability		12,924.56	12,924.56
Employee remunerations payable		1,316,545.19	2,708,581.34
Taxes payable		9,894,934.44	2,010,870.87
Other payables		503,139,810.40	619,018,425.95
Including: Interest payable			
Dividends payable			
Liabilities held for sale			
Non-current liabilities due within one year			
Other current liabilities		5,279,908.11	3,663,888.65
Total Current Liabilities		885,935,952.83	898,927,776.99
Non-Current Liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preference shares			
Perpetual debts			
Lease liabilities			
Long-term payables			
Long-term employee remunerations payable			
Provisions		209,996,937.78	194,624,873.74
Deferred income		25,184,678.45	26,115,774.53
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities		235,181,616.23	220,740,648.27
Total liabilities		1,121,117,569.06	1,119,668,425.26
Shareholders' equity:			
Share capital		1,362,725,370.00	1,362,725,370.00
Other equity instruments			
Including: Preference shares			
Perpetual debts			
Capital reserve		2,271,399,045.35	2,268,615,818.52
Less: Treasury shares			
Other comprehensive income		8,168,968.22	21,530,312.87
Special reserves			
Surplus reserves		681,362,685.00	662,194,268.39
Undistributed profit		3,241,538,883.32	2,401,839,551.13
Total shareholders' equity		7,565,194,951.89	6,716,905,320.91
Total liabilities and shareholders' equity		8,686,312,520.95	7,836,573,746.17

Financial Statements

The units of the statements in the financial notes are: RMB

3. CONSOLIDATED INCOME STATEMENT

Unit: RMB

Item	Note	2021	2020
I. Total operating revenue		67,562,603,666.81	48,392,870,703.11
Including: Operating revenue	VI.44	67,562,603,666.81	48,392,870,703.11
Interest income			
Insurance premium earned			
Income from handling fees and commission			
II. Total operating costs		65,691,393,364.71	45,768,715,855.51
Including: Operating costs	VI.44	54,250,065,251.13	36,756,301,476.78
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	VI.45	399,106,248.38	326,892,814.47
Sales expenses	VI.46	7,672,002,974.36	6,891,389,066.25
Management expenses	VI.47	1,326,886,898.17	619,163,555.38
Research and development expenses	VI.48	1,986,668,028.13	1,284,848,949.46
Financial expenses	VI.49	56,663,964.54	-109,880,006.83
Including: Interest expense		40,547,610.76	11,232,002.12
Interest income		81,915,216.18	211,191,601.67
Add: Other income	VI.50	413,902,690.78	370,236,822.37
Investment gain (loss expressed with “-”)	VI.51	507,115,258.30	195,655,206.20
Including: Share of profit of associates and joint ventures		150,205,515.55	84,204,976.35
Income from derecognition of financial assets at amortised cost			
Foreign exchange gains (loss expressed with “-”)			
Net exposure hedge income (loss expressed with “-”)			
Gain from changes in fair values (loss expressed with “-”)	VI.52	34,055,721.68	20,697,238.73
Impairment losses on credit (loss expressed with “-”)	VI.53	9,779,279.79	-21,050,179.77
Impairment losses on assets (loss expressed with “-”)	VI.54	-61,428,800.86	-18,748,668.13
Gains on disposal of asset (loss expressed with “-”)	VI.55	6,261,684.40	24,533,842.26
III. Operating profits (loss denoted by “-”)		2,780,896,136.19	3,195,479,109.26
Add: Non-operating incomes	VI.56	191,496,961.57	304,252,672.49
Less: Non-operating expenses	VI.57	55,856,093.22	14,601,798.35
IV. Total profit (total loss denoted by “-”)		2,916,537,004.54	3,485,129,983.40
Less: Income tax expenses	VI.58	573,736,027.17	639,095,340.17

Financial Statements

The units of the statements in the financial notes are: RMB

Item	Note	2021	2020
V. Net profits (net loss denoted by “-”)		2,342,800,977.37	2,846,034,643.23
(1) Classified on a going concern basis			
1. Net profit from continuing operations (net loss denoted by “-”)		2,342,800,977.37	2,846,034,643.23
2. Net profit from discontinued operations (net loss denoted by “-”)			
(2) Classified by ownership of equity			
1. Net profit attributable to shareholders of the parent		972,581,491.39	1,578,882,732.14
2. Profit and loss of minority interests		1,370,219,485.98	1,267,151,911.09
VI. Other comprehensive income after tax, net		74,466,916.41	11,321,016.05
Other comprehensive income after tax attributable to owners of the parent, net	VI.59	55,991,705.15	11,259,792.07
(1) Items not to be reclassified into profit or loss			
1. Changes arising from remeasurement of defined benefit plan			
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method			
3. Changes in fair value of other equity instruments investment			
4. Changes in the fair value of the company’s own credit risk			
5. Others			
(2) Items to be reclassified into profit or loss		55,991,705.15	11,259,792.07
1. Other comprehensive income that is convertible into gains and losses under the equity method		-13,361,344.65	6,933,319.39
2. Changes in fair value of other investments in debt			
3. The amount of financial assets reclassified into other comprehensive income			
4. Credit impairment provisions for other debt investment			-1,095,858.39
5. Cash flow hedge reserve			
6. Differences on translation of foreign currency financial statements		50,556,528.80	5,422,331.07
7. Others		18,796,521.00	
Other comprehensive income after tax attributable to minority interests, net		18,475,211.26	61,223.98
VII. Total comprehensive income		2,417,267,893.78	2,857,355,659.28
Total comprehensive income attributable to shareholders of the parent		1,028,573,196.54	1,590,142,524.21
Total comprehensive income attributable to minority interests		1,388,694,697.24	1,267,213,135.07
VIII. Earnings per share:			
(1) Basic earnings per share		0.71	1.16
(2) Diluted earnings per share		0.71	1.16

Legal representative: **Dai Hui Zhong** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Zhou Min**

Financial Statements

The units of the statements in the financial notes are: RMB

4. INCOME STATEMENT OF PARENT COMPANY

Unit: RMB

Item	Note	2021	2020
I. Total operating revenue	XVI.4	2,928,937,973.54	129,448,695.65
Less: Operating costs	XVI.4	2,723,681,658.18	68,966,099.04
Taxes and surcharges		9,919,099.94	7,196,838.58
Sales expenses		19,151,897.79	18,416,739.18
Management expenses		32,628,917.61	12,105,454.87
Research and development expenses			
Financial expenses		2,351,005.82	3,522,663.59
Including: Interest expense			
Interest income		1,859,769.34	1,805,407.36
Add: Other income		34,958,158.04	1,522,304.88
Investment gain (loss expressed with “-”)	XVI.5	1,136,384,181.42	503,411,806.34
Including: Share of profit of associates and joint ventures		61,799,401.80	84,204,976.35
Income from derecognition of financial assets at amortised cost (loss expressed with “-”)			
Net exposure hedge income (loss expressed with “-”)			
Gain from changes in fair values (loss expressed with “-”)		5,124,114.05	2,057,041.10
Impairment losses on credit (loss expressed with “-”)		228,800.53	704,815.55
Impairment losses on assets (loss expressed with “-”)			
Gains on disposal of asset (loss expressed with “-”)		969,354.85	23,200,987.73
II. Operating profits (loss denoted by “-”)		1,318,870,003.09	550,137,855.99
Add: Non-operating incomes		13,778,676.10	50,945,742.49
Less: Non-operating expenses		-3,477,597.99	-4,586,639.49
III. Total profit (total loss denoted by “-”)		1,336,126,277.18	605,670,237.97
Less: Income tax expenses		4,392,824.99	
IV. Net profits (net loss denoted by “-”)		1,331,733,452.19	605,670,237.97
(1) Net profit from continuing operations (net loss denoted by “-”)		1,331,733,452.19	605,670,237.97
(2) Net profit from discontinued operations (net loss denoted by “-”)			
V. Other comprehensive income after tax, net		-13,361,344.65	6,933,319.39
(1) Items not to be reclassified into profit or loss			
1. Changes arising from remeasurement of defined benefit plan			
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method			
3. Changes in fair value of other equity instruments investment			
4. Changes in the fair value of the company’s own credit risk			
5. Others			
(2) Items to be reclassified into profit or loss		-13,361,344.65	6,933,319.39
1. Other comprehensive income that is convertible into gains and losses under the equity method		-13,361,344.65	6,933,319.39
2. Changes in fair value of other investments in debt			
3. The amount of financial assets reclassified into other comprehensive income			
4. Credit impairment provisions for other debt investment			
5. Cash flow hedge reserve			
6. Differences on translation of foreign currency financial statements			
7. Others			
VI. Total comprehensive income		1,318,372,107.54	612,603,557.36
VII. Earnings per share:			
(1) Basic earnings per share			
(2) Diluted earnings per share			

Financial Statements

The units of the statements in the financial notes are: RMB

5. CONSOLIDATED CASH FLOW STATEMENT

Unit: RMB

Item	Note	2021	2020
I. Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		57,155,772,826.25	38,726,086,074.79
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 interest, fees and commissions			
Net increase in placements from banks and other financial institutions			
Net increase in repurchase business capital			
Net income from trading securities as broker			
Tax rebates received		2,665,789,200.94	1,523,707,933.47
Cash received relating to other operating activities	VI.60	812,145,543.27	947,132,164.76
Subtotal of cash inflows from operating activities		60,633,707,570.46	41,196,926,173.02
Cash paid for purchases of commodities and receipt of services		40,720,746,123.28	23,239,156,243.48
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 in placements from banks and other financial institutions			
Cash paid for interest, fees and commissions			
Cash paid for policyholders' dividend			
Cash paid to and for employees		5,339,763,922.69	4,275,387,571.71
Cash paid for taxes and surcharges		2,627,954,941.49	2,146,561,290.00
Cash paid relating to other operating activities	VI.60	7,631,461,822.73	5,573,113,257.99
Subtotal of cash outflows from operating activities		56,319,926,810.19	35,234,218,363.18
Net cash flows from operating activities		4,313,780,760.27	5,962,707,809.84

Financial Statements

The units of the statements in the financial notes are: RMB

Item	Note	2021	2020
II. Cash flows from investing activities:			
Cash received from recovery of investments		66,880,000.00	112,480,000.00
Cash received from investment income		119,513,503.80	103,945,862.69
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		3,610,940.34	28,797,591.86
Net cash received from disposal of subsidiaries and other operation units			
Cash received relating to other investing activities	VI.60	17,354,421,482.62	11,856,945,401.90
Subtotal of cash inflows from investing activities		17,544,425,926.76	12,102,168,856.45
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		1,107,184,835.53	613,684,254.97
Cash paid for investments			74,400,000.00
Net increase in pledged loans			
Cash paid for acquiring subsidiaries and other operation units			
Cash paid relating to other investing activities	VI.60	20,860,529,612.29	15,314,639,200.00
Subtotal of cash outflows from investing activities		21,967,714,447.82	16,002,723,454.97
Net cash flows from investing activities		-4,423,288,521.06	-3,900,554,598.52
III. Cash flows from financing activities:			
Cash received from capital contribution		28,912,000.00	30,650,000.00
Including: Cash contribution to subsidiaries from minority shareholders' investment		28,912,000.00	30,650,000.00
Cash received from borrowings		3,477,593,820.11	381,186,500.00
Cash received relating to other financing activities	VI.60	2,414,063,276.36	
Subtotal of cash inflows from financing activities		5,920,569,096.47	411,836,500.00
Cash paid for repayment of borrowings		2,660,566,197.06	459,186,500.00
Cash paid for distribution of dividends, profit or payment of interest expenses		1,682,855,968.02	972,148,032.58
Including: Dividend and profit paid to minority shareholders by subsidiaries		1,162,522,685.53	426,785,541.81
Cash paid relating to other financing activities	VI.60	102,224,203.87	1,492,959,658.35
Subtotal of cash outflows from financing activities		4,445,646,368.95	2,924,294,190.93
Net cash flows from financing activities		1,474,922,727.52	-2,512,457,690.93
IV. Effects of foreign exchange rate changes on cash and cash equivalents			
		-103,440,744.31	2,400,455.60
V. Net increase in cash and cash equivalents			
		1,261,974,222.42	-447,904,024.01
Add: Balance of cash and cash equivalents at the beginning of the period		1,617,202,572.26	2,065,106,596.27
VI. Balance of cash and cash equivalents at the end of the period			
		2,879,176,794.68	1,617,202,572.26

Financial Statements

The units of the statements in the financial notes are: RMB

6. CASH FLOW STATEMENT OF PARENT COMPANY

Unit: RMB

Item	Note	2021	2020
I. Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		61,749,946.65	92,208,214.98
Tax rebates received		6,750.00	
Cash received relating to other operating activities		143,620,448.78	70,369,347.90
Subtotal of cash inflows from operating activities		205,377,145.43	162,577,562.88
Cash paid for purchases of commodities and receipt of labor services			
Cash paid to and for employees		78,465,898.74	77,669,129.59
Cash paid for taxes and surcharges		19,250,273.22	5,370,825.70
Cash paid relating to other operating activities		64,706,830.69	113,249,332.07
Subtotal of cash outflow from operating activities		162,423,002.65	196,289,287.36
Net cash flows from operating activities		42,954,142.78	-33,711,724.48
II. Cash flow from investing activities:			
Cash received from recovery of investments		66,880,000.00	112,480,000.00
Cash received from investment income		1,074,584,782.12	419,887,428.83
Net cash received from disposals of fixed assets, intangible assets and other long-term assets			27,408,707.80
Net cash received from disposals of subsidiaries and other operation units			
Cash received relating to other investing activities		2,485,000,000.00	2,910,000,000.00
Subtotal of cash inflows from investing activities		3,626,464,782.12	3,469,776,136.63
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		3,501,780.74	2,384,806.83
Cash paid for investments			89,100,000.00
Net cash paid for acquisition of subsidiaries and other operation units			
Cash paid relating to other investing activities		3,285,000,000.00	2,810,000,000.00
Subtotal of cash outflows from investing activities		3,288,501,780.74	2,901,484,806.83
Net cash flows from investing activities		337,963,001.38	568,291,329.80
III. Cash flows from financing activities:			
Cash received from capital contribution			
Cash received from borrowings			
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		472,865,703.39	538,276,521.15
Cash paid relating to other financing activities			
Subtotal of cash outflows from financing activities		472,865,703.39	538,276,521.15
Net cash flows from financing activities		-472,865,703.39	-538,276,521.15
IV. Effects of foreign exchange rate changes on cash and cash equivalents			
V. Net increase in cash and cash equivalents		-91,948,559.23	-3,696,915.83
Add: Balance of cash and cash equivalents at the beginning of the period		157,802,638.95	161,499,554.78
VI. Balance of cash and cash equivalents at the end of the period		65,854,079.72	157,802,638.95

Financial Statements

The units of the statements in the financial notes are: RMB

7. CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Amount for current period

Unit: RMB

Item	2021											Minority interests	Total owners' equity
	Attributable to the owners of the parent												
	Share capital		Other equity instruments			Less: Other comprehensive income				General risk provisions	Undistributed profits		
	Preference shares	Perpetual debts	Others	Capital reserve	Treasury shares	Special reserves	Surplus reserves				Subtotal		
I. Closing balance of previous year	1,362,725,370.00			2,061,712,990.12		37,578,293.42		692,802,893.38		5,624,296,033.51	9,779,115,500.43	4,627,403,458.10	14,406,519,038.53
Add: Changes in accounting policies													
Correction for error in previous period													
Business combination involving entities under common control													
Other													
II. Opening balance for the year	1,362,725,370.00			2,061,712,990.12		37,578,293.42		692,802,893.38		5,624,296,033.51	9,779,115,500.43	4,627,403,458.10	14,406,519,038.53
III. Movements in the current period													
(Decreases denoted in "-")				7,532,111.75		55,991,705.15		19,168,416.61		480,547,371.39	563,239,604.90	621,492,593.35	1,104,732,198.25
(1) Total comprehensive income						55,991,705.15				972,581,491.39	1,028,573,196.54	1,388,694,697.24	2,417,267,893.78
(2) Owners' contributions and capital reductions												393,728,035.02	393,728,035.02
1. Ordinary shares contributed by shareholders												28,912,000.00	28,912,000.00
2. Capital contributions by holders of other equity instruments													
3. Amount of share-based payment included in shareholders' equity													
4. Other												364,816,035.02	364,816,035.02
(3) Profit Distribution								19,168,416.61		-492,034,120.00	-472,865,703.39	-1,162,522,685.53	-1,635,388,388.92
1. Appropriations to surplus reserve								19,168,416.61		-19,168,416.61			
2. Appropriations to general risk provisions													
3. Distribution to owners (shareholders)										-472,865,703.39	-472,865,703.39	-1,162,522,685.53	-1,635,388,388.92
4. Other													
(4) Transfer of owners' equity													
1. Transfer to capital (or share capital) from capital reserve													
2. Transfer to capital (or share capital) from surplus reserve													
3. Surplus reserves for making up losses													
4. Changing amount of defined benefit plan carried forward to retained earnings													
5. Other comprehensive income carried forward to retained earnings													
6. Others													
(5) Special reserves													
1. Provided during the period													
2. Used during the period													
(6) Other				7,532,111.75							7,532,111.75	1,592,546.62	9,124,658.37
IV. Closing balance for the period	1,362,725,370.00			2,069,245,101.87		93,569,998.57		711,971,309.99		6,104,843,404.90	10,342,355,185.33	5,248,896,051.45	15,591,251,236.78

Financial Statements

The units of the statements in the financial notes are: RMB

Amount for previous period

Unit: RMB

Item	2020											Minority interests	Total owners' equity	
	Share capital		Other equity instruments			Attributable to the owners of the parent			General risk provisions	Undistributed profits	Others			Subtotal
	Preference shares	Perpetual debts	Others	Capital reserve	Treasury shares	Less: comprehensive income	Other special reserves	Surplus reserves						
I. Closing balance for previous year	1,362,725,370.00			2,056,057,145.37		26,318,501.35		632,235,869.58		4,644,256,846.32	8,721,593,732.62	3,759,269,288.18	12,480,863,020.80	
Add: Changes in accounting policies														
Correction for error in previous period														
Business combination involving entities under common control														
Other														
II. Opening balance for the year	1,362,725,370.00			2,056,057,145.37		26,318,501.35		632,235,869.58		4,644,256,846.32	8,721,593,732.62	3,759,269,288.18	12,480,863,020.80	
III. Movements in the current period														
(Decreases denoted in "-")				5,655,844.75		11,259,792.07		60,567,023.80		980,039,187.19	1,057,521,847.81	868,134,169.92	1,925,656,017.73	
(1) Total comprehensive income						11,259,792.07				1,578,882,732.14	1,590,142,524.21	1,267,213,135.07	2,857,355,659.28	
(2) Owners' contributions and capital reduction				3,040,463.34							3,040,463.34	27,706,576.66	30,747,040.00	
1. Ordinary shares contributed by owners												30,650,000.00	30,650,000.00	
2. Capital contributions by holders of other equity instruments														
3. Amount of share-based payment included in shareholders' equity														
4. Other				3,040,463.34							3,040,463.34	-2,943,423.34	97,040.00	
(3) Profit Distribution								60,567,023.80		-598,843,544.95	-538,276,521.15	-426,765,541.81	-965,062,062.96	
1. Appropriations to surplus reserve								60,567,023.80		-40,567,023.80				
2. Appropriations to general risk provisions														
3. Distribution to owners (shareholders)											-538,276,521.15	-426,765,541.81	-965,062,062.96	
4. Other														
(4) Transfer of owners' equity														
1. Transfer to capital (or share capital) from capital reserve														
2. Transfer to capital (or share capital) from surplus reserve														
3. Surplus reserves for making up losses														
4. Changing amount of defined benefit plan carried forward to retained earnings														
5. Other comprehensive income carried forward to retained earnings														
6. Others														
(5) Special reserves														
1. Provided during the period														
2. Used during the period														
(6) Other				2,615,381.41							2,615,381.41		2,615,381.41	
IV. Closing balance for the period	1,362,725,370.00			2,061,712,990.12		37,578,293.42		692,802,893.38		5,624,296,035.51	9,779,115,580.43	4,627,403,458.10	14,406,519,038.53	

Financial Statements

The units of the statements in the financial notes are: RMB

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

Amount for current period

Unit: RMB

Item	Share capital	Other equity instruments			2021			Undistributed profits	Total
		Preference shares	Perpetual debts	Others	Less: Treasury shares	comprehensive income	Special reserves		
I. Closing balance in previous year	1,362,725,370.00			2,268,615,818.52		21,530,312.87	662,194,268.39	2,401,839,551.13	6,716,905,320.91
Add: Changes in accounting policies									
Correction for error in previous period									
Other									
II. Opening balance for the year	1,362,725,370.00			2,268,615,818.52		21,530,312.87	662,194,268.39	2,401,839,551.13	6,716,905,320.91
III. Movements in the current period									
(Decreases denoted in "-")				2,783,226.83		-13,361,344.65	19,168,416.61	839,699,332.19	848,289,630.98
(1) Total comprehensive income						-13,361,344.65		1,331,733,452.19	1,318,372,107.54
(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 shareholders' equity									
4. Other									
(3) Profit Distribution							19,168,416.61	-492,034,120.00	-472,865,703.39
1. Appropriations to surplus reserve							19,168,416.61	-19,168,416.61	
2. Distribution to owners (shareholders)								-472,865,703.39	-472,865,703.39
3. Other									
(4) Transfer of owners' equity									
1. Transfer to capital (or share capital) from capital reserve									
2. Transfer to capital (or share capital) from surplus reserve									
3. Surplus reserves for making up losses									
4. Changing amount of defined benefit plan carried forward to retained earnings									
5. Other comprehensive income carried forward to retained earnings									
6. Others									
(5) Special reserves									
1. Provided during the period									
2. Used during the period									
(6) Other				2,783,226.83					2,783,226.83
IV. Closing balance for the period	1,362,725,370.00			2,271,399,045.35		8,168,968.22	681,362,685.00	3,241,538,883.32	7,565,194,951.89

Financial Statements

The units of the statements in the financial notes are: RMB

Amount for previous period

Unit: RMB

Item	Share capital	Other equity instruments			2020					Total		
		Preference shares	Perpetual debts	Others	Less: Capital reserve	Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Other	owners' equity
I. Closing balance in previous year	1,362,725,370.00				2,266,000,437.11		14,596,993.48		601,627,244.59	2,395,012,858.11		6,639,962,903.29
Add: Changes in accounting policies												
Correction for error in previous period												
Other												
II. Opening balance for the year	1,362,725,370.00				2,266,000,437.11		14,596,993.48		601,627,244.59	2,395,012,858.11		6,639,962,903.29
III. Movements in the current period												
(Decreases denoted in "-")					2,615,381.41		6,933,319.39		60,567,023.80	6,826,693.02		76,942,417.62
(1) Total comprehensive income							6,933,319.39			605,670,237.97		612,603,557.36
(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 shareholders' equity												
4. Other												
(3) Profit Distribution									60,567,023.80	-598,843,544.95		-538,276,521.15
1. Appropriations to surplus reserve									60,567,023.80	-60,567,023.80		
2. Distribution to owners (shareholders)										-538,276,521.15		-538,276,521.15
3. Other												
(4) Transfer of owners' equity												
1. Transfer to capital (or share capital) from capital reserve												
2. Transfer to capital (or share capital) from surplus reserve												
3. Surplus reserves for making up losses												
4. Changing amount of defined benefit plan carried forward to retained earnings												
5. Other comprehensive income carried forward to retained earnings												
6. Others												
(5) Special reserves												
1. Provided during the period												
2. Used during the period												
(6) Other					2,615,381.41							2,615,381.41
IV. Closing balance for the period	1,362,725,370.00				2,268,615,818.52		21,530,312.87		662,194,268.39	2,401,839,551.13		6,716,905,320.91

Notes to the Financial Statements for 2021

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

1. COMPANY PROFILE

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

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

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

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

The Company’s share reform scheme was approved on the A shareholders’ meeting on 29 January 2007 and approved by the Ministry of Commerce of the PRC on 22 March 2007. The shareholding of Qingdao Hisense Air-Conditioning, the largest shareholder of the Company, was changed to 23.63% after the scheme. On 20 June 2007, the name of the Company was changed from “Guangdong Kelon Electrical Holdings Company Limited” to “Hisense Kelon Electrical Holdings Company Limited”.

Since 2008, Qingdao Hisense Air-Conditioning has successively increased the shareholding of the Company through secondary market. At the end of 2009, Qingdao Hisense Air-Conditioning held 25.22% of the total share capital of the Company.

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

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

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.

Notes to the Financial Statements for 2021

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

1. COMPANY PROFILE *(continued)*

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

On 19 June 2015, upon the satisfaction of the conditions to the second exercise period of the First Share Option Incentive Scheme of the Company and after approval by and registration with the Shenzhen branch of China Government Securities Depository Trust & Clearing Co. Ltd., an additional of 4,229,810 new shares issued upon the exercise of options were approved for listing.

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

As at 31 December 2021, 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 Group is principally engaged in development and manufacture of household appliances such as refrigerators and air-conditioners, domestic and overseas sales of product, provision of after-sale services and transportation of products.

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

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

2. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

For details of major subsidiaries included in the scope of consolidation financial statements by the Group, please refer to Note 8. 1. As compared to previous year, Sanden Corporation (i.e., former Sanden Holdings Corporation, hereinafter referred as to “Sanden Company”) and other companies were added during this period. For details, please refer to “7. Change in scope of consolidation” to this note and “8. Interests in Other Entities” to this note.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of preparation

The financial statements of the Group are prepared based on going-concern and actual transactions and events according to the Accounting Standards for Business Enterprises and relevant regulations, and the relevant disclosure required by the “Companies Ordinance” of Hong Kong and the “Listing Rules” of The Stock Exchange of Hong Kong, and prepared based on with the accounting policies and accounting assumptions set out in “4. Major Accounting Policies and Accounting Estimates” in this note.

(2) Going-concern

The Group has the going-concern ability, and there is no significant event that has impact on such ability within at least 12 months since the end of the reporting period.

Notes to the Financial Statements for 2021

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

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Specific accounting policies and accounting estimates: The accounting policies and accounting estimates developed by the Group according to characteristics of actual production and operation include business cycle, impairment of financial asset, the measurement of inventory dispatched, fixed assets classification and depreciation methods, amortization of intangible assets, conditions for capitalizing R&D expenses, recognition and measurement of incomes, etc.

1. Declaration on Compliance with the Accounting Standards for Business

The Company have prepared the financial statements in accordance with the Accounting Standards for Business Enterprises (the “ASBEs”), which gives a true and complete view of the financial position, trading results, cash flows and other information of the Company and of the Group.

2. Accounting period

The Group adopts a calendar year, being the period from 1 January to 31 December, as its accounting period.

3. Business cycle

The Group adopts a 12-month period as its business cycle and the basis for liquidity classification between assets and liabilities.

4. 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 or Japanese Yen or MXN 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.

5. Accounting treatment for business combinations involving entities under common and not under common control

The assets and liabilities obtained by the Group as the merging party in a business combination are measured at the combination-date carrying amount of the merged party in the consolidated statement of ultimate controller. The difference between the carrying amount of net assets obtained and the carrying amount of the combination consideration paid shall adjust capital reserve; if the capital reserve is not sufficient for offsetting, the retained earnings shall be adjusted.

The acquiree’s identifiable assets, liabilities and contingent liabilities obtained in a business combination not under common control shall be measured at fair value at the acquisition date. The cost of combination is the sum of the fair value of cash and non-cash assets paid, liabilities incurred or assumed and equity securities issued by the Group for obtaining control of the acquiree at the acquisition date and all expenses incurred directly in the business combination (for the business combination is achieved in stages through multiple transactions, its cost of combination is the sum of costs of each single transaction). Where the cost of combination exceeds the acquirer’s share of the fair value of the acquiree’s identifiable net assets, the difference is recognized as goodwill; where the cost of combination is less than the acquirer’s share of the fair value of the acquiree’s identifiable net assets, the measurement of the fair values of all the identifiable assets, liabilities and contingent liabilities obtained in the business combination and the fair values of non-cash assets or equity securities issued as the consideration for combination are firstly reviewed. If, after that review, the cost of combination is still less than the acquirer’s share of the fair value of the acquiree’s identifiable net assets in the business combination, the difference shall be included in the consolidated non-operating revenue for the period.

Notes to the Financial Statements for 2021

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

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

6. Preparation of consolidated financial statements

The Group includes all of its subsidiaries under its control in the scope of consolidated financial statements.

When preparing the consolidated financial statements, when the accounting policy and the accounting period that subsidiaries adopted are inconsistent with the Company, necessary adjustments are made to the financial statements of those subsidiaries according to the accounting policies or accounting period of the Company.

When preparing consolidated financial statements, all significant internal transactions, balances and unrealized profits within the scope of combination shall be offset. Proportion of shareholder's equity of the subsidiaries which do not belong to the Company, and proportion of profit or loss for current period, other comprehensive income and total comprehensive income which belong to the equity of minority shareholders, which shall be listed under "equity of minority shareholders, gain or loss attributable to minority interests, other comprehensive income attributable to minor shareholders and total comprehensive income attributable to the minority shareholders" in the consolidated financial statements.

For subsidiaries acquired through business combination under common control, the operating results and cash flows of the acquiree shall be consolidated into the consolidated financial statements since the beginning of the period of combination. When preparing comparative consolidated financial statements, adjustment shall be made to the related items in the financial statements for the last year, regarding as the reporting subject which was formed after combination has existed since the ultimate controller started control.

Shareholding acquired through different transactions in stages and obtained shareholding of the investee under common control and finally become business combination, when preparing consolidated financial statements, the acquiree shall be regarded as the ultimate controller started the control and adjustment was made under current status. When preparing comparative financial statements, time limit is the time which not earlier than the Group and the acquiree are both under the control of ultimate controller, related assets and liabilities of the acquiree shall be included into the comparative statements of the consolidated financial statements of the Group, and net assets increased due to combination adjusted related items under shareholder's equity in the comparative statements. In order to prevent double calculation of the value of net assets of the acquiree, for long-term equity investment held by the Group before combination, from the date of obtaining original shareholding and the date on which the Group and the acquiree are under the same control, whichever is later, to the date of combination, the related profit or loss recognised, other comprehensive income and other change in assets, shall be written off retained earnings at the beginning of the comparative period and profit or loss for current period.

For subsidiaries acquired through business combination not under common control, its operating results and cash flows shall be included in the consolidated financial statements since the Group obtained its control. When preparing consolidated financial statements, adjustment shall be made to financial statements of the subsidiaries using the fair values of each identifiable assets, liabilities and contingent liabilities as basis, which were determined on date of acquisition.

Shareholding acquired through different transactions in stages and obtained shareholding of the investee under common control and finally become business combination, when preparing consolidated financial statements, for shareholding of the acquiree which was holding before the date of acquisition, have to be re-measured according to the fair value of such shareholding on the date of acquisition, difference between the fair value and the carrying value shall be included as the investment income for current period. Other comprehensive income involving equity calculated under equity method which it holds before the related date of acquisition, and change in equity of other shareholders, besides net profit or loss, other comprehensive income and profit distribution, and change to investment profit or loss during the period which date of acquisition belong, except other comprehensive income incurred by the change in net liabilities or net assets from the newly measured defined benefit plan.

Notes to the Financial Statements for 2021

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

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

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

Proceeds from disposal of part of the equity investment in the subsidiaries without losing control and the disposal of long-term equity investment should enjoy the difference between the proportion of net assets calculated from the date of acquisition or date of combination in the consolidated financial statements, and adjust the share premium. In case the capital reserve is insufficient for offset, retained earnings will be adjusted.

When the Group loss control in the acquiree due to reasons such as disposal of part of the equity investment, remaining shareholding will be re-measured based on the fair value on the date of loss of control when preparing the consolidated financial statements. The sum of proceeds obtained from the disposal of equity and fair value of the remaining shareholding, and less the difference of the proportion of net assets of the subsidiary calculated from the date of acquisition or combination according to the original shareholding proportion, and included into the investment profit or loss of loss of control for current period, and also goodwill will be written off. Other comprehensive income related to the original equity investment in the subsidiary, will be changed to investment profit or loss for current period upon loss of control.

For loss of control by the Group through different transactions and disposed shareholding in subsidiaries in stages, in case when each transaction that the Group loss control through disposal of shareholding in subsidiaries belongs to a series of transactions, accounting treatment for each transaction shall be treated as one transaction which involves disposal of subsidiary with loss of control. However, the difference between the proceeds for each disposal before loss of control and the proportion of net assets corresponding to the disposal of such subsidiary shall be recognised as other comprehensive income in the consolidated financial statements, and transfer to investment profit or loss of loss of control for current period upon loss of control.

7. Classification of joint arrangements and accounting treatment for joint operations

Joint arrangement of the Group includes joint operation and joint venture. As for joint operation projects, the Group, as the joint venture party in the joint operation, recognises assets and liabilities that it holds and assumes individually, and the assets and liabilities that it holds or assume in proportion, and related income and fees will be recognised according to the related agreed individual or in proportion assets and liabilities. For assets transactions that are purchased or sale under joint operation that do not constitute business, only when profit or loss incurred from that transaction attributable to the other parties under the joint operation.

8. Cash and cash equivalents

Cash in the cash flow statement of the Group represents the cash on hand and the deposit in bank available for payment at any time. Cash equivalents cash flow statement are terms which are less than three months, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of value change.

9. Foreign currency transactions and translation of financial statements in foreign currency

(1) Foreign currency transactions

For foreign currency transactions of the Group, the amount in foreign currency shall be translated into RMB at the approximate exchange rate of the spot exchange rate at the date when the transactions take place. As at the balance sheet date, foreign currency monetary items are translated into RMB using the spot exchange rate at the balance sheet date. Translation differences arising thereon are directly included in the profit or loss for the period, except that exchange differences arising from specific borrowings in foreign currency attributable to the construction or production of a qualifying asset for capitalization are dealt with based on the capitalization principle.

Notes to the Financial Statements for 2021

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

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

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

(2) *Translation of financial statements in foreign currency*

Asset and liability items in the balance sheet denominated in foreign currency are translated at the spot rate prevailing at the balance sheet date. The owners' equity items, except for the "undistributed profits", are translated at the approximate exchange rate of the spot exchange rate when a business takes place. Income and expense items in the income statement are translated at the spot exchange rate at the date when the transaction takes place. The translation differences arising from the above translation of statements denominated in foreign currency are presented in other comprehensive income item. Cash flows dominated in foreign currency are translated using the approximate exchange rate of the spot rate at the date when the cash flow occurs. Effects on cash arising from the changes in exchange rate are presented separately in the cash flow statement.

10. Financial assets and financial liabilities

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

(1) *Financial assets*

1) Classification, recognition and measurement of financial assets

The Group classifies financial assets into financial assets at amortized cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss based on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Group will classify financial assets that meet the following conditions into financial assets measured at amortized cost: ① the financial assets are managed within a business model whose objective is achieved by collecting contractual cash flow; and ② the contractual terms of the financial assets give rise on specific dates to cash flows that are solely the payments of principal and interest on the principal amount outstanding. Such financial assets are initially measured at fair value with related transaction costs to be included in the initial recognition amount, and are subsequently measured at amortized cost. For those financial assets that are not part of any hedging relationship, the amortization, impairment, exchange gains or losses and gains or losses arising upon derecognition are included in the profit or loss for the period.

The Group will classify financial assets that meet the following conditions into financial assets at fair value through other comprehensive income: ① the financial assets are managed within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets; and ② the contractual terms of the financial assets give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Such financial assets are initially measured at fair value with related transaction costs to be included in the initial recognition amount. All gains or losses arising from those financial assets that are not part of any hedging relationship, other than credit impairment losses or gains, exchange gains or losses and interest on such financial assets calculated using the effective interest method, are recognized in other comprehensive income. Upon derecognition of the financial assets, the cumulative gains or losses previously included in other comprehensive income shall be transferred out and be included in the profit or loss for the period.

Notes to the Financial Statements for 2021

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

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Financial assets and financial liabilities (continued)

(1) Financial assets (continued)

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

The Group recognizes interest income using the effective interest method. Interest income is calculated and determined by applying the effective interest rate to the carrying balance of the financial asset, except: ① for the purchased or internally generated credit-impaired financial assets, their interest income is calculated and determined based on amortized cost and credit-adjusted effective interest rate of such financial assets since the initial recognition; ② for the purchased or internally generated financial assets without credit-impairment but subsequently becoming credit-impaired, their interest income is calculated and determined based on amortized costs and effective interest rate of such financial assets in subsequent periods.

The Group designates investments in non-trading equity instruments as financial assets carried at fair value through other comprehensive income. Such designation, once made, cannot be revoked. Investments in non-trading equity instruments designated by the Group as at fair value through other comprehensive income are initially measured at fair value, with related transaction costs included in the amount initially recognized. Except for dividends received (other than those recovered as part of investment costs), which are included in profit or loss for the period, all other related gains and losses (including foreign exchange gains and losses) are included in other comprehensive income and are not subsequently transferred to profit or loss. When it is derecognised, the cumulative gain or loss previously included in other comprehensive income is transferred out of other comprehensive income and included in retained earnings.

Other than the above financial assets measured at amortized cost and financial assets classified as at fair value through other comprehensive income, the Group classifies its financial assets as financial assets at fair value through profit or loss. Such financial assets are initially measured at fair value with related transaction costs to be directly included in profit or loss for the period. Gains or losses on such financial assets are included in profit or loss for the period.

2) Recognition and measurement of transfer of financial assets

The Group derecognizes financial assets if one of the following conditions is satisfied: ① the contractual rights to collect the cash flows from the financial asset expire; ② the financial asset has been transferred, and the Group has transferred substantially all the risks and rewards of ownership of the financial asset; and ③ the financial asset has been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, and it has not retained control over such financial asset.

If the transfer of an entire financial asset satisfies the conditions for derecognition, the difference between the carrying amount of the transferred financial assets on the date of derecognition and the sum of the consideration received from the transfer and the accumulative amount of the changes of the fair value originally included in other comprehensive income which shall be apportioned to the derecognized portion (where the financial asset involved in the transfer also satisfies the following conditions: the Group's business model for managing the financial asset is aimed at collecting the contractual cash flows; the contractual terms of the financial asset provide that the cash flows generated at a given date are only payments of interest based on the principal amount), are included into current profit or loss.

Notes to the Financial Statements for 2021

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

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

10. Financial assets and financial liabilities *(continued)*

(1) **Financial assets** *(continued)*

2) Recognition and measurement of transfer of financial assets *(continued)*

If the transfer of financial asset partially satisfies the conditions of derecognition, the entire carrying amount of the transferred financial asset is, between the portion which is derecognized and the portion which is not, apportioned according to their respective relative fair value, and the difference between the sum of the consideration received from the transfer and the accumulative amount of the changes of the fair value originally included in other comprehensive income which shall be apportioned to the derecognized portion (where the financial asset involved in the transfer also satisfies the following conditions: the Group's business model for managing the financial asset is aimed at collecting the contractual cash flows; the contractual terms of the financial asset provide that the cash flows generated at a given date are only payments of interest based on the principal amount), and the apportioned entire carrying amount of the said financial assets are included into current profit or loss.

(2) **Financial liabilities**

1) Classification, recognition and measurement of financial liabilities

The Group classifies its financial liabilities as financial liabilities measured at amortised cost, using the effective interest rate method, which is subsequently measured at amortised cost, except for the following:

- ① Financial liabilities at fair value through profit or loss (including derivatives with financial liabilities) include held-for-trading financial liabilities and financial liabilities designated as measured at fair value through profit or loss at initial recognition. Such financial liabilities are subsequently measured at fair value. Gains or losses arising from changes in fair value, as well as dividends and interest expenditure related to such financial liabilities are recorded in profit or loss for the period.
- ② Financial liabilities arising from financial assets of which the transfer does not meet the conditions for derecognition or continuing involvements in the transferred financial assets. Such financial liabilities are measured by the Group in accordance with the relevant standards for the transfer of financial assets.
- ③ Financial guarantee contracts that do not fall within the range of ① or ②, and loan commitments that do not fall within the range of above ① and are at a rate less than the market interest rate. If the Group is the issuer of such financial liabilities, it is measured, after initial recognition, at the higher of the amount of the loss allowance determined in accordance with the relevant standard for impairment of financial instruments and the amount initially recognised less accumulated amortisation determined in accordance with the relevant standard for income.

Notes to the Financial Statements for 2021

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

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

10. Financial assets and financial liabilities *(continued)*

(2) Financial liabilities (continued)

2) Conditions for derecognition of financial liabilities

When the present obligations of financial liabilities are released in whole or in part, such financial liabilities are derecognized to the extent of the obligations released. Where the Group enters into an agreement with its creditor to replace existing financial liabilities by assuming new financial liabilities with contractual terms substantively differ from those of the existing financial liabilities, the existing financial liabilities are derecognized while the new financial liabilities are recognized. Where the Group substantively revises, in whole or in part, the contractual terms of existing financial liabilities, such existing financial liabilities are derecognized in whole or in part, while those financial liabilities with their terms revised are recognized as new financial liabilities. The difference between the carrying amount of the derecognised part and the consideration paid is included in the profit or loss for the current period.

(3) Method for determination of fair values of financial assets and financial liabilities

Fair values of financial assets and financial liabilities of the Group are measured at the prices in principal market. In case there is no principal market, fair values of financial assets and financial liabilities are calculated using the price which is the most beneficial to the market, and using valuation technology which is the most appropriate at that time and with sufficient available data and other information. The inputs which are used to measure the fair value have been divided into 3 levels by the Group: Level 1-inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities. Level 2-inputs are quoted prices for the asset or liability (other than those included in Level 1) that are either directly or indirectly observable. Level 3-inputs are unobservable inputs to the related assets or liabilities. The Level 1 inputs are the first priority to use by the Group, and level 3 inputs will be the last one to use. The level of fair value measurement is determined by the lowest level of inputs which are significant to the measurement of fair value as a whole.

The Group measures investments in equity instruments at fair value. However, in limited circumstances, if recent information on determining fair value is insufficient, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range, the cost may be an appropriate estimate of fair value with that range.

(4) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities of the Group shall be presented separately in the balance sheet and shall not be offset. However, when all of the following conditions are met, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet: (1) the Group has a legal right that is currently enforceable to set off the recognized amount, and (2) the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

Notes to the Financial Statements for 2021

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

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

10. Financial assets and financial liabilities *(continued)*

(5) *Classification and treatment of financial liabilities and equity instruments*

The Group classifies financial liabilities and equity instruments on the following principles:

(1) Where the Group is unable to unconditionally avoid delivering cash or another financial asset to fulfil a contractual obligation, the contractual obligation meets the definition of a financial liability. Although some financial instruments do not explicitly include the terms and conditions imposing the contractual obligation to deliver cash or another financial asset, they may indirectly give rise to the contractual obligation through other terms and conditions.

(2) Where a financial instrument will or may be settled in the Group's own equity instrument, consideration shall be given to whether the Group's own equity instrument as used to settle the instrument is a substitute of cash or another financial asset or the residual interest in the assets of an entity after deducting all of its liabilities. In the former case, the instrument shall be the issuer's financial liability; in the latter case, the instrument shall be the equity instrument of the issuer. Under certain circumstances whereby a financial instrument contract stipulates that the Group will or may use its own equity instrument to settle the financial instrument, and the amount of the contractual right or obligation equal to the number of its own equity instruments to be received or delivered multiplied by their fair value at the time of settlement, the contract shall be classified as a financial liability, regardless of whether the amount of the contractual right or obligation is fixed, or fluctuates in full or in partly in response to changes in a variable other than the market price of the Group's own equity instruments (for example an interest rate, a commodity price or a financial instrument price).

When classifying a financial instrument (or a component thereof) in consolidated financial statements, the Group shall consider all terms and conditions agreed between members of the Group and the holders of the financial instrument. If the Group as a whole has an obligation in respect of the instrument to settle it by delivering cash or another financial asset or in such a way that it would be a financial liability, such instrument shall be classified as a financial liability.

If the financial instrument or its component is attributable to the financial liability, the relevant interests, dividends, gains or losses, and gains or losses arising from redemption or refinancing, shall be recorded in the profit or loss of the current period.

If the financial instrument or its component is attributable to equity instrument, the Group shall treat it as change in equity when it is issued (including refinanced), repurchased, sold or cancelled, and shall not recognize changes in fair value of equity instrument.

11. Notes receivable

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

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

Notes to the Financial Statements for 2021

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

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

12. Accounts receivable

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

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

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

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

13. Receivables financing

If the bills receivable and accounts receivable meet the following conditions, the Company classifies it as financial assets at fair value through other comprehensive income. It was presented as a receivables financing on the statement:

- (1) contractual cash flows is for the payment of interest based on the principal and the principal outstanding;
- (2) the objective of the Company's business model for managing the bills receivable and accounts receivable is both to collect contractual cash flows and to dispose the bills receivable and accounts receivable.

14. Other receivables

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

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

Notes to the Financial Statements for 2021

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

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

15. Inventories

The Group's inventories mainly includes raw materials, work in progress, finished goods and etc.

The Group maintains a perpetual inventory system. Inventories are recorded at cost of purchase when received. Actual cost is calculated using weighted average method when the inventories are acquired. Low-value consumables and packaged goods are amortised using one-time resale method.

The Group carries out a comprehensive inventory on the balance sheet date. The net realisable value of finished goods, work in process and materials for sale, is determined by estimated price deducting estimated selling costs and related taxes. The net realisable value of production materials is determined by estimated price deducting estimated completion cost, sale expenses and related sales taxes.

16. Contract Assets

(1) Method and standards for recognition of contract assets

A contract asset represents the Group's right, which depends on factors other than the passage of time, to receive consideration in exchange for goods that the Group has transferred to a customer. If the Group sells two clearly distinguishable goods to customers, it is entitled to receive payment for one of the goods that has been delivered, but the payment is also dependent on the delivery of the other of the goods, the Group regards the right to receive payment as a contract asset.

(2) Method of determination and accounting treatment of expected credit loss of contract assets

For method of determination of expected credit loss of contract assets, please refer to the description in "11. Note receivables and 12 Accounts receivable" above.

About the accounting treatment method, the Group calculates the expected credit loss of contract assets on the balance sheet date. If the expected credit loss is greater than the carrying amount of the current provision for contract assets, the Group recognises the difference as impairment losses, and it will debit "assets impairment loss" and credit "provision for impairment of contract assets". Otherwise, the Group recognises the difference as an impairment gain and makes the opposite accounting record.

If the Group incurs credit loss and determines that the relevant contract assets are unrecoverable, subject to the approval for writing off, it will debit "provision for impairment of contract assets" and credit "contract assets" based on the approved amount written-off. If the written-off amount is greater than the loss allowance made, the "assets impairment loss" is debited for the difference.

Notes to the Financial Statements for 2021

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

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

17. Contract costs

(1) Method of determination of amount of assets relating to contract costs

The Group's assets relating to contract costs include contract performance cost and contract acquisition cost.

Contract performance cost refers to the cost incurred by the Group to perform a contract which does not fall under the scope of the Accounting Standards for Business Enterprises and meets all of the following conditions, which is recognised as an asset as contract performance cost: 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 Group entered into the contract; the costs generate resources of the Group that will be used in satisfying performance obligations in the future; the costs are expected to be recovered.

Contract acquisition cost refers to the incremental cost for the Group to obtain a contract which is expected to be recoverable which is recognised as an asset as contract acquisition cost. If the amortisation period is no more than one year, the contract acquisition cost is included in profit or loss as incurred. Incremental cost refers to the cost which will not be incurred by the Group had no contract been acquired (such as commission etc.). Other expenses incurred by the Group to obtain contracts (other than the incremental cost which is expected to be recoverable) (such as travelling expenses which will be incurred regardless of whether the contract will be obtained) are included in profit or loss as incurred, save for those expressly to be borne by customers.

(2) Amortisation of assets relating to contract costs

The Group's assets relating to contract costs are amortised using the same basis as that for recognition of the revenue from goods relating to the assets, which are included in profit or loss.

(3) Impairment of assets relating to contract costs

In determining the loss on impairment of assets relating to contract costs, the Group first determines the impairment loss for other assets relating to contract costs recognised in accordance with the relevant Accounting Standards for Business Enterprises and then makes provision for impairment based on the excess of its carrying value over the sum of the remaining consideration expected to be received from transfer of the goods relating to the asset and the cost expected to be incurred for transfer of the relevant goods, which is recognised as loss on impairment of assets.

If there is any change in the factors causing impairment in the previous periods, resulting in the said difference higher than the carrying value of the asset, the provision for impairment of assets previously made is reversed and is included in profit or loss. However, the carrying value of the asset following reversal shall not exceed the carrying value of the asset as at the date of reversal had no provision for impairment been made.

Notes to the Financial Statements for 2021

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

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

18. Long-term equity investments

Long-term equity investments of the Group are the investments in subsidiaries and investment in associates and investment in joint ventures.

Basis for determination in respect of common control is that all participated parties or a group of participated parties control such arrangement, and that policies of such related business of such arrangement have to obtain unanimous agreement by all parties that are control such arrangement.

When the Group directly or indirectly throughout its subsidiary owns 20% (inclusive) or more but less than 50% shares with voting rights in the investee, it is generally considered that the Group has significant influence on the investee. For voting rights less than 20% in the investee, the board or representative in similar authority in the investee or the implementation processes of financial or operation policies of investee have also been taken into account, or significant transaction with the investee, or management personnel send to the investee, or significant technology information provided to the investee which have significant influence to the investee.

If the Group has control over an investee, it is a subsidiary of the Group. For long-term equity investments obtained through business combination under common control, proportion of carrying value of net assets obtained on the date of combination in the consolidated financial statements of the ultimate controller shall be accounted as the initial investment cost of the long-term investment. For carrying value of net assets of the acquiree which is negative on the date of combination, investment cost of long-term equity investment is calculated as zero.

For equity interests in investees under common control acquired in a series of transaction which constitute business combination, supplementary disclosure on the accounting of long-term equity investments in the financial statements of the Company for the reporting period in which the control is acquired. For example, for equity interests in investees under common control acquired in a series of transactions which constitute business combination and a package of transactions, the Group accounts for each transaction as a transaction in which the control has been obtained. If it does not fall under a series of transactions, according to proportion of fair value of net assets of acquiree after the combination in the consolidated financial statements of the ultimate controller, and accounted as the initial investment cost of long-term equity investment on the date of combination. Difference between initial investment cost and the carrying value of long-term equity investment before combination and the sum of carrying value of newly paid consideration for additional shares acquired on the date of combination is to adjust capital reserve. If the balance of share premium is insufficient, any excess is adjusted to retained earnings.

For long-term equity investment acquired through business combination not under common control, cost of combination will be treated as the initial investment cost.

Notes to the Financial Statements for 2021

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

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

18. Long-term equity investments *(continued)*

For equity interests in investees not under common control acquired in a series of transaction which constitute business combination, supplementary disclosure on the accounting of cost of long-term equity investments in the financial statements of the Company for the reporting period in which the control is acquired. For example, for equity interests in investees not under common control acquired in a series of transactions which constitute business combination and a package of transactions, the Group accounts for each transaction as a transaction in which the control has been obtained. If it does not belong to a series of transaction, initial investment cost will be the sum of the carrying value of the equity investment which it originally holds, and initial investment cost will change to cost method. For shareholding which it holds before the date of acquisition which uses equity method, other related comprehensive income which use equity method for accounting shall not be adjusted, such investment shall use the same accounting basis as the investee when it directly disposes of related assets or liabilities upon disposal. If the equity held before the purchase date were designated as non-trading equity instruments at fair value through other comprehensive income, the changes in the fair value accumulated that were originally included in other comprehensive income shall not be transferred in the current profit or loss.

Apart from the long-term equity investments acquired through business combination mentioned above, the long-term equity investments acquired by cash payment is expensed as the cost of investment based on the actual amount of cash paid for the purchase. For long-term equity investments acquired by issuing equity securities, the cost of investment is the fair value of the equity securities issued. For long-term equity investments invested in the Group by the investor, the investment cost is the agreed consideration as specified in the contract or agreement.

Investments in subsidiaries are accounted for the Group using cost method, while investments in the associates and joint ventures are accounted for under equity method.

For long-term equity investments for which the subsequent measure is accounted for using cost method, when making additional investment, carrying value of the long-term equity investments will be increased according to the fair value of cost of additional investment and the related expenses incurred by related transactions. For cash dividend or profit paid by the investee, it shall be recognised as investment income for current period using the amount which it entitles.

For long-term equity investment for which the subsequent measurement is accounted for under equity method, carrying value of long-term equity investment shall be increased or decreased accordingly according to the change in the shareholders' equity of the investee. When determining the amount of proportion of net profit or loss in the investee which it entitles, fair value of each identifiable assets of the investee at the time when the investment is obtained shall be used as basis, and according to the accounting policies and accounting period of the Group, and after offsetting profit or loss incurred in internal transaction between associates and joint ventures, and calculate the proportion which is attributable to the investing company according to the shareholding, and recognised after adjustment is made to the net profit of the investee.

On disposal of a long-term equity investment, the difference between the carrying value and the consideration actually received is recognised as investment income for the period. For long-term equity investments accounted for under equity method, the relevant other comprehensive income accounted for by the original equity method shall be accounted for on the same basis as the investee's direct disposal of related assets or liabilities when the equity method is terminated. The owner's equity recognised by changes in other owner's equity other than profit and loss, other comprehensive income and profit distribution shall be all transferred to the current investment gain when the equity method is terminated.

Notes to the Financial Statements for 2021

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

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

18. Long-term equity investments *(continued)*

When the Group loses control in the investee due to reasons such as disposal of part of the equity investment, for the remaining shareholding after disposal accounted for by applying ASBE 22 – Recognition and Measurement of Financial Instruments (Caihui [2017] No. 7), difference between fair value and the carry value on the date of loss of common control or significant influence will be included in the profit or loss for current period. Other comprehensive income recognised in the original equity investment which is accounted for using equity method, upon it will no longer be accounted for under equity method, it shall be using the same accounting basis as the investee directly disposing related assets or liabilities, according to its proportion. The owner's equity recognised by changes in other owner's equity other than profit and loss, other comprehensive income and profit distribution shall be transferred to the current investment gain according to its proportion.

For loss of control in the investee due to partly disposed long-term equity investment, for remaining shareholding which can apply common control or impose significant influence to the investee after disposal, shall be accounted for under equity method. Difference between the carrying value of equity disposal and the disposal consideration shall be included as investment income. Such remaining shareholding shall be treated as accounting for under equity method since the shareholding is obtained and make adjustment. For remaining shareholding which cannot apply common control or impose significant influence after disposal, it can be accounted and by applying ASBE 22 – Recognition and Measurement of Financial Instruments (Caihui [2017] No. 7) as under regulations related to recognition and measurement standards of financial instruments, and difference between carrying value of equity disposal and the disposal consideration shall be included as investment income, difference between fair value and the carrying value of remaining shareholding on the date loss of control shall be included in the investment profit or loss for such period.

If the transactions from the step-by-step disposal of equity to the loss of controlling equity do not fall under a series of transactions, the Group shall separately carry out accounting treatment for each transaction. If the transaction falls under a series of transactions, each transaction is accounted for as a disposal of subsidiary with control lost. However, the difference between the consideration for each transaction before losing control and the carrying value of the long-term equity investments corresponding to the equity disposed of is recognised as other comprehensive income and transferred to profit or loss upon loss of control.

19. Investment properties

The Group's investment properties comprise rented out housing buildings and land. They are measured using the cost model.

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 Group 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.

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.

Notes to the Financial Statements for 2021

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

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

20. Fixed assets

Fixed assets of the Group are tangible assets that held for production of goods or provision of services, leasing to others, or for administrative purposes; have useful life over one accounting year.

Fixed assets are recognised when it is probable that the related economic benefits will flow to the Group and the costs can be reliably measured. Fixed assets of the Group comprise buildings and structures, machinery equipment, electronic equipment, appliances and furniture, transportation equipment, moulds, etc.

Apart from fixed assets which are provided in full and continue to be in use and lands that are accounted separately, the Group made provision for all the fixed assets. The Group made provision for depreciation using straight-line method. The useful life, estimated residual value ratio and depreciation rate of fixed assets of the Group are classified as below:

No.	Category	Useful life (year)	Rate of residual value (%)	Annual depreciation rates (%)
1	Buildings	20-50	0-10	1.8-5
2	Machinery and equipment	5-20	5-10	4.5-19
3	Electronic equipment, appliances and furniture	3-10	0-10	9-33.33
4	Motor vehicles	5-10	5-10	9-19
5	Offshore land	Unlimited	Not applicable	Not applicable

The Group makes the assessment on the estimated useful life, estimated rate of salvage value and the depreciation method of fixed assets at each financial year-end. If any changes occur, they will be regarded as changes on accounting estimates.

21. Construction in progress

Construction in progress is transferred to the fixed assets when the assets are ready for their intended use at an estimated amount based on the project budget or actual cost of construction. Depreciation is calculated from the next month of the transfer. The cost of the asset is adjusted when the construction finalization procedures are completed.

Notes to the Financial Statements for 2021

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

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

22. Borrowing costs

Borrowing cost incurred from fixed assets, investment properties and inventories which require construction or production activities for a relatively long time, and can reach usable or sale condition after that. Borrowing costs start capitalization when the assets expense and borrowing costs were incurred and the construction or production activities, in order to make assets to reach the expected usable or sale condition have started; When construction or assets that fulfil the capitalization conditions reached the expected usable or sale condition, the capitalization have to be terminated. Borrowing costs incurred afterward are included into the profit or loss for current period. If assets that fulfil capitalization conditions interrupted abnormally during construction or production progress, and such interruption occurred for more than three consecutive months, capitalization of borrowing costs have to terminate, until construction of assets or production activities resumed.

The amount of interest, accrued from the funds borrowed under a specific-purpose, to be capitalised is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. The Group determines the amount of interest, accrued from the funds borrowed under general-purpose, to be capitalised by applying a capitalisation rate to the weighted average of the excess of cumulative expenditures on the asset over the amounts of specific-purpose borrowings. The capitalisation rate shall be calculated and determined according to the weighted average interest rate of the general borrowing.

23. Right-of-use assets

The right-of-use asset is defined as the right of underlying assets in the lease term for the Group as a lessee.

(1) Initial measurement

At the commencement date, the Group shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise: ① the amount of the initial measurement of the lease liability; ② any lease payments made at or before the commencement date, less any lease incentives received; ③ any initial direct costs incurred by the lessee, which is defined as incremental costs arising due to the obtaining lease; and ④ an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, while costs of production of inventory are excluded.

(2) Subsequent measurement

At the commencement date, the Group shall measure the right-of-use asset at cost, which is the measurement of right-of-use assets at cost less accumulated depreciation and accumulated impairment losses. If the Group re-measures lease liability in accordance with the relevant provisions of the lease standards, the book value of the right-of-use assets shall be adjusted accordingly.

Notes to the Financial Statements for 2021

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

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

23. Right-of-use assets (continued)

(2) Subsequent measurement (continued)

Depreciation of right-of-use asset

At the commencement date, the Group depreciates the right-of-use asset. Right-of-use assets are usually depreciated starting from the month of the lease term. The depreciation amount accrued is included in the cost of the relevant asset or current profit or loss based on the use of the right-of-use asset.

When determining the depreciation method of the right-of-use assets, the Group makes decision based on the expected consumption method of the economic benefits related to such right-of-use assets, and depreciates the right-of-use assets by the straight-line method.

When determining the depreciation period of the right-of-use assets, the Group follows the following principles: If there is reasonable certainty that the Group will obtain ownership of the underlying asset by the end of the lease term, the asset is depreciated over its remaining useful life; otherwise the asset is depreciated over the shorter of the lease term and its remaining useful life.

Impairment of right-of-use assets

If the right-of-use asset is impaired, the Group performs subsequent depreciation based on the book value of the right-of-use assets after deducting the impairment loss.

24. Intangible asset

The Group's intangible assets mainly include land use right, trademark right, patented technology, etc. Intangible assets are measured at the actual costs at acquisition. For purchased intangible assets, actual paid cost and other relevant expenses are used as the actual cost. For intangible assets invested by investors, the actual cost is determined according to the values specified in the investment contract or agreement, while for the unfair agreed value in contract or agreement, the actual cost is determined at the fair value. Intangible assets acquired in a merger not under common control that are owned by the acquiree but not recognised in its financial statements are recognised as intangible assets at fair value on initial recognition of the acquiree's assets.

The Group amortizes land use right on the basis of its useful life by straight line method since it is acquired. Other intangible assets are amortized evenly on the basis of shorter of estimated useful life, stipulated beneficial year by contract, and legal available year. The amortization amount is accounted into profit and loss in the current period according to the beneficiary object of intangible assets. The Group makes the assessment on the estimated useful life and amortization method of intangible assets with limited useful life at the end of each year. Any changes will be dealt with as changes on accounting estimates.

The useful lives of the Group's intangible assets with limited useful lives are as follows:

Items	useful lives (years)
Land use rights	20-70
Trademark rights	5
Proprietary technology	10
Sales channels	10
Others	3-10

Explanation: The useful life of land use right is recognized according to the term of the grant; the useful life of other intangible assets is recognized according to the shortest of the expected useful life, the beneficial period as specified in the contract or the useful life specified in the law.

Notes to the Financial Statements for 2021

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

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

24. Intangible asset *(continued)*

The Group will review the useful lives on those intangible assets with indefinite useful lives at each of the accounting period. 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.

25. Expenditure on research and development

(1) The Group classifies the expenditure on an internal research and development project into expenditure at the research phase and expenditure at the development phase.

(2) Specific criteria for the classification of the Company's internal research and development projects into research phase and development phase:

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

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

(3) Expenditure at the research phase of an internal research and development project is recognized in profit or loss for the period when it is incurred.

(4) Expenditure at the development phase of an internal research and development project is recognised as an intangible asset only if all of the following conditions are satisfied at the same time:

(i) It is technically feasible to complete the intangible asset so that it will be available for use or sale;

(ii) Management intends to complete and to use or sell the intangible asset;

(iii) It can be demonstrated how the intangible asset will generate economic benefits, including demonstrating that there is an existing market for products produced by the intangible asset or for the intangible asset itself, and that it can be used if the intangible asset is to be used internally;

(iv) There are adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible assets;

(v) The expenditure attributable to the intangible asset at its development phase can be reliably measured.

(5) All the expenditures on research and development which cannot be distinguished between the research phase and development phase are recognised in the profit or loss when incurred.

Notes to the Financial Statements for 2021

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

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

26. Impairment of long-term assets

The Group would assess intangible assets such as long-term equity investment, investment properties measured by the cost model, fixed assets, construction in progress, right-to-use assets and intangible assets and operating lease assets with limited useful lives at each of the balance sheet date. When there is indication that there is impairment, the Group would perform impairment test. Impairment test should be made for goodwill and intangible assets with uncertain useful life, at the period end regardless of whether there is indication of impairment loss.

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

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

27. Long-term prepaid expenses

Long-term prepaid expenses are expenditures of the Group 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. Pre-operating expenses during the establishment period should be recognized directly in profit or loss in the month as incurred.

28. Contract liability

A contract liability reflects the Group's obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If the customer has paid the contract consideration or the Group has obtained the unconditional rights to consideration before the Group transfers goods to the customer, the Group will present the amount received or receivable as a contract liability at the time of actual payment by the customer or the due date of the amount to be paid by the customer, which is the earlier.

Notes to the Financial Statements for 2021

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

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

29. Employee compensation

Staff remuneration of the Group mainly includes short-term remuneration, post-employment benefits, termination benefits and other long-term benefits.

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 is recognised as a liability, and included in profit or loss for the current period or as related asset cost in accordance with beneficiaries.

Post-employment benefits mainly include pension insurance premium and unemployment insurance premium. According to the Company's risks and obligations, they are classified as defined contribution plans and defined benefit plans. As for the defined contribution plans, the contributions which are made for individual subjects in exchange for the staff's services rendered in the accounting period shall be recognized as liabilities on the balance sheet date and included in profits or losses in the current period or relevant asset costs according to the beneficiaries. Defined benefit plans are to provide a system of severance payments to its employees.

Where the Group 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 Group may not revoke unilaterally the termination benefit provided due to the termination of employment relationship plans or employee redundancy proposals or when the Group 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.

30. Lease Liabilities

(1) *Initial measurement*

The lease liability is initially measured at the present value of the outstanding lease payments on the commencement date of the lease term.

1) Lease payment

The lease payment refers to the amount paid by the Group to the lessor in relation to the right to use the leased asset during the lease term, including: ①The fixed payment and the substantial fixed payment, net of the lease incentive amount when there is a lease incentive; ②The variable lease payments depending on the index or ratio, which are determined at the time of initial measurement based on the index or ratio on the commencement date of the lease term ; ③The exercise price of the call option, provided that the Group reasonably determines that it will exercise the option; ④ The amount payable to exercise the option to terminate a lease, provided that the lease term reflects that the Group will exercise the option to terminate the lease; ⑤The amount payable based on the residual value of the security provided by the Group.

Notes to the Financial Statements for 2021

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

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. Lease Liabilities (continued)

(1) Initial measurement (continued)

2) Discount rate

In calculating the present value of the lease payment, if it is impossible to determine the interest rate implicit in lease, the incremental borrowing rate of the Group shall be adopted as the discount rate. The incremental borrowing rate is defined as the rate of interest that the Group would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment. Such rate is related to ① The Group's conditions, including its solvency and credit status; ② the term of "borrowing", being the lease term; ③ the amount of "borrowing", being the amount of the lease liabilities; ④ "mortgage condition", namely, the nature and quality of the underlying assets; ⑤ the economic environment, including the jurisdiction where the lessee is located, the denominated currency, and the timing when contract was signed, etc. The Group takes the bank loan interest rate as the basis and adjusts the above factors to achieve the incremental borrowing interest rate.

(2) Subsequent measurement

After the commencement date, the Group conducts subsequent measurement of the lease liabilities according to the following principles: ① When confirming the interest of the lease liabilities, increase the carrying amount of the lease liabilities; ② When paying the lease payment, reduce the carrying amount of the lease liabilities; ③ When the lease payment changes due to revaluation or lease changes, the book value of the lease liability is remeasured.

The lessee shall calculate the interest expenses of the lease liabilities for each period of the lease term at a cyclically fixed interest rate and include them in profit or loss for the current period, except for those subject to capitalization. The cyclical interest rate refers to the discount rate used by the Group in the initial measurement of lease liabilities, or the amended discount rate used by the Group when lease liabilities need to be remeasured at the revised discount rate due to changes in lease payment or change of lease.

(3) Remeasurement

After the commencement date, the Group remeasures the lease liability based on the present value of the lease payment after the change and the revised discount rate, if the following situation arises. If the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the remeasurement in profit or loss. ① a modification in the in-substance fixed lease payments (In this case, discounted using the original discount rate); ② a change in the amounts expected to be paid under residual value guarantees; ③ a change in future lease payments arising from change in an index or rate (In this case, discounted using the revised discount rate); ④ a change in assessment of the purchase option (In this case, discounted using the revised discount rate); ⑤ changes in the evaluation result or actual exercise of the option to renew or terminate the lease (In this case, discounted using the revised discount rate).

31. Provisions

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

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

Notes to the Financial Statements for 2021

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

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

31. Provisions *(continued)*

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.

32. 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.

Cash-settled share-based payments are measured at the fair value of liabilities determined on the basis of Shares or other equity instruments assumed by the Group. For those vested immediately upon the grant, the fair value of the liabilities assumed as at the date of grant are charged to relevant costs or expenses and the liabilities are increased accordingly. For those vested upon completion of services for the vesting period or fulfilment of performance conditions, the Group charges the services obtained in the current period to costs or expenses at each balance date during the vesting period based on the best estimate of vesting conditions and according to the fair value of the liability assumed by the Group and adjusts the liabilities accordingly.

At each balance sheet date or settlement date before the settlement of relevant liabilities, the fair value of liabilities are remeasured with respective changes included in the profit or loss for the current period.

If the Group cancelled the granted equity instrument during the vesting period (other than cancellations due to non-fulfilment of the vesting conditions), it is deemed as accelerated vesting, as if all vesting conditions of the equity-based payment scheme during the remaining vesting period have been fulfilled, all expenses of the remaining vesting period are recognised during the period of cancellation of such equity instrument granted.

33. Recognition and measurement of revenue

The revenue of the Group mainly included revenue from sale of goods.

The Group recognizes revenue when a performance obligation in the contract is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customers.

When the contract contains two or more performance obligations, on the inception of the contract, the transaction price is allocated to each separate performance obligation in proportion to the stand-alone price of the promised goods or services, and the revenue is recognized according to the transaction price allocated to each performance obligation.

Notes to the Financial Statements for 2021

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

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

33. Recognition and measurement of revenue *(continued)*

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The transaction price confirmed by the Group does not exceed the amount that is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. An entity shall recognize a refund liability if the entity expects to refund some or all of the consideration to the customer which is not included in the transaction price. Where there is significant financing component in the contract, the Group shall determine the transaction price on the basis of the amount payable in cash when the customer assumes control of the goods or services. The difference between the transaction price and the contract consideration shall be amortized by the effective interest rate method during the contract period. The Group shall not take into account the existence of a significant financing component in the contract if the Group expects, at contract inception, that the period between when the customer acquires the control of a promised good or service and when the customer pays for that good or service will be one year or less.

The Group satisfies a performance obligation over time, if one of the following criteria is met; otherwise, it satisfies a performance obligation at a point in time:

1. The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
2. The customer can control the asset which is created by the Group's performance;
3. The Group's performance does not create an asset with an alternative use and the Group has an enforceable right to receive payment in respect of performance completed to date during the whole contract period.

For a performance obligation satisfied over time, the Group shall recognize revenue over time by measuring the process towards complete satisfaction of the performance obligation. If the Group unable to reasonably measure the progress towards complete satisfaction of a performance obligation and the costs incurred by the Group can be expected to be compensated, the revenue shall be recognized according to the costs incurred until such time that it can reasonably measure the process towards complete satisfaction of the performance obligation.

For a performance obligation satisfied at a point in time, the Group shall recognize revenue when the customer obtains control of relevant goods or services. In judging whether customers obtain control of promised goods or services, the Group considers the following indications:

1. The Group has a present right to receive the payment in respect of the goods or services;
2. The Group has transferred the legal title of the goods to customers;
3. The Group has transferred physical possession of the goods to customers;
4. The group has transferred the significant risks and rewards of the ownership of the goods to the customers;
5. Customers have accepted the goods or services.

The Group's right to consideration in exchange for goods or services that it has transferred to a customer is stated as contract asset. The Group recognises allowances for impairment loss for expected credit loss on contract assets. Receivable is the Group's unconditional right to consideration to be received from a customer. A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Notes to the Financial Statements for 2021

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

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

34. Government grants

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

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

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

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 Group 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 has been 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 have been 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 has been 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 Group 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 Group, depending on the essence of economic business, are recognized in other income or used to offset relevant cost and expenses, otherwise, recognized in non-operating income or non-operating expenses.

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

Notes to the Financial Statements for 2021

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

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

35. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are recognized based on the temporary differences between the tax bases and the carrying amount of assets and liabilities. A deferred tax asset shall be recognized for deductible losses to the extent that it is probable that tax profit will be available against which the deductible losses can be utilized in accordance with tax law. Deferred tax liabilities for temporary taxable differences relating to goodwill are not recognized to the extent they arise from the initial recognition of goodwill. Deferred tax assets and liabilities are not recognized if the temporary differences arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. As at balance sheet date, deferred tax assets and deferred tax liabilities are determined using the applicable tax rates that are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Except for abovementioned circumstances, the Group recognises deferred income tax assets that it is probable that future taxable income will be available against which the deductible temporary differences, deductible losses and tax credits can be utilised.

36. Segment statements

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

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

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

The segment revenue, operating results, assets and liabilities include the amount that is directly attributable to the segment and can be allocated to the segment on a reasonable basis. Revenue, assets and liabilities of an operating segment are determined at the amount before the elimination of inter-group transactions and inter-group current account balances. Transfer price between operating segments is calculated based on terms similar to those of the transactions with other parties.

Notes to the Financial Statements for 2021

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

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

37. Lease

(1) Identification of lease

Lease refers to a contract under which the leaser transfers the right of use of assets to the lessee for consideration within a certain period of time. At the commencement date of the contract, the Group assesses whether the contract is a lease or contains a lease. If a party to the contract transfers the right of use of an identified asset or several identified assets for consideration within a certain period of time, such contract is regarded as leasing or includes leasing. In order to determine whether the right to control the use of the identified assets within a certain period of time has been transferred in the contract, the Group assesses whether the customers in the contract are entitled to substantially all economic benefits arising from the use of the identified assets and have the right to dominate the use of identified assets during the period of use.

Where a contract concurrently contains multiple separate leases, the Group splits the contract and conduct accounting treatment respectively for all separate leases. Where a contract concurrently includes both leased and non-leased parts, the Group shall split the leased and non-leased parts and conduct accounting treatment.

(2) The Group as lessee

1) Recognition of lease

On the beginning date of the lease term, the Company recognizes the right-of-use assets and lease liabilities of the lease. For the recognition and measurement of right-of-use assets and lease liabilities, see “23. Right-of-use assets” and “30. Lease liabilities” of Note 4.

2) Changes in leases

Changes in leases refer to the changes in the lease scope, lease consideration, and lease term other than the original contract terms, including the addition or termination of the rights of use of one or more leased assets, and the extension or shortening of the lease period stipulated in the contract. The effective date of the lease change refers to the date both parties agreed on the lease change.

If modification of lease happens and meets the following conditions, the Group will conduct accounting treatment for the modification of lease as a separate lease: ① the modification of lease expands the scope of lease or extended the lease term by increasing the rights use of one or more leased assets; ② the increased consideration and the individual price of the expanded part of lease or extension of lease term are equivalent after adjustment is made in accordance with situation of the contract.

Notes to the Financial Statements for 2021

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

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

37. Lease (continued)

(2) The Group as lessee (continued)

2) Changes in leases (continued)

If accounting treatment for the modification of lease as a separate lease is not conducted, on the effective date, the Group shall apportion the consideration of the changed contract in accordance with the relevant provisions of the lease standards, and re-determine the lease period after the change; and discount the modified lease payments using the revised discount rate, in order to remeasure the lease liabilities. When calculating the present value of the lease payments after modification, the Group adopts the interest rate implicit in the lease for the remaining lease periods as the discount rate; if the lease interest rate implicit in the lease for the remaining lease period cannot be readily determined, the lessee's incremental borrowing rate shall then be used by the Group as the discount rate on the effective date of modification of lease. In view of the consequences of the above adjustment of the lease liabilities, the Group conducts accounting treatment in each of the following cases accordingly: ① if the modification of lease results in a narrower scope of lease or a shorter lease term, the lessee shall reduce the book value of the right-of-use assets, and recognise the gain or loss relevant to the partial or complete termination of the leases in the current profit or loss; ② for other modification of lease that may lead to remeasurement of lease liabilities, the lessee adjusts the book value of the right-of-use assets accordingly.

3) Short-term leases and low-value asset leases

For short-term leases with a lease period of not more than 12 months and low-value asset leases which are brand-new assets, the Group does not recognise the right-of-use assets and lease liabilities. During different periods in the lease term, lease payments on short-term leases and leases of low-value assets are recognised as relevant asset costs or current profit or loss on a straight-line basis or other systematic and reasonable methods over the lease term.

(3) The Group as a lessor

Based on assessment as stated in (1), if the contract is lease or includes lease, such lease for which the Group is a lessor are classified as finance or operating on the lease commencement date.

The lessor classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Other leases other than finance lease shall be classified as operating leases.

A lease is usually classified as a finance lease when one or more of the following conditions are satisfied: ① At the expiration of the lease term, the ownership of the leased asset is transferred to the lessee. ② The lessee has the option to purchase the leased asset. The purchase price entered into is sufficiently low compared to the fair value of the leased asset when the option is exercised. Therefore, it can be reasonably determined at the commencement date of the lease that the lessee will exercise the option. ③ Although the ownership of the asset is not transferred, the lease term accounts for the majority of the useful life of the leased assets (not lower than 75% of the useful life of the leased assets). ④ On the commencement date of the lease, the present value of the lease receivable amount is basically equivalent to the fair value of the leased asset (not lower than 90% of the fair value of the leased assets). ⑤ The leased assets are of a special nature. If no major modifications are made to them, only the lessee can use them. If one or more of the following conditions exist in a lease, the Company may also be classified as a financial lease: ① If the lessee stops the lease, the lessee shall bear the losses caused by the termination of the lease to the lessor; ② The profits or losses caused by the fluctuation of the fair value of the balance of assets belong to the lessee; ③ The lessee can continue to lease far below the market level for the next period.

Notes to the Financial Statements for 2021

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

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

37. Lease *(continued)*

(3) *The Group as a lessor (continued)*

1) Accounting treatment for financial lease

Initial measurement

At the beginning of the lease term, the Company confirms the financial lease receivable on the financial lease and terminates the recognition of the financial lease assets. When the initial measurement of the financial lease receivable is made by the Group, the Group uses the net lease investment as the entry value of the finance lease receivables.

The net lease investment is the sum of the unsecured residual value and the present value of rental receipts that has not been received on the start date of the lease term, which is discounted according to the interest rate implicit in lease. The amount of the lease receivable refers to the amount that the Group should collect from the lessee for the purpose of transferring the leased assets during the lease term, including: ①The fixed payment amount and the substantial fixed payment amount to be paid by the lessee, if there is a lease incentive, the amount related to the lease incentive is deducted; ②Variable lease payments depending on the index or ratio, and such amounts, are determined at the initial measurement based on the index or proportion at the beginning of the lease period; ③The exercise price of the purchase option, provided that it is reasonably determined that the lessee will exercise the option; ④The lessee exercises the amount to be paid for the termination of the lease option, provided that the lease period reflects the lessee's exercise of the option to terminate the lease; ⑤The residual value of the guarantee provided by the lessee, the party concerned with the lessee and the independent third party with the financial ability to perform the guarantee obligation.

Subsequent measurement

The Group calculates and recognises interest income for each period of the lease term based on a fixed periodic interest rate. Such periodic interest rate refers to the embedded discount rate used to determine the net lease investment. In the case of intermediate lease, if it is impossible to determine the embedded discount rate under such intermediate lease, discount rate of the original lease shall be adopted and adjustments shall be made based on initial direct costs of such intermediate lease. For a financial lease modification that is not accounted for as a separate lease, if the lease is classified as a financial lease when the change becomes effective on the lease start date, its discount rate shall be revised according to relevant regulations.

Accounting treatment for lease modification

If the finance lease changes and meets the following conditions, the Group will account for the change as a separate case for accounting treatment: ①The modification expands the scope of the lease by increasing the right to use one or more leased assets; ②The increased consideration is equal to the individual price of the expanded portion of the lease, as adjusted by the contractual situation.

For a financial lease modification that is not accounted for as a separate lease, if the lease is classified as an operating lease when the change becomes effective on the lease start date, the Group begins accounting as a new lease from the effective date of the lease change and uses the net lease investment before the effective date of the lease change as the book value of the leased asset.

Notes to the Financial Statements for 2021

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

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

37. Lease *(continued)*

(3) The Group as a lessor (continued)

2) Accounting treatment for operating lease

Treatment of lease payment

Rental receipts under an operating lease are recognised as rental income on a straight-line basis over the period of the lease.

Incentive measures provided

Total rental is recognised on a straight-line basis over the period of the lease, without excluding the rent-free period, rental fee are recognised during the rent-free period. If the Group has undertaken certain expenses of the lessee, the expenses will be deducted from total rental income, and the rental income will be allocated according to the balance of the rental income after deduction.

Initial direct costs

The initial direct costs incurred by the Group in relation to the operating leases shall be capitalized as the costs of the subject leased asset and apportioned on the same basis as the rental income recognition during the lease term, and included in current profit or loss.

Depreciation

For fixed assets in operating lease, the Group measures the depreciation in accordance with depreciation policies for similar assets; for other operating lease assets, the Group adopts a systematic and reasonable method on amortization.

Variable lease payments

The variable lease payments received by the Group that are not included in the lease receivables related to the operating leases are recognised in profit or loss in the period in which they are actually incurred.

Operating lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any received or receivable rental receipts relating to the original lease as part of the lease receipts for the new lease.

38. Critical accounting judgements and estimates

(1) Critical accounting judgements

The Group had no significant changes in accounting judgements during the year.

(2) Critical accounting estimates

The Group had no significant changes in accounting estimates during the year.

Notes to the Financial Statements for 2021

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

5. TAXATION

(1) The main types and rates of taxes

Type of taxes	Tax basis	Tax rate
Value-added tax	Output value-added tax is computed at 13%, 9%, 6%, 5% and 3% of taxable income. Value-added tax is computed on the difference after deduction of input value-added tax. Input value-added tax is not deductible for value-added tax to which simple collection method is applicable.	13%、9%、6%、5%、3%
City maintenance and construction tax	Turnover tax payable	5%, 7%
Education surcharges	Turnover tax payable	3%
Enterprise income tax	Taxable income	25%/for details, please see the table below

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

Notes on taxpayers subject to different enterprise income tax rates:

Name of tax payer	Income tax rate
Hisense (Shandong) Air-Conditioning Co., Ltd.	15.00%
Hisense (Shandong) Refrigerator Co., Ltd.	15.00%
Qingdao Hisense Mould Co., Ltd.	15.00%
Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.	15.00%
Guangdong Kelon Mould Co., Ltd.	15.00%
Hisense (Guangdong) Kitchen and Bath System Co., Ltd.	15.00%
Foshan Shunde Rongsheng Plastic Co., Ltd.	15.00%
Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.	15.00%
Hisense Ronshen (Guangdong) Freezer Co., Ltd.	15.00%
Foshan Hisense Property Service Co., Ltd.	20.00%
Hisense (Chengdu) Refrigerator Co., Ltd.	15.00%
Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.	15.00%
Kelon International Incorporation(KII)	8.25%/16.50%
Pearl River Electric Refrigerator Co., Ltd.	16.50%
Kelon Development Co., Ltd.	16.50%
Hisense (Hong Kong) America Manufacturing Co., Ltd.	16.50%
Hisense Mould(Deutschland)GmbH	15.00%
Hisense Monterrey Manufacturing, S.de R.L. de C.V.	30.00%
Hisense Monterrey Property Management, S.de R.L. de C.V.	30.00%
Sanden Holdings Corporation	30.50%
SANDEN INTERNATIONAL (EUROPE) GmbH	30.00%
SANDEN MANUFACTURING EUROPE S.A.S.	28.00%
SANDEN MANUFACTURING POLAND SP.ZO.O.	19.00%
SANDEN INTERNATIONAL (U.S.A.), INC.	21.00%
SANDEN VIKAS (INDIA) LTD.	35.00%
SANDEN THAILAND CO., LTD.	20.00%
Tianjin Sanden Auto Air-Conditioning CO., LTD.	15.00%
Other overseas subsidiaries	5%-34%

Notes to the Financial Statements for 2021

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

5. TAXATION (continued)

(2) Tax preferences

Hisense Ronshen (Guangdong) Refrigerator Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR202044005977) dated 19 December 2020 which was jointly issued by the Guangdong Science and Technology Department, Guangdong Finance Department, State Taxation Administration and Guangdong Local Taxation Bureau, with an effective period of three years (2020, 2021 and 2022). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2020, 2021 and 2022.

Guangdong Kelon Mould Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR202044002017) dated 1 December 2020 which was jointly issued by the Guangdong Science and Technology Department, Guangdong Finance Department, State Taxation Administration and Guangdong Local Taxation Bureau, with an effective period of three years (2020, 2021 and 2022). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2020, 2021 and 2022.

Hisense (Shandong) Refrigerator Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR202037100323) dated 1 December 2020 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, State Taxation Administration and Qingdao Local Taxation Bureau, with an effective period of three years (2020, 2021 and 2022). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2020, 2021 and 2022.

Hisense (Shandong) Air-Conditioning Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR202037100677) dated 1 December 2020 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, State Taxation Administration and Qingdao Local Taxation Bureau, with an effective period of three years (2020, 2021 and 2022). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2020, 2021 and 2022.

Qingdao Hisense Mould Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR202037100274) dated 1 December 2020 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, State Taxation Administration and Qingdao Local Taxation Bureau, with an effective period of three years (2020, 2021 and 2022). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2020, 2021 and 2022.

Hisense (Guangdong) Kitchen and Bath System Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201944000086) dated 2 December 2019 which was jointly issued by the Guangdong Science and Technology Department, Guangdong Finance Department, State Taxation Administration and Guangdong Local Taxation Bureau, with an effective period of three years (2019, 2020 and 2021). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2019, 2020 and 2021.

Foshan Shunde Rongsheng Plastic Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201944000433) dated 2 December 2019 which was jointly issued by the Guangdong Science and Technology Department, Guangdong Finance Department, State Taxation Administration and Guangdong Local Taxation Bureau, with an effective period of three years (2019, 2020 and 2021). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2019, 2020 and 2021.

Notes to the Financial Statements for 2021

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

5. TAXATION (continued)

(2) Tax preferences (continued)

Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201932003825) dated 22 November 2019 which was jointly issued by the Jiangsu Science and Technology Department, Jiangsu Finance Department and Jiangsu Provincial Taxation Bureau of State Administration of Taxation, with an effective period of three years (2019, 2020 and 2021). According to the relevant tax preference regulation on High-tech Enterprises, the applicable enterprise income tax rate for this subsidiary is 15% in 2019, 2020 and 2021.

According to the “Administrative Measures for the Recognition of High-tech Enterprises” (CTP No. [2016] 32) and the “Guidelines for the Recognition Management Work of High-tech Enterprises” (CTP No. [2016] 195), the Leading Group Office of National High-tech Enterprises Recognition and Management publicly issued the 2021 second batch of proposed high-tech enterprises of Guangdong Province on 20 December 2020. Hisense Rongsheng (Guangdong) Freezer Co., Ltd., a subsidiary of the Company, was assessed as a high-tech enterprise, with an effective period of three years (2021, 2022 and 2023). According to the relevant tax preference regulation on Hightech Enterprises, the applicable enterprise income tax rate for this subsidiary is 15% in 2021, 2022 and 2023.

Hisense (Guangdong) Mould Plastic Company Limited, a subsidiary of the Company, meets the identification standards for small and micro-sized enterprises stipulated in Cai Shui [2019] No. 13: engaging in industries not restricted or prohibited by the state and meeting the annual taxable income of no more than RMB3 million, the number of employees of no more than 300, and total assets of not exceeding RMB50 million; according to the relevant tax preferences for small and micro-sized enterprises, in 2021, the portion of the annual taxable income of no more than RMB1 million shall be deducted into the taxable income by 12.5%, and the enterprise income tax shall be prepaid at the rate of 20%; the annual taxable income between RMB1 million and RMB3 million shall be deducted into the taxable income by 50%, and the enterprise income tax shall be prepaid at the rate of 20%.

Guangdong Foshan Shunde Kelon Property Service Co., Ltd., a subsidiary of the Company, meets the identification standards for small and micro-sized enterprises stipulated in Cai Shui [2019] No. 13: engaging in industries not restricted or prohibited by the state and meeting the annual taxable income of no more than RMB3 million, the number of employees of no more than 300, and total assets of not exceeding RMB50 million; according to the relevant tax preferences for small and micro-sized enterprises, in 2021, the portion of the annual taxable income of no more than RMB1 million shall be deducted into the taxable income by 12.5%, and the enterprise income tax shall be prepaid at the rate of 20%; the annual taxable income between RMB1 million and RMB3 million shall be deducted into the taxable income by 50%, and the enterprise income tax shall be prepaid at the rate of 20%.

Hisense (Chengdu) Refrigerator Co., Ltd, a subsidiary of the Company, received the Certificate of Hightech Enterprise (Number: GR202051003748) dated 3 December 2020 which was jointly issued by the Sichuan Science and Technology Department, Sichuan Finance Department and the State Administration of Taxation Sichuan Municipal Taxation Bureau, Sichuan State Taxation Bureau and Sichuan Local Taxation Bureau, with an effective period of three years (2020, 2021 and 2022). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2020, 2021 and 2022.

Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd., a subsidiary of the Company, received the Certificate of Hightech Enterprise (Number: GR202137101914) which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department and the State Administration of Taxation Qingdao Municipal Taxation Bureau, Qingdao State Taxation Bureau and Qingdao Local Taxation Bureau on 14 December 2021, with an effective period of three years (2021, 2022 and 2023). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2021, 2022 and 2023.

The subsidiaries of the Company which were incorporated in Hong Kong are subject to an enterprise income tax on the estimated assessable profits derived from or arising in Hong Kong at the following rates: (1) for KII: a rate of 8.25% is applied to the part which is not exceeded HK\$2,000,000, while a rate of 16.5% is applied to the part which is exceeded HK\$2,000,000; (2) for other Hong Kong subsidiaries: a rate of 16.5% is applied to all of them (the rates of profit tax for each company in 2020 were 16.5%).

Notes to the Financial Statements for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

For the following disclosed financial statement data, unless otherwise noted, “Opening Balance” refers to the balance as at 1 January 2021; and “Closing Balance” refers to the balance as at 31 December 2021. “Current Year” refers to the period from 1 January to 31 December 2021; “Last Year” refers to the period from 1 January to 31 December 2020. The currency is denominated in RMB.

1. Cash at bank and on hand

Item	Closing balance	Opening balance
Cash on hand	181,739.29	2,345.07
Bank deposits	2,872,579,821.13	1,612,278,959.21
Other cash at bank and on hand	4,149,810,938.32	5,498,491,149.88
Total	7,022,572,498.74	7,110,772,454.16
Including: Total amount deposited overseas	1,285,195,575.45	65,469,538.20

Notes to cash at bank and on hand:

Other cash at bank and on hand at the end of the period represented mainly security deposit for setting up bank acceptance notes (at the end of the year: RMB4,133,804,056.37, at the beginning of the year: RMB5,482,747,782.51).

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

Item	Closing balance	Opening balance
Security deposit	4,143,395,704.06	5,493,569,881.90
Total	4,143,395,704.06	5,493,569,881.90

2. Transactional financial assets

Item	Closing balance	Opening balance
Financial assets at fair value through profit or loss	5,625,841,633.95	2,620,898,474.73
Including: Derivative financial assets	6,761,891.49	10,887,680.20
Wealth management products	5,619,079,742.46	2,610,010,794.53
Total	5,625,841,633.95	2,620,898,474.73

Notes to transactional financial assets:

The Group did not have high-risk entrusted wealth management of which the individual amount was significant, and no any circumstances indicating the possibility that the principal of the entrusted wealth management could not be recovered or other circumstances that might lead to impairment of the Group’s entrusted wealth management. For details of fair value, please refer to Note 10, 1. Fair value of assets and liabilities measured at fair value as at the end of the year.

Notes to the Financial Statements for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Notes receivable

(1) As shown by classification of notes receivable

Item	Closing balance	Opening balance
Bank acceptance notes		391,571,690.85
Commercial acceptance notes	228,252,631.50	156,926,849.51
Total	228,252,631.50	548,498,540.36

Notes to bills receivable: bills receivable for collecting contractual cash flows (for collection) were presented as bills receivable by the Group, and bills receivable for collecting contractual cash flows (for collection) and selling of these bills (endorsed or discounted) were presented as receivable financing by the Group

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

As at the end of the year, the Group did not have pledged notes receivables used.

(3) Notes receivable that were reclassified into account receivable due to failure of the issuers to settle the notes

Item	Amount transferred as to accounts receivable as at the end of the year
Commercial acceptance notes	208,902,873.86
Total	208,902,873.86

(4) As shown by provision for bad debts

Category	Book value		Closing balance		Carrying amount
	Amount	%	Amount	%	
Separate provision for bad debts					
Provision for bad debts on a group basis	232,639,718.15	100.00	4,387,086.65	1.89	228,252,631.50
Including:					
Commercial acceptance notes	232,639,718.15	100.00	4,387,086.65	1.89	228,252,631.50
Total	232,639,718.15	100.00	4,387,086.65	1.89	228,252,631.50

Notes to the Financial Statements for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Notes receivable (continued)

(4) As shown by provision for bad debts (continued)

Category	Opening balance				Carrying amount
	Book value		Provision for bad debts		
	Amount	%	Amount	%	
Separate provision for bad debt receivables for notes receivable					
Provision for bad debts for notes receivable on a group basis	551,833,415.14	100.00	3,334,874.78	0.60	548,498,540.36
Including:					
Bank acceptance notes	391,571,690.85	70.96			391,571,690.85
Commercial acceptance notes	160,261,724.29	29.04	3,334,874.78	2.08	156,926,849.51
Total	551,833,415.14	100.00	3,334,874.78	0.60	548,498,540.36

- 1) Among the group, provision for bad debts for Notes receivable by Commercial acceptance notes

Item	Closing balance		
	Book value	Provision for bad debts	%
Acceptor being a third party	232,639,718.15	4,387,086.65	1.89
Total	232,639,718.15	4,387,086.65	-

- 2) Provision for bad debts of notes receivable that are accrued, collected or transferred back in the current year

Item	Opening balance	Changes during the year			Closing balance
		Provision	Recoveries or reversal	Write-off	
Commercial acceptance notes	3,334,874.78	1,052,211.87			4,387,086.65
Total	3,334,874.78	1,052,211.87			4,387,086.65

- 3) Notes receivable written-off during the year

There was no notes receivable written-off for the year.

Notes to the Financial Statements for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivable

(1) Accounts receivable as shown by provision for bad debts

Category	Closing balance				Carrying amount
	Book value		Provision for bad debts		
	Amount	%	Amount	%	
Separate provision for bad debts for accounts receivable					
Provision for bad debts for accounts receivable on a group basis	8,940,918,328.96	100.00	183,840,950.91	2.06	8,757,077,378.05
Including:					
Aging analysis method	2,446,392,728.13	27.36	129,301,296.36	5.29	2,317,091,431.77
Receivables from related parties	4,110,174,401.47	45.97	1,606.82		4,110,172,794.65
Other amount	2,384,351,199.36	26.67	54,538,047.73	2.29	2,329,813,151.63
Total	8,940,918,328.96	100.00	183,840,950.91	2.06	8,757,077,378.05

(continued)

Category	Opening balance				Carrying amount
	Book value		Provision for bad debts		
	Amount	%	Amount	%	
Separate provision for bad debts for accounts receivable					
Provision for bad debts for accounts receivable on a group basis	6,804,783,003.27	100.00	210,679,144.04	3.10	6,594,103,859.23
Including:					
Aging analysis method	2,043,309,877.16	30.03	129,986,589.09	6.36	1,913,323,288.07
Receivables from related parties	3,648,456,622.81	53.62			3,648,456,622.81
Other amount	1,113,016,503.30	16.35	80,692,554.95	7.25	1,032,323,948.35
Total	6,804,783,003.27	100.00	210,679,144.04	3.10	6,594,103,859.23

Notes to the Financial Statements for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivable (continued)

(1) Accounts receivable as shown by provision for bad debts (continued)

- 1) Among the group, provision for bad debts for accounts receivable by aging analysis method:

Ageing	Closing balance		
	Book value	Provision for bad debts	%
Within three months	2,287,885,080.74	4,575,770.16	0.20
Over three months but within six months	37,001,328.66	3,700,132.87	10.00
Over six months but within one year	961,850.83	480,925.43	50.00
Over one year	120,544,467.90	120,544,467.90	100.00
Total	2,446,392,728.13	129,301,296.36	5.29

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

- 2) Among the group, provision for bad debts for Accounts receivable by receivables from related parties:

Ageing	Closing balance		
	Book value	Provision for bad debts	%
Within one year	4,110,172,794.65		
Over one year	1,606.82	1,606.82	100.00
Total	4,110,174,401.47	1,606.82	

- 3) Among the group, provision for bad debts for Accounts receivable by other amount:

Category	Closing balance		
	Book value	Provision for bad debts	%
Other amount	2,384,351,199.36	54,538,047.73	2.29
Total	2,384,351,199.36	54,538,047.73	2.29

Notes to the Financial Statements for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivable (continued)

(2) Accounts receivable presented by ageing as follows

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

Ageing	Closing balance	Opening balance
Within three months	7,549,514,577.52	5,914,907,293.47
Over three months but within six months	449,245,994.77	379,329,357.17
Over six months but within one year	693,372,760.15	152,580,320.08
Over one year	248,784,996.52	357,966,032.55
Total	8,940,918,328.96	6,804,783,003.27

(3) Provision for bad debts for accounts receivable during the year

Category	Opening balance	Changes during the year			Exchange rate movement	Closing balance
		Provision	Recoveries or reversals	Write-off		
Aging analysis method	129,986,589.09	2,401,524.42	3,086,817.15			129,301,296.36
Receivables from related parties		1,606.82				1,606.82
Other amount	80,692,554.95	20,331,814.75	46,297,496.88	1,882,555.13	1,693,730.04	54,538,047.73
Total	210,679,144.04	22,734,945.99	49,384,314.03	1,882,555.13	1,693,730.04	183,840,950.91

(4) Accounts receivable written-off during the year

Item	Written-off amount
Accounts receivable written-off	1,882,555.13

(5) Top five accounts receivable by closing balance of debtors

The total top five accounts receivable by closing balance of debtors amounted to RMB4,456,580,999.69, accounting for 49.84% of the closing balance of accounts receivable. A provision for bad debts of RMB3,880,113.69 in total was made as at the end of the year.

Notes to the Financial Statements for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Factoring of accounts receivable

(1) By category

Item	Closing balance	Opening balance
Bank acceptance notes	3,504,224,755.08	4,154,368,274.34
Commercial acceptance notes	165,454,305.86	86,872,351.67
Account receivable		
Total	3,669,679,060.94	4,241,240,626.01

Note: For details on the fair value, please refer to Note 10(1) Fair value of assets and liabilities measured at fair value as at the end of the year.

(2) Notes endorsed or discounted as at the end of the year but not due as at the balance sheet date

Item	Amount derecognized as at the end of the year	Amount not derecognized as at the end of the year
Bank acceptance notes	5,076,551,156.87	
Commercial acceptance notes	977,170.01	
Total	5,077,528,326.88	

(3) Accounts receivable derecognised due to transfer of financial assets

The Group transferred accounts receivable of RMB150,730,000.00 without recourse rights and relevant costs were RMB3,002,200.00.

6. Prepayments

(1) Prepayments presented by ageing as follows

Ageing	Closing balance		Opening balance	
	Amount	%	Amount	%
Within one year	345,266,527.56	99.77	223,554,658.02	99.61
Over one year	803,072.09	0.23	870,557.29	0.39
Total	346,069,599.65	100.00	224,425,215.31	100.00

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

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

The total top five prepayments by supplier based on closing balance amounted to RMB252,248,703.04, accounting for 72.89% of total closing balance of prepayments.

Notes to the Financial Statements for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Other receivables

Item	Closing balance	Opening balance
Dividends receivable	153,473,105.41	
Other receivables	330,569,190.97	398,205,694.16
Total	484,042,296.38	398,205,694.16

7.1 Dividends receivable

(1) Classification of dividends receivable

Item	Closing balance	Opening balance
Huayu Sanden Auto Air-Conditioning CO., LTD.	153,473,105.41	
Total	153,473,105.41	

(2) At the end of the period, the Group did not have any significant amount of dividends receivable aged over 1 year.

7.2 Other receivables

(1) Classification of other receivables by nature of the amount

Nature of the amount	Book value as at the end of the year	Book value as at the beginning of the year
Security deposit	66,327,016.91	67,681,996.88
Refund of tax for exports	97,063,390.40	159,103,278.81
Other current account	294,946,899.08	284,881,118.54
Total	458,337,306.39	511,666,394.23

Notes to the Financial Statements for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Other receivables (continued)

(2) Provision for bad debts for other receivables

Provision for bad debts	First stage	Second stage	Third stage	Total
	Expected credit loss in the next 12 months	Expected credit loss in the lifetime (without credit impairment)	Expected credit loss in the lifetime (with credit impairment)	
Balance as at 1 January 2021	13,059,992.51	23,496,390.88	76,904,316.68	113,460,700.07
During the year, the balance of other receivables as at 1 January 2021:	-	-	-	-
- transferred to second stage	-6,109,083.89	6,109,083.89		
- transferred to third stage				
- reversed to second stage				
- reversed to first stage				
Provision for the year	22,762,513.57			22,762,513.57
Reversal for the year	2,994,696.82	3,208,806.76	741,133.61	6,944,637.19
Written-off for the year				
Charge off for the year		15,000.00	1,258,866.39	1,273,866.39
Other changes	-236,594.64			-236,594.64
Balance as at 31 December 2021	26,482,130.73	26,381,668.01	74,904,316.68	127,768,115.42

Note: Except for separate assessment, the Group 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.

(3) Other receivables presented by ageing as follows

Ageing	Book value as at the end of the year
Within three months	302,418,906.28
Over three months but within six months	10,668,315.86
Over six months but within one year	11,974,783.36
Over one year	133,275,300.89
Total	458,337,306.39

(4) Provision for bad debts for other receivables

Category	Opening balance	Changes during the year				Closing balance
		Provision	Recoveries or reversals	Write-off	Exchange rate movements	
Individual provision	60,030,000.00		741,133.61	1,258,866.39		58,030,000.00
Aging analysis method	42,597,445.06	5,954,685.04	3,151,512.48	15,000.00	-30,526.09	45,355,091.53
Receivables from related parties	668,308.56	556,356.27	300,000.00			924,664.83
Other amount	10,164,946.45	16,251,472.26	2,751,991.10		-206,068.55	23,458,359.06
Total	113,460,700.07	22,762,513.57	6,944,637.19	1,273,866.39	-236,594.64	127,768,115.42

Notes to the Financial Statements for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Other receivables (continued)

(5) Other receivables written-off during the year

Item	Amount
Other receivables written-off	1,273,866.39

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

No.	Nature of the amount	Closing balance	Ageing	Percentage of total other receivables (%)	Provision for bad debts Closing balance
Top 1	Other current accounts	58,030,000.00	Over three years	12.66	58,030,000.00
Top 2	Refund of tax for exports	46,633,269.32	Within three months	10.17	
Top 3	Refund of tax for exports	21,965,975.11	Within three months	4.79	
Top 4	Refund of tax for exports	21,669,555.37	Within three months	4.73	
Top 5	Security deposit	16,000,000.00	Over three years	3.49	4,500,000.00
Total	-	164,298,799.80	-	35.84	62,530,000.00

8. Inventories

(1) Classification of inventories

Item	Closing balance		
	Book value	Provision for declines in value	Carrying amount
Raw materials	1,953,874,319.06	8,438,616.56	1,945,435,702.50
Works in progress	787,450,278.42	5,886,809.79	781,563,468.63
Finished goods	5,762,299,638.71	52,599,750.15	5,709,699,888.56
Total	8,503,624,236.19	66,925,176.50	8,436,699,059.69

(continued)

Item	Opening balance		
	Book value	Provision for declines in value	Carrying amount
Raw materials	747,607,523.76	3,946,286.09	743,661,237.67
Works in progress	332,045,889.42	930,833.52	331,115,055.90
Finished goods	3,255,049,351.22	34,563,159.68	3,220,486,191.54
Total	4,334,702,764.40	39,440,279.29	4,295,262,485.11

Notes to the Financial Statements for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Inventories (continued)

(2) Provision for declines in value of inventories

Item	Opening balance	Increase for the year		Decrease for the year		Closing balance
		Provision for the year	Others	Recovered or written-off	Others	
Raw materials	3,946,286.09	6,532,878.58		2,040,548.11		8,438,616.56
Works in progress	930,833.52	6,073,864.93		1,117,888.66		5,886,809.79
Finished goods	34,563,159.68	78,404,603.34		60,368,012.87		52,599,750.15
Total	39,440,279.29	91,011,346.85		63,526,449.64		66,925,176.50

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

Item	Basis of the provision for declines in value of inventories	Reasons for the write-off of provision for declines in value of inventories during the year
Raw materials		
Works in progress	The lower of the cost and net realizable value	Removal due to sales and consumption for production
Finished goods		

9. Contractual assets

(1) Contractual assets

Item	Closing balance			Opening balance		
	Book value	Impairment provision	Carrying amount	Book value	Impairment provision	Carrying amount
Guarantee	15,424,545.33	5,221,946.83	10,202,598.50			
Total	15,424,545.33	5,221,946.83	10,202,598.50			

(2) Provision for impairment of contractual assets during the year

Item	Provision for the year	Recovery for the year	Write-offs for the year	Reason
Guarantee	5,221,946.83			
Total	5,221,946.83			-

10. Non-current assets due within one year

Item	Closing balance	Opening balance
Fixed deposit due within one year	2,210,937,867.57	
Total	2,210,937,867.57	

Notes to the Financial Statements for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Other current assets

Item	Closing balance	Opening balance
Time deposits and interest	2,012,245,610.33	3,714,208,987.32
Prepaid tax and tax deductible	797,724,954.48	437,151,132.72
Prepaid expenses	98,478,095.15	46,654,066.49
Total	2,908,448,659.96	4,198,014,186.53

Note: Term deposit maturing within one year held by the Group for investment is presented under other current assets, but not recognised as cash and cash equivalents.

12. Long-term equity investments

Investee	Opening balance	Increase in investment	Decrease in investment	Change for the year						Closing balance of provision for impairment
				Gains or losses from investment recognised using equity method	Adjustment for other comprehensive income	Other change in equity	Declaration of cash dividend or profit	Provision for impairment made	Others	
I. Joint ventures										
Hisense Marketing Management Co., Ltd.	47,624,602.35			2,672,226.10						50,296,828.45
Subtotal	47,624,602.35			2,672,226.10						50,296,828.45
II. Associates										
Qingdao Hisense Financial Holdings Co., Ltd.	382,962,920.76			-5,188,467.76	770,360.91					378,544,813.91
Qingdao Hisense International Co., Ltd.	93,166,876.67			64,315,643.46	-14,131,705.56	2,783,226.83	-66,880,000.00			79,254,041.40
Associates of Sanden Holdings		992,180,481.40		88,406,113.75			-158,839,781.76	6,374,345.00		928,121,158.39
Subtotal	476,129,797.43	992,180,481.40		147,533,289.45	-13,361,344.65	2,783,226.83	-225,719,781.76	6,374,345.00		1,385,920,013.70
III. Others										
Jiangxi Kelon Combine Electrical Appliances Co., Ltd.	11,000,000.00									11,000,000.00
Subtotal	11,000,000.00									11,000,000.00
Total	534,754,399.78	992,180,481.40		150,205,515.55	-13,361,344.65	2,783,226.83	-225,719,781.76	6,374,345.00		1,447,216,842.15

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 Financial Holdings Co., Ltd is hereinafter referred to as "Hisense Financial Holdings".

3. Hisense Marketing Management Co., Ltd. is hereinafter referred to as "Hisense Marketing Management".

4. Qingdao Hisense International Co., Ltd is hereinafter referred to as "Hisense International".

5. 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 for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Long-term equity investments (continued)

Including:

Item	Closing balance	Opening balance
Unlisted investments:		
Equity method	1,436,216,842.15	523,754,399.78
Joint ventures	50,296,828.45	47,624,602.35
Associates	1,385,920,013.70	476,129,797.43
Total	1,436,216,842.15	523,754,399.78

13. Other equity instruments investment

Other equity instruments investment

Item	Closing balance	Opening balance
Non-trading equity investments	38,707,912.25	
Total	38,707,912.25	

Notes to the Financial Statements for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Investment properties

(1) Investment properties measured at cost

Item	Buildings and structures	Lands	Total
I. Original carrying amount			
1. Opening balance	89,363,056.75		89,363,056.75
2. Increase for the year	197,813,844.09	46,690,442.11	244,504,286.20
(1) Additions	1,436,898.95		1,436,898.95
(2) Increase in business combination	196,376,945.14	46,690,442.11	243,067,387.25
3. Decrease for the year	24,726,509.32	6,081,341.87	30,807,851.19
(1) Disposal	20,491,255.74		20,491,255.74
(2) Exchange rate movements	4,235,253.58	6,081,341.87	10,316,595.45
4. Closing balance	262,450,391.52	40,609,100.24	303,059,491.76
II. Accumulated depreciation and accumulated amortisation			
1. Opening balance			52,714,521.46
2. Increase for the year			16,214,302.59
(1) Provision made or amortisation			16,214,302.59
3. Decrease for the year			1,209,413.07
(1) Disposal			947,897.89
(2) Exchange rate movements			261,515.18
4. Closing balance			67,719,410.98
III. Provision for impairment			
1. Opening balance			
2. Increase for the year			
3. Decrease for the year			
4. Closing balance			
IV. Carrying amount			
1. Carrying amount as at the end of the year	194,730,980.54	40,609,100.24	235,340,080.78
2. Carrying amount as at the beginning of the year	36,648,535.29		36,648,535.29

(2) Investment properties without ownership certificates

Item	Carrying amount	Reason for failure to obtain ownership certificates
Mee King Building	1,030,833.53	Due to historical reasons; in the process of application

(3) Depreciation expenses for 2021 amounted to RMB16,214,302.59, and depreciation expenses for 2020 amounted to RMB2,896,072.94.

(4) As at 31 December 2021, no investment properties were pledged by the Company.

Notes to the Financial Statements for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Fixed assets

Item	Closing balance	Opening balance
Fixed assets	5,188,560,700.49	3,879,389,607.69
Disposal of fixed assets	193,312.87	13,898.00
Total	5,188,754,013.36	3,879,403,505.69

15.1 Fixed assets

1) Particulars of fixed assets

Item	Lands	Buildings and structures	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Total
I. Original carrying amount						
1. Opening balance		2,780,921,714.81	3,697,200,158.94	3,036,281,948.79	37,485,367.26	9,551,889,189.80
2. Increase for the year	324,325,208.07	843,809,982.12	873,789,357.07	267,943,095.84	14,788,514.75	2,324,656,157.85
(1) Additions	52,747,050.27	49,330,790.71	174,526,632.88	92,740,227.41	2,766,446.64	372,111,147.91
(2) Transfer from construction in progress		37,115,374.65	345,161,931.94	68,116,652.80	4,071,327.42	454,465,286.81
(3) Increase in business combination	271,578,157.80	757,363,816.76	354,100,792.25	107,086,215.63	7,950,740.69	1,498,079,723.13
3. Decrease for the year	12,311,737.11	113,429,126.80	170,496,789.98	151,117,775.24	5,115,983.23	452,471,412.36
(1) Disposal or retirement		81,557,232.01	153,945,666.72	148,071,376.69	3,850,047.21	387,424,322.63
(2) Exchange rate movements	12,311,737.11	31,871,894.79	16,551,123.26	3,046,398.55	1,265,936.02	65,047,089.73
4. Closing balance	312,013,470.96	3,511,302,570.13	4,400,492,726.03	3,153,107,269.39	47,157,898.78	11,424,073,935.29
II. Accumulated depreciation						
1. Opening balance		1,182,319,321.23	2,171,962,851.64	2,191,082,708.29	30,355,733.24	5,575,720,614.40
2. Increase for the year		132,216,017.59	323,433,521.82	378,247,555.41	2,374,678.39	836,271,773.21
(1) Provision made		132,216,017.59	323,433,521.82	378,247,555.41	2,374,678.39	836,271,773.21
3. Decrease for the year		1,793,726.04	130,194,454.84	137,828,947.36	3,565,479.55	273,382,607.79
(1) Disposal or retirement		1,367,956.68	129,290,209.24	137,828,947.36	3,563,022.00	272,050,135.28
(2) Exchange rate movements		425,769.36	904,245.60		2,457.55	1,332,472.51
4. Closing balance		1,312,741,612.78	2,365,201,918.62	2,431,501,316.34	29,164,932.08	6,138,609,779.82
III. Provision for impairment						
1. Opening balance		7,877,581.92	86,841,708.60	2,056,754.56	2,922.63	96,778,967.71
2. Increase for the year			1,518,868.18	487,068.79		2,005,936.97
(1) Provision made			1,518,868.18	487,068.79		2,005,936.97
3. Decrease for the year			1,399,507.87	481,941.83		1,881,449.70
(1) Disposal or retirement			1,399,507.87	481,941.83		1,881,449.70
4. Closing balance		7,877,581.92	86,961,068.91	2,061,881.52	2,922.63	96,903,454.98
IV. Carrying amount						
1. Carrying amount as at the end of the year	312,013,470.96	2,190,683,375.43	1,948,329,738.50	719,544,071.53	17,990,044.07	5,188,560,700.49
2. Carrying amount as at the beginning of the year		1,590,724,811.66	1,438,395,598.70	843,142,485.94	7,126,711.39	3,879,389,607.69

For 2021, the fixed assets transferred from construction in progress amounted to RMB454,465,286.81; for 2020, the fixed assets transferred from construction in progress amounted to RMB464,805,626.99.

Notes to the Financial Statements for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Fixed assets (continued)

15.1 Fixed assets (continued)

2) Depreciation expenses for 2021 amounted to RMB836,271,773.21, and depreciation expenses for 2020 amounted to RMB758,132,980.46.

3) *The rent out fixed asset under operating lease*

Item	Closing carrying amount
Buildings and structures	193,189,675.02
Machinery and equipments, etc.	11,090,409.84
Total	204,280,084.86

4) *Fixed asset which has not obtained the ownership certificate*

Item	Carrying amount	Reason for failure to obtain ownership certificates
Buildings and structures	398,332,077.61	Achieved scheduled availability and were reclassified as fixed assets, the issuance of ownership certificate is in progress

15.2 Disposal of fixed assets

Item	Closing balance	Opening balance
Disposal of fixed assets	193,312.87	13,898.00
Total	193,312.87	13,898.00

16. Constructions in progress

Item	Closing balance	Opening balance
Construction in progress	665,964,066.15	228,887,385.20
Total	665,964,066.15	228,887,385.20

Notes to the Financial Statements for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. 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				2,082,306.12		2,082,306.12
Transformation of warehouse				1,663,596.26		1,663,596.26
Air conditioning infrastructure construction	2,861,411.80		2,861,411.80	18,194,731.54		18,194,731.54
Refrigerator infrastructure	328,917,989.55		328,917,989.55	55,765,997.63		55,765,997.63
Refrigerator production line project				11,939,671.75		11,939,671.75
Others	334,184,664.80		334,184,664.80	139,304,281.90	63,200.00	139,241,081.90
Total	665,964,066.15		665,964,066.15	228,950,585.20	63,200.00	228,887,385.20

(2) Movements in key constructions in progress during the year

Name of construction	Opening balance	Increase for the year	Decrease for the year		Closing balance	Budget	Accumulative contribution in budget (%)	Progress	Source of funding
			Transferred to fixed assets	Other decrease					
MES system	2,082,306.12	130,088.49	1,933,633.56	278,761.05		37,681,552.98	100.00	Completed	Self funding
Transformation of warehouse	1,663,596.26		1,663,596.26			32,103,987.26	100.00	Completed	Self funding
Air-conditioning infrastructure construction	18,194,731.54	16,365,073.65	31,513,128.17	185,265.22	2,861,411.80	433,753,816.31	86.74	Not completed	Self funding
Refrigerator infrastructure	55,765,997.63	273,151,991.92			328,917,989.55	544,082,849.90	60.45	Not completed	Self funding
Refrigerator production line project	11,939,671.75	7,258,172.95	19,197,844.70			28,076,080.00	100.00	Completed	Self funding
Others	139,304,281.90	642,610,733.23	400,157,084.12	47,573,266.21	334,184,664.80			Not completed	Self funding
Total	228,950,585.20	939,516,060.24	454,465,286.81	48,037,292.48	665,964,066.15	1,075,698,286.45	-	-	-

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

Notes to the Financial Statements for 2021

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Right-of-use assets

Item	Buildings and structures	Total
I. Original carrying amount		
1. Opening balance	152,461,789.76	152,461,789.76
2. Increase for the year	198,925,318.94	198,925,318.94
(1) Rental	80,401,525.44	80,401,525.44
(2) Increase in business combination	118,523,793.50	118,523,793.50
3. Decrease for the year	118,082,978.57	118,082,978.57
(1) Disposal	118,082,978.57	118,082,978.57
4. Closing balance	233,304,130.13	233,304,130.13
II. Accumulated depreciation		
1. Opening balance	84,364,225.98	84,364,225.98
2. Increase for the year	35,130,023.52	35,130,023.52
(1) Provision	35,130,023.52	35,130,023.52
3. Decrease for the year	95,868,164.42	95,868,164.42
(1) Disposal	95,868,164.42	95,868,164.42
4. Closing balance	23,626,085.08	23,626,085.08
III. Provision for impairment		
1. Opening balance		
2. Increase for the year		
3. Decrease for the year		
4. Closing balance		
IV. Carrying amount		
1. Carrying amount as at the end of the year	209,678,045.05	209,678,045.05
2. Carrying amount as at the beginning of the year	68,097,563.78	68,097,563.78

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Intangible assets

(1) Particulars of intangible assets

Item	Land use rights	Trademarks	Know-how	Sales channels	Others	Total
I. Original carrying amount						
1. Opening balance	1,050,600,610.18	650,195,362.47	42,835,184.58	780,759,590.69	357,866,182.00	2,882,256,929.92
2. Increase for the year	16,456,020.79	12,999,999.97	39,999,999.82	13,999,999.88	62,986,156.76	146,442,177.22
(1) Additions	1,061,462.79				33,951,946.23	35,013,409.02
(2) Increase in business combination	15,394,558.00	12,999,999.97	39,999,999.82	13,999,999.88	29,034,210.53	111,428,768.20
3. Decrease for the year	545,116.46				11,422,019.52	11,967,135.98
(1) Disposal					10,055,363.51	10,055,363.51
(2) Exchange rate movements	545,116.46				1,366,656.01	1,911,772.47
4. Closing balance	1,066,511,514.51	663,195,362.44	82,835,184.40	794,759,590.57	409,430,319.24	3,016,731,971.16
II. Accumulated amortisation						
1. Opening balance	274,117,879.95	181,300,066.87	41,137,299.40	118,300,707.45	185,762,146.02	800,618,099.69
2. Increase for the year	21,043,448.91	38,494,182.39	4,542,909.02	96,095,469.87	74,970,565.73	235,146,575.92
(1) Provision made	21,043,448.91	38,494,182.39	4,542,909.02	96,095,469.87	74,970,565.73	235,146,575.92
3. Decrease for the year					79,561.31	79,561.31
(1) Disposal					79,561.31	79,561.31
4. Closing balance	295,161,328.86	219,794,249.26	45,680,208.42	214,396,177.32	260,653,150.44	1,035,685,114.30
III. Provision for impairment						
1. Opening balance	50,012,843.19	286,061,116.40			519,447.21	336,593,406.80
2. Increase for the year						
3. Decrease for the year						
4. Closing balance	50,012,843.19	286,061,116.40			519,447.21	336,593,406.80
IV. Carrying amount						
1. Carrying amount as at the end of the year	721,337,342.46	157,339,996.78	37,154,975.98	580,363,413.25	148,257,721.59	1,644,453,450.06
2. Carrying amount as at the beginning of the year	726,469,887.04	182,834,179.20	1,697,885.18	662,458,883.24	171,584,588.77	1,745,045,423.43

(2) *There were no land use rights which certificates of ownership are pending as at the end of year.*

(3) Notes to intangible assets:

- Amortization of intangible assets amounted to RMB235,146,575.92 for 2021, compared to that of RMB229,161,227.66 for 2020.
- As at the end of the year, no land use rights were pledged.
- As of 31 December 2021, the useful life of the trademark rights with a carrying value of RMB104,217,827.00 is uncertain. The Group can apply for extension of the trademark rights at a lower fee upon the expiration of the protection period of the trademark rights, and the trademark rights will bring economic benefits to the Group during the operation period based on the comprehensive judgment of the product life cycle and market conditions.

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Intangible assets (continued)

(3) Notes to intangible assets: (continued)

The Company calculated the cash flows generated from the trademark rights using the relief from royalty method, and therefore the recoverable amount was estimated based on the trademark rights assets, which is determined based on the present value of expected future cash flows. The Company predicted revenue growth rate and prepared net profit and cash flow forecasts for the next 5 years based on historical actual operating data, long-term planning, signed contracts and other data, combined with market capacity growth rate, market share and external competition and other factors, and the pre-tax discount rate used in the cash flow forecast was 20.80% assuming that the cash flow remains unchanged after 5 years.

According to the results of the impairment test, there was no further impairment of these trademark rights at the end of the year and no provision for impairment was made.

19. Goodwill

(1) The original value of goodwill

Name of investee	Opening balance	Increase for the year	Decrease for the year	Closing balance
Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.	132,571,746.36			132,571,746.36
Sanden Company		93,837,131.40		93,837,131.40
Total	132,571,746.36	93,837,131.40		226,408,877.76

(2) Impairment provision for goodwill

After testing, the Company's management estimated that no impairment provision for goodwill was required during the Reporting Period.

(3) Relevant information on the asset group which goodwill belongs to or group of assets

The goodwill formed by the Company's acquisition of Hisense Hitachi is reflected in the operation of air conditioning business asset group of Hisense Hitachi at the acquisition date. Since it can generate cash flow independently, the Company regards development, design, manufacturing and sales of air-conditioning products of Hisense Hitachi as an individual asset group and allocated the goodwill of RMB132,571,746.36 to the asset group.

The goodwill formed by the Company's acquisition of Sanden Company is reflected in the operation of air conditioning business asset group of Sanden Company at the acquisition date. Since it can generate cash flow independently, the Company regards development, design, manufacturing and sales of air-conditioning products of Sanden Company as an individual asset group and allocated the goodwill of RMB93,837,131.40 to the asset group.

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Goodwill (continued)

(4) Specify test procedure, parameters of impairment of goodwill as well as recognition method for impairment loss

The recoverable amount of asset group, which includes goodwill, is determined based on the present value of expected future cash flows. The Company predicted revenue growth rate and gross profit margin and prepared net profit and cash flow forecasts for the next 5 years based on historical actual operating data, long-term planning, signed contracts and other data, combined with market capacity growth rate, market share and external competition and other factors, assuming that the cash flow remains unchanged after 5 years. A pre-tax rate that reflects the specific risks of the relevant asset group is used as the discount rate.

According to the results of the impairment test, there was no further impairment of the goodwill at the end of the year and no provision for impairment was made.

20. Long-term prepaid expenses

Item	Opening balance	Increase for the year	Amortization for the year	Other deductions	Closing balance
Long-term prepaid expenses	33,335,296.27	42,140,141.50	49,245,974.00		26,229,463.77
Total	33,335,296.27	42,140,141.50	49,245,974.00		26,229,463.77

21. Deferred tax assets and deferred tax liabilities

(1) Undeducted 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	189,030,821.62	38,936,857.33	146,706,301.74	27,205,798.69
Accrued expenses	4,228,752,519.81	743,857,840.75	3,179,565,408.68	606,905,754.23
Others	904,191,138.56	160,431,999.99	329,979,786.69	69,902,475.42
Total	5,321,974,479.99	943,226,698.07	3,656,251,497.11	704,014,028.34

(2) Undeducted deferred tax liabilities

Item	Closing balance		Opening balance	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Accelerated depreciation	316,711,936.48	54,796,099.85	280,324,115.34	47,859,223.04
Transactional financial assets	36,817,366.92	8,686,861.03	13,754,598.65	3,621,590.39
Asset appraisal appreciation due to business combination involving entities not under common control	276,129,764.30	62,260,782.07	153,229,123.33	22,984,368.50
Others	307,644,154.23	93,831,467.04		
Total	937,303,221.93	219,575,209.99	447,307,837.32	74,465,181.93

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. Deferred tax assets and deferred tax liabilities (continued)

(3) Deferred income tax assets or liabilities stated at net of offset

Item	Deferred income tax assets and liabilities offset amounts at the end of the year	Closing balance of deferred income tax assets and liabilities balance after offsetting	Deferred income tax assets and liabilities offset amounts at the beginning of the year	Opening balance of deferred income tax assets or liabilities after offsetting
Deferred tax assets	45,357,753.69	897,868,944.38		704,014,028.34
Deferred tax liabilities	45,357,753.69	174,217,456.30		74,465,181.93

(4) Breakdown of unrecognized deferred tax assets

Item	Closing balance	Opening balance
Deductible temporary difference	2,226,360,932.38	1,584,384,519.52
Deductible tax loss	3,631,579,322.45	1,669,750,935.09
Total	5,857,940,254.83	3,254,135,454.61

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

Year	Closing balance	Opening balance	Remark
2021		218,788,161.02	
2022	6,973,879.22	6,540,855.88	
2023	105,542,823.75	122,090,554.80	
2024	52,136,305.85	13,813,506.02	
2025	367,451,737.01	192,740,013.83	
2026	223,590,054.66		
2027 and afterwards	2,875,884,521.96	1,115,777,843.54	
Total	3,631,579,322.45	1,669,750,935.09	

22. Other non-current assets

Item	Closing balance	Opening balance
Term deposit and interest	5,293,818,555.55	4,033,348,000.00
Others	385,285,950.79	195,108,393.79
Total	5,679,104,506.34	4,228,456,393.79

Note: Term deposit with maturity over one year held by the Group for investment is presented under other non-current assets, but not recognised as cash and cash equivalents.

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. Short-term borrowings

(1) Categories of short-term borrowings

Categories of borrowings	Closing balance	Opening balance
Credit borrowings	506,386,195.58	22,026,317.50
Guarantee borrowings	2,331,558,482.32	
Mortgage borrowings	21,039,551.59	
Total	2,858,984,229.49	22,026,317.50

(2) There are no outstanding short-borrowing due as at the end of the year.

24. Transactional financial liabilities

Item	Closing balance	Opening balance
Transactional financial liabilities	244.38	201,236.00
Including: Derivative financial liabilities	244.38	201,236.00
Total	244.38	201,236.00

25. Notes payable

Categories of notes	Closing balance	Opening balance
Bank acceptance notes	8,297,769,116.19	8,275,444,382.48
Commercial acceptance notes	3,216,186,573.39	2,499,932,015.39
Total	11,513,955,689.58	10,775,376,397.87

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

26. Accounts payable

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

Ageing	Closing balance	Opening balance
Within one year	11,686,087,910.82	7,214,872,681.32
Over one year	93,192,797.74	76,956,584.78
Total	11,779,280,708.56	7,291,829,266.10

Note: As at 31 December 2021, accounts payable with ageing of over one year amounted to RMB93,192,797.94 (31 December 2020: RMB76,956,584.78), which represented mainly raw material payable and was not settled yet.

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Contract liability

Item	Closing balance	Opening balance
Advance on sales	1,147,112,513.32	1,100,531,262.91
Total	1,147,112,513.32	1,100,531,262.91

Note: The balance of contract liability at the beginning of the year recognised as revenue during the year amounted to RMB1,087,308,031.03.

28. Employee remunerations payable

(1) Categories of employee remunerations payable

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Short-term remuneration	649,229,332.66	5,279,194,968.90	5,000,543,191.89	927,881,109.67
Post-employment benefits – defined contribution plans	724,714.10	315,365,419.15	315,384,811.94	705,321.31
Termination benefits		22,997,563.50	22,948,563.50	49,000.00
Total	649,954,046.76	5,617,557,951.55	5,338,876,567.33	928,635,430.98

(2) Short-term remuneration

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Wages and salaries, bonuses, allowances and subsidies	638,516,987.81	4,713,715,028.47	4,440,616,451.92	911,615,564.36
Staff welfare	6,919,301.36	213,501,130.39	212,769,465.94	7,650,965.81
Social insurance	578,975.46	178,570,133.75	174,628,924.46	4,520,184.75
Including: Medical insurance	546,141.33	164,440,814.96	160,783,757.13	4,203,199.16
Work-related injury insurance	22,440.95	8,291,191.00	8,057,103.85	256,528.10
Maternity insurance	10,393.18	5,838,127.79	5,788,063.48	60,457.49
Housing provident funds	1,298,362.17	146,476,557.50	146,151,789.81	1,623,129.86
Labour union funds and employee education funds	1,915,705.86	26,932,118.79	26,376,559.76	2,471,264.89
Total	649,229,332.66	5,279,194,968.90	5,000,543,191.89	927,881,109.67

(3) Defined contribution plans

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Basic pension insurance	684,370.34	303,326,611.93	303,352,408.33	658,573.94
Unemployment insurance	40,343.76	12,038,807.22	12,032,403.61	46,747.37
Total	724,714.10	315,365,419.15	315,384,811.94	705,321.31

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. Taxes payable

Item	Closing balance	Opening balance
Value-added tax	148,312,802.04	95,558,309.26
Enterprise income tax	442,961,346.82	304,708,176.82
Individual Income Tax	7,851,898.88	6,967,898.41
City maintenance and construction tax	13,970,305.54	7,382,700.59
Real estate tax	10,270,648.40	11,883,947.50
Land use tax	12,234,861.97	9,668,111.78
Educational surcharges	10,011,682.17	5,280,102.71
Others	79,799,516.61	57,468,960.66
Total	725,413,062.43	498,918,207.73

30. Other payables

Item	Closing balance	Opening balance
Other payable	3,425,374,535.37	2,011,559,493.31
Total	3,425,374,535.37	2,011,559,493.31

(1) Other payables by nature

Item	Closing balance	Opening balance
Current account	2,671,222,147.29	1,138,463,271.05
Deposit and margin	651,481,871.87	577,407,875.94
Payment for project and equipment	102,670,516.21	295,688,346.32
Total	3,425,374,535.37	2,011,559,493.31

31. Non-current liabilities due within one year

Item	Closing balance	Opening balance
Long-term borrowings due within one year	15,197,567.63	
Lease liabilities due within one year	156,152,292.88	29,562,279.68
Total	171,349,860.51	29,562,279.68

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. Other current liabilities

Item	Closing balance	Opening balance	Reasons for the balance
Installation fees	715,171,993.70	618,038,843.55	Installation fee provided for but not yet paid in respect of goods sold
Sales discounts	3,349,753,893.92	2,977,945,886.44	Incurred but not yet settled
Others	1,397,449,719.72	743,396,072.74	Incurred but not yet settled
Total	5,462,375,607.34	4,339,380,802.73	

33. Long-term borrowings

Types of borrowings	Closing balance	Opening balance
Secured borrowings	244,339.70	
Guaranteed borrowings	32,148,420.42	
Credit borrowings	15,187,643.35	
Less: Long-term loans due within one year	15,197,567.63	
Total	32,382,835.84	

34. Lease liabilities

Item	Closing balance	Opening balance
Lease liabilities	395,949,053.40	28,356,873.04
Total	395,949,053.40	28,356,873.04

35. Long-term employee remunerations payable

Item	Closing balance	Opening balance
Post-employment benefits – Net liability for defined benefit plans	143,732,252.27	
Total	143,732,252.27	

36. Provisions

Item	Closing balance	Opening balance	Reason for occurrence
Pending litigation	145,852,661.79	13,767,373.25	Estimated litigation compensation
Provision for warranties	786,315,935.89	446,321,241.97	Estimated quality guarantee of products
Others	485,121,129.04	23,790,000.00	Estimated other expenditures
Total	1,417,289,726.72	483,878,615.22	-

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. Deferred income

(1) Classification of deferred Income

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance	Reason for occurrence
Government grants	99,076,794.22	91,230,091.07	37,319,850.81	152,987,034.48	Amortization of government grants
Total	99,076,794.22	91,230,091.07	37,319,850.81	152,987,034.48	-

(2) Government grants

Government grants	Opening balance	New grants received during the year	Amount included in other income during the year	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	466,666.67		280,000.00	186,666.67	Related to assets
Transformation project on system integration technology of green supply chain of freezers	10,369,004.30		1,381,194.84	8,987,809.46	Related to assets
The invested guidance fund within the budget of central government for development of national service industry for 2018	3,975,000.00		530,000.00	3,445,000.00	Related to assets
Transformation projects	9,520,013.03	3,740,000.00	2,631,452.23	10,628,560.80	Related to assets
Other related to assets	53,181,195.04	86,182,841.07	31,475,038.56	107,888,997.55	Related to assets
Other related to revenue	114,915.18	1,307,250.00	1,022,165.18	400,000.00	Related to revenue
Total	99,076,794.22	91,230,091.07	37,319,850.81	152,987,034.48	

38. Other non-current liabilities

Item	Closing balance	Opening balance
Others	28,258,009.23	
Total	28,258,009.23	

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. Share capital

Categories of shares	Opening balance	Change for the year (+,-)				Subtotal	Closing balance
		Issue of new shares	Bonus issue	Conversion from reserve	Others		
Total number of shares	1,362,725,370.00						1,362,725,370.00

40. Capital reserve

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Share premium	1,952,074,766.03	4,748,884.92		1,956,823,650.95
Other capital reserve	109,638,224.09	2,783,226.83		112,421,450.92
Total	2,061,712,990.12	7,532,111.75		2,069,245,101.87

The change in share capital premium is mainly due to the effect of changes in the share of ownership interest in subsidiaries.

Main reason for the change in other capital surplus: the effect of changes in other equity in companies accounted for under the equity method.

41. Other comprehensive income

Item	Opening balance	Amount incurred in the year					Attributable to minority interest after tax	Closing balance
		Amount before income tax for the year	Less: Amount included in other comprehensive income in previous period transferred to profit or loss in current period	Less: Included in other comprehensive income in the previous period and transferred in retained earnings in current period	Less: income tax expense	Attributable to parent after tax		
1. Other comprehensive income that would not be reclassified to profit or loss	-100,000.00							-100,000.00
Changes in the fair value of other equity instruments investment	-100,000.00							-100,000.00
2. Other comprehensive income that would be reclassified to profit or loss	37,678,293.42	93,116,714.67				55,991,705.15	37,125,009.52	93,669,998.57
Including: other comprehensive income that would be reclassified into profit or loss under equity method	21,630,312.87	-13,361,344.65				-13,361,344.65		8,268,968.22
Difference arising from translation of financial statements presented in foreign currency	16,047,980.55	81,375,867.81				50,556,528.80	30,819,339.01	66,604,509.35
Others		25,102,191.51				18,796,521.00	6,305,670.51	18,796,521.00
Total other comprehensive income	37,578,293.42	93,116,714.67				55,991,705.15	37,125,009.52	93,569,998.57

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

42. Surplus reserve

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Statutory surplus reserve	692,802,893.38	19,168,416.61		711,971,309.99
Total	692,802,893.38	19,168,416.61		711,971,309.99

Note: The Company shall set aside 10% of its net profit as legal reserve. If the accumulated legal reserve reaches more than 50% of the Company's registered capital, no further withdrawal shall be made.

43. Undistributed profits

Item	Amount for the year	Amount for previous year
Balance at the end of the previous year	5,624,296,033.51	4,644,256,846.32
Add: Adjustment of undistributed profits as at the beginning of the year		
Correction of material prior period error		
Balance at the beginning of the year	5,624,296,033.51	4,644,256,846.32
Add: Net profits attributable to the owners of the parent in current year	972,581,491.39	1,578,882,732.14
Less: Appropriation of statutory surplus reserve	19,168,416.61	60,567,023.80
Dividends payable on ordinary shares	472,865,703.39	538,276,521.15
Balance at the end of the year	6,104,843,404.90	5,624,296,033.51

44. Operating revenue and costs

(1) Particulars operating revenue and operating costs

Item	Amount for the year		Amount for previous year	
	Revenue	Costs	Revenue	Costs
Principal operations	60,762,227,036.98	47,781,456,257.13	43,844,644,902.95	32,451,870,805.44
Other operations	6,800,376,629.83	6,468,608,994.00	4,548,225,800.16	4,304,430,671.34
Total	67,562,603,666.81	54,250,065,251.13	48,392,870,703.11	36,756,301,476.78

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

44. Operating revenue and costs (continued)

(2) Principal operation revenue generated from contracts

Categories of contract	Amount for the year		Amount for previous year	
	Revenue	Costs	Revenue	Costs
Categories of product:				
Air-conditioners	30,402,508,314.77	22,412,241,525.76	23,386,192,179.17	16,382,597,669.13
Refrigerators and washing machines	23,017,878,500.74	19,166,515,895.96	18,709,002,118.33	14,685,528,054.98
Others	7,341,840,221.47	6,202,698,835.41	1,749,450,605.45	1,383,745,081.33
By operating regions:				
Domestic	37,601,996,641.67	26,597,217,725.01	29,205,488,972.24	19,170,426,142.76
Overseas	23,160,230,395.31	21,184,238,532.12	14,639,155,930.71	13,281,444,662.68
Total	60,762,227,036.98	47,781,456,257.13	43,844,644,902.95	32,451,870,805.44

45. Tax and surcharges

Item	Amount for the year	Amount for previous year
City maintenance and construction tax	97,768,152.76	89,238,091.74
Education surcharges	70,195,011.29	64,122,288.25
Others	231,143,084.33	173,532,434.48
Total	399,106,248.38	326,892,814.47

46. Sales expenses

Item	Amount for the year	Amount for previous year
Sales expenses	7,672,002,974.36	6,891,389,066.25
Total	7,672,002,974.36	6,891,389,066.25

Note: In 2021, sales expenses mainly include after-sale expenses, publicity and promotion, and employee compensation, with the percentage to the total sales expenses over 70% (2020: over 70%).

47. Management expenses

Item	Amount for the year	Amount for previous year
Management expenses	1,326,886,898.17	619,163,555.38
Total	1,326,886,898.17	619,163,555.38

Note: In 2021, management expenses mainly include employee compensation, depreciation and amortization, and executive office fee, with the percentage to the total management expenses over 80% (2020: over 80%).

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

48. Research and development expenses

Item	Amount for the year	Amount for previous year
Research and development expenses	1,986,668,028.13	1,284,848,949.46
Total	1,986,668,028.13	1,284,848,949.46

Note: In 2021, research and development expenses mainly include employee compensation, depreciation and amortization, and direct expenses, with the percentage to the total research and development expenses over 80% (2020: over 80%).

49. Financial expenses

Item	Amount for the year	Amount for previous year
Interest expenses	40,547,610.76	11,232,002.12
Less: Interest incomes	81,915,216.18	211,191,601.67
Add: Exchange loss	80,181,325.55	16,919,753.03
Other expenses	17,850,244.41	73,159,839.69
Total	56,663,964.54	-109,880,006.83

Note: Interest expenses for 2021 include interest expenses of lease liabilities of RMB6,880,756.67 (2020: RMB4,203,139.66). Other interest expenses for 2021 and 2020 were wholly interests on bank borrowings, of which the last term of repayment is within five years.

50. Other income

Sources arising other income	Amount for the year	Amount for previous year	Amount included in non-recurring profit or loss for the year
Immediate refund of value-added tax	237,985,800.44	219,186,563.50	
Others government subsidies related to general activities	139,292,529.45	150,718,878.87	139,292,529.45
Others	36,624,360.89	331,380.00	
Total	413,902,690.78	370,236,822.37	139,292,529.45

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51. Investment gain

Item	Amount for the year	Amount for previous year
Gain from long-term equity investment by the equity method	150,205,515.55	84,204,976.35
Gain from disposal of transactional financial assets	157,031,168.53	111,450,229.85
Others	199,878,574.22	
Total	507,115,258.30	195,655,206.20

Gain from long-term equity investments by the equity method

Investee	Amount for the year	Amount for previous year
Hisense Financial Holdings	-5,188,467.76	24,899,650.46
Hisense Marketing Management	2,672,226.10	2,009,377.22
Hisense International	64,315,643.46	57,295,948.67
Associates of Sanden Company	88,406,113.75	
Total	150,205,515.55	84,204,976.35

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

52. Gain from changes in fair value

Sources of gain arising from changes in fair value	Amount for the year	Amount for previous year
Transactional financial assets	34,055,721.68	20,898,474.73
Including: Gain from changes in fair value of derivative financial instruments	-5,511,637.20	10,887,680.20
Transactional financial liabilities		-201,236.00
Including: Gain from changes in fair value of derivative financial instruments		-201,236.00
Total	34,055,721.68	20,697,238.73

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

53. Impairment loss on credit

Item	Amount for the year	Amount for previous year
Loss of bad debts of Notes receivable	-1,052,211.87	3,342,785.78
Loss of bad debts of Accounts receivable	26,649,368.04	-17,763,044.20
Loss of bad debts of other receivables	-15,817,876.38	-7,725,779.74
Credit impairment loss of debt investment		1,095,858.39
Total	9,779,279.79	-21,050,179.77

54. Impairment losses on assets

Item	Amount for the year	Amount for previous year
Decline in value of inventories	-54,200,917.06	-15,968,200.13
Impairment loss on fixed assets	-2,005,936.97	-2,717,268.00
Impairment loss on contractual assets	-5,221,946.83	
Impairment loss on construction in progress		-63,200.00
Total	-61,428,800.86	-18,748,668.13

55. Gains on disposal of assets (loss expressed with “-”)

Item	Amount for the year	Amount for previous year	Amount included in non-recurring profit or loss of the current year
Gains on disposal of non-current assets	6,261,684.40	24,533,842.26	6,261,684.40
Including: Gains on disposal of non current assets which are not classified as held for sale	6,261,684.40	24,533,842.26	6,261,684.40
Including: Gains on disposal of fixed assets	6,363,830.10	11,700,855.46	6,363,830.10
Gains on disposal of intangible assets	-102,145.70	12,832,986.80	-102,145.70
Total	6,261,684.40	24,533,842.26	6,261,684.40

56. Non-operating income

(1) Non operating income

Item	Amount for the year	Amount for previous year	Amount included in non-recurring profit or loss of the current year
Gain from scrapping of non-current assets	5,446,072.52	4,861,371.40	5,446,072.52
Government grants	80,529,475.26	86,050,714.51	80,529,475.26
Others	105,521,413.79	213,340,586.58	105,521,413.79
Total	191,496,961.57	304,252,672.49	191,496,961.57

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

56. Non-operating income (continued)

(2) Government grants recognized in the profits or losses for the year:

Item	Amount for the year		Amount for previous year		Related to assets/revenue
	Included in non-operating income	Included in other income	Included in non-operating income	Included in other income	
Immediate refund of value-added tax		237,985,800.44		219,186,563.50	Related to revenue
Technology reform project for design and production of high-precision smart moulds		280,000.00		280,000.00	Related to assets
Transformation project on system integration technology of green supply chain of freezers		1,381,194.84		1,150,995.70	Related to assets
The invested guidance fund within the budget of central government for development of national service industry for 2018		530,000.00		530,000.00	Related to assets
Transformation projects		2,631,452.23		5,704,791.09	Related to assets
Other government grants related to assets		31,475,038.56		17,025,505.36	Related to assets
Other government grants related to daily operation		102,994,843.82		126,027,586.72	Related to revenue
Government grants not related to daily operation	80,529,475.26		86,050,714.51		Related to revenue
Total	80,529,475.26	377,278,329.89	86,050,714.51	369,905,442.37	

57. Non-operating expenses

Item	Amount for the year	Amount for previous year	Amount included in non-recurring profit or loss of the current year
Loss on scrapping of non-current assets	8,172,373.79	6,246,030.39	8,172,373.79
Others	47,683,719.43	8,355,767.96	47,683,719.43
Total	55,856,093.22	14,601,798.35	55,856,093.22

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

58. Income tax expense

(1) Income tax expense

Item	Amount for the year	Amount for previous year
Current income tax expenses	807,118,837.42	692,236,605.62
Including: PRC Enterprise income tax	781,494,087.49	690,580,998.53
Hong Kong profit tax	1,893.93	1,655,607.09
Deferred income tax expenses	-233,382,810.25	-53,141,265.45
Total	573,736,027.17	639,095,340.17

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

Item	Amount for the year
Total profits	2,916,537,004.54
Income tax expense calculated at statutory (or applicable) tax rates	729,134,251.13
Effect of application of different tax rate to certain subsidiaries	-235,095,200.26
Adjustment to income tax in previous year	1,835,972.39
Effect of non-taxable income	-19,317,839.57
Effect of non-deductible cost, expense and loss	109,996,340.61
Effect of utilization of deductible losses unrecognized as deferred tax assets in previous period	-63,545,488.02
Effect of deductible temporary difference or deductible loss unrecognized as deferred tax assets in current period	205,574,771.81
Effect of super deduction of research and development expense	-154,033,199.83
Others	-813,581.09
Income tax expense	573,736,027.17

59. Other comprehensive income

Please see note 6(41) Other comprehensive income for details.

60. Cash flows statement

(1) Cash received/paid relating to other operating/investing/financing activities

1) Cash received relating to other operating activities

Item	Amount for the year	Amount for previous year
Interest incomes	79,333,813.00	58,089,060.39
Government grants	205,747,522.74	221,314,316.12
Others	527,064,207.53	667,728,788.25
Total	812,145,543.27	947,132,164.76

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

60. Cash flows statement (continued)

(1) Cash received/paid relating to other operating/investing/financing activities (continued)

2) Cash paid relating to other operating activities

Item	Amount for the year	Amount for previous year
Cash payments for management expenses	1,279,316,240.74	837,113,974.75
Cash payments for sales expenses	5,365,240,373.36	3,789,071,305.01
Bank charges	17,957,954.11	13,514,307.49
Others	968,947,254.52	933,413,670.74
Total	7,631,461,822.73	5,573,113,257.99

3) Cash received relating to other investing activities

Item	Amount for the year	Amount for previous year
Disposal of wealth management products and time deposits upon maturity	16,386,999,131.90	11,856,945,401.90
Cash paid for acquiring subsidiaries and other operation units	967,422,350.72	
Total	17,354,421,482.62	11,856,945,401.90

4) Cash paid relating to other investing activities

Item	Amount for the year	Amount for previous year
Acquisition of wealth management products and time deposits	20,860,529,612.29	15,314,639,200.00
Total	20,860,529,612.29	15,314,639,200.00

5) Cash received relating to other financing activities

Item	Amount for the year	Amount for previous year
Security deposit	1,348,943,726.14	
Other	1,065,119,550.22	
Total	2,414,063,276.36	

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

60. Cash flows statement (continued)

(1) Cash received/paid relating to other operating/investing/financing activities (continued)

6) Cash paid relating to other financing activities

Item	Amount for the year	Amount for previous year
Security deposit		1,444,058,771.72
Payment of the principal and interest on lease liabilities	24,581,012.51	48,900,886.63
Others	77,643,191.36	
Total	102,224,203.87	1,492,959,658.35

(2) Supplementary information to consolidated cash flows statement

Item	Amount for the year	Amount for previous year
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	2,342,800,977.37	2,846,034,643.23
Add: Impairment loss on assets	61,428,800.86	18,748,668.13
Impairment loss on credit	-9,779,279.79	21,050,179.77
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets	852,486,075.80	761,029,053.40
Depreciation of right-of-use assets	35,130,023.52	52,988,457.34
Amortization of intangible assets	235,146,575.92	229,161,227.66
Amortization of long-term prepaid expenses	49,245,974.00	34,015,658.65
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain denoted in "-")	-6,261,684.40	-24,533,842.26
Loss on retirement of fixed assets (Gain denoted in "-")	2,726,301.27	1,384,658.99
Loss on change in fair value (Gain denoted in "-")	-34,055,721.68	-20,697,238.73
Financial expenses (Gain denoted in "-")	120,728,936.31	-118,404,867.53
Investment loss (Gain denoted in "-")	-507,115,258.30	-195,655,206.20
Decrease in deferred tax assets (Increase denoted in "-")	-172,837,580.29	-69,239,443.24
Increase in deferred tax liabilities (Decrease denoted in "-")	-60,545,229.96	16,098,177.79
Decrease in inventories (Increase denoted in "-")	-2,695,292,980.61	-792,668,653.68
Decrease in operating receivables (Increase denoted in "-")	613,381,314.83	-2,240,232,721.01
Increase in operating payables (Decrease denoted in "-")	3,486,593,515.42	5,443,629,057.53
Others		
Net cash flows from operating activities	4,313,780,760.27	5,962,707,809.84
2. Significant investment and financing activities not involving cash receipts and payments:		
Liabilities converted into equity		
Convertible company debentures due within one year		
Fixed assets under finance leases		
3. Net movement in cash and cash equivalents:		
Cash at the end of the year	2,879,176,794.68	1,617,202,572.26
Less: Cash at the beginning of the year	1,617,202,572.26	2,065,106,596.27
Add: Cash equivalents at the end of the year		
Less: Cash equivalents at the beginning of the year		
Net increase in cash and cash equivalents	1,261,974,222.42	-447,904,024.01

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

60. Cash flows statement (continued)

(3) Net cash payment for acquisition of subsidiaries during the year

Item	Amount for the year
Cash or cash equivalents paid during the year for business combinations occurred during the year	1,240,387,776.77
Including: Sanden Company	1,240,387,776.77
Less: Cash or cash equivalents held by subsidiaries on the acquisition date	2,207,810,127.49
Including: Sanden Company	2,207,810,127.49
Add: Cash or cash equivalents paid during the year for business combinations occurred during past periods	
Net cash paid for acquiring subsidiaries	-967,422,350.72

(4) Cash and cash equivalents

Item	Amount for the year	Amount for previous year
Cash	2,879,176,794.68	1,617,202,572.26
Including: Cash on hand	181,739.29	2,345.07
Bank deposits that are readily available for payment	2,872,579,821.13	1,612,278,959.21
Other cash at bank and on hand that are readily available for payment	6,415,234.26	4,921,267.98
Cash equivalents		
Including: Bond investments due within three months		
Cash and cash equivalents as at the end of the year	2,879,176,794.68	1,617,202,572.26
Including: Cash and cash equivalents of the parent or subsidiaries subject to restrictions on use		

61. Assets with limited ownership or use rights

Item	Closing carrying amount	Reason for limitation
Cash at bank and on hand	4,143,395,704.06	Restricted Margin
Fixed assets Inventories	169,967,006.00	Obtaining Borrowings
Accounts receivables	101,414,940.00	Obtaining Borrowings
Notes receivable	173,680,012.00	Obtaining Borrowings
Other non-current assets	1,841,160,000.00	As collaterals for bank acceptance notes
Non-current assets due within one year	748,405,000.00	As collaterals for bank acceptance notes
Total	7,178,022,662.06	-

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

62. 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	44,955,658.72	6.3757	286,623,793.30
EUR	36,811,180.63	7.2197	265,765,680.79
HKD	1,398,123.29	0.8176	1,143,105.60
Japanese Yen	12,245,601,726.00	0.055415	678,590,019.65
Accounts receivable	–	–	–
Including: USD	131,566,750.95	6.3757	838,830,134.03
EUR	45,413,387.82	7.2197	327,871,036.04
Japanese Yen	4,517,589,550.00	0.055415	250,342,224.91
Other receivables	–	–	–
Including: USD	3,008,080.00	6.3757	19,178,615.66
EUR	1,038,011.34	7.2197	7,494,130.47
HKD	9,261,004.38	0.8176	7,571,797.18
Japanese Yen	1,099,431,010.00	0.055415	60,924,969.42
Short-term borrowings	–	–	–
Including: EUR	3,351,000.00	7.2197	24,193,214.70
Japanese Yen	42,074,400,721.52	0.055415	2,331,552,915.98
Indian Rupee	244,950,000.00	0.1168	28,610,160.00
Accounts payable	–	–	–
Including: USD	21,028,404.99	6.3757	134,070,801.69
EUR	18,229,743.29	7.2197	131,613,277.63
HKD	18,386,635,582.00	0.055415	1,018,895,410.78
Japanese Yen	–	–	–
Other receivables	–	–	–
Including: USD	101,872,360.50	6.3757	649,507,608.84
EUR	6,695,971.92	7.2197	48,342,908.47
HKD	25,742,269.97	0.8176	21,046,879.93
Japanese Yen	5,746,337,545.00	0.055415	318,433,295.06
Long-term borrowings	–	–	–
Including: Indian Rupee	374,283,430.00	0.1168	43,716,304.62

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

62. Monetary items in foreign currencies (continued)

(2) Major overseas operating entities

Name	Principal place of business	Functional currency	Whether there is change of functional currency
Kelon International Incorporation Pearl River Electric Refrigerator Co., Ltd.	Hong Kong	HKD	No
Kelon Development Co., Ltd.	Hong Kong	HKD	No
Hisense Mould (Deutschland) GmbH	Hong Kong	HKD	No
Hisense (Hong Kong) America Manufacturing Co., Limited	Germany	EUR	No
Hisense Monterrey Manufacturing, S.de R.L. de C.V.	Hong Kong	HKD	No
Hisense Monterrey Property Management, S.de R.L. de C.V.	Mexico	Mexican Peso	No
Hisense Japan Automotive Air-Conditioning Systems Corporation (海信日本汽車空調系統合同會社)	Mexico	Mexican Peso	No
Sanden Company	Japan	JPY	No
SANDEN INTERNATIONAL (EUROPE) GmbH	Japan	JPY	No
SANDEN MANUFACTURING EUROPE S.A.S.	Germany	Euro	No
SANDEN MANUFACTURING POLAND SP.ZO.O.	France	Euro	No
SANDEN INTERNATIONAL (U.S.A.), INC.	Poland	Euro	No
SANDEN INTERNATIONAL (SINGAPORE) PTE.LTD.	U.S.A	US Dollar	No
SANDEN VIKAS (INDIA) LTD.	Singapore	US Dollar	No
SANDEN THAILAND CO., LTD.	India	Indian Rupee	No
	Thailand	Thai Baht	No

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

63. Government grants

(1) Basic information of government grants

Category	Amount	Item	Amount included in the profit or loss of the year
Related to assets	89,922,841.07	Deferred income	36,297,685.63
Related to revenue	1,307,250.00	Deferred income	1,022,165.18
Related to revenue	339,958,479.08	Other gain	339,958,479.08
Related to revenue	80,529,475.26	Non-operating income	80,529,475.26

(2) Refund of government grants for the year

none.

64. Segment information

The Group manages its business by divisions which are organized by a mixture of both business lines and geographical locations. For the purpose of resource allocation and performance assessment, the management manages the operating results of each business segment separately, and the segment results are assessed based on the profits of the reporting segments.

(1) Segment profit or loss and assets and liabilities

Amount for current period	Air-conditioners	Refrigerators and washing machines	Others	Inter-segment elimination	Total
1. Revenue from external sales	30,402,508,314.77	23,017,878,500.74	7,341,840,221.47		60,762,227,036.98
2. Revenue from inter-segment transactions	732,118.01	8,590,026.50	2,529,105,962.70	-2,538,428,107.21	
3. Gain from investment in associates and joint ventures	1,336,113.05	1,336,113.05	147,533,289.45		150,205,515.55
4. Depreciation and amortization	597,845,804.89	400,962,498.78	173,200,345.57		1,172,008,649.24
5. Gain arising from changes in fair value		34,348,313.32	-292,591.64		34,055,721.68
6. Impairment losses on credits and assets	-967,761.60	-2,111,566.31	-48,570,193.16		-51,649,521.07
7. Total profit (losses)	2,702,306,776.48	234,648,990.75	-20,418,762.69		2,916,537,004.54
8. Total assets	26,654,064,975.95	24,979,775,010.69	16,859,588,692.82	-12,544,879,192.48	55,948,549,486.98
9. Total liabilities	18,534,823,509.91	18,260,015,452.25	13,090,771,062.71	-9,528,311,774.67	40,357,298,250.20
10. Additions to other non-current assets other than long-term equity investments	1,193,536,166.12	231,383,519.65	2,331,129,795.98		3,756,049,481.75

Notes to the Financial Statements for 2021

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

64. Segment information (continued)

(1) Segment profit or loss and assets and liabilities (continued)

Continued from above table

Amount for previous year	Air-conditioners	Refrigerators and washing machines	Others	Inter-segment elimination	Total
1. Revenue from external sales	23,386,192,179.17	18,709,002,118.33	1,749,450,605.45		43,844,644,902.95
2. Revenue from inter-segment transactions	269,673.44	924,293.66	2,054,460,241.91	-2,055,654,209.01	
3. Gain from investment in associates and joint ventures	1,004,688.61	1,004,688.61	82,195,599.13		84,204,976.35
4. Depreciation and amortization	608,903,122.66	385,678,345.13	82,612,929.26		1,077,194,397.05
5. Gain arising from changes in fair value		7,953,753.43	12,743,485.30		20,697,238.73
6. Impairment losses on credits and assets	-73,228,986.37	-7,974,328.58	41,404,467.05		-39,798,847.90
7. Total profit (losses)	2,334,901,054.06	675,799,231.43	474,429,697.91		3,485,129,983.40
8. Total assets	29,081,028,731.23	23,343,204,319.44	4,024,147,783.73	-14,636,745,020.87	41,811,635,813.53
9. Total liabilities	16,438,688,250.13	16,840,812,935.31	1,945,852,568.88	-7,820,236,979.32	27,405,116,775.00
10. Additions to other non-current assets other than long-term equity investments	1,817,173,405.72	240,366,866.48	-3,205,938.28		2,054,334,333.92

(2) Geographic Information

Region	Amount for the year/closing balance	Amount of previous year/opening balance
Revenue from domestic transactions	37,601,996,641.67	29,205,488,972.24
Revenues from overseas transactions	23,160,230,395.31	14,639,155,930.71
Total	60,762,227,036.98	43,844,644,902.95
Non-current assets – Domestic	12,954,700,539.65	11,464,768,117.14
Non-current assets – Overseas	3,294,025,662.40	115,446,160.79
Total	16,248,726,202.05	11,580,214,277.93

The Company operates mainly in Mainland China. Most of the Company's non-current assets are in Mainland China. Therefore it is not necessary to present further details of the regional information.

Notes to the Financial Statements for 2021

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

7. CHANGE IN SCOPE OF CONSOLIDATION

1. Business combination involving entities not under common control

(1) Business combination involving entities not under common control occurred this year

Name of acquiree	Date of acquisition of equity interest	Cost of acquisition of equity interest	Percentage of equity interest acquired (%)	Method for acquisition of equity interest	Date of acquisition	Basis for determination of date of acquisition	Revenue of acquiree for the period from the date of acquisition to the end of the year	Net profit of acquiree for the period from the date of acquisition to the end of the year
Sanden Company	2021-5-31	1,240,387,776.77	74.88	Cash mergers and acquisitions	2021-5-31	Completion of equity transfer procedures	5,113,252,495.19	-134,398,928.05

(2) Costs of combination and goodwill

Item	Sanden Company
Cash	1,240,387,776.77
Adjustments of fair value in respect of acquisition of equity interest	
Fair value on the date of acquisition of equity interest held prior to the date of acquisition	
Total costs of combination	1,240,387,776.77
Less: Share of fair value of identifiable net assets acquired	1,146,550,645.37
Amount of share of fair value of identifiable net assets acquired in excess of goodwill/costs of combination	93,837,131.40

The Company adopted the appraisal of the value of all shareholders' equity of Sanden Holdings as at 31 May 2021 by Bandung (Shanghai) Assets Appraisal Co., Ltd. as the fair value of the equity interest at the date of acquisition.

(3) Identifiable assets and liabilities of acquiree on the date of acquisition

Item	Sanden Company	
	Fair value on the date of acquisition	Carrying amount on the date of acquisition
Assets:		
Cash at bank and on hand	2,207,810,127.49	2,207,810,127.49
Notes receivable	132,604,790.57	132,604,790.57
Receivables	1,550,113,700.46	1,550,113,700.46
Other receivables	346,960,700.73	346,960,700.73
Inventories	1,473,628,491.18	1,498,817,092.78
Other current assets	324,906,657.82	324,906,657.82
Fixed assets	1,498,079,723.13	1,422,324,972.23
Intangible assets	111,428,768.20	43,885,175.95
Construction in progress	110,207,804.53	111,090,893.26
Other assets	1,504,667,030.23	1,494,573,065.67
Liabilities:		
Payables	1,892,597,689.90	1,892,597,689.90
Other liabilities	5,856,441,748.18	5,819,521,224.31
Net assets	1,511,368,356.26	1,420,968,262.75
Less: Minority interest	-19,815,732.11	-6,511,455.40
Net assets acquired	1,531,184,088.37	1,427,479,718.15

Notes to the Financial Statements for 2021

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

7. CHANGE IN SCOPE OF CONSOLIDATION (continued)

3. Changes in consolidation scope for other reason

- (1) On 9 March 2021, the Company's wholly-owned subsidiary KELON Development Company Limited invested in the establishment of Hisense Japan Automotive Air-Conditioning Systems Corporation with a registered capital of 1 JPY, of which the Company actually contributed 1 JPY, representing 100% of the registered capital. The Company has control and it will be included in the scope of consolidation with effect from 9 March 2021.
- (2) On 17 November 2021, the Company's subsidiary Qingdao Hisense Hitachi Air Conditioning Systems Co., Ltd. invested in the establishment of Qingdao Hisense Hitachi Air Conditioning Technology Co., Ltd. with a registered capital of RMB 1 million, of which Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. has contributed RMB 1 million, representing 100% of the registered capital. The Company has control and it will be included in the scope of consolidation with effect from 17 November 2021.

8. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Composition of enterprise group

Name of subsidiary	Abbreviation	Registered Capital	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Method for acquisition
						Direct	Indirect	
Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.	Guangdong Refrigerator	USD26.80 million	Foshan	Foshan	Manufacturing		100	Establishment or investment
Hisense Ronshen (Guangdong) Freezer Co., Ltd.	Guangdong Freezer	RMB237 million	Foshan	Foshan	Manufacturing		100	Establishment or investment
Hisense (Guangdong) Kitchen and Bath System Co., Ltd.	Hisense K&B	RMB57.41 million	Foshan	Foshan	Manufacturing	81.17		Establishment or investment
Foshan Shunde Rongsheng Plastic Co., Ltd.	Rongsheng Plastic	USD15.83 million	Foshan	Foshan	Manufacturing	44.92	25.13	Establishment or investment
Guangdong Kelon Mould Co., Ltd.	Kelon Mould	USD15.06 million	Foshan	Foshan	Manufacturing		70.11	Establishment or investment
Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.	Yangzhou Refrigerator	USD44.45 million	Yangzhou	Yangzhou	Manufacturing		100	Establishment or investment
Pearl River Electric Refrigerator Co., Ltd.	Pearl River Refrigerator	HKD0.4 million	Hong Kong	Hong Kong	Trading		100	Establishment or investment
Kelon Development Co., Ltd.	Kelon Development	HKD10 million	Hong Kong	Hong Kong	Investment	100		Establishment or investment
Kelon International Incorporation	KII	USD0.05 million	Hong Kong	British Virgin Islands	Trading		100	Establishment or investment
Hisense (Chengdu) Refrigerator Co., Ltd.	Chengdu Refrigerator	RMB50 million	Chengdu	Chengdu	Manufacturing		100	Establishment or investment
Hisense (Shandong) Refrigerator Ltd.	Shandong Refrigerator	RMB275 million	Qingdao	Qingdao	Manufacturing	100		Establishment or investment
Guangdong Hisense Refrigerator Marketing Co., Ltd.	Refrigerator Marketing Company	RMB200.82 million	Foshan	Foshan	Trading		78.82	Establishment or investment
Qingdao Hisense Air-conditioner Marketing Co., Ltd.	Airconditioner Marketing Company	RMB100.91 million	Qingdao	Qingdao	Trading		75.57	Establishment or investment
Hisense (Guangdong) Air-Conditioner Company Limited	Hisense Guangdong Air-Conditioner	RMB200 million	Jiangmen	Jiangmen	Manufacturing		100	Establishment or investment
Hisense (Guangdong) Mould Plastic Company Limited	Hisense Guangdong Mould Plastic	RMB10 million	Jiangmen	Jiangmen	Manufacturing		100	Establishment or investment

Notes to the Financial Statements for 2021

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

8. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

(1) Composition of enterprise group (continued)

Name of subsidiary	Abbreviation	Registered Capital	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Method for acquisition
						Direct	Indirect	
Jiangmen Hisense Electrical Appliances Co., Ltd.	Jiangmen Hisense Electrical Appliances	RMB10 million	Jiangmen	Jiangmen	Manufacturing		100	Establishment or investment
Hisense (Shandong) Air-Conditioning Co. Ltd.	Shandong Air-conditioning	RMB500 million	Qingdao	Qingdao	Manufacturing	100		Business combination under common control
Hisense (Zhejiang) Air-conditioning Co., Ltd.	Zhejiang Air-conditioning	RMB110 million	Huzhou	Huzhou	Manufacturing		100	Business combination under common control
Qingdao Hisense Mould Co., Ltd.	Hisense Mould	RMB27.64 million	Qingdao	Qingdao	Manufacturing	78.7		Business combination under common control
Hisense (Zhejiang) Washing Machine Co., Ltd.	Zhejiang Washing Machine	RMB450 million	Huzhou	Huzhou	Manufacturing		100	Business combination not under common control
Qingdao Hisense Commercial Cold Chain Co., Ltd.	Commercial Cold Chain	RMB50 million	Qingdao	Qingdao	Manufacturing		70	Establishment or investment
Hisense Mould (Deutschland) GmbH	German Hisense Mould	EUR2 million	Germany	Germany	Manufacturing		100	Establishment or investment
Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.	Hisense Hitachi	USD150 million	Qingdao	Qingdao	Manufacturing	49.2		Business combination not under common control
Qingdao Hisense Air-conditioner Marketing Co., Ltd.	Hitachi Marketing	RMB247.11 million	Qingdao	Qingdao	Trading		70	Business combination not under common control
Qingdao Johnson Controls Air-Conditioning Co., Ltd.	Johnson Controls	RMB400 million	Qingdao	Qingdao	Trading		100	Business combination not under common control
Qingdao Hisense Hvac Equipment Co., Ltd.	Hisense Hvac	RMB600 million	Qingdao	Qingdao	Manufacturing		100	Business combination not under common control
Hisense (Hong Kong) America Manufacturing Co., Limited.	Hong Kong Home Appliance Manufactory	HK\$ 188,126,500	Hong Kong	Hong Kong	Manufacturing		100	Business combination under common control
Hisense Monterrey Manufacturing, S.de R.L. de C.V.	Hisense Monterrey Manufacturing	MXN 197.7472 million	Mexico	Mexico	Manufacturing		100	Business combination not under common control

Notes to the Financial Statements for 2021

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

8. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

(1) Composition of enterprise group (continued)

Name of subsidiary	Abbreviation	Registered Capital	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Method for acquisition
						Direct	Indirect	
Hisense Monterrey Property Management, S.de R.L. de C.V.	Monterrey Property	MXN 30,000	Mexico	Mexico	Manufacturing		100	Business combination under common control
Qingdao Gorenje Electrical Co., Ltd.	Qingdao Gorenje	RMB21 million	Qingdao	Qingdao	Trading	70		Establishment or investment
Hisense (Shandong) Kitchen and Bath Co., Ltd.	Hisense (Shandong) K & B	RMB15 million	Qingdao	Qingdao	Manufacturing		100	Establishment or investment
Hisense Japan Automotive Air-Conditioning Systems Corporation	SPV	1 JPY	Japan	Japan	Investment		100	Establishment or investment
Qingdao Hisense Hitachi Air Conditioning Technology Co., Ltd.	Hitachi Air Conditioning Technology	RMB1 million	Qingdao	Qingdao	Manufacturing		100	Establishment or investment
Sanden Holdings Corporation	SDHD	21,741,869,287 JPY	Japan	Japan	Service industry		74.88	Business combination under common control
Sanden International (Europe) GmbH	SIE	EUR25,000	Germany	Germany	Manufacturing		100	Business combination under common control
SANDEN MANUFACTURING EUROPE S.A.S.	SME	EUR21.00 million	France	France	Manufacturing		100	Business combination under common control
SANDEN MANUFACTURING POLAND SP.ZO.O.	SMP	EUR36.3602 million	Poland	Poland	Manufacturing		100	Business combination under common control
SANDEN INTERNATIONAL (U.S.A.), INC.	SIA	US\$18.00 million	USA	USA	Manufacturing		100	Business combination under common control
SANDEN VIKAS (INDIA) PRIVATE LIMITED.	SVL	INR296.25 million	India	India	Manufacturing		50	Business combination under common control
SANDEN THAILAND CO., LTD.	STC	THB100.00 million	Thailand	Thailand	Manufacturing		95	Business combination under common control
Tianjin Sanden Auto Air-Conditioning CO., LTD.	TSA	RMB143.6290 million	Tianjin	Tianjin	Manufacturing		51	Business combination under common control

Notes:

- (i) All subsidiaries incorporated in the PRC are companies with limited liability, save for Refrigerator Marketing Company, Air-conditioner Marketing Company, Commercial Cold Chain, Hitachi Marketing and Qingdao Gorenje which are joint-stock companies with limited liability.
- (ii) The Company held 49.2% of equity interests of Hisense Hitachi, and according to the articles of association of Hisense Hitachi, the Company held five-ninth voting rights of the board of directors, the highest authority of Hisense Hitachi.

Notes to the Financial Statements for 2021

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

8. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

(2) Principal non-wholly-owned subsidiaries

Name of subsidiary	Percentage of minority interest (%)	Gain or loss attributable to minority interests for the year	Dividends paid to minority interests for the year	Closing balance of minority interests
Hisense Hitachi	50.80%	1,228,823,568.78	984,207,328.00	3,844,805,392.81

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

Unit: RMB'0000

Name of subsidiary	Closing balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hisense Hitachi	1,057,578.48	798,105.83	1,855,684.31	1,011,941.97	31,396.07	1,043,338.04

(continued)

Name of subsidiary	Opening balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hisense Hitachi	929,208.23	659,295.27	1,588,503.50	806,301.03	25,292.52	831,593.55

Name of subsidiary	Amount for the year				Amount for previous year			
	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Hisense Hitachi	1,841,158.12	241,894.40	241,894.40	421,909.49	1,333,118.46	213,238.56	213,238.56	322,005.79

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

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

On 1 December 2021, Hisense Hitachi, a subsidiary of the Company, increased its capital contribution in Hitachi Marketing, a subsidiary of the Company, by the same proportion, with no change in its shareholding before and after the capital increase, the Company still has control over the company.

(2) Impacts of changes in ownership interest in subsidiaries on equity

Item	Hitachi Marketing
Cash	67,496,000.00
Total cost of purchase/consideration for disposal	67,496,000.00
Less: Share of net assets of subsidiary based on the shareholding percentage acquired/disposed of	67,499,406.24
Difference	-3,406.24
Including: Adjustment to capital reserves	-3,406.24

Notes to the Financial Statements for 2021

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

8. INTERESTS IN OTHER ENTITIES *(continued)*

3. Interests in joint ventures or associates

(1) *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 Financial Holdings	Qingdao	Qingdao	Financial services industry	21.44		Equity method
Hisense Commercial Trading	Qingdao	Qingdao	Trading	50.00		Equity method
Hisense International	Overseas	Qingdao	Trading	12.67		Equity method
Huayu Sanden Auto Air-Conditioning CO., LTD.	Shanghai	Shanghai	Manufacturing		43.00	Equity method
Shenyang Sanden Auto Air-Conditioning CO., LTD.	Shenyang	Shenyang	Manufacturing		47.50	Equity method
SANPAK ENGINEERING INDUSTRIES PVT.LTD.	Pakistan	Pakistan	Manufacturing		36.84	Equity method

Note: The board of directors of Hisense International comprises 9 directors, 2 of which were appointed by the Company. Therefore, the Company had significant influence on it.

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

Unit: RMB'0000

Item	Closing balance/ Amount for the year	Opening balance/ Amount for previous year
Joint ventures:	–	–
Total carrying amount of investments	5,029.68	4,762.46
Amounts in aggregate in proportion to the shareholdings:	–	–
– Net profit	267.22	200.94
– Other comprehensive income		
– Total comprehensive income	267.22	200.94
Associates:	–	–
Total carrying amount of investments	138,592.00	47,612.98
Amounts in aggregate in proportion to the shareholdings:	–	–
– Net profit	14,753.33	8,219.56
– Other comprehensive income	-1,336.13	693.33
– Total comprehensive income	13,417.20	8,912.89

Notes to the Financial Statements for 2021

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

9. RISKS RELATING TO FINANCIAL INSTRUMENTS

The Group's major financial instruments include: cash at bank and on hand, transactional financial assets, 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 Group 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 Group 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 Group 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 Group to make cash payment in order to minimise credit risk. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk. In addition, all receivable balances are monitored on an ongoing basis and overdue balances are followed up by senior management.

The credit risk on derivative instruments is not significant as the counterparties are high creditworthy banks rated by international credit-rating agencies.

The maximum exposure to credit risk at reporting date is the carrying amount of each class of financial assets shown on the consolidated financial statements.

(2) Liquidity risk

In respect of the management of liquidity risk, the Group monitors and maintains cash and cash equivalents at a level which is adequate, in the management's point of views, to finance the Group's operations and mitigate the effects of short-term fluctuations in cash flows. The Group'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 Group's liquidity requirements.

In order to mitigate the liquidity risk, the directors have carried out a detailed review of the liquidity of the Group, 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 Group has adequate funding to fulfill its short-term obligations and capital expenditure requirements.

Notes to the Financial Statements for 2021

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

9. RISKS RELATING TO FINANCIAL INSTRUMENTS (continued)

(2) Liquidity risk (continued)

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

31 December 2021

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets					
Cash at bank and on hand	7,022,572,498.74			7,022,572,498.74	
Transactional financial assets	5,625,841,633.95			5,625,841,633.95	
Notes receivable	228,252,631.50			228,252,631.50	
Accounts receivable	8,757,077,378.05			8,757,077,378.05	
Accounts receivable financing	3,669,679,060.94			3,669,679,060.94	
Other receivables	484,042,296.38			484,042,296.38	
Other current assets	2,012,245,610.33			2,012,245,610.33	
Non-current assets due within one year	2,210,937,867.57			2,210,937,867.57	
Other non-current assets			5,293,818,555.55		5,293,818,555.55
Total	30,010,648,977.46		5,293,818,555.55		35,304,467,533.01
Financial liabilities					
Short-term borrowings	2,858,984,229.49			2,858,984,229.49	
Transactional financial liabilities	244.38			244.38	
Notes payable	11,513,955,689.58			11,513,955,689.58	
Accounts payable	11,779,280,708.56			11,779,280,708.56	
Other payables	3,425,374,535.37			3,425,374,535.37	
Other current liabilities	5,462,375,607.34			5,462,375,607.34	
Non-current liabilities due within one year	172,947,297.72			172,947,297.72	
Lease liabilities		152,935,697.86	171,482,316.02	73,383,574.05	397,801,587.93
Long-term borrowings		32,382,835.84			32,382,835.84
Total	35,212,918,312.44	185,318,533.70	171,482,316.02	73,383,574.05	35,643,102,736.21

Notes to the Financial Statements for 2021

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

9. RISKS RELATING TO FINANCIAL INSTRUMENTS (continued)

(2) Liquidity risk (continued)

31 December 2020

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets					
Cash at bank and on hand	7,110,772,454.16				7,110,772,454.16
Transactional financial assets	2,620,898,474.73				2,620,898,474.73
Notes receivable	551,833,415.14				551,833,415.14
Accounts receivable	6,804,783,003.27				6,804,783,003.27
Financing receivable	4,241,240,626.01				4,241,240,626.01
Other receivables	511,666,394.23				511,666,394.23
Other current assets	3,714,208,987.32				3,714,208,987.32
Other non-current assets			4,033,348,000.00		4,033,348,000.00
Total	25,555,403,354.86		4,033,348,000.00		29,588,751,354.86
Financial liabilities					
Short-term borrowings	22,026,317.50				22,026,317.50
Transactional financial liabilities	201,236.00				201,236.00
Notes payable	10,775,376,397.87				10,775,376,397.87
Accounts payable	7,291,829,266.10				7,291,829,266.10
Other payables	2,011,559,493.31				2,011,559,493.31
Other current liabilities	4,339,380,802.73				4,339,380,802.73
Lease liabilities	31,621,786.60	15,479,701.84	13,376,599.23	365,037.26	60,843,124.93
Total	24,471,995,300.11	15,479,701.84	13,376,599.23	365,037.26	24,501,216,638.44

(3) Interest rate risk

The Group 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, of which the variable interest rates are mostly short-term in nature whereas interest-bearing financial liabilities are primarily short-term bank borrowings. As at 31 December 2021, the Group's bank borrowings are fixed rate. As such, any change in the interest rate is not considered to have significant impact on the Group's performance.

Notes to the Financial Statements for 2021

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

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

(4) Foreign currency risk

Foreign currency risk is the risk of loss due to adverse change in exchange rates with respect to investments and transactions denominated in foreign currencies. The Group's monetary assets and transactions are mainly denominated in RMB, HKD, USD, JPY and EUR. The exchange rates between RMB, HKD, USD, JPY and EUR are not pegged, and there is fluctuation in exchange rates between RMB, USD, JPY and EUR.

The carrying amounts of the Group'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	1,144,632,542.99	783,578,410.53	534,995,850.29	34,543,163.55
EUR	601,130,847.30	204,149,400.80	63,425,980.97	4,263,713.72

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 forward exchange rate:

Item	Current year	Previous year
	Increase/Decrease in profit after tax	Increase/Decrease in profit after tax
USD to RMB		
Appreciates by 5%	13,539,529.97	18,766,975.75
Depreciates by 5%	-13,539,529.97	-18,766,975.75
EUR to RMB		
Appreciates by 5%	14,886,804.24	2,218,585.02
Depreciates by 5%	-14,886,804.24	-2,218,585.02

Notes to the Financial Statements for 2021

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

10. DISCLOSURE OF FAIR VALUE

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

Item	Fair value as at the end of the year			Total
	Level 1 Fair value measurement	Level 2 Fair value measurement	Level 3 Fair value measurement	
I. Fair value measurement on a recurring basis	—	—	—	—
(i) Transactional financial assets		6,761,891.49	5,619,079,742.46	5,625,841,633.95
1. Financial assets at fair value through profit or loss		6,761,891.49	5,619,079,742.46	5,625,841,633.95
(1) Wealth management products			5,619,079,742.46	5,619,079,742.46
(2) Derivative financial assets		6,761,891.49		6,761,891.49
(ii) Other debt investments			3,669,679,060.94	3,669,679,060.94
1. Notes receivable			3,669,679,060.94	3,669,679,060.94
(iii) Other equity instrument investments			38,707,912.25	38,707,912.25
Total assets measured at fair value on a recurring basis		6,761,891.49	9,327,466,715.65	9,334,228,607.14
(iv) Transactional financial liabilities		244.38		244.38
1. Financial liabilities at fair value through profit or loss		244.38		244.38
(1) Derivative financial liabilities		244.38		244.38
Total liabilities measured at fair value		244.38		244.38

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

The Group's Level 2 items are a forward exchange contracts. As at the balance sheet date, the Group 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.

3. Valuation techniques and qualitative and quantitative information for level 3 items measured on and not on a recurring basis

The Group's level 3 items are wealth management products and receivables financing. The wealth management products forecast future cash flows using the expected rate of return and the unobservable input value is the expected rate of return. The receivables financing are notes receivable held by the Group having relatively short remaining maturity with their carrying amount appropriate to fair value, and adopt carrying amount as their fair value.

Wealth management products recognized a gain or loss from change in fair value of RMB39,567,358.88 during the year. Changes in unobservable inputs (expected rates of return) do not result in significant changes in fair value. At the end of the year, the Group forecast future cash flows as the fair value using the expected rate of return, and the change in valuation techniques had a relatively small impact on the financial statements, where the unobservable input (expected return) is between 2.8% and 4%.

Notes to the Financial Statements for 2021

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) Relationship with related parties

1. Particulars of the controlling shareholders and the ultimate holding company

(1) Particulars of the controlling shareholders and the ultimate holding company

(Amount Unit: RMB'0000)

Name of the controlling shareholders and the ultimate holding company	Registration address	Business nature	Registered capital	Shareholding in the Company(%)	Voting rights in the Company (%)
Qingdao Hisense Air-conditioning	Qingdao	Manufacture of air conditioners, moulds and provision of after-sale services	67,479	37.92	37.92

Note: Ultimate holding company of the Company is Hisense Group Holdings Co., Ltd..

(2) Controlling shareholder's registered capital and its changes

(Amount Unit: RMB'0000)

Controlling shareholder	Opening balance	Increase for the year	Decrease for the year	Closing balance
Qingdao Hisense Air-Conditioning	67,479			67,479

(3) Shareholding of controlling shareholder and its changes

Controlling shareholder	Shareholding amount		Percentage of shareholding (%)	
	Closing balance	Opening balance	Percentage at the end of the year	Percentage at the beginning of the year
Qingdao Hisense Air-Conditioning	516,758,670	516,758,670	37.92	37.92

2. Subsidiaries

For details of subsidiaries, please see note 8(1) "(1) Composition of enterprise group".

3. Joint ventures and associates

For details of the joint ventures or associates of the Company, please see note 8(3)(1) "Joint ventures or associates".

Notes to the Financial Statements for 2021

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(I) Relationship with related parties (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 with the Company
Hisense Group and its subsidiaries	A related natural person of the Company held a directorship in Hisense Group Limited during the reporting period
Hisense Finance Co., Ltd. (“Hisense Finance”)	Subsidiary of holding company
Hisense Visual Technology Co., Ltd. (formerly known as Hisense Electric Co., Ltd. hereinafter referred to as “Hisense Visual”.)	Subsidiary of holding company
Beijing Xuehua Group Company Limited (“Xuehua Group”)	Minority shareholder of Beijing Refrigerator
Hisense (Hong Kong) Company Limited (“Hisense Hong Kong”)	Subsidiary of holding company
Johnson Controls-Hitachi Air Conditioning Holding (UK) Ltd.(hereinafter referred to as “Johnson Hitachi”)	Controlling shareholder of the minority shareholder of Hisense Hitachi

Note: On 30 December 2020, the “Implementation Plan of the Mixed Ownership Reform of Hisense Company” (《海信集團深化混合所有制改革實施方案》) was completed and Hisense Company Limited (“Hisense Group”) ceased to be the controlling shareholder of Hisense Group Holdings Co., Ltd. and ceased to be the indirect controlling shareholder of the Company. The following related party relationships are represented by the following balances of related transactions and related party dealings:

- 1) Hisense Group and its subsidiaries: As Hisense Holdings ceased to be included in the scope of consolidation of Hisense Group on 31 December 2020, the prior year’s occurrence includes Hisense Group and its former holding subsidiaries, while the current year’s occurrence and previous year-end balances do not include Hisense Holdings and its subsidiaries.
- 2) Hisense Holdings and its subsidiaries: The current year’s occurrence and previous balances at the beginning and end of the year show only the related party transactions and balances with the controlling shareholder, Hisense Group Holdings Co., Ltd. and its subsidiaries.

6. The Greencool Companies had a series of transactions or unusual cash inflows and outflows through the following “Specific Third Party Companies”

Name of related party	Relationship with the Company
Jinan San Ai Fu Chemical Co., Ltd. (“Jinan San Ai Fu”)	Specific Third Party Company
Jiangxi Keda Plastic Technology Co. Ltd. (“Jiangxi Keda”)	Specific Third Party Company
Zhuhai Longjia Refrigerating Plant Co., Ltd. (“Zhuhai Longjia”)	Specific Third Party Company
Zhuhai Defa Air-conditioner Fittings Co., Ltd. (“Zhuhai Defa”)	Specific Third Party Company
Wuhan Changrong Electrical Appliance Co., Ltd. (“Wuhan Changrong”)	Specific Third Party Company
Beijing Deheng Solicitors (“Deheng Solicitors”)	Specific Third Party Company
Shangqiu Bingxiong Freezing Facilities Co., Ltd. (“Shangqiu Bingxiong”)	Specific Third Party Company

Notes to the Financial Statements for 2021

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions

1. Related party transactions for the purchase and sale of goods, provision and receipt of services

(1) Purchase of goods/receipt of services

Related party	Particulars of related party transactions	Pricing and decision-making procedures of related party transactions	Amount for the year		Amount for previous year	
			Amount	Percentage of the amount for similar transactions (%)	Amount	Percentage of the amount for similar transactions (%)
Hisense Visual and its subsidiaries	Finished goods	Agreed price	358,145.76		236,025.45	
Hisense Group and its subsidiaries	Finished goods	Agreed price			49,781,681.92	0.14
Hisense Holdings and its subsidiaries	Finished goods	Agreed price	170,459,958.36	0.31		
Johnson Hitachi and its subsidiaries	Finished goods	Agreed price	7,833,136.98	0.01	19,252,051.70	0.05
Associates of Sanden Company	Finished goods	Agreed price	7,937,066.80	0.01		
Subtotal of purchase of finished goods			186,588,307.90	0.33	69,269,759.07	0.19
Hisense Visual and its subsidiaries	Raw materials	Agreed price	44,331,994.63	0.08	26,306,654.24	0.07
Hisense Group and its subsidiaries	Raw materials	Agreed price			286,825,122.81	0.78
Hisense Holdings and its subsidiaries	Raw materials	Agreed price	520,155,793.80	0.96		
Johnson Hitachi and its subsidiaries	Raw materials	Agreed price	891,216,235.04	1.64	516,331,483.39	1.40
Associates of Sanden Company	Raw materials	Agreed price	232,790,070.14	0.43		
Subtotal of purchase of raw materials			1,688,494,093.61	3.11	829,463,260.44	2.25
Hisense Visual and its subsidiaries	Equipment	Agreed price	203,630.80		25,200.00	
Hisense Group and its subsidiaries	Equipment	Agreed price			7,861,104.11	0.89
Hisense Holdings and its subsidiaries	Equipment	Agreed price	2,491,427.52			
Subtotal of purchase of equipment			2,695,058.32		7,886,304.11	0.89
Hisense Visual and its subsidiaries	Receipt of services	Agreed price	32,658,125.28	0.06	28,372,096.95	0.08
Hisense Group and its subsidiaries	Receipt of services	Agreed price	8,729,733.45	0.02	710,342,036.62	1.93
Hisense Holdings and its subsidiaries	Receipt of services	Agreed price	961,983,267.10	1.77		
Johnson Hitachi and its subsidiaries	Receipt of services	Agreed price	25,433,354.89	0.05	18,875,349.53	0.05
Xuehua Group	Receipt of services	Agreed price	698,708.86			
Associates of Sanden Company	Receipt of services	Agreed price	5,636,647.56	0.01		
Subtotal of receipt of services			1,035,139,837.14	1.91	757,589,483.10	2.06
Hisense Hong Kong	Financing purchase	Agreed price	638,029,202.84	1.18	253,735,839.93	0.69
Subtotal of financing purchase			638,029,202.84	1.18	253,735,839.93	0.69

Note: Included in the related transaction "Provision of labour" is rental income recognised by the Company as a lessor and rental income of RMB26,326,600 was recognised in the year.

Notes to the Financial Statements for 2021

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions (continued)

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

- ① The Company and Hisense Group Company and Hisense Electronics Holdings and Hisense Visual Technology and Hisense Marketing Management and Hisense International entered into the Business Cooperation Framework Agreement on 30 October 2020. During the effective period of the agreement, the transaction with the Group as the purchaser and recipient of services was capped at a total of RMB56.60 million (exclusive of value-added tax) with Hisense Group, a total of RMB1,561.90 million (exclusive of value-added tax) with Hisense Electronics Holdings, a total of RMB109.48 million (exclusive of value-added tax) with Hisense Visual Technology, a total of RMB288.19 million (exclusive of value-added tax) with Hisense Marketing Management, and a total of RMB392.71 million (exclusive of value-added tax) with Hisense International.
- ② The Company and Johnson Hitachi entered into the Business Framework Agreement on 22 January 2021. The transaction with the Group as the purchaser and recipient of services was subject to an aggregate cap (exclusive of value-added tax) of RMB925.85 million.
- ③ The Company and Hisense Hong Kong entered into a Financing Purchase Framework Agreement on 5 November 2019. During the effective period of the agreement, the transaction in which the Group engaged Hisense Hong Kong to perform financing purchase as its agent was subject to an aggregate cap of US\$100,000,000.

The above agreements were considered and approved at the tenth interim meeting of the Company's tenth session of the board of directors in 2020 convened on 30 October 2020, the first interim meeting of the Company's tenth session of the board of directors in 2020 convene on 18 January 2021 and the first extraordinary general meeting in 2020 convened on 17 January 2020 respectively.

- ④ The Company and Johnson Hitachi entered into the Business Corporation Agreement on 27 December 2021 to terminate and replace the existing Business Corporation Agreement. During the effective period of the agreement, the aggregate transaction cap between with the Company as the purchaser and service provider and Johnson Hitachi was adjusted to RMB929.55 million (exclusive of value-added tax).

The above agreements were considered and approved at the fourth interim meeting of the Company's first session of the board of directors in 2021 convened on 28 December 2021.

- ⑤ The above transactions with Hisense Group and its subsidiaries, Hisense Visual and its subsidiaries, Hisense Hong Kong, Johnson Hitachi and its subsidiaries constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules, and the Company confirmed such connected transactions have complied with the disclosure and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules (provided since the financial assistance arrangements under the Purchase Financing Agency Framework Agreement entered into between the Company and Hisense Hong Kong was for the benefit of the Company on normal commercial terms where no security over the assets of the Group was granted in respect of the financial assistance, such connected transaction with Hisense Hong Kong were exempt from the reporting, announcement and shareholders' approval requirements pursuant to Rule 14A.65(4) and Rule 14A.76(1)(b) of the Hong Kong Listing Rules; The Company and Johnson Hitachi entered into a Business Cooperation Agreement, and the Board has approved the transactions and the Directors (including the Independent Non-executive Directors) have also confirmed that the terms of the transactions are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole. Therefore, the connected transactions with Johnson Hitachi are exempt from the circular, independent financial advice and Shareholders' approval requirements according to of Rule 14A.101 of the Hong Kong Listing Rules).

Notes to the Financial Statements for 2021

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions (continued)

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

Other than the above transactions, the transactions with related parties conducted in 2021 as disclosed in note 11 of the financial statements in the 2021 annual report do not constitute connected transactions under Chapter 14A of the Listing Rules.

(2) Sale of goods/rendering of service

Related party	Particulars of related party transactions	Pricing and decision-making procedures of related party transactions	Amount for the year		Amount for previous year	
			Amount	Percentage of the amount for similar transactions (%)	Amount	Percentage of the amount for similar transactions (%)
Hisense Visual and its subsidiaries	Finished goods	Agreed price	3,623,313.29	0.01	849,713.94	
Hisense Group and its subsidiaries	Finished goods	Agreed price			13,478,572,701.22	27.85
Hisense Holdings and its subsidiaries	Finished goods	Agreed price	17,438,526,910.25	25.81		
Johnson Hitachi and its subsidiaries	Finished goods	Agreed price	223,820,598.74	0.33	217,512,580.78	0.45
Associates of Sanden Company	Finished goods	Agreed price	588,501,487.09	0.87		
Subtotal of sale of finished goods			18,254,472,309.37	27.02	13,696,934,995.94	28.30
Hisense Visual and its subsidiaries	Raw materials	Agreed price	96,948.06		702,125.24	
Hisense Group and its subsidiaries	Raw materials	Agreed price			171,714,468.37	0.35
Hisense Holdings and its subsidiaries	Raw materials	Agreed price	339,571,873.48	0.50		
Johnson Hitachi and its subsidiaries	Raw materials	Agreed price	5,699,601.02	0.01	9,063,700.12	0.02
Subtotal of sale of raw materials			345,368,422.56	0.51	181,480,293.73	0.37
Hisense Visual and its subsidiaries	Moulds	Market price	42,308,601.84	0.06	68,748,858.39	0.14
Hisense Group and its subsidiaries	Moulds	Market price			39,298,898.00	0.08
Hisense Holdings and its subsidiaries	Moulds	Market price	32,030,182.76	0.05		
Subtotal of sale of moulds			74,338,784.60	0.11	108,047,756.39	0.22
Hisense Group and its subsidiaries	Equipment	Agreed price			98,689.20	
Subtotal of sale of equipment					98,689.20	
Hisense Visual and its subsidiaries	Provision of services	Agreed price	3,973,508.90	0.01	5,728,427.06	0.01
Hisense Group and its subsidiaries	Provision of services	Agreed price			14,973,867.79	0.03
Hisense Holdings and its subsidiaries	Provision of services	Agreed price	12,266,506.47	0.02		
Johnson Hitachi and its subsidiaries	Provision of services	Agreed price			64,053.45	
Xue hua Guoup	Provision of services	Agreed price	730,014.71		960,012.12	
Subtotal of rendering of services			16,970,030.08	0.03	21,726,360.42	0.04

Note: Included in the related transaction "Provision of labour" is rental income recognised by the Company as a lessor and rental income of RMB12,748,000 was recognised in the year.

Notes to the Financial Statements for 2021

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

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

2. Related party transactions *(continued)*

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

- (1) The Company and Hisense Electronics Holdings and Hisense Visual Technology and Hisense Marketing Management and Hisense International entered into the Business Cooperation Framework Agreement on 30 October 2020. During the effective period of the agreement, the transaction with the Group as the supplier and provider of services was capped at a total of RMB697.21 million (exclusive of value-added tax) with Hisense Electronics Holdings, a total of RMB98.27 million with Hisense Visual Technology, a total of RMB657.91 million (exclusive of value-added tax) with Hisense Marketing Management and a total of RMB18.73522 billion (exclusive of value-added tax) with Hisense International.
- (2) The Company and Johnson Hitachi entered into the Business Framework Agreement on 22 January 2021. 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 RMB436.75 million.

The above agreements were considered and approved at the tenth interim meeting of the Company's tenth session of the board of directors in 2020 convened on 30 October 2020, and the first interim meeting of the Company's tenth session of the board of directors in 2021 convened on 18 January 2021 respectively.

- (3) The Company and Johnson Hitachi entered into the Business Cooperation Agreement on 27 December 2021 to terminate and replace the existing Business Corporation Agreement. During the effective period of the agreement, the transaction cap between with the Company as the purchaser and service provider and the aggregate amount of Johnson Hitachi remained unchanged to RMB436.75 million (exclusive of value-added tax).
- (4) The above transactions with Hisense Group and its subsidiaries, Hisense Visual and its subsidiaries, Johnson Hitachi and its subsidiaries constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules, and the Company confirmed such connected transactions have complied with the disclosure and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules (provided that the Company and Johnson Hitachi entered into a Business Cooperation Agreement, and the Board has approved the transactions and the Directors (including the Independent Non-executive Directors) have also confirmed that the terms of the transactions are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole. Therefore, the connected transactions with Johnson Hitachi are exempt from the circular, independent financial advice and shareholders' approval requirements under 14A.101 of the Listing Rules).

Other than the above transactions, the transactions with related parties conducted in 2021 as disclosed in note 11 of the financial statements in the 2021 annual report do not constitute connected transactions under Chapter 14A of the Listing Rules.

Notes to the Financial Statements for 2021

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions (continued)

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

2. Related guarantees

(1) As guarantor

Guaranteed party	Amount of Guarantee	Guarantee Start Date	Guarantee Expiry Date	Whether the guarantee has been fulfilled
SANPAK ENGINEERING INDUSTRIES PVT.LTD.	PKR 561,840,000	2019-3-25	2022-3-31	Outstanding

(2) As guaranteed party

Name of Guarantor	Amount of Guarantee	Guarantee Start Date	Guarantee Expiry Date	Whether the guarantee has been fulfilled
Hisense Group Holdings Co., Ltd.	30,000,000.00	2021-8-30	2022-8-30	Outstanding
Hisense (Hong Kong) Company Limited	664,980,000.00	2021-5-31	2022-5-30	Outstanding
HISENSE CKL (HK) CO., LIMITED	JPY 4,000,000,000	2021-8-17	2022-8-16	Outstanding

Notes to the Financial Statements for 2021

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions (continued)

(3) Loans and borrowings of the related parties

Name of other related parties	Lending amount	Inception date	Expiration date	Notes
Borrowings				
Hisense Group Holdings and its subsidiaries	280,530,800.00	2021-4-30	2022-4-30	Repaid RMB15,939,250.00, an interest expense of RMB2,670,876.75 was paid during the year
Hisense Group Holdings and its subsidiaries	357,039,200.00	2021-5-20	2022-5-20	An interest expense of RMB3,164,126.47 was paid during the year
Hisense Group Holdings and its subsidiaries	77,581,000.00	2021-11-15	2021-12-15	Repaid, an interest expense of RMB118,311.03 was paid during the year
Hisense Group Holdings and its subsidiaries	165,000,000.00	2021-11-18	2022-11-18	An interest expense of RMB592,143.75 was paid during the year
Hisense Group Holdings and its subsidiaries	160,000,000.00	2021-12-6	2022-12-6	An interest expense of RMB261,000.00 was paid during the year
Hisense Group Holdings and its subsidiaries	94,000,000.00	2021-12-7	2022-12-7	An interest expense of RMB143,115.00 was paid during the year
Hisense Group Holdings and its subsidiaries	5,000,000.00	2021-7-28	2021-9-16	Repaid, an interest expense of RMB27,187.50 was paid during the year

(4) Key management personnel emoluments

Please see note 15(3) Key management personnel emoluments for details.

(5) Other connected transactions

As at 31 December 2021, the Group had the balance of deposit of RMB14,783,583,600 (listed in bank deposits, other current assets and other non-current assets according to holding intention and liquidity), and balance of electronic bank acceptance note of RMB8,448,293,300 with Hisense Finance. The balance of loan was RMB450 million. The amount of loan interest for Hisense Finance of RMB12,436,600 was recognized. The amount of discounted interest, handling fee for opening accounts for electronic bank acceptance note, settlement service for receipt and payment of funds paid by the Company to Hisense Finance amounted to RMB4.1182 million, RMB9.5396 million and RMB1.1322 million. Interest income from bank deposits of RMB281,512,600 was recognized. The actual amount involved for the provision of settlement and sale of foreign exchange services provided by Hisense Finance to the Group was RMB346,701,400 and the amount for provision of discounted notes was RMB917,020,100.

Pursuant to the Trademark Licensing Agreement entered into between the Company and Hisense Group, the Group is entitled to use the trademark of “海信” and “Hisense” within the scope of permission and during the licensing period in the agreement at nil consideration.

Notes to the Financial Statements for 2021

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

3. 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
Receivables Financing	Hisense Visual and its subsidiaries	138,875,648.82		159,473,920.01	
Receivables Financing	Hisense Holdings and its subsidiaries	114,170,356.26		209,619,243.39	
Receivables Financing	Associates of Sanden Company	13,078,804.47			
Subtotal		266,124,809.55		369,093,163.40	
Other current assets	Hisense Finance	282,254,604.08		147,961,817.69	
Subtotal		282,254,604.08		147,961,817.69	
Accounts receivable	Hisense Visual and its subsidiaries	6,464,782.34		38,919,165.05	
Accounts receivable	Hisense Holdings and its subsidiaries	3,777,309,074.40	1,606.82	3,578,584,281.44	
Accounts receivable	Johnson Hitachi and its subsidiaries	68,805,985.32		30,953,176.32	
Accounts receivable	Associates of Sanden Company	257,594,559.41			
Subtotal		4,110,174,401.47	1,606.82	3,648,456,622.81	
Other receivables	Hisense Visual and its subsidiaries	26,823.45	18,000.00	18,000.00	18,000.00
Other receivables	Hisense Group and its subsidiaries	12,014,260.14	906,664.83	3,012,739.33	650,308.56
Other receivables	Xuehua Group			302,836.17	
Other receivables	Associates of Sanden Company	14,523,772.77			
Subtotal		26,564,856.36	924,664.83	3,333,575.50	668,308.56
Dividends receivable	Associates of Sanden Company	153,473,105.41			
Subtotal		153,473,105.41			
Prepayment	Hisense Visual Technology and its subsidiaries	26,153.12			
Prepayments	Hisense Holdings and its subsidiaries	10,806,167.16		12,573,238.47	
Subtotal		10,832,320.28		12,573,238.47	

Notes to the Financial Statements for 2021

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

3. Receivables from and payables to related parties (continued)

(2) Payables to related parties

Item	Related party	Closing balance	Opening balance
Note payable	Hisense Holdings and its subsidiaries	32,919,385.66	11,799,016.98
Note payable	Johnson Hitachi and its subsidiaries	429,848,157.74	289,628,720.53
Note payable	Associates of Sanden Company	2,098,233.56	
Subtotal		464,865,776.96	301,427,737.51
Accounts payable	Hisense Visual and its subsidiaries	459,881.80	613,087.29
Accounts payable	Hisense Holdings and its subsidiaries	1,866,127,694.69	258,947,755.98
Accounts payable	Hong Kong Hisense	88,659,875.44	
Accounts payable	Johnson Hitachi and its subsidiaries	120,970,318.39	96,062,483.78
Accounts payable	Associates of Sanden Company	21,536,903.43	
Subtotal		2,097,754,673.75	355,623,327.05
Other payables	Hisense Visual and its subsidiaries	298,109.13	9,482.98
Other payables	Hisense Holdings and its subsidiaries	1,099,423,611.55	147,576,572.26
Other payables	Johnson Hitachi and its subsidiaries	200,000.00	200,000.00
Other payables	Xuehua Group	100,859.00	
Other payables	Associates of Sanden Company	4,795,954.90	
Subtotal		1,104,818,534.58	147,786,055.24
Contratual liabilities	Hisense Holdings and its subsidiaries	64,552,052.04	418,047.70
Contratual liabilities	Johnson Hitachi and its subsidiaries	11,520.81	84,056.49
Contratual liabilities	Xuehua Group		242,894.63
Subtotal		64,563,572.85	744,998.82

Notes to the Financial Statements for 2021

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

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

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

(3) Transactions with “specific third party companies”

Item	Related party	At the end of the year Book value	At the beginning of the year Book value
Other receivables	Jinan San Ai Fu		81,600,000.00
	Jiangxi Keda		13,000,200.00
	Zhuhai Longjia		28,600,000.00
	Zhuhai Defa		21,400,000.00
	Wuhan Changrong		20,000,000.00
	Deheng Solicitors		2,000,000.00
	Shangqiu Bingxiong	58,030,000.00	58,030,000.00
Subtotal of other receivables		58,030,000.00	224,630,200.00
Other payables	Zhuhai Longjia		17,766,425.03
Subtotal of other payables			17,766,425.03

(4) Transactions with Greencool Companies

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

12. CONTINGENCIES

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

As at 31 December 2021, the Group was involved, as defendant, in litigations with amount of RMB158,772,217.70, and provision of RMB145,852,661.80 had been made.

Notes to the Financial Statements for 2021

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

13. COMMITMENTS

1. Capital commitments

Unit: RMB'0000

Item	Closing balance	Opening balance
Commitments in respect of investment in subsidiaries and jointly controlled entity (commitment to purchase long-term assets):		
– Authorized but not contracted		
– Contracted but not paid	22,631.22	55,034.42
Commitments in respect of acquisition of the property, plant and equipment of subsidiaries (commitment for external investment):		
– Contracted but not paid		

2. Operating lease commitment

Please see note 15(5) lease for details.

14. SUBSEQUENT EVENTS

1. Significant non-adjusted matters

Nil

2. Profit distribution

On 30 March 2022, the Proposed Profit Distribution Plan for 2021 was considered and approved at the first meeting of 2022 of the eleventh session of the Board of the Company: Based on the total share capital of 1,362,725,370 shares of the Company as of the date of disclosure of the annual report 2021, a cash dividend of RMB2.14 (tax inclusive) was to be paid to all shareholders for every 10 shares held, amounting to a total distribution of profit of RMB291,623,229.18. The undistributed profit would be rolled over for distribution in subsequent years. There will be no issue of bonus share and no transfer of capital reserve to share capital during the year. Such resolution is subject to the approval at 2021 annual general meeting of the Company.

Notes to the Financial Statements for 2021

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

15. OTHER SIGNIFICANT EVENTS

1. Capital management

The primary objectives of the Company's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 31 December 2020.

The Company monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes bank and other borrowings, accounts payable, notes payable, other payables and debentures payables, less cash and cash equivalents. The gearing ratios as at the end of the reporting periods were as follows:

Item	End of the year	Beginning of the year
Total debt	40,357,298,250.20	27,405,116,775.00
Including: Short-term borrowings	2,858,984,229.49	22,026,317.50
Accounts payable	11,779,280,708.56	7,291,829,266.10
Notes payable	11,513,955,689.58	10,775,376,397.87
Other payables	3,425,374,535.37	2,011,559,493.31
Less: Cash and cash equivalents	2,879,176,794.68	1,617,202,572.26
Net debt	37,478,121,455.52	25,787,914,202.74
Equity attributable to shareholders of parent	10,342,355,185.33	9,779,115,580.43
Capital and net debt	47,820,476,640.85	35,567,029,783.17
Gearing ratio	78.37%	72.51%

Notes to the Financial Statements for 2021

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

15. OTHER SIGNIFICANT EVENTS (continued)

2. Directors and supervisors' emoluments

The emoluments paid or payable to the directors and supervisors of the Company are as follows:

(1) As at 31 December 2021

Unit: RMB'0000

Name	Position	Emoluments of independent director	Salaries and allowances	Pension scheme contributions	Total
Executive directors					
Dai Hui Zhong	Director, president		89.91	0.63	90.54
Lin Lan	Director				
Jia Shao Qian	Director				
Fei Li Cheng	Director		566.60	3.73	570.33
Tang Ye Guo	Former chairman		144.28	3.44	147.72
Duan Yue Bin	Former chairman, president		107.44	2.19	109.63
Xia Zhang Zhua	Director		192.13	5.26	197.39
Gao Yu Lin	Director, chief financial officer		192.74	4.06	196.80
Independent non-executive director					
Ma Jin Quan	Independent non-executive director	14.00			14.00
Zhong Geng Shen	Independent non-executive director	14.00			14.00
Cheung Sai Kit	Independent non-executive director	24.00			24.00
Supervisors					
Liu Zhen Shun	Chairman of the Supervisory Committee				
Sun Jia Hui	Supervisor				
Yin Zhi Xin	Supervisor		64.20	3.75	67.95
Fan Wei	Former Supervisor		82.25	3.76	86.00
Total		52.00	1,439.53	26.82	1,518.35

- (i) Note: During the year, no emoluments were paid by the Company to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived or agreed to waive any emoluments during the year.
- (ii) Mr. Dai Hui Zhong was appointed as the president of the Company in October 2021, and was appointed as a director of the Company in June 2021.
- (iii) Mr. Xia Zhang Zhua was appointed as a director of the Company in June 2021.
- (iv) Ms. Gao Yu Lin was appointed as the chief financial officer of the Company in June 2021, and as a director of the Company in January 2022.
- (v) Ms. Sun Jia Hui was appointed as a supervisor of the Company in June 2021.
- (vi) Mr. Yin Zhi Xin was appointed as a supervisor of the Company in June 2021.

Notes to the Financial Statements for 2021

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

15. OTHER SIGNIFICANT EVENTS (continued)

2. Directors and supervisors' emoluments (continued)

(2) As at 31 December 2020

Unit: RMB'0000

Name	Position	Emoluments of independent director	Salaries and allowances	Pension scheme contributions	Total
Executive directors					
Tang Ye Guo	Chairman		525.69	3.27	528.96
Duan Yue Bin	Director, president		423.70	6.29	429.99
Jia Shao Qian	Director				
Lin Lan	Director				
Dai Hui Zhong	Director				
Fei Li Cheng	Director		619.21	0.55	619.76
Wang Yun Li	Former director and vice president				
Independent non-executive director					
Ma Jin Quan	Independent non-executive director	14.00			14.00
Zhong Geng Shen	Independent non-executive director	14.00			14.00
Cheung Sai Kit	Independent non-executive director	24.00			24.00
Supervisors					
Liu Zhen Shun	Chairman of the Supervisory Committee				
Gao Yu Ling	Supervisor		92.97	2.54	95.51
Fan Wei	Supervisor				
Total		52.00	1,661.57	12.65	1,726.22

- (i) During the year, no emoluments were paid by the Company to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived or agreed to waive any emoluments during the year.
- (ii) Mr. Duan Yue Bin was appointed as the president of the Company in March 2020 and as a director of the Company in June 2020.

Notes to the Financial Statements for 2021

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

15. OTHER SIGNIFICANT EVENTS (continued)

2. Directors and supervisors' emoluments (continued)

(3) Five highest paid individuals

In 2021, three (2020: three) of the five highest paid individuals of the Company were the directors. The aggregate of the emoluments in respect of the other two individuals (2020: two) are as follows (in respect of the range of emoluments for 2021, emoluments of one individual exceeded RMB4,500,000 and below RMB5,000,000, that of one individual exceeded RMB4,000,000 and below RMB4,500,000; in respect of the range of emoluments for 2020, those of one individual exceeded RMB4,500,000 and below RMB5,000,000, those of one individual exceeded RMB4,000,000 and below RMB4,500,000):

Unit: RMB'0000

Item	Amount for current period	Amount for previous period
Salaries and allowance	922.73	907.21
Pension scheme contributions	7.46	1.10
Total	930.19	908.31

3. Key management personnel emoluments

Unit: RMB'0000

Item	Amount for current period	Amount for previous period
Directors and supervisors		
Emoluments, salaries and allowances of independent directors	1,491.53	1,713.57
Pension scheme contributions	26.82	12.65
Emoluments of other key management personnel		
Salaries and allowances	119.25	126.60
Pension scheme contributions	4.16	5.80
Total	1,641.76	1,858.62

Note: Key management personnel refers to the senior management who has the authority and responsibility for planning, directing and controlling the corporate activities.

Notes to the Financial Statements for 2021

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

15. OTHER SIGNIFICANT EVENTS (continued)

4. Pension scheme

In accordance with the relevant PRC laws and regulations, the Group contributes mainly to a defined contribution pension scheme, which is administered by the provincial government, in respect of employees of the Group. According to such scheme, the Group shall make contributions to the pension fund at certain percentage of the total salaries and wages of its employees.

5. Leases

(1) Different categories of leased assets of the Group are as follows:

Unit: RMB'0000

Categories of leased assets under operating leases	Closing carrying amount	Opening carrying amount
Buildings and structures	19,318.97	9,231.30
Machinery and equipment, etc	1,109.04	1,447.79
Total	20,428.01	10,679.09

(2) The Group as lessor under operating lease

The Group's investment properties are also leased to a number of tenants for different terms. The rental income for 2021 amounted to RMB42.2304 million (2020: RMB32.5008 million). The minimum lease payments receivable under non-cancellable operating leases at the end of reporting period are as follows:

Unit: RMB'0000

Item	Amount for the year	Amount for previous year
Within one year	1,485.43	998.69
Over one year but within five years	451.93	402.10
Over five years		8.80
Total	1,937.36	1,409.59

Notes to the Financial Statements for 2021

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

15. OTHER SIGNIFICANT EVENTS (continued)

5. Leases (continued)

(3) The Group as lessee under operating lease

The Group leases certain leasehold building or structure and others under operating leases with lease terms ranging from one to five years. The operating lease payments for the year ended 31 December 2021 were as follows:

Unit: RMB'0000

Operating lease payments	Amount for the year	Amount for previous year
Building or structure	16,906.46	10,031.29
Others	628.90	223.46
Total	17,535.36	10,254.75

The Group adopts simplified treatment for short-term leases and leases of low-value assets with a lease period of not more than 12 months. Due to the small amount of related lease payments, the adoption of simplified treatment has relatively small impact on the financial statements.

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

Unit: RMB'0000

Item	Amount for the year	Amount for previous year
Within one year	13,417.40	4,260.70
Over one year but within five years	5,194.05	3,222.64
Over five years	31.61	129.83
Total	18,643.06	7,613.17

6. Auditors' remuneration

In 2021, as considered and approved at the shareholders' general meeting, the Company agreed to reappoint Shine Wing Certified Public Accountants as the auditor of the Company for the year of 2021, and the Board was authorized to fix their remuneration. The Company agreed to pay a remuneration of approximately RMB2,100,000 and RMB900,000 to the auditors for the provision of audit services for financial reporting and internal control respectively for the year ended 31 December 2021 and bear the corresponding travel expenses.

Notes to the Financial Statements for 2021

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

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

1. Accounts receivable

(1) Accounts receivable as shown by provision for bad debts

Category	Book value		Closing balance		Book value
	Amount	%	Amount	%	
			Provision for bad debts		
Separate provision for bad debt receivables and accounts receivable					
Provision for bad debts for accounts receivable on a group basis	385,951,167.28	100.00	107,107,575.52	27.75	278,843,591.76
Including:					
Aging analysis method	107,120,414.84	27.75	107,107,575.52	99.99	12,839.32
Receivables from related parties	278,830,752.44	72.25			278,830,752.44
Total	385,951,167.28	100.00	107,107,575.52	27.75	278,843,591.76

Category	Book value		Opening balance		Book value
	Amount	%	Amount	%	
			Book value		
Separate provision for bad debt receivables and accounts receivable					
Provision for bad debts for accounts receivable on a group basis	109,451,046.62	100.00	107,107,549.79	97.86	2,343,496.83
Including:					
Aging analysis method	107,107,549.79	97.86	107,107,549.79	100.00	
Receivables from related parties	2,343,496.83	2.14			2,343,496.83
Total	109,451,046.62	100.00	107,107,549.79	97.86	2,343,496.83

Notes to the Financial Statements for 2021

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Accounts receivable (continued)

(1) Accounts receivable as shown by provision for bad debts (continued)

- 1) Among the group, provision for bad debts for Accounts receivable by aging analysis method:

Ageing	Closing balance		
	Book value	Provision for bad debts	(%)
Within three months	12,865.05	25.73	0.20
Over one year	107,107,549.79	107,107,549.79	100.00
Total	107,120,414.84	107,107,575.52	99.99

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.

- 2) Among the group, provision for bad debts for Accounts receivable by receivables from related parties:

Ageing	Closing balance		
	Book value	Provision for bad debts	(%)
Within one year	278,830,752.44		
Total	278,830,752.44		

Notes to the Financial Statements for 2021

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT *(continued)*

1. Accounts receivable *(continued)*

(2) *Accounts receivable shown by ageing analysis*

Ageing analysis of accounts receivable based on invoice day is as follows:

Ageing	Closing balance	Opening balance
Within three months	278,843,617.49	2,343,496.83
Over one year	107,107,549.79	107,107,549.79
Total	385,951,167.28	109,451,046.62

(3) *Provision for bad debts for Accounts receivable for the year*

Category	Opening balance	Changes during the year			Closing balance
		Provision	Recoveries or reversals	Write-off	
Aging analysis method	107,107,549.79	25.73			107,107,575.52
Total	107,107,549.79	25.73			107,107,575.52

(4) *Top five accounts receivable by debtor as at the end of the year*

The total top five accounts receivable by debtor as at the end of the year amounted to RMB306,004,767.08, accounting for 79.29% of the closing balance of accounts receivable. A provision for bad debts of RMB29,263,562.60 in total was made as at the end of the year.

Notes to the Financial Statements for 2021

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables

Item	Closing balance	Opening balance
Other receivables	1,143,227,303.10	1,279,228,418.26
Total	1,143,227,303.10	1,279,228,418.26

(1) Classification of other receivables by nature of the amount

Nature of the amount	Book value as at the end of the year	Book value as at the beginning of the year
Other current account	1,163,492,355.51	1,299,722,296.93
Total	1,163,492,355.51	1,299,722,296.93

(2) Provision for bad debts of other receivables

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 2021	192,402.82	3,427,159.17	16,874,316.68	20,493,878.67
During the year, the balance of other receivables as at 1 January 2021	—	—	—	—
– transferred to second stage	-192,402.82	192,402.82		
– transferred to third stage				
– reversed to second stage				
– reversed to first stage				
Provision for the year				
Reversal for the year		228,826.26		228,826.26
Written-off for the year				
Charge off for the year				
Other changes				
Balance as at 31 December 2021		3,390,735.73	16,874,316.68	20,265,052.41

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.

Notes to the Financial Statements for 2021

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables (continued)

(3) Other receivables presented by ageing as follows

Ageing	Closing balance
Within three months	1,143,229,879.66
Over three months but within six months	
Over six months but within one year	
Over one year	20,262,475.85
Total	1,163,492,355.51

(4) Provision for bad debts of other receivables

Category	Opening balance	Changes during the year			Closing balance
		Provision	Recoveries or reversals	Write-off	
Aging analysis method	20,493,878.67		228,826.26		20,265,052.41
Total	20,493,878.67		228,826.26		20,265,052.41

(5) Top five other receivables by debtor as at the end of the year

No.	Nature of the amount	Amount	Ageing	Percentage of total other receivables (%)	Provision for bad debts Closing balance
Top 1	Inter-group current account payments	372,699,354.39	Within three months	32.03	
Top 2	Inter-group current account payments	260,158,752.75	Within three months	22.36	
Top 3	Inter-group current account payments	146,438,562.66	Within three months	12.59	
Top 4	Inter-group current account payments	145,401,533.20	Within three months	12.50	
Top 5	Inter-group current account payments	101,912,695.96	Within three months	8.76	
Total		- 1,026,610,898.96		88.24	

Notes to the Financial Statements for 2021

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

3. Long-term equity investments

(1) Breakdown of long-term equity investments

Item	Closing balance			Opening balance		
	Book value	Impairment provision	Carrying amount	Book value	Impairment provision	Carrying amount
Investments in subsidiaries	5,094,333,817.23	59,381,641.00	5,034,952,176.23	5,094,333,817.23	59,381,641.00	5,034,952,176.23
Investments in associates and joint ventures	508,095,683.76		508,095,683.76	523,754,399.78		523,754,399.78
Total	5,602,429,500.99	59,381,641.00	5,543,047,859.99	5,618,088,217.01	59,381,641.00	5,558,706,576.01

(2) Investments in subsidiaries

Investee	Opening balance	Increase for the year	Decrease for the year	Closing balance	Provision for impairment made during the year	Closing balance of provision for impairment
Guangdong Air-conditioner	281,000,000.00			281,000,000.00		59,381,641.00
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		
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		
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	748,578,303.85			748,578,303.85		
Kelon Property	4,441,400.00			4,441,400.00		
Hisense Hitachi	2,566,242,580.68			2,566,242,580.68		
Qingdao Gorenje	14,700,000.00			14,700,000.00		
Total	5,094,333,817.23			5,094,333,817.23		59,381,641.00

Notes to the Financial Statements for 2021

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

3. Long-term equity investments (continued)

(3) Investments in associates and joint ventures

Investee	Opening balance	Increase in investment	Decrease in investment	Change for the year					Closing balance	Closing balance of provision for impairment
				Gains or losses from investment recognised using equity method	Adjustment for other comprehensive income	Other change in equity	Declaration of cash dividend or profit	Provision for impairment made		
I. Joint ventures										
Hisense Marketing Management	47,624,602.35			2,672,226.10						50,296,828.45
II. Associates										
Hisense Financial Holdings	382,962,920.76			-5,188,467.76	770,360.91					378,544,813.91
Hisense International	93,166,876.67			64,315,643.46	-14,131,705.56	2,783,226.83	-66,880,000.00			79,254,041.40
Total	523,754,399.78			61,799,401.80	-13,361,344.65	2,783,226.83	-66,880,000.00			508,095,683.76

4. Operating revenue and operating costs

Item	Amount for the year		Amount for previous year	
	Revenue	Cost	Revenue	Cost
Principal operations	2,807,745,095.38	2,648,419,826.16		
Other operations	121,192,878.16	75,261,832.02	129,448,695.65	68,966,099.04
Total	2,928,937,973.54	2,723,681,658.18	129,448,695.65	68,966,099.04

5. Investment gain

Item	Amount for the year	Amount for previous year
Gain from long-term equity investment under the cost method	1,041,337,652.24	390,347,417.88
Gain from long-term equity investment under the equity method	61,799,401.80	84,204,976.35
Investment income arising on disposal of long-term equity investments		
Investment income on trading financial assets during the holding period		
Gain from disposal of transactional financial assets	33,247,127.38	28,859,412.11
Total	1,136,384,181.42	503,411,806.34

17. APPROVAL OF FINANCIAL REPORT

This financial report was approved by the Board of the Company on 30 March 2022.

Notes to the Financial Statements for 2021

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

18. SUPPLEMENTARY INFORMATION OF FINANCIAL REPORT

1. Breakdown of non-recurring profit or loss for the year

Item	Amount for the year	Notes
Profit or loss from disposal of non-current assets	3,535,383.13	
Return, reduction and exemption of taxes surpassing approval or without official approval document		
Government grants included in the gain or loss (excluding those government grants that are closely related to the enterprise's business and are received with fixed amounts or with fixed percentage in compliance with national unified policies)	219,822,004.71	
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	103,919,806.78	
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		
Except for effective hedging operations related to the Company's normal business operations, gain or loss from changes in fair values of transactional financial assets, derivative financial assets, transactional financial liabilities and gain or loss from changes in fair values of derivative financial liabilities and investment gain from disposal of transactional financial assets, derivative financial assets, transactional financial liabilities and derivative financial liabilities and other investment in debt	39,567,358.88	
Reversal of impairment provision for accounts receivable and impairment provision for contract liabilities 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	57,837,694.36	
Other profit or loss items within the meaning of non-recurring profit or loss		
Subtotal	424,682,247.86	
Less: Effect of income tax	78,433,576.30	
Effect of minority interests (after tax)	39,793,650.52	
Total	306,455,021.04	—

Notes to the Financial Statements for 2021

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

18. SUPPLEMENTARY INFORMATION OF FINANCIAL REPORT (continued)

2. Return on net asset and earnings per share

Profit for the reporting period	Weighted Average of return on net assets (%)	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Parent	9.64	0.71	0.71
Net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit or loss	6.60	0.49	0.49

3. Five-year financial summary

Unit: RMB'0000

Statement item	2021	2020	2019	2018	2017
Total operating revenue	6,756,260.37	4,839,287.07	3,745,304.40	3,601,959.83	3,348,759.04
Total profits	291,653.70	348,513.00	215,225.03	156,490.59	225,287.43
Income tax	57,373.60	63,909.53	20,180.12	14,183.15	18,106.71
Net profit	234,280.10	284,603.46	195,044.91	142,307.44	207,180.72
Net profit attributable to equity holders of the parent	97,258.15	157,888.27	179,366.90	137,745.72	201,811.30
Minority interests	137,021.95	126,715.19	15,678.01	4,561.72	5,369.42

Unit: RMB'0000

Statement item	31 December 2021	31 December 2020	31 December 2019	31 December 2018	31 December 2017
Total assets	5,594,854.95	4,181,163.58	3,399,066.35	2,182,790.50	2,160,745.24
Total liabilities	4,035,729.83	2,740,511.68	2,150,980.05	1,393,849.81	1,452,029.68
Net assets	1,559,125.12	1,440,651.90	1,248,086.30	788,940.70	708,715.56
Total equity attributable to shareholders of the parent	1,034,235.52	977,911.56	872,159.37	735,182.44	657,908.93
Minority interests	524,889.61	462,740.35	375,926.93	53,758.26	50,806.63
Total shareholders' equity	1,559,125.12	1,440,651.90	1,248,086.30	788,940.70	708,715.56

Notes to the Financial Statements for 2021

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

18. SUPPLEMENTARY INFORMATION OF FINANCIAL REPORT (continued)

4. Significant changes in key items in the Company's accounting statement and explanation of such changes

Statement item	Closing balance or amount for the year	Closing balance or amount for previous year	Change ratio	Reason for change
Trading financial assets	5,625,841,633.95	2,620,898,474.73	114.65%	Mainly due to the increase in financial products
Other current assets	228,252,631.50	548,498,540.36	-58.39%	Mainly due to the fact that only the pledged portion of bank acceptance notes was shown at the end of the period and the pledge of notes decreased during the year
Accounts receivable	8,757,077,378.05	6,594,103,859.23	32.80%	Mainly due to the growth in size of the Company during the Reporting Period and the merger of Sanden Company
Inventories	8,436,699,059.69	4,295,262,485.11	96.42%	Mainly due to the growth in size of the Company during the Reporting Period and the merger of Sanden Company
Other current assets	2,908,448,659.96	4,198,014,186.53	-30.72%	Mainly due to the decrease in time deposits at the end of the year
Long-term equity investments	1,436,216,842.15	523,754,399.78	174.22%	Mainly due to the merger of Sanden Company
Investment properties	235,340,080.78	36,648,535.29	542.15%	Mainly due to the merger of Sanden Company
Fixed assets	5,188,754,013.36	3,879,403,505.69	33.75%	Mainly due to the merger of Sanden Company
Construction in progress	665,964,066.15	228,887,385.20	190.96%	Mainly due to the merger of Sanden Company
Right-of-use assets	209,678,045.05	68,097,563.78	207.91%	Mainly due to the merger of Sanden Company
Goodwill	226,408,877.76	132,571,746.36	70.78%	Mainly due to the merger of Sanden Company
Other non-current assets	5,679,104,506.34	4,228,456,393.79	34.31%	Mainly due to the increase in time deposits at the end of the year
Short-term borrowings	2,858,984,229.49	22,026,317.50	12879.86%	Mainly due to the merger of Sanden Company
Accounts payable	11,779,280,708.56	7,291,829,266.10	61.54%	Mainly due to the growth in the size of the Company during the Reporting Period, the increase in purchases in line with the growth in size and the merger of Sanden Company
Employee remunerations payable	928,635,430.98	649,954,046.76	42.88%	Mainly due to the merger of Sanden Company
Taxes payable	725,413,062.43	498,918,207.73	45.40%	Mainly due to the increase in corporate income tax as the Company grows in size and the merger of Sanden Company
Other payables	3,425,374,535.37	2,011,559,493.31	70.28%	Mainly due to the merger of Sanden Company
Lease liabilities	395,949,053.40	28,356,873.04	1296.31%	Mainly due to the merger of Sanden Company

Notes to the Financial Statements for 2021

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

18. SUPPLEMENTARY INFORMATION OF FINANCIAL REPORT (continued)

4. Significant changes in key items in the Company's accounting statement and explanation of such changes (continued)

Statement item	Closing balance or amount for the year	Closing balance or amount for previous year	Change ratio	Reason for change
Provisions	1,417,289,726.72	483,878,615.22	192.90%	Mainly due to the merger of Sanden Company
Operating revenue	67,562,603,666.81	48,392,870,703.11	39.61%	Mainly due to the growth in the scale of sales of the Company's various products during the Reporting Period
Operating costs	54,250,065,251.13	36,756,301,476.78	47.59%	Mainly due to the growth in the scale of sales of the Company's various products during the Reporting Period
Management expenses	1,326,886,898.17	619,163,555.38	114.30%	Mainly due to the merger of Sanden Company
Research and development expenses	1,986,668,028.13	1,284,848,949.46	54.62%	Mainly due to the increase in R&D inputs
Investment gain	507,115,258.30	195,655,206.20	159.19%	Mainly due to the increase in income from long-term equity investments accounted for under the equity method, wealth management and gains on time deposits
Net cash flows from financing activities	1,474,922,727.52	-2,512,457,690.93	-158.70%	Mainly due to the receipt of funds unbundled from related parties and the recovery of frozen security deposits during the year

Hisense Home Appliances Group Co., Ltd.
30 March 2022