

# Hisense 海信科龙

海信科龍電器股份有限公司

Hisense Kelon Electrical Holdings Company Limited

Stock Code: 00921



## 2014

Interim Report

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The Board of Directors (the "Board") of Hisense Kelon Electrical Holdings Company Limited (the "Company") hereby announces the unaudited interim report of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2014 (the "Reporting Period") together with comparative figures for the corresponding period in 2013. This interim report has been reviewed by the Company's Audit Committee.

**Financial information prepared in accordance with China Accounting Standards**

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

## 1. CONSOLIDATED BALANCE SHEETS

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

| Item  | Closing balance          | Opening Balance          |
|---|--------------------------|--------------------------|
| <b>Current assets:</b>                                |                          |                          |
| Cash at bank and on hand                              | 739,977,525.12           | 473,787,177.54           |
| Balances with clearing companies                      |                          |                          |
| Lending capital                                       |                          |                          |
| Financial assets held-for-trading                     | —                        | 67,115,019.35            |
| Notes receivable                                      | 2,597,719,095.46         | 2,160,801,733.50         |
| Accounts receivable                                   | 3,774,457,354.64         | 1,644,771,822.27         |
| Prepayments   | 409,266,917.56           | 352,903,571.02           |
| Insurance premium receivable                          |                          |                          |
| Receivables from reinsurers                           |                          |                          |
| Reserves for reinsurance contract receivable          |                          |                          |
| Interests receivable                                  | —                        | —                        |
| Dividends receivable                                  | —                        | —                        |
| Others receivables                                    | 646,660,175.11           | 546,337,496.66           |
| Financial assets purchased under agreements to resell |                          |                          |
| Inventories   | 2,830,295,231.52         | 2,496,359,854.46         |
| Non-current assets due within one year                |                          |                          |
| Other current assets                                  | 8,324,256.32             | 5,306,649.45             |
| <b>Total current assets</b>                           | <b>11,006,700,555.73</b> | <b>7,747,383,324.25</b>  |
| <b>Non-current assets:</b>                            |                          |                          |
| Disbursement of entrusted loans and advances          |                          |                          |
| Available-for-sale financial assets                   |                          |                          |
| Held-to-maturity investments                          |                          |                          |
| Long-term receivables                                 |                          |                          |
| Long-term equity investments                          | 1,050,257,544.54         | 997,500,673.77           |
| Investment properties                                 | 32,696,161.08            | 33,946,307.75            |
| Fixed assets  | 2,653,962,811.03         | 2,368,500,692.73         |
| Construction in progress                              | 254,100,756.79           | 253,977,558.18           |
| Construction materials                                |                          |                          |
| Disposal of fixed assets                              | —                        | —                        |
| Productive biological assets                          |                          |                          |
| Oil and gas assets                                    |                          |                          |
| Intangible assets                                     | 559,943,236.57           | 521,782,817.81           |
| Development costs                                     |                          |                          |
| Goodwill  |                          |                          |
| Long-term prepaid expenses                            | 3,869,990.15             | 5,001,055.07             |
| Deferred tax assets                                   | 32,484,246.68            | 36,616,861.02            |
| Other non-current assets                              |                          |                          |
| Total non-current assets                              | 4,587,314,746.84         | 4,217,325,966.33         |
| <b>Total assets</b>                                   | <b>15,594,015,302.57</b> | <b>11,964,709,290.58</b> |

Legal representative: Tang Ye Guo

Person in charge of accounting matters: Li Jun

Person in charge of accounting department: Yan Zhi Yong

## 1. CONSOLIDATED BALANCE SHEETS — Continued

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

| Item  | Closing balance          | Opening Balance         |
|---|--------------------------|-------------------------|
| <b>Current liabilities:</b>   |                          |                         |
| Short-term borrowings   | 501,736,882.06           | 191,681,513.02          |
| Borrowings from central bank  |                          |                         |
| Receipt of deposits and deposits from other banks                         |                          |                         |
| Loans from other banks  |                          |                         |
| Financial liabilities held-for-trading                                    | 23,364,872.22            | 4,645.00                |
| Notes payable   | 1,567,771,712.01         | 1,391,098,638.68        |
| Accounts payable  | 5,502,769,681.97         | 3,480,510,368.16        |
| Advances from customers   | 620,593,516.36           | 907,031,506.85          |
| Proceeds from disposal of financial assets under agreements to repurchase |                          |                         |
| Handling fees and commission payable                                      |                          |                         |
| Employee remunerations payable  | 246,014,827.14           | 236,343,013.69          |
| Taxes payable   | (15,127,083.82)          | (156,766,531.00)        |
| Interests payable   | —                        | —                       |
| Dividends payable   | 2,067.02                 | 9,002,067.02            |
| Other payables  | 1,934,812,715.22         | 1,731,259,054.40        |
| Reinsured accounts payable  |                          |                         |
| Reserves for reinsurance contract   |                          |                         |
| Customer brokerage deposits   |                          |                         |
| Securities underwriting brokerage deposits                                |                          |                         |
| Non-current liabilities due within one year                               |                          |                         |
| Other current liabilities   | 913,697,036.51           | 574,037,292.42          |
| <b>Total current liabilities</b>  | <b>11,295,636,226.69</b> | <b>8,364,201,568.24</b> |
| <b>Non-current liabilities:</b>   |                          |                         |
| Long-term borrowings  |                          |                         |
| Bonds payable   |                          |                         |
| Long-term payables  |                          |                         |
| Specific payables   |                          |                         |
| Provisions  | 377,199,975.24           | 361,158,229.87          |
| Deferred tax liabilities  |                          |                         |
| Other non-current liabilities   | 53,524,706.47            | 56,011,769.90           |
| <b>Total non-current liabilities</b>                                      | <b>430,724,681.71</b>    | <b>417,169,999.77</b>   |
| <b>Total liabilities</b>  | <b>11,726,360,908.40</b> | <b>8,781,371,568.01</b> |

## 1. CONSOLIDATED BALANCE SHEETS — Continued

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

| Item  | Closing balance          | Opening Balance          |
|---|--------------------------|--------------------------|
| <b>Owners' equity (or shareholders' equity):</b>                      |                          |                          |
| Paid in capital (or share capital)                                    | 1,358,495,560.00         | 1,354,054,750.00         |
| Capital reserve   | 2,132,241,221.52         | 2,099,105,600.77         |
| Less: Treasury shares   |                          |                          |
| Special reserves  |                          |                          |
| Surplus reserves  | 145,189,526.48           | 145,189,526.48           |
| General risk provisions   |                          |                          |
| Retained profits  | (250,617,265.10)         | (860,386,951.24)         |
| Difference on translation of foreign currency financial statements    | 10,513,116.80            | 10,768,154.82            |
| <b>Total equity attributable to owners of the Company</b>             | <b>3,395,822,159.70</b>  | <b>2,748,731,080.83</b>  |
| Minority interests  | 471,832,234.47           | 434,606,641.74           |
| <b>Total owners' equity (or shareholders' equity)</b>                 | <b>3,867,654,394.17</b>  | <b>3,183,337,722.57</b>  |
| <b>Total liabilities and owners' equity (or shareholders' equity)</b> | <b>15,594,015,302.57</b> | <b>11,964,709,290.58</b> |

Legal representative: Tang Ye Guo

Person in charge of accounting matters: Li Jun

Person in charge of accounting department: Yan Zhi Yong

## 2. BALANCE SHEET OF THE PARENT

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

| Item                                   | Closing balance         | Opening Balance          |
|--|-------------------------|--------------------------|
| <b>Current assets:</b>                 |                         |                          |
| Cash at bank and on hand               | 220,327,232.03          | 194,913,820.28           |
| Financial assets held-for-trading      |                         |                          |
| Notes receivable                       | 744,016,124.00          | 2,027,916,069.94         |
| Accounts receivable                    | 1,499,009,939.01        | 670,881,711.22           |
| Prepayments                            | 1,169,814,090.08        | 833,406,962.27           |
| Interests receivable                   |                         |                          |
| Dividends receivable                   |                         | 11,000,000.00            |
| Other receivables                      | 1,015,231,467.48        | 1,045,453,070.00         |
| Inventories                            | 398,841,764.84          | 1,722,669,777.53         |
| Non-current assets due within one year |                         |                          |
| Other current assets                   | 4,071,823.60            | 4,868,222.10             |
| <b>Total current assets</b>            | <b>5,051,312,441.04</b> | <b>6,511,109,633.34</b>  |
| <b>Non-current assets:</b>             |                         |                          |
| Available-for-sale financial assets    |                         |                          |
| Held-to-maturity investments           |                         |                          |
| Long-term receivables                  |                         |                          |
| Long-term equity investments           | 3,556,849,383.92        | 3,535,519,488.35         |
| Investment properties                  | 13,141,946.00           | 13,834,076.00            |
| Fixed assets                           | 152,380,736.31          | 170,557,944.23           |
| Construction in progress               | 94,017.09               | 255,384.60               |
| Construction materials                 |                         |                          |
| Disposal of fixed assets               |                         |                          |
| Productive biological assets           |                         |                          |
| Oil and gas assets                     |                         |                          |
| Intangible assets                      | 214,921,045.00          | 219,910,990.00           |
| Development expenses                   |                         |                          |
| Goodwill                               |                         |                          |
| Long-term prepaid expenses             |                         |                          |
| Deferred tax assets                    |                         |                          |
| Other non-current assets               |                         |                          |
| <b>Total non-current assets</b>        | <b>3,937,387,128.32</b> | <b>3,940,077,883.18</b>  |
| <b>Total assets</b>                    | <b>8,988,699,569.36</b> | <b>10,451,187,516.52</b> |

Legal representative: Tang Ye Guo

Person in charge of accounting matters: Li Jun

Person in charge of accounting department: Yan Zhi Yong

## 2. BALANCE SHEET OF THE PARENT — Continued

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

| Item  | Closing balance         | Opening Balance          |
|---|-------------------------|--------------------------|
| <b>Current liabilities:</b>   |                         |                          |
| Short-term borrowings   |                         |                          |
| Financial liabilities held-for-trading                                |                         |                          |
| Notes payable   | 818,792,056.91          | 1,424,477,630.22         |
| Accounts payable  | 2,461,992,604.65        | 2,661,630,607.61         |
| Advance receipts  | 160,270,054.60          | 789,669,536.98           |
| Staff remuneration payables   | 112,662,114.01          | 100,022,496.03           |
| Taxes payable   | 48,357,344.12           | (87,337,346.80)          |
| Interests payable   |                         |                          |
| Dividends payable   |                         |                          |
| Other payables  | 1,534,879,074.82        | 1,931,424,623.14         |
| Non-current liabilities due within one year                           |                         |                          |
| Other current liabilities   | 19,053,065.24           | 427,144,578.22           |
| <b>Total current liabilities</b>                                      | <b>5,156,006,314.35</b> | <b>7,247,032,125.40</b>  |
| <b>Non-current liabilities:</b>                                       |                         |                          |
| Long-term borrowings  |                         |                          |
| Bonds payable   |                         |                          |
| Long-term payables  |                         |                          |
| Special payables  |                         |                          |
| Provisions  | 377,199,975.24          | 361,158,229.87           |
| Deferred tax liabilities  |                         |                          |
| Other non-current liabilities   | 34,065,239.11           | 34,760,406.21            |
| <b>Total non-current liabilities</b>                                  | <b>411,265,214.35</b>   | <b>395,918,636.08</b>    |
| <b>Total liabilities</b>  | <b>5,567,271,528.70</b> | <b>7,642,950,761.48</b>  |
| <b>Owners' equity (or shareholders' equity):</b>                      |                         |                          |
| Paid in capital (or share capital)                                    | 1,358,495,560.00        | 1,354,054,750.00         |
| Capital reserve   | 2,253,665,818.29        | 2,223,601,333.16         |
| Less: Treasury shares   |                         |                          |
| Special reserves  |                         |                          |
| Surplus reserves  | 114,580,901.49          | 114,580,901.49           |
| General risk provisions   |                         |                          |
| Retained profits  | (305,314,239.12)        | (884,000,229.61)         |
| Differences on translation of foreign currency financial statements   |                         |                          |
| <b>Total owners' equity (or shareholders' equity)</b>                 | <b>3,421,428,040.66</b> | <b>2,808,236,755.04</b>  |
| <b>Total liabilities and owners' equity (or shareholders' equity)</b> | <b>8,988,699,569.36</b> | <b>10,451,187,516.52</b> |

Legal representative: Tang Ye Guo

Person in charge of accounting matters: Li Jun

Person in charge of accounting department: Yan Zhi Yong

### 3. CONSOLIDATED INCOME STATEMENT

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

| Item   | Amount for<br>current period | Amount for<br>previous period |
|--|------------------------------|-------------------------------|
| <b>I. Total operating revenue</b>  | <b>15,397,537,762.48</b>     | <b>12,992,870,024.48</b>      |
| Including: Operating revenue   | 15,397,537,762.48            | 12,992,870,024.48             |
| Interest incomes   |                              |                               |
| Insurance premium earned   |                              |                               |
| Income from handling fees and commission   |                              |                               |
| <b>II. Total operating costs</b>   | <b>14,796,376,342.57</b>     | <b>12,427,333,734.96</b>      |
| Including: Operating costs   | 12,062,743,794.94            | 10,250,224,907.55             |
| Interest expenses  |                              |                               |
| Handling fees and commission expenses  |                              |                               |
| Refunded premiums  |                              |                               |
| Net amount of compensation payout  |                              |                               |
| Net amount of insurance contract reserves provided   |                              |                               |
| Policyholder dividend expense  |                              |                               |
| Reinsurance premium income   |                              |                               |
| Business taxes and surcharges  | 47,442,408.04                | 49,585,982.21                 |
| Selling and distribution expenses  | 2,290,188,924.94             | 1,754,021,512.96              |
| General and administrative expenses  | 403,931,289.17               | 354,200,313.53                |
| Financial expenses   | (14,986,556.54)              | 12,612,656.22                 |
| Impairment losses on assets  | 7,056,482.02                 | 6,688,362.49                  |
| Add: Gain from changes in fair value (Loss denoted by "-")   | (90,475,246.57)              | 35,908,729.66                 |
| Investment income (Loss denoted by "-")  | 186,760,167.37               | 154,056,030.47                |
| Including: Share of profit of associates and jointly controlled entities   | 141,589,179.58               | 119,561,283.99                |
| Foreign exchange gains (Loss denoted by "-")   |                              |                               |
| <b>III. Operating profits (Loss denoted by "-")</b>  | <b>697,446,340.71</b>        | <b>755,501,049.65</b>         |
| Add: Non-operating income  | 47,756,186.98                | 13,979,505.92                 |
| Less: Non-operating expenses   | 3,675,820.69                 | 4,458,356.04                  |
| Including: Loss on disposal of non-current assets  | 2,496,560.42                 | 1,436,232.09                  |
| <b>IV. Total profit (Total loss denoted by "-")</b>  | <b>741,526,707.00</b>        | <b>765,022,199.53</b>         |
| Less: Income tax expenses  | 103,110,741.21               | 19,895,297.20                 |
| <b>V. Net profits (Net loss denoted by "-")</b>  | <b>638,415,965.79</b>        | <b>745,126,902.33</b>         |
| Including: Net profits of consolidated parties prior to consolidation  |                              |                               |
| Net profits attributable to shareholders of the parent   | 609,769,686.14               | 706,812,577.45                |
| Profit and loss of minority interests  | 28,646,279.65                | 38,314,324.88                 |
| <b>VI. Earnings per share:</b>   |                              |                               |
| (1) Basic earnings per share   | 0.45                         | 0.52                          |
| (2) Diluted earnings per share   | 0.45                         | 0.52                          |
| <b>VII. Other comprehensive income</b>   | <b>(259,491.65)</b>          | <b>(4,419,540.36)</b>         |
| (1) Items to be reclassified into profit or loss in subsequent accounting periods upon satisfaction of required conditions | (259,491.65)                 | (120,742.22)                  |
| (2) Items not to be reclassified into profit or loss in subsequent accounting periods                                      |                              | (4,298,798.14)                |
| <b>VIII. Total comprehensive income</b>  | <b>638,156,474.14</b>        | <b>740,707,361.97</b>         |
| Total comprehensive income attributable to shareholders of the parent  | 609,510,194.49               | 702,393,037.09                |
| Total comprehensive income attributable to minority interests  | 28,646,279.65                | 38,314,324.88                 |

Legal representative: Tang Ye Guo

Person in charge of accounting matters: Li Jun

Person in charge of accounting department: Yan Zhi Yong



#### 4. INCOME STATEMENT OF THE PARENT

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

| Item   | Amount for<br>current period | Amount for<br>previous period |
|--|------------------------------|-------------------------------|
| <b>I. Total operating revenue</b>  | <b>5,249,146,573.79</b>      | <b>8,103,594,930.28</b>       |
| Less: Operating costs  | 4,270,466,231.49             | 6,337,457,451.87              |
| Business taxes and surcharges  | 21,046,881.03                | 31,458,860.87                 |
| Selling and distribution expenses  | 551,288,269.74               | 1,495,161,736.13              |
| General and administrative expenses  | 22,854,230.23                | 24,024,777.25                 |
| Financial expenses   | (3,159,994.63)               | 8,595,430.67                  |
| Impairment losses on assets  | (14,245,175.15)              | 11,093,900.92                 |
| Add: Gain from changes in fair value (Loss denoted by “-”)   | —                            | —                             |
| Investment income (Loss denoted by “-”)  | 169,172,985.38               | 171,576,751.74                |
| Including: Share of profit of associates and jointly controlled entities   | 141,589,179.58               | 119,561,283.99                |
| <b>II. Operating profits (Loss denoted by “-”)</b>   | <b>570,069,116.46</b>        | <b>367,379,524.31</b>         |
| Add: Non-operating income  | 9,597,414.74                 | 515,601.45                    |
| Less: Non-operating expenses   | 980,540.71                   | 2,882,883.14                  |
| Including: Loss on disposal of non-current assets  | 234,697.72                   | 53,488.96                     |
| <b>III. Total profit (Total loss denoted by “-”)</b>   | <b>578,685,990.49</b>        | <b>365,012,242.62</b>         |
| Less: Income tax expenses  | —                            | 7,149,676.20                  |
| <b>IV. Net profits (Net loss denoted by “-”)</b>   | <b>578,685,990.49</b>        | <b>357,862,566.42</b>         |
| <b>V. Earnings per share:</b>  |                              |                               |
| (1) Basic earnings per share   |                              |                               |
| (2) Diluted earnings per share   |                              |                               |
| <b>VI. Other comprehensive income</b>  | (4,453.63)                   | (4,375,731.06)                |
| (1) Items to be reclassified into profit or loss in subsequent accounting periods upon satisfaction of required conditions | (4,453.63)                   | (76,932.92)                   |
| (2) Items not to be reclassified into profit or loss in subsequent accounting periods                                      |                              | (4,298,798.14)                |
| <b>VII. Total comprehensive income</b>   | <b>578,681,536.86</b>        | <b>353,486,835.36</b>         |

Legal representative: Tang Ye Guo

Person in charge of accounting matters: Li Jun

Person in charge of accounting department: Yan Zhi Yong

## 5. CONSOLIDATED CASH FLOW STATEMENT

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

| Item   | Amount for<br>current period | Amount for<br>previous period |
|--|------------------------------|-------------------------------|
| <b>I. Cash flows from operating activities:</b>  |                              |                               |
| Cash received from sales of goods and rendering of services                                    | 6,153,912,976.43             | 5,644,887,416.81              |
| 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 from policyholders  |                              |                               |
| Net increase from disposal of financial assets held-for-trading                                |                              |                               |
| Cash received from interests, fees and commissions   |                              |                               |
| Net increase in placements from banks and other financial institutions                         |                              |                               |
| Net increase in repurchase business capital  |                              |                               |
| Tax rebates received   | 309,467,203.75               | 352,460,980.65                |
| Other cash received concerning operating activities  | 311,684,318.20               | 508,225,547.38                |
| <b>Subtotal of cash inflows from operating activities</b>                                      | <b>6,775,064,498.38</b>      | <b>6,505,573,944.84</b>       |
| Cash paid for purchases of commodities and receipt of services                                 | 3,585,242,259.81             | 3,871,204,118.31              |
| Net increase in loans and advances to customers  |                              |                               |
| Net increase in deposits with central bank and other financial institutions                    |                              |                               |
| Cash paid for indemnity of original insurance contract   |                              |                               |
| Cash paid for interests, fees and commissions  |                              |                               |
| Policyholder dividend paid   |                              |                               |
| Cash paid to and for employees   | 1,267,429,479.30             | 1,010,902,554.71              |
| Cash paid for taxes and surcharges   | 401,999,569.44               | 418,797,596.46                |
| Cash paid for other operating activities   | 1,420,106,965.74             | 1,125,478,640.27              |
| <b>Subtotal of cash outflows from operating activities</b>                                     | <b>6,674,778,274.29</b>      | <b>6,426,382,909.75</b>       |
| <b>Net cash flows from operating activities</b>  | <b>100,286,224.09</b>        | <b>79,191,035.09</b>          |
| <b>II. Cash flows from investing activities:</b>   |                              |                               |
| Cash received from returns on investments  | —                            | —                             |
| Cash received from investment income   | 98,327,855.18                | 78,250,325.50                 |
| Net cash received from disposals of fixed assets, intangible assets and other long-term assets | 2,565,902.12                 | 5,302,888.84                  |
| Net cash received from disposals of subsidiaries and other operation units                     | —                            | —                             |
| Cash received relating to other investing activities   | —                            | —                             |
| <b>Subtotal of cash inflows from investing activities</b>                                      | <b>100,893,757.30</b>        | <b>83,553,214.34</b>          |
| Cash paid for acquisition of fixed assets, intangible assets and other long-term assets        | 283,497,036.44               | 242,761,202.25                |
| Cash paid for investments  | —                            | —                             |
| Net increase in pledge loans   |                              |                               |
| Cash paid for acquiring subsidiaries and other operation units                                 | —                            | —                             |
| Cash paid relating to other investing activities   | —                            | —                             |
| <b>Subtotal of cash outflows from investing activities</b>                                     | <b>283,497,036.44</b>        | <b>242,761,202.25</b>         |
| <b>Net cash flows from investing activities</b>  | <b>(182,603,279.14)</b>      | <b>(159,207,987.91)</b>       |

Legal representative: Tang Ye Guo

Person in charge of accounting matters: Li Jun

Person in charge of accounting department: Yan Zhi Yong

## 5. CONSOLIDATED CASH FLOW STATEMENT — Continued

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

| Item  | Amount for<br>current period | Amount for<br>previous period |
|---|------------------------------|-------------------------------|
| <b>III. Cash flows from financing activities:</b>                                   |                              |                               |
| Cash received from disposal of investments  | 48,566,371.50                | —                             |
| Including: Cash contribution from minority shareholders' investment by subsidiaries |                              |                               |
| Cash received from borrowings   | 806,571,237.55               | 145,508,582.23                |
| Cash received from issue of bonds   |                              |                               |
| Cash received relating to other financing activities                                | 800,000.00                   | (6.66)                        |
| <b>Subtotal of cash inflows from financing activities</b>                           | <b>855,937,609.05</b>        | <b>145,508,575.57</b>         |
| Cash paid for repayment of borrowings   | 494,790,463.77               | 92,496,008.42                 |
| Cash paid for distribution of dividends, profit or interest expenses                | 11,954,926.30                | 7,023,141.13                  |
| Including: Dividend and profit paid to minority shareholders by subsidiaries        |                              |                               |
| Cash paid relating to other financing activities                                    | —                            | —                             |
| <b>Subtotal of cash outflows from financing activities</b>                          | <b>506,745,390.07</b>        | <b>99,519,149.55</b>          |
| <b>Net cash flows from financing activities</b>                                     | <b>349,192,218.98</b>        | <b>45,989,426.02</b>          |
| <b>IV. Effects of foreign exchange rate changes on cash and cash equivalents</b>    | <b>115,183.65</b>            |                               |
| <b>V. Net increase in cash and cash equivalents</b>                                 | <b>266,990,347.58</b>        | <b>(34,027,526.80)</b>        |
| Add: Balance of cash and cash equivalents at the beginning of the period            | 472,987,177.54               | 513,661,376.53                |
| <b>VI. Balance of cash and cash equivalents at the end of the period</b>            | <b>739,977,525.12</b>        | <b>479,633,849.73</b>         |

Legal representative: Tang Ye Guo

Person in charge of accounting matters: Li Jun

Person in charge of accounting department: Yan Zhi Yong

## 6. CASH FLOW STATEMENT OF THE PARENT

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

| Item   | Amount for<br>current period | Amount for<br>previous period |
|--|------------------------------|-------------------------------|
| <b>I. Cash flows from operating activities:</b>  |                              |                               |
| Cash received from sales of goods and rendering of services                                    | 2,168,905,484.06             | 2,287,669,841.20              |
| Tax rebates received   | —                            | —                             |
| Other cash received concerning operating activities  | 2,921,858,928.95             | 2,926,722,438.47              |
| <b>Subtotal of cash inflows from operation activities</b>                                      | <b>5,090,764,413.01</b>      | <b>5,214,392,279.67</b>       |
| Cash paid for purchases of commodities and receipt of labor services                           | 3,137,820,366.65             | 2,986,046,079.09              |
| Cash paid to and for employees   | 304,563,168.43               | 431,463,687.73                |
| Cash paid for taxes and surcharges   | 167,454,421.81               | 291,967,001.87                |
| Cash paid for other operating activities   | 1,663,805,340.32             | 1,572,396,007.01              |
| <b>Subtotal of cash outflow from operation activities</b>                                      | <b>5,273,643,297.21</b>      | <b>5,281,872,775.70</b>       |
| <b>Net cash flows from operating activities</b>  | <b>(182,878,884.20)</b>      | <b>(67,480,496.03)</b>        |
| <b>II. Cash flow from investing activities:</b>  |                              |                               |
| Cash received from returns on investments  | —                            | —                             |
| Cash received from investment revenues   | 120,205,136.18               | 102,180,018.20                |
| Net cash received from disposals of fixed assets, intangible assets and other long-term assets | 124,872.27                   | 87,788.86                     |
| Net cash received from disposals of subsidiaries and other operation units                     | 57,530,000.00                | —                             |
| Cash received relating to other investing activities   | —                            | —                             |
| <b>Subtotal of cash inflows from investing activities</b>                                      | <b>177,860,008.45</b>        | <b>102,267,807.06</b>         |
| Cash paid for acquisition of fixed assets, intangible assets and other long-term assets        | 3,539,909.00                 | 2,419,652.13                  |
| Cash paid for investments  | —                            | 175,000,000.00                |
| Cash paid for obtaining subsidiaries and other operation units                                 | —                            | —                             |
| Cash paid relating to other investing activities   | —                            | —                             |
| <b>Subtotal of cash outflows from investing activities</b>                                     | <b>3,539,909.00</b>          | <b>177,419,652.13</b>         |
| <b>Net cash flows from investing activities</b>  | <b>174,320,099.45</b>        | <b>(75,151,845.07)</b>        |
| <b>III. Cash flows from financing activities:</b>  |                              |                               |
| Cash received from capital contribution  | 33,972,196.50                | —                             |
| Cash received from borrowings  | —                            | —                             |
| Cash received from issue of bonds  | —                            | —                             |
| Cash received relating to other financing activities   | —                            | —                             |
| <b>Subtotal of cash inflows from financing activities</b>                                      | <b>33,972,196.50</b>         | <b>—</b>                      |
| Cash paid for repayment of borrowings  | —                            | —                             |
| Cash paid for distribution of dividends, profit or interest expenses                           | —                            | —                             |
| Cash paid relating to other financing activities   | —                            | —                             |
| <b>Subtotal of cash outflows from financing activities</b>                                     | <b>—</b>                     | <b>—</b>                      |
| <b>Net cash flows from financing activities</b>  | <b>33,972,196.50</b>         | <b>—</b>                      |
| <b>IV. Effects of foreign exchange rate changes on cash and cash equivalents</b>               |                              |                               |
| <b>V. Net increase in cash and cash equivalents</b>  | <b>25,413,411.75</b>         | <b>(142,632,341.10)</b>       |
| Add: Balance of cash and cash equivalents at the beginning of the period                       | 194,913,820.28               | 342,912,430.57                |
| <b>VI. Balance of cash and cash equivalents at the end of the period</b>                       | <b>220,327,232.03</b>        | <b>200,280,089.47</b>         |

## 7. CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

|   | Amount for current period                |                  |                          |                  |                  |                            |                  |               |                    |                         |
|---|--|------------------|--------------------------|------------------|------------------|----------------------------|------------------|---------------|--------------------|-------------------------|
|   | Attributable to the owners of the parent |                  |                          |                  |                  |                            |                  |               |                    |                         |
| Item  | Paid in capital<br>(or share capital)    | Capital reserve  | Less:<br>Treasury shares | Special reserves | Surplus reserves | General risk<br>provisions | Retained profits | Other         | Minority interests | Total<br>owners' equity |
| I. Closing balance of<br>previous year                                | 1,354,054,750.00                         | 2,099,105,600.77 |                          |                  | 145,189,526.48   |                            | (860,386,951.24) | 10,768,154.82 | 434,606,641.74     | 3,183,337,722.57        |
| Add: Changes in<br>accounting policies                                |  |                  |                          |                  |                  |                            |                  |               |                    | —                       |
| Correction for error in<br>previous period                            |  |                  |                          |                  |                  |                            |                  |               |                    | —                       |
| Other   |  |                  |                          |                  |                  |                            |                  |               |                    | —                       |
| II. Opening balance of<br>the year                                    | 1,354,054,750.00                         | 2,099,105,600.77 | —                        | —                | 145,189,526.48   | —                          | (860,386,951.24) | 10,768,154.82 | 434,606,641.74     | 3,183,337,722.57        |
| III. Movements in the<br>current period                               |  |                  |                          |                  |                  |                            |                  |               |                    |                         |
| (Decreases<br>denoted in "-")   | 4,440,810.00                             | 33,135,620.75    | —                        | —                | —                | —                          | 609,769,686.14   | (255,038.02)  | 37,225,592.73      | 684,316,671.60          |
| (1) Net Profit  |  |                  |                          |                  |                  |                            | 609,769,686.14   |               | 28,646,279.65      | 638,415,965.79          |
| (2) Other<br>comprehensive<br>income                                  |  | (4,453.63)       |                          |                  |                  |                            |                  | (255,038.02)  |                    | (259,491.65)            |
| Subtotal of (1) and (2)<br>above                                      | —  | (4,453.63)       | —                        | —                | —                | —                          | 609,769,686.14   | (255,038.02)  | 28,646,279.65      | 638,156,474.14          |
| (3) Owner contributions<br>and capital<br>reductions                  | 4,440,810.00                             | 33,140,074.38    | —                        | —                | —                | —                          | —                | —             | 11,523,039.38      | 49,103,923.76           |
| 1. Owner contributions  | 4,440,810.00                             | 35,844,088.26    |                          |                  |                  |                            |                  |               | 11,523,039.38      | 51,807,937.64           |
| 2. Amount of share-<br>based payment<br>included in owners'<br>equity |  | (2,704,013.88)   |                          |                  |                  |                            |                  |               |                    | (2,704,013.88)          |
| 3. Other  |  |                  |                          |                  |                  |                            |                  |               |                    | —                       |
| (4) Profit Distribution   | —  | —                | —                        | —                | —                | —                          | —                | —             | (2,943,726.30)     | (2,943,726.30)          |
| 1. Appropriations to<br>surplus reserve                               |  |                  |                          |                  |                  |                            |                  |               |                    | —                       |
| 2. Appropriations<br>to general risk<br>provisions                    |  |                  |                          |                  |                  |                            |                  |               |                    | —                       |
| 3. Distribution to owners<br>(or shareholders)                        |  |                  |                          |                  |                  |                            |                  |               | (2,943,726.30)     | (2,943,726.30)          |
| 4. Other  | —  |                  |                          |                  |                  |                            |                  |               |                    | —                       |
| (5) Transfer of owners'<br>equity                                     | —  | —                | —                        | —                | —                | —                          | —                | —             | —                  | —                       |
| 1. Transfer to capital (or<br>share capital) from<br>capital reserve  |  |                  |                          |                  |                  |                            |                  |               |                    | —                       |
| 2. Transfer to capital (or<br>share capital) from<br>surplus reserve  |  |                  |                          |                  |                  |                            |                  |               |                    | —                       |
| 3. Surplus reserves for<br>making up losses                           |  |                  |                          |                  |                  |                            |                  |               |                    | —                       |
| 4. Other  |  |                  |                          |                  |                  |                            |                  |               |                    | —                       |
| (6) Special reserves  | —  | —                | —                        | —                | —                | —                          | —                | —             | —                  | —                       |
| 1. Provided during<br>the period                                      |  |                  |                          |                  |                  |                            |                  |               |                    | —                       |
| 2. Used during the<br>period  |  |                  |                          |                  |                  |                            |                  |               |                    | —                       |
| (7) Other   |  |                  |                          |                  |                  |                            |                  |               |                    | —                       |
| IV. Closing balance for<br>the period                                 | 1,358,495,560.00                         | 2,132,241,221.52 | —                        | —                | 145,189,526.48   | —                          | (250,617,265.10) | 10,513,116.80 | 471,832,234.47     | 3,867,654,394.17        |

Legal representative: Tang Ye Guo

Person in charge of accounting matters: Li Jun

Person in charge of accounting department: Yan Zhi Yong

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

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

| Item  | Amount for previous year                 |                  |                       |                  |                  |                         |                    |               |                    |                      |
|---|--|------------------|-----------------------|------------------|------------------|-------------------------|--------------------|---------------|--------------------|----------------------|
|   | Attributable to the owners of the parent |                  |                       |                  |                  |                         |                    |               |                    | Total owners' equity |
|   | Paid in capital (or share capital)       | Capital reserve  | Less: Treasury shares | Special reserves | Surplus reserves | General risk provisions | Retained profits   | Other         | Minority interests |                      |
| I. Closing balance of previous year   | 1,354,054,750.00                         | 2,101,650,386.96 |                       |                  | 145,189,526.48   |                         | (2,099,392,002.85) | 10,539,505.90 | 361,165,845.47     | 1,873,208,011.96     |
| Add: Retrospective adjustments arising from business combination under common control and other matters | —  |                  |                       |                  |                  |                         |                    |               |                    |                      |
| Add: Changes in accounting policies   | —  |                  |                       |                  |                  |                         |                    |               |                    |                      |
| Correction for error in previous period   | —  |                  |                       |                  |                  |                         |                    |               |                    |                      |
| Other   |  |                  |                       |                  |                  |                         |                    |               |                    |                      |
| II. Opening balance of the year   | 1,354,054,750.00                         | 2,101,650,386.96 | —                     | —                | 145,189,526.48   | —                       | (2,099,392,002.85) | 10,539,505.90 | 361,165,845.47     | 1,873,208,011.96     |
| III. Movements in the current period (Decreases denoted in "-")   | —  | (2,544,786.19)   | —                     | —                | —                | —                       | 1,239,005,051.61   | 228,648.92    | 73,440,796.27      | 1,310,129,710.61     |
| (1) Net Profit  |  |                  |                       |                  |                  |                         | 1,239,005,051.61   |               | 30,124,320.47      | 1,269,129,372.08     |
| (2) Other comprehensive income  |  | (4,046,334.19)   |                       |                  |                  |                         |                    | 228,648.92    |                    | (3,817,685.27)       |
| Subtotal of (1) and (2) above   | —  | (4,046,334.19)   | —                     | —                | —                | —                       | 1,239,005,051.61   | 228,648.92    | 30,124,320.47      | 1,265,311,686.81     |
| (3) Owner contributions and capital reductions  | —  | 1,501,548.00     | —                     | —                | —                | —                       | —                  | —             | 67,193,000.00      | 68,694,548.00        |
| 1. Owner contributions  |  |                  |                       |                  |                  |                         |                    |               | 67,193,000.00      | 67,193,000.00        |
| 2. Amount of share-based payment included in owners' equity   |  | 1,501,548.00     |                       |                  |                  |                         |                    |               |                    | 1,501,548.00         |
| 3. Other  |  |                  |                       |                  |                  |                         |                    |               |                    | —                    |
| (4) Profit Distribution   | —  | —                | —                     | —                | —                | —                       | —                  | —             | (23,876,524.20)    | (23,876,524.20)      |
| 1. Appropriations to surplus reserve  |  |                  |                       |                  |                  |                         |                    |               |                    | —                    |
| 2. Appropriations to general risk provisions  |  |                  |                       |                  |                  |                         |                    |               |                    | —                    |
| 3. Distribution to owners (or shareholders)   |  |                  |                       |                  |                  |                         |                    |               | (23,876,524.20)    | (23,876,524.20)      |
| 4. Other  |  |                  |                       |                  |                  |                         |                    |               |                    | —                    |
| (5) Transfer of owners' equity  | —  | —                | —                     | —                | —                | —                       | —                  | —             | —                  | —                    |
| 1. Transfer to capital (or share capital) from capital reserve  |  |                  |                       |                  |                  |                         |                    |               |                    | —                    |
| 2. Transfer to capital (or share capital) from surplus reserve  |  |                  |                       |                  |                  |                         |                    |               |                    | —                    |
| 3. Surplus reserves for making up losses  |  |                  |                       |                  |                  |                         |                    |               |                    | —                    |
| 4. Other  |  |                  |                       |                  |                  |                         |                    |               |                    | —                    |
| (6) Special reserves  | —  | —                | —                     | —                | —                | —                       | —                  | —             | —                  | —                    |
| 1. Provided during the period   |  |                  |                       |                  |                  |                         |                    |               |                    | —                    |
| 2. Used during the period   |  |                  |                       |                  |                  |                         |                    |               |                    | —                    |
| (7) Other   |  |                  |                       |                  |                  |                         |                    |               |                    | —                    |
| IV. Closing balance for the period  | 1,354,054,750.00                         | 2,099,105,600.77 | —                     | —                | 145,189,526.48   | —                       | (860,386,951.24)   | 10,768,154.82 | 434,606,641.74     | 3,183,337,722.57     |

Legal representative: Tang Ye Guo

Person in charge of accounting matters: Li Jun

Person in charge of accounting department: Yan Zhi Yong

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

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

| Item   | Amount for current period             |                  |                          |                  |                  |                            |                  | Total owners' equity |
|--|---------------------------------------|------------------|--------------------------|------------------|------------------|----------------------------|------------------|----------------------|
|  | Paid in capital<br>(or share capital) | Capital reserve  | Less: Treasury<br>shares | Special reserves | Surplus reserves | General risk<br>provisions | Retained profits |                      |
| I. Closing balance of previous year                            | 1,354,054,750.00                      | 2,223,601,333.16 |                          |                  | 114,580,901.49   |                            | (884,000,229.61) | 2,808,236,755.04     |
| Add: Changes in accounting policies                            | —                                     |                  |                          |                  |                  |                            |                  |                      |
| Correction for error in previous period                        | —                                     |                  |                          |                  |                  |                            |                  |                      |
| Other  | —                                     |                  |                          |                  |                  |                            |                  |                      |
| II. Opening balance of the year                                | 1,354,054,750.00                      | 2,223,601,333.16 | —                        | —                | 114,580,901.49   | —                          | (884,000,229.61) | 2,808,236,755.04     |
| III. Movements in the current period                           |                                       |                  |                          |                  |                  |                            |                  |                      |
| (Decreases denoted in "-")                                     | 4,440,810.00                          | 30,064,485.13    | —                        | —                | —                | —                          | 578,685,990.49   | 613,191,285.62       |
| (1) Net Profit   |                                       |                  |                          |                  |                  |                            | 578,685,990.49   | 578,685,990.49       |
| (2) Other comprehensive income                                 |                                       | (4,453.63)       |                          |                  |                  |                            |                  | (4,453.63)           |
| Subtotal of (1) and (2) above                                  | —                                     | (4,453.63)       | —                        | —                | —                | —                          | 578,685,990.49   | 578,681,536.86       |
| (3) Owner contributions and capital reductions                 | 4,440,810.00                          | 30,068,938.76    | —                        | —                | —                | —                          | —                | 34,509,748.76        |
| 1. Owner contributions   | 4,440,810.00                          | 32,772,952.64    |                          |                  |                  |                            |                  | 37,213,762.64        |
| 2. Amount of share-based payment included in owners' equity    |                                       | (2,704,013.88)   |                          |                  |                  |                            |                  | (2,704,013.88)       |
| 3. Other   | —                                     |                  |                          |                  |                  |                            |                  |                      |
| (4) Profit Distribution  | —                                     | —                | —                        | —                | —                | —                          | —                | —                    |
| 1. Appropriations to surplus reserve                           | —                                     |                  |                          |                  |                  |                            |                  |                      |
| 2. Appropriations to general risk provisions                   | —                                     |                  |                          |                  |                  |                            |                  |                      |
| 3. Distribution to owners (or shareholders)                    | —                                     |                  |                          |                  |                  |                            |                  |                      |
| 4. Other   | —                                     |                  |                          |                  |                  |                            |                  |                      |
| (5) Transfer of owners' equity                                 | —                                     | —                | —                        | —                | —                | —                          | —                | —                    |
| 1. Transfer to capital (or share capital) from capital reserve | —                                     |                  |                          |                  |                  |                            |                  |                      |
| 2. Transfer to capital (or share capital) from surplus reserve | —                                     |                  |                          |                  |                  |                            |                  |                      |
| 3. Surplus reserves for making up losses                       | —                                     |                  |                          |                  |                  |                            |                  |                      |
| 4. Other   | —                                     |                  |                          |                  |                  |                            |                  |                      |
| (6) Special reserves   | —                                     | —                | —                        | —                | —                | —                          | —                | —                    |
| 1. Provided during the period                                  | —                                     |                  |                          |                  |                  |                            |                  |                      |
| 2. Used during the period                                      | —                                     |                  |                          |                  |                  |                            |                  |                      |
| (7) Other  | —                                     |                  |                          |                  |                  |                            |                  |                      |
| IV. Closing balance for the period                             | 1,358,495,560.00                      | 2,253,665,818.29 | —                        | —                | 114,580,901.49   | —                          | (305,314,239.12) | 3,421,428,040.66     |

Legal representative: Tang Ye Guo

Person in charge of accounting matters: Li Jun

Person in charge of accounting department: Yan Zhi Yong

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

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

| Item   | Amount for previous year              |                  |                          |                  |                  |                            |                    | Total owners' equity |
|--|---------------------------------------|------------------|--------------------------|------------------|------------------|----------------------------|--------------------|----------------------|
|  | Paid in capital<br>(or share capital) | Capital reserve  | Less: Treasury<br>shares | Special reserves | Surplus reserves | General risk<br>provisions | Retained profits   |                      |
| I. Closing balance of previous year                            | 1,354,054,750.00                      | 2,226,146,119.35 |                          |                  | 114,580,901.49   |                            | (1,434,599,681.22) | 2,260,182,089.62     |
| Add: Changes in accounting policies                            |                                       |                  |                          |                  |                  |                            |                    | —                    |
| Correction for error in previous period                        |                                       |                  |                          |                  |                  |                            |                    | —                    |
| Other  |                                       |                  |                          |                  |                  |                            |                    | —                    |
| II. Opening balance of the year                                | 1,354,054,750.00                      | 2,226,146,119.35 | —                        | —                | 114,580,901.49   | —                          | (1,434,599,681.22) | 2,260,182,089.62     |
| III. Movements in the current period                           |                                       |                  |                          |                  |                  |                            |                    |                      |
| (Decreases denoted in "—")                                     | —                                     | (2,544,786.19)   | —                        | —                | —                | —                          | 550,599,451.61     | 548,054,665.42       |
| (1) Net Profit   |                                       |                  |                          |                  |                  |                            | 550,599,451.61     | 550,599,451.61       |
| (2) Other comprehensive income                                 |                                       | (4,046,334.19)   |                          |                  |                  |                            |                    | (4,046,334.19)       |
| Subtotal of (1) and (2) above                                  | —                                     | (4,046,334.19)   | —                        | —                | —                | —                          | 550,599,451.61     | 546,553,117.42       |
| (3) Owner contributions and capital reductions                 | —                                     | 1,501,548.00     | —                        | —                | —                | —                          | —                  | 1,501,548.00         |
| 1. Owner contributions   |                                       |                  |                          |                  |                  |                            |                    | —                    |
| 2. Amount of share-based payment included in owners' equity    |                                       | 1,501,548.00     |                          |                  |                  |                            |                    | 1,501,548.00         |
| 3. Other   |                                       |                  |                          |                  |                  |                            |                    | —                    |
| (4) Profit Distribution  | —                                     | —                | —                        | —                | —                | —                          | —                  | —                    |
| 1. Appropriations to surplus reserve                           | —                                     |                  |                          |                  |                  |                            |                    | —                    |
| 2. Appropriations to general risk provisions                   |                                       |                  |                          |                  |                  |                            |                    | —                    |
| 3. Distribution to owners (or shareholders)                    |                                       |                  |                          |                  |                  |                            |                    | —                    |
| 4. Other   |                                       |                  |                          |                  |                  |                            |                    | —                    |
| (5) Transfer of owners' equity                                 | —                                     | —                | —                        | —                | —                | —                          | —                  | —                    |
| 1. Transfer to capital (or share capital) from capital reserve |                                       |                  |                          |                  |                  |                            |                    | —                    |
| 2. Transfer to capital (or share capital) from surplus reserve |                                       |                  |                          |                  |                  |                            |                    | —                    |
| 3. Surplus reserves for making up losses                       |                                       |                  |                          |                  |                  |                            |                    | —                    |
| 4. Other   |                                       |                  |                          |                  |                  |                            |                    | —                    |
| (6) Special reserves   | —                                     | —                | —                        | —                | —                | —                          | —                  | —                    |
| 1. Provided during the period                                  |                                       |                  |                          |                  |                  |                            |                    | —                    |
| 2. Used during the period                                      |                                       |                  |                          |                  |                  |                            |                    | —                    |
| (7) Other  |                                       | —                |                          |                  |                  |                            |                    | —                    |
| IV. Closing balance for the period                             | 1,354,054,750.00                      | 2,223,601,333.16 | —                        | —                | 114,580,901.49   | —                          | (884,000,229.61)   | 2,808,236,755.04     |

Legal representative: Tang Ye Guo

Person in charge of accounting matters: Li Jun

Person in charge of accounting department: Yan Zhi Yong



**NOTES TO THE FINANCIAL STATEMENTS**

*Half year of 2014*

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

**1. COMPANY PROFILE**

Hisense Kelon Electrical Holdings Company Limited (hereinafter referred to as the "Company") was formerly known as Guangdong Shunde Pearl River factory (廣東順德珠江冰箱廠) 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 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 (Rongsheng) Group Company Limited (hereinafter referred to as "Rongsheng Group", previously held 34.06% interest in the Company) entered into a share transfer agreement and a supplementary agreement with Shunde Greencool Enterprise Development Company Limited (it 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 Rongsheng Group. In April 2002, Rongsheng 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 above-mentioned share transfers, Rongsheng 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 were transferred to Qingdao Hisense Air-Conditioning Company Limited ("Qingdao Hisense Air-Conditioning"). Upon completion of the share transfer, Guangdong Greencool, the former single largest shareholder of the Company, no long held shares of the Company.

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

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

In accordance with the resolutions of the fourth interim meeting of the Company held on 31 August 2009, and as approved by the approval of China Securities Regulatory Commission dated 23 March 2010 "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), it was approved that the Company was to issue 362,048,187 Renminbi ordinary shares (A shares) to Qingdao Hisense Air-conditioning (as a specific object), as consideration for 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) Air-Conditioner Co., Ltd., 78.70% equity interests in Qingdao Hisense Mould Co., Ltd. and the white goods marketing businesses and assets including refrigerators and airconditioners of Qingdao Hisense Marketing Co., Ltd. ("Hisense Marketing");

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### I. COMPANY PROFILE — Continued

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

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

On 23 May 2014, upon the satisfaction the conditions to the first exercise period of the First Share Option Incentive Scheme of the Company and after approval by and registration with the Shenzhen branch of China Government Securities Depository Trust & Clearing Co. Ltd., an additional of 4,440,810 new shares issued upon the exercise of options were approved for listing. As at 30 June 2014, the total number of shares of the Company was 1,358,495,560.00 and the registered share capital of the Company was RMB1,358,495,560.00; of which, the shareholding of the Company held by Qingdao Hisense Air-Conditioning was 45.07%.

Scope of operations of the Company: Manufacture and sales businesses of refrigerators, air-conditioners and home appliances.

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

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

### 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements were prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance, and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15 - General Provisions on Financial Reporting (revised 2010) issued by the China Securities Regulatory Commission.

As the Company is listed on both Mainland and Hong Kong stock exchanges, apart from the relevant regulations mentioned above, the financial statements also comply with applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance.

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

The financial statements prepared by the Company comply with the requirements of the Accounting Standards for Business Enterprises and truly and completely reflects the financial state, operating results, changes in shareholders' equity, cash flows and other related information of the Company.

### 4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

#### 1. Accounting period

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

#### 2. Reporting currency

Renminbi (RMB) was adopted by the Company as the reporting currency.

**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued****3. Accounting treatments for business combinations involving entities under common and not under common control****(1) Business combinations involving entities under common control**

Business combination under common control is accounted for by the Polling of Interest method by the Company. Apart from adjustments necessary due to differences in accounting policies, the assets and liabilities acquired by the acquirer in business combination shall be measured at the carrying value of the acquiree on the date of combination. The difference between the carrying value of the net assets acquired by the acquirer and the carrying value of the consideration paid for combination (or total nominal value of the issued shares) shall be adjusted in the capital reserve. If the capital reserve is not sufficient to absorb the difference, the excess balance is adjusted against retained earnings.

For business combinations in which the Company is the acquirer, the incurred auditing, legal, appraisal and consulting and other agency fees and related management fees are charged to the profit or loss during the period in which they are incurred. Handling fees, commissions and other expenses paid for issuance of bonds or other liabilities committed in relation to business combination shall be charged to the initial measuring value of the bonds and other liabilities issued. Handling fees, commissions and other expenses paid for issuance of equity securities in relation to business combination shall be offset against the premium from equity securities and whereas such amount cannot be offset by premium, the excess balance shall be adjusted against retained earnings.

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

Business combination not under common control is accounted for by the acquisition method by the Company. The cost of acquisition represents the fair value of the cash or non-cash assets paid, liabilities issued or committed and equity securities issued by the Company as at the date of acquisition in consideration for acquiring the controlling power in the acquiree. For business combinations in which the Company is the acquirer, the incurred auditing, legal, appraisal and consulting and other agency fees and related management fees are charged to the profit or loss during the period in which they are incurred; the transaction fees related to the issuance of equity shares or bond securities as the consideration of business combination are charged to the initial measuring value of equity shares or bond securities issued.

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's identifiable net assets, the difference is recognized as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized in profit or loss for the current period.

**4. Preparation of consolidated financial statements****(1) Criteria for the recognition of scope of consolidation of financial statements**

Based on the concept of control, the consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries (including individual entities controlled by the parent). Control refers to the power over the investee, share of or entitlement to the risk exposure or rights of reward of variable returns, and the ability to affect the amount of returns by using its power.

For a subsidiary acquired through business combination under common control during the reporting period, the Company consolidates the subsidiary from the beginning of the year of consolidation to the end of this reporting year; for a subsidiary acquired through business combination not under common control, the Company consolidates the subsidiary from the date of acquisition to the end of this reporting year. For a subsidiary disposed during the reporting period, the Company ceases to consolidate the subsidiary from the date of disposal.

**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued****4. Preparation of consolidated financial statements — Continued****(2) Preparation of consolidated financial statements**

The Company prepares the consolidated financial statements based on financial statements of its own and its subsidiaries and other relevant information. In preparing the consolidated financial statements, the Company treats the entire business group as a single accounting entity, and reflects the overall financial position, operating results and cash flows in accordance with the requirements on recognition, measurements and presentation of the relevant accounting standards for business enterprises pursuant to unified accounting policies.

Where the accounting policies and accounting period adopted by the subsidiaries differ from those of the Company, necessary adjustments are made based on the Company's own accounting policies, and transactions or matters between companies within the scope of consolidation and internal liabilities are offset in the preparation of the consolidated financial statements; The portion of a subsidiary's equity not attributable to the parent are recognised as minority interests and presented separately under the shareholders' equity of the consolidated financial statements; in case the loss for the period attributable to minority shareholders of a subsidiary exceeds the minority interest portion's of owners' equity in the subsidiary at the beginning of the period, the difference shall be offset against the minority interests.

**5. Criteria for the recognition of cash equivalents**

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

**6. Foreign currency transactions and translation of financial statements in foreign currency****(1) Foreign currency transactions**

Foreign currency transactions are translated into the functional currency using the spot exchange rate prevailing at the date of the transaction.

As at the balance sheet date, foreign currency monetary items are translated into the functional currency using the spot exchange rate prevailing at the balance sheet date, translation difference arising from a difference between the spot exchange rate prevailing at the balance sheet date and the spot exchange rate prevailing at initial recognition or the previous balance sheet date is charged to finance costs; foreign currency non-monetary items at fair value are translated using the spot exchange rate at the date of fair value determined, and the resulting difference is charged to the profit or loss for the period as changes in fair value, except that the relevant translation difference arising from foreign currency available for sale financial assets which is charged to the capital reserve.

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

For the translation of financial statements of a subsidiary denominated in foreign currency, all the assets and liabilities items in the balance sheet are translated at the spot exchange rates on the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statement are translated using the spot exchange rate prevailing at the transaction date; all items in the cash flows statement are translated using the spot exchange rate prevailing at the date on which the relevant cash flow is incurred or a rate approximating the spot exchange rate. The effect of changes in the exchange rate on cash is separately presented as "Effect of foreign exchanges rate changes on cash and cash equivalents" in the cash flows statement.

**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued****6. Foreign currency transactions and translation of financial statements in foreign currency — Continued****(2) Translation of financial statements in foreign currency — Continued**

Differences arising from the translation of foreign currency financial statements are separately set out as "Difference on translation of foreign currency financial statements" under "Shareholders' equity" in the consolidated balance sheet.

On disposal of overseas operations, the corresponding difference of foreign currency translation related to the overseas operations shall be transferred from shareholders' equity to the profit or loss for the period. For partially disposed overseas operations, the translation difference of the financial statements are calculated on pro-rata basis and recognized in the profit or loss for the period.

**7. Financial instruments**

Financial instrument represents contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments consist of financial assets, financial liabilities and equity instruments.

**(1) Recognition and derecognition of 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.

The Group derecognizes a financial asset when the following conditions are met:

- ① The contractual rights to receive cash flows from the financial asset have expired;
- ② The financial asset has been transferred and the following conditions for the derecognition of financial assets are met.

A financial liability or part of it is derecognized when the existing obligations of the financial liability are fully or partially discharged.

**(2) Classification and measurement of financial assets and financial liabilities**

Based on its own business characteristics and requirements of risk management, the management of the Company classifies the financial assets or financial liabilities borne are, at initial recognition, classified into the following five categories: financial assets or financial liabilities at fair value through profit or loss (including held-for-trading financial assets and financial liabilities and those designated upon initial recognition as financial assets and financial liabilities at fair value through profit or loss); held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. A financial asset or financial liability is recognized initially at fair value. In the case of financial assets or financial liabilities at fair value through profit or loss, the relevant transaction costs are directly recognized in the profit or loss for the period; transaction costs relating to financial assets or financial liabilities of other categories are included in their initial recognized amount.

**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued****7. Financial instruments — Continued****(2) Classification and measurement of financial assets and financial liabilities — Continued****① Financial assets or financial liabilities at fair value through profit or loss for the period**

Financial assets at fair value through profit or loss include financial assets held-for-trading and those designated upon initial recognition as financial assets at fair value through profit or loss. Financial assets held-for-trading mainly refer to shares, bonds, funds and non-hedging derivatives held for disposal in the short-term or financial liabilities assumed for re-purchase in the short-term; financial assets or financial liabilities designated as ones at fair value through the profit or loss for the period mainly refer to those so designated by the Company for risk management, strategic investment and other purposes.

Such kind of financial assets or financial liabilities are measured at fair value. Except when they are used as effective derivatives, all realized and unrealized gains or losses on these financial assets and financial liabilities are recognized in the profit or loss for the period.

**② Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets such as sovereignty bonds at fixed rate and company bonds at floating rates that has fixed or determinable payments and fixed maturity and for which the Company has the positive intention and ability to hold to maturity.

Held-to-maturity investments are initially recognized at the sum of the fair value (after deduction of bond interests whose period has matured but not charged yet) and the related transactions fees by the Company.

During the holding period, held-to-maturity investments are measured using the effective interest rate method on the basis of amortized cost. Gains or losses arising from amortization, impairment or derecognition are recognized in the profit or loss for the period.

**③ Loans and Receivables**

Receivables refer to the right to receive cash or another financial assets caused by the sale of goods and the provision of labor services to external customers by the Company, and receivables in other companies except debt instruments quoted in active markets, including accounts receivables, other receivables and long-term receivables. Receivables are initially recognized at the contract price charged to the buyers or the agreed consideration. During the holding period, receivables are measured at amortized cost using the effective interest rate method. Upon disposal, the difference between the sale value and the book value of the receivables shall be accounted into profit or loss of the period on its recovery or disposal.

**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued****7. Financial instruments — Continued****(2) Classification and measurement of financial assets and financial liabilities — Continued****④ Available-for-sale financial assets**

Available-for-sale financial assets refer to non-derivative financial assets that are designated as available for sale upon initial recognition and financial assets not classified as the other three categories of financial assets as described above.

Available-for-sale financial assets are initially recognized at the sum of the fair value (after deduction of cash dividends which has been declared but not distributed or bond interests which were due but not received yet) and the related transactions fees by the Company.

Available-for-sale financial assets are subsequently measured at fair value. The premium or discount is amortized using effective interest rate method and recognized as interest income or expense. A gain or loss arising from a change in the fair value of an available-for-sale financial asset is recognized as other comprehensive income in capital reserve, except for impairment losses and foreign exchange gains or losses resulted from monetary financial assets, until the financial asset is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recognized is transferred to the profit or loss for the period. Interests and dividends relating to an available-for-sale financial asset are recognized in the profit or loss for the period.

Upon disposal, the difference between acquisition consideration and the carrying value of financial assets shall be recognized as investment profits and losses, and the accumulated changes in fair value from the disposal shall be at the same time transferred from the shareholders' equity to investment profits and losses.

**⑤ Other financial liabilities**

Other financial liabilities refer to financial liabilities not measured at their fair values and the variation of which is not accounted into the profit or loss of the period.

Other financial liabilities are initially recognized at the sum of the fair value and relevant transaction expenses. During the holding period, other financial liabilities are measured at amortized cost using the effective interest rate method. Gains or losses upon amortization or derecognition are accounted into profit or loss of the period.

**(3) Transfer of financial assets**

① Financial assets are derecognized when the Group has transferred substantially all the risks and rewards of their ownership to the transferee or when the substantial risks and rewards of their ownership are neither transferred nor retained but the Group ceases the control over the financial assets.

② The principle of "Substance over Form" is adopted in judging the termination or not of recognizing financial assets. The transfer of financial assets is also divided into entire transfer and partial transfer. If the transfer of an entire financial asset satisfies the conditions for derecognition, the difference between the amounts of the following 2 items shall be recorded in the profits and losses of the period:

A. The carrying amount of the transferred financial asset;

B. The aggregate consideration received from the transfer, and the cumulative amount of the changes of the fair value originally recorded in the shareholders' equity (in the event that the financial asset involved in the transfer is an available-for-sale financial asset).



## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued

#### 7. Financial instruments — Continued

##### (3) Transfer of financial assets — Continued

- ③ If the transfer of partial financial asset satisfies the conditions for derecognition, the carrying amount of the entire transferred financial asset shall be allocated between the portion that has been derecognized and the portion that has not been derecognized, according to their respective relative fair values, and the difference between the amounts of the following 2 items shall be recorded in the profits and losses of the period:
  - A. The carrying amount of the portion that has been derecognized;
  - B. The aggregate consideration of the portion that has been derecognized, and the portion of the cumulative amount of the changes in the fair value originally recorded in the shareholders' equity which is corresponding to the portion that has been derecognized (in the event that the financial asset involved in the transfer is an available-for-sale financial asset).
- ④ Financial assets continue to be recognized when their transfer does not fulfill the derecognition conditions, and considerations received are recognized as financial liabilities.
- ⑤ For a financial asset being transferred with continued involvement, the Company continues to recognize the financial asset being transferred to the extent of its continued involvement, and recognizes a financial liability at the same time.

##### (4) Conditions for derecognizing financial liabilities

If the current obligations of financial liabilities has been discharged or partially discharged, then the Company shall derecognize the financial liabilities in whole or in part thereof; if the Company signs an agreement with creditors in order to raise new financial liabilities to replace the existing financial liabilities, and the terms of the new financial liabilities are substantially different from the terms of the existing financial liabilities, the Company shall derecognize the existing financial liabilities, and begin to recognize the new financial liabilities at the same time.

If the terms of the existing financial liabilities have been substantially modified in whole or in part, the Company shall derecognize the existing financial liabilities in whole or in part, and at the same time, recognize the modified financial liabilities as a new one.

On derecognizing the financial liabilities in whole or in part, the difference between the book value of the existing financial liabilities and the payment (including the transfer-out of non-cash assets and new financial liabilities to be recognized) shall be accounted into the profit or loss for the period.

If the Company repurchases part of the financial liabilities, the Company shall allocate the entire financial liabilities between the part to be continuously recognized and the part to be derecognized in accordance with their fair values on the date of repurchasing. The difference between the derecognized book value and the payment (including the transfer-out of non-cash assets or new financial liabilities to be recognized) shall be included into profit and loss for the period.



**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued****7. Financial instruments — Continued****(5) Determination of fair value of financial assets and liabilities**

- ① If there is an active market for a financial asset or financial liability, the quoted price in the active market is used to establish the fair value of the financial asset or financial liability.
- ② If no active market exists for a financial instrument, its fair value is determined using appropriate valuation techniques.

**(6) Impairment of financial assets (excluding accounts receivable)**

The Group assesses the carrying amount of every financial asset (excluding accounts receivable) at the balance sheet date. If there is objective evidence indicating a financial asset may be impaired, a provision is made for the impairment.

- ① Impairment provision of held-to-maturity investments:

Impairment provisions are measured at the difference between the carrying amount and the present value of the estimated future cash flows. Detailed reference to methods of measurement for impairment provision of receivables is carried out.

If there is objective evidence that the value of the financial assets recovered and the recovery can be related to an event occurring after the impairment was recognized (such as an increase in the credit rating of the debtor), the previously recognized impairment loss is reversed and recognized in profit or loss. However, the reversal shall not result in a carrying amount of the financial asset exceeds what the amortized cost would have been had the impairment loss not been recognized at the date of reversal.

- ② Impairment provision of available-for-sale financial assets:

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

If after an impairment loss has been recognized on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed and recognized in profit or loss. For the impairment loss recognized on an equity instrument classified as available-for-sale, any increase in fair value that occurs after the impairment is reversed in shareholder's equity, not in profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued

#### 8. Accounts receivables

##### (1) *Accounts receivables that are individually significant and subject to separate provision:*

- ① *The criteria and amount for individually significant receivables.*

Accounts for 10% or above (10% inclusive) of the total accounts receivables, except the Greencool receivables.

- ② *Method of provision for bad debt in individually significant receivables:*

Individually significant receivables are subject to separate impairment assessment, where there is objective evidence of impairment, the amount of the present value of the future cash flows expected to be derived from the receivables is less than the carrying amount shall be treated as impairment loss and accounted for as provision for bad debts. Where there is no impairment in according to the separate impairment assessment, accounts receivables shall be combined into certain groups with similar credit risk characteristics and subject to impairment assessment by groups.

##### (2) *Receivables that are combined into certain groups and subject to provision by groups:*

*Basis for determination of groups is as follows*

|         |  |
|---------|--|
| Group 1 | Groups of accounts receivables based on ageing characteristics |
| Group 2 | Greencool receivables.   |

*Method for provision for bad debts by groups*

|         |   |
|---------|---|
| Group 1 | Based on ageing analysis method.  |
| Group 2 | Individual impairment assessment, where the amount of the present value of the future cash flows expected to be derived from the receivables is less than the carrying amount shall be treated as impairment loss and accounted for as provision for bad debts. |

For Group 1, receivables which are provided for bad debts using age analysis:

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

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued

#### 8. Accounts receivables — Continued

##### (3) Receivables which are individually insignificant but subject to separate provision:

|                                    |  |
|------------------------------------|--|
| Reason for individual provision    | Receivables which are individually insignificant in one year or above.   |
| Method for provision for bad debts | Receivables which shall be separated from groups for individual assessment, where there is objective evidence of impairment. The amount of the present value of the future cash flows expected to be derived from the receivables is less than the carrying amount shall be treated as impairment loss and accounted for as provision for bad debts. |

#### 9. Inventories

##### (1) Classification of inventories

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

##### (2) Cost of inventories

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

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

##### (3) Basis for the determination of net realizable value and the method of provision for declines in value of inventories

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

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

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

**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued****9. Inventory — Continued****(3) Basis for the determination of net realizable value and the method of provision for declines in value of inventories — Continued**

The Company takes inventory checkup at end of each accounting period, and states or adjusts impairment loss on inventories at the lower of cost or net realizable value. The provision for impairment loss on inventories is made on an individual basis in principle; for inventories in large quantity and with relatively low unit prices, provision for impairment loss on inventories shall be determined on an aggregated basis. The Company consolidates the provision for impairment loss on inventories related to the production and sales of products in the same region, with the same or similar utilization and purpose, and difficult to calculate separately. In case the factors causing the write-down of the inventories' value disappear, the write-down amount shall be reversed and the provision of impairment shall be charged to the profit or loss for the period.

**(4) Inventories system**

The group adopts the perpetual inventories system.

**(5) Amortization of low-value consumables and packaging materials**

Low-value consumables are expensed upon issuance.

Packaging materials are expensed upon issuance.

**10. Long-term equity investments****(1) Initial recognition****① Long-term equity investments acquired from business combination involving entities under common control**

For long-term equity investments acquired from business combination involving entities under common control, the share of the book value of the shareholders' equity of the merged enterprise as at the date of combination after adjustments in accordance with the Company's accounting policies shall be taken as the initial investment cost.

**② Long-term equity investments acquired from business combination involving entities not under common control**

For long-term equity investments acquired from business combination involving entities not under common control, the cost of combination as at the date of acquisition shall be taken as the initial investment cost.

For long-term equity investments acquired from business combination not involving entities under common control and achieved in stages, the initial cost comprises the carrying amount of previously held equity instrument in the acquiree immediately before the acquisition date, and the additional investment cost at the acquisition date.

**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued****10. Long-term equity investments — Continued****(1) Initial recognition — Continued****③ Long-term equity investment acquired by other methods**

The initial investment cost of a long-term equity investment obtained by making payment in cash shall be accounted for its actual cash paid.

The initial investment cost of a long-term equity investment obtained on the basis of issuing equity securities shall be the fair value of the equity securities issued (excluding declared but not yet paid cash dividends or profits received from the investee).

The initial investment cost of a long-term equity investment of an investor shall be the value stipulated in the investment contract or agreement except the unfair value stipulated in the contract or agreement.

Under the conditions that the exchange of non-monetary assets is characterized with business essence, and the fair value of the assets received or surrendered can be measured in a reliable way, the book value of assets received is determined on basis of the fair value of assets surrendered, except there are objective evidences for the higher reliability of the fair value of assets received. For the exchange of non-monetary assets not meeting the above criteria, the book value of assets surrendered and related taxes shall be accounted as cost of assets received.

The initial investment cost of long-term equity investment obtained by debt restructuring shall be measured at fair value.

**(2) Subsequent measurement and recognition of profits and losses**

The cost method is used when the Company does not jointly control or has significant influence over the investee, and the long-term equity investments are not quoted in active markets, and no reliably measurable fair value. The cost method is also used for long-term equity investments over the subsidiaries. Long-term equity investments under common control or significant influence shall be accounted by equity method.

Upon accounting of long-term equity investments by the cost method:

Apart from the actual consideration paid or cash dividends or profits already declared but not yet paid which are included in the consideration, the Company recognizes investment returns according to cash dividends or profits declared by the investee.

Upon accounting of long-term equity investments by the equity method:

- ① If the initial cost of a long-term equity investment exceeds the investor's share of the fair value of the investee's identifiable net assets at the date of acquisition, the initial cost of the long-term equity investment may not be adjusted; if the initial cost of a long-term equity investment is lower than the investor's share of the fair value of the investee's identifiable net assets at the date of acquisition, the difference shall be included in the profit or loss for the period and the cost of the long-term equity investment shall be adjusted at the same time.

**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued****10. Long-term equity investments — Continued****(2) Subsequent measurement and recognition of profits and losses — Continued**

- ② The Group recognizes its share of the net profit or loss made by the investee as investment income or losses, and adjusts the carrying amount of the investment accordingly. The Group recognizes its share of the investee's net profit or loss after making appropriate adjustments to the investee's net profit or loss based on the fair value of the investee's identifiable assets at the acquisition date, and the Group's accounting policies and periods, and eliminating the portion of the profit or loss arising from inter-group transactions with joint ventures and associates according to its share ratio (but impairment losses for assets arising from inter-group transactions shall be recognized in full).
- ③ The Group's share of net losses of the investee is recognized to the extent that the carrying amount of the long-term equity investment, together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero, except that the Group has incurred obligations to assume additional losses. Subsequent net profits realized by the investee are recognized as share of profits after setting off its share of un-recognized losses.
- ④ Entitlements to profits or cash dividends declared by the investee reduce the carrying value of the long-term investments.
- ⑤ For the changes in the shareholders' equity other than those arising from its profit and loss of the investee, the Company records directly in capital reserve, provided that the Group's proportion of shareholding in investee remains unchanged.

**(3) Definition of joint control and significant influence over the investees**

- ① Evidences for common control:

Joint control is the contractually agreed sharing of control over an economic activity. Generally upon the establishment of a joint venture, significant financial and production, operating and decision-making procedures of the joint venture require the unanimous consent of the parties sharing control. Common control is evidenced by the following three bases:

- A. None of the parties shall control the production and operating activities of the joint venture on a sole basis.
- B. Decision-making related to the fundamental operation of the joint venture requires the unanimous consent of the joint venture parties.
- C. The joint venture parties may by way of contract or agreement appoint one of the joint venture parties to carry out management of the ordinary activities of the joint venture, given that the management power shall be exercised within the financial, operating and policy-making scope already unanimously agreed by the joint venture parties.

**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued****10. Long-term equity investments — Continued****(3) Definition of joint control and significant influence over the investees — Continued****② Evidences for significant influence:**

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an entity, but not the power to control or jointly control over the formulation of such policies with other parties. When the Company directly or indirectly through a subsidiary owns more than 20% (including 20%) but less than 50% of the voting rights of an investee, significant influence over the investee is established unless there is clear evidence that the situation constitutes no significant influence as the Company is unable to participate in making decisions on the financial and operating policies of the investee. When the Company owns less than 20% of the voting rights of an investee, significant influence over the investee is generally not established unless there is clear evidence that the situation constitutes significant influence as the Company is able to participate in making decisions on the financial and operating policies of the investee.

**(4) Test of impairment and recognition of provision for impairment**

Please see note 4.23 for the test for impairment and recognition of provision for impairment for long-term equity investments in subsidiaries, joint ventures and associates.

For a long-term investment which investee is not under common control or significant influence, no quoted price in an active market and no reliable fair value measurement, please see note 4.7(6) for the test for impairment and recognition of provision for impairment.

**11. Investment properties**

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

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

Please see note 4.23 for recognition of impairment for investment properties using cost model for subsequent measurement.

**12. Fixed assets****(1) Recognition of fixed assets**

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

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

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued

#### 12. Fixed assets — Continued

##### (2) Depreciation of fixed assets

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

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

##### (3) Test of impairment and provision for impairment loss of fixed assets

Please see note 4.23 for recognition of impairment of fixed assets.

#### 13. Construction in progress

##### (1) Categories of construction in progress

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

##### (2) Time-point of transfer from construction in progress to fixed assets

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

##### (3) Impairment loss of construction in progress

Please see note 4.23 for recognition of impairment of construction in progress.



**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued****14. Borrowing costs****(1) Principles of recognition for capitalization of the borrowing costs**

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

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

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

- ① The expenditures for asset are already incurred, which shall include expenditures in form of cash, transfer of non-cash assets or interest bearing debts paid for the acquisition and construction or producing activities of assets eligible for capitalization;
- ② The borrowing costs have been incurred;
- ③ The acquisition and construction or producing activities necessary to prepare the asset for its intended use or sale have already commenced.

**(2) Period of capitalization of the borrowing costs**

Borrowing costs are capitalized as a cost of the qualifying assets being acquired, constructed or produced until they become ready for its intended use or sale; and the capitalization of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognized in profit or loss for the current period.

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

**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued****14. Borrowing costs — Continued****(3) Calculation of capitalized borrowing costs**

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

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of interest which is eligible for capitalization is determined by applying the weighted average effective interest rate of general borrowings used, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

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

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

**15. Intangible asset****(1) Initial recognition of intangible assets**

Intangible assets are initially recognized based on the actual cost. Where the payment of purchase price for intangible assets is delayed beyond the normal credit terms, which is of financing nature, the cost of intangible assets shall be determined based on the current value of the purchase price.

The intangible assets acquired through the debt restructuring shall be accounted at the fair value of the intangible assets; under the conditions that the exchange of non-monetary assets is characterized with business essence, and the fair value of the assets received or surrendered can be measured in a reliable way, the book value of assets received is recognized on basis of the fair value of assets surrendered, except there are objective evidences for the higher reliability of the fair value of assets received. For the exchange of those non-monetary assets not meeting the above criteria, the book value of assets surrendered and related taxes shall be accounted as cost of assets received and not recognized in the profit and loss.

**(2) Subsequent measurement of intangible assets****① Useful life of intangible assets**

The useful life of the acquired intangible assets is determined upon acquisition. For intangible asset with a finite useful life, the useful life or similar measurement unit for usage is estimated. Intangible assets with unforeseeable economic benefits to the Company are deemed to be intangible assets with indefinite useful life.

**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**

**15. Intangible asset — Continued**

**(2) Subsequent measurement of intangible assets — Continued**

② *Amortisation of intangible assets*

Intangible asset with a finite useful life are amortized over the estimated useful life from the month of acquisition using the straight-line method. Intangible assets with indefinite useful life are not amortized but a test for impairment is carried out at the end of the year.

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

③ When an intangible asset is expected to no longer generate any future economic benefits to the Company, the carrying value of the intangible asset is entirely transferred into the profit or loss for the period.

④ *Impairment of intangible assets*

Please see note 4.23 for the recognition of impairment of intangible assets.

**16. Development costs**

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

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

Research phase: the phase which the planned investigation and research are carried out with purpose of obtaining and understanding new scientific or technical knowledge.

Development phase: before commercial production and utilization, the phase 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, etc.

(3) Expenditure on the research phase of internal research and development projects are recognized in profit or loss for the period.

(4) Expenditure on the development phase of internal research and development projects is capitalized only if all of the following conditions are satisfied at the same time:

① It is technically feasible to complete the intangible asset so that it will be available for use or sale;

② Management intends to complete the intangible asset, and to use or sell;

③ It can be demonstrated how the intangible assets will generate economic benefits or the intangible assets has its own market, or that they can be used in case of internal utilization;

④ There are adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible assets;

⑤ The expenditure attributable to intangible assets during its development phase can be reliably measured.

**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued****17. Long-term prepaid expenses**

- (1) Long-term prepayments include expenditures incurred but should be recognized as expenses over more than one year in the current and subsequent periods. Long-term prepayments are amortized on a straight-line basis over the expected beneficial period.
- (2) Pre-operating expenses should be recognized in profit or loss in the month as incurred.

**18. Provisions**

- (1) Provision for pending litigation, product warranties, onerous contracts etc, are recognized when the Company has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of obligation can be measured reliably.
- (2) A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

**19. Share-based payments and equity instruments****(1) Share-based payments**

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

**(2) Accounting treatment of share-based payments**

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

**(3) Determination of fair value of equity instruments**

If there is an active market for an equity instrument granted such as share option, the quoted price in the active market is used to establish the fair value of the equity instrument. If there is no active market for the equity instrument granted such as share option, the option pricing model is used to determine the fair value.

**(4) Recognition basis for the best estimate of fair value of exercisable equity instruments**

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

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

The accumulated cost recognizable for the period is calculated based on the above fair value of equity instruments and estimated number of exercisable equity instruments, after deducting the recognized amount for the previous period, as the cost recognizable for the period.

**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued****20. Revenue****(1) Sale of goods**

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

Revenue is presented as the net amount excluding sales discounts and sales returns.

**(2) Rendering of services**

On the balance sheet date, outcome of a transaction on rendering of services that could be reliably estimated shall be recognized using percentage-of-completion method. The Company determines the total revenue from rendering of services in accordance with the received or receivable purchase price fixed by contract or agreement, except when the price is unfair.

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

- ① If the cost incurred is expected to be recoverable, the revenue shall be recognized to the extent that the cost incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost.
- ② If the cost incurred is not expected to be recoverable, the cost incurred shall be recognized in the profit or loss for the period, and no revenue from such services is recognized.

**(3) Transfer of asset use rights**

When it is probable that the economic benefits related to the transaction will flow to the Company and the relevant income can be reliably measured, the treatment will be carried out as follows:

- ① The interest income is determined on basis of the length of time and effective interest rate of the Company's cash funds which is used by the others.
- ② The royalties income is determined on basis of the agreed chargeable time and method under relevant agreement or contract.

**21. Government grants**

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

**(1) Recognition and measurement of government grants**

Government grants are recognized when all attaching conditions can be complied with and the grants can be received.

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

**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued****21. Government grants — Continued****(2) Accounting treatment of government grants**

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

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

A government grant related to income, where the grant is a compensation for related expenses or losses to be incurred by the enterprise in subsequent periods, the grant shall be recognized as deferred income; where the grant is a compensation for related expenses or losses already incurred by the enterprise, the grant shall be recognized immediately in profit or loss in the period.

**22. Deferred tax assets/deferred tax liabilities**

Deferred tax assets and deferred tax liabilities are calculated and recognized based on the temporary difference between the carrying value and the tax base of the assets and liabilities as at the balance sheet date. Deferred tax are recognized in the period's profit or loss as income tax expense or income tax credits, except for the adjustment made for goodwill in a business combination and deferred tax from transactions or items that are directly related to equity.

(1) A deferred tax liability is recognized for all taxable temporary differences, except where the taxable temporary differences arise from the following transactions:

- ① The initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, it affects neither accounting profit nor taxable profit or loss;
- ② Recognition of assets or liabilities arising from transactions with the following characteristics: a transaction that is not a business combination and, at the time of the transaction, neither affects the accounting profit nor taxable profit or loss;
- ③ In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

(2) Deferred tax assets are only recognized for deductible temporary differences, tax losses and tax credits, to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, tax losses and tax credits can be utilized, except where the deferred tax asset arises from the following transactions:

- ① A transaction that is not a business combination and, at the time of the transaction, neither affects the accounting profit nor taxable profit or loss; or
- ② In respect of the deductible temporary differences associated with investments in subsidiaries, jointly controlled entities and associates, a deferred tax asset is only recognized to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized in the future.

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, meanwhile reflects the tax consequences that would follow from the manner in which the Company expects, at the balance sheet date, to recover the assets or settle the liabilities.

**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued****22. Deferred tax assets/deferred tax liabilities — Continued**

- (3) The carrying amount of deferred tax assets shall be reviewed at the balance sheet date. If it is unlikely to obtain sufficient taxable income to offset against the benefit of the deferred tax assets, the carrying amount of the deferred tax assets shall be written down, the amount of writing down shall be accounted for income tax expense in the period, and the amount of writing down shall be accounted in shareholder's equity if the deferred tax is originally recognized in shareholder's equity. Any such write-down should be subsequently reversed where it becomes probable that sufficient taxable income will be available.

**23. Impairment of assets**

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

- (1) Fixed assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. If any indication exists that an asset may be impaired, the recoverable amount of this asset is estimated. Goodwill arising from a business combination, an intangible asset with an indefinite useful life and intangible assets that have not been ready for intended use are tested for impairment at least once a year, irrespective of whether or not there is any indication that those assets may be impaired.
- (2) The recoverable amount of an asset is the higher of its fair value less costs to sell and its present value of the expected future cash flows estimated to be derived from the asset. Provision for asset impairment is determined and recognized on individual asset basis. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of a group of assets to which the asset belongs is determined.
- (3) Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. When the recoverable amount of an asset or an asset group is less than its carrying amount, the carrying amount is reduced to the recoverable amount. The reduction in carrying amount is treated as impairment loss and recognized in profit or loss for the period.
- (4) Once the impairment loss of the above assets is recognized, it cannot be reversed in subsequent periods.

**24. Employee benefits**

Employee benefits include wages or salaries, bonuses, allowances, subsidies, welfare fund, social security contributions, housing funds and other expenditures incurred in exchange for service rendered by employees and are recognized for the period during which they are rendered.

**4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued****25. Segment information**

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

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

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

An operating segment's revenue, expenses, operating results, assets and liabilities include those directly attributable to a segment and those allocated to the segment on a reasonable basis. Revenue, expenses, assets and liabilities of operating segment are determined at the amounts before the elimination of inter-group transactions and inter-group current account balances. Transfer price between operating segments is calculated on terms similar to those of arm's length transactions.

**26. Operating leases**

The Company recognises the rentals of operating leases in profit or loss over the leasing period on a straight line basis. Initial direct costs incurred are accounted for in the profit or loss for the period.

**27. Changes in significant accounting policies and accounting estimates****(1) Changes in accounting policies**

There are no changes in the accounting policies of the Company in the current period.

**(2) Changes in accounting estimates**

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

**28. Correction of prior period's accounting errors**

There is no prior period's accounting errors in the current period.



## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 5. TAXATION

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

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

#### 2. Tax preferences and approvals

Hisense Ronshen (Guangdong) Refrigerator Co., Ltd., a subsidiary of the Company, received Certificate of High/New Technology Enterprise (Number: GF201144000198) dated 23 August 2011 which was jointly issued by the Guangdong Science and Technology Department, Guangdong Provincial Finance Department, Guangdong Provincial State Tax Bureau and Guangdong Provincial Local Taxation Bureau, with an effective period of three years (2011, 2012 and 2013). Pursuant to the tax preference regulation on High/New Technology Enterprises, this subsidiary is entitled to the preferential enterprise income tax rate of 15% in 2011, 2012 and 2013. The re-assessment of High/New Technology Enterprises status for Guangdong Refrigerator in 2014 is under progress, and according to relevant requirements on State tax, the preferential tax rate of 15% is effective temporarily during the re-assessment period.

Guangdong Kelon Mould Co., Ltd., a subsidiary of the Company, received Certificate of High/New Technology Enterprise (Number: GF201144000843) dated 13 October 2011 which was jointly issued by the Guangdong Science and Technology Department, Guangdong Provincial Finance Department, Guangdong Provincial State Tax Bureau and Guangdong Provincial Local Taxation Bureau, with an effective period of three years (2011, 2012 and 2013). Pursuant to the tax preference regulation on High/New Technology Enterprises, this subsidiary is entitled to the preferential enterprise income tax rate of 15% in 2011, 2012 and 2013. The re-assessment of High/New Technology Enterprises status for Kelon Mould in 2014 is under progress, and according to relevant requirements on State tax, the preferential tax rate of 15% is effective temporarily during the re-assessment period.

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

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

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 5. TAXATION — Continued

#### 2. Tax preferences and approvals — Continued

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

Hisense (Shandong) Air-conditioning Co., Ltd., a subsidiary of the Company, received the Certificate of High/New Technology Enterprise (Number: GF201137100040) dated 6 September 2011 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, Shandong Provincial State Taxation Bureau and Qingdao Local Taxation Bureau, with an effective period of three years (2011, 2012 and 2013). According to the relevant tax preference regulation on High/New Technology Enterprises, the applicable enterprise income tax rate for this subsidiary in 2011, 2012 and 2013 is 15%. The re-assessment of High/New Technology Enterprises status for Hisense (Shandong) Air-conditioning in 2014 is under progress, and according to the relevant requirements on State tax, the preferential tax rate of 15% is effective temporarily during the re-assessment period.

Qingdao Hisense Mould Co., Ltd., a subsidiary of the Company, received the Certificate of High/New Technology Enterprise (Number: GF201137100073) dated 6 September 2011 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, Shandong Provincial State Taxation Bureau and Qingdao Local Taxation Bureau, with an effective period of three years (2011, 2012 and 2013). According to the relevant tax preference regulation on High/New Technology Enterprises, the applicable enterprise income tax rate for this subsidiary in 2011, 2012 and 2013 is 15%. The re-assessment of High/New Technology Enterprises status for Qingdao Hisense Mould in 2014 is under progress, and according to the relevant requirements on State tax, the preferential tax rate of 15% is effective temporarily during the re-assessment period.

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

Guangdong Kelon Air-conditioner Co., Ltd., a subsidiary of the Company, received the Certificate of High/New Technology Enterprise (Number: GF201344000492) dated 21 October 2013 which was jointly issued by the Guangdong Science and Technology Department, Guangdong Provincial Finance Department, Guangdong Provincial State Tax Bureau and Guangdong Provincial Local Taxation Bureau, with an effective period of three years (2013, 2014 and 2015). According to the relevant tax preference regulation on High/New Technology Enterprises, the applicable enterprise income tax rate for this subsidiary in 2013, 2014 and 2015 is 15%.

The subsidiaries of the Company which were incorporated in Hong Kong are taxed on the assessable profits arising in Hong Kong at a rate of 16.5% (2013: 16.5%).

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 5. TAXATION — Continued

#### 3. Other illustrations

- (1) Other taxes, including real estate tax, land use tax, local education surcharges, vehicle and vessel tax, stamp duty, withholding individual income tax etc., are calculated and payable in accordance with the relevant regulations of the State tax laws.
- (2) Kelon (Japan) Ltd, a subsidiary of the Company, is a legal representative in Japan and is involved in all major categories of taxations (including corporate tax, corporate inhabitant tax and corporate business tax), consumption tax and fixed asset tax. The bases and rate of each type of taxes are as follows:

| Type of taxes                        | Tax Basis   | Tax rate   |
|--------------------------------------|---|--|
| Corporation tax                      | Based on the audited profits for the period   | In accordance with the applicable local tax rate |
| Corporate inhabitant tax (local tax) | A fixed tax rate on the legal representative itself and proportional tax rate on it's earned income | In accordance with the applicable local tax rate |
| Corporate business tax (local tax)   | The total amount of income, value surcharge and capital for the period                              | In accordance with the applicable local tax rate |
| Consumption tax                      | The difference between the total sales amount and the total purchase amount of the tax payer        | In accordance with the applicable local tax rate |
| Fixed asset tax                      | Value of lands, buildings and depreciable assets  | In accordance with the applicable local tax rate |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

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

#### (1) Major subsidiaries

##### 1. Subsidiaries acquired from establishment or investment

| Name of subsidiary   | Type of subsidiary      | Place of registration | Nature of Business | Registered capital | Nature of entity          | Scope of business   | Actual investment at the end of the Period | Shareholding (%) |            | % of voting rights held | Consolidated or not | Minority interest | Amount of minority interest used to set off loss attributable to minority interest | Excess of loss of the period attributable to minority share of the subsidiary offset by ownership of the parent company over share of ownership by minority interest in the subsidiary as at the beginning of the year |
|--|-------------------------|-----------------------|--------------------|--------------------|---------------------------|---|--|------------------|------------|-------------------------|---------------------|-------------------|--|--|
|  |                         |                       |                    |                    |                           |   |  | Direct           | Indirectly |                         |                     |                   |  |  |
| Hisenze Ronshen (Guangdong) Refrigerator Co., Ltd. ("Guangdong Refrigerator")        | Wholly-owned subsidiary | Foshan                | Industrial         | US\$26,800,000     | Limited liability company | Manufacture and sale of refrigerators   | 20,495.09                                  | 70%              | 30%        | 100%                    | Yes                 |                   |  |  |
| Guangdong Kelon Air-conditioner Co., Ltd. ("Guangdong Air-conditioner") <sup>1</sup> | Subsidiary              | Foshan                | Industrial         | US\$36,150,000     | Limited liability company | Manufacture and sale of air-conditioners                                      | 28,100.00                                  | 60%              |            | 100%                    | Yes                 |                   |  |  |
| Hisenze Ronshen ("Guangdong") Freezer Co., Ltd. ("Guangdong Freezer")                | Wholly-owned subsidiary | Foshan                | Industrial         | 23,700.00          | Limited liability company | Manufacture and sale of freezers  | 3,542.81                                   | 44%              | 56%        | 100%                    | Yes                 |                   |  |  |
| Shunde Kelon Household Electrical Appliance Co., Ltd. ("Kelon HEA")                  | Wholly-owned subsidiary | Foshan                | Industrial         | 1,000.00           | Limited liability company | Manufacture and sale of household appliances                                  | 250.00                                     | 25%              | 75%        | 100%                    | Yes                 |                   |  |  |
| Guangdong Hisense Household Electrical Appliance Co., Ltd. ("HEA Co.")               | Subsidiary              | Foshan                | Industrial         | 5,740.51           | Limited liability company | Manufacture and sale of spare parts for refrigerators and air-conditioners    | 5,153.10                                   | 81.17%           |            | 81.17%                  | Yes                 | 1,152.30          |  |  |
| Foshan Shunde Rongsheng Plastic Co., Ltd. ("Rongsheng Plastic")                      | Subsidiary              | Foshan                | Industrial         | US\$15,827,400     | Limited liability company | Manufacture of plastic parts  | 8,202.37                                   | 44.92%           | 25.13%     | 70.05%                  | Yes                 | 8,340.77          |  |  |
| Guangdong Kelon Mould Co., Ltd. ("Kelon Mould")                                      | Subsidiary              | Foshan                | Industrial         | US\$15,056,100     | Limited liability company | Manufacture of mould  | 7,770.68                                   |                  | 70.11%     | 70.11%                  | Yes                 | 5,064.19          |  |  |
| Guangdong Huaoa Electronics Co., Ltd. ("Huaoa Electronics") <sup>1</sup>             | Subsidiary              | Foshan                | Industrial         | 1,000.00           | Limited liability company | Research and development, production and sale of electronic products          | 700.00                                     |                  | 70%        | 100%                    | Yes                 |                   |  |  |
| Guangdong Foshan Shunde Kelon Property Service Co., Ltd. ("Kelon Property")          | Wholly-owned subsidiary | Foshan                | Service            | 500.00             | Limited liability company | Corporate consultancy management, catering, household decoration design       | 492.78                                     |                  | 100%       | 100%                    | Yes                 |                   |  |  |
| Foshan Shunde Wangao Import & Export Co., Ltd. ("Wangao I&E")                        | Wholly-owned subsidiary | Foshan                | Commercial         | 300.00             | Limited liability company | Import and export   | 300.00                                     | 20%              | 80%        | 100%                    | Yes                 |                   |  |  |
| Foshan Shunde Kelon Jiake Electronics Co., Ltd. ("Kelon Jiake")                      | Wholly-owned subsidiary | Foshan                | Industrial         | 6,000.00           | Limited liability company | IT and communication technology, and micro-electronics technology development | 6,000.00                                   | 70%              | 30%        | 100%                    | Yes                 |                   |  |  |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS — Continued

Unless otherwise expressly stated, all amounts in the following table are denominated in RMB'0000. — Continued

#### (1) Major subsidiaries — Continued

##### 1. Subsidiaries acquired from establishment or investment — Continued

| Name of subsidiary   | Type of subsidiary      | Place of registration | Nature of Business | Registered capital | Nature of entity          | Scope of business  | Actual investment at the end of the Period | Shareholding (%) |            | % of voting rights held | Consolidated or not | Minority interest | Amount of minority interest used to set off loss attributable to minority interest | Excess of loss of the period attributable to minority share of the subsidiary offset by ownership of the parent company over share of ownership by minority interest in the subsidiary as at the beginning of the year |
|--|-------------------------|-----------------------|--------------------|--------------------|---------------------------|--|--|------------------|------------|-------------------------|---------------------|-------------------|--|--|
|  |                         |                       |                    |                    |                           |  |  | Direct           | Indirectly |                         |                     |                   |  |  |
| Guangdong Kelon Well Electrical Appliances Co., Ltd. ("Kelon Well")                    | Subsidiary              | Zhongshan             | Industrial         | 20,000.00          | Limited liability company | Production of intelligent washing machines, intelligent air-conditioners and after-sale maintenance services and technology consultation for other products, with 70% of the products for domestic sale  |  | 55%              | 25%        | 80%                     | Yes                 | (436.50)          |  |  |
| Hisense Ronshen ("Yingkou") Refrigerator Co., Ltd. ("Yingkou Refrigerator")            | Subsidiary              | Yingkou               | Industrial         | 20,000.00          | Limited liability company | Manufacture and sale of refrigerators  | 14,237.29                                  | 42%              | 36.79%     | 78.79%                  | Yes                 | 438.80            |  |  |
| Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon")                       | Wholly-owned subsidiary | Nanchang              | Industrial         | US\$29,800,000     | Limited liability company | Manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small household appliances  | 23,910.48                                  | 60%              | 40%        | 100%                    | Yes                 |                   |  |  |
| Jiangxi Kelon Combine Electrical Appliances Co., Ltd. ("Jiangxi Combine") <sup>2</sup> | Subsidiary              | Nanchang              | Industrial         | 2,000.00           | Limited liability company | Research and development, production and sale of household and commercial air-conditioners, refrigerators, freezers and small household appliances   | 1,100.00                                   |                  | 55%        | 55%                     | No                  |                   |  |  |
| Hangzhou Kelon Electrical Co., Ltd. ("Hangzhou Kelon")                                 | Wholly-owned subsidiary | Hangzhou              | Industrial         | 2,400.00           | Limited liability company | Research and development and production of high efficiency, energy saving and environmental friendly refrigerators, technology for environmental friendly refrigerators, information consultation, warehousing, and sale of the Company's products | 2,400.00                                   | 100%             |            | 100%                    | Yes                 |                   |  |  |
| Hisense Ronshen ("Yangzhou") Refrigerator Co., Ltd. ("Yangzhou Refrigerator")          | Wholly-owned subsidiary | Yangzhou              | Industrial         | US\$44,447,900     | Limited liability company | Production and sale of energy saving, environmental friendly refrigerators and other energy saving cooling electrical appliances   | 32,298.06                                  | 74.33%           | 26.67%     | 100%                    | Yes                 |                   |  |  |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS — Continued

Unless otherwise expressly stated, all amounts in the following table are denominated in RMB'0000. — Continued

#### (1) Major subsidiaries — Continued

##### 1. Subsidiaries acquired from establishment or investment — Continued

|   |                         |                        |                    |                    |                           |   |  |                  |            |                         |                     |                   | Excess of loss of the period attributable to minority share of the subsidiary offset by ownership of the parent company over share of ownership by minority interest in the subsidiary as at the beginning of the year |
|---|-------------------------|------------------------|--------------------|--------------------|---------------------------|---|--|------------------|------------|-------------------------|---------------------|-------------------|--|
| Name of subsidiary  | Type of subsidiary      | Place of registration  | Nature of Business | Registered capital | Nature of entity          | Scope of business   | Actual investment at the end of the Period | Shareholding (%) |            | % of voting rights held | Consolidated or not | Minority interest | Amount of minority interest used to set off loss attributable to minority interest   |
|   |                         |                        |                    |                    |                           |   |  | Direct           | Indirectly |                         |                     |                   |  |
| Shanggu Kelon Electrical Co., Ltd. ("Shanggu Kelon")                      | Wholly-owned subsidiary | Shanggu                | Industrial         | 15,000.00          | Limited liability company | Research and development, manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small household appliances and parts and accessories, and provision of relevant information and technical consultancy services | 15,000.00                                  |                  | 100%       | 100%                    | Yes                 |                   |  |
| Zhuhai Kelon Electrical Industrial Development Co., Ltd. ("Zhuhai Kelon") | Wholly-owned subsidiary | Zhuhai                 | Industrial         | US\$29,980,000     | Limited liability company | Research and development and manufacture of refrigerators, air-conditioners, freezers, small household appliances and related accessories   | 23,610.70                                  | 75%              | 25%        | 100%                    | Yes                 |                   |  |
| Shenzhen Kelon Purchase Co., Ltd. ("Shenzhen Kelon")                      | Wholly-owned subsidiary | Shenzhen               | Commercial         | 10,000.00          | Limited liability company | Domestic business, material supply and marketing (excluding franchise, control and monopoly of goods); import and export; provision of warehousing, information consultation  | 10,000.00                                  | 95%              | 5%         | 100%                    | Yes                 |                   |  |
| Pearl River Electric Refrigerator Co., Ltd. ("Pearl River Refrigerator")  | Wholly-owned subsidiary | Hong Kong              | Commercial         | HK\$400,000        | Limited liability company | Sale of raw materials and accessories   | 31.75                                      |                  | 100%       | 100%                    | Yes                 |                   |  |
| Kelon Development Co., Ltd. ("Kelon Development")                         | Wholly-owned subsidiary | Hong Kong              | Investment         | HK\$5,000,000      | Limited liability company | Investment holding  | 1,120.00                                   | 100%             |            | 100%                    | Yes                 |                   |  |
| Kelon (Japan) Limited ("Kelon Japan")                                     | Wholly-owned subsidiary | Japan                  | Commercial         | JPY 1,100,000,000  | Limited liability company | Technical research and trading in electrical household appliances   | 2,420.17                                   |                  | 100%       | 100%                    | Yes                 |                   |  |
| Kelon International Incorporation ("KII")                                 | Wholly-owned subsidiary | British Virgin Islands | Commercial         | US\$50,000         | Limited liability company | Investment holding and sale of household appliances   | 0.0006                                     |                  | 100%       | 100%                    | Yes                 |                   |  |
| Hisense (Chengdu) Refrigerator Co., Ltd. ("Chengdu Refrigerator")         | Wholly-owned subsidiary | Chengdu                | Industrial         | 5,000.00           | Limited liability company | Manufacture of household appliances and refrigeration equipment, sale of the Company's products, and provision of related after-sale services   | 5,000.00                                   | 100%             |            | 100%                    | Yes                 |                   |  |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS — Continued

Unless otherwise expressly stated, all amounts in the following table are denominated in RMB'0000. — Continued

#### (1) Major subsidiaries — Continued

##### 1. Subsidiaries acquired from establishment or investment — Continued

| Name of subsidiary   | Type of subsidiary      | Place of registration | Nature of Business | Registered capital | Nature of entity          | Scope of business  | Actual investment at the end of the Period | Shareholding (%) |            | % of voting rights held | Consolidated or not | Minority interest | Amount of minority interest used to set off loss attributable to minority interest | Excess of loss of the period attributable to minority share of the subsidiary offset by ownership of the parent company over share of ownership by minority interest in the subsidiary as at the beginning of the year |
|--|-------------------------|-----------------------|--------------------|--------------------|---------------------------|--|--|------------------|------------|-------------------------|---------------------|-------------------|--|--|
|  |                         |                       |                    |                    |                           |  |  | Direct           | Indirectly |                         |                     |                   |  |  |
| Hisense (Shandong) Refrigerator Co., Ltd. ("Shandong Refrigerator")                            | Wholly-owned subsidiary | Qingdao               | Industrial         | 27,500.00          | Limited liability company | Manufacture of energy saving and environmental friendly refrigerators, freezers and other household energy saving cooling appliances; sale of self-manufactured products of the Company; design and development of new products in the area of energy saving and environmental friendly refrigerators, freezers and energy saving cooling appliances | 27,500.00                                  | 100%             |            | 100%                    | Yes                 |                   |  |  |
| Guangdong Hisense Refrigerator Marketing Co., Ltd. ("Refrigerator Marketing Co")               | Subsidiary              | Foshan                | Commercial         | 20,081.90          | Joint stock limited       | Sale and provision of after-sale and technical services of refrigerators, freezers, washing machines, living appliances and other household appliances   | 15,827.60                                  |                  | 78.82%     | 78.82%                  | Yes                 | 166.40            |  |  |
| Qingdao Hisense Air-conditioner Marketing Co., Ltd. ("Air-conditioner Marketing Co")           | Subsidiary              | Qingdao               | Commercial         | 10,091.00          | Joint stock limited       | General items of operation: sales and provision of after-sale and technical services of air-conditioners, air purifiers, dehumidifiers, living appliances, environmental appliances  | 7,626.00                                   |                  | 75.57%     | 75.57%                  | Yes                 | 6,627.88          |  |  |
| Hisense Home Appliance (Europe) Research & Development Center GmbH ("Hisense Europe Research") | Wholly-owned subsidiary | Germany               | R&D center         | EUR50,000.00       | Limited liability company | Research, development and design of refrigerators, air-conditioners, washing machines, small household appliances and other household appliances; provision of technical consultation, services and technical support for household appliances; and sale of design proposals of household appliances products  | 42.12                                      |                  | 100%       | 100%                    | Yes                 |                   |  |  |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### (1) Major subsidiaries — Continued

#### 2. Subsidiaries acquired from business combination involving entities under common control

| Name of subsidiary  | Type of subsidiary      | Registered place | Nature of Business | Registered capital | Entity type               | Scope of business  | Actual investment at the end of the Period | Shareholding (%) |            | % of voting rights held | Consolidated or not | Minority interest | Amount of minority interest used to set off loss attributable to minority interest | Excess of loss of the period attributable to minority share of the subsidiary offset by ownership of the parent company over share of ownership by minority interest in the subsidiary as at the beginning of the year |
|---|-------------------------|------------------|--------------------|--------------------|---------------------------|--|--|------------------|------------|-------------------------|---------------------|-------------------|--|--|
|   |                         |                  |                    |                    |                           |  |  | Direct           | Indirectly |                         |                     |                   |  |  |
| Hisense (Beijing) Electric Co., Ltd. ("Beijing Refrigerator")               | Subsidiary              | Beijing          | Industrial         | 8,571.00           | Limited liability company | Manufacture of refrigerator products and other household appliances; sale of self-produced products; import and export of goods and technologies, and provision of import and export agency services         | 9,210.12                                   | 55%              |            | 55%                     | Yes                 | 7,416.50          |  |  |
| Hisense (Shandong) Air-conditioning Co., Ltd. ("Shandong Air-conditioning") | Wholly-owned subsidiary | Qingdao          | Industrial         | 50,000.00          | Limited liability company | Research and development, manufacture and sale of air-conditioning products and injection moulds, and provision of after-sale maintenance services   | 56,717.55                                  | 100%             |            | 100%                    | Yes                 |                   |  |  |
| Hisense (Zhejiang) Air-conditioning Co., Ltd. ("Zhejiang Air-conditioning") | Subsidiary              | Huzhou           | Industrial         | 11,000.00          | Limited liability company | Production of air-conditioners, manufacture and sale of other household appliances, provision of related technical services, and import and export of goods and technologies                                 | 5,452.36                                   | 51%              |            | 51%                     | Yes                 | 6,080.56          |  |  |
| Qingdao Hisense Mould Co., Ltd. ("Hisense Mould")                           | Subsidiary              | Qingdao          | Industrial         | 2,764.20           | Limited liability company | Design and manufacture of moulds, machine processing, design and manufacture of jigs, plastic injection, painting/brushing and processing etc.   | 12,162.80                                  | 78.70%           |            | 78.70%                  | Yes                 | 5,613.70          |  |  |
| Hisense (Nanjing) Electric Co., Ltd. ("Nanjing Refrigerator")               | Subsidiary              | Nanjing          | Industrial         | 12,869.15          | Limited liability company | Research and development, manufacture and sale of fluorine-free refrigeration products and other household appliances. Import and export of various goods and technologies self-manufactured and distributed | 7,721.49                                   |                  | 60%        | 60%                     | Yes                 | 6,718.60          |  |  |

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

\*2 The Company holds 55% equity interests in Jiangxi Combine. As Jiangxi Combine has declared in liquidation and reorganization, therefore it has not been consolidated in the financial statements.



**NOTES TO THE FINANCIAL STATEMENTS — Continued**

Half year of 2014

**6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS — Continued****(1) Major subsidiaries — Continued****3. Changes in scope of business combination**

Subsidiaries newly consolidated for the period

Unit: RMB

| Name | Net assets as at<br>the end of<br>the period | Net profit<br>for the period |
|------|--|------------------------------|
|------|--|------------------------------|

Nil

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

Unit: RMB

| Major items in the<br>financial statements | Currency | Balances in<br>foreign exchange | Exchange rate | Balances in RMB  |
|--|----------|---------------------------------|---------------|------------------|
| Cash at bank and on<br>hand                | HKD      | 82,146,728.18                   | 0.7938        | 65,208,072.83    |
| Net accounts receivable                    | HKD      | 1,206,117,366.43                | 0.7938        | 957,415,965.47   |
| Other payables                             | HKD      | 717,056,266.09                  | 0.7938        | 569,199,264.02   |
| Revenue from principal<br>operations       | HKD      | 2,907,869,480.29                | 0.7900        | 2,297,216,889.43 |
| General and<br>administrative expenses     | HKD      | 1,262,712.72                    | 0.7900        | 997,543.05       |

Note to the exchange rate:

Within the scope of consolidation, overseas operating entities that are accounted in foreign currency include Pearl River Refrigerator, Kelon Development, KII, Hisense Europe Research and Japan Kelon. On the date of consolidation, the Company has translated the items using spot exchange rate for assets and liabilities on the balance sheet date, whereas items under equity (except unallocated profits) were translated using historic exchange rate, and items under profit and loss were translated using average exchange rate. The difference between assets and liabilities and net assets was reflected in "Difference on translation of foreign currency financial statement" and was stated separately under shareholder's equity in the balance sheet.

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unless otherwise specified, opening balances refer to balances as at 1 January 2014, whereas closing balances refer to balances as at 30 June 2014, and the period refers to January to June 2014, whereas the previous period refers to January to June 2013 in the following notes (including major notes to the financial statements of the Company))

#### 1. Cash at bank and on hand

| Item   | Closing balance  |               |                       | Opening balance  |               |                       |
|--|------------------|---------------|-----------------------|------------------|---------------|-----------------------|
|  | Foreign currency | Exchange rate | RMB                   | Foreign currency | Exchange rate | RMB                   |
| <b>Cash:</b>                                       |                  |               |                       |                  |               |                       |
| RMB  | 9,314.61         | 1             | 9,314.61              | 2,857.60         | 1             | 2,857.60              |
| <b>Subtotal of cash:</b>                           |                  |               | <b>9,314.61</b>       |                  |               | <b>2,857.60</b>       |
| <b>Bank deposits:</b>                              |                  |               |                       |                  |               |                       |
| RMB  | 552,350,663.62   | 1             | 552,350,663.62        | 327,865,899.56   | 1             | 327,865,899.56        |
| HKD  | 12,780,881.99    | 0.7938        | 10,145,464.12         | 10,123,987.34    | 0.7862        | 7,959,782.49          |
| USD  | 27,623,199.32    | 6.1523        | 169,946,209.18        | 20,868,665.66    | 6.0969        | 127,234,162.50        |
| JPY  | 158,328.69       | 0.0608        | 9,626.38              | 96,485.00        | 0.0578        | 5,574.15              |
| EUR  | 890,700.56       | 8.4234        | 7,502,727.08          | 1,176,618.04     | 8.4189        | 9,905,829.81          |
| Others   | 2,210.47         |               | 13,520.13             | 2,210.47         |               | 13,071.43             |
| <b>Subtotal of bank deposits:</b>                  |                  |               | <b>739,968,210.51</b> |                  |               | <b>472,984,319.94</b> |
| <b>Other cash at bank and on hand:</b>             |                  |               |                       |                  |               |                       |
| RMB  |                  |               |                       | 800,000.00       | 1             | 800,000.00            |
| <b>Subtotal of other cash at bank and on hand:</b> |                  |               |                       |                  |               | <b>800,000.00</b>     |
| <b>Total</b>                                       |                  |               | <b>739,977,525.12</b> |                  |               | <b>473,787,177.54</b> |

Particulars of cash at bank and on hand:

Other cash at bank and on hand mainly represented guarantee deposits for letter of credit.

**NOTES TO THE FINANCIAL STATEMENTS — Continued**

Half year of 2014

**7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued****1. Cash at bank and on hand — Continued**

Details of restricted cash are listed as follows:

| <u>Item</u>                             | <u>Closing balance</u> | <u>Opening balance</u> |
|---|------------------------|------------------------|
| Guarantee deposits for letter of credit |                        | 800,000.00             |
| <b>Total</b>                            |                        | <b>800,000.00</b>      |

**2. Financial assets held-for-trading****(1) Classification of financial assets held-for-trading**

| <u>Item</u>                 | <u>Closing balance</u> | <u>Opening balance</u> |
|-----------------------------|------------------------|------------------------|
| Derivative financial assets |                        | 67,115,019.35          |
| <b>Total</b>                |                        | <b>67,115,019.35</b>   |

**(2) Particulars of financial assets held-for-trading**

There was no material restriction for realizing the financial assets held-for-trading as at the end of the period.

Derivative financial assets mainly represented the undue foreign exchange forward contracts entered into by the Company and banks, which was recognized as the financial assets or liabilities based on the difference between the quotation of the undue foreign exchange contracts and the future foreign exchange rate as at 30 June 2014.

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

| <u>Category</u>        | <u>Closing balance</u>  | <u>Opening balance</u>  |
|------------------------|-------------------------|-------------------------|
| Bank acceptance notes  | 2,548,571,593.40        | 2,152,781,319.53        |
| Trade acceptance notes | 49,147,502.06           | 8,020,413.97            |
| <b>Total</b>           | <b>2,597,719,095.46</b> | <b>2,160,801,733.50</b> |

**NOTES TO THE FINANCIAL STATEMENTS — Continued***Half year of 2014***7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued****3. Notes receivable — Continued**

- (2) As at the end of the period, pledged notes receivable amounted to RMB687,358,231.55 (31 December 2013: RMB841,772,597.15), with the particulars of the top five amounts as follows:

| <b>Issuer</b> | <b>Date of issuance</b> | <b>Due date</b>  | <b>Amount</b> |
|---------------|-------------------------|------------------|---------------|
| Top 1         | 30 May 2014             | 27 November 2014 | 45,000,000.00 |
| Top 2         | 30 May 2014             | 28 November 2014 | 34,447,741.00 |
| Top 3         | 3 March 2014            | 3 September 2014 | 31,795,029.22 |
| Top 4         | 3 June 2014             | 3 December 2014  | 30,968,283.00 |
| Top 5         | 1 April 2014            | 1 October 2014   | 27,864,045.50 |

- (3) As at the end of the period, there was no discounted notes receivable.
- (4) As at the end of the period, there were no notes receivable that are reclassified to accounts receivable due to inability of the issuers.
- (5) As at the end of the year, notes endorsed to other parties but not matured amounted to RMB5,916,999,672.24 (31 December 2013: RMB5,114,804,598.86), with the particulars of the top five amounts as follows:

| <b>Issuer</b>  | <b>Date of issuance</b> | <b>Due date</b>  | <b>Amount</b> |
|--|-------------------------|------------------|---------------|
| Beijing Jingdong Century Information Technology Co., Ltd.    | 3 March 2014            | 3 September 2014 | 31,795,029.22 |
| Suning procurement center of Suning Commerce Group Co., Ltd. | 28 April 2014           | 28 October 2014  | 20,000,000.00 |
| Suning procurement center of Suning Commerce Group Co., Ltd. | 29 April 2014           | 29 October 2014  | 19,879,481.06 |
| Suning procurement center of Suning Commerce Group Co., Ltd. | 3 March 2014            | 3 September 2014 | 18,517,739.77 |
| Shanghai Suning Commerce Marketing Co., Ltd.                 | 2 April 2014            | 2 October 2014   | 13,712,295.75 |

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

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 4. Accounts receivable

##### (1) Accounts receivable by category:

| Category   | Closing balance         |               |                         |               |
|--|-------------------------|---------------|-------------------------|---------------|
|  | Carrying amount         |               | Provision for bad debts |               |
|  | Amount                  | Percentage(%) | Amount                  | Percentage(%) |
| Individually significant<br>and subject to separate<br>provision   |                         |               |                         |               |
| Ageing analysis  | 3,929,144,539.07        | 100.00        | 154,687,184.43          | 3.94          |
| <b>Subtotal of the category</b>                                    | <b>3,929,144,539.07</b> | <b>100.00</b> | <b>154,687,184.43</b>   | <b>3.94</b>   |
| Individually insignificant<br>but subject to separate<br>provision |                         |               |                         |               |
| <b>Total</b>   | <b>3,929,144,539.07</b> | <b>100.00</b> | <b>154,687,184.43</b>   | <b>3.94</b>   |

Continued from above table

| Category   | Opening balance         |               |                         |               |
|--|-------------------------|---------------|-------------------------|---------------|
|  | Carrying amount         |               | Provision for bad debts |               |
|  | Amount                  | Percentage(%) | Amount                  | Percentage(%) |
| Individually significant<br>and subject to separate<br>provision   |                         |               |                         |               |
| Aging analysis   | 1,784,069,239.64        | 97.88         | 155,260,459.01          | 8.70          |
| Greencool Companies  | 38,689,983.28           | 2.12          | 22,726,941.64           | 58.74         |
| <b>Subtotal of the category</b>                                    | <b>1,822,759,222.92</b> | <b>100.00</b> | <b>177,987,400.65</b>   | <b>9.76</b>   |
| Individually insignificant<br>but subject to separate<br>provision |                         |               |                         |               |
| <b>Total</b>   | <b>1,822,759,222.92</b> | <b>100.00</b> | <b>177,987,400.65</b>   | <b>9.76</b>   |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 4. Accounts receivable — Continued

##### (1) Accounts receivable by category — Continued

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

| Age  | Closing balance         |                |                            | Opening balance         |                |                            |
|--|-------------------------|----------------|----------------------------|-------------------------|----------------|----------------------------|
|  | Carrying amount         |                | Provision for<br>bad debts | Carrying amount         |                | Provision for<br>bad debts |
|  | Amount                  | Percentage (%) |                            | Amount                  | Percentage (%) |                            |
| Within three months                        | 3,744,047,415.38        | 95.29          | 0.00                       | 1,603,973,518.09        | 88.00          |                            |
| Over three months but<br>within six months | 31,368,925.32           | 0.80           | 3,136,892.53               | 25,252,208.41           | 1.39           | 2,525,220.84               |
| Over six months but within<br>one year     | 4,355,812.94            | 0.11           | 2,177,906.47               | 4,216,549.94            | 0.23           | 2,108,274.97               |
| Over one year                              | 149,372,385.43          | 3.80           | 149,372,385.43             | 150,626,963.20          | 8.26           | 150,626,963.20             |
| <b>Total</b>                               | <b>3,929,144,539.07</b> | <b>100.00</b>  | <b>154,687,184.43</b>      | <b>1,784,069,239.64</b> | <b>97.88</b>   | <b>155,260,459.01</b>      |

Accounts receivable in the category provided bad debts as for Greencool Companies:

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

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 4. Accounts receivable — Continued

##### (2) Movements in provision for accounts receivable

| Year             | Opening balance | Provision<br>for the year | Decrease for the year |               | Closing balance |
|------------------|-----------------|---------------------------|-----------------------|---------------|-----------------|
|                  |                 |                           | Reversal              | Write-off     |                 |
| Reporting period | 177,987,400.65  | 681,303.19                |                       | 23,981,519.41 | 154,687,184.43  |

##### (3) Accounts receivable written off

| Company           | Nature of<br>accounts receivable | Amount<br>written off | Reason for write off                       | Arising from<br>related party<br>transactions<br>or not |
|-------------------|----------------------------------|-----------------------|--|---|
| Unrelated parties | Loans                            | 39,944,561.05         | Not recoverable due<br>to long outstanding | No  |
| Total             |                                  | 39,944,561.05         | —  | —   |

Including: Write-off of balances with the Greencool Companies of RMB 38,689,983.28.

(4) *As at 30 June 2014, there was no accounts receivable from shareholder who holds 5% or more (including 5%) shares of the voting rights of the Company. As at 31 December 2013, there was no accounts receivable from shareholder who holds 5% or more (including 5%) shares of the voting rights of the Company.*

##### (5) Top five accounts receivable

End of the period

| No.   | Relationship with<br>the Company | Amount           | Ageing              | Percentage of the<br>total accounts<br>receivable amount<br>(%) |
|-------|----------------------------------|------------------|---------------------|---|
| Top 1 | Unrelated party                  | 342,704,560.11   | Within three months | 8.72  |
| Top 2 | Unrelated party                  | 274,806,972.74   | Within three months | 6.99  |
| Top 3 | Unrelated party                  | 178,536,758.00   | Within three months | 4.54  |
| Top 4 | Related party                    | 133,426,166.45   | Within three months | 3.40  |
| Top 5 | Related party                    | 123,927,168.71   | Within three months | 3.15  |
| Total | —                                | 1,053,401,626.01 | —                   | 26.80   |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 4. Accounts receivable — Continued

##### (5) Top five accounts receivable — Continued

2013

| No.   | Relationship with the Company | Amount         | Ageing              | Percentage of the total accounts receivable amount (%) |
|-------|-------------------------------|----------------|---------------------|--|
| Top 1 | Unrelated party               | 226,200,443.94 | Within three months | 12.41  |
| Top 2 | Unrelated party               | 161,597,029.09 | Within three months | 8.87   |
| Top 3 | Related party                 | 76,054,069.12  | Within three months | 4.17   |
| Top 4 | Unrelated party               | 72,490,706.42  | Within three months | 3.98   |
| Top 5 | Unrelated party               | 71,510,134.24  | Within three months | 3.92   |
| Total | —                             | 607,852,382.81 | —                   | 33.35  |

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

(7) As at the end of the period, accounts receivable amounted to RMB557,171,822.14 were used for factoring and securing borrowings amounted to RMB501,736,882.06.

(8) The Group offers a credit term of 60 days to its customers in general. For certain sizeable customers with good reputation, the Group offers a credit term of not more than one year. In general, sales are settled in cash upon delivery for new customers of smaller size. Receivables are not interest-bearing.

#### 5. Prepayments

##### (1) Prepayments by ageing

| Age                | Closing balance |               | Opening balance |               |
|--------------------|-----------------|---------------|-----------------|---------------|
|                    | Amount          | Percentage(%) | Amount          | Percentage(%) |
| Within one year    | 407,452,190.33  | 99.56         | 349,160,071.55  | 98.94         |
| One to two years   | 1,814,727.23    | 0.44          | 3,278,286.47    | 0.93          |
| Two to three years |                 | 0             |                 |               |
| Over three years   |                 | 0             | 465,213.00      | 0.13          |
| Total              | 409,266,917.56  | 100.00        | 352,903,571.02  | 100.00        |



**NOTES TO THE FINANCIAL STATEMENTS — Continued***Half year of 2014***7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued****5. Prepayments — Continued****(2) Top five prepayments***End of the period*

| <b>No.</b>   | <b>Relationship with the Company</b> | <b>Amount</b>         | <b>Ageing</b>   | <b>Reason of unsettlement</b> |
|--------------|--------------------------------------|-----------------------|-----------------|-------------------------------|
| Top 1        | Unrelated party                      | 69,140,983.80         | Within one year | Normal settlement             |
| Top 2        | Unrelated party                      | 52,196,159.67         | Within one year | Normal settlement             |
| Top 3        | Unrelated party                      | 33,270,000.00         | Within one year | Normal settlement             |
| Top 4        | Unrelated party                      | 21,996,696.45         | Within one year | Normal settlement             |
| Top 5        | Unrelated party                      | 10,823,370.00         | Within one year | Normal settlement             |
| <b>Total</b> |                                      | <b>187,427,209.92</b> | <b>—</b>        |                               |

*2013*

| <b>No.</b>   | <b>Relationship with the Company</b> | <b>Amount</b>         | <b>Ageing</b>   | <b>Reason of unsettlement</b> |
|--------------|--------------------------------------|-----------------------|-----------------|-------------------------------|
| Top 1        | Unrelated party                      | 85,473,966.79         | Within one year | Normal settlement             |
| Top 2        | Unrelated party                      | 32,924,778.53         | Within one year | Normal settlement             |
| Top 3        | Unrelated party                      | 27,576,903.99         | Within one year | Normal settlement             |
| Top 4        | Unrelated party                      | 14,124,501.28         | Within one year | Normal settlement             |
| Top 5        | Unrelated party                      | 10,916,740.00         | Within one year | Normal settlement             |
| <b>Total</b> |                                      | <b>171,016,890.59</b> | <b>—</b>        |                               |

- (3)** *As at 30 June 2014, there was no prepayments due from shareholder who holds 5% or more (including 5%) shares of the voting rights of the Company. As at 31 December 2013, there was no prepayments due from shareholder who holds 5% or more (including 5%) shares of the voting rights of the Company.*

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 6. Other receivables

##### (1) Other receivables by category:

| Category   | Closing balance       |               |                         |               |
|--|-----------------------|---------------|-------------------------|---------------|
|  | Carrying amount       |               | Provision for bad debts |               |
|  | Amount                | Percentage(%) | Amount                  | Percentage(%) |
| Individually significant<br>and subject to separate<br>provision   |                       |               |                         |               |
| Ageing analysis  | 461,380,696.75        | 55.54         | 34,131,160.36           | 7.4           |
| Greencool Companies  | 369,278,769.88        | 44.46         | 149,868,131.16          | 40.58         |
| <b>Subtotal of the category</b>                                    | <b>830,659,466.63</b> | <b>100.00</b> | <b>183,999,291.52</b>   | <b>22.15</b>  |
| Individually insignificant<br>but subject to separate<br>provision |                       |               |                         |               |
| <b>Total</b>   | <b>830,659,466.63</b> | <b>100.00</b> | <b>183,999,291.52</b>   | <b>22.15</b>  |

Continued from above table

| Category   | Opening balance       |               |                         |               |
|--|-----------------------|---------------|-------------------------|---------------|
|  | Carrying amount       |               | Provision for bad debts |               |
|  | Amount                | Percentage(%) | Amount                  | Percentage(%) |
| Individually significant<br>and subject to separate<br>provision   |                       |               |                         |               |
| Ageing analysis  | 357,928,069.35        | 48.18         | 38,570,595.67           | 10.78         |
| Greencool Companies  | 385,033,369.88        | 51.82         | 158,053,346.90          | 41.05         |
| <b>Subtotal of the category</b>                                    | <b>742,961,439.23</b> | <b>100.00</b> | <b>196,623,942.57</b>   | <b>26.46</b>  |
| Individually insignificant<br>but subject to separate<br>provision |                       |               |                         |               |
| <b>Total</b>   | <b>742,961,439.23</b> | <b>100.00</b> | <b>196,623,942.57</b>   | <b>26.46</b>  |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 6. Other receivables — Continued

##### (1) Other receivables by category: — Continued

Other receivables in the category provided bad debts by using ageing analysis:

| Age                                     | Closing balance       |                |                         | Opening balance       |                |                         |
|---|-----------------------|----------------|-------------------------|-----------------------|----------------|-------------------------|
|   | Carrying amount       |                | Provision for bad debts | Carrying amount       |                | Provision for bad debts |
|   | Amount                | Percentage (%) |                         | Amount                | Percentage (%) |                         |
| Within three months                     | 418,160,128.96        | 50.34          | 0.00                    | 317,731,755.84        | 42.77          |                         |
| Over three months but within six months | 6,264,266.11          | 0.75           | 626,426.61              | 994,388.25            | 0.13           | 99,438.82               |
| Over six months but within one year     | 6,903,135.86          | 0.83           | 3,451,567.93            | 1,461,536.83          | 0.20           | 730,768.42              |
| Over one year                           | 30,053,165.82         | 3.62           | 30,053,165.82           | 37,740,388.43         | 5.08           | 37,740,388.43           |
| <b>Total</b>                            | <b>461,380,696.75</b> | <b>55.54</b>   | <b>34,131,160.36</b>    | <b>357,928,069.35</b> | <b>48.18</b>   | <b>38,570,595.67</b>    |

Other receivables in the category provided bad debts as for Greencool Companies:

| Company name  | Closing balance       |                         | Opening balance       |                         |
|---|-----------------------|-------------------------|-----------------------|-------------------------|
|   | Amount                | Provision for bad debts | Amount                | Provision for bad debts |
| Guangdong Greencool   |                       |                         | 13,754,600.00         | 6,185,215.74            |
| Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool")        | 12,289,357.71         | 12,289,357.71           | 12,289,357.71         | 12,289,357.71           |
| Jiangxi Kesheng Trading Co., Ltd. ("Jiangxi Kesheng")                                       | 27,462,676.72         | 20,306,709.12           | 27,462,676.72         | 20,306,709.12           |
| Jinan San Ai Fu Chemical Co., Ltd. ("Jinan San Ai Fu")                                      | 121,496,535.45        | 24,795,942.45           | 121,496,535.45        | 24,795,942.45           |
| Greencool Technology Development (Shenzhen) Co., Ltd. ("Shenzhen Greencool Technology")     | 32,000,000.00         | 15,973,475.39           | 32,000,000.00         | 15,973,475.39           |
| Greencool Environmental Engineering Shenzhen Co., Ltd. ("Shenzhen Greencool Environmental") | 33,000,000.00         | 16,472,646.49           | 33,000,000.00         | 16,472,646.49           |
| Jiangxi Keda Plastic Technology Co., Ltd. ("Jiangxi Keda")                                  | 13,000,200.00         |                         | 13,000,200.00         |                         |
| Zhuhai Longjia Refrigerating Plant Co., Ltd. ("Zhuhai Longjia")                             | 28,600,000.00         |                         | 28,600,000.00         |                         |
| Zhuhai Defa Air-conditioner Fittings Co., Ltd. ("Zhuhai Defa")                              | 21,400,000.00         |                         | 21,400,000.00         |                         |
| Wuhan Changrong Electrical Appliance Co., Ltd. ("Wuhan Changrong")                          | 20,000,000.00         |                         | 20,000,000.00         |                         |
| Beijing Deheng Solicitors ("Deheng Solicitors")   | 2,000,000.00          | 2,000,000.00            | 4,000,000.00          | 4,000,000.00            |
| Shangqiu Bingxiong Freezing Facilities Co., Ltd. ("Shangqiu Bingxiong")                     | 58,030,000.00         | 58,030,000.00           | 58,030,000.00         | 58,030,000.00           |
| <b>Total</b>  | <b>369,278,769.88</b> | <b>149,868,131.16</b>   | <b>385,033,369.88</b> | <b>158,053,346.90</b>   |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 6. Other receivables — Continued

##### (2) Movements in provision for other receivables

| Year             | Opening balance | Provision<br>for the year | Decrease for the year |               | Ending balance |
|------------------|-----------------|---------------------------|-----------------------|---------------|----------------|
|                  |                 |                           | Reversal              | Write-off     |                |
| Reporting period | 196,623,942.57  | 41,735.21                 | 603,809.63            | 12,062,576.63 | 183,999,291.52 |

##### (3) Other receivables that are written off

| Company         | Nature of<br>receivable | Amount<br>written off | Reason for<br>write off                       | Arising<br>from related<br>transactions<br>or not |
|-----------------|-------------------------|-----------------------|---|---|
| Unrelated party | Debt                    | 20,209,975.57         | Not recoverable<br>due to long<br>outstanding | No  |
| Total           |                         | 20,209,975.57         | —   | —   |

Including: Write-off of balances with the Greencool Companies of RMB 15,754,600.00, write-off of balances with Shunde Yunlong Consultancy of RMB4,455,375.57.

##### (4) As at 30 June 2014, there was no other receivables from shareholder that holds 5% or more (including 5%) shares of the voting rights of the Company. As at 31 December 2013, there was no other receivable from shareholder that holds 5% or more (including 5%) shares of the voting rights of the Company.

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 6. Other receivables — Continued

##### (5) Top five other receivables

End of the period

| No           | Relationship<br>with the<br>Company | Amount                | Ageing           | Percentage of<br>the total other<br>receivables<br>amount (%) |
|--------------|-------------------------------------|-----------------------|------------------|---|
| Top 1        | "Specific third party"              | 121,496,535.45        | Over three years | 14.63   |
| Top 2        | "Specific third party"              | 58,030,000.00         | Over three years | 6.99  |
| Top 3        | "Specific third party"              | 33,000,000.00         | Over three years | 3.97  |
| Top 4        | "Specific third party"              | 32,000,000.00         | Over three years | 3.85  |
| Top 5        | "Specific third party"              | 28,600,000.00         | Over three years | 3.44  |
| <b>Total</b> |                                     | <b>273,126,535.45</b> | <b>—</b>         | <b>32.88</b>  |

2013

| No.          | Relationship<br>with the<br>Company | Amount                | Ageing           | Percentage of<br>the total other<br>receivables<br>amount (%) |
|--------------|-------------------------------------|-----------------------|------------------|---|
| Top 1        | "Specific third party"              | 121,496,535.45        | Over three years | 16.35   |
| Top 2        | "Specific third party"              | 58,030,000.00         | Over three years | 7.81  |
| Top 3        | "Specific third party"              | 33,000,000.00         | Over three years | 4.44  |
| Top 4        | "Specific third party"              | 32,000,000.00         | Over three years | 4.31  |
| Top 5        | "Specific third party"              | 28,600,000.00         | Over three years | 3.85  |
| <b>Total</b> |                                     | <b>273,126,535.45</b> | <b>—</b>         | <b>36.76</b>  |

The term "specific third party" is the abbreviation of the Greencool Companies controlled by the former beneficiary controller through the above companies, with whom the Company had a series of unusual cash flows.

(6) Please see note 8 for details of other receivables from related parties as at the end of the period.

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 7. Inventories

##### (1) Classification of inventories

| Item              | Closing balance         |                                 |                         |
|-------------------|-------------------------|---------------------------------|-------------------------|
|                   | Carrying amount         | Provision for declines in value | Carrying value          |
| Raw materials     | 403,805,302.98          | 30,657,769.71                   | 373,147,533.27          |
| Works in progress | 185,968,816.45          | 8,635,165.22                    | 177,333,651.23          |
| Finished goods    | 2,334,736,759.62        | 54,922,712.60                   | 2,279,814,047.02        |
| <b>Total</b>      | <b>2,924,510,879.05</b> | <b>94,215,647.53</b>            | <b>2,830,295,231.52</b> |

Continued from above table

| Item              | Closing balance         |                                 |                         |
|-------------------|-------------------------|---------------------------------|-------------------------|
|                   | Carrying amount         | Provision for declines in value | Carrying value          |
| Raw materials     | 359,953,481.94          | 32,058,972.28                   | 327,894,509.66          |
| Works in progress | 168,849,486.65          | 8,635,165.22                    | 160,214,321.43          |
| Finished goods    | 2,079,655,460.82        | 71,404,437.45                   | 2,008,251,023.37        |
| <b>Total</b>      | <b>2,608,458,429.41</b> | <b>112,098,574.95</b>           | <b>2,496,359,854.46</b> |

##### (2) Provision for declines in value of inventories

| Inventory Category | Opening balance       | Current period addition | Decrease for the period |                      | Ending balance       |
|--------------------|-----------------------|-------------------------|-------------------------|----------------------|----------------------|
|                    |                       |                         | Reversal                | Write-off            |                      |
| Raw materials      | 32,058,972.28         | 0.00                    | 0.00                    | 1,401,202.57         | 30,657,769.71        |
| Work in progress   | 8,635,165.22          | 0.00                    |                         |                      | 8,635,165.22         |
| Finished goods     | 71,404,437.45         | 6,937,253.25            | 0.00                    | 23,418,978.10        | 54,922,712.60        |
| <b>Total</b>       | <b>112,098,574.95</b> | <b>6,937,253.25</b>     | <b>0.00</b>             | <b>24,820,180.67</b> | <b>94,215,647.53</b> |

#### 8. Other current assets

| Item         | Closing balance     | Opening balance     |
|--------------|---------------------|---------------------|
| Others       | 8,324,256.32        | 5,306,649.45        |
| <b>Total</b> | <b>8,324,256.32</b> | <b>5,306,649.45</b> |

Particulars of other current assets: other current assets mainly represented prepaid rent and others.

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 9. Investments in jointly controlled entities and associates

##### (1) Investments in jointly controlled entities

Unit: RMB'0000

| Name of investee   | Entity type     | Registered place | Legal representative | Business nature | Registered capital | % of shareholding | % of voting rights | Total assets at end of the period | Total liabilities at end of the period | Total net assets at end of the period | Total operating revenue for the period | Net profit for the period |
|--|-----------------|------------------|----------------------|-----------------|--------------------|-------------------|--------------------|-----------------------------------|--|---------------------------------------|--|---------------------------|
| Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd. ("Hisense Whirlpool") | Limited company | Zhejiang         | BORRA BARBARA        | Industrial      | 45,000.00          | 50.00             | 50.00              | 72,589.34                         | 34,032.54                              | 38,556.80                             | 50,059.21                              | (3,752.26)                |
| Hisense Hitachi  | Limited company | Shandong         | Qing Shan Gong       | Industrial      | US\$46 million     | 49.00             | 49.00              | 261,914.53                        | 111,137.19                             | 150,777.34                            | 187,206.94                             | 32,038.90                 |

##### (2) Investments in associates

Unit: RMB'0000

| Name of investee   | Entity type         | Registered place | Legal representative | Business nature | Registered capital | % of shareholding | % of voting rights | Total assets at end of the period | Total liabilities at end of the period | Total net assets at end of the period | Total operating revenue for the period | Net profit for the period |
|--|---------------------|------------------|----------------------|-----------------|--------------------|-------------------|--------------------|-----------------------------------|--|---------------------------------------|--|---------------------------|
| Huayi Compressor Holdings Co., Ltd. ("Huayi Compressor") | Joint stock company | Jiangxi          | Liu Ti Bin           | Industrial      | 55,962.40          | 3.74              | 3.74               | 688,561.58                        | 423,409.64                             | 265,151.94                            | 415,407.95                             | 20,408.75                 |
| Attend Logistics Co., Ltd. ("Attend")                    | Limited company     | Guangzhou        | Ye Wei Long          | Logistics       | 1,000.00           | 20.00             | 20.00              | 2,020.88                          | 426.38                                 | 1,594.50                              | 883.31                                 | 9.89                      |

Particulars of investments in jointly controlled entities and associates:

- There was no significant difference between the significant accounting policies and accounting estimates of the jointly controlled entities and associates and the significant accounting policies and accounting estimations of the Company.
- Evidence for joint control in jointly controlled entities: as required in the articles of associations of the joint venture, the production and operation of the enterprise shall be under joint management by the parties.
- The Company has assigned representatives in the board of directors of Huayi Compressor to participate in its decision making processes and has major transactions with Huayi Compressor. Accordingly, the Board of the Company is of the opinion that the Company has significant influence over Huayi Compressor and continued to recognize Huayi Compressor as an associate.

#### 10. Long-term equity investment

| Investee  | Accounting treatment | Investment cost       | Opening balance         | Increase for the period | Decrease for the period | Closing balance         | % Equity interest held | % Voting rights held | Provision for impairment | Impairment provided in the period | Cash dividend        |
|---|----------------------|-----------------------|-------------------------|-------------------------|-------------------------|-------------------------|------------------------|----------------------|--------------------------|-----------------------------------|----------------------|
| 1. Investment in jointly controlled entities  |                      |                       |                         |                         |                         |                         |                        |                      |                          |                                   |                      |
| Hisense Whirlpool   | Equity method        | 225,000,000.00        | 211,116,482.31          |                         | 18,349,602.26           | 192,766,880.05          | 50                     | 50                   |                          |                                   |                      |
| Hisense Hitachi   | Equity method        | 332,821,597.45        | 703,551,272.91          | 154,659,214.59          | 88,200,000.00           | 770,010,487.50          | 49                     | 49                   |                          |                                   | 88,200,000.00        |
| 2. Investment in associates   |                      |                       |                         |                         |                         |                         |                        |                      |                          |                                   |                      |
| Huayi Compressor  | Equity method        | 24,171,468.64         | 75,663,702.46           | 5,259,786.88            | 632,308.81              | 80,291,180.53           | 3.74                   | 3.74                 |                          |                                   | 627,855.18           |
| Attend  | Equity method        | 2,000,000.00          | 3,169,216.09            | 19,780.37               |                         | 3,188,996.46            | 20                     | 20                   |                          |                                   |                      |
| 3. Other long-term equity investment  |                      |                       |                         |                         |                         |                         |                        |                      |                          |                                   |                      |
| Combine <sup>*1</sup>   | Cost method          | 11,000,000.00         | 11,000,000.00           |                         |                         | 11,000,000.00           | 55                     | 55                   | 11,000,000.00            |                                   |                      |
| Xinjiang Hisense Kelon Electrical Sales Co., Ltd. ("Xinjiang Kelon")                  | Cost method          | 100,000.00            | 100,000.00              |                         |                         | 100,000.00              | 2                      | 2                    |                          |                                   |                      |
| Fujian Kelon Air-condition Sales Co., Ltd. ("Fujian Kelon")                           | Cost method          | 100,000.00            | 100,000.00              |                         |                         | 100,000.00              | 2                      | 2                    |                          |                                   |                      |
| Qingdao Hisense International Marketing Co., Ltd. ("Hisense International Marketing") | Cost method          | 3,800,000.00          | 3,800,000.00            |                         |                         | 3,800,000.00            | 12.67                  | 12.67                |                          |                                   | 9,500,000.00         |
| <b>Total:</b>   |                      | <b>598,993,066.09</b> | <b>1,008,500,673.77</b> | <b>159,938,781.84</b>   | <b>107,181,911.07</b>   | <b>1,061,257,544.54</b> |                        |                      | <b>11,000,000.00</b>     |                                   | <b>98,327,855.18</b> |

<sup>\*1</sup> As Jiangxi Combine, a subsidiary of the Company, has declared in liquidation and reorganization, it has not been consolidated in the financial statements and the investment cost in it has been fully impaired.

<sup>\*</sup> Apart from Huayi Compressor, associates and joint ventures of the Company are unlisted companies.

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 11. Investment properties

##### (1) Investment properties by cost-method

| Item  | Opening<br>balance   | Additions<br>in the period | Reductions<br>in the period | Closing<br>balance   |
|---|----------------------|----------------------------|-----------------------------|----------------------|
| <b>1. Total cost</b>                                      | <b>68,676,129.02</b> |                            |                             | <b>68,676,129.02</b> |
| 1. Buildings  | 68,676,129.02        |                            |                             | 68,676,129.02        |
| <b>2. Total accumulated depreciation and amortization</b> | <b>34,729,821.27</b> | <b>1,250,146.67</b>        |                             | <b>35,979,967.94</b> |
| 1. Buildings  | 34,729,821.27        | 1,250,146.67               |                             | 35,979,967.94        |
| <b>3. Total net book value</b>                            | <b>33,946,307.75</b> |                            |                             | <b>32,696,161.08</b> |
| 1. Buildings  | 33,946,307.75        |                            |                             | 32,696,161.08        |
| <b>4. Total accumulated provision for impairment</b>      |                      |                            |                             |                      |
| 1. Buildings  |                      |                            |                             |                      |
| <b>5. Total carrying amount</b>                           | <b>33,946,307.75</b> |                            |                             | <b>32,696,161.08</b> |
| 1. Buildings  | 33,946,307.75        |                            |                             | 32,696,161.08        |

##### (2) Particulars of investment properties

- ① The depreciation expense charged for the period was RMB1,250,146.67, and the depreciation expense charged for last year was RMB1,250,147.67.
- ② As at 30 June 2014, no investment properties were pledged.
- ③ As at 30 June 2014, investment properties with cost of RMB13,794,500.00, accumulated depreciation of RMB7,647,100.00 and net carrying amount of RMB6,147,400.00 have not obtained ownership certificate.
- ④ As at 30 June 2014, the Company has not identified any investment properties with the recoverable amount lower than its carrying amount and therefore has not made any provision for impairment.
- ⑤ Amongst the investment properties, all buildings were located in the Mainland China with useful lives between 20 to 50 years.



## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 12. Fixed assets

##### (1) Particulars of fixed assets

| Item  | Opening balance         | Additions<br>in the period | Reductions<br>in the period | Closing balance         |
|---|-------------------------|----------------------------|-----------------------------|-------------------------|
| <b>1. Total cost:</b>                           | <b>5,438,124,216.61</b> | <b>501,066,302.25</b>      | <b>54,947,841.12</b>        | <b>5,884,242,677.74</b> |
| Including: Buildings                            | 1,860,423,056.05        | 123,750,620.44             | 35,137.00                   | 1,984,138,539.49        |
| Machinery and equipment                         | 2,428,026,783.84        | 216,412,044.06             | 42,803,689.07               | 2,601,635,138.83        |
| Furniture, fixtures and<br>office equipment     | 335,869,529.75          | 9,955,237.04               | 6,513,073.20                | 339,311,693.59          |
| Motor vehicles                                  | 24,666,476.13           | 2,280,564.71               | 550,070.93                  | 26,396,969.91           |
| Moulds  | 789,138,370.84          | 148,667,836.00             | 5,045,870.92                | 932,760,335.92          |
| <b>2. Total accumulated depreciation:</b>       | <b>2,951,339,220.44</b> | <b>211,952,179.10</b>      | <b>49,061,341.38</b>        | <b>3,114,230,058.16</b> |
| Including: Buildings                            | 794,197,087.83          | 37,952,121.69              | 10,849.71                   | 832,138,359.81          |
| Machinery and equipment                         | 1,404,726,603.11        | 82,801,119.77              | 38,153,875.92               | 1,449,373,846.96        |
| Furniture, fixtures and<br>office equipment     | 230,760,617.71          | 8,748,066.42               | 6,041,651.27                | 233,467,032.86          |
| Motor vehicles                                  | 13,094,063.27           | 1,475,079.63               | 395,313.04                  | 14,173,829.86           |
| Moulds  | 508,560,848.52          | 80,975,791.59              | 4,459,651.44                | 585,076,988.67          |
| <b>3. Total net amount of fixed assets</b>      | <b>2,486,784,996.17</b> |                            |                             | <b>2,770,012,619.58</b> |
| Including: Buildings                            | 1,066,225,968.22        |                            |                             | 1,152,000,179.68        |
| Machinery and equipment                         | 1,023,300,180.73        |                            |                             | 1,152,261,291.87        |
| Furniture, fixtures and<br>office equipment     | 105,108,912.04          |                            |                             | 105,844,660.73          |
| Motor vehicles                                  | 11,572,412.86           |                            |                             | 12,223,140.05           |
| Moulds  | 280,577,522.32          |                            |                             | 347,683,347.25          |
| <b>4. Total provision for impairment</b>        | <b>118,284,303.44</b>   |                            | <b>2,234,494.89</b>         | <b>116,049,808.55</b>   |
| Including: Buildings                            | 34,115,252.48           |                            |                             | 34,115,252.48           |
| Machinery and equipment                         | 76,756,452.43           |                            | 2,195,381.95                | 74,561,070.48           |
| Furniture, fixtures and<br>office equipment     | 1,324,472.60            |                            | 39,112.94                   | 1,285,359.66            |
| Motor vehicles                                  | 431,332.41              |                            |                             | 431,332.41              |
| Moulds  | 5,656,793.52            |                            |                             | 5,656,793.52            |
| <b>5. Total carrying amount of fixed assets</b> | <b>2,368,500,692.73</b> |                            |                             | <b>2,653,962,811.03</b> |
| Including: Buildings                            | 1,032,110,715.74        |                            |                             | 1,117,884,927.20        |
| Machinery and equipment                         | 946,543,728.30          |                            |                             | 1,077,700,221.39        |
| Furniture, fixtures and<br>office equipment     | 103,784,439.44          |                            |                             | 104,559,301.07          |
| Motor vehicles                                  | 11,141,080.45           |                            |                             | 11,791,807.64           |
| Moulds  | 274,920,728.80          |                            |                             | 342,026,553.73          |

For the Reporting Period, the fixed asset transferred from construction in progress amounted to RMB236,953,132.02 (Corresponding period last year: RMB110,007,717.51).

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 12. Fixed assets — Continued

- (2) Depreciation expenses for the Reporting period amounted to RMB211,952,179.10, and RMB165,996,348.69 for the corresponding period last year.
- (3) As at the end of the period, no fixed asset was idle transitorily.
- (4) As at the end of the period, no fixed asset was held under finance lease.
- (5) As at the end of the period, no fixed asset was rented out under operating lease.
- (6) As at the end of the period, no fixed asset was held for sale.
- (7) As at the end of the period, no fixed asset has not obtained the ownership certificate.
- (8) As at the end of the period, no buildings were pledged.

#### 13. Constructions in progress

##### (1) Summary of constructions in progress

| Item                      | Closing balance       |                          |                       | Opening balance       |                          |                       |
|---------------------------|-----------------------|--------------------------|-----------------------|-----------------------|--------------------------|-----------------------|
|                           | Carrying amount       | Provision for Impairment | Net carrying amount   | Carrying amount       | Provision for Impairment | Net carrying amount   |
| Yangzhou Refrigerator     | 8,694,027.17          |                          | 8,694,027.17          | 19,653,771.49         |                          | 19,653,771.49         |
| Chengdu Refrigerator      | 2,944,048.51          |                          | 2,944,048.51          | 5,307,537.85          |                          | 5,307,537.85          |
| Guangdong Air-conditioner | 5,048,814.32          |                          | 5,048,814.32          | 31,233,845.46         |                          | 31,233,845.46         |
| Shandong Air-conditioner  | 15,971,290.53         |                          | 15,971,290.53         | 11,450,092.24         |                          | 11,450,092.24         |
| Shandong Refrigerator     | 168,309,847.47        |                          | 168,309,847.47        | 147,536,731.20        |                          | 147,536,731.20        |
| Others                    | 64,458,564.46         | 11,325,835.67            | 53,132,728.79         | 50,121,415.61         | 11,325,835.67            | 38,795,579.94         |
| <b>Total</b>              | <b>265,426,592.46</b> | <b>11,325,835.67</b>     | <b>254,100,756.79</b> | <b>265,303,393.85</b> | <b>11,325,835.67</b>     | <b>253,977,558.18</b> |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 13. Constructions in progress — Continued

##### (2) Movements in significant construction in progress

| Name of project   | Budget                | Opening balance       | Additions in the period | Transferred to fixed assets | Other reductions | % contribution in budget | Progress        | Source of fund | Closing balance       |
|---|-----------------------|-----------------------|-------------------------|-----------------------------|------------------|--------------------------|-----------------|----------------|-----------------------|
| Six position blister package machine of Yangzhou Refrigerator                 | 10,026,853.64         | 10,026,853.64         | 136,293.38              | 10,163,147.02               |                  |                          | Completed       | Self-funding   |                       |
| Heating and ventilating system reconstruction of Shandong Air-conditioning    | 3,026,000.00          | 3,026,000.00          |                         |                             |                  |                          | To be completed | Self-funding   | 3,026,000.00          |
| Power matching works for electronics factory of Shandong Air-conditioning     | 2,482,500.00          | 2,482,500.00          |                         |                             |                  |                          | To be completed | Self-funding   | 2,482,500.00          |
| Automatic ferrule within the drum of washing machine of Shandong Refrigerator | 15,332,250.00         | 15,332,250.00         |                         | 15,254,558.49               |                  |                          | To be completed | Self-funding   | 77,691.51             |
| Asano molding machine of Shandong Refrigerator                                | 5,520,177.07          | 5,520,177.07          |                         | 5,520,177.07                |                  |                          | Completed       | Self-funding   |                       |
| Phase 2 dry foaming machine of Shandong Refrigerator                          | 5,810,000.00          | 5,810,000.00          |                         | 5,810,000.00                |                  |                          | Completed       | Self-funding   |                       |
| Power cable of Shandong Refrigerator  | 8,198,477.08          | 8,198,477.08          |                         | 8,198,477.08                |                  |                          | Completed       | Self-funding   |                       |
| Production line of Shandong Refrigerator                                      | 4,846,154.00          | 4,846,154.00          |                         | 4,846,154.00                |                  |                          | Completed       | Self-funding   |                       |
| Punch press of Guangdong Air-conditioning (4 sets)                            | 7,369,800.00          | 7,369,800.00          |                         | 7,369,800.00                |                  |                          | Completed       | Self-funding   |                       |
| OAK punch presses of Guangdong Air-conditioning (2 units)                     | 9,208,988.09          | 9,208,988.09          | 2,773,716.62            | 11,982,704.71               |                  |                          | Completed       | Self-funding   |                       |
| Molding machine for large refrigerators of Shandong Refrigerator              | 20,000,000.00         |                       | 12,593,157.20           |                             |                  |                          | To be completed | Self-funding   | 12,593,157.20         |
| Spray painting line and natural gas pipeline works of Rongsheng Plastic       | 3,647,228.00          | 3,647,228.00          |                         |                             |                  |                          | To be scrapped  | Self-funding   | 3,647,228.00          |
| Production line of Shangqiu Kelon   | 7,770,917.67          | 7,770,917.67          |                         |                             |                  |                          | To be scrapped  | Self-funding   | 7,770,917.67          |
| Other   | 182,064,048.30        | 182,064,048.30        | 221,573,163.43          | 167,808,113.65              |                  |                          |                 |                | 235,829,098.08        |
| <b>Total</b>  | <b>285,303,393.85</b> | <b>265,303,393.85</b> | <b>237,076,330.63</b>   | <b>236,953,132.02</b>       | <b>—</b>         |                          |                 |                | <b>265,426,592.46</b> |

Particulars of movements in constructions in progress:

- ① During the period, movements in constructions in progress mainly represented increase and decrease in the production lines of the Company's subsidiaries.
- ② During the period, there was no capitalization of interests for constructions in progress.

##### (3) Provision for impairment of constructions in progress

| Item  | Opening balance      | Additions in the period | Reductions in the period | Closing balance      | Reasons for provision |
|---|----------------------|-------------------------|--------------------------|----------------------|-----------------------|
| Spray painting line and natural gas pipeline works of Rongsheng Plastic | 3,554,918.00         |                         |                          | 3,554,918.00         |                       |
| Production line of Shangqiu Kelon                                       | 7,770,917.67         |                         |                          | 7,770,917.67         |                       |
| <b>Total</b>  | <b>11,325,835.67</b> |                         |                          | <b>11,325,835.67</b> |                       |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 14. Intangible assets

##### (1) Particulars of intangible assets

| Item   | Opening<br>balance      | Additions<br>in the period | Reductions<br>in the period | Closing<br>balance      |
|--|-------------------------|----------------------------|-----------------------------|-------------------------|
| <b>1. Total cost</b>                                 | <b>1,285,119,274.77</b> | <b>49,143,599.70</b>       |                             | <b>1,334,262,874.47</b> |
| (1) Land use rights                                  | 651,206,874.83          | 43,785,636.81              |                             | 694,992,511.64          |
| (2) Trademarks                                       | 524,409,198.95          |                            |                             | 524,409,198.95          |
| (3) Know-how   | 69,633,122.63           | 1,086,567.44               | —                           | 70,719,690.07           |
| (4) Others   | 39,870,078.36           | 4,271,395.45               |                             | 44,141,473.81           |
| <b>2. Total accumulated amortization</b>             | <b>426,743,050.16</b>   | <b>10,983,180.94</b>       |                             | <b>437,726,231.10</b>   |
| (1) Land use rights                                  | 207,820,270.48          | 6,701,948.77               |                             | 214,522,219.25          |
| (2) Trademarks                                       | 134,130,255.55          |                            |                             | 134,130,255.55          |
| (3) Know-how   | 50,338,876.37           | 3,043,958.27               |                             | 53,382,834.64           |
| (4) Others   | 34,453,647.76           | 1,237,273.90               |                             | 35,690,921.66           |
| <b>3. Total net amount of intangible assets</b>      | <b>858,376,224.61</b>   |                            |                             | <b>896,536,643.37</b>   |
| (1) Land use rights                                  | 443,386,604.35          |                            |                             | 480,470,292.39          |
| (2) Trademarks                                       | 390,278,943.40          |                            |                             | 390,278,943.40          |
| (3) Know-how   | 19,294,246.26           |                            |                             | 17,336,855.43           |
| (4) Others   | 5,416,430.60            |                            |                             | 8,450,552.15            |
| <b>4. Total provision for impairment</b>             | <b>336,593,406.80</b>   |                            |                             | <b>336,593,406.80</b>   |
| (1) Land use rights                                  | 50,012,843.19           |                            |                             | 50,012,843.19           |
| (2) Trademarks                                       | 286,061,116.40          |                            |                             | 286,061,116.40          |
| (3) Know-how   | 0                       |                            |                             | 0.00                    |
| (4) Others   | 519,447.21              |                            |                             | 519,447.21              |
| <b>5. Total carrying amount of intangible assets</b> | <b>521,782,817.81</b>   |                            |                             | <b>559,943,236.57</b>   |
| (1) Land use rights                                  | 393,373,761.16          |                            |                             | 430,457,449.20          |
| (2) Trademarks                                       | 104,217,827.00          |                            |                             | 104,217,827.00          |
| (3) Know-how   | 19,294,246.26           |                            |                             | 17,336,855.43           |
| (4) Others   | 4,896,983.39            |                            |                             | 7,931,104.94            |

##### (2) Particulars of intangible assets:

- ① For the Reporting Period, amortization of intangible assets amounted to RMB10,983,180.94. For the corresponding period last year, amortization of intangible assets amounted to RMB10,914,036.77.
- ② As at the end of the period, no land use rights were pledged.
- ③ Owing to uncertainty of the useful lives of the trademarks, they were not amortized and no provision for impairment was provided for trademarks after an impairment test.
- ④ Increase in intangible assets was mainly attributable to the addition of land use rights by Shandong Refrigerator, a subsidiary of the Company (Certificate of land use rights: Pingguoyong (2014) Nos. 00146, 00147 and 00148).

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 15. Long-term prepaid expenses

| Item         | Opening balance     | Additions in the period | Amortization in the period | Other reductions | Closing balance     | Reasons of other reductions |
|--------------|---------------------|-------------------------|----------------------------|------------------|---------------------|-----------------------------|
| Other        | 5,001,055.07        |                         | 1,131,064.92               |                  | 3,869,990.15        |                             |
| <b>Total</b> | <b>5,001,055.07</b> |                         | <b>1,131,064.92</b>        |                  | <b>3,869,990.15</b> |                             |

#### 16. Deferred tax assets and deferred tax liabilities

Net amount of deferred tax assets and deferred tax liabilities after offsetting:

(1) *Deferred tax assets or tax liabilities after offsetting and corresponding deductible or taxable temporary differences after offsetting*

| Item                              | Deferred tax assets or liabilities after offsetting at the end of the reporting period | Deductible or taxable temporary differences after offsetting at the end of the reporting period | Deferred tax assets or liabilities after offsetting at the beginning of the reporting period | Deductible or taxable temporary differences after offsetting at the beginning of the reporting period |
|-----------------------------------|--|---|--|---|
| <b>Deferred tax assets:</b>       |  |   |  |   |
| Provision for assets impairment   | 24,372,776.04  | 159,864,422.21  | 34,090,504.40  | 156,382,380.24  |
| Financial assets held-for-trading | 368,864.05   | 1,916,687.00  | (6,671,594.15)   | (33,259,961.00)   |
| Other                             | 7,742,606.59   | 46,834,752.31   | 9,197,950.77   | 50,657,563.61   |
| <b>Subtotal</b>                   | <b>32,484,246.68</b>   | <b>208,615,861.52</b>   | <b>36,616,861.02</b>   | <b>173,779,982.85</b>   |

(2) *Summary for offsetting of deferred tax assets and deferred tax liabilities*

| Item                              | Amount set off for the period | Amount set off for the previous period |
|-----------------------------------|-------------------------------|--|
| Financial assets held-for-trading |                               | (6,671,594.15)                         |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 16. Deferred tax assets and deferred tax liabilities — Continued

##### (3) Summary of taxable temporary differences and deductible temporary differences

| Item  | Amount                |
|---|-----------------------|
| Financial assets held-for-trading                 | 1,916,687.00          |
| Provision for bad debts on accounts receivable    | 3,248,795.82          |
| Provision for bad debts on other receivables      | 90,450,409.86         |
| Provision for declines in values of inventories   | 1,229,425.79          |
| Impairment provision for fixed assets             | 56,166,120.74         |
| Impairment provision for construction in progress | 3,554,918.00          |
| Impairment provision for intangible asset         | 5,214,752.00          |
| Other   | 46,834,752.31         |
| <b>Total</b>                                      | <b>208,615,861.52</b> |

#### 17. Provision for asset impairment

| Item  | Opening balance       | Addition in the period | Current period reduction |                      | Closing balance       |
|---|-----------------------|------------------------|--------------------------|----------------------|-----------------------|
|   |                       |                        | Reversal                 | Write-off            |                       |
| 1. Provision for bad debts                                  | 374,611,343.22        | 723,038.40             | 603,809.63               | 36,044,096.04        | 338,686,475.95        |
| 2. Provision for decline in value of inventory              | 112,098,574.95        | 6,937,253.25           |                          | 24,820,180.67        | 94,215,647.53         |
| 3. Provision for impairment of long-term equity investments | 11,000,000.00         |                        |                          |                      | 11,000,000.00         |
| 4. Provision for impairment of fixed assets                 | 118,284,303.44        |                        |                          | 2,234,494.89         | 116,049,808.55        |
| 5. Provision for impairment of construction in progress     | 11,325,835.67         |                        |                          |                      | 11,325,835.67         |
| 6. Provision for impairment of intangible assets            | 336,593,406.80        |                        |                          |                      | 336,593,406.80        |
| <b>Total</b>  | <b>963,913,464.08</b> | <b>7,660,291.65</b>    | <b>603,809.63</b>        | <b>63,098,771.60</b> | <b>907,871,174.50</b> |

#### 18. Short-term borrowings

##### (1) Classification of short-term borrowings:

| Item                             | Closing balance       | Opening balance       |
|----------------------------------|-----------------------|-----------------------|
| Secured borrowings <sup>*1</sup> | 501,736,882.06        | 191,681,513.02        |
| <b>Total</b>                     | <b>501,736,882.06</b> | <b>191,681,513.02</b> |

Particulars of classification of short-term borrowings

<sup>\*1</sup> The secured borrowings represented secured borrowings from the factoring accounts receivable of the Company's subsidiaries.

##### (2) As at the end of the period, the Company had no short-term borrowings that are due but have not been repaid.

**NOTES TO THE FINANCIAL STATEMENTS — Continued**

Half year of 2014

**7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued****19. Held-for-trading financial liabilities**

| <b>Item</b>                      | <b>Closing balance</b> | <b>Opening balance</b> |
|----------------------------------|------------------------|------------------------|
| Derivative financial liabilities | 23,364,872.22          | 4,645.00               |
| <b>Total</b>                     | <b>23,364,872.22</b>   | <b>4,645.00</b>        |

Particulars of held-for-trading financial liabilities:

This mainly represented undue foreign exchange forward contracts entered into by the Company with banks that were recognized as financial assets or liabilities held-for-trading based on the difference between the quotation of the undue foreign exchange contracts and the future foreign exchange rate as at 30 June 2014.

**20. Notes payable**

| <b>Category</b>        | <b>Closing balance</b>  | <b>Opening balance</b>  |
|------------------------|-------------------------|-------------------------|
| Bank acceptance notes  | 1,093,095,766.41        | 1,235,561,696.44        |
| Trade acceptance notes | 474,675,945.60          | 155,536,942.24          |
| <b>Total</b>           | <b>1,567,771,712.01</b> | <b>1,391,098,638.68</b> |

Particulars of notes payable:

- ① As at 30 June 2014, there was no amount due to shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of notes payable. As at 31 December 2013, there was no amount due to shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of notes payable.
- ② Please see note 8 for details of amount due to related parties in the balance of notes payable as at the end of the period.

**21. Accounts payable****(1) Ageing analysis of accounts payable**

| <b>Ageing</b>   | <b>Closing balance</b>  | <b>Opening balance</b>  |
|-----------------|-------------------------|-------------------------|
| Within one year | 5,362,934,062.70        | 3,291,382,468.75        |
| Over one year   | 139,835,619.27          | 189,127,899.41          |
| <b>Total</b>    | <b>5,502,769,681.97</b> | <b>3,480,510,368.16</b> |

- (2) As at 30 June 2014, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of accounts payable. As at 31 December 2013, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of accounts payable.
- (3) Please see note 8 for details of amount due to related parties in the balance of accounts payable as at the end of the period.

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 22. Advances from customers

##### (1) Age analysis of advances from customers

| Ageing          | Closing balance       | Opening balance       |
|-----------------|-----------------------|-----------------------|
| Within one year | 583,160,272.58        | 821,066,394.32        |
| Over one year   | 37,433,243.78         | 85,965,112.53         |
| <b>Total</b>    | <b>620,593,516.36</b> | <b>907,031,506.85</b> |

(2) As at 30 June 2014, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of advance from customers. As at 31 December 2013, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of advances from customers.

(3) Please see note 8 for details of amount due to related parties in the balance of advances from customers as at the end of the period.

#### 23. Employee benefits payables

| Item  | Opening balance       | Additions<br>in the period | Reductions<br>in the period | Closing balance       |
|---|-----------------------|----------------------------|-----------------------------|-----------------------|
| 1. Wages and salaries, bonuses,<br>allowances and subsidies | 224,568,456.65        | 999,070,960.10             | 997,655,936.44              | 225,983,480.31        |
| 2. Staff welfare  | 4,960,834.65          | 76,650,563.61              | 73,901,170.71               | 7,710,227.55          |
| 3. Social insurance   | 3,434,583.61          | 150,373,190.66             | 147,654,797.55              | 6,152,976.72          |
| 4. Housing provident funds                                  | (309,613.38)          | 40,447,572.16              | 39,862,748.65               | 275,210.13            |
| 5. Labor union funds and employee<br>education funds        | 1,377,468.58          | 9,204,999.33               | 6,363,716.07                | 4,218,751.84          |
| 6. Termination benefits                                     | 2,310,835.29          | 1,274,674.69               | 1,977,631.48                | 1,607,878.50          |
| 7. Other  | 448.29                | 79,332.20                  | 13,478.40                   | 66,302.09             |
| <b>Total</b>  | <b>236,343,013.69</b> | <b>1,277,101,292.75</b>    | <b>1,267,429,479.30</b>     | <b>246,014,827.14</b> |

Particulars of employee benefits payables:

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



**NOTES TO THE FINANCIAL STATEMENTS — Continued**

Half year of 2014

**7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued****24. Taxes payable**

| <u>Tax item</u>                       | <u>Closing balance</u> | <u>Opening balance</u>  |
|---------------------------------------|------------------------|-------------------------|
| Value-added tax                       | (185,050,427.20)       | (238,344,290.39)        |
| Business tax                          | 651,582.65             | 1,395,697.58            |
| Enterprise income tax                 | 102,042,863.66         | 32,290,051.16           |
| Individual income tax                 | 6,399,102.41           | 3,750,642.66            |
| City maintenance and construction tax | 8,148,880.35           | 3,515,761.30            |
| Real estate tax                       | 5,876,506.89           | 8,770,019.08            |
| Land use tax                          | 3,140,650.72           | 4,976,487.69            |
| Education surcharges                  | 5,691,047.13           | 2,450,605.56            |
| Urban area embankment maintenance fee | 4,294,511.77           | 1,956,979.56            |
| Other                                 | 33,678,197.80          | 22,471,514.80           |
| <b>Total</b>                          | <b>(15,127,083.82)</b> | <b>(156,766,531.00)</b> |

**25. Interests payable**

| <u>Item</u>                                 | <u>Closing balance</u> | <u>Opening balance</u> |
|---|------------------------|------------------------|
| Interests payable for short-term borrowings |                        |                        |
| <b>Total</b>                                |                        |                        |

**26. Dividends payable**

| <u>Name</u>                          | <u>Closing balance</u> | <u>Opening balance</u> |
|--------------------------------------|------------------------|------------------------|
| Yingleng (Group) Co., Ltd.           | 2,067.02               | 2,067.02               |
| Beijing Xuehua Group Company Limited |                        | 9,000,000.00           |
| <b>Total</b>                         | <b>2,067.02</b>        | <b>9,002,067.02</b>    |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 27. Other payables

##### (1) Ageing analysis of other payables

| Ageing          | Closing balance         | Opening balance         |
|-----------------|-------------------------|-------------------------|
| Within one year | 1,719,321,198.75        | 1,513,321,725.49        |
| Over one year   | 215,491,516.47          | 217,937,328.91          |
| <b>Total</b>    | <b>1,934,812,715.22</b> | <b>1,731,259,054.40</b> |

(2) As at 30 June 2014, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of other payables. As at 31 December 2013, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of other payables.

(3) Please see note 8 for details of amount due to related parties in the balance of other payables as at the end of the period.

(4) Particulars of significant other payables with age of over one year

| Name  | Amount        | Reasons for being outstanding | Remark                              |
|---|---------------|-------------------------------|-------------------------------------|
| Tianjin Taijin Yunye Company Limited ("Tianjin Taijin") | 65,000,000.00 | Current account               | Specific third party Company amount |
| Zhuhai Longjia  | 28,316,425.03 | Current account               | Specific third party Company amount |
| Jiangxi Greencool                                       | 13,000,000.00 | Current account               | Greencool Companies                 |

#### 28. Other current liabilities

| Item                | Closing balance       | Opening balance       | Reasons for the balance  |
|---------------------|-----------------------|-----------------------|--|
| Installation fees   | 393,278,261.88        | 144,962,337.71        | Installation fee provided for but not yet paid in relation to goods sold |
| Sales discounts     | 318,537,723.49        | 249,743,671.30        | Incurred but not yet settled   |
| Transportation fees | 40,934,795.90         | 10,216,284.52         | Incurred but not yet settled   |
| Marketing fees      | 36,975,057.38         | 22,559,489.79         | Incurred but not yet settled   |
| Power fees          | 11,953,967.57         | 20,565,524.92         | Incurred but not yet settled   |
| Agency fees         | 34,818,397.50         | 29,720,401.53         | Incurred but not yet settled   |
| Other               | 77,198,832.79         | 96,269,582.65         | Incurred but not yet settled   |
| <b>Total</b>        | <b>913,697,036.51</b> | <b>574,037,292.42</b> |  |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 29. Provisions

| Item                      | Opening balance       | Additions<br>in the period | Reductions<br>in the period | Closing balance       |
|---------------------------|-----------------------|----------------------------|-----------------------------|-----------------------|
| Pending litigation        | 4,627,597.15          | 423,504.58                 |                             | 5,051,101.73          |
| Provision for warranties* | 356,530,632.72        | 15,618,240.79              |                             | 372,148,873.51        |
| <b>Total</b>              | <b>361,158,229.87</b> | <b>16,041,745.37</b>       |                             | <b>377,199,975.24</b> |

\* Provision for warranties represented the estimated product quality guarantee fund. During the warranty period, the Company will offer a free warranty service to the customers concerned. According to the industry's experience and past data, the warranty costs were calculated and provided based on the remaining years of offered warranty and the average repair fee per unit.

#### 30. Other non-current liabilities

| Item            | Closing balance      | Opening balance      |
|-----------------|----------------------|----------------------|
| Deferred income | 53,524,706.47        | 56,011,769.90        |
| <b>Total</b>    | <b>53,524,706.47</b> | <b>56,011,769.90</b> |

Particulars of deferred income are as follows:

| Item   | Closing balance      | Opening balance      |
|--|----------------------|----------------------|
| State debenture projects for technical advancement and industry upgrade                      | 21,450,000.00        | 21,450,000.00        |
| Production technology reform project for energy-saving household SBS large-size refrigerator | 1,700,000.00         | 1,925,000.00         |
| Technology renovation project for manufacturing sophisticated intelligent mould              | 2,286,666.67         | 2,426,666.67         |
| Other  | 28,088,039.80        | 30,210,103.23        |
| <b>Total</b>   | <b>53,524,706.47</b> | <b>56,011,769.90</b> |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 31. Share capital

##### Reporting period

| Categories of shares                          | Opening balance         | Additions<br>in the period | Reductions<br>in the period | Closing balance         |
|---|-------------------------|----------------------------|-----------------------------|-------------------------|
| Shares with restriction of trading            |                         | 1,669,470.00               |                             | 1,669,470.00            |
| Including: State-owned legal<br>person shares |                         |                            |                             |                         |
| Domestic natural<br>person shares             |                         | 1,669,470.00               |                             | 1,669,470.00            |
| Shares without restriction<br>of trading      | 1,354,054,750.00        | 2,771,340.000              |                             | 1,356,826,090.00        |
| Including: RMB Ordinary shares                | 894,464,942.00          | 2,771,340.00               |                             | 897,236,282.00          |
| Foreign shares listed out of PRC              | 459,589,808.00          |                            |                             | 459,589,808.00          |
| <b>Total number of shares</b>                 | <b>1,354,054,750.00</b> | <b>4,440,810.00</b>        |                             | <b>1,358,495,560.00</b> |

Changes for the period represent 4,440,810 additional shares arising from the first phase of exercise of share options of the Company.

##### 2013

| Categories of shares                          | Opening balance         | Additions<br>in the period | Reductions<br>in the period | Closing balance         |
|---|-------------------------|----------------------------|-----------------------------|-------------------------|
| Shares with restriction of trading            | 612,316,909.00          |                            | 612,316,909.00              |                         |
| Including: State-owned<br>legal person shares | 612,316,909.00          |                            | 612,316,909.00              |                         |
| Shares without restriction<br>of trading      | 741,737,841.00          | 612,316,909.00             |                             | 1,354,054,750.00        |
| Including: RMB Ordinary shares                | 282,148,033.00          | 612,316,909.00             |                             | 894,464,942.00          |
| Foreign shares listed out of PRC              | 459,589,808.00          |                            |                             | 459,589,808.00          |
| <b>Total number of shares</b>                 | <b>1,354,054,750.00</b> |                            |                             | <b>1,354,054,750.00</b> |

#### 32. Capital reserve

##### (1) Changes in capital reserve

##### Reporting period

| Item                  | Opening balance         | Additions<br>in the period | Reductions<br>in the period | Closing balance         |
|-----------------------|-------------------------|----------------------------|-----------------------------|-------------------------|
| Share premium         | 1,968,114,175.93        | 35,844,088.26              |                             | 2,003,958,264.19        |
| Other capital reserve | 130,991,424.84          | 537,552.26                 | 3,246,019.77                | 128,282,957.33          |
| <b>Total</b>          | <b>2,099,105,600.77</b> | <b>36,381,640.52</b>       | <b>3,246,019.77</b>         | <b>2,132,241,221.52</b> |

**NOTES TO THE FINANCIAL STATEMENTS — Continued**

Half year of 2014

**7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued****32. Capital reserve — Continued****(1) Changes in capital reserve — Continued**

2013

| <u>Item</u>           | <u>Opening balance</u>  | <u>Additions<br/>in the period</u> | <u>Reductions<br/>in the period</u> | <u>Closing balance</u>  |
|-----------------------|-------------------------|------------------------------------|-------------------------------------|-------------------------|
| Share premium         | 1,968,114,175.93        |                                    |                                     | 1,968,114,175.93        |
| Other capital reserve | 133,536,211.03          | 1,754,011.95                       | 4,298,798.14                        | 130,991,424.84          |
| <b>Total</b>          | <b>2,101,650,386.96</b> | <b>1,754,011.95</b>                | <b>4,298,798.14</b>                 | <b>2,099,105,600.77</b> |

**(2) Particulars of changes in capital reserve:**

Changes for the period represent share premiums arising from the first exercise period of share options of the Company.

**33. Surplus reserve****Reporting Period**

| <u>Item</u>               | <u>Opening balance</u> | <u>Additions<br/>in the period</u> | <u>Reductions<br/>in the period</u> | <u>Closing balance</u> |
|---------------------------|------------------------|------------------------------------|-------------------------------------|------------------------|
| Statutory surplus reserve | 145,189,526.48         |                                    |                                     | 145,189,526.48         |
| <b>Total</b>              | <b>145,189,526.48</b>  |                                    |                                     | <b>145,189,526.48</b>  |

2013

| <u>Item</u>               | <u>Opening balance</u> | <u>Additions<br/>in the period</u> | <u>Reductions<br/>in the period</u> | <u>Closing balance</u> |
|---------------------------|------------------------|------------------------------------|-------------------------------------|------------------------|
| Statutory surplus reserve | 145,189,526.48         |                                    |                                     | 145,189,526.48         |
| <b>Total</b>              | <b>145,189,526.48</b>  |                                    |                                     | <b>145,189,526.48</b>  |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 34. Undistributed profits

##### Reporting Period

| Item  | Ratio for appropriation or distribution | Amount for the period   | Amount for previous period |
|---|---|-------------------------|----------------------------|
| Undistributed profits at the end of previous period                         |   | (860,386,,951.24)       | (2,099,392,002.85)         |
| Add: Adjustment of undistributed profits at the beginning of the period     |   |                         |                            |
| Undistributed profits at the beginning of the period                        |   | (860,386,951.24)        | (2,099,392,002.85)         |
| Add: Net profits for the period attributable to the shareholders of Company |   | 609,769,686.14          | 706,812,577.45             |
| Less: Appropriation of statutory surplus reserve                            |   |                         |                            |
| Ordinary shares dividends payable   |   |                         |                            |
| Undistributed profits at the end of the period                              |   | <u>(250,617,265.10)</u> | <u>(1,392,579,425.40)</u>  |

##### 2013

| Item  | Ratio for appropriation or distribution | Amount for the period   | Amount for previous period |
|---|---|-------------------------|----------------------------|
| Undistributed profits at the end of previous period                         |   | (2,099,392,002.85)      | (2,817,156,683.25)         |
| Add: Adjustment of undistributed profits at the beginning of the year       |   |                         |                            |
| Undistributed profits at the beginning of the period                        |   | (2,099,392,002.85)      | (2,817,156,683.25)         |
| Add: Net profits for the period attributable to the shareholders of Company |   | 1,239,005,051.61        | 717,764,680.40             |
| Less: Appropriation of statutory surplus reserve                            |   |                         |                            |
| Ordinary shares dividends payable   |   |                         |                            |
| Undistributed profits at the end of the period                              |   | <u>(860,386,951.24)</u> | <u>(2,099,392,002.85)</u>  |

#### 35. Operating revenue and operating costs

##### (1) Operating revenue and operating costs

| Item                              | Amount for the period           | Amount for previous period      |
|-----------------------------------|---------------------------------|---------------------------------|
| Revenue from principal operations | 14,032,409,469.11               | 11,790,015,569.98               |
| Revenue from other operations     | 1,365,128,293.37                | 1,202,854,454.50                |
| <b>Total operating revenue</b>    | <b><u>15,397,537,762.48</u></b> | <b><u>12,992,870,024.48</u></b> |
| Costs of principal operations     | 10,797,489,654.95               | 9,138,714,099.92                |
| Costs of other operations         | 1,265,254,139.99                | 1,111,510,807.63                |
| <b>Total operating costs</b>      | <b><u>12,062,743,794.94</u></b> | <b><u>10,250,224,907.55</u></b> |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 35. Operating revenue and operating costs — Continued

##### (2) Principal operations (by products)

| Products                           | Amount for the period    |                          | Amount for previous period |                         |
|------------------------------------|--------------------------|--------------------------|----------------------------|-------------------------|
|                                    | Operating revenue        | Operating costs          | Operating revenue          | Operating costs         |
| Refrigerators and washing machines | 6,287,790,801.15         | 4,938,155,758.02         | 6,253,116,338.52           | 4,800,550,465.70        |
| Air-conditioners                   | 7,214,897,296.28         | 5,485,955,258.68         | 5,056,633,164.27           | 3,976,436,047.29        |
| Other                              | 529,721,371.68           | 373,378,638.25           | 480,266,067.19             | 361,727,586.93          |
| <b>Total</b>                       | <b>14,032,409,469.11</b> | <b>10,797,489,654.95</b> | <b>11,790,015,569.98</b>   | <b>9,138,714,099.92</b> |

##### (3) Principal operations (by regions)

| Region       | Amount for the period    |                          | Amount for previous period |                         |
|--------------|--------------------------|--------------------------|----------------------------|-------------------------|
|              | Operating revenue        | Operating costs          | Operating revenue          | Operating costs         |
| Domestic     | 10,114,000,100.38        | 7,276,607,756.09         | 8,226,727,331.31           | 5,937,393,787.53        |
| Overseas     | 3,918,409,368.73         | 3,520,881,898.86         | 3,563,288,238.67           | 3,201,320,312.39        |
| <b>Total</b> | <b>14,032,409,469.11</b> | <b>10,797,489,654.95</b> | <b>11,790,015,569.98</b>   | <b>9,138,714,099.92</b> |

##### (4) Operating revenue from the top five customers

Reporting period

| No.          | Amount for the period   | Percentage of the total revenue from principal operations of the Company (%) |
|--------------|-------------------------|--|
| Top 1        | 1,520,332,153.76        | 10.83  |
| Top 2        | 879,621,767.47          | 6.27   |
| Top 3        | 536,542,140.25          | 3.82   |
| Top 4        | 315,354,282.50          | 2.25   |
| Top 5        | 259,230,448.47          | 1.85   |
| <b>Total</b> | <b>3,511,080,792.45</b> | <b>25.02</b>   |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 35. Operating revenue and operating costs — Continued

##### (4) Operating revenue from the top five customers — Continued

Corresponding period last year

| No.          | Amount for<br>the period | Percentage of the<br>total revenue<br>from principal<br>operations of the<br>Company (%) |
|--------------|--------------------------|--|
| Top 1        | 1,288,897,651.89         | 9.92   |
| Top 2        | 980,982,691.60           | 7.55   |
| Top 3        | 744,963,867.04           | 5.73   |
| Top 4        | 639,518,665.79           | 4.92   |
| Top 5        | 347,526,943.77           | 2.67   |
| <b>Total</b> | <b>4,001,889,820.09</b>  | <b>30.79</b>   |

#### 36. Business tax and surcharges

| Item                                  | Basis of calculation | Amount for<br>the period | Amount for<br>previous period |
|---------------------------------------|----------------------|--------------------------|-------------------------------|
| Business tax                          | 5%                   | 3,112,464.66             | 498,946.07                    |
| City maintenance and construction tax | 1%-7%                | 27,273,464.78            | 30,241,525.26                 |
| Education surcharges                  | 3%                   | 17,056,478.60            | 18,845,510.88                 |
| <b>Total</b>                          |                      | <b>47,442,408.04</b>     | <b>49,585,982.21</b>          |

#### 37. Financial expenses

| Item                     | Amount for<br>the period | Amount for<br>previous period |
|--------------------------|--------------------------|-------------------------------|
| Interest expenses*       | 11,098.16                | 326,455.49                    |
| Less: Interest incomes   | 1,995,289.97             | 1,437,999.50                  |
| Loss on foreign exchange | (12,598,553.46)          | 35,447,916.96                 |
| Other                    | (403,811.27)             | (21,723,716.73)               |
| <b>Total</b>             | <b>(14,986,556.54)</b>   | <b>12,612,656.22</b>          |

\* Interest expenses for the reporting period and the corresponding period last year were interests on bank borrowings wholly repayable within five years.



**NOTES TO THE FINANCIAL STATEMENTS — Continued**

Half year of 2014

**7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued****38. Asset impairment losses**

| <b>Item</b>                        | <b>Amount for<br/>the period</b> | <b>Amount for<br/>previous period</b> |
|------------------------------------|----------------------------------|---------------------------------------|
| 1. Bad debt loss                   | 119,228.77                       | (5,491,268.60)                        |
| 2. Decline in value of inventories | 6,937,253.25                     | 9,084,685.95                          |
| 3. Impairment loss on fixed assets |                                  | 3,094,945.14                          |
| <b>Total</b>                       | <b>7,056,482.02</b>              | <b>6,688,362.49</b>                   |

**39. Gain arising from changes in fair value**

| <b>Sources of gain</b>   | <b>Amount for<br/>the period</b> | <b>Amount for<br/>previous period</b> |
|--|----------------------------------|---------------------------------------|
| Financial assets held-for-trading  | (67,115,019.35)                  | 35,744,498.44                         |
| Including: Gain from changes in fair value of derivative financial instruments | (67,115,019.35)                  | 35,744,498.44                         |
| Held-for-trading financial liabilities   | (23,360,227.22)                  | 164,231.22                            |
| <b>Total</b>   | <b>(90,475,246.57)</b>           | <b>35,908,729.66</b>                  |

# NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

## 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

### 40. Investment income

#### (1) Summary of investment income

| Item  | Amount for<br>the period | Amount for<br>previous period |
|---|--------------------------|-------------------------------|
| Income from long-term equity investment                   |                          |                               |
| — the cost method   | 9,500,000.00             | 4,750,000.00                  |
| Income from long-term equity investment                   |                          |                               |
| — the equity method                                       | 141,589,179.58           | 119,561,283.99                |
| Income from disposal of long-term equity investment*      | —                        | 23,335,449.55                 |
| Income from disposal of financial assets held-for-trading | 35,670,987.79            | 6,409,296.93                  |
| <b>Total</b>  | <b>186,760,167.37</b>    | <b>154,056,030.47</b>         |

#### (2) Income from long-term equity investment — the cost method

| Investee                        | Amount for<br>the period | Amount for<br>previous period |
|---------------------------------|--------------------------|-------------------------------|
| Hisense International Marketing | 9,500,000.00             | 4,750,000.00                  |
| <b>Total</b>                    | <b>9,500,000.00</b>      | <b>4,750,000.00</b>           |

#### (3) Income from long-term equity investment — the equity method:

| Investee          | Amount for<br>the period | Amount for<br>previous period |
|-------------------|--------------------------|-------------------------------|
| Huayi Compressor  | 5,259,786.88             | 3,776,668.68                  |
| Hisense Whirlpool | (18,349,602.26)          | (6,247,656.28)                |
| Attend            | 19,780.37                | 53,125.03                     |
| Hisense Hitachi   | 154,659,214.59           | 121,979,146.56                |
| <b>Total</b>      | <b>141,589,179.58</b>    | <b>119,561,283.99</b>         |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 41. Non-operating income and non-operating expenses

##### Non-operating income

| Item   | Amount for<br>the period | Amount for<br>previous period |
|--|--------------------------|-------------------------------|
| Total gain from disposal of non-current assets | 1,639,741.48             | 932,494.93                    |
| Including: Gain from disposal of fixed assets  | 1,639,741.48             | 932,494.93                    |
| Government grants                              | 29,489,120.05            | 9,955,361.60                  |
| Other  | 16,627,325.45            | 3,091,649.39                  |
| <b>Total</b>                                   | <b>47,756,186.98</b>     | <b>13,979,505.92</b>          |

Details of government grants during the reporting period are as follows:

| Item  | Amount for<br>the period | Amount for<br>previous period |
|---|--------------------------|-------------------------------|
| 1. Government grants related to assets  |                          |                               |
| Production technology reform project for energy-saving household<br>SBS large-size refrigerator* <sup>1</sup> | 225,000.00               | 225,000.00                    |
| Technology renovation project for manufacturing sophisticated<br>intelligent mould* <sup>2</sup>              | 140,000.00               | 140,000.00                    |
| Government grants related to other assets   | 2,122,063.43             | 1,722,176.23                  |
| <b>Subtotal</b>   | <b>2,487,063.43</b>      | <b>2,087,176.23</b>           |
| 2. Government grants related to income  |                          |                               |
| Government subsidies  | 27,002,056.62            | 7,868,185.37                  |
| <b>Subtotal</b>   | <b>27,002,056.62</b>     | <b>7,868,185.37</b>           |
| <b>Total</b>  | <b>29,489,120.05</b>     | <b>9,955,361.60</b>           |

<sup>1</sup> The government grants represented the project award of RMB3,000,000.00 granted to the subsidiary of the Company Guangdong Refrigerator by the Financial Bureau of Foshan, Shunde under "Circulating the Circular of Guangdong Provincial Support for Technology Renovation Tender Projects and Supplementary Projects in 2007" (Fo Jing Mao (2007) No. 391), and the project award of RMB1,500,000.00 granted to the subsidiary of the Company Guangdong Refrigerator by the Economic and Trade Bureau of Foshan, Shunde under "Reply by the Office of the People's Government of Shunde, Foshan on Consenting to Grant Regional Subsidy for Science and Technology Outlay to Enterprises Including Guangdong Xinbao Electrical Appliances Holdings Co., Ltd. in 2007" (Shun Fu Ban Han (2008) No. 114). The project was commenced from October 2007 and ended in October 2009. In April and May 2008, Guangdong Refrigerator has recognized deferred income after receiving the project government grants of RMB3,000,000.00 and RMB1,500,000.00 respectively from the Company, and the amounts received were accounted for in the books of Guangdong Refrigerator as non-operating income over a period of 10 years. In 2008, Guangdong Refrigerator has recognized income in the amount of RMB325,000.00. In 2009, income in the amount of RMB450,000.00 was recognized. In 2010, income in the amount of RMB450,000.00 was recognized. In 2011, income in the amount of RMB450,000.00 was recognized. In 2012, income in the amount of RMB450,000.00 was recognized. In 2013, income in the amount of RMB450,000.00 was recognized. In January to June 2014, income in the amount of RMB225,000.00 was recognized, and the remaining amount of RMB1,700,000.00 was recognized as deferred income.

<sup>2</sup> The government grants represented RMB2,800,000 granted to Hisense Mould, a subsidiary of the Company, by the Commission Of Economy and Informatization of Qingdao Municipal under the "Approval of the Commission Of Economy and Informatization of Qingdao Municipal on the Application for Investment by the Central Government on Technology Reforms of Small-to-Medium Industrial Enterprises 2012 by the Technology Renovation Project for Manufacturing Sophisticated Intelligent Moulds of Qingdao Hisense Mould Co., Ltd." (Qing Jing Xin Pi Zi (2012) No. 5) for use in the technology renovation project for manufacturing sophisticated intelligent moulds in 2012. The government grants for the project were recognized as deferred income upon receipt by Hisense Mould in August 2012. Hisense Mould has recognized the amount from the month after receipt as non-operating income over a period of 10 years. In 2012, Hisense Mould has recognized income in the amount of RMB93,333.33 in relation to the item for the year. In 2013, income in the amount of RMB280,000.00 was recognized. In January to June 2014, income in the amount of RMB140,000.00 was recognized, and the remaining amount of RMB2,286,666.67 was recognized as deferred income.

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 41. Non-operating income and non-operating expenses — Continued

##### Non-operating expenses

| Item   | Amount for<br>the period | Amount for<br>previous period |
|--|--------------------------|-------------------------------|
| Total loss on disposal of non-current assets | 2,496,560.42             | 1,436,232.09                  |
| Including: Loss on disposal of fixed assets  | 2,496,560.42             | 1,436,232.09                  |
| Other  | 1,179,260.27             | 3,022,123.95                  |
| <b>Total</b>                                 | <b>3,675,820.69</b>      | <b>4,458,356.04</b>           |

#### 42. Income tax expenses

| Item                                 | Amount for<br>the period | Amount for<br>previous period |
|--------------------------------------|--------------------------|-------------------------------|
| Current income tax                   | 98,978,126.87            | 18,746,060.17                 |
| Including: PRC enterprise income tax | 92,514,458.28            | 18,746,060.17                 |
| Hong Kong profit tax                 | 6,463,668.59             |                               |
| Deferred tax expenses                | 4,132,614.34             | 1,149,237.03                  |
| <b>Total</b>                         | <b>103,110,741.21</b>    | <b>19,895,297.20</b>          |

#### 43. Calculation of basic and diluted earnings per share

| Item  |               | Amount for<br>the period | Amount for<br>previous period |
|---|---------------|--------------------------|-------------------------------|
| Net profits attributable to ordinary shareholders of the Company of the reporting period  | P1            | 609,769,686.14           | 706,812,577.45                |
| Non-recurring item attributable to ordinary shareholders of the Company of the reporting period   | F             | 35,799,876.44            | 30,048,947.99                 |
| Net profits after non-recurring item attributable to ordinary shareholders of the Company of the reporting period                           | P2=P1-F       | 573,969,809.70           | 676,763,629.46                |
| Effect of dilutive events on net profits attributable to ordinary shareholders of the Company   | P3            |                          |                               |
| Effect of dilutive events on net profits after non-recurring item attributable to ordinary shareholders of the Company                      | P4            |                          |                               |
| Weighted average number of ordinary shares  | S             | 1,354,794,885.00         | 1,354,054,750.00              |
| Add: Additional weighted average number of ordinary shares assuming conversion of all dilutive potential ordinary shares to ordinary shares | X1            |                          |                               |
| Weighted average number of ordinary shares in the calculation of diluted earnings per share   | X2=S+X1       | 1,354,794,885.00         | 1,354,054,750.00              |
| Basic earnings per share attributable to ordinary shareholders of the Company   | Y1=P1/S       | 0.45                     | 0.52                          |
| Basic earnings per share attributable to ordinary shareholders of the Company after non-recurring items                                     | Y2=P2/S       | 0.42                     | 0.50                          |
| Diluted earnings per share attributable to ordinary shareholders of the Company   | Y3=(P1+P3)/X2 | 0.45                     | 0.52                          |
| Diluted earnings per share attributable to ordinary shareholders of the Company after non-recurring items                                   | Y4=(P2+P4)/X2 | 0.42                     | 0.50                          |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 44. Other comprehensive incomes

| Item   | Amount for<br>the period | Amount for<br>previous period |
|--|--------------------------|-------------------------------|
| 1. Recognition of share of other comprehensive incomes of the investee based on equity method  | (4,453.63)               | (76,932.92)                   |
| Less: Income tax effect arising from recognition of share of other comprehensive incomes of the investee based on equity method              |                          |                               |
| Add: Net amount accounted for as other comprehensive incomes in the previous period and transferred to profit and loss in the current period |                          | (4,298,798.14)                |
| <b>Subtotal</b>  | <b>(4,453.63)</b>        | <b>(4,375,731.06)</b>         |
| 2. Difference on translation of foreign currency financial statements  | (255,038.02)             | (43,809.30)                   |
| Less: Net amount transferred to gain/(loss) upon disposal of foreign operations in the current period  |                          |                               |
| <b>Subtotal</b>  | <b>(255,038.02)</b>      | <b>(43,809.30)</b>            |
| 3. Other   |                          |                               |
| Less: Income tax effect arising from other items under other comprehensive income  |                          |                               |
| Net amount of other items under other comprehensive income of previous period transferred in the current period                              |                          |                               |
| <b>Subtotal</b>  |                          |                               |
| <b>Total</b>   | <b>(259,491.65)</b>      | <b>(4,419,540.36)</b>         |

#### 45. Notes to cash flows statement

##### (1) Cash received relating to other operating activities

| Item              | Amount for<br>the period | Amount for<br>previous period |
|-------------------|--------------------------|-------------------------------|
| Interest incomes  | 1,812,038.83             | 1,437,999.50                  |
| Government grants | 29,124,120.05            | 7,868,185.37                  |
| Other             | 280,748,159.32           | 498,919,362.51                |
| <b>Total</b>      | <b>311,684,318.20</b>    | <b>508,225,547.38</b>         |

##### (2) Cash paid relating to other operating activities

| Item  | Amount for<br>the period | Amount for<br>previous period |
|---|--------------------------|-------------------------------|
| Cash payments for general and administrative expenses | 262,625,683.70           | 186,051,564.93                |
| Cash payments for selling and distribution expenses   | 1,087,347,369.22         | 639,068,655.13                |
| Bank charges  | 5,477,821.30             | 3,221,788.47                  |
| Other   | 64,656,091.52            | 297,136,631.74                |
| <b>Total</b>  | <b>1,420,106,965.74</b>  | <b>1,125,478,640.27</b>       |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 46. Supplementary information on cash flows statement

##### (1) Supplementary information on cash flows statement

| Supplementary information   | Amount for<br>the period | Amount for<br>previous period |
|---|--------------------------|-------------------------------|
| <b>1. Reconciliation of net profit to cash flows from operating activities:</b>                                   |                          |                               |
| Net profit  | 638,415,965.79           | 745,126,902.33                |
| Add: Provision for assets impairment  | 7,056,482.02             | 6,688,362.49                  |
| Depreciation of fixed assets, depletion of oil and gas assets<br>and depreciation of productive biological assets | 213,202,325.77           | 167,246,496.36                |
| Amortization of intangible assets   | 10,983,180.94            | 10,914,036.77                 |
| Amortization of long-term prepaid expenses  | 1,131,064.92             | 150,534.47                    |
| Loss on disposals of fixed assets, intangible and other long-<br>term assets (Gain denoted in "bracket")          | 856,818.94               | 503,737.16                    |
| Loss on scrapping of fixed assets<br>(Gain denoted in "bracket")  | —                        | —                             |
| Loss on change in fair value<br>(Gain denoted in "bracket")   | 90,475,246.57            | (35,908,729.66)               |
| Financial expenses (Gain denoted in "bracket")  | (14,986,556.54)          | 10,828,867.25                 |
| Investment loss (Gain denoted in "bracket")   | (186,760,167.37)         | (154,056,030.47)              |
| Decrease in deferred tax assets<br>(Increase denoted in "bracket")  | 4,132,614.34             | 1,149,237.03                  |
| Increase in deferred tax liabilities<br>(Decrease denoted in "bracket")   | —                        | —                             |
| Decrease in inventory (Increase denoted in "bracket")   | (321,557,030.40)         | (400,278,001.48)              |
| Decrease in operating receivables<br>(Increase denoted in "bracket")  | (2,693,136,532.83)       | (2,681,556,220.91)            |
| Increase in operating payables<br>(Decrease denoted in "bracket")   | 2,350,472,811.94         | 2,408,381,843.75              |
| Others  | —                        | —                             |
| Net cash flows from operating activities  | 100,286,224.09           | 79,191,035.09                 |
| <b>2. Significant investing and financing activities not involving cash receipts and payment:</b>                 |                          |                               |
| Liabilities converted into equity   | —                        | —                             |
| Convertible company debentures due within one year  | —                        | —                             |
| Fixed assets under finance leases   | —                        | —                             |
| <b>3. Net movement in cash and cash equivalents:</b>  |                          |                               |
| Cash at the end of the period   | 739,977,525.12           | 479,633,849.73                |
| Less: Cash at the beginning of the period   | 472,987,177.54           | 513,661,376.53                |
| Add: Cash equivalents at the end of the period  | —                        | —                             |
| Less: Cash equivalents at the beginning of the period   | —                        | —                             |
| <b>Net increase in cash and cash equivalents</b>  | <b>266,990,347.58</b>    | <b>(34,027,526.80)</b>        |

**NOTES TO THE FINANCIAL STATEMENTS — Continued**

Half year of 2014

**7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued****46. Supplementary information on cash flows statement — Continued****(2) Information on disposal of subsidiaries and other operating units during the reporting period**

Nil

**(3) Details of cash and cash equivalents**

| Item   | Closing balance       | Opening balance       |
|--|-----------------------|-----------------------|
| 1. Cash  |                       |                       |
| Including: Cash on hand                                  | 9,314.61              | 2,857.60              |
| Bank deposit that are readily available for payment      | 739,968,210.51        | 472,984,319.94        |
| Other cash that are readily available for payment        |                       |                       |
| 2. Cash equivalents                                      |                       |                       |
| Including: Bond investments due within three months      |                       |                       |
| 3. Cash and cash equivalents as at the end of the period | <u>739,977,525.12</u> | <u>472,987,177.54</u> |

**47. Net current assets**

| Item                                     | Closing balance         | Opening balance         |
|--|-------------------------|-------------------------|
| Current assets (Consolidated)            | 11,006,700,555.73       | 7,747,383,324.25        |
| Less: Current liabilities (Consolidated) | 11,295,636,226.69       | 8,364,201,568.24        |
| Net current Assets (Consolidated)        | (288,935,670.96)        | (616,818,243.99)        |
| Current assets (the parent)              | 5,051,312,441.04        | 6,511,109,633.34        |
| Less: Current liabilities (the parent)   | 5,156,006,314.35        | 7,247,032,125.40        |
| Net current assets (the parent)          | <u>(104,693,873.31)</u> | <u>(735,922,492.06)</u> |

**48. Total assets less current liabilities**

| Item   | Closing balance         | Opening balance         |
|--|-------------------------|-------------------------|
| Total assets (Consolidated)                          | 15,594,015,302.57       | 11,964,709,290.58       |
| Less: Current liabilities (Consolidated)             | 11,295,636,226.69       | 8,364,201,568.24        |
| Total assets less current liabilities (Consolidated) | 4,298,379,075.88        | 3,600,507,722.34        |
| Total assets (the parent)                            | 8,988,699,569.36        | 10,451,187,516.52       |
| Less: current liabilities (the parent)               | 5,156,006,314.35        | 7,247,032,125.40        |
| Total assets less current liabilities (the parent)   | <u>3,832,693,255.01</u> | <u>3,204,155,391.12</u> |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

#### 49. Segment information

The Group manages its business by divisions which are organized by a mixture of both business lines and geographical locations. For the purpose of resource allocation and performance assessment, the management manages the operating results of each business segment separately, and the segment results are assessed based on the profits of the reporting segments.

##### (1) Segment profit or loss and assets and liabilities

| Amount for the period   | Refrigerators and<br>washing machines | Air-conditioners  | Others           | Inter-segment<br>elimination | Total             |
|---|---------------------------------------|-------------------|------------------|------------------------------|-------------------|
| 1. Revenue from external sales  | 6,287,790,801.14                      | 7,214,897,296.28  | 529,721,371.69   |                              | 14,032,409,469.11 |
| 2. Revenue from Inter-segment   |                                       |                   | 685,139,673.40   | (685,139,673.40)             |                   |
| 3. Gain from investment in associates<br>and jointly controlled entities                | (13,089,815.38)                       | 154,659,214.59    | 19,780.37        |                              | 141,589,179.58    |
| 4. Depreciation and amortization  | 131,224,705.35                        | 61,518,837.23     | 31,441,964.13    |                              | 224,185,506.71    |
| 5. Gain from changes in fair value  | (38,508,944.11)                       | (40,225,630.56)   | (11,740,671.90)  |                              | (90,475,246.57)   |
| 6. Impairment losses on assets  | 2,007,220.40                          | 2,523,503.54      | 2,525,758.08     |                              | 7,056,482.02      |
| 7. Total profit (Total loss)  | 200,120,273.80                        | 479,284,433.71    | 92,501,371.81    | (30,379,372.32)              | 741,526,707.00    |
| 8. Income tax expenses  | 26,205,733.62                         | 71,433,826.93     | 5,471,180.66     | 0.00                         | 103,110,741.21    |
| 9. Net profit (net loss)<br>(including minority interests)                              | 173,914,540.18                        | 407,850,606.78    | 87,030,191.15    | (30,379,372.32)              | 638,415,965.79    |
| 10. Total assets  | 13,269,026,315.69                     | 12,062,111,032.83 | 3,942,866,361.86 | (13,679,988,407.81)          | 15,594,015,302.57 |
| 11. Total liabilities   | 9,368,237,443.37                      | 9,819,799,306.76  | 2,697,634,850.08 | (10,159,310,691.81)          | 11,726,360,908.40 |
| 12. Additions to other non-current<br>assets other than long-term<br>equity investments | 149,221,863.60                        | 75,641,716.07     | 92,368,330.07    |                              | 317,231,909.74    |

Continued from above table

| Amount for last period  | Refrigerators and<br>washing machines | Air-conditioners | Others           | Inter-segment<br>elimination | Total             |
|---|---------------------------------------|------------------|------------------|------------------------------|-------------------|
| 1. Revenue from external sales  | 6,253,116,338.53                      | 5,056,633,164.27 | 480,266,067.18   |                              | 11,790,015,569.98 |
| 2. Revenue from inter-segment   |                                       |                  | 418,300,423.53   | (418,300,423.53)             |                   |
| 3. Gain from investment in associates<br>and jointly controlled entities                | (2,470,987.60)                        | 121,979,146.56   | 53,125.03        |                              | 119,561,283.99    |
| 4. Depreciation and amortization  | 98,934,365.77                         | 51,701,398.96    | 27,524,768.40    |                              | 178,160,533.13    |
| 5. Gain from changes in fair value  | 18,451,911.09                         | 17,229,470.87    | 227,347.70       |                              | 35,908,729.66     |
| 6. Impairment losses on assets  | 12,186,845.98                         | (9,510,584.38)   | 4,012,100.89     |                              | 6,688,362.49      |
| 7. Total profit (Total loss)  | 376,580,290.10                        | 307,783,454.94   | 107,891,979.23   | (27,233,524.73)              | 765,022,199.54    |
| 8. Income tax expenses  | 14,350,935.70                         | 2,892,139.46     | 2,652,222.04     |                              | 19,895,297.20     |
| 9. Net profit (net loss) (including<br>minority interests)                              | 362,229,354.40                        | 304,891,315.48   | 105,239,757.19   | (27,233,524.73)              | 745,126,902.34    |
| 10. Total assets  | 10,505,823,975.90                     | 7,865,318,736.17 | 3,457,583,436.30 | (9,334,685,900.92)           | 12,494,040,247.45 |
| 11. Total liabilities   | 7,140,418,703.35                      | 6,271,972,667.65 | 2,548,483,271.58 | (6,076,238,814.64)           | 9,884,635,827.94  |
| 12. Additions to other non-current<br>assets other than long-term<br>equity investments | 158,927,785.11                        | (9,421,775.75)   | (4,890,164.12)   |                              | 144,615,845.24    |



**NOTES TO THE FINANCIAL STATEMENTS — Continued**

Half year of 2014

**7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued****49. Segment information — Continued****(2) Geographic Information**

| <b>Item</b>                         | <b>Amount for<br/>the period</b> | <b>Amount for<br/>last period</b> |
|-------------------------------------|----------------------------------|-----------------------------------|
| Revenue from domestic transactions  | 10,114,000,100.38                | 8,226,727,331.31                  |
| Revenues from overseas transactions | 3,918,409,368.73                 | 3,563,288,238.67                  |
| <b>Total</b>                        | <b>14,032,409,469.11</b>         | <b>11,790,015,569.98</b>          |
| <b>Item</b>                         | <b>Closing balance</b>           | <b>Opening balance</b>            |
| Non-current assets — Domestic       | 4,189,514,314.75                 | 3,812,999,561.22                  |
| Non-current assets — Overseas       | 397,800,432.09                   | 404,326,405.11                    |
| <b>Total</b>                        | <b>4,587,314,746.84</b>          | <b>4,217,325,966.33</b>           |

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

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

#### 1. Particulars of the parent (Unit: RMB'0000)

| Name of the parent               | Relationship                 | Category of enterprise     | Place of Registration | Legal representative | Business nature   |
|----------------------------------|------------------------------|----------------------------|-----------------------|----------------------|---|
| Qingdao Hisense Air-conditioning | Controlling shareholder      | Foreign-sino joint venture | Qingdao               | Tang Ye Guo          | Manufacture of air-conditioners, moulds and provision of after-sale services  |
| Hisense Group                    | Ultimate holding shareholder | State wholly-owned         | Qingdao               | Zhou Hou Jian        | Entrusted operation of state-owned assets; manufacture and sales of household appliances, communication products and services |

Continued from above table

| Name of the parent               | Registered capital | Shareholding of the parent (%) | Voting rights of the parent (%) | Ultimate holding company  | Organization code |
|----------------------------------|--------------------|--------------------------------|---------------------------------|---|-------------------|
| Qingdao Hisense Air-conditioning | 67,479             | 45.07                          | 45.07                           | State-owned Assets Supervision and Administration Commission of Qingdao Municipal | 61430651-4        |
| Hisense Group                    | 80,617             |                                |                                 | State-owned Assets Supervision and Administration Commission of Qingdao Municipal | 16357877-1        |

#### 2. For information on the subsidiaries, associates and joint ventures of the Company, please see note 6, note 7(9) and note 7(10).

#### 3. Greencool Companies

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

**NOTES TO THE FINANCIAL STATEMENTS — Continued**

Half year of 2014

**8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued****4. Other related parties of the Company**

| <u>Name of other related parties</u>   | <u>Relationship of other related parties with the Company</u> | <u>Institution code</u> |
|--|---|-------------------------|
| Hisense Finance Co., Ltd. ("Hisense Finance")                                | Subsidiary of ultimate holding company                        | 71788291x               |
| Hisense Electric Co., Ltd.<br>("Hisense Electrical Appliances")              | Subsidiary of ultimate holding company                        | 26462882-x              |
| Shunde Yunlong Consultancy Service Limited<br>("Shunde Yunlong Consultancy") | Minority shareholder of Huaao Electronics                     |                         |
| Beijing Xuehua Group Company Limited<br>("Xuehua Group")                     | Minority shareholder of Beijing Refrigerator                  |                         |
| Beijing Embraco Snowflake compressor Co., Ltd.<br>("Embraco")                | Associate of Xuehua Group                                     |                         |
| Hisense International (HK) Co., Ltd.<br>("Hisense Hong Kong")                | Subsidiary of ultimate holding company                        |                         |

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

| <u>Name of related party</u> | <u>Relationship with the Company</u> |
|------------------------------|--------------------------------------|
| Jiangxi Kesheng              | Specific Third Party Company         |
| Jinan San Ai Fu              | Specific Third Party Company         |
| Jiangxi Keda                 | Specific Third Party Company         |
| Hefei Weixi                  | Specific Third Party Company         |
| Zhuhai Longjia               | Specific Third Party Company         |
| Zhuhai Defa                  | Specific Third Party Company         |
| Wuhan Changrong              | Specific Third Party Company         |
| Tianjin Taijin               | Specific Third Party Company         |
| Deheng Solicitors            | Specific Third Party Company         |
| Shangqiu Bingxiong           | Specific Third Party Company         |

# NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

## 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued

### (6) Related party transactions

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

| Related party                                      | Particulars of related parties transactions | Pricing and decision-making procedures of related parties transactions | Amount for the period |                                       | Amount for previous period |                                       |
|--|---|--|-----------------------|---------------------------------------|----------------------------|---------------------------------------|
|  |   |  | Amount                | Percentage to similar transaction (%) | Amount                     | Percentage to similar transaction (%) |
| Hisense Electrical Appliances and its subsidiaries | Purchase of finished goods                  | Agreed price   | 60,267.37             | —                                     | 4,273.50                   | —                                     |
| Hisense Whirlpool                                  | Purchase of finished goods                  | Agreed price   | 194,907,823.66        | 1.62                                  | 169,344,107.94             | 1.65                                  |
| Hisense Hitachi                                    | Purchase of finished goods                  | Agreed price   | 622,009.40            | 0.01                                  | —                          | —                                     |
| <b>Subtotal of purchase of finished goods</b>      |   |  | <b>195,590,100.43</b> | <b>1.63</b>                           | <b>169,348,381.44</b>      | <b>1.65</b>                           |
| Hisense Electrical Appliances and its subsidiaries | Purchase of raw materials                   | Agreed price   | 18,149,369.53         | 0.15                                  | 8,581,592.25               | 0.08                                  |
| Hisense Group and its subsidiaries                 | Purchase of raw materials                   | Agreed price   | 12,075,076.65         | 0.10                                  | 4,707,790.92               | 0.05                                  |
| Hisense Whirlpool                                  | Purchase of raw materials                   | Agreed price   | 3,690,044.91          | 0.03                                  | 2,292,058.17               | 0.02                                  |
| Hisense Hitachi                                    | Purchase of raw materials                   | Agreed price   | 2,986,714.26          | 0.02                                  | 7,580,088.26               | 0.07                                  |
| Huayi Compressor and its subsidiaries              | Purchase of raw materials                   | Agreed price   | 376,988,526.12        | 3.13                                  | 453,156,961.54             | 4.42                                  |
| Embraco  | Purchase of raw materials                   | Agreed price   | 14,217,109.40         | 0.12                                  | 26,545,013.68              | 0.26                                  |
| <b>Subtotal of purchase of raw materials</b>       |   |  | <b>428,106,840.87</b> | <b>3.55</b>                           | <b>502,863,504.81</b>      | <b>4.90</b>                           |
| Hisense Electrical Appliances and its subsidiaries | Receipt of services                         | Agreed price   | 3,779,996.25          | 0.03                                  | 2,762,769.65               | 0.03                                  |
| Hisense Group and its subsidiaries                 | Receipt of services                         | Agreed price   | 216,363,969.20        | 1.79                                  | 123,517,530.99             | 1.21                                  |
| Xuehua Group                                       | Receipt of services                         | Agreed price   | —                     | —                                     | 12,448,010.95              | 0.12                                  |
| <b>Subtotal of receipt of services</b>             |   |  | <b>220,143,965.45</b> | <b>1.82</b>                           | <b>138,728,311.59</b>      | <b>1.36</b>                           |
| Hisense Hong Kong                                  | Purchase financing agency                   | Agreed price   | 159,244,111.45        | 1.32                                  | 84,138,891.32              | 0.82                                  |
| <b>Subtotal of financing purchase</b>              |   |  | <b>159,244,111.45</b> | <b>1.32</b>                           | <b>84,138,891.32</b>       | <b>0.82</b>                           |

**8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued****(6) Related party transactions — Continued****(1) Purchase of goods/receipt of services — Continued**

The Company and Hisense Group entered into a Business Cooperation Framework Agreement on 21 November 2013. During the effective term of the agreement, the transaction with the Company being the purchaser and recipient of service was subject to an aggregate cap (exclusive of tax) of RMB508,030,000.

The Company and Hisense Electrical Appliances entered into a Business Cooperation Framework Agreement on 21 November 2013. During the effective term of the agreement, the transaction with the Company being the purchaser and recipient of service was subject to an aggregate cap (exclusive of tax) of RMB62,010,000.

The Company and Hisense Whirlpool entered into a Business Framework Agreement (II) on 21 November 2013. During the effective term of the agreement, the transaction with the Company being the purchaser and recipient of service was subject to an aggregate cap (exclusive of tax) of RMB1,257,730,000.

The Company and Huayi Hitachi entered into a Business Framework Agreement (I) on 21 November 2013. During the effective term of the agreement, the transaction with the Company being the purchaser was subject to an aggregate cap (exclusive of tax) of RMB20,080,000.

The Company and Hisense Hong Kong entered into a Factoring Purchase Framework Agreement on 21 November 2013. During the effective period of the agreement, the transaction in which Hisense Kelon engaged Hisense Hong Kong to perform factoring purchase as its agent was subject to an aggregate cap of USD36,000,000.

The above agreements were considered and approved at the fifth interim meeting of the Company's eighth session of the board of directors in 2013 convened on 21 November 2013 and the first extraordinary general meeting in 2014 convened on 10 January 2014 respectively.

# NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

## 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued

### (6) Related party transactions — Continued

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

| Name of related party                               | Particulars of related parties transactions | Pricing policies and procedures for decision-making | Amount for the period |                                       | Amount for previous period |                                       |
|---|---|---|-----------------------|---------------------------------------|----------------------------|---------------------------------------|
|   |   |   | Amount                | Percentage to similar transaction (%) | Amount                     | Percentage to similar transaction (%) |
| Hisense Electrical Appliances and its subsidiaries  | Sale of finished goods                      | Agreed price  | 146,139.04            | —                                     | —                          | —                                     |
| Hisense Group and its subsidiaries                  | Sale of finished goods                      | Agreed price  | 902,737,391.61        | 5.86                                  | 1,728,382,797.10           | 13.30                                 |
| Hisense Whirlpool                                   | Sale of finished goods                      | Agreed price  |                       |                                       | 118,964.96                 | 0.00                                  |
| Hisense Hitachi                                     | Sale of finished goods                      | Agreed price  | 15,280,315.32         | 0.10                                  | 25,377,120.10              | 0.20                                  |
| <b>Subtotal of sales amount of finished product</b> |   |   | <b>918,163,845.97</b> | <b>5.96</b>                           | <b>1,753,878,882.16</b>    | <b>13.50</b>                          |
| Hisense Electrical Appliances and its subsidiaries  | Sale of raw materials                       | Agreed price  | 2,682,707.14          | 0.02                                  | 2,819,936.95               | 0.02                                  |
| Hisense Group and its subsidiaries                  | Sale of raw materials                       | Agreed price  | 4,604,364.56          | 0.03                                  | 5,165,884.71               | 0.04                                  |
| Hisense Whirlpool                                   | Sale of raw materials                       | Agreed price  | 5,169,810.78          | 0.03                                  | 5,854,478.13               | 0.05                                  |
| Hisense Hitachi                                     | Sale of raw materials                       | Agreed price  | 589,151.84            | —                                     | 331,418.30                 | 0.00                                  |
| Huayi   | Sale of raw materials                       | Agreed price  | 24,211.01             | —                                     |                            |                                       |
| <b>Subtotal of sales amount of raw materials</b>    |   |   | <b>13,070,245.33</b>  | <b>0.08</b>                           | <b>14,171,718.08</b>       | <b>0.11</b>                           |
| Hisense Electrical Appliances and its subsidiaries  | Sale of mould                               | Market price  | 40,068,376.07         | 0.26                                  | 40,106,837.61              | 0.31                                  |
| Hisense Group and its subsidiaries                  | Sale of mould                               | Market price  | 90,827,390.81         | 0.59                                  | 86,002,677.14              | 0.66                                  |
| Hisense Whirlpool                                   | Sale of mould                               | Market price  | 3,762,820.52          | 0.02                                  | 5,037,705.98               | 0.04                                  |
| Hisense Hitachi                                     | Sale of mould                               | Market price  | 1,232,478.63          | 0.01                                  |                            |                                       |
| <b>Subtotal of sales amount of moulds</b>           |   |   | <b>135,891,066.03</b> | <b>0.88</b>                           | <b>131,147,220.73</b>      | <b>1.01</b>                           |
| Hisense Group and its subsidiaries                  | Rendering of service                        | Agreed price  | 2,745,111.37          | 0.02                                  | 1,193,884.39               | 0.01                                  |
| Hisense Whirlpool                                   | Rendering of service                        | Agreed price  | 904,487.48            | 0.01                                  | 1,155,083.02               | 0.01                                  |
| Attend  | Rendering of service                        | Agreed price  | 2,177.30              | —                                     | 2,905.80                   | 0.00                                  |
| <b>Subtotal of rendering of service</b>             |   |   | <b>3,651,776.15</b>   | <b>0.03</b>                           | <b>2,351,873.21</b>        | <b>0.02</b>                           |

**NOTES TO THE FINANCIAL STATEMENTS — Continued**

Half year of 2014

**8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued****(6) Related party transactions — Continued****(2) Sale of goods/rendering of service — Continued**

The Company and Hisense Group entered into a Business Cooperation Framework Agreement on 21 November 2013. During the effective period of the agreement, the transaction with the Company being the supplier and service provider was subject to an aggregate cap (exclusive of tax) of RMB3,326,290,000.

The Company and Hisense Electrical Appliances entered into a Business Cooperation Framework Agreement on 21 November 2013. During the effective period of the agreement, the transaction with the Company being the supplier and service provider was subject to an aggregate cap (exclusive of tax) of RMB107,670,000.

The Company and Hisense Whirlpool entered into a Business Framework Agreement (II) on 21 November 2013. During the effective period of the agreement, the transaction with the Company being the supplier and service provider was subject to an aggregate cap (exclusive of tax) of RMB86,100,000.

The Company and Hisense Hitachi entered into a Business Framework Agreement (I) on 21 November 2013. During the effective period of the agreement, the transaction with the Company being the supplier and service provider was subject to an aggregate cap (exclusive of tax) of RMB273,500,000.

The above agreements were considered and approved at the fifth interim meeting of the Company's eighth session of the board of directors in 2013 convened on 21 November 2013 and the first extraordinary general meeting in 2014 convened on 10 January 2014 respectively.

**(3) Particulars of related party guarantees**

| Guarantor                           | Guaranteed party      | Amount (RMB'0000) | Effective date of guarantee | Expiry date of guarantee | Nature of Guarantee       | Guarantee Completed |
|-------------------------------------|-----------------------|-------------------|-----------------------------|--------------------------|---------------------------|---------------------|
| Hisense Group                       | Shandong Refrigerator | 2,307.85          | 25 April 2013               | 23 February 2015         | Import letter of credit   | No                  |
| Hisense Group                       | Shandong Refrigerator | 609.34            | 25 April 2013               | 23 February 2015         | Domestic letter of credit | No                  |
| <b>Subtotal of letter of credit</b> |                       | <b>2,917.19</b>   |                             |                          |                           |                     |

Particulars of related party guarantee:

In April 2013, Hisense Group and the business department of Qingdao branch of Agricultural Bank entered into a Maximum Guarantee Contract (No. 84100520130002413), pursuant to which Hisense Group would provide guarantee securities for the liabilities under the maximum credit limit of RMB100,000,000 arising from various businesses with Shandong Refrigerator by the business department of Qingdao branch of Agricultural Bank during the period from 25 April 2013 to 23 April 2014.

As at 30 June 2014, the Company and its subsidiaries had balances of bank deposit of RMB521,764,600, loans of RMB0, and notes payable of RMB912,597,900 with Hisense Finance. For the year, loan interests paid to Hisense Finance amounted to RMB0, interests paid in relation to discounted notes amounted to RMB0, and handling fees paid amounted to RMB707,900. Interest income received from Hisense Finance for the deposits amounted to RMB1,193,100. Provision of foreign exchange services by Hisense Finance amounted to RMB208,382,200 for the year.

# NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

## 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued

### (7) Receivables from and payables to related parties

#### (1) Receivables from related parties

| Item                | Related party                                      | Closing balance       |                         | Opening balance       |                         |
|---------------------|--|-----------------------|-------------------------|-----------------------|-------------------------|
|                     |  | Carrying amount       | Provision for bad debts | Carrying amount       | Provision for bad debts |
| Accounts receivable | Hisense Electrical Appliances and its subsidiaries | 5,666,658.59          |                         | 8,310,815.47          |                         |
| Accounts receivable | Hisense Group and its subsidiaries                 | 428,471,938.80        | 830.04                  | 261,146,292.16        | 830.04                  |
| Accounts receivable | Hisense Whirlpool                                  | 5,873,438.97          |                         | 6,612,890.57          |                         |
| Accounts receivable | Hisense Hitachi                                    | 12,488,053.40         |                         | 12,091,751.26         |                         |
| Accounts receivable | Huayi Compressor and its subsidiaries              | 73,246.76             |                         |                       |                         |
| <b>Subtotal</b>     |  | <b>452,573,336.52</b> | <b>830.04</b>           | <b>288,161,749.46</b> | <b>830.04</b>           |
| Notes receivable    | Hisense Electrical Appliances and its subsidiaries | 10,136,000.00         |                         |                       |                         |
| Notes receivable    | Hisense Group and its subsidiaries                 | 36,708,973.30         |                         | 11,349,514.97         |                         |
| <b>Subtotal</b>     |  | <b>46,844,973.30</b>  |                         | <b>11,349,514.97</b>  |                         |
| Other receivables   | Shunde Yunlong Consultancy                         |                       |                         | 4,455,375.57          | 4,455,375.57            |
| Other receivables   | Hisense Electrical Appliances and its subsidiaries |                       |                         | 33,670.00             |                         |
| Other receivables   | Hisense Group and its subsidiaries                 | 435,760.40            |                         | 446,694.81            |                         |
| Other receivables   | Hisense Whirlpool                                  | 2,948,206             |                         | 11,122,562.09         |                         |
| Other receivables   | Xuehua Group                                       | 6,889,899             |                         |                       |                         |
| <b>Subtotal</b>     |  | <b>10,273,865.40</b>  | <b>0.00</b>             | <b>16,058,302.47</b>  | <b>4,455,375.57</b>     |
| Prepayments         | Hisense Group and its subsidiaries                 | 273,157               |                         | 448,053.16            |                         |
| Prepayments         | Hisense Hitachi                                    | 148,865.00            |                         |                       |                         |
| <b>Subtotal</b>     |  | <b>422,022.00</b>     |                         | <b>448,053.16</b>     |                         |



# NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

## 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued

### (7) Receivables from and payables to related parties — Continued

#### (2) Payables to related parties

| Item                    | Related party                                      | Closing balance       | Opening balance       |
|-------------------------|--|-----------------------|-----------------------|
| Accounts payable        | Hisense Electrical Appliances and its subsidiaries | 2,742,132.12          | 38,336.76             |
| Accounts payable        | Huayi Compressor and its subsidiaries              | 252,522,025.14        | 174,056,225.97        |
| Accounts payable        | Embraco  | 4,320,579.11          | 18,578,321.11         |
| Accounts payable        | Hisense Group and its subsidiaries                 | 97,563,909.68         | 34,213,685.77         |
| Accounts payable        | Hisense Whirlpool                                  | 85,935,409.83         | 235,546,646.15        |
| Accounts payable        | Hisense Hitachi                                    |                       | 1,323.34              |
| <b>Subtotal</b>         |  | <b>443,084,055.88</b> | <b>462,434,539.10</b> |
| Other payables          | Hisense Group and its subsidiaries                 | 3,090,333.05          | 390,870.01            |
| Other payables          | Hisense Electrical Appliances and its subsidiaries | 200,000.00            |                       |
| Other payables          | Huayi Compressor and its subsidiaries              | 600,000.00            | 600,000.00            |
| Other payables          | Embraco  | 100,000.00            | 100,000.00            |
| Other payables          | Combine  | 5,099,880.00          | 5,099,880.00          |
| Other payables          | Hisense Whirlpool                                  | 999.99                |                       |
| Other payables          | Hisense Hitachi                                    | 112,422.00            |                       |
| Other payables          | Xuehua Group                                       |                       | 629,794.63            |
| <b>Subtotal</b>         |  | <b>9,203,635.04</b>   | <b>6,820,544.64</b>   |
| Advances from customers | Hisense Hitachi                                    |                       | 8,589,916.67          |
| Advances from customers | Hisense Group and its subsidiaries                 | 254,357.70            | 491,778.44            |
| <b>Subtotal</b>         |  | <b>254,357.70</b>     | <b>9,081,695.11</b>   |

# NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

## 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued

### (8) Transactions with “specific third party companies”

| Item                                   | Related parties   | Closing carrying balance   | Opening carrying balance   |
|--|---|--|--|
| Accounts receivable                    | Hefei Weixi<br>Wuhan Changrong  |  | 18,229,589.24<br>20,460,394.04   |
| <b>Subtotal of accounts receivable</b> |   |  | <b>38,689,983.28</b>   |
| Prepayments                            | Hefei Weixi   |  | 465,213.00   |
| <b>Subtotal of prepayments</b>         |   |  | <b>465,213.00</b>  |
| Other receivables                      | Jiangxi Kesheng<br>Jinan San Ai Fu<br>Jiangxi Keda<br>Zhuhai Longjia<br>Zhuhai Defa<br>Wuhan Changrong<br>Deheng Solicitors<br>Shangqiu Bingxiong | 27,462,676.72<br>121,496,535.45<br>13,000,200.00<br>28,600,000.00<br>21,400,000.00<br>20,000,000.00<br>2,000,000.00<br>58,030,000.00 | 27,462,676.72<br>121,496,535.45<br>13,000,200.00<br>28,600,000.00<br>21,400,000.00<br>20,000,000.00<br>4,000,000.00<br>58,030,000.00 |
| <b>Subtotal of other receivables</b>   |   | <b>291,989,412.17</b>  | <b>293,989,412.17</b>  |
| Other payables                         | Zhuhai Longjia<br>Zhuhai Defa<br>Tianjin Taijin   | 28,316,425.03<br><br>65,000,000.00   | 28,316,425.03<br>7,362,170.00<br>65,000,000.00   |
| <b>Subtotal of other payables</b>      |   | <b>93,316,425.03</b>   | <b>100,678,595.03</b>  |

### (9) Transactions with Greencool Companies

| Item                                 | Related parties  | Closing carrying balance | Opening carrying balance   |
|--------------------------------------|--|--------------------------|--|
| Other receivables                    | Guangdong Greencool<br>Shenzhen Greencool<br>Environmental<br>Shenzhen Greencool<br>Technology<br>Hainan Greencool |                          | 13,754,600.00<br><br>33,000,000.00<br><br>32,000,000.00<br>12,289,357.71 |
| <b>Subtotal of other receivables</b> |  | <b>77,289,357.71</b>     | <b>91,043,957.71</b>   |
| Other payables                       | Jiangxi Greencool  | 13,000,000.00            | 13,000,000.00  |
| <b>Subtotal of other payables</b>    |  | <b>13,000,000.00</b>     | <b>13,000,000.00</b>   |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 9. SHARE-BASED PAYMENT

#### 1. General information about share-based payments

| Item   | Amount for the period  |
|--|--|
| Total equity instruments granted during the period   | 537,552.26   |
| Total equity instruments exercised during the period   | (3,241,566.14)   |
| Total equity instruments expired during the period   |  |
| Range of exercise price of share option outstanding and remaining term of contract as the end of the period    | Exercise price of share option was RMB7.65, with a remaining term of contract term of 608 days |
| Range of exercise price of other equity instruments and remaining term of contract as at the end of the period |  |

#### 2. Equity settled share-based payments

| Item  | Amount for the period   |
|---|---|
| Determination on fair value of equity instruments as the date of grant                | Fair value of share options under the Scheme calculated by using the Black-Scholes option pricing model                           |
| Determination on the best estimate of quantity of exercisable equity instruments      | Determined by the number of incentive objects, expected gain of share option and performance assessment of incentive objects, etc |
| Reasons for significant discrepancies between estimate of current and previous period | Nil   |
| Accumulated amount of equity settled share-based payments in capital reserve          | 5,013,981.49  |
| Total expense recognized for equity settled share-based payments                      | 8,255,547.63  |

#### 3. Share-based services

| Item  | Accumulated amount |
|---|--------------------|
| Total amount of employee services as a result of the share-based payments | 8,255,547.63       |
| Total amount of other services as a result of the share-based payments    |                    |

#### 4. Shares granted

| Category          | Exercise price | Outstanding as at 1 January 2014 | Transferred from other categories during the period | Granted during the period | Exercised during the period | Expired during the period | Outstanding as at 30 June 2014 |
|-------------------|----------------|----------------------------------|---|---------------------------|-----------------------------|---------------------------|--------------------------------|
| Directors         | RMB7.65        | 2,989,000                        | (253,000)   |                           | 689,040                     |                           | 2,046,960                      |
| Senior management | RMB7.65        | 2,484,000                        | (1,656,000)   |                           | 258,060                     |                           | 569,940                        |
| Other management  | RMB7.65        | 9,369,000                        | 1,909,000   | 416,100                   | 3,493,710                   |                           | 7,368,190                      |
| <b>Total</b>      |                | <b>14,842,000</b>                |   | <b>416,100</b>            | <b>4,440,810</b>            |                           | <b>9,985,090</b>               |

**9. SHARE-BASED PAYMENT — Continued****4. Shares granted — Continued**

The Board has completed the registration for the grant of share options under the First Share Option Incentive Scheme of Hisense Kelon Electrical Holdings Company Limited under the authorization granted at the general meeting of the Company on 28 September 2011, the basic information as follows:

1. Date of grant: 31 August 2011
2. Exercise price: RMB7.65 per share.
3. Option abbreviation: Hisense JLC1
4. Option code: 037018
5. The share options valid for five years from the date of grant, subject to a restriction period of 2 years. The incentive participants may exercise their options in equal installments within 3 years from the third year of the date of grant, with 33%, 33% and 34% of the total options granted being exercisable each year.
6. The incentive participants may include: the directors of the Company excluding of the independent directors and external directors who are not officers of the Hisense Group and its subsidiaries (other than the Company and its subsidiaries), senior management (including president, vice president, financial controller, Board secretary, company secretary and other officers which are regarded as senior management under the Articles of Association) of the Company, mid-level management staff of the Company and its subsidiaries, and technical backbone determined by the Board.
7. The fund to be used for exercise of share options by the participants shall be raised by themselves and the Company does not provide borrowings or any other kind of financial assistance to the participants under the Scheme (including guarantee for their borrowings).
8. The share option scheme has been examined and approved by the SASAC of Qingdao, filed with the SASAC of the State Council and filed with the CSRC with no objections.

On 18 October 2013, the resolution on the adjustment of the participants and number of shares to be granted under the first share option incentive scheme of the Company was passed at the fourth interim meeting of the Company's eighth session of the board of directors in 2013 and 4,668,000 share options were cancelled as a result. Upon the adjustment, 14,842,000 share options can be granted under the scheme.

In 2013, the conditions for the first exercise period of the first share option incentive scheme of the Company were fulfilled. Upon approval at the fourth interim meeting of the Company's eighth session of the board of directors in 2013, the share options of 163 participants with the rights to exercise their share options during the first exercise period became exercisable. A total of 4,897,860 share options could be exercised at the exercise price of RMB7.65.

On 28 April 2014, the resolution on the adjustment of the participants and number of shares to be granted under the first share option incentive scheme of the Company was passed by the Company's board of directors and 9 participants outside the scope of the share option incentive scheme were delisted and their corresponding 416,100 share options were cancelled. Upon the adjustment, 14,425,900 share options can be granted under the scheme.

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 9. SHARE-BASED PAYMENT — Continued

#### 4. Shares granted — Continued

During the reporting period, upon application by the Company's board of directors, confirmation by the Shenzhen Stock Exchange and approval by and registration with the Shenzhen branch of China Government Securities Depository Trust & Clearing Co. Ltd., 148 participants of the Company's share option incentive scheme have exercised the share options underlying 4,440,810 shares at an exercise price of RMB7.65/ share for the first exercise period.

On 20 May 2014, the Company registered the changes in shares with the Shenzhen branch of China Government Securities Depository Trust & Clearing Co. Ltd.. The shares of the exercise of share options were listed on 23 May 2014. Among the shares, 947,100 shares were shares with restriction of trading issued upon the exercise of share options by directors and senior management of the Company (3 persons in total), which were restricted from trading for 6 months from 23 May 2014; 722,370 shares were shares with restriction of trading issued upon the exercise of share options by former senior management who have ceased employment as such for under 6 months (3 persons in total and otherwise employed by the Company), which were restricted from trading for 6 months from the date of cease of employment (that is, 27 March 2014). The above shares with restriction of trading added to 1,669,470 shares in aggregate. 2,771,340 shares issued upon the exercise of share options by the remaining 142 participants were all shares without restriction of trading.

Subsequent to this exercise, the Company has 9,985,090 shares related to share options issued but not exercised.

### 10. CONTINGENCIES

#### 1. Contingent liabilities arising from pending litigations and their financial impact

As at 30 June 2014, the pending litigations involving the Company are summarized as follows:

##### (1) Cases with the Company as the plaintiff

| Plaintiff                        | Defendant                             | Causes                            | Total amount involved |
|----------------------------------|---------------------------------------|-----------------------------------|-----------------------|
| The Company                      | Beijing Diamond Advertising Co., Ltd. | Dispute over advertising contract | 5,000,000.00          |
| The Company and its subsidiaries | Others                                |                                   | 5,070,000.00          |
| <b>Total</b>                     |                                       |                                   | <b>10,070,000.00</b>  |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 10. CONTINGENCIES — Continued

#### (2) Cases with the Company as the defendant

| Plaintiff                 | Defendant   | Cause   | Total amount involved |
|---------------------------|-------------|---|-----------------------|
| Supplier of raw materials | The Company | Dispute over sale and purchase contract and processing contract | 5,830,383.03          |
| Other                     | The Company | Labor dispute and others  | 14,334,633.69         |
| <b>Total</b>              |             |   | <b>20,165,016.72</b>  |

#### (3) Cases for which the judgment was in favor of the Company and become effective but was not yet executed

| Plaintiff    | Defendant     | Cause                       | Total amount involved |
|--------------|---------------|-----------------------------|-----------------------|
| The Company  | Shanqiu Kelon | Purchase amount outstanding | 25,660,900.00         |
| <b>Total</b> |               |                             | <b>25,660,900.00</b>  |

It represented the request of the Company to the defendants to repay the purchase amount of goods, related interests and all the litigation fees. The civil judgment is now in effect.

### 11. OTHER SIGNIFICANT EVENTS

#### 1. Assets and liabilities measured at fair value

| Item                                     | Opening balance      | Amount of financial assets | Gain/(loss) from change in fair value | Impairment provision for the period | Closing balance        |
|--|----------------------|----------------------------|---------------------------------------|-------------------------------------|------------------------|
| Financial assets                         |                      |                            |                                       |                                     |                        |
| Derivative financial assets              | 67,115,019.35        | 67,115,019.35              | (67,115,019.35)                       |                                     |                        |
| <b>Subtotal of financial assets</b>      | <b>67,115,019.35</b> | <b>67,115,019.35</b>       | <b>(67,115,019.35)</b>                | <b>0.00</b>                         |                        |
| Derivative financial liabilities         | (4,645.00)           | (4,645.00)                 | (23,360,227.22)                       |                                     | (23,364,872.22)        |
| <b>Subtotal of financial liabilities</b> | <b>(4,645.00)</b>    | <b>(4,645.00)</b>          | <b>(23,360,227.22)</b>                | <b>0.00</b>                         | <b>(23,364,872.22)</b> |

**11. OTHER SIGNIFICANT EVENTS — Continued****2. Financial risk management objectives and policies**

The Company's major financial instruments include: cash at bank and on hand, derivative financial instruments, notes receivable, accounts receivable, other receivables, notes payable, accounts payable, other payables, bank borrowings. Details of the financial instruments were disclosed in the relevant notes.

Risks associated with the above financial instruments include: credit risk, liquidity risk, interest rate risk and foreign currency risk.

**(1) Credit risk**

Credit risk is the risk exposed to the Company on financial losses arising from the failure of clients or financial instrument counterparties to fulfill contract obligations. It arises mainly from the bank balances, trade and other receivables and financial derivative.

The Company maintains substantially all of its bank balances in several major large state banks in the PRC. In strong support of the country on those banks, the Board is of the opinion that there is no significant credit risk exposed to losses associated with such assets.

The Company mitigates its exposure to risk relating to trade and other receivables by dealing with diversified customers with solid financial foundation. Certain new customers are required to place cash deposits with the Group to reduce the maximum exposure to 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 the management of liquidity risk, the Company monitors and maintains cash and cash equivalents at a level which is adequate, in the management's point of views, to finance the Company's operations and mitigate the effects of short-term fluctuations in cash flows. The Company's treasury department is responsible for maintaining a balance between continuity of funding and flexibility through the use of bank credit and loan in order to meet the Company's liquidity requirements.

In order to mitigate the liquidity risk, the directors have carried out a detailed review of the liquidity of the Company, including maturity profile of its trade and other payables, borrowings and availability of loan financing provided by Hisense Finance and future renewal of bank borrowings, it is concluded that adequate funding is available to fulfill the Group's short-term obligations and capital expenditure requirements.

11. OTHER SIGNIFICANT EVENTS — Continued

2. Financial risk management objectives and policies — Continued

(3) Interest rate risk

The Company is exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks, which are mostly short-term in nature whereas interest-bearing financial liabilities are primarily short-term bank borrowings. As at 30 June 2014, the Company's short-term bank borrowings were at fixed rate. As all the Company's borrowings were short term loans, any change in the interest rate from time to time is not considered to have significant impact on the Company's performance.

(4) Foreign currency risk

Foreign currency risk is the risk of loss due to adverse change in exchange rates relating 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 of exchange rates between RMB, USD, JPY and EUR.

The carrying amounts of the Company's monetary assets and monetary liabilities denominated in foreign currencies at the end of reporting period are as follows:

| Currency | Closing balance  |                | Opening balance  |               |
|----------|------------------|----------------|------------------|---------------|
|          | Assets           | Liabilities    | Assets           | Liabilities   |
| USD      | 1,134,450,599.62 | 494,954,496.35 | 1,021,163,328.28 | 59,472,179.79 |
| EUR      | 274,249,600.26   | 20,211,826.33  | 382,080,146.63   | 3,624,342.09  |

The following table indicates the approximate effect of reasonably possible foreign exchange rate changes on the net profit, to which the Group has significant exposure at the end of reporting period:

Sensitivity analysis of change in exchange rate:

| Item              | Amount for<br>the period<br>Increase/Decrease<br>in profit after tax | Amount for<br>previous period<br>Increase/Decrease<br>in profit after tax |
|-------------------|--|---|
| <b>USD to RMB</b> |  |   |
| Appreciates by 5% | 23,981,103.87  | 38,412,438.94   |
| Depreciates by 5% | (23,981,103.87)  | (38,412,438.94)   |
| <b>EUR to RMB</b> |  |   |
| Appreciates by 5% | 9,526,416.52   | 3,963,953.65  |
| Depreciates by 5% | (9,526,416.52)   | (3,963,953.65)  |



**NOTES TO THE FINANCIAL STATEMENTS — Continued**

Half year of 2014

**11. OTHER SIGNIFICANT EVENTS — Continued****(4) Foreign currency risk — Continued**

Sensitivity analysis of change in forward rate:

| Item              | Amount for<br>the period<br>Increase/Decrease<br>in profit after tax | Amount for<br>previous period<br>Increase/Decrease<br>in profit after tax |
|-------------------|--|---|
| <b>USD to RMB</b> |  |   |
| Appreciates by 5% | (12,956,250.00)  | (12,258,750.00)   |
| Depreciates by 5% | 12,956,250.00  | 12,258,750.00   |
| <b>EUR to RMB</b> |  |   |
| Appreciates by 5% | (954,375.00)   | (1,577,141.63)  |
| Depreciates by 5% | 954,375.00   | 1,577,141.63  |

**3. Capital management**

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group 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 periods ended 30 June 2014 and 31 December 2013.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes bank and other borrowings, accounts payable, notes payable, other payables and debentures payables, less cash and cash equivalents. The gearing ratios as at the end of the reporting periods were as follows:

| Item   | Closing balance   | Opening balance   |
|--|-------------------|-------------------|
| <b>Total debt</b>  | 11,726,360,908.40 | 8,781,371,568.01  |
| Including: Short-term borrowings                         | 501,736,882.06    | 191,681,513.02    |
| Accounts payable   | 5,502,769,681.97  | 3,480,510,368.16  |
| Notes payable  | 1,567,771,712.01  | 1,391,098,638.68  |
| Other payables   | 1,934,812,715.22  | 1,731,259,054.40  |
| Less: Cash and cash equivalents                          | 739,977,525.12    | 472,987,177.54    |
| <b>Net debt</b>  | 10,986,383,383.28 | 8,308,384,390.47  |
| <b>Equity attributable to shareholders of the parent</b> | 3,395,822,159.70  | 2,748,731,080.83  |
| <b>Capital and net debt</b>                              | 14,382,205,542.98 | 11,057,115,471.30 |
| <b>Gearing ratio</b>                                     | 76.39%            | 75.14%            |

**NOTES TO THE FINANCIAL STATEMENTS — Continued**

Half year of 2014

**11. OTHER SIGNIFICANT EVENTS — Continued****4. Retirement benefit scheme — Continued**

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

The total costs charged to the profit or loss approximately of RMB150,370,000 (Corresponding period last year: RMB83,696,500) represents contributions to the scheme by the Company and subsidiaries at rates specified in the scheme.

**5. Leases****(1) Different categories of leased assets of the Company are as follows:**

Unit: RMB'0000

| <u>Categories of leased assets under operating leases</u> | <u>Closing<br/>carrying amount</u> | <u>Opening<br/>carrying amount</u> |
|---|------------------------------------|------------------------------------|
| Buildings   | 3,269.62                           | 3,394.63                           |
| <b>Total</b>  | <b>3,269.62</b>                    | <b>3,394.63</b>                    |

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

The Company's investment properties are also leased to a number of tenants for different terms. The rental income for the reporting period amounted to RMB3,586,100 (Corresponding period last year: RMB5,118,300).

The minimum rent receivables under non-cancellable operating leases at the end of reporting period are follows:

Unit: RMB'0000

| <u>Item</u>                                    | <u>Amount for<br/>the period</u> | <u>Amount for<br/>previous period</u> |
|--|----------------------------------|---------------------------------------|
| Within one year                                | 322.17                           | 302.54                                |
| Over one year but within five years, inclusive | 183.50                           | 260.93                                |
| <b>Total</b>                                   | <b>505.67</b>                    | <b>563.47</b>                         |

**NOTES TO THE FINANCIAL STATEMENTS — Continued**

Half year of 2014

**11. OTHER SIGNIFICANT EVENTS — Continued****5. Leases — Continued****(3) The Company as lessee under operating lease**

The Company leases certain leasehold land and buildings and plant and machinery under operating leases with lease terms from one to five years. The operating lease payments for the period ended 30 June 2014 was as follows:

*Unit: RMB'0000*

|                                 | Amount for<br>the period | Amount for<br>previous period |
|---------------------------------|--------------------------|-------------------------------|
| <b>Operating lease payments</b> |                          |                               |
| Leasehold land and buildings    | 1,213.01                 | 1098.58                       |
| Plant and machinery             |                          | 374.02                        |
| <b>Total</b>                    | <b>1,213.01</b>          | <b>1,472.60</b>               |

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

*Unit: RMB'0000*

| Item                                | Amount for<br>the period | Amount for<br>previous period |
|-------------------------------------|--------------------------|-------------------------------|
| Within one year                     | 1,018.43                 | 1367.33                       |
| Over one year but within five years | 1,692.07                 | 1897.33                       |
| <b>Total</b>                        | <b>2,710.50</b>          | <b>3,264.66</b>               |

**6. Capital commitment**

*Unit: RMB'0000*

| Item  | Closing balance | Opening balance |
|---|-----------------|-----------------|
| Commitments for the investment in subsidiaries and jointly controlled entity:     |                 |                 |
| — Authorized but not yet contracted for   |                 |                 |
| — Contracted but not provided for   | 15,828.88       | 21,124.04       |
| Commitments for the acquisition of property, plant and equipment of subsidiaries: |                 |                 |
| — Contracted but not provided for   |                 |                 |

**7. Dividends**

No dividends was paid or proposed for the period (2013: Nil), or reserve funds converted into capital.

**NOTES TO THE FINANCIAL STATEMENTS — Continued***Half year of 2014***11. OTHER SIGNIFICANT EVENTS — Continued****8. Accounting treatment for the Greencool receivables**

As set out in the "Report of the Directors" of the Company for various years, "After the determination of the abovementioned debt settlement proportion, the Company will, based on the confirmed recoverable proportion, adjust retrospectively the 2005 balance sheet and income statement, and adjust the relevant items in the balance sheets as at 31 December 2006, 31 December 2007, 31 December 2008, 31 December 2009, 31 December 2010, 31 December 2011 and 31 December 2012 respectively."

In accordance with the opinion of the relevant departments of the Company and the relevant requirements of the accounting standards, the Company has adopted the prospective application method in the relevant accounting treatments and did not adjust the accounting statements of prior periods retrospectively.

The Company has reduced the impairment losses on assets by RMB578,014.68 for the period, based on the amount actually recovered in relation to the case and the carrying values of prior periods.

**12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT****1. Accounts receivable****(1) Disclosure of accounts receivable by categories:**

| Category   | Closing balance         |                    |                         |                    |
|--|-------------------------|--------------------|-------------------------|--------------------|
|  | Carrying amount         |                    | Provision for bad debts |                    |
|  | Amount                  | % of total balance | Amount                  | % of total balance |
| Individually significant and subject to separate provision   |                         |                    |                         |                    |
| Ageing analysis  | 1,650,445,987.55        | 100.00             | 151,436,048.54          | 9.18               |
| Greencool Companies  |                         |                    |                         |                    |
| <b>Subtotal</b>  | <b>1,650,445,987.55</b> | <b>100.00</b>      | <b>151,436,048.54</b>   | <b>9.18</b>        |
| Individually insignificant but subject to separate provision |                         |                    |                         |                    |
| <b>Total</b>   | <b>1,650,445,987.55</b> | <b>100.00</b>      | <b>151,436,048.54</b>   | <b>9.18</b>        |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

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

#### 1. Accounts receivable — Continued

##### (1) Disclosure of accounts receivable by categories: — Continued

Continued from above table

| Category   | Opening balance       |                    |                         |                    |
|--|-----------------------|--------------------|-------------------------|--------------------|
|  | Carrying amount       |                    | Provision for bad debts |                    |
|  | Amount                | % of total balance | Amount                  | % of total balance |
| Individually significant and subject to separate provision   |                       |                    |                         |                    |
| Aging analysis   | 807,479,424.07        | 95.43              | 152,560,754.49          | 18.89              |
| Greencool Companies  | 38,689,983.28         | 4.57               | 22,726,941.64           | 58.74              |
| Subtotal   | 846,169,407.35        | 100.00             | 175,287,696.13          | 20.72              |
| Individually insignificant but subject to separate provision |                       |                    |                         |                    |
| <b>Total</b>   | <b>846,169,407.35</b> | <b>100.00</b>      | <b>175,287,696.13</b>   | <b>20.72</b>       |

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

| Age                                     | Closing balance         |                    |                         | Opening balance       |                    |                         |
|---|-------------------------|--------------------|-------------------------|-----------------------|--------------------|-------------------------|
|   | Carrying amount         |                    | Provision for bad debts | Carrying amount       |                    | Provision for bad debts |
|   | Amount                  | % of total balance |                         | Amount                | % of total balance |                         |
| Within three months                     | 1,471,352,509.62        | 89.14              | 0.00                    | 630,662,395.32        | 74.53              |                         |
| Over three months but within six months | 29,020,992.26           | 1.76               | 2,902,099.23            | 24,931,888.10         | 2.95               | 2,493,188.81            |
| Over six months but within one year     | 3,077,072.73            | 0.19               | 1,538,536.37            | 3,635,149.94          | 0.43               | 1,817,574.97            |
| Over one year                           | 146,995,412.94          | 8.91               | 146,995,412.94          | 148,249,990.71        | 17.52              | 148,249,990.71          |
| <b>Total</b>                            | <b>1,650,445,987.55</b> | <b>100.00</b>      | <b>151,436,048.54</b>   | <b>807,479,424.07</b> | <b>95.43</b>       | <b>152,560,754.49</b>   |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

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

#### 1. Accounts receivable — Continued

##### (2) Movements in provision for accounts receivable

|                  | Opening        | Provision    | Decrease for the year |               | Closing balance |
|------------------|----------------|--------------|-----------------------|---------------|-----------------|
|                  | balance        | for the year | Reversal              | Write-off     |                 |
| Reporting Period | 175,287,696.13 | 129,871.82   |                       | 23,981,519.41 | 151,436,048.54  |

##### (3) Accounts receivable that were written off

| Company name      | Nature of accounts receivable | Amount written-off   | Reason for write-off                    | Arising from related party transactions or not |
|-------------------|-------------------------------|----------------------|---|--|
| Unrelated parties | Loans                         | 39,944,561.05        | Not recoverable due to long outstanding | No   |
| <b>Total</b>      |                               | <b>39,944,561.05</b> |   |  |

Including: Write-off of balances with the Greencool Companies of RMB38,689,983.28.

- (4) As at 30 June 2014, there was no amount due from shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of accounts receivable. As at 31 December 2013, there was no amount due from shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of accounts receivable.

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

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

#### 1. Accounts receivable — Continued

##### (5) Top five accounts receivable

Reporting Period

| No.          | Relationship with the Company | Amount                | Ageing              | Percentage of the total accounts receivable amount (%) |
|--------------|-------------------------------|-----------------------|---------------------|--|
| Top 1        | Subsidiary                    | 520,389,172.90        | Within three months | 31.53  |
| Top 2        | Subsidiary                    | 340,673,221.86        | Within three months | 20.64  |
| Top 3        | Third party                   | 67,296,095.84         | Within three months | 4.08   |
| Top 4        | Third party                   | 32,594,774.97         | Within three months | 1.97   |
| Top 5        | Third party                   | 19,849,093.33         | Within three months | 1.2  |
| <b>Total</b> |                               | <b>980,802,358.90</b> |                     | <b>59.42</b>   |

2013

| No.          | Relationship with the Company | Amount                | Ageing              | Percentage of the total accounts receivable amount (%) |
|--------------|-------------------------------|-----------------------|---------------------|--|
| Top 1        | Third party                   | 220,116,731.07        | Within three months | 26.01  |
| Top 2        | Third party                   | 161,597,029.09        | Within three months | 19.10  |
| Top 3        | Subsidiary                    | 70,170,707.42         | Within three months | 8.29   |
| Top 4        | Third party                   | 44,829,785.25         | Within three months | 5.30   |
| Top 5        | Subsidiary                    | 40,509,868.28         | Within three months | 4.79   |
| <b>Total</b> |                               | <b>537,224,121.11</b> |                     | <b>63.49</b>   |

# NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

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

### 2. Other receivables

#### (1) Disclosure of other receivables by category:

| Category   | Closing balance         |                    |                         |                    |
|--|-------------------------|--------------------|-------------------------|--------------------|
|  | Carrying amount         |                    | Provision for bad debts |                    |
|  | Amount                  | % of total balance | Amount                  | % of total balance |
| Individually significant and subject to separate provision   |                         |                    |                         |                    |
| Aging analysis   | 1,035,123,587.68        | 100                | 19,892,120.20           | 1.92               |
| <b>Subtotal</b>  | <b>1,035,123,587.68</b> | <b>100.00</b>      | <b>19,892,120.20</b>    | <b>1.92</b>        |
| Individually insignificant but subject to separate provision |                         |                    |                         |                    |
| <b>Total</b>   | <b>1,035,123,587.68</b> | <b>100.00</b>      | <b>19,892,120.20</b>    | <b>1.92</b>        |

Continued from above table

| Category   | Opening balance         |                    |                         |                    |
|--|-------------------------|--------------------|-------------------------|--------------------|
|  | Carrying amount         |                    | Provision for bad debts |                    |
|  | Amount                  | % of total balance | Amount                  | % of total balance |
| Individually significant and subject to separate provision   |                         |                    |                         |                    |
| Ageing analysis  | 1,059,189,446.30        | 98.53              | 21,305,760.56           | 2.01               |
| Greencool Companies  | 15,754,600.00           | 1.47               | 8,185,215.74            | 51.95              |
| <b>Subtotal</b>  | <b>1,074,944,046.30</b> | <b>100.00</b>      | <b>29,490,976.30</b>    | <b>2.74</b>        |
| Individually insignificant but subject to separate provision |                         |                    |                         |                    |
| <b>Total</b>   | <b>1,074,944,046.30</b> | <b>100.00</b>      | <b>29,490,976.30</b>    | <b>2.74</b>        |



## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

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

#### 2. Other receivables — Continued

##### (1) Disclosure of other receivables by category: — Continued

Other receivables in the category provided bad debts by using ageing analysis:

| Age  | Closing balance         |                       |                            | Opening balance         |                       |                            |
|--|-------------------------|-----------------------|----------------------------|-------------------------|-----------------------|----------------------------|
|  | Carrying amount         |                       | Provision<br>for bad debts | Carrying amount         |                       | Provision<br>for bad debts |
|  | Amount                  | % of total<br>balance |                            | Amount                  | % of total<br>balance |                            |
| Within three months                        | 1,013,773,381.03        | 97.93                 | 0.00                       | 1,036,319,802.72        | 96.40                 |                            |
| Over three months but within<br>six months | 1,236,455.09            | 0.12                  | 123,645.51                 | 964,388.25              | 0.09                  | 96,438.82                  |
| Over six months but within<br>one year     | 690,553.75              | 0.07                  | 345,276.88                 | 1,391,867.18            | 0.13                  | 695,933.59                 |
| Over one year                              | 19,423,197.81           | 1.88                  | 19,423,197.81              | 20,513,388.15           | 1.91                  | 20,513,388.15              |
| <b>Total</b>                               | <b>1,035,123,587.68</b> | <b>100.00</b>         | <b>19,892,120.20</b>       | <b>1,059,189,446.30</b> | <b>98.53</b>          | <b>21,305,760.56</b>       |

##### (2) Movements in provision for other receivables

|                  | Opening<br>balance | Provision<br>for the year | Decrease for the year |              | Closing<br>balance |
|------------------|--------------------|---------------------------|-----------------------|--------------|--------------------|
|                  |                    |                           | Reversal              | Write-off    |                    |
| Reporting period | 29,490,976.30      | 41,735.21                 | 578,014.68            | 9,062,576.63 | 19,892,120.20      |

##### (3) Other receivable that were written-off

| Company name    | Nature of<br>other receivables | Amount<br>written-off | Reason for<br>write-off                       | Arising from<br>related party<br>transactions<br>or not |
|-----------------|--------------------------------|-----------------------|---|---|
| Unrelated party | Loans                          | 17,209,975.57         | Not recoverable<br>due to long<br>outstanding | No  |
| <b>Total</b>    |                                | <b>17,209,975.57</b>  | <b>—</b>                                      | <b>—</b>  |

Among which: write off RMB15,754,600.00 current receivables of Greencool.

##### (4) As at 30 June 2014, there was no amount due from shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of other receivables. As at 31 December 2013, there was no amount due from shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of other receivables.

# NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

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

### 2. Other receivables — Continued

#### (5) Top five other receivables

Reporting period

| No.          | Relationship with the Company | Amount                | Ageing              | Percentage of the total other receivables amount (%) |
|--------------|-------------------------------|-----------------------|---------------------|--|
| Top 1        | Subsidiary                    | 207,713,349.82        | Within three months | 20.07  |
| Top 2        | Subsidiary                    | 166,456,017.34        | Within three months | 16.08  |
| Top 3        | Subsidiary                    | 117,537,906.92        | Within three months | 11.35  |
| Top 4        | Subsidiary                    | 79,558,640.62         | Within three months | 7.69   |
| Top 5        | Subsidiary                    | 63,588,915.14         | Within three months | 6.14   |
| <b>Total</b> |                               | <b>634,854,829.84</b> | <b>—</b>            | <b>61.33</b>   |

2013

| No.          | Relationship with the Company | Amount                | Ageing              | Percentage of the total other receivables amount (%) |
|--------------|-------------------------------|-----------------------|---------------------|--|
| Top 1        | Subsidiary                    | 204,743,457.59        | Within three months | 19.05  |
| Top 2        | Subsidiary                    | 164,866,548.06        | Within three months | 15.34  |
| Top 3        | Subsidiary                    | 117,537,906.92        | Within three months | 10.93  |
| Top 4        | Subsidiary                    | 66,017,919.94         | Within three months | 6.14   |
| Top 5        | Subsidiary                    | 63,588,915.14         | Within three months | 5.92   |
| <b>Total</b> |                               | <b>616,754,747.65</b> | <b>—</b>            | <b>57.38</b>   |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

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

#### 3. Long-term equity investments

| Investee                        | Accounting treatment | Investment cost         | Opening balance         | Changes                | Closing balance         | % Equity interest held | % Voting rights held | Provision for impairment | Impairment provided in the year | Cash dividend in the year |
|---------------------------------|----------------------|-------------------------|-------------------------|------------------------|-------------------------|------------------------|----------------------|--------------------------|---------------------------------|---------------------------|
| Huayi Compressor                | Equity method        | 24,171,468.64           | 75,663,702.46           | 4,627,478.07           | 80,291,180.53           | 3.74                   | 3.74                 |                          |                                 | 627,855.18                |
| Attend                          | Equity method        | 2,000,000.00            | 3,169,216.09            | 19,780.37              | 3,188,996.46            | 20                     | 20                   |                          |                                 |                           |
| Hisense Whirlpool               | Equity method        | 225,000,000.00          | 211,116,482.31          | (18,349,602.26)        | 192,766,880.05          | 50                     | 50                   |                          |                                 |                           |
| Hisense Hitachi                 | Equity method        | 332,821,597.45          | 703,551,272.91          | 66,459,214.59          | 770,010,487.50          | 49                     | 49                   |                          |                                 | 88,200,000.00             |
| <b>Equity method Subtotal</b>   |                      | <b>583,993,066.09</b>   | <b>993,500,673.77</b>   | <b>52,756,870.77</b>   | <b>1,046,257,544.54</b> |                        |                      |                          |                                 | <b>88,827,855.18</b>      |
| Guangdong Refrigerator          | Cost method          | 155,552,425.85          | 155,552,425.85          |                        | 155,552,425.85          | 70                     | 70                   |                          |                                 |                           |
| Guangdong Air-Conditioner       | Cost method          | 281,000,000.00          | 281,000,000.00          |                        | 281,000,000.00          | 60                     | 60                   | 59,381,641.00            |                                 |                           |
| Guangdong Freezer               | Cost method          | 15,668,880.00           | 15,668,880.00           |                        | 15,668,880.00           | 44                     | 44                   |                          |                                 |                           |
| Kelon HEA                       | Cost method          | 2,500,000.00            | 2,500,000.00            |                        | 2,500,000.00            | 25                     | 25                   |                          |                                 |                           |
| HEA Co.                         | Cost method          | 51,531,053.70           | 32,634,553.70           | 18,896,500.00          | 51,531,053.70           | 81.17                  | 81.17                |                          |                                 |                           |
| Rongsheng Plastic               | Cost method          | 53,270,064.00           | 53,270,064.00           |                        | 53,270,064.00           | 44.92                  | 44.92                |                          |                                 |                           |
| Kelon Mould                     | Cost method          |                         | 50,323,475.20           | (50,323,475.20)        |                         |                        |                      |                          |                                 |                           |
| Wangao I&E                      | Cost method          | 600,000.00              | 600,000.00              |                        | 600,000.00              | 20                     | 20                   |                          |                                 |                           |
| Kelon Jiake                     | Cost method          | 42,000,000.00           | 42,000,000.00           |                        | 42,000,000.00           | 70                     | 70                   |                          |                                 |                           |
| Kelon Weili                     | Cost method          |                         |                         |                        |                         | 55                     | 55                   |                          |                                 |                           |
| YingKou Refrigerator            | Cost method          | 84,000,000.00           | 84,000,000.00           |                        | 84,000,000.00           | 42                     | 42                   |                          |                                 |                           |
| Jiangxi Kelon                   | Cost method          | 147,763,896.00          | 147,763,896.00          |                        | 147,763,896.00          | 60                     | 60                   |                          |                                 |                           |
| Hangzhou Kelon                  | Cost method          | 24,000,000.00           | 24,000,000.00           |                        | 24,000,000.00           | 100                    | 100                  |                          |                                 |                           |
| Yangzhou Refrigerator           | Cost method          | 252,356,998.00          | 252,356,998.00          |                        | 252,356,998.00          | 74.33                  | 74.33                |                          |                                 |                           |
| Zhuhai Kelon                    | Cost method          | 189,101,850.00          | 189,101,850.00          |                        | 189,101,850.00          | 75                     | 75                   |                          |                                 |                           |
| Shenzhen Kelon                  | Cost method          | 95,000,000.00           | 95,000,000.00           |                        | 95,000,000.00           | 95                     | 95                   |                          |                                 |                           |
| Kelon Development               | Cost method          | 11,200,000.00           | 11,200,000.00           |                        | 11,200,000.00           | 100                    | 100                  |                          |                                 |                           |
| Chengdu Refrigerator            | Cost method          | 50,000,000.00           | 50,000,000.00           |                        | 50,000,000.00           | 100                    | 100                  |                          |                                 |                           |
| Beijing Refrigerator            | Cost method          | 92,101,178.17           | 92,101,178.17           |                        | 92,101,178.17           | 55                     | 55                   |                          |                                 | 11,000,000.00             |
| Shandong Air-Conditioner        | Cost method          | 567,175,477.74          | 567,175,477.74          |                        | 567,175,477.74          | 100                    | 100                  |                          |                                 |                           |
| Zhejiang Air-Conditioner        | Cost method          | 54,523,643.83           | 54,523,643.83           |                        | 54,523,643.83           | 51                     | 51                   |                          |                                 |                           |
| Hisense Mould                   | Cost method          | 121,628,013.09          | 121,628,013.09          |                        | 121,628,013.09          | 78.7                   | 78.7                 |                          |                                 | 10,877,281.00             |
| Shandong Refrigerator           | Cost method          | 275,000,000.00          | 275,000,000.00          |                        | 275,000,000.00          | 100                    | 100                  |                          |                                 |                           |
| Xinjiang Kelon                  | Cost method          | 100,000.00              | 100,000.00              |                        | 100,000.00              | 2                      | 2                    |                          |                                 |                           |
| Fujian Kelon                    | Cost method          | 100,000.00              | 100,000.00              |                        | 100,000.00              | 2                      | 2                    |                          |                                 |                           |
| Hisense International Marketing | Cost method          | 3,800,000.00            | 3,800,000.00            |                        | 3,800,000.00            | 12.67                  | 12.67                |                          |                                 | 9,500,000.00              |
| <b>Subtotal by cost method</b>  |                      | <b>2,569,973,480.38</b> | <b>2,601,400,455.58</b> | <b>(31,426,975.20)</b> | <b>2,569,973,480.38</b> |                        |                      | <b>59,381,641.00</b>     |                                 | <b>31,377,281.00</b>      |
| <b>Total</b>                    |                      | <b>3,153,966,546.47</b> | <b>3,594,901,129.35</b> | <b>21,329,895.57</b>   | <b>3,616,231,024.92</b> |                        |                      | <b>59,381,641.00</b>     | <b>0.00</b>                     | <b>120,205,136.18</b>     |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

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

#### 4. Operating revenue and operating costs

##### (1) Operating revenue and operating costs

| Item                              | Amount for<br>the period | Amount for<br>previous period |
|-----------------------------------|--------------------------|-------------------------------|
| Revenue from principal operations | 5,147,521,765.04         | 7,770,832,217.79              |
| Revenue from other operations     | 101,624,808.75           | 332,762,712.49                |
| <b>Total operating revenue</b>    | <b>5,249,146,573.79</b>  | <b>8,103,594,930.28</b>       |
| Costs of principal operations     | 4,214,875,749.49         | 6,118,736,288.70              |
| Costs of other operations         | 55,590,482.00            | 218,721,163.17                |
| <b>Total operating costs</b>      | <b>4,270,466,231.49</b>  | <b>6,337,457,451.87</b>       |

##### (2) Principal operations (by products)

| Products                           | Amount for the period   |                         | Amount for previous period |                         |
|------------------------------------|-------------------------|-------------------------|----------------------------|-------------------------|
|                                    | Operating revenue       | Operating costs         | Operating revenue          | Operating costs         |
| Refrigerators and washing machines | 2,733,483,939.24        | 2,191,110,350.70        | 4,627,426,858.50           | 3,633,823,833.00        |
| Air-conditioners                   | 2,414,037,825.80        | 2,023,765,398.79        | 3,143,405,359.29           | 2,484,912,455.70        |
| <b>Total</b>                       | <b>5,147,521,765.04</b> | <b>4,214,875,749.49</b> | <b>7,770,832,217.79</b>    | <b>6,118,736,288.70</b> |

##### (3) Principal operations (by regions)

| Region       | Amount for the period   |                         | Amount for previous period |                         |
|--------------|-------------------------|-------------------------|----------------------------|-------------------------|
|              | Operating revenue       | Operating costs         | Operating revenue          | Operating costs         |
| Domestic     | 5,147,521,765.04        | 4,214,875,749.49        | 7,770,832,217.79           | 6,118,736,288.70        |
| Overseas     |                         |                         |                            |                         |
| <b>Total</b> | <b>5,147,521,765.04</b> | <b>4,214,875,749.49</b> | <b>7,770,832,217.79</b>    | <b>6,118,736,288.70</b> |

**NOTES TO THE FINANCIAL STATEMENTS — Continued***Half year of 2014***12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT — Continued****4. Operating revenue and operating costs — Continued****(4) Operating revenue from the top five customers of the Company***Reporting period*

| <b>No.</b>   | <b>Amount for<br/>the period</b> | <b>Percentage of the<br/>total revenue<br/>from principal<br/>operations of the<br/>Company (%)</b> |
|--------------|----------------------------------|---|
| Top 1        | 816,934,378.85                   | 15.87   |
| Top 2        | 604,376,311.42                   | 11.74   |
| Top 3        | 419,532,998.20                   | 8.15  |
| Top 4        | 336,700,105.03                   | 6.54  |
| Top 5        | 123,640,892.88                   | 2.40  |
| <b>Total</b> | <b>2,301,184,686.38</b>          | <b>44.70</b>  |

*Corresponding period last year*

| <b>No.</b>   | <b>Amount for<br/>the period</b> | <b>Percentage of the<br/>total revenue<br/>from principal<br/>operations of the<br/>Company (%)</b> |
|--------------|----------------------------------|---|
| Top 1        | 1,284,398,967.25                 | 15.85   |
| Top 2        | 770,619,658.65                   | 9.51  |
| Top 3        | 282,100,071.47                   | 3.48  |
| Top 4        | 101,319,626.17                   | 1.25  |
| Top 5        | 87,018,418.18                    | 1.07  |
| <b>Total</b> | <b>2,525,456,741.72</b>          | <b>31.16</b>  |

# NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

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

### 5. Investment income

#### (1) Summary of investment income

| Item  | Amount for<br>the period | Amount for<br>previous period |
|---|--------------------------|-------------------------------|
| Income from long-term equity investment — the cost method   | 20,377,281.00            | 28,680,018.20                 |
| Income from long-term equity investment — the equity method | 141,589,179.58           | 119,561,283.99                |
| Income from disposal of long-term equity investment         | 7,206,524.80             | 23,335,449.55                 |
| <b>Total</b>  | <b>169,172,985.38</b>    | <b>171,576,751.74</b>         |

#### (2) Income from long-term equity investments — the cost method

| Investee                        | Amount for<br>the period | Amount for<br>previous period |
|---------------------------------|--------------------------|-------------------------------|
| Hisense Mould                   | 10,877,281.00            | 23,930,018.20                 |
| Hisense International Marketing | 9,500,000.00             | 4,750,000.00                  |
| <b>Total</b>                    | <b>20,377,281.00</b>     | <b>28,680,018.20</b>          |

#### (3) Income from long-term equity investment — the equity method

| Investee          | Amount for<br>the period | Amount for<br>previous period |
|-------------------|--------------------------|-------------------------------|
| Huayi Compressor  | 5,259,786.88             | 3,776,668.68                  |
| Hisense Whirlpool | (18,349,602.26)          | (6,247,656.28)                |
| Attend            | 19,780.37                | 53,125.03                     |
| Hisense Hitachi   | 154,659,214.59           | 121,979,146.56                |
| <b>Total</b>      | <b>141,589,179.58</b>    | <b>119,561,283.99</b>         |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

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

#### 6. Supplementary information on cash flows statement

| Supplementary information   | Amount for<br>the period | Amount for<br>previous period |
|---|--------------------------|-------------------------------|
| <b>1. Reconciliation of net profit to cash flows from operating activities:</b>                                   |                          |                               |
| Net profit  | 578,685,990.49           | 357,862,566.42                |
| Add: Provision for assets impairment  | (14,245,175.15)          | 11,093,900.92                 |
| Depreciation of fixed assets, depletion of oil and gas assets and<br>depreciation of productive biological assets | 13,280,672.76            | 13,332,154.82                 |
| Amortization of intangible assets   | 4,749,708.00             | 4,358,626.70                  |
| Amortization of long-term prepaid expenses  |                          | 0.00                          |
| Loss on disposals of fixed assets, intangible and other long-term assets<br>(Gain denoted in "bracket")           | 7,377,071.91             | (23,314,139.49)               |
| Loss on retirement of fixed assets (Gain denoted in "bracket")  |                          |                               |
| Loss from scrapping in fair value (Gain denoted in "bracket")   |                          |                               |
| Financial expenses (Gain denoted in "bracket")  | (14,986,556.54)          | 8,595,430.67                  |
| Investment loss (Gain denoted in "bracket")   | (169,172,985.38)         | (171,576,751.74)              |
| Decrease in deferred tax assets (Increase denoted in "bracket")   |                          |                               |
| Increase in deferred tax liabilities (Decrease denoted in "bracket")  |                          |                               |
| Decrease in inventory (Increase denoted in "bracket")   | 1,372,124,225.32         | (242,705,394.29)              |
| Decrease in operating receivable (Increase denoted in "bracket")  | 160,586,192.86           | (2,889,236,367.02)            |
| Increase in operating payable (Decrease denoted in "bracket")   | (2,121,278,028.47)       | 2,864,109,476.98              |
| Others  |                          |                               |
| <b>Net cash flows from operating activities</b>   | <b>(182,878,884.20)</b>  | <b>(67,480,496.03)</b>        |
| <b>2. Significant investing and financing activities not involving cash receipts<br/>and payment:</b>             |                          |                               |
| Liabilities converted into equity   |                          |                               |
| Convertible company debentures due within one year  |                          |                               |
| Fixed assets under finance leases   |                          |                               |
| <b>3. Net movement in cash and cash equivalents:</b>  |                          |                               |
| Cash at the end of the period   | 220,327,232.03           | 200,280,089.47                |
| Less: Cash at the beginning of the period   | 194,913,820.28           | 342,912,430.57                |
| Add: Cash equivalents at the end of the period  |                          |                               |
| Less: Cash equivalents at the beginning of the period   |                          |                               |
| <b>Net increase in cash and cash equivalents</b>  | <b>25,413,411.75</b>     | <b>(142,632,341.10)</b>       |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 13. SUPPLEMENTARY INFORMATION

#### 1. Summary of non-recurring profit or loss

| Item   | Amount for<br>the period | Amount for<br>previous period |
|--|--------------------------|-------------------------------|
| Losses and profits from disposal of non-current assets   | (856,818.94)             | 22,831,712.38                 |
| Tax return or exemption without proper authorization   |                          |                               |
| Government grants recognized in the profits or losses (excluding those government grants that are closely related to the Company's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government) | 29,489,120.05            | 9,955,361.60                  |
| Interests received from entities other than financial institutions recognized in profits or losses   |                          |                               |
| Gain arising from the difference between investment cost on subsidiaries associates and jointly controlled entities and the fair value of the net assets attributable to the Company   |                          |                               |
| Gain or loss arising from non-monetary assets exchange   |                          |                               |
| Gain or loss arising from entrusted investment or entrusted asset management   |                          |                               |
| Asset impairment provided in current year due to force majeure (e.g. natural disasters)  |                          |                               |
| Gain or loss arising from debt restructuring   |                          |                               |
| Corporate restructuring costs (e.g. staff replacement costs and costs during the course of integration)  |                          |                               |
| Gain or loss arising from the difference between the fair value and transaction price in obviously unfair transactions   |                          |                               |
| Net profit of subsidiaries acquired under common control from beginning of year to the merger date   |                          |                               |
| Gain or loss arising from contingencies irrelevant to the Company's normal business  |                          |                               |
| Gain or loss from changes in fair values of financial assets and liabilities held-for-trading except for hedging contracts and disposal of financial assets and liabilities held-for-trading and available-for-sale financial assets                           |                          |                               |
| Reversal of provision for bad-debts of trade receivable subject to separate provision  | 578,014.68               |                               |
| Gain or loss arising from entrusted loan granted to other entities   |                          |                               |
| Gain or loss arising from changes in fair value of investment properties under the fair value model  |                          |                               |
| One-off adjustments to profit or loss as required by taxation and accounting laws and regulations  |                          |                               |
| Consignment fee income arising from entrusted operations   |                          |                               |
| Other non-operating income and expense other than the aforementioned items   | 15,448,065.18            | 69,525.44                     |
| Other profit or loss items meeting the definition of non-recurring profit or loss  |                          |                               |
| Total non-recurring profit or loss   | <b>44,658,380.97</b>     | <b>32,856,599.42</b>          |
| Less: Effect of non-recurring profit or loss after taxation  | 7,662,455.83             | 959,571.68                    |
| Net non-recurring profit or loss   | <b>36,995,925.14</b>     | <b>31,897,027.74</b>          |
| Less: Net effect of non-recurring profit or loss attributable to minority interests (after tax)  | 1,196,048.70             | 1,848,079.75                  |
| Non-recurring profit or loss attributable to ordinary shareholders of the Company  | <b>35,799,876.44</b>     | <b>30,048,947.99</b>          |



**NOTES TO THE FINANCIAL STATEMENTS — Continued***Half year of 2014***13. SUPPLEMENTARY INFORMATION — Continued****2. Return on net asset and earnings per share:***Reporting period*

| <b>Profit for the reporting period</b>  | <b>Weighted average<br/>of return on<br/>net assets (%)</b> | <b>Earnings per share</b>           |                                       |
|---|---|-------------------------------------|---------------------------------------|
|   |   | <b>Basic earnings<br/>per share</b> | <b>Diluted earnings<br/>per share</b> |
| Net profit attributable to ordinary shareholders<br>of the Company  | 19.85   | 0.45                                | 0.45                                  |
| Net profit attributable to ordinary shareholders<br>of the Company after deducting non-<br>recurring gain or loss | 18.68   | 0.42                                | 0.42                                  |

*Corresponding period last year*

| <b>Profit for the reporting period</b>  | <b>Weighted average<br/>of return on<br/>net assets (%)</b> | <b>Earnings per share</b>           |                                       |
|---|---|-------------------------------------|---------------------------------------|
|   |   | <b>Basic earnings<br/>per share</b> | <b>Diluted earnings<br/>per share</b> |
| Net profit attributable to ordinary shareholders<br>of the Company  | 37.92   | 0.52                                | 0.52                                  |
| Net profit attributable to ordinary shareholders<br>of the Company after deducting non-<br>recurring gain or loss | 36.31   | 0.50                                | 0.50                                  |

## NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2014

### 13. SUPPLEMENTARY INFORMATION — Continued

#### 3. Reasons for exceptional items in the financial statements of the Company

| Statement item                         | Closing balance<br>or amount<br>for the year | Opening balance<br>or amount for<br>the previous year | % Change   | Reasons for change   |
|--|--|---|------------|--|
| Cash at bank and on hand               | 739,977,525.12                               | 473,787,177.54  | 56.18%     | Mainly due to increase in returned money (which increased the closing balance of cash at bank and on hand) for the sales peak season during the reporting period, and increase in factoring accounts receivable during the period      |
| Financial assets held-for-trading      | —  | 67,115,019.35   | (100.00%)  | Mainly due to change in the exchange rate for undue forward contracts as at the end of the reporting period  |
| Accounts receivable                    | 3,774,457,354.64                             | 1,644,771,822.27                                      | 129.48%    | Mainly due to increase in accounts receivable as at the end of the period resulted from increase in sales for the sales peak season during the reporting period, with year-to-year increase comparable with increase in scale of sales |
| Short-term borrowings                  | 501,736,882.06                               | 191,681,513.02  | 161.76%    | Mainly due to increase in factoring accounts receivable during the period  |
| Financial liabilities held-for-trading | 23,364,872.22                                | 4,645.00  | 502911.24% | Mainly due to change in the exchange rate for undue forward contracts as at the end of the reporting period  |
| Accounts payable                       | 5,502,769,681.97                             | 3,480,510,368.16                                      | 58.10%     | Mainly due to increase in accounts payable in line with increase in sales for the sales peak season during the reporting period, with year-to-year increase basically comparable with increase in scale of sales                       |
| Advances from customers                | 620,593,516.36                               | 907,031,506.85  | (31.58%)   | Mainly due to decrease in advances from customers in line with increase in sales for the sales peak season during the reporting period   |
| Taxes payable                          | (15,127,083.82)                              | (156,766,531.00)                                      | N/A        | Mainly due to increase in taxes payable in line with increase in sales   |
| Other current liabilities              | 913,697,036.51                               | 574,037,292.42  | 59.17%     | Mainly due to increase in amounts payable in line with increase in sales   |

**NOTES TO THE FINANCIAL STATEMENTS — Continued**

Half year of 2014

**13. SUPPLEMENTARY INFORMATION — Continued****3. Reasons for exceptional items in the financial statements of the Company — Continued**

| Statement item   | Closing balance<br>or amount<br>for the year | Opening balance<br>or amount for<br>the previous year | % Change | Reasons for change   |
|--|--|---|----------|--|
| Selling and distribution expenses                                    | 2,290,188,924.94                             | 1,754,021,512.96                                      | 30.57%   | Mainly due to increase in relevant expenses in line with increase in sales, and intensification of market investment   |
| Financial expenses   | (14,986,556.54)                              | 12,612,656.22   | N/A      | Mainly due to increase in exchange gains   |
| Gain from changes in fair value                                      | (90,475,246.57)                              | 35,908,729.66   | N/A      | Mainly due to changes in undue forward transactions for the period and changes in due transactions carried forward   |
| Non-operating income   | 47,756,186.98                                | 13,979,505.92   | 241.62%  | Mainly due to year-to-year increase in government subsidies received for the period  |
| Income tax expenses  | 103,110,741.21                               | 19,895,297.20   | 418.27%  | Mainly due to increase in income taxable for all companies and decrease in uncovered loss available for the year   |
| Other cash received concerning operating activities                  | 311,684,318.20                               | 508,225,547.38  | (38.67%) | Mainly due to change resulted from receipt of energy-saving subsidies and execution monies from Intermediate People's Court of Yangzhou City for the Greencool cases in the corresponding period last year, and the absence of such for the period |
| Cash received from borrowings  | 806,571,237.55                               | 145,508,582.23  | 454.31%  | Mainly due to increase in factoring accounts receivable during the period  |
| Cash paid for repayment of debts                                     | 494,790,463.77                               | 92,496,008.42   | 434.93%  | Mainly due to increase in repayment of factoring accounts receivable during the period   |
| Cash paid for distribution of dividends, profit or interest expenses | 11,954,926.30                                | 7,023,141.13  | 70.22%   | Mainly due to increase in dividend distribution by certain subsidiaries  |

**14. APPROVAL OF FINANCIAL STATEMENTS**

The 2014 interim financial statements and the notes to financial statements of the Company were approved for publication at the third meeting of the eighth session of the Board of the Company in 2014.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014. No interim dividend was paid for the corresponding period last year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### I. ANALYSIS OF THE COMPANY'S OPERATION

#### 1. Overall operation of the Company during the Reporting Period

During the Reporting Period, the domestic home appliance industry exhibited scarce domestic demand and weak growth due to the influence of factors such as the withdrawal of the state's policy for stimulation of consumption and the continued sluggish real estate market. According to the statistics of China Market Monitor Company Limited (CMM), the retail volume of refrigerator industry started to record year-to-year decrease since February 2014, and the extent of such decrease has further aggravated since the second quarter of the year. As at June 2014, there has been a 8.93% year-to-year decrease in the accumulated retail volume of the refrigerator industry while the air-conditioner industry maintained a slow but stable growth and recorded a year-to-year increase of 5.11% in the accumulated retail volume as at June 2014. As to the export business, the demand of overseas market was generally weak. According to the statistics of the Customs Department, the export volume of the refrigerator and freezer industry marked a year-to-year growth of 9.4%, and that of the air-conditioner industry decreased by 10.2% year-to-year.

In the aforesaid operating environment, during the Reporting Period, the Company managed to achieve an overall stable operating scale through strict implementation of the operating strategies of "building product advantages, improving service quality, reforming marketing model, enhancing system efficiency and ensuring scale and efficiency" which were formulated at the beginning of the year. The Company generated an operating revenue of RMB15398 million, representing a year-to-year increase of 18.51%, net profits attributable to shareholders of the listed company of RMB610 million, representing a year-to-year decrease of 13.73% and earnings per share was RMB0.45. The main operating business of the Company maintained stable and steady growth, of which the revenue from the refrigerators and washing machines business accounted for 44.81% of the main operating revenue, representing a year-to-year growth of 0.55%; revenue from the air-conditioner business accounted for 51.42% of the main operating revenue, representing a year-to-year growth of 42.68%; the domestic sales business recorded a main operating revenue of RMB10114 million, representing a year-to-year growth of 22.94%, whereas the export sales business recorded a main operating revenue of RMB3918 million, representing a year-to-year growth of 9.97%.

**I. ANALYSIS OF THE COMPANY'S OPERATION — Continued****2. Refrigerators and washing machines**

During the Reporting Period, the domestic refrigerator industry was stagnant, and both the retail volume and retail amount recorded year-to-year decrease. Being committed to implement the strategies of product intelligentization and product differentiation, in pursuance of its core technologies of energy saving, health and intelligentization, the Company insisted on technology innovations and upgrade and user experience enhancement. The Company launched the world's first Nano-fresh nano ion preservation technology by integrating the water ion preservation technology and the plasma anti-bacterial technology and thus achieving the integration of the two major functions of "moisturizing and disinfection" in refrigerator products. In addition, pursuant to the domestic customers' consumer demand and usage habit of "large space and multi-drawers", the Company launched Ronshen cross frostless four-door refrigerator. At the 2014 Refrigerator Industry Summit, "Ronshen refrigerators" won the "Leading Brand in Moisturizing Technology in the Refrigerator Industry for the year 2013-2014" for their continual innovations in moisturizing, frostless and cooling technologies, whereas Ronshen cross frostless four-door refrigerator was awarded the "Star of Space Design Award", being the sole product in the refrigerator industry to receive such honour and it was also jointly recommended by the State Information Center and the website of China Household Electrical Appliances Association ([www.chaaa.com](http://www.chaaa.com)) as "The Most Suitable Refrigerator for Chinese Households". The new generation of Hisense intelligent refrigerators was once again honored with the "China Household Electrical Appliance Product Prize" at the 2014 China Appliance World Expo.

At the same time, the Company was devoted to expand the scale of export to compensate the insufficiency of the scale of domestic business. According to the statistics of the Customs Department, the export volume of the refrigerators and washing machines products of the Company recorded a year-to-year growth of 23.2% during the first half of 2014, outperforming the 9.4% growth of the industry.

**3. Air-conditioner business**

During the Reporting Period, the domestic air-conditioner industry maintained a slow but stable growth. The Company was eager to continually capitalize the opportunity of industry upgrade and has strengthened its product competitiveness and improved its brand image through further technological innovations, functional upgrades and quality enhancements. Hisense intelligent air-conditioner was awarded the "Gold Kangaroo World Innovation Award", a one of its kind world-level eminent award, at the World Innovation Forum for its self-developed internet intelligent air-conditioner which is the first model around the globe. In line with its determination to enhance the product quality and sophistication, augment the promotion of mid- and high-end products and further enrich the portfolio of mid- and high-end products, the Company has launched Kelon QV Artistic cabinet air-conditioner series and ultra-thin wall-mounted air-conditioner series, and the price indices of "Kelon" brand air-conditioners increased steadily. As a result of the Company's continuation of its fundamental works such as stringent cost control and procedural enhancement, the Company's system efficiency was enhanced significantly, the product profitability was further enhanced and the gross profit margin recorded a 2.6 percentage points year-to-year increase. According to the statistics of CMM, the two air-conditioner brands "Hisense" and "Kelon" have achieved year-to-year growth in their retail volume by 28.76% and 8.69% respectively during the first half of 2014, outperforming the overall growth of the air-conditioner industry. The market share of the accumulated retail volume of the Company's air-conditioners was 8.89%, representing an increase of 0.99 percentage points from the corresponding period last year.

**I. ANALYSIS OF THE COMPANY'S OPERATION — Continued****4. Outlook**

Looking ahead to the second half of the year, the demand in domestic home appliance market will remain weak and the industry players will continue to face a relatively tough operating environment. The Company will continue to uphold the operating strategies devised at the beginning of the year to achieve steady increase in its scale and market share, through the implementation of the following:

- (1) to expedite the research and development and promotion of new high-end products; to establish the advantages of technological products; to enhance product competitiveness; to improve the sale structure.
- (2) to define the product and channel positions; to enhance the channel capabilities; to grasp outlet exploration work; to steadily proceed with the channel building plan.
- (3) to continue its in-depth exploration on efficiency enhancement possibilities; to comprehensively implement efficiency enhancement initiatives on manufacturing, management, marketing and other segments.
- (4) to propel the management of NPS (net promoter score) ; to further improve product quality; to step up the level of sophistication; to enhance user experience and satisfaction; to refine the quality of service; to reinforce the service capability.
- (5) to implement strict capital and expenses management and to accelerate capital flow.

**II. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD**
**(i) Major accounting data and financial indicators**

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

☐ Yes ☒ No

| Items  | Reporting Period  | Corresponding period last year | Increase or decrease as compared to corresponding period last year (%) |
|--|-------------------|--------------------------------|--|
| Operating revenue (RMB)  | 15,397,537,762.48 | 12,992,870,024.48              | 18.51  |
| Net profits attributable to shareholders of listed company (RMB)   | 609,769,686.14    | 706,812,577.45                 | (13.73)  |
| Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB) | 573,969,809.70    | 676,763,629.46                 | (15.19)  |
| Net cash flow from operating activities (RMB)  | 100,286,224.09    | 79,191,035.09                  | 26.64  |
| Basic earnings per share (RMB/share)   | 0.45              | 0.52                           | (13.46)  |
| Diluted earnings per share (RMB/share)   | 0.45              | 0.52                           | (13.46)  |
| Weighted average rate of return on net assets (%)  | 19.85             | 37.92                          | (18.07)  |

| Items   | End of the Reporting Period | End of last year  | Increase or decrease as compared to end of last year (%) |
|---|-----------------------------|-------------------|--|
| Total assets (RMB)  | 15,594,015,302.57           | 11,964,709,290.58 | 30.33  |
| Net assets attributable to shareholders of listed company (RMB) | 3,395,822,159.70            | 2,748,731,080.83  | 23.54  |

**MANAGEMENT DISCUSSION AND ANALYSIS — Continued****II. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD — Continued****(ii) Non-recurring profit and loss items and amounts**

| <i>Unit: RMB</i>  |               |                    |
|---|---------------|--------------------|
| <b>Item</b>   | <b>Amount</b> | <b>Description</b> |
| Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)   | (856,818.94)  |                    |
| Government grants recognized in the profits or losses (excluding government grants closely related to the Company's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government) | 29,489,120.05 |                    |
| Reversal of provision for impairment loss of account receivables which is subject to separate impairment testing  | 578,014.68    |                    |
| Other non-operating income and expenses other than the aforementioned items   | 15,448,065.18 |                    |
| Less: Effect of income tax  | 7,662,455.83  |                    |
| Effect of minority interests (after tax)  | 1,196,048.70  |                    |
| Total   | 35,799,876.44 | —                  |



## MANAGEMENT DISCUSSION AND ANALYSIS — Continued

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

#### (iii) Analysis of principal business

Unit: RMB

|  | Closing<br>balance | Opening<br>balance | Percentage of<br>change | Reasons for change   |
|--|--------------------|--------------------|-------------------------|--|
| Cash at bank and on hand               | 739,977,525.12     | 473,787,177.54     | 56.18%                  | Mainly due to the end of the Reporting Period being the peak season for sales with increase in payment received which led to an increase in the closing balance of cash at bank and on hand as at the end of the Reporting Period and at the same time due to an increase in factoring accounts receivable during the period |
| Financial assets held-for-trading      | —                  | 67,115,019.35      | (100.00%)               | Mainly due to the change in the exchange rate for undue forward contracts as at the end of the Reporting Period  |
| Accounts receivable                    | 3,774,457,354.64   | 1,644,771,822.27   | 129.48%                 | Mainly due to the end of the Reporting Period being the peak season for sales with increase in sales which led to an increase in accounts receivable as at the end of the period, but the extent of year-to-year increase is similar to the increase in the scale of sales   |
| Short-term borrowings                  | 501,736,882.06     | 191,681,513.02     | 161.76%                 | Mainly due to increase in factoring accounts receivable during the period  |
| Financial liabilities held-for-trading | 23,364,872.22      | 4,645.00           | 502911.24%              | Mainly due to the change in the exchange rate for undue forward contracts as at the end of the Reporting Period  |
| Accounts payable                       | 5,502,769,681.97   | 3,480,510,368.16   | 58.10%                  | Mainly due to the end of the Reporting Report being the peak season for sales with accounts payable increased in line with the increase in sales. The year-on-year increase is similar to the increase in the scale of sales   |
| Advances from customers                | 620,593,516.36     | 907,031,506.85     | (31.58%)                | Mainly due to the end of the Reporting Period being the peak season for sales with decrease in advances from customers in line with the increase in sales  |
| Taxes payable                          | (15,127,083.82)    | (156,766,531.00)   | N/A                     | Mainly due to increase in taxes payable in line with the increase in sales   |
| Other current liabilities              | 913,697,036.51     | 574,037,292.42     | 59.17%                  | Mainly due to increase in the relevant expenses payable in line with the increase in sales   |

## MANAGEMENT DISCUSSION AND ANALYSIS — Continued

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

#### (iii) Analysis of principal business — Continued

|  | Reporting Period  | Corresponding<br>period last year | Year-to-year<br>increase or<br>decrease | Reasons for change  |
|--|-------------------|-----------------------------------|---|---|
| Operating revenue  | 15,397,537,762.48 | 12,992,870,024.48                 | 18.51%                                  | No significant change   |
| Operating costs  | 12,062,743,794.94 | 10,250,224,907.55                 | 17.68%                                  | No significant change   |
| Selling and distribution<br>expenses                                       | 2,290,188,924.94  | 1,754,021,512.96                  | 30.57%                                  | Mainly due to the increase in relevant<br>expenses in line with the increase in sales,<br>and at the same time due to intensification<br>of market participation  |
| General and administrative<br>expenses                                     | 403,931,289.17    | 354,200,313.53                    | 14.04%                                  | No significant change   |
| Financial expenses   | (14,986,556.54)   | 12,612,656.22                     | N/A                                     | Mainly due to increase in exchange gains  |
| Gain from changes in fair<br>value   | (90,475,246.57)   | 35,908,729.66                     | N/A                                     | Mainly due to changes in undue forward<br>transactions for the period and changes in<br>settlement of due transactions  |
| Non-operating income   | 47,756,186.98     | 13,979,505.92                     | 241.62%                                 | Mainly due to year-to-year increase in<br>government subsidies received for the<br>period   |
| Income tax expenses  | 103,110,741.21    | 19,895,297.20                     | 418.27%                                 | Mainly due to increase in taxable income for<br>all companies and decrease in uncovered<br>loss available for the year  |
| Other cash received<br>concerning operating<br>activities                  | 311,684,318.20    | 508,225,547.38                    | (38.67%)                                | Mainly due to receipt of energy-saving<br>subsidies and payment from Intermediate<br>People's Court of Yangzhou City for<br>execution of cases involving the Greencool<br>Companies during the corresponding period<br>last year and no such corresponding sum<br>received for the period |
| Net cash flows from<br>operating activities                                | 100,286,224.09    | 79,191,035.09                     | 26.64%                                  | No significant change   |
| Net cash flows from investing<br>activities                                | (182,603,279.14)  | (159,207,987.91)                  | 14.69%                                  | No significant change   |
| Cash received from<br>borrowings   | 806,571,237.55    | 145,508,582.23                    | 454.31%                                 | Mainly due to increase in sum of factoring<br>financing for accounts receivable during<br>the period  |
| Cash paid for repayment of<br>debts  | 494,790,463.77    | 92,496,008.42                     | 434.93%                                 | Mainly due to increase in repayment of<br>factoring financing for accounts receivable<br>during the period  |
| Cash paid for distribution of<br>dividends, profit or interest<br>expenses | 11,954,926.30     | 7,023,141.13                      | 70.22%                                  | Mainly due to increase in dividend distribution<br>by certain subsidiaries  |
| Net cash flows from financing<br>activities                                | 349,192,218.98    | 45,989,426.02                     | 659.29%                                 | Mainly due to increase in sum of factoring<br>financing for accounts receivable during<br>the period  |
| Net increase in cash and<br>cash equivalents                               | 266,990,347.58    | (34,027,526.80)                   | N/A                                     | Mainly due to change in cash flows from<br>financing activities   |

## MANAGEMENT DISCUSSION AND ANALYSIS — Continued

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

#### (iv) Description of principal business segments

Unit: RMB

| Item                                      | Revenue from<br>operating<br>businesses | Costs of<br>operating<br>businesses | Gross<br>profit margin<br>(%) | Increase or<br>decrease in<br>revenue from<br>operating<br>businesses<br>as compared to<br>corresponding<br>period last year<br>(%) | Increase or<br>decrease in<br>costs of operating<br>businesses as<br>compared to<br>corresponding<br>period last year<br>(%) | Increase or<br>decrease in<br>gross profit margin<br>as compared to<br>corresponding<br>period last year<br>(%) |
|---|---|-------------------------------------|-------------------------------|---|--|---|
| <b>By industry</b>                        |   |                                     |                               |   |  |   |
| Home appliances<br>manufacturing industry | 14,032,409,469.11                       | 10,797,489,654.95                   | 23.05                         | 19.02   | 18.15  | 0.57  |
| <b>By product</b>                         |   |                                     |                               |   |  |   |
| Refrigerators and washing<br>machines     | 6,287,790,801.14                        | 4,938,155,758.02                    | 21.46                         | 0.55  | 2.87   | (1.77)  |
| Air-conditioners                          | 7,214,897,296.28                        | 5,485,955,258.68                    | 23.96                         | 42.68   | 37.96  | 2.60  |
| Others                                    | 529,721,371.69                          | 373,378,638.25                      | 29.51                         | 10.30   | 3.22   | 4.83  |
| <b>By region</b>                          |   |                                     |                               |   |  |   |
| Mainland                                  | 10,114,000,100.38                       | 7,276,607,756.09                    | 28.05                         | 22.94   | 22.56  | 0.23  |
| Overseas                                  | 3,918,409,368.73                        | 3,520,881,898.86                    | 10.15                         | 9.97  | 9.98   | (0.01)  |

### III. CORE COMPETITIVENESS ANALYSIS

#### 1. Technological advantages

The Company adheres to its operating philosophy of “technology orientation” and focuses on “energy-saving by inverter technology” and “green and environmental friendliness” to build its core competitiveness through continual innovations in technologies and products. The Company has top-notch research and development institutions including State-level enterprise technology center, enterprise post-doctoral scientific research station, State-recognized laboratory, and Guangdong Provincial Key Research and Development Center of Engineering Science, and an industry-leading research and development team with thousands of technical personnel. During the Reporting Period, the Company applied for a total of 193 patents including 58 invention patents. The Company was granted a total of 207 patents including 1 foreign invention patent and 9 invention patents. The Company is always committed to enhance its self-driven innovation capacity, strives to enhance the performance and level of intelligentization of its products, in order to improve its core competitiveness and its products’ market competitiveness and provide strong technical support for the Company’s industrial advancement.

## MANAGEMENT DISCUSSION AND ANALYSIS — Continued

### III. CORE COMPETITIVENESS ANALYSIS — Continued

#### 2. Brand advantages

The three brand names used in products of the Company, namely “Hisense”, “Ronshen” and “Kelon”, are Chinese Well-known Marks with good brand reputation and market base. Among these brands, the market share of “Hisense” inverter air-conditioners had ranked first in China for thirteen consecutive years, while the market share of “Ronshen” refrigerators had ranked first in China for eleven years. “High technology and high quality” reflects the Company’s core brand value. At the same time, the Company gradually accelerates the progress of internationalization, and continues to promote the internationalization of its own brands.

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

| Name of company | Company type                                       | Industry                 | Major product or service                           | Registered capital | Total assets<br>(RMB ten thousand) | Net assets<br>(RMB ten thousand) | Operating revenue<br>(RMB ten thousand) | Operating profit<br>(RMB ten thousand) | Net profits<br>(RMB ten thousand) |
|-----------------|--|--------------------------|--|--------------------|------------------------------------|----------------------------------|---|--|-----------------------------------|
| Hisense Hitachi | A company in which the Company has equity interest | Home appliances industry | Production and sale of commercial air-conditioners | US\$46 million     | 261,914.53                         | 150,777.34                       | 187,206.94                              | 37,663.38                              | 32,038.90                         |

## LIQUIDITY AND SOURCES OF CAPITAL

Net cash generated from operating activities of the Group was approximately RMB 100 million for the six months ended 30 June 2014 (for the six months ended 30 June 2013: RMB 79 million).

As at 30 June 2014, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB 740 million (as at 30 June 2013: RMB 482 million) and bank loans amounting to approximately RMB 502 million (as at 30 June 2013: RMB 83 million).

Total capital expenditures of the Group for the six months ended 30 June 2014 amounted to approximately RMB 283 million (for the six months ended 30 June 2013: RMB 243 million).

## GEARING RATIO

As at 30 June 2014, the Group’s gearing ratio (calculated according to the formula: total liabilities divided by total assets) was 75% (as at 30 June 2013: 79%).

## TRUST DEPOSITS

As at 30 June 2014, the Group did not have any trust deposits with any financial institutions in the PRC. All of the Group’s deposits have been deposited in commercial banks and other financial institutions in the PRC and Hong Kong.

## HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 June 2014, the Group had approximately 34,223 employees, mainly comprising 5,047 technical staff, 15,331 sales representatives, 486 financial staff, 828 administrative staff and 12,531 production staff. The Group had 6 employees with a doctorate degree, 268 with a master's degree and 3,402 with a bachelor's degree. There were 436 employees who occupied mid-level positions or above in the Group according to the national standards. For the six months ended 30 June 2014, the Group's staff payroll amounted to RMB1267 million (corresponding period in 2013 amounted to RMB1011 million).

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

## CHARGE ON THE GROUP'S ASSETS

As at 30 June 2014, the Group's property, plant and equipment (including leasehold land held for own use) and investment properties and trade receivables of approximately RMB 557 million (31 December 2013: RMB 192 million) were pledged as security for the Group's borrowings.

## EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

Since part of the purchase and 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.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its code for securities transaction by Directors. After having made specific enquiries to the Directors, all Directors of the Board confirmed that they had acted in full compliance with the Model Code during their term of office in the Reporting Period.

## SHARE CAPITAL STRUCTURE

As at 30 June 2014, the share capital structure of the Company was as follows:

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

## TOP TEN SHAREHOLDERS

As at 30 June 2014, there were 29,644 shareholders of the Company (the "Shareholders") in total, of which the top ten Shareholders were as follows:

| Name of Shareholder   | Nature of Shareholder    | No. of shares held | Percentage to the total issued shares of the Company | Percentage to the relevant class of issued shares of the Company | No. of shares held subject to trading moratorium |
|---|--------------------------|--------------------|--|--|--|
| Qingdao Hisense Air-conditioning Company Limited  | State-owned legal person | 612,316,909        | 45.07%   | 68.12%   | 0  |
| HKSCC Nominees Limited <sup>Note 1</sup>  | Foreign legal person     | 459,131,768        | 33.80%   | 99.90%   | 0  |
| China Huarong Asset Management Co., Ltd.  | State-owned legal person | 30,000,000         | 2.21%  | 3.34%  | 0  |
| China Construction Bank — Yinhua Prosperity Theme Equity Fund                                   | Other                    | 17,970,085         | 1.32%  | 2.00%  | 0  |
| Zhang Shaowu  | Domestic natural person  | 6,497,200          | 0.48%  | 0.72%  | 0  |
| National Social Security Fund 411   | Other                    | 4,664,954          | 0.34%  | 0.52%  | 0  |
| Dacheng Value-added Security Investment Fund <sup>Note 2</sup>                                  | Other                    | 4,144,439          | 0.31%  | 0.46%  | 0  |
| National Social Security Fund 114   | Other                    | 3,708,689          | 0.27%  | 0.41%  | 0  |
| ICBC — Guangfa Strategic Quality Package Mixed Security Investment Fund                         | Other                    | 3,229,790          | 0.24%  | 0.36%  | 0  |
| Bank of China — Dacheng Quality Shares Package Security Investment Fund (LOF) <sup>Note 2</sup> | Other                    | 3,059,824          | 0.23%  | 0.34%  | 0  |

Notes:

1. The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, among which, Hisense (Hong Kong) Company Limited, a party acting in concert with the controlling shareholder of the Company, is the holder of 54 million H shares in total at the end of the Reporting Period, representing 3.97% of the total number of shares of the Company.
2. Da Cheng Fund Management Co., Ltd is the fund managers of both Dacheng Value-added Security Investment Fund and Bank of China – Dacheng Quality Shares Package Security Investment Fund (LOF).

## SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

| Name of Shareholders  | Number of tradable shares held | Class of shares                |
|---|--------------------------------|--------------------------------|
| Qingdao Hisense Air-conditioning Company Limited                              | 612,316,909                    | RMB ordinary shares            |
| HKSCC Nominees Limited  | 459,131,768                    | Overseas listed foreign shares |
| China Huarong Asset Management Co., Ltd.                                      | 30,000,000                     | RMB ordinary shares            |
| China Construction Bank — Yinhua Prosperity Theme Equity Fund                 | 17,970,085                     | RMB ordinary shares            |
| Zhang Shaowu  | 6,497,200                      | RMB ordinary shares            |
| National Social Security Fund 411   | 4,664,954                      | RMB ordinary shares            |
| Dacheng Value-added Security Investment Fund                                  | 4,144,439                      | RMB ordinary shares            |
| National Social Security Fund 114   | 3,708,689                      | RMB ordinary shares            |
| ICBC — Guangfa Strategic Quality Package Mixed Security Investment Fund       | 3,229,790                      | RMB ordinary shares            |
| Bank of China — Dacheng Quality Shares Package Security Investment Fund (LOF) | 3,059,824                      | RMB ordinary shares            |

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

So far as is known to any Directors, supervisors and the chief executive of the Company, as at 30 June 2014, the following persons (other than the Directors, supervisors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited:

### LONG POSITION OR SHORT POSITION IN THE SHARES OF THE COMPANY

| Name of shareholder  | Capacity                           | Type of shares | Number of shares held | Percentage of the respective type of shares | Percentage of the total number of shares in issue |
|--|------------------------------------|----------------|-----------------------|---|---|
| Qingdao Hisense Air-conditioning Company Limited <sup>Note 1</sup>       | Beneficial owner                   | A shares       | 612,316,909(L)        | 68.12%                                      | 45.07%  |
| Qingdao Hisense Electronics Industry Holding Co., Ltd. <sup>Note 1</sup> | Interest of controlled corporation | A shares       | 612,316,909(L)        | 68.12%                                      | 45.07%  |
| Hisense Group <sup>Note 1</sup>  | Interest of controlled corporation | A shares       | 612,316,909(L)        | 68.12%                                      | 45.07%  |
| Hisense (Hong Kong) Company Limited <sup>Note 1</sup>                    | Beneficial owner                   | H shares       | 54,000,000(L)         | 11.75%                                      | 3.97%   |
| Qingdao Hisense Electronics Industry Holding Co., Ltd. <sup>Note 1</sup> | Interest of controlled corporation | H shares       | 54,000,000(L)         | 11.75%                                      | 3.97%   |
| Hisense Group <sup>Note 1</sup>  | Interest of controlled corporation | H shares       | 54,000,000(L)         | 11.75%                                      | 3.97%   |
| Prime Capital Management Company Limited <sup>Note 2</sup>               | Investment manager                 | H shares       | 55,205,691(L)         | 12.01%                                      | 4.06%   |

The letter "L" denotes a long position in the shares.

#### Notes:

- Qingdao Hisense Air-conditioning Company Limited is a company directly owned as to 93.33% and indirectly owned as to 6.67% by Qingdao Hisense Electronics Industry Holding Co., Ltd., whereas Hisense (Hong Kong) Company Limited is a company directly owned as to 100% by Qingdao Hisense Electronics Industry Holding Co., Ltd.  
  
Qingdao Hisense Electronics Industry Holding Co., Ltd. is in turn owned as to 32.36% by Hisense Group. By virtue of the SFO, Qingdao Hisense Electronics Industry Holding Co., Ltd. and Hisense Group were deemed to be interested in the same parcel of A shares of which Qingdao Hisense Air-conditioning Company Limited was interested and in the same parcel of H shares of which Hisense (Hong Kong) Company Limited was interested;
- Prime Capital Management Company Limited was interested in a total of 55,205,691 H shares in the capacity of an investment manager by virtue of the SFO.

Save as disclosed above, as at 30 June 2014, in so far as the Directors, supervisors and chief executive of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

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

As at 30 June 2014, save as disclosed below and in the section "The First Share Option Incentive Scheme", none of the members of the Board, supervisors and the chief executive of the Company and their respective associates held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be maintained by the Group pursuant to section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code.

### LONG POSITION IN THE SHARES OF THE COMPANY

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

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

## AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the interim results announcement and the interim report for the period ended 30 June 2014.



## THE FIRST SHARE OPTION INCENTIVE SCHEME

### (1) MOVEMENTS OF THE SHARE OPTIONS DURING THE REPORTING PERIOD

| No. | Name  | Position                                  | Outstanding<br>share options as<br>at 1 January 2014<br>(‘0000 shares) | Number of share<br>options exercised<br>during the<br>Reporting Period<br>(‘0000 shares) | Number of<br>share options<br>lapsed during the<br>Reporting Period<br>(‘0000 shares) | Number of<br>share options<br>cancelled<br>during the<br>Reporting Period<br>(‘0000 shares) | Outstanding<br>share options as<br>at 30 June 2014<br>(‘0000 shares) |
|-----|---|---|--|--|---|---|--|
| 1   | Tang Ye Guo                                     | Chairman                                  | 126  | 41.58  | —   | —   | 84.42  |
| 2   | Xiao Jian Lin                                   | Director, President                       | 82.8   | 27.324   | —   | —   | 55.476   |
| 3   | Jia Shao Qian                                   | Vice-President                            | 82.8   | 25.806   | —   | —   | 56.994   |
| 4   | Ren Li Ren                                      | Former Director,<br>former President      | 72 <sup>(Note 2)</sup>   | N/A  | —   | —   | N/A  |
| 5   | Zhang Yu Qing                                   | Former Vice-President                     | 82.8 <sup>(Note 2)</sup>   | N/A  | —   | —   | N/A  |
| 6   | Wang Yun Li                                     | Former Vice-President                     | 82.8 <sup>(Note 2)</sup>   | N/A  | —   | —   | N/A  |
| 7   | Gan Yong He                                     | Former Director,<br>former Vice-President | 18.1 <sup>(Note 2)</sup>   | N/A  | —   | —   | N/A  |
| 8   | Mid level management<br>staff and key personnel |   | 936.9  | 349.371  | 41.61   | 508.41 <sup>(Note 3)</sup>  | 801.619  |
|     | Total   |   | 1,484.2  | 444.081  | 41.61   | 508.41 <sup>(Note 3)</sup>  | 998.509  |

Notes:

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

### (2) THE GRANT DATE AND THE EXERCISE PRICE OF THE SHARE OPTIONS

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

### (3) VALIDITY PERIOD OF THE SHARE OPTIONS

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

**(4) EXERCISE ARRANGEMENT**

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

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

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

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

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

According to the calculation by the Black-Scholes option pricing model, the Company recognized an expense of RMB 0.5376 million in total in relation to First Share Option Incentive Scheme during the Reporting Period.

## CORPORATE GOVERNANCE CODE

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

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

### I. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY

✓ Applicable ☐ Not applicable

| General status of the litigation (arbitration)   | Amount involved (RMB ten thousand) | Whether a liability is expected to be incurred | Progress of the litigation (arbitration)  | Results and effects of the litigation (arbitration)  | Execution of the judgment of the litigation (arbitration)   |
|--|------------------------------------|--|---|--|---|
| A series of related party transactions and unusual cash flows occurred between the Greencool Companies and the Company during the period from October 2001 to July 2005. In addition, during the period, the Greencool Companies, through certain specific third party companies such as Tianjin Lixin Commercial Trading Development Company Limited, were involved in a series of unusual cash flow with the Company. The Company has instituted proceedings against the Greencool Companies for such transactions and unusual cash flows as well as the suspected fund embezzlements. | 72,541.44                          | No   | On 24 June 2014, the Company received the execution judgment of (2009) Fo Zhong Fa Zhi Zi No. 235 from the Foshan Intermediate Court, which provides the execution procedure of the above mentioned case has been concluded in accordance with the law. | The effect of the cases involving Greencool Companies on the net profits attributable to shareholders of the Company was approximately RMB570,000. | As at the date hereof, the Company has not yet received execution judgment for 3 cases involving Greencool Companies. |

### II. SHAREHOLDINGS IN OTHER LISTED COMPANIES HELD BY THE COMPANY

| Stock code | Stock abbreviation | Initial investment cost (RMB ten thousand) | Shareholding percentage in the company (%) | Carrying amount at the end of the period (RMB ten thousand) | Profit and loss for the Reporting Period (RMB ten thousand) | Changes in ownership interests for the Reporting Period (RMB ten thousand) |
|------------|--------------------|--|--|---|---|--|
| 000404     | Huayi Compressor   | 2,417.14                                   | 3.74                                       | 8,029.12  | 525.98  | 462.74   |

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

**III. PARTICULARS OF CONNECTED TRANSACTIONS OCCURRED DURING THE REPORTING PERIOD**

| Connected parties   | Type of connected transaction | Particulars of connected transaction | Pricing principle of connected transaction | Connected transaction amount (RMB ten thousand) | Percentage of total amount of similar transactions (%) |
|---------------------|-------------------------------|--------------------------------------|--|---|--|
| Hisense Electric    | Purchase                      | Finished goods                       | Agreed price                               | 6.03  | 0.00   |
| Hisense — Whirlpool | Purchase                      | Finished goods                       | Agreed price                               | 19,490.78                                       | 1.62   |
| Hisense Hitachi     | Purchase                      | Finished goods                       | Agreed price                               | 62.20   | 0.01   |
| Hisense Electric    | Purchase                      | Materials                            | Agreed price                               | 1,814.94  | 0.15   |
| Hisense Group       | Purchase                      | Materials                            | Agreed price                               | 1,207.51  | 0.10   |
| Hisense — Whirlpool | Purchase                      | Materials                            | Agreed price                               | 369.00  | 0.03   |
| Hisense Hitachi     | Purchase                      | Materials                            | Agreed price                               | 298.67  | 0.02   |
| Hisense Electric    | Receipt of services           | Receipt of services                  | Agreed price                               | 378.00  | 0.03   |
| Hisense Group       | Receipt of services           | Receipt of services                  | Agreed price                               | 21,636.40                                       | 1.79   |
| Hisense Hong Kong   | Purchase                      | Purchase financing agency            | Agreed price                               | 15,924.41                                       | 1.32   |
| Hisense Electric    | Sale                          | Finished goods                       | Agreed price                               | 14.61   | 0.00   |
| Hisense Group       | Sale                          | Finished goods                       | Agreed price                               | 90,273.74                                       | 5.86   |
| Hisense Hitachi     | Sale                          | Finished goods                       | Agreed price                               | 1,528.03  | 0.10   |
| Hisense Electric    | Sale                          | materials                            | Agreed price                               | 268.27  | 0.02   |
| Hisense Group       | Sale                          | materials                            | Agreed price                               | 460.44  | 0.03   |
| Hisense — Whirlpool | Sale                          | materials                            | Agreed price                               | 516.98  | 0.03   |
| Hisense Hitachi     | Sale                          | Materials                            | Agreed price                               | 58.91   | 0.00   |
| Hisense Electric    | Sale                          | Moulds                               | Market price                               | 4,006.84  | 0.26   |
| Hisense Group       | Sale                          | Moulds and equipments                | Market price                               | 9,082.74  | 0.59   |
| Hisense — Whirlpool | Sale                          | Moulds and equipments                | Market price                               | 376.28  | 0.02   |
| Hisense Hitachi     | Sale                          | Moulds                               | Market price                               | 123.25  | 0.01   |
| Hisense Group       | Provision of services         | Provision of services                | Agreed price                               | 274.51  | 0.02   |
| Hisense — Whirlpool | Provision of services         | Provision of services                | Agreed price                               | 90.45   | 0.01   |

As at the end of the Reporting Period, the Company and its subsidiaries had the balance of deposit of RMB521,764,600 and interest income received of RMB1,193,100, the actual balance of loan of RMB0, balance of electronic bank acceptance bill of RMB912,597,900, interest payment for discounted notes of RMB0 and the handling fee for opening accounts for electronic bank acceptance bill of RMB577,000 with Hisense Finance. The actual amount of discounted interest for the provision of draft discount services was RMB0, the actual amount involved for the provision of settlement and sale of foreign exchange services was RMB208,382,200 and the actual service fee paid for the provision of agency services such as settlement services for receipt and payment of funds was RMB130,900.

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

**IV. PARTICULARS OF GUARANTEES**

Unit: RMB ten thousand

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

| Guarantees given by the Company for its subsidiaries |   |                   |   |                          |                            |                       |                  |  |
|--|---|-------------------|---|--------------------------|----------------------------|-----------------------|------------------|--|
| The guaranteed party                                 | Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount | Guaranteed amount | Actual effective date (date of agreement) | Actual guaranteed amount | Type of guarantee          | Period of guarantee   | Completed or not | Whether the guarantee is given for any connected party |
| Guangdong Refrigerator                               | 22 November 2013  | 60,000            | 2013-03-13                                | 19.89                    | Joint liability guarantee; | 2013.03.13-2014.01.31 | Yes              | No   |
| Guangdong Refrigerator                               | 22 November 2013  | 60,000            | 2014-03-05                                | 9.44                     | Joint liability guarantee  | 2014.03.05-2015.01.31 | No               | No   |
| Guangdong Refrigerator                               | 22 November 2013  | 60,000            | 2014-01-24                                | 726.83                   | Joint liability guarantee  | 2014.01.24-2014.06.27 | Yes              | No   |
| Guangdong Refrigerator                               | 22 November 2013  | 60,000            | 2014-05-22                                | 235.21                   | Joint liability guarantee  | 2014.05.22-2014.08.06 | No               | No   |
| Guangdong Air-conditioner                            | 22 November 2013  | 30,000            | 2013-11-26                                | 160.00                   | Joint liability guarantee  | 2013.11.26-2014.04.08 | Yes              | No   |
| Guangdong Air-conditioner                            | 22 November 2013  | 30,000            | 2013-11-29                                | 39.08                    | Joint liability guarantee  | 2013.11.29-2014.08.30 | No               | No   |
| Guangdong Air-conditioner                            | 22 November 2013  | 30,000            | 2014-05-05                                | 160.00                   | Joint liability guarantee  | 2014.05.05-2015.12.31 | No               | No   |
| Guangdong Air-conditioner                            | 22 November 2013  | 30,000            | 2012-11-27                                | 2,927.67                 | Joint liability guarantee  | 2012.11.27-2014.05.19 | Yes              | No   |
| Guangdong Air-conditioner                            | 22 November 2013  | 30,000            | 2014-03-21                                | 1,666.96                 | Joint liability guarantee  | 2014.03.21-2014.08.26 | No               | No   |
| Home Appliances Co                                   | 22 November 2013  | 5,000             | 2013-12-20                                | 130.41                   | Joint liability guarantee  | 2013.12.20-2014.06.23 | Yes              | No   |
| Home Appliances Co                                   | 22 November 2013  | 5,000             | 2014-06-23                                | 125.30                   | Joint liability guarantee  | 2014.06.23-2015.05.30 | No               | No   |
| Home Appliances Co                                   | 22 November 2013  | 5,000             | 2014-06-20                                | 60.00                    | Joint liability guarantee  | 2014.06.20-2016.06.11 | No               | No   |
| Home Appliances Co                                   | 22 November 2013  | 5,000             | 2014-01-29                                | 649.77                   | Joint liability guarantee  | 2014.01.29-2014.06.30 | Yes              | No   |
| Home Appliances Co                                   | 22 November 2013  | 5,000             | 2014-06-09                                | 170.82                   | Joint liability guarantee  | 2014.06.09-2014.07.30 | No               | No   |
| Guangdong Freezer                                    | 22 November 2013  | 5,000             | 2014-02-26                                | 95.55                    | Joint liability guarantee; | 2014.02.26-2014.04.15 | Yes              | No   |
| Yangzhou Refrigerator                                | 22 November 2013  | 10,000            | 2013-05-14                                | 156.22                   | Joint liability guarantee  | 2013.05.14-2014.06.27 | Yes              | No   |
| Yangzhou Refrigerator                                | 22 November 2013  | 10,000            | 2013-05-14                                | 112.98                   | Joint liability guarantee  | 2013.05.14-2014.08.14 | No               | No   |
| Ronsheng Plastic                                     | 22 November 2013  | 6,000             | 2014-04-03                                | 291.62                   | Joint liability guarantee  | 2014.04.03-2014.06.30 | Yes              | No   |

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

**IV. PARTICULARS OF GUARANTEES — Continued**

| The guaranteed party   | Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount | Guaranteed amount | Guarantees given by the Company for its subsidiaries |   |                           |                       |                  | Whether the guarantee is given for any connected party |
|--|---|-------------------|--|---|---------------------------|-----------------------|------------------|--|
|  |   |                   | Actual effective date (date of agreement)            | Actual guaranteed amount  | Type of guarantee         | Period of guarantee   | Completed or not |  |
| Ronsheng Plastic   | 22 November 2013  | 6,000             | 2014-04-25   | 671.80  | Joint liability guarantee | 2014.04.25-2014.08.26 | No               | No   |
| Total limit on the amount of guarantees for subsidiaries approved during the Reporting Period (B1)                       |   |                   | 183,000  | Actual amount of guarantees for subsidiaries during the Reporting Period (B2)                         |                           |                       |                  | 8,409.55   |
| Total limit on the amount of guarantees for subsidiaries which has been approved at the end of the Reporting Period (B3) |   |                   | 183,000  | Total balance of actual amount of guarantees for subsidiaries at the end of the Reporting Period (B4) |                           |                       |                  | 3,251.58   |
| Total guaranteed amount of the Company (being the sum of the previous two major items)                                   |   |                   |  |   |                           |                       |                  |  |
| Total limit on the amount of guarantees approved during the Reporting Period (A1+B1)                                     |   |                   | 183,000  | Actual amount of guarantees during the Reporting Period (A2+B2)                                       |                           |                       |                  | 8,409.55   |
| Total limit on the amount of guarantees which has been approved at the end of the Reporting Period (A3+B3)               |   |                   | 183,000  | Total balance of actual amount of guarantees at the end of the Reporting Period (A4+B4)               |                           |                       |                  | 3,251.58   |
| Proportion of actual amount of guarantees (being A4+B4) to the net assets of the Company                                 |   |                   |  |   |                           |                       |                  | 0.96%  |
| Including:   |   |                   |  |   |                           |                       |                  |  |
| Guaranteed amount provided for shareholders, beneficial controlling parties and their connected parties (C)              |   |                   |  |   |                           |                       |                  |  |
| Guaranteed amount provided directly or indirectly for the guaranteed party with gearing ratio over 70% (D)               |   |                   |  |   |                           |                       |                  | 1,866.04   |
| Total guaranteed amount over 50% of the net asset (E)  |   |                   |  |   |                           |                       |                  |  |
| Sum of the above three guarantees (C+D+E)  |   |                   |  |   |                           |                       |                  | 1,866.04   |
| Statement on possibility to assume joint liabilities for guarantees which have not expired                               |   |                   |  |   |                           |                       |                  |  |
| Description of provision of external guarantee in violation of prescribed procedures                                     |   |                   |  |   |                           |                       |                  |  |

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

**V. DERIVATIVES INVESTMENT**

Unit: RMB (in ten thousand)

| Name of operators of derivatives investment | Connection | Whether or not a connected transaction | Type of derivatives investment     | Initial investment of derivatives investment | Effective Date | Expiry Date  | Investment at the beginning of the Period | Amount of provision for impairment (if any) | Investment at the end of the Period | Proportion of investment to the net asset of the Company at the end of the Reporting Period (%) | Actual amount of profit and loss during the Reporting Period |
|---|------------|--|------------------------------------|--|----------------|--------------|---|---|-------------------------------------|---|--|
| Bank  | No         | No                                     | Forward foreign exchange contracts | 278,543.31                                   | 1 January 2014 | 30 June 2014 | 278,543.31                                |   | 233,999.52                          | 68.91   | (5,480.43)   |

Source of derivatives investment funding      Export trade payment

Litigation involved (if applicable)      Not applicable

Date of the announcement disclosing the approval of derivatives investment by the Board (if any)      28 March 2014

Date of the announcement disclosing the approval of derivatives investment during shareholders' meetings (if any)      27 June 2014

Risk analysis of positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)

The derivatives business of the Company mainly represents the forward foreign exchange contracts used to avoid the risk of foreign exchange fluctuations related to the overseas sales receivables. The Company determines a reasonable range of foreign exchange rates to achieve the hedging purpose. The Company has formulated the "Management Measures for the Foreign Exchange Capital Business" and "the Internal Control System for Forward Foreign Exchange Capital Transactions". The measures specifically regulate the basic principles, operation rules, risk control measures and internal controls that shall be followed when engaging in the business of foreign exchange derivatives. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.

**V. DERIVATIVES INVESTMENT — *Continued***

|  |   |
|--|---|
| Changes in market price or product fair value of invested derivatives during the Reporting Period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of derivatives' fair value | The assessment of the fair value of the derivatives carried out by the Company mainly represents the outstanding foreign exchange forward contracts entered into by the Company and banks, which are recognized as transactional financial assets or liabilities based on the difference between the quotation of the outstanding foreign exchange forward contracts and the forward exchange rate as at the end of the period. During the Reporting Period, the Company recognized a gain on change in fair value of the derivatives of RMB-90,475,200. Investment gain amounted to RMB35,670,900, resulting in a total profits or losses of RMB-54,804,300. |
| Explanations of any significant changes in the Company's accounting policies and specific accounting and auditing principles on derivatives between the Reporting Period and the last reporting period                               | During the Reporting Period, there were no material changes in the accounting policy and specific accounting and auditing principles for the Company's derivatives business as compared to last reporting period.   |
| Specific opinions of independent Directors on the derivatives investment and risk control of the Company   | Opinion of independent directors: Commencement of foreign exchange derivatives business by the Company was beneficial to the Company in the prevention of exchange rate fluctuation risks. The Company has devised the Internal Control System for Forward Foreign Exchange Capital Transactions to strengthen internal control and enhance the management of foreign exchange risks by the Company, and the targeted risk control measures adopted were practicable.   |

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



## DEFINITIONS

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

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