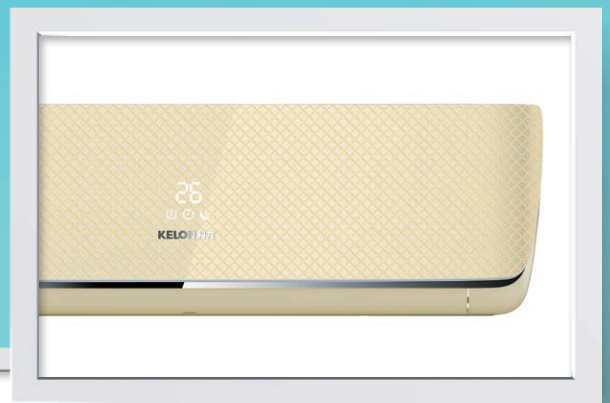
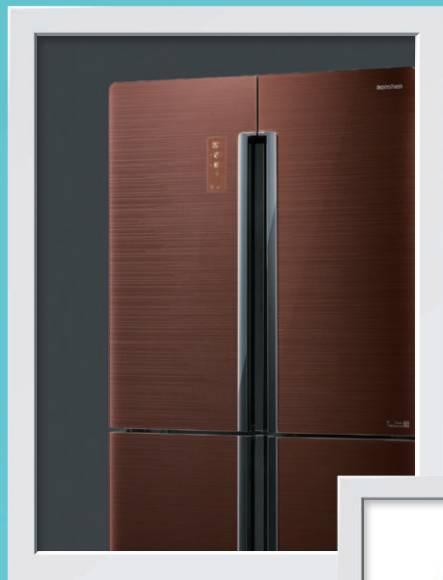


# Hisense 海信科龙

海信科龍電器股份有限公司

Hisense Kelon Electrical Holdings Company Limited

Stock Code: 00921



2015 Annual Report



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## Company Profile

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

The Company adheres to its core philosophy of “relying on technology and the talents of its people to build up the Company”, and considers “technology” as the basic driving force for the Company’s development. Leveraging on the superior refrigeration technology and application of high technology in its products, the Company has won good reputation in the industry, and has been awarded many honors for its technologies and products. In 2015, Ronshen refrigerators once again won the “Green Responsibility Award”, the only international carbon gold award in the household appliance industries, and became the indicator of green and low-carbon standard in the domestic refrigerator industry. Hisense refrigerators won the only “Frequency Conversion Refrigerator Leading Brand” award in the industry at the China Refrigerator Industry Summit for their innovative research and development of frequency conversion technology and active promotion of frequency conversion refrigerator for years. Hisense Bei Duo Fen (倍多分) Cross French-door refrigerators was honored with the “China Household Electrical Appliance Product Prize” granted by the China Household Electrical Appliances Association. At the “China Household Electrical Appliances Innovation Achievement Award” ceremony of the 55th International Funkausstellung (IFA) held in Berlin, Germany, Hisense Bei Duo Fen (倍多分) Cross French-door refrigerators also won the “Product Innovation” award for their outstanding product innovation and excellent user experience. In the 2014-2015 Assessment of Household Electric Appliances Brands in China, Hisense air-conditioner was named as “Top Ten Brand in the Air-conditioner Industry”. Hisense air-conditioner was named as “Qualified Products of National Quality Inspection and Stability” and “National Outstanding Enterprise with Excellent Quality and Integrity Service” by China Quality Certification Centre and China Household Electric Appliance Research Institute, and by China Quality Inspection Association respectively. In addition, the enthalpy injection technology of Hisense air-conditioner won the “China Refrigeration Association Technology Improvement Award” issued by China Refrigeration Association. Hisense air-conditioner won the “Best Energy-saving Product Award in China Air-conditioning Industry” and “Intelligence Leading Brand Award” issued by China Electronics News (中國電子報).

The Company will adhere to the operating direction of “adhering to high-end awareness, highlighting product advantages, consolidating market network, enhancing system efficiency, exploring international market and ensuring economies of scale”, to adhere to the development strategy of high-end products and highlight the advantage of product differentiation, to increase the sales capability, to improve the NPS management system, to strive to expand the overseas market, to continue the work of raising production efficiency, to enhance the integrated capability of the Company comprehensively in the areas of technology level, service quality, product grade, market scale and sustainability etc., to achieve a steady growth in scale, efficiency and market share.

## Major Events Calendar

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### JANUARY

In the “2015 Green Low-carbon Development Reform Summit and International Carbon Gold Award Ceremony” organized by World Environmental Conference Organizing Committee, Ronshen refrigerators once again won the “Green Responsibility Award”, the only international carbon gold award in the household appliance industries, and became the indicator of green and low-carbon standard in the domestic refrigerator industry.

### MARCH

Hisense BCD-610WTGVBP Bei Duo Fen (倍多分) Cross French-door refrigerators and Hisense Air-Conditioner Apple Cloud T Series and T900 Series were honored with the “China Household Electrical Appliance Product Prize” granted by the China Household Electrical Appliances Association.

Hisense air-conditioner was rated as “National Outstanding Enterprise with Excellent Quality and Integrity Service” by China Quality Inspection Association.

### MAY

Hisense Kelon performed its social responsibility by commencing the charitable activity of donating air-conditioning products to Lhoba nursing home in Medog County, Tibet, while helping Medog to promote its travel resources so as to help its people out of poverty.

Hisense refrigerators won the only “Frequency Conversion Refrigerator Leading Brand” award in the industry at the China Refrigerator Industry Summit for their innovative research and development of frequency conversion technology and active promotion of frequency conversion refrigerator for years.

### JULY

Hisense refrigerators has made donations to Qinghai Lake Charitable Orphans and Disabled School and honored with “Red Roof Charitable Special Contribution Award” by cheaa.com.

The fourth China International Consumer Electronics Leader Innovation Award Ceremony was held in Qingdao. Leveraging on their innovative cross French-door design, and more sophisticated food storage method and other differential advantages, Ronshen Shishangpai (食尚派) Cross French-door refrigerators won the 2015 Most Popular Product Award.

### SEPTEMBER

At the “China Household Electrical Appliances Innovation Achievement Award” ceremony of the 55th International Funkausstellung (IFA) held in Berlin, Germany, Hisense Bei Duo Fen (倍多分) Cross French-door refrigerators won the “Product Innovation” award for their outstanding product innovation and excellent user experience.

In the 2014-2015 Assessment of Household Electric Appliances Brands in China, Hisense air-conditioner was named as “Top Ten Brand in the air-conditioner Industry”.

### OCTOBER

Hisense air-conditioner was named as “Qualified Products of National Quality Inspection and Stability” by China Quality Certification Centre and China Household Electric Appliance Research Institute.

Kelon air-conditioner was honored with the “30 Years Excellent Brand Award of China Home Appliance” by China Household Electrical Appliances Business Association.

### DECEMBER

The enthalpy injection technology of Hisense air-conditioner won the “China Refrigeration Association Technology Progress Award” issued by China Refrigeration Association.

Hisense air-conditioner won the “Best Energy-saving Product Award in China Air-conditioning Industry” and “Intelligent Leading Brand Award” issued by China Electronics News (中國電子報).

## Chairman's Statement

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Dear Shareholders:

I am pleased to present the annual report of the Company for the year ended 31 December 2015 (the "Reporting Period") for shareholders' review.

During the Reporting Period, unfavourable factors such as global economic slowdown, sluggish demand, increasing downward pressure on the economy, high inventory level in the industry, slower growth in the real estate market, etc. continued affecting the development of the white goods industry. Both the sales volume and amount of refrigerators and air-conditioners have decreased and the difficult condition for white goods enterprises continued. According to the statistics of China Market Monitor Company Limited (CMM), in 2015, the cumulative retail volume of the refrigerator industry recorded a year-to-year decrease of 4.76% and its cumulative retail amount decreased by 0.52% year-to-year; whereas the cumulative retail volume of the air-conditioner industry recorded a year-to-year drop of 4.10% and its cumulative retail amount decreased by 8.09% year-to-year. As to the export market, export revenue showed a declining trend due to the lack of momentum for the recovery of the global economy and the general weakness of non-US currencies. According to the Customs statistics on export, the export volume in 2015 for the refrigeration products recorded a year-to-year increase of 3.7%, and the export volume for the air-conditioning products recorded a year-to-year decrease of 5.7%.

As consumers have high demand for product function, quality and design, "demand for improvement" has undoubtedly become the new growth point in the demand for household appliances market. Therefore, accompanying the development in mobile Internet technologies and the upgrading of public consumption demand, "living room economics" has become the consensus for development of various white goods enterprises. White goods are further heading towards intelligentization, artization and high-end development.

During the Reporting Period, the Company upheld the operating directions of "building product advantages, enhancing sales capability, improving service quality, uplifting system efficiency and ensuring scale and efficiency" in performing various tasks. However, due to influence of factors such as weak market demand, high inventory level of the air-conditioner industry, slow improvement in the qualities of the Company's channels and inadequate optimization of product structure, the economies of scale of the Company showed a decline. The Company recorded operating revenue of RMB 23472 million and principal operating revenue of RMB 21804 million, representing a year-to-year decrease of 10.53%, of which revenue from the refrigerator and washing machine business accounted for 53% of the principal operating revenue, representing a year-to-year decrease of 2.60%; revenue from the air-conditioner business accounted for 41.21% of the principal operating revenue, representing a year-to-year decrease of 20.77%; the domestic sales business recorded a principal operating revenue of RMB 14267 million, representing a year-to-year decrease of 16.95%, whereas the export sales business recorded a principal operating revenue of RMB 7537 million, representing a year-to-year increase of 4.8%. The Company recorded net profits attributable to equity holders of the listed company of RMB 580 million, representing a year-to-year decrease of 13.70%. Earnings per share were RMB 0.43.

The Company adhered to the development strategy of "Technology orientation and prudent operation". Increasing the competitiveness of products through strengthening technological innovation and upgrading and raising the quality and added value of products has become an important measure for the Company in tackling difficult operating condition and industry upgrades.

## Chairman's Statement

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During the Reporting Period, the refrigerator business of the Company continued to adhere to the direction of further improvement on the level of product intelligentization and user experience in its research and development. With focus on improving the technology in areas such as “energy efficiency”, “fresh-keeping”, “rapid refrigeration”, “vibration and noise reduction” and “intelligentization”, it was committed to technology innovations and function upgrades. The Company announced the in-depth global strategic cooperation with Honeywell in which they would jointly promote the wider use of Solstice® liquid blowing agent (LBA) in refrigerator and freezer products, so as to further enhance the energy efficiency rating of its refrigeration products and reduce greenhouse gas emission, and continue to strengthen the Company's leading position in energy saving for refrigeration products. In the “Press Conference of the Evaluation Results of the First Intelligent Household Appliances in China” jointly organized by China Quality Certification Centre and China Household Electrical Appliances Research Institute, Hisense intelligent refrigerator was honoured with the award of “The Most Capable Intelligent Electrical Appliance in Self-Learning”. The air-conditioner business of the Company adhered to the development directions of “breakthrough in core technology, product innovation and customer satisfaction”, and achieved significant results in areas such as breakthrough in core technology and innovation of high-end products. In respect of breakthrough in core technology, the “variable vapour injection” (VVI) technology autonomously developed by the Company was successfully applied in inverter multi-connection products and low-temperature strong-heat heater products. With the advantage of maintaining the inverting technology of air-conditioners, the Company reformed and upgraded the core technology of inverter for air-conditioner products. It successfully developed and launched the inverter technology of the 8th generation——“rapid inverter”, and took the lead in introducing the “6S Inverter Standards” covering 6 major areas of “rapid, energy efficiency, quietness, confidence, breadth and intelligence”, which raised the standards of inverter air-conditioners to a new level in the industry. With its outstanding performance in five areas including “intelligence, energy efficiency, healthy living, aesthetics and quietness”, Hisense “Xuanzhuan” air-conditioners won the “Chinese Home Electrical Appliance Design Award” in the Appliance & Electronics World Expo.

Looking ahead into 2016, the recovery of the global economy lacks momentum and the downward pressure of the domestic economy will intensify. The RMB exchange rate will be exposed to higher risks and there will be further pressure on export costs. Unfavourable environment such as the high inventory level of the domestic air-conditioner industry will continue to be a huge burden on the operation and development of the Company. However, with the economic recovery in developed countries such as the US, implementation of new energy efficiency standards for domestic refrigerator products, liberalization of improving residential housing policy and the development of mobile Internet etc., there will be plenty of room for the development and upgrade of white goods enterprises.

In 2016, the Company will firmly uphold the operating strategies of “adhering to high-end awareness, highlighting product advantages, consolidating market network, enhancing system efficiency, exploring international market and ensuring economies of scale” to capture the opportunities of sector technical upgrades and functional upgrades of products to adhere to the development strategy of high-end products and highlight the advantage of product differentiation; to increase the sales capability; to take “customer satisfaction” as our fundamental starting point, set appraisal indicators of process and improve the NPS management system; to strive to expand the overseas market; to continue the work of raising production efficiency; and to strictly control overdue account receivables and abnormal appropriation, reduce capital risk, accelerate capital flow and strengthen cost control in order to strive for steady increase in the scale, performance and market share of the Company.

In 2015, the business development of the Company has received the care and strong support from all shareholders, general staff, financial institutions, partners and the government. I would like to express my gratitude to every one of them and hope to receive your continued support in the forthcoming year. We believe that our objectives will be gradually achieved through careful and in-depth planning. With the concerted efforts and commitment of our staff, a brand-new corporate spirit and pragmatic style of work as driving forces of the enterprise to take on the challenges ahead, the development of the Company will be advanced. I also earnestly look forward to sharing a better future of Hisense Kelon with you all.

**Tang Ye Guo**  
*Chairman*

The PRC, 29 March 2016

# Management Discussion and Analysis

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## I. INDUSTRY OVERVIEW

During the Reporting Period, unfavourable factors such as global economic slowdown, sluggish demand, increasing downward pressure on the economy, high inventory level in the industry, slower growth in the real estate market, etc. continued affecting the development of the white goods industry. Both the sales volume and amount of refrigerators and air-conditioners have decreased and the difficult condition for white goods enterprises continued. According to the statistics of China Market Monitor Company Limited (CMM), in 2015, the cumulative retail volume of the refrigerator industry recorded a year-to-year decrease of 4.76% and its cumulative retail amount decreased by 0.52% year-to-year; whereas the cumulative retail volume of the air-conditioner industry recorded a year-to-year drop of 4.10% and its cumulative retail amount decreased by 8.09% year-to-year. As to the export market, export revenue showed a declining trend due to the lack of momentum for the recovery of the global economy and the general weakness of non-US currencies. According to the Customs statistics on export, the export volume in 2015 for the refrigeration products recorded a year-to-year increase of 3.7%, and the export volume for the air-conditioning products recorded a year-to-year decrease of 5.7%.

As consumers have high demand for product function, quality and design, “demand for improvement” has undoubtedly become the new growth point in the demand for household appliances market. Therefore, accompanying the development in mobile Internet technologies and the upgrading of public consumption demand, “living room economics” has become the consensus for development of various white goods enterprises. White goods are further heading towards intelligentization, artization and high-end development.

## II. ANALYSIS OF THE COMPANY’S OPERATION

### Overall situation

During the Reporting Period, the Company upheld the operating directions of “building product advantages, enhancing sales capability, improving service quality, uplifting system efficiency and ensuring scale and efficiency” in performing various tasks. However, due to influence of factors such as weak market demand, high inventory level of the air-conditioner industry, slow improvement in the qualities of the Company’s channels and inadequate optimization of product structure, the economies of scale of the Company showed a decline. The Company recorded operating revenue of RMB 23,472 million and principal operating revenue of RMB 21,804 million, representing a year-to-year decrease of 10.53%, of which revenue from the refrigerator and washing machine business accounted for 53% of the principal operating revenue, representing a year-to-year decrease of 2.60%; revenue from the air-conditioner business accounted for 41.21%, representing a year-to-year decrease of 20.77%; the domestic sales business recorded a principal operating revenue of RMB 14,267 million, representing a year-to-year decrease of 16.95%, whereas the export sales business recorded a principal operating revenue of RMB 7,537 million, representing a year-to-year increase of 4.8%. The Company recorded net profits attributable to equity holders of the listed company of RMB 580 million, representing a year-to-year decrease of 13.70%. Earnings per share were RMB 0.43.

### Technology orientation

The Company adhered to the development strategy of “Technology orientation and prudent operation”. Increasing the competitiveness of products through strengthening technological innovation and upgrading and raising the quality and added value of products has become an important measure for the Company in tackling difficult operating condition and industry upgrades.

During the Reporting Period, the refrigerator business of the Company continued to adhere to the direction of further improvement on the level of product intelligentization and user experience in its research and development. With focus on improving the technology in areas such as “energy efficiency”, “fresh-keeping”, “rapid refrigeration”, “vibration and noise reduction” and “intelligentization”, it was committed to technology innovations and function upgrades. In February 2015, the Company’s project named “Research and Application of European A++ High-end Air-cooled refrigerator energy-saving technology” won the 2014 Outstanding Technology Award of China National Light Industry Council. In April 2015, the Company announced the in-depth global strategic cooperation with Honeywell in which they would jointly promote the wider use of Solstice® liquid blowing agent (LBA) in refrigerator and freezer products, so as to further enhance the energy efficiency rating of its refrigeration products and reduce greenhouse gas emission, and continue to strengthen the Company’s leading position in energy saving for refrigeration products. In the China Refrigerator Industry Symposium in May 2015, “Ronshen” refrigerator won the grand award of the “Leading Brand

## Management Discussion and Analysis

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in Fresh-keeping Technology in refrigerator industry” for its continuing technical innovations in fresh-keeping and moisturizing, the “Ronshen” 618 Litres cross-design four-door intelligent refrigerator won the unique award of “Cross-design four-door leading product” in the industry for its innovative structural design, advanced innovative technology and other leading advantages; the “Hisense” 612 Litres side-by-side refrigerator was awarded the “High-end Variable Frequency Product in Refrigerator Industry” with its distinctive advantages such as good cooling effect, strong fresh-keeping capabilities as well as low power consumption. In the “Press Conference of the Evaluation Results of the First Intelligent Household Appliances in China” jointly organized by China Quality Certification Centre and China Household Electrical Appliances Research Institute in July 2015, Hisense intelligent refrigerator was honoured with the award of “The Most Capable Intelligent Electrical Appliance in Self-Learning”. In October 2015, the Company’s own research and development project “Research and application of French-style frostless energy-saving refrigerator simulation technology”, was awarded the Third Prize of Technology Advancement by China Household Electrical Appliances Association.

During the Reporting Period, the air-conditioner business of the Company adhered to the development directions of “breakthrough in core technology, product innovation and customer satisfaction”, and achieved significant results in areas such as breakthrough in core technology and innovation of high-end products. In terms of breakthrough in core technology, the “variable vapour injection” (VVI) technology autonomously developed by the Company was successfully applied in inverter multi-connection products and low-temperature strong-heat heater products. As the problem of heat loss in air-conditioners under extreme temperatures was resolved with the VVI technology, the air-conditioner company was given the “technological advancement award” by the Chinese Association of Refrigeration. With the advantage of maintaining the inverting technology of air-conditioners, the Company reformed and upgraded the core technology of inverter for air-conditioner products. It successfully developed and launched the inverter technology of the 8<sup>th</sup> generation—“rapid inverter”, and took the lead in introducing the “6S Inverter Standards” covering 6 major areas of “rapid, energy efficiency, quietness, confidence, breadth and intelligence”, which raised the standards of inverter air-conditioners to a new level in the industry. In terms of high-end products, the Company launched Hisense Air-conditioners’ Apple Cloud Series T “Xuanzhuan” air-conditioners, which was the first 360-degree “Flip Turn” artistic cabinet air-conditioner in the industry. Hisense “Xuanzhuan” air-conditioners integrated various technologies such as “High Efficiency Centrifugal Air Passage”, “V-Shape High Efficiency Heat Converter”, “infrared thermal human body detection”, “IFD Purifying Technology”, “NANO Anti-bacteria Technology” and “WIFI Intelligent Technology”. With its outstanding performance in five areas including “intelligence, energy efficiency, healthy living, aesthetics and quietness”, Hisense “Xuanzhuan” air-conditioners won the “Chinese Home Electrical Appliance Design Award” in the Appliance & electronics World Expo.

### Refrigerator and washing machine business

During the Reporting Period, the Company’s refrigerator and washing machine business continued its strategy of high-end products and enhancing the product structure. The dual system and dual ion fresh-keeping 620 cross refrigerator was launched and the 375 Litres 5-door refrigerator products and a series of small French-style 4-door refrigerator products were newly launched, enriching the high-end product mix. According to the statistics of CMM, the retail market share of the French-style refrigerators in 2015 was 17.13%, representing a year-to-year increase of 2.02 percentage points. The price index of products under the brands of “Hisense refrigerator” and “Ronshen refrigerator” increased gradually. Due to the increasing downward pressure in the domestic economy and low demand, revenue from the refrigerator and washing machine business of the Company dropped, representing a year-to-year decrease of 2.60%. To maintain its profitability, the Company performed tasks to raise gross profit margin in all aspects such as product development, purchasing, manufacturing and sales. The year-to-year growth in the gross profit margin of refrigerator and washing machine was 1.40 percentage points in 2015. Besides, the Company actively explored the overseas market, promoting sales in overseas market comprehensively. According to the statistics of the Customs on export, the export volume of the refrigerator and washing machine products of the Company marked a year-to-year growth of 9.9% in 2015, outperforming the industry’s average growth of 3.7%.

### Air-conditioner business

During the Reporting Period, due to the influence of factors such as sluggish market demand, high inventories level of the industry and price war, the scale ability and profitability of the air-conditioner business of the Company declined. Revenue of the air-conditioner business of the Company recorded a year-to-year decrease of 20.77%. The gross profit margin marked a year-to-year decrease of 3.38 percentage points. Facing such difficult environment, the Company actively adjusted the product structure, focused its efforts in the sector of intelligent inverting air-conditioners and



## Management Discussion and Analysis

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adopted the strategy of “phasing out constant speed and popularizing intelligent air-conditioners”. In addition, the Company continued various foundation management tasks to strictly implement quality management. The quality of air-conditioner products of the Company continued to improve. In the Quality Month of China co-organized by 39 departments including the General Administration of Quality Supervision, Inspection and Quarantine, the Publicity Department, National Development and Reform Commission and Ministry of Industry and Information Technology, the Company was named as the “Typical Enterprise with Outstanding Quality and Integrity in China” and “Qualified Product with Overall Stable Performance in Quality Inspection in China”.

### Major risks and uncertainties

The financial position, operating results and business prospects of the Group may be affected by risks and uncertainties directly or indirectly related to the Group. The following are the major risks and uncertainties which the Company is aware of. In addition to those identified below, there may be other risks and uncertainties which the Company has not been aware of or are currently immaterial, but may become material in the future.

#### (1) *Credit risk*

Credit risk is the risk of economic losses arising from the failure of counterparties to fulfil their contractual obligations according to the terms of financial instruments.

The Group maintains substantial amount of its bank balances in several major large state-owned banks in the PRC. With strong support state to those state-owned banks from the state, the Board believes that these assets are not exposed to significant credit risk that will result in financial losses.

The Group mitigates its exposure to risks associated with trade and other receivables by dealing with diversified customers with strong financial backgrounds. The Group also requires certain new customers to make cash payments in order to minimise credit risk. The Group maintains strict control over its outstanding receivables and has a credit control policy to minimise credit risk. In addition, all balances of receivable are monitored on an ongoing basis and overdue balances are followed up by senior management.

The credit risk on derivative instrument transactions of the Group is not significant as the counter parties of derivative instrument transactions are banks which are rated by international credit-rating agencies as banks of high level of credit worthiness.

#### (2) *Liquidity risk*

Liquidity risk is the possibility of the Company failing to fulfil its contractual obligations when they fall due owing to its inability to obtain sufficient funding or realise its assets.

In order to mitigate the liquidity risk, the directors have carried out a detailed review on the liquid assets of the Group, including the situation of maturity for its accounts and other payables, availability of borrowing and loan facilities provided by Hisense Finance Co., Ltd., and it is concluded that the Group has adequate funding to fulfil its short-term liabilities and capital expenditure requirements.

#### (3) *Interest rate risk*

The interest rate risk that the Group is exposed to is primarily from changes in interest rates of interest-bearing financial assets and liabilities. The interest-bearing financial assets of the Group are mainly deposits with banks, which are mostly short-term in nature, whereas interest-bearing financial liabilities are mainly short-term bank borrowings. As at 31 December 2015, the interest rates of the Group’s short-term bank borrowings were at a fixed rate. As all the Group’s borrowings were factored accounts receivable, any change in the interest rate is not considered to have a significant impact on the Group’s performance.

## Management Discussion and Analysis

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### **(4) Foreign currency risk**

The Group's monetary assets and transactions are mainly denominated in RMB, HKD, USD, JPY and EUR. The exchange rates between RMB, HKD, USD, JPY and EUR are not pegged, and there is fluctuation in the exchange rates between RMB, USD, JPY and EUR.

Since part of the purchase and the majority of the overseas sales of the Group during the Reporting Period were settled 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.

### **Environmental policies and performance**

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

The Group continued to carry out technology improvement and efficiency enhancement projects to enhance efficiency, conserve energy and reduce consumption. The Group also formulated an environmental protection and resources conservation system and established a sound ISO14001 environmental management system and continuously maintained the effective operation of those systems. The ISO14001 environmental management system of the Group has passed the re-certification audit by the China Academy of Safety Science and Technology in November 2015, which assured the certification remained valid. The Group has established a sound occupational health and safety management system and has formulated the Occupational Health and Safety and Environmental Management System Manual and Procedure Document. The occupational health and safety management system of the Group has passed the re-certification audit by the China Academy of Safety Science and Technology in November 2015, which assured the certification remained valid. The Company continued to organise activities relating to standardisation of safe production and corporate compliance with each of its 7 subsidiaries obtaining an "A Grade Safe Production Standardization Enterprise Certificate" (一級安全生產標準化企業證書) issued by the State Administration of Work Safety in June 2014.

During the Reporting Period, there was no significant production safety accident. The Group did not violate any relevant environmental rules and regulations nor subject to any associated penalties. The Group highly emphasised on and actively performed its social responsibilities in order to create coherence between economic benefits and social benefits.

### **Compliance with laws and regulations**

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

### **Relationships with staff, customers, suppliers and other persons**

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

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

## Management Discussion and Analysis

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

The Group adhered to the principle of “operating with integrity”. The Code of Integrity applies to all staff of the Group and they should strictly comply with the Code of Integrity involving shareholders, staff, customers, partners, government and society.

### III. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD

#### (1) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

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

Yes  No

Item	2015	2014	Increase or decrease as compared to last year (%)	2013
Operating revenue (RMB)	23,471,602,857.98	26,534,420,935.55	-11.54	24,360,021,308.47
Net profits attributable to shareholders of listed company (RMB)	580,335,074.18	672,478,632.35	-13.70	1,215,669,602.07
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	232,460,457.89	582,931,287.47	-60.12	1,077,904,382.91
Net cash flow from operating activities (RMB)	484,261,155.05	965,990,457.87	-49.87	218,798,349.53
Basic earnings per share (RMB/share)	0.43	0.50	-14.00	0.90
Diluted earnings per share (RMB/share)	0.43	0.50	-14.00	0.90
Weighted average rate of return on net assets (%)	15.49	21.65	-6.16 percentage points	56.78

Items	31 December 2015	31 December 2014	Increase or decrease as compared to end of last year (%)	31 December 2013
Total assets (RMB)	14,292,817,039.53	13,266,793,963.74	7.73	12,208,030,858.33
Net assets attributable to shareholders of listed company (RMB)	4,044,017,698.45	3,458,363,028.38	16.93	2,748,731,080.83

## Management Discussion and Analysis

### QUARTERLY MAJOR FINANCIAL INDICATORS

Item	<i>Unit: RMB</i>			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenue (RMB)	6,430,772,090.41	7,180,376,529.48	5,616,212,947.84	4,244,241,290.25
Net profits attributable to shareholders of listed company (RMB)	224,500,108.92	281,217,624.98	-46,017,112.95	120,634,453.23
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	90,810,688.39	196,717,257.46	-63,641,709.71	8,574,221.75
Net cash flow from operating activities (RMB)	-79,734,934.22	-119,429,911.07	197,676,500.75	485,749,499.59

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

Item	<i>Unit: RMB</i>			Description
	Amount of 2015	Amount of 2014	Amount of 2013	
Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)	124,501,216.75	-2,343,557.57	296,087.55	
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)	173,616,297.39	82,298,890.90	82,700,643.38	
Corporate restructuring costs (e.g. staff relocation costs and costs during the course of integration)	-22,087,867.83	-36,817,863.11	-52,492,777.86	
Reversal of provision for impairment loss of account receivables subject to separate impairment testing		12,585,064.60	89,950,024.68	
Other non-operating income and expenses other than the aforementioned items	111,227,500.87	39,015,647.68	14,306,916.33	
Less: Effect of income tax	33,493,517.67	15,218,459.01	4,249,768.03	
Effect of minority interests (after tax)	5,889,013.22	-10,027,621.39	-7,254,093.11	
Total	347,874,616.29	89,547,344.88	137,765,219.16	

## Management Discussion and Analysis

### (III) ANALYSIS OF PRINCIPAL BUSINESS

#### 1. Income

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

Yes  No

Industry Category	Item (ten thousand units/sets)	2015	2014	Increase or decrease as compared to corresponding period last year (%)
Home appliances manufacturing industry	Sales volume	1,646	1,699	-3.12
	Production volume	1,570	1,731	-9.30
	Inventory volume	108	184	-41.30

Inventory volume decreased by 41.30% year-to-year, mainly due to the Company's effort to clear inventories in order to avoid the risk of dropping prices of inventories during the Reporting Period.

#### 2. Composition of operating revenue

Unit: RMB

Item	Amount	2015		2014		Increase or decrease as compared to corresponding period last year (%)
		Weight to operating revenue (%)	Amount	Weight to operating revenue (%)	Amount	
Total of operating revenue	21,803,678,507.86	100.00	24,370,988,051.17	100.00		-10.53
<b>By industry</b>						
Home appliances manufacturing industry	21,803,678,507.86	100.00	24,370,988,051.17	100.00		-10.53
<b>By product</b>						
Refrigerators and washing machines	11,555,814,929.64	53.00	11,864,028,175.03	48.68		-2.60
Air-conditioners	8,986,110,462.69	41.21	11,342,514,901.50	46.54		-20.77
Others	1,261,753,115.53	5.79	1,164,444,974.64	4.78		8.36
<b>By region</b>						
Domestic	14,266,558,516.03	65.43	17,178,988,978.86	70.49		-16.95
Overseas	7,537,119,991.83	34.57	7,191,999,072.31	29.51		4.80

## Management Discussion and Analysis

### 3. Composition of operating Costs

Unit: RMB ten thousand

Industry Category	Item	2015		2014		Increase or decrease as compared to corresponding period last year (%)
		Amount	Weight to operating costs (%)	Amount	Weight to operating costs (%)	
Home appliances manufacturing industry	Raw materials	1,521,967.68	89.71	1,697,168.44	90.45	-0.74
	Staff wages	59,465.79	3.50	53,990.60	2.88	0.62
	Depreciation	45,550.18	2.68	36,722.00	1.96	0.72

### 4. Expenses

Unit: RMB ten thousand

Expense Item	2015	2014	Increase or decrease as compared to corresponding period last year (%)	Reason for the significant changes
Management expense	90,523.77	85,693.18	5.64	No significant change
Finance expense	-7,144.47	-396.62	N/A	Mainly due to the significant increase in the foreign exchange gain during the Reporting Period.
Income tax expense	7,937.78	5,972.51	32.91	Mainly due to the change in deferred tax assets during the Reporting Period

## Management Discussion and Analysis

### 5. Cash Flow

Unit: RMB ten thousand

Item	2015	2014	Increase or decrease as compared to corresponding period last year (%)
Sub-total of cash inflows from operating activities	1,554,485.04	1,537,699.84	1.09
Sub-total of cash outflows from operating activities	1,506,058.92	1,441,100.80	4.51
Net cash flows from operating activities	48,426.12	96,599.05	-49.87
Sub-total of cash inflows from investing activities	33,989.84	10,764.75	215.75
Sub-total of cash outflows from investing activities	64,965.90	76,618.68	-15.21
Net cash flows from investing activities	-30,976.06	-65,853.93	N/A
Sub-total of cash inflows from financing activities	147,903.15	138,115.72	7.09
Sub-total of cash outflows from financing activities	151,230.82	129,146.68	17.10
Net cash flows from financing activities	-3,327.67	8,969.04	-137.10
Net increase in cash and cash equivalents	14,212.04	39,705.16	-64.21

### 6. Research and development inputs

During the Reporting Period, the Company's research and development focused on improving product performance, level of intelligentization and users' experience, breaking through core technology, and strengthening high-end product line. We insisted on providing inputs in research and development and technology innovation of products in order to strengthen our products' market competitiveness and the Company's core competitiveness so as to support the Company's industrial advancement with strong technologies.

#### Description of research and development inputs of the Company

	2015	2014	Proportion of change (%)
Number of research and development staff	995	1009	-1.39
Proportion of number of research and development staff	3.02	2.92	0.10
Amount of research and development inputs (RMB)	507,821,663.05	552,285,511.98	-8.05
Proportion of research and development inputs to operating revenue	2.16	2.08	0.08
Amount of capitalized research and development inputs (RMB)	0	0	0
Proportion of capitalized research and development inputs to research and development inputs	0	0	0

## Management Discussion and Analysis

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

Unit: RMB

Item	Revenue from operating businesses	Costs of operating businesses	Gross profit margin (%)	Increase or decrease in revenue from operating businesses as compared to corresponding period last year (%)	Increase or decrease in costs of operating businesses as compared to corresponding period last year (%)	Increase or decrease in gross profit margin as compared to corresponding period last year (%)
<b>By industry</b>						
Home appliances manufacturing industry	21,803,678,507.86	16,966,319,509.39	22.19	-10.53	-9.58	-0.82
<b>By product</b>						
Refrigerators and washing machines	11,555,814,929.64	8,866,010,017.35	23.28	-2.60	-4.34	1.40
Air-conditioners	8,986,110,462.69	7,133,925,803.36	20.61	-20.77	-17.25	-3.38
Others	1,261,753,115.53	966,383,688.68	23.41	8.36	10.58	-1.54
<b>By region</b>						
Domestic	14,266,558,516.03	10,386,859,889.56	27.19	-16.95	-15.96	-0.86
Overseas	7,537,119,991.83	6,579,459,619.83	12.71	4.80	2.75	1.74



## Management Discussion and Analysis

### (V) ASSETS AND LIABILITIES POSITION

#### Significant changes in asset items

Unit: RMB

Items	At the end of 2015		At the end of 2014		Change in proportion (%)	Explanation of significant changes
	Amount	Percentage for total assets (%)	Amount	Percentage to total assets (%)		
Cash at bank and on hand	1,014,410,146.17	7.10	870,663,755.12	6.56	0.54	No significant change
Notes receivable	2,289,706,048.91	16.02	991,796,937.82	7.48	8.54	Mainly due to payment via the issuance of notes payable and retention of notes receivable during the Reporting Period
Accounts receivable	2,086,596,419.00	14.60	1,984,291,386.93	14.96	-0.36	No significant change
Prepayments	169,804,372.86	1.19	498,209,306.68	3.76	-2.57	Mainly due to the decrease in prepayments of construction fees during the Reporting Period
Other Receivables	234,011,936.52	1.64	493,051,526.66	3.72	-2.08	Mainly due to the other receivables from Greencool Companies were audited and written off during the Reporting Period
Inventories	2,270,139,557.55	15.88	2,915,921,775.81	21.98	-6.10	No significant change
Other current assets	467,872,305.65	3.27	287,019,824.65	2.16	1.11	Mainly due to purchase of asset management products from the banks at the end of the Reporting Period
Investment properties	28,958,126.07	0.20	31,459,416.41	0.24	-0.04	No significant change
Long-term equity investment	1,323,253,353.15	9.26	1,216,043,770.20	9.17	0.09	No significant change
Fixed assets	3,529,787,697.68	24.70	2,932,039,091.41	22.10	2.60	No significant change
Construction in progress	64,837,848.39	0.45	251,551,873.15	1.90	-1.45	Mainly due to the completion of construction in progress and their transfer into fixed assets and intangible assets during the Reporting Period
Short-term borrowings	223,496,764.71	1.56	253,985,142.45	1.91	-0.35	No significant change
Notes payable	2,931,174,504.52	20.51	1,528,195,526.41	11.52	8.99	Mainly due to the increase in issuance of electronic acceptance bills during the Reporting Period

## Management Discussion and Analysis

### (VI) ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Unit: RMB

Items	Amount at the beginning of the period	Gain or loss from change in fair value during the period	Accumulated changes in fair value accounted in equity	Impairment provided during the period	Amount purchased during the period	Amount sold during the period	Amount at the end of the period
Financial assets							
1. Financial assets measured at fair value where changes in fair value are accounted for as gain or loss of the period (excluding derivative financial assets)	162,460.00	-162,460.00					
2. Derivative financial assets							
3. Financial assets available for sale							
Subtotal of financial assets							
Investment Properties							
Productive biological assets							
Others							
Total	162,460.00	-162,460.00					
Financial liabilities	-7,391,136.66	-2,376,596.09					-9,767,732.75

### (VII) CORE COMPETITIVENESS ANALYSIS

#### 1. *Technological advantages*

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

#### 2. *Brand advantages*

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

## Management Discussion and Analysis

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

Name of company	Company type	Major business	Registered capital	Total assets (RMB ten thousand)	Net assets (RMB ten thousand)	Operating revenue (RMB ten thousand)	Operating profit (RMB ten thousand)	Net profits (RMB ten thousand)
Hisense Hitachi	A company in which the Company has equity interest	Production and sale of commercial air-conditioners	US\$46 million	447,848.72	252,669.55	480,934.20	95,485.75	84,648.57

### Acquisition and disposal of subsidiaries during the Reporting Period

Applicable  Not applicable

Name of company	Means of acquisition and disposal of subsidiaries during the Reporting Period	Effect on the overall production, operation and results
Jiangmen Hisense Electrical Appliances Co., Ltd.	Newly established	Meeting the Company's production needs.
Foshan Shunde Kelon Household Electrical Appliance Company Limited	Cancellation	Cancellation of such company would not cause any material effect on the Company's overall production, operation and results.
Hisense Home Appliance (Europe) Research & Development Center GmbH	Equity transfer	Transfer of such company would not cause any material effect on the Company's overall production, operation and results.

### (IX) Material changes of major assets

Major assets	Description of the material changes
Equity assets	No significant change
Fixed assets	No significant change
Intangible assets	No significant change
Projects in progress	Decrease which was mainly due to the completion of construction in progress and their transfer into fixed assets and intangible assets during the Reporting Period.

## Management Discussion and Analysis

### (X) Analysis of non-core businesses

Applicable  Not applicable

Unit: RMB

Item	Amount	% of total profits	Description of forming reasons	Sustainability
Investment income	530,171,700.74	85.01	Mainly due to the income from equity investment recognized under equity method of accounting.	Yes
Fair value gain/loss	-2,539,056.09	-0.41	Mainly due to the change in recognized income of forward foreign exchange business	Yes
Asset impairment loss	4,670,866.73	-0.75	Mainly due to the recognized impairment loss for accounts receivable, inventories and long-term assets	No
Non-operating income	326,848,455.27	52.41	Mainly due to the gain on disposal of long-term assets and the receipt of government subsidy	No
Non-operating expense	17,185,413.56	-2.76	Mainly due to the loss on disposal of long-term assets	No

## IV. OUTLOOK

Looking ahead into 2016, the recovery of the global economy lacks momentum and the downward pressure of the domestic economy will intensify. The RMB exchange rate will be exposed to higher risks and there will be further pressure on export costs. Unfavourable environment such as the high inventory level of the domestic air-conditioner industry will continue to be a huge burden on the operation and development of the Company. However, with the economic recovery in developed countries such as the US, implementation of new energy efficiency standards for domestic refrigerator products, liberalization of improving residential housing policy and the development of mobile Internet etc., there will be plenty of room for the development and upgrade of white goods enterprises.

In 2016, the Company will firmly uphold the operating strategies of “adhering to high-end awareness, highlighting product advantages, consolidating market network, enhancing system efficiency, exploring international market and ensuring economies of scale” to capture the opportunities of sector technical upgrades and functional upgrades of products in order to strive for steady increase in its scale, performance and market share through implementation of the followings:

1. to adhere to the development strategy of high-end products and highlight the advantage of product differentiation. Through measures such as replenishing high-end core talents, adjusting and developing incentive mechanism and strengthening co-operation internally and externally, the Company will greatly improve the planning and developing capability of high-end products and more high-end products will come on stream. Product sophistication level will continue to be enhanced and product quality will be improved and enhanced. The Company will continue promoting star models and keymodels, and enhancing user’s awareness of high-end brands of Hisense products. Leveraging on the “Hisense Cloud” platform under the Hisense Group, the intelligent operation platform of system grading products will be built and the intelligentization of single products will be upgraded to intelligentization of systems by connecting those areas such as operation and use of products, online sales and maintenance service through such platform. The promotion of inverting strategy for air-conditioner products will continue unflinchingly and gradually phase out constant speed products. Through differentiation in appearance and intelligent 2.0 upgrade, the comparative advantage of products will be built and inverters will become more sophisticated.

## Management Discussion and Analysis

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2. to increase the sales capability. The business sense of branch offices will be guided and strengthened by improving the incentive scheme of branch offices. The high-end development of prototypes, image improvement to end-users and more innovative media will be promoted. Investment efficiency of the brand will be enhanced and brand building will be accelerated. Criteria of quality customers will be set for improving the composition of customers and the proportion of high-end products will be raised. More efforts will be put on the construction of core network and exclusive stores and refinement of sales channels so as to increase per store productivity. More agency channels will be developed to enhance the market scale in third and fourth tier markets and the e-commerce team and quality of online promotion will be improved. Operating efficiency and sales revenue per person will be improved by closing those under-performing stores, adjusting the management model of office and building an information system platform.
3. to take “customer satisfaction” as our fundamental starting point, set appraisal indicators of process and improve the NPS management system; to optimize our net promotion value of products through improvement of the entire process from product planning, design, manufacturing, quality control, logistics, sales to service; to optimize the service network, improve the standard of service, build the core image of service provider and promote the market reputation of the brand; to accelerate the process of handling service information through whole-process supervision using the information service platform.
4. to strive to expand the overseas market. The Company will be leveraging the opportunity of Hisense Group enhancing its efforts on sports marketing and sponsoring the European Cup and other famous sports events, focusing on planning products for overseas sales and high-end promotion, increasing product efficiency, reducing the proportion of non-performing and less popular models, driving up quantity of high-end products and improving the composition of overseas sales of products. Promotion mechanism for end-users will be built and the proportion of its own brand will be enhanced.
5. to continue the work of raising production efficiency. Product generalization and standardization will be strengthened and manufacturing efficiency will be improved through improving the craftsmanship and automation; structure of personnel will be improved and staff capability will be raised, accelerating the progress of informatization projects, rapidly raising the level of informatization and optimizing workflow and organization structure; management efficiency will be increased; and platform and system for sales efficiency will be built through measures such as reforming the sales model and enhancing sales ability to enhance sales efficiency.
6. to strictly control overdue account receivables and abnormal appropriation, reduce capital risk, accelerate capital flow and strengthen cost control.

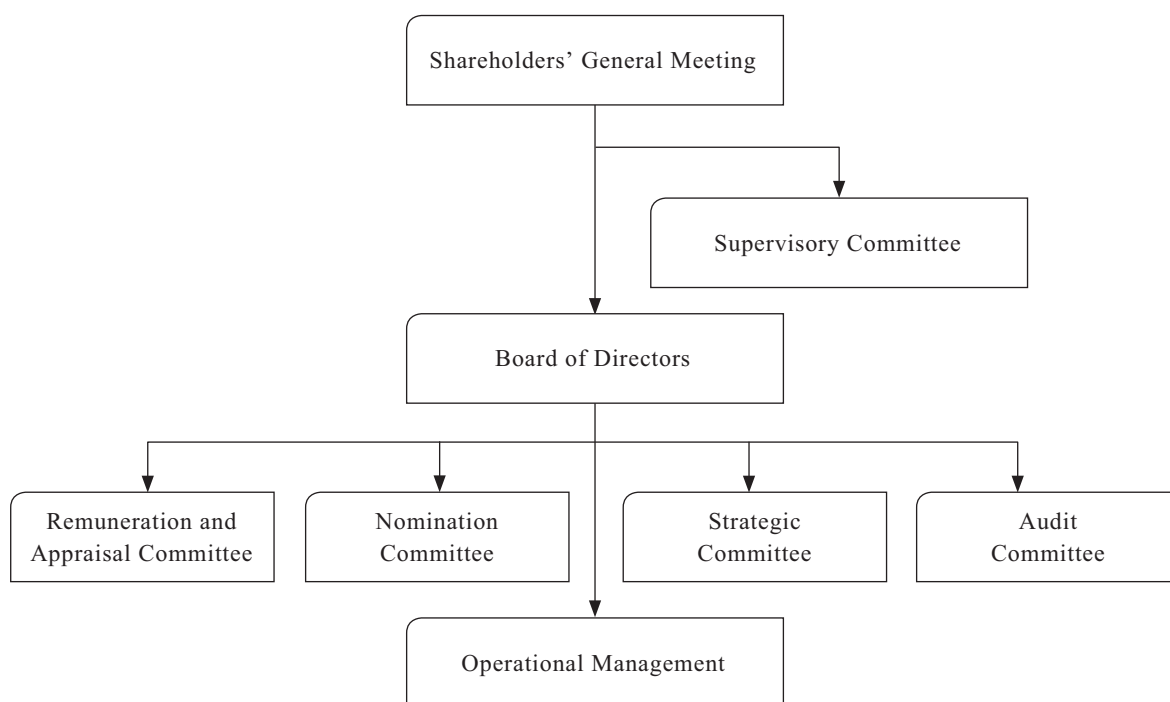
## Corporate Governance Report

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

Corporate governance structure:

### I. Corporate governance structure:



#### (a) Shareholders' General Meeting

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

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

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

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

## Corporate Governance Report

In 2015, one Annual General Meeting (“AGM”) and two Extraordinary General Meetings on 21 January 2015 (“First EGM”) and 28 December 2015 (“Second EGM”) have been held by the Company. The shareholding held by the shareholders attending the AGM, the First EGM and the Second EGM represented 46.92%, 51.94% and 51.59% of all the then issued shares of the Company respectively. The attendance records of Directors attending the general meetings are set out in the following table:

<b>The attendance of the general meetings by the Directors</b>				
<b>Name</b>	<b>Number of meetings which should be attended for the year</b>	<b>Number of attendance in person</b>	<b>Number of attendance by proxy</b>	<b>Attendance rate for the year</b>
Mr. Tang Ye Guo	3	3	0	100%
Mr. Tian Ye <i>(Note 7)</i>	3	0	0	—
Ms. Yu Shu Min <i>(Note 5)</i>	2	0	0	—
Mr. Lin Lan	3	0	0	—
Mr. Xiao Jian Lin <i>(Note 1)</i>	1	1	0	100%
Mr. Huang Xiao Jian <i>(Note 2)</i>	1	0	0	—
Mr. Wang Xin Yu	3	3	0	100%
Mr. Wang Ai Guo	3	0	0	—
Mr. Xu Xiang Yi	3	2	0	66.67%
Mr. Liu Hong Xin <i>(Note 3)</i>	2	0	0	—
Mr. Jia Shao Qian <i>(Note 4)</i>	2	0	0	—
Mr. Wang Zhi Gang <i>(Note 6)</i>	1	0	0	—

*Notes:*

1. Mr. Xiao Jian Lin ceased to be a Director with effect from 17 March 2015;
2. Mr. Huang Xiao Jian ceased to be a Director with effect from 8 June 2015;
3. Mr. Liu Hong Xin was appointed as a Director on 26 June 2015;
4. Mr. Jia Shao Qian was appointed as a Director on 26 June 2015;
5. Ms. Yu Shu Min ceased to be a Director with effect from 10 November 2015;
6. Mr. Wang Zhi Gang was appointed as a Director on 28 December 2015;
7. Mr. Tian Ye ceased to be a Director with effect from 27 January 2016; and
8. All Directors unable to attend the general meetings in person have applied for leave in writing before the commencement of the general meetings.

### Rights of Shareholders

#### *Procedures for Shareholders to requisition the convening of shareholders' extraordinary general meeting or class meeting*

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

- (1) two (2) or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign the written requisitions in one (1) or more counterparts requiring the Board to convene a shareholders' extraordinary general meeting or a class meeting thereof and stating the object of the meeting. The written requisition shall be deposited at the Company's registered office in China at No.8 Ronggang Road, Ronggui, Shunde, Foshan, Guangdong Province, PRC or the Company's place of business in Hong Kong at Room 3101-3105, Singa Commercial Centre, No.148 Connaught Road West, Hong Kong. The Board shall proceed as soon as possible to convene the shareholders' extraordinary general meeting or class meeting thereof after the receipt of such written requisition. The number of shares held referred to above shall be calculated as of the date of the written requisitions.
- (2) if the Board fails to issue a notice of such a meeting within thirty (30) days after the receipt of the written requisitions, the requisitionists may themselves convene such a meeting in a manner as similar as possible to the manner in which the shareholders' meetings are convened by the Board within four (4) months after the receipt of such requisitions by the Board. Reasonable expenses incurred by the requisitionists by reason of the Board's failure to convene a meeting as requisitioned and the calling and convening of a meeting by themselves shall be borne by the Company.

#### *Procedures by which enquiries may be made by shareholders*

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

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

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

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



## Corporate Governance Report

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### *Procedures for putting forward proposals at shareholders' general meeting*

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

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

### **(b) The Board of Directors**

The Nomination Committee has been established under the Board. The Nomination Committee will select and make suggestions on the candidates for the positions of Directors and the selection criteria and procedures and the same will be submitted to the Board for consideration and approval, and Directors will be elected at the shareholders' general meetings. The ninth session of the Board was elected and established at the annual general meeting of the Company held on 26 June 2015 with a term of office of 3 years. The Board of the Company comprised eight Directors, being the executive Directors Mr. Tang Ye Guo (Chairman), Mr. Lin Lan, Mr. Liu Hong Xin, Mr. Jia Shao Qian and Mr. Wang Zhi Gang and the independent non-executive Directors Mr. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo.

As at 1 January 2015, the Board was composed of the executive Directors Mr. Tang Ye Guo (Chairman), Ms. Yu Shu Min, Mr. Lin Lan, Mr. Xiao Jian Lin, Mr. Tian Ye and Mr. Huang Xiao Jian and the independent non-executive Directors Mr. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo. The following changes in the composition of the Board took place during the Reporting Period up to the date of this report:—

- (i) Mr. Xiao Jian Lin ceased to be a Director with effect from 17 March 2015;
- (ii) Mr. Huang Xiao Jian ceased to be a Director with effect from 8 June 2015;
- (iii) Mr. Liu Hong Xin and Mr. Jia Shao Qian were elected as the Directors of the ninth session of the Board of the Company at the AGM of the Company held on 26 June 2015;
- (iv) Ms. Yu Shu Min ceased to be a Director with effect from 10 November 2015;
- (v) Mr. Wang Zhi Gang was elected as the Director of the ninth session of the Board of the Company at the 2015 second extraordinary general meeting of the Company held on 28 December 2015; and
- (vi) Mr. Tian Ye ceased to be a Director with effect from 27 January 2016.

### **Board Diversity Policy**

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

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

## Corporate Governance Report

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Members of the Board have different backgrounds with extensive experience in various fields such as science and technology, corporate management and finance and accounting. The biographies and roles of the Directors are set out on pages 37 to 38 of this annual report.

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

The Board is also responsible for overseeing the preparation of the accounts for each fiscal period to ensure that such accounts truly and fairly reflect the Company's business operation, results and cash flow performance during that period. The Operational Management of the Company provides proper explanation and sufficient information to the Board so as to enable it to make an informed assessment of the financial information and other information submitted to it for approval. In preparing the accounts for the year ended 31 December 2015, the Directors:

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

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

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

## Corporate Governance Report

In 2015, the eighth session of the Board of the Company has held 10 meetings to discuss the Company's operating results, overall strategies, investment proposals as well as operating and financial performance. The Directors attended the meetings in person or by their proxies, and their attendance records are set out in the following table:

<b>The attendance of the meetings of the eighth session of the Board</b>				
<b>Name</b>	<b>Number of meetings which should be attended for the year</b>	<b>Number of attendance in person</b>	<b>Number of attendance by proxy</b>	<b>Attendance rate for the year</b>
Mr. Tang Ye Guo	10	10	0	100%
Ms. Yu Shu Min	10	10	0	100%
Mr. Lin Lan	10	10	0	100%
Mr. Tian Ye	10	10	0	100%
Mr. Xiao Jian Lin <i>(Note 1)</i>	1	1	0	100%
Mr. Huang Xiao Jian <i>(Note 2)</i>	9	9	0	100%
Mr. Xu Xiang Yi	10	10	0	100%
Mr. Wang Xin Yu	10	10	0	100%
Mr. Wang Ai Guo	10	10	0	100%

*Notes:*

1. Mr. Xiao Jian Lin ceased to be a Director with effect from 17 March 2015;
2. Mr. Huang Xiao Jian ceased to be a Director with effect from 8 June 2015.

In 2015, the ninth session of the Board of the Company has held 6 meetings to discuss the Company's operating results, overall strategies, investment proposals as well as operating and financial performance. The Directors attended the meetings in person or by their proxies, and their attendance records are set out in the following table:

<b>The attendance of the meetings of the ninth session of the Board</b>				
<b>Name</b>	<b>Number of meetings which should be attended for the year</b>	<b>Number of attendance in person</b>	<b>Number of attendance by proxy</b>	<b>Attendance rate for the year</b>
Mr. Tang Ye Guo	6	6	0	100%
Mr. Liu Hong Xin <i>(Note 1)</i>	6	6	0	100%
Ms. Yu Shu Min <i>(Note 2)</i>	4	4	0	100%
Mr. Lin Lan	6	6	0	100%
Mr. Tian Ye	6	6	0	100%
Mr. Jia Shao Qian <i>(Note 1)</i>	6	6	0	100%
Mr. Xu Xiang Yi	6	6	0	100%
Mr. Wang Xin Yu	6	6	0	100%
Mr. Wang Ai Guo	6	6	0	100%
Mr. Wang Zhi Gang <i>(Note 3)</i>	1	1	0	100%

*Notes:*

1. Mr. Liu Hong Xin and Mr. Jia Shao Qian were appointed as the Directors of the Company on 26 June 2015;
2. Ms. Yu Shu Min ceased to be a Director with effect from 10 November 2015; and
3. Mr. Wang Zhi Gang was appointed as a Director of the Company on 28 December 2015.

## Corporate Governance Report

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

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

### **Independent Non-Executive Directors**

The Board of the Company comprises three independent non-executive Directors, accounting for one-third of the total number of Directors. The independent non-executive Directors of the Company have complied with Rules 3.10(1) and (2), Rule 3.10A and Rule 3.13 of the Listing Rules and all of them are independent of and are not connected with any of the connected persons (as defined in the Listing Rules) of the Company. The Company has received a confirmation of independence from each of the independent non-executive Directors. The term of office of Mr. Xu Xiang Yi, Mr. Wang Ai Guo and Mr. Wang Xin Yu is from 26 June 2015 to 25 June 2018.

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

### **Specialized committees of the Board of Directors**

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

### Remuneration and Appraisal Committee

The ninth session of the Board has established the Remuneration and Appraisal Committee with specific written terms of reference. During the Reporting Period and up to the date hereof, the Remuneration and Appraisal Committee consisted of the Directors, namely, Mr. Lin Lan and Ms. Yu Shu Min (till 9 November 2015), Mr. Liu Hong Xin (since 10 November 2015) and the independent non-executive Directors, namely, Mr. Wang Ai Guo, Mr. Xu Xiang Yi and Mr. Wang Xin Yu. Mr. Xu Xiang Yi acted as the chairman of the committee.

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

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

The Remuneration and Appraisal Committee may seek professional advice when necessary. No Director or any member of the senior management shall be involved in deciding his or her own remuneration. The main purpose of the remuneration policies formulated by the Remuneration and Appraisal Committee is to attract and retain Directors and senior management who faithfully and diligently discharge their duties, and who help the Company in its successful operation and the remuneration policies are therefore important to the Company. For details of the remuneration policies of the Company, please refer to page 59 of this annual report.

## Corporate Governance Report

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

<b>The attendance of the meetings of the Remuneration and Appraisal Committee under the Board</b>				
<b>Name</b>	<b>Number of meetings which should be attended for the year</b>	<b>Number of attendance in person</b>	<b>Number of attendance by proxy</b>	<b>Attendance rate for the year</b>
Ms. Yu Shu Min	6	6	0	100%
Mr. Lin Lan	6	6	0	100%
Mr. Wang Xin Yu	6	6	0	100%
Mr. Wang Ai Guo	6	6	0	100%
Mr. Xu Xiang Yi	6	6	0	100%
Mr. Liu Hong Xin	0	0	0	—

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

1. the disclosure of the annual remuneration of the Directors, supervisors and senior management in the 2014 annual report;
2. the resolution in respect of the basic annual remuneration of the senior management of the Company;
3. the resolution in respect of the risk annual remuneration of senior management of the Company for the year of 2014;
4. the resolution in respect of the annual remuneration of Mr. Tang Ye Guo, the candidate of executive Director of the ninth session of the Board of the Company;
5. the resolution in respect of the basic annual remuneration of Mr. Tian Ye, the candidate of executive Director of the ninth session of the Board of the Company;
6. the resolution in respect of the basic annual remuneration of Mr. Huang Xiao Jian, the candidate of executive Director of the ninth session of the Board of the Company;
7. the resolution in respect of the basic annual remuneration of Mr. Jia Shao Qian, the candidate of executive Director of the ninth session of the Board of the Company;
8. the resolution in respect of the annual remuneration of Mr. Xu Xiang Yi, the candidate of independent non-executive Director of the ninth session of the Board of the Company;
9. the resolution in respect of the annual remuneration of Mr. Wang Ai Guo, the candidate of independent non-executive Director of the ninth session of the Board of the Company;
10. the resolution in respect of the annual remuneration of Mr. Wang Xin Yu, the candidate of independent non-executive Director of the ninth session of the Board of the Company;
11. the opinion on the verification of participants with exercisable rights during the second exercise period of the first share option incentive scheme of the Company; and
12. the resolution in respect of electing Mr. Xu Xiang Yi as the chairman of the Remuneration and Appraisal Committee of the ninth session of the Board of the Company.

## Corporate Governance Report

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Members of the Remuneration and Appraisal Committee confirmed that the remuneration of the Directors, supervisors and senior management during the Reporting Period are in line with the remuneration appraisal system set up by the Company and the remuneration policies have been strictly implemented. Details of the remuneration of the Directors, the supervisors and the senior management of the Company for the year ended 31 December 2015 are set out on pages 58 to 59 of this annual report.

### Nomination Committee

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

The major duties and authority of the Nomination Committee are:

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

During the Reporting Period, the Nomination Committee comprised five Directors (except between 17 March 2015 and 25 June 2015), including three independent non-executive Directors, and the members of the Nomination Committee are nominated by the Chairman of the Board, one-half or more of the independent non-executive Directors or one-third or more of Directors, and are elected by the Board. The Nomination Committee shall have one chairman (convener) who should be an independent non-executive Director responsible for presiding over the work of the committee. The convener shall be elected among the committee members, and shall be reported to the Board for approval. The term of office of each member of the Nomination Committee is consistent with the term he or she serves in the Board. During the term of office, if any member of the committee ceases to be a Director, he or she shall be disqualified as a member of the committee accordingly, and the vacancy should be filled by the person elected by the Board in accordance with the requirements. The human resources department of the Company will assist the Nomination Committee in carrying out its daily work such as selection and nomination of suitable candidates.

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

## Corporate Governance Report

### The attendance of the meeting of the Nomination Committee under the Board

Name	Number of meeting which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance Rate for the year
Mr. Tang Ye Guo	3	3	0	100%
Mr. Wang Xin Yu	3	3	0	100%
Mr. Wang Ai Guo	3	3	0	100%
Mr. Xu Xiang Yi	3	3	0	100%
Mr. Xiao Jian Lin <i>(Note 1)</i>	1	1	0	100%
Mr. Jia Shao Qian <i>(Note 2)</i>	1	1	0	100%

#### Notes:

1. Mr. Xiao Jian Lin ceased to be a member of the Nomination Committee from 17 March 2015; and
2. Mr. Jia Shao Qian was appointed as a member of the Nomination Committee since 26 June 2015.

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

- (1) the resolution in respect of the nomination of Mr. Tian Ye as candidate of the president of the Company;
- (2) the resolution in respect of the nomination of Mr. Li Hua as candidate of the person in charge of finance of the Company;
- (3) the resolution in respect of the election of the Board;
- (4) the resolution in respect of the election of Mr. Xu Xiang Yi as the chairman of the Nomination Committee of the ninth session of the Board of the Company;
- (5) the resolution in respect of the nomination of Mr. Tian Ye as the president of the Company;
- (6) the resolution in respect of the nomination of Mr. Jia Shao Qian as the vice-president of the Company;
- (7) the resolution in respect of the nomination of Mr. Li Hua as the person in charge of finance and the chief accountant of the Company;
- (8) the resolution in respect of the nomination of Mr. Xia Feng as the secretary of the Board of the Company; and
- (9) the resolution in respect of the nomination of Ms. Wong Tak Fong as the company secretary of the Company.

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



## Corporate Governance Report

### Strategic Committee

The ninth session of the Board of the Company has established the Strategic Committee with specific written terms of reference. During the Reporting Period and up to the date hereof, the Strategic Committee of the ninth session of the Board comprised Mr. Tang Ye Guo, Ms. Yu Shu Min (till 9 November 2015), Mr. Tian Ye (till 26 January 2016), Mr. Lin Lan, Mr. Xiao Jian Lin (till 16 March 2015), Mr. Liu Hong Xin (since 10 November 2015) and Mr. Jia Shao Qian (since 26 June 2015). Mr. Tang Ye Guo acted as the chairman of the committee.

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

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

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

Name	The attendance of the meeting of the Strategic Committee under the Board			
	Number of meeting which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance Rate for the year
Mr. Tang Ye Guo	1	1	0	100%
Mr. Xiao Jian Lin <i>(Note 1)</i>	0	0	0	—
Mr. Tian Ye <i>(Note 5)</i>	1	1	0	100%
Mr. Lin Lan	1	1	0	100%
Mr. Jia Shao Qian <i>(Note 2)</i>	1	1	0	100%
Ms. Yu Shu Min <i>(Note 3)</i>	1	1	0	100%
Mr. Liu Hong Xin <i>(Note 4)</i>	0	0	0	—

*Notes:*

1. Mr. Xiao Jian Lin ceased to be a member of the Strategic Committee from 17 March 2015;
2. Mr. Jia Shao Qian was appointed as a member of the Strategic Committee since 26 June 2015;
3. Ms. Yu Shu Min ceased to be a member of the Strategic Committee from 10 November 2015;
4. Mr. Liu Hong Xin was appointed as a member of the Strategic Committee since 10 November 2015; and
5. Mr. Tian Ye ceased to be a member of the Strategic Committee from 27 January 2016.

During the Reporting Period, the Strategic Committee considered and approved the resolution in respect of the election of Mr. Tang Ye Guo as the chairman of the Strategic Committee of the ninth session of the Board of the Company.

# Corporate Governance Report

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## Audit Committee

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

The major duties and authority of the Audit Committee are:

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

## Corporate Governance Report

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

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

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

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

Name	Number of meeting which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance Rate for the year
Mr. Wang Xin Yu	4	4	0	100%
Mr. Wang Ai Guo	4	4	0	100%
Mr. Xu Xiang Yi	4	4	0	100%

In 2015, the Audit Committee accomplished the following major tasks:

1. having reviewed the annual, interim and quarterly financial reports of the Company;
2. having considered and approved the report on internal control for the year of 2014 and the final report for the audit work conducted by the auditing body for the year of 2014;
3. having considered and approved the resolution on the reappointment of Ruihua Certified Public Accountants as the auditor of the Company for the year of 2015;
4. having considered and approved the resolution on the election of Mr. Wang Ai Guo as the chairman of the Audit Committee of the ninth session of the Board of the Company;
5. having reviewed the connected transactions of the Company to ensure that the connected transactions were in compliance with the principles of fairness, impartiality and transparency with sufficient protection of the medium and minority shareholders' interests;
6. having reviewed the effectiveness of the company's internal control system; and
7. having made recommendations on significant events of the Company and reminded the senior management of the Company of the relevant risks.

#### (c) Supervisory Committee

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

During the Reporting Period, the ninth session of the Supervisory Committee was composed of two shareholder representative supervisors, namely Mr. Liu Zhen Shun, Ms. Gao Yu Ling (till 27 December 2015) and Mr. Yang Qing (since 28 December 2015) and one employee representative supervisor, Ms. Fan Wei, with Mr. Liu Zhen Shun acting as the chairman of the Supervisory Committee. On 10 November 2015, the Company received the resignation from Ms. Gao Yu Ling. To ensure the normal operation of the Supervisory Committee of the Company, Mr. Yang Qing has been elected as shareholder representative supervisor of the ninth session of the Supervisory Committee at the general meeting of the Company with effect from 28 December 2015 until the expiration of the ninth session of the Supervisory Committee (i.e. 25 June 2018). Ms. Fan Wei has been elected as employee representative supervisor of the ninth session of the Supervisory Committee of the Company by the meeting of the employee representatives of the Company with effect from 26 June 2015 until the expiration of the ninth session of the Supervisory Committee (i.e. 25 June 2018).

Details of the above-mentioned supervisors' biographies are set out on page 39 of this annual report.

## Corporate Governance Report

### II. Compliance with the CG Code

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

#### Training of the Directors

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

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

Name	Type of training (Note)
Mr. Tang Ye Guo	b
Ms. Liu Hong Xin	a, b
Mr. Lin Lan	a, b
Mr. Jia Shao Qian	b
Mr. Wang Zhi Gang	b
Mr. Wang Xin Yu	b
Mr. Wang Ai Guo	b
Mr. Xu Xiang Yi	b

#### Notes:

a: attending seminar(s) or training session(s)

b: reading newspapers, journals and updates relating to the Company’s business or directors’ duties and responsibilities etc.

#### Chairman and President

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

POSITION	Chairman	Former President	Former President	President
NAME	Mr. Tang Ye Guo	Mr. Xiao Jian Lin	Mr. Tian Ye	Mr. Dai Hui Zhong
TERM OF OFFICE	26 June 2006 to 25 June 2018	27 March 2014 to 16 March 2015	17 March 2015 to 26 January 2016	27 January 2016 to 25 June 2018

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

## Corporate Governance Report

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

### **Internal Control**

During the Reporting Period, pursuant to the provisions and requirements of the “Basic Norms for Enterprise Internal Control” and its ancillary guidelines, with the objectives of enhancing the level of corporate operation and management and risk prevention ability, as well as reasonably ensuring the compliance of the Company’s operation with law and regulation, the safety of assets, the truthfulness and completeness of the financial reports and relevant information, optimizing the efficiency and efficacy of operation and promoting the implementation of strategies for sustainable development by the Company, and taking into account the Company’s internal control system and assessment method and on the basis of daily supervision and specific supervision of internal control, the Company has determined the scope of assessment in internal control that require emphasis, including organizational structure, development strategies, human resources, social responsibility, corporate culture, funding activities, procurement business, asset management, sales business, research and development, engineering project, guarantee business, business outsourcing, financial reporting, comprehensive budget, contract management, internal information transfer and information system, and has carried out assessment on the effectiveness of the Company’s internal control in 2015. Conclusions were drawn in respect of the effectiveness of internal control: during the Reporting Period, the Company has established internal control for all businesses and matters included in the scope of assessment, and the internal control has been effectively executed to achieve the objectives of the Company’s internal control without significant shortfalls.

The Board of the Company has reviewed the effectiveness of the internal control system of the Company during the year. During the course of the review, the Board considered that the Company had established an appropriate internal control system for the Company based on the actual situation and was not aware of any significant defect in the internal control system of the Company. In addition, the Company has engaged Ruihua Certified Public Accountants to perform independent audit on the effectiveness of the Company’s internal control and an audit report on internal control has been issued. The auditor is of the view that as at 31 December 2015, the Company has maintained effective internal control related to financial reporting in accordance with “Basic Norms for Enterprise Internal Control” and the relevant requirements in all material aspects.

### **III. Securities Transactions by Directors**

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

### **IV. Auditor**

In 2015, as considered and approved at the shareholders’ general meeting, the Company agreed to reappoint Ruihua Certified Public Accountants as the auditors of the Company for the year of 2015, and the Board was authorized to fix their remuneration. The Company agreed to pay a remuneration of approximately RMB1,800,000 and RMB 700,000 to the auditors for the provision of audit services for financial reporting and internal control respectively for the year ended 31 December 2015 and bear the corresponding travel expenses.

### **V. Company secretary**

On 26 June 2015, the Board examined and approved the appointment of Ms. Wong Tak Fong as the company secretary to assist the Company in dealing with the Listing Rules compliance matters. Ms Wong Tak Fong is the Company’s external personnel. She can contact and communicate with the secretary of the Board of the Company, Mr. Xia Feng, in her day-to-day work.

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

## Profiles of Directors, Supervisors & Members of the Senior Management

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### Directors:

**Mr. Tang Ye Guo**, aged 53, holds a master degree in accountancy, has successively held the positions of the chief accountant, the deputy general manager, the general manager and director of Hisense Electric Co., Ltd.. From August 2003 to September 2005, he served as an assistant to the president and the vice president of Hisense Company Limited, and the general manager and chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited. Mr. Tang was the chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited and a director of Hisense Electric Co., Ltd. and the president of the Company from September 2005 to June 2006. He has acted as the vice president of Hisense Company Limited and chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited and the chairman of the board of directors of the Company from June 2006 to April 2010. He has been the vice president and a director of Hisense Company Limited and chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited and the chairman of the board of directors of the Company since April 2010.

**Mr. Liu Hong Xin**, aged 49, holds a bachelor degree in management, has successively served as the general manager of the Xi'an branch and the general manager of the Zheng Zhou branch of Hisense Electric Co., Ltd., the general manager of 貴陽海信電子有限公司 (Guiyang Hisense Electronics Company Limited), the deputy general manager of Hisense Electric Co., Ltd. and the general manager of 營銷公司 (Marketing Company). He served as the general manager of Hisense Electric Co., Ltd. from January 2006 to November 2014 and a director of Hisense Electric Co., Ltd. from June 2006 to June 2015. He has been a director of Hisense Company Limited since April 2010 and the chairman of the board of directors of Hisense Electric Co., Ltd. and a director of the Company since June 2015. He has been the president of Hisense Company Limited since October 2015.

**Mr. Lin Lan**, aged 58, holder of a doctorate degree in mechanical engineering, has worked as the manager of the power system software development department of 西門子諮詢公司 (Siemens, currently known as "AMEC Limited" in the UK), the senior project manager and senior engineer of GE 動力系統公司 (GE Power Systems). Mr. Lin acted as the vice president of the Company from September 2002 to June 2006. Since July 2006, he has served as the vice president of Hisense Company Limited. He has been a director of Hisense Electric Co., Ltd. since May 2007 and a director of Hisense Company Limited since December 2009. He has been a director of the Company since June 2006.

**Mr. Jia Shao Qian**, aged 43, holds a master degree in management, has served as a legal adviser in the corporate legal department, a supervisor of public relations in the president office, deputy manager of the president office and manager of the president office of Hisense Company Limited. He served as chairman of the supervisory committee of Hisense Electric Co., Ltd. from June 2006 to March 2011. He has served as the vice president of the Company since January 2007. He has been a director of the Company since June 2015.

**Mr. Wang Zhi Gang**, aged 46, holds a doctorate degree in refrigeration and cryogenic engineering, has successively served as the chief designer of the technical centre of Hisense Company Limited, the deputy department head of the commercial machines business department of Qingdao Hisense Air-Conditioning Company Limited, the department head of the product development department of Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.. Mr. Wang has been the deputy general manager of Guangdong Kelon Air-conditioner Co., Ltd since December 2008. He has been the vice president of the Company since November 2015. He has been a director of the Company since December 2015.

**Mr. Xu Xiang Yi**, aged 60, holds a Ph. D. in Law, a professor of the School of Management of Shandong University. He is a Ph. D. supervisor in business management. He was the Dean of the School of Management of Shandong University from January 2004 to December 2012, and is currently the head of corporate governance research centre of Shandong University. He was an independent director of Shandong Hi-speed Company Limited (listed on the Shanghai Stock Exchange) from April 2003 to April 2010, a supervisor of Shandong Hi-speed Company Limited since April 2010, an independent director of Hisense Electric Co., Ltd. (listed on the Shanghai Stock Exchange) from June 2003 to May 2009, an independent director of Tongling Jingda Special Magnet Wire Co., Ltd. (listed on the Shanghai Stock Exchange) from December 2006 to January 2010, and an independent director of Shandong Demian Incorporated Company (listed on the Shenzhen Stock Exchange) from April 2010 to December 2011. He has been an independent director of Baolingbao Biology Co., Ltd. (listed on the Shenzhen Stock Exchange) from October 2007 to December 2013, and an independent director of Shandong Longji Machinery Co., Ltd. (listed on the Shenzhen Stock Exchange) from March 2008 to February 2014. He has been an independent director of Hengtong Logistics Co., Ltd (listed on the Shanghai Stock Exchange) since December 2014. He has been an independent director of Shandong Luyitong Intelligent Electric PLC (listed on the Shenzhen Stock Exchange) since February 2015. He has been an independent non-executive director of the Company since June 2012.

## Profiles of Directors, Supervisors & Members of the Senior Management

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**Mr. Wang Ai Guo**, aged 51, is a postdoctoral fellow in accountancy in Tianjin University of Finance & Economics (天津財經大學). He was an associate professor at the Faculty of Accountancy of Shandong Economics College (山東經濟學院) from 1995 to 2000, and was a professor at the Faculty of Accountancy of Shandong Economics College from 2000 to 2011. He was the dean of the School of Accountancy of Shandong University of Finance and Economics (山東財經大學) from 2011 to 2014. He is currently the dean, a professor and a Ph. D. supervisor of the School of Business of University of Jinan (濟南大學商學院), a council member of China Appraisal Society (中國資產評估協會), a council member of Accounting Society of China, and the vice-chairman and the secretary-general of Accounting Education Committee of Accounting Society of Shandong Province (山東省會計學會會計教育專業委員會). He was an independent director of Laiwu Steel Co., Ltd (萊蕪鋼鐵股份有限公司) (listed on the Shanghai Stock Exchange) from June 2008 to February 2012 and an independent director of Shandong Zhangqiu Blower Co., Ltd. (山東省章丘鼓風機股份有限公司) (listed on the Shenzhen Stock Exchange) from July 2009 to July 2015 and an independent non-executive director of China Corn Oil Company Limited (中國玉米油股份有限公司) (listed on The Stock Exchange of Hong Kong Limited) since November 2009. He has been an independent director of Shandong Chenming Paper Holdings Co. Ltd (山東晨鳴紙業集團股份有限公司) (listed on the Shenzhen Stock Exchange and The Stock Exchange of Hong Kong Limited) since April 2010. He has also been an independent director of Shandong Iron and Steel Company Ltd (山東鋼鐵股份有限公司) (listed on the Shanghai Stock Exchange) since April 2012. He has served as an independent non-executive director of the Company since January 2011.

**Mr. Wang Xinyu**, aged 45, obtained a M.B.A from the University of Chicago Booth School of Business. He served as the director of MBK Partners from October 2005 to February 2010 and he has acted as the managing director of JP Capital Investment Limited since September 2010. He was a director of Luye Pharma Group Ltd. (listed on the Singapore Stock Exchange) from August 2008 to February 2010. He has acted as an independent non-executive director of the Company since September 2011.

**Mr. Xiao Jian Lin**, aged 48, has successively served as the deputy head of operation centre, the head of finance centre, head of finance department and assistant to president of Hisense Company Limited. He was the head of audit department of Hisense Company Limited from August 2007 to January 2009. He has been the vice-president of Hisense Company Limited from January 2008 to January 2014, the head of finance and operation management centre of Hisense Company Limited from January 2009 to January 2014, a director of Hisense Company Limited from January 2000 to March 2015 and a director of Hisense Electric Co., Ltd. from June 2008 to March 2015. He has been a director of Qingdao Hisense Air-Conditioning Company Limited from April 2009 to March 2015. He has served as a director of the Company from January 2011 to March 2015. He has been the president of the Company from March 2014 to March 2015.

**Mr. Huang Xiao Jian**, aged 57, holder of a master's degree in mechanics from the South China University of Technology. Mr. Huang has successively served as an engineer of the development department, the head of the air-conditioner design division of the research department, head of the sales management department, international marketing director and the general manager of the Company. He acted as the vice general manager of Qingdao Hisense International Marketing Holdings Co., Ltd. from February 2007 to February 2014. Mr. Huang has acted as the vice president of the Company from March 2014 to June 2015. He has served as a director of the Company from June 2014 to June 2015.

**Ms. Yu Shu Min**, aged 64, has successively served as the deputy secretary to the party committee of 青島市電子儀錶工業總公司 (Qingdao Municipal Electronics Instrument Industrial Corporation), the deputy secretary to the party committee and the vice president of Hisense Company Limited, the general manager of Hisense Electric Co., Ltd., the vice chairwoman of the board of directors and the chief executive officer of Hisense Company Limited. She has been the chairwoman of the board of directors of Hisense Electric Co., Ltd. from December 1999 to June 2015. Ms. Yu has been the vice chairwoman of the board of directors and the president of Hisense Company Limited from July 2001 to October 2015. She has been a director of the Company from June 2006 to November 2015.

**Mr. Tian Ye**, aged 41, has served successively as the head of the financial planning department of Hisense Electric Co., Ltd., deputy manager of the business department of the sales company of Hisense Company Limited, deputy manager of the financial planning department of Hisense Electric Co., Ltd., the deputy general manager and general manager of Hisense South Africa Development Company and the deputy manager of the purchase department, manager of general manager's office and general manager of purchase centre of Hisense Electric Co., Ltd. He has served as the assistant to the general manager of Hisense Electric Co., Ltd. from August 2006 to March 2010, the deputy general manager of Hisense Electric Co., Ltd. from March 2010 to April 2013 and the vice president of the Company from May 2013 to March 2015. He has served as a director of the Company from June 2014 to January 2016. He has been the president of the Company from March 2015 to January 2016.



## Profiles of Directors, Supervisors & Members of the Senior Management

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### Supervisors:

**Mr. Liu Zhen Shun**, aged 46, holds a bachelor degree in law. He has served as the head of the legal department and the legal director of Hisense Company Limited. He was the deputy head of the legal affairs department, the deputy secretary of the discipline inspection committee of Hisense Company Limited from March 2005 to June 2012. He has been the head of the legal affairs department, the deputy secretary of the discipline inspection committee of Hisense Company Limited since July 2012. He has served as the chairman of the Supervisory Committee of the Company since January 2014.

**Mr. Yang Qing**, aged 42, holder of a bachelor degree in accounting, has successively served as the finance manager of Qingdao Hisense Air-Conditioning Company Ltd, the finance manager of Qingdao Hisense Marketing Co., Ltd., the assistant of the general manager of the marketing company of the Company, the head of the audit department of Hisense Company Limited. He has served as the head of the audit department of Hisense Company Limited from June 2013 to May 2014 and the chief accountant of 海信網絡科技有限公司 (Hisense Cyber Technology Company Limited) since June 2014. He has served as a supervisor of the Company since December 2015.

**Ms. Fan Wei**, aged 50, holds a bachelor degree in textiles, has served as the head and deputy head of the research and development centre of the Company. She was the head of the president office and deputy head of the technical quality department of the Company from December 2008 to February 2015 and the head of the president office of the Company since February 2015. She has served as a supervisor of the Company since June 2015.

**Mr. Zhang Jian Jun**, aged 42, holds a bachelor degree in law. He was a deputy director of the management promotion department of the domestic marketing company of the Company from March 2007 to March 2008, the deputy director of the integrated management department of the domestic marketing company of the Company from March 2008 to August 2009 and the legal counsel of the domestic marketing company of the Company from November 2009 to August 2010. He has been the head of the legal affairs department of the Company from September 2010 to December 2014. He has been a supervisor of the Company from June 2012 to January 2015.

**Mr. Shu Peng**, aged 41, holds a master degree in business administration. He has served as the assistant manager of the capital department of the Company. He was the deputy department head of the finance department of the Company from May 2006 to February 2012, the deputy department head of Foshan Shunde Rongsheng Plastic Co., Ltd from February 2012 to December 2012, the department head of Foshan Shunde Rongsheng Plastic Co., Ltd from December 2012 to May 2013 and the deputy head of the finance department of the Company from May 2013 to July 2015. He has served as a supervisor of the Company from January 2015 to June 2015.

**Ms. Gao Yu Ling**, aged 35, holds a master's degree in accountancy. She has served as the treasury supervisor, tax supervisor, audit supervisor, accounting supervisor and financial management supervisor of the finance centre of Hisense Electric Co., Ltd. She was the deputy director of the finance centre of Hisense Electric Co., Ltd. from April 2012 to February 2013. She has been the deputy department head of the finance and operation management department of Hisense Company Limited from March 2013 to February 2015. She has served as a supervisor of the Company from January 2014 to December 2015.

## Profiles of Directors, Supervisors & Members of the Senior Management

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### Senior Management Members:

**Mr. Dai Hui Zhong**, aged 50, holds a bachelor degree in machinery manufacturing technology and equipment, has served successively as the general manager of the plastic products and metal department, assistant to the general manager and general manager of the module department and general manager of purchase centre of Hisense Electric Co., Ltd. From April 2013 to January 2014, he has served as the deputy general manager of Hisense Electric Co., Ltd. From January 2014 to November 2014, he has served as the party secretary and deputy general manager of Hisense Electric Co., Ltd. From November 2014 to January 2016, he has served as the general manager of Hisense Electric Co., Ltd. He has served as a director of Hisense Electric Co., Ltd. since June 2015. He has served as a director of Hisense Company Limited since October 2015. He has been the president of the Company since January 2016.

**Ms. Gao Yu Ling**, aged 35, holds a master's degree in accountancy. She has served as the treasury supervisor, tax supervisor, audit supervisor, accounting supervisor and financial management supervisor of the finance centre of Hisense Electric Co., Ltd.. She was the deputy director of the finance centre of Hisense Electric Co., Ltd. from April 2012 to February 2013. She was the deputy department head of the finance and operation management department of Hisense Company Limited from March 2013 to February 2015. She was a supervisor of the Company from January 2014 to December 2015. She has been the person in charge of finance of the Company since December 2015.

**Mr. Xia Feng**, aged 39, holds a master degree in management, and was previously the head of the capital operating department of Hisense Company Limited, deputy manager of the marketing department of Qingdao Hisense Air-Conditioning Company Limited, and deputy manager of securities department, representative of securities affairs, manager of securities department and secretary to the board of directors of Hisense Electric Co., Ltd.. He has been the secretary to the board of directors and the head of securities department of the Company since August 2010.

**Ms. Wong Tak Fong**, aged 48, holds a master degree in Business Administration from the University of Bradford, the United Kingdom, and is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom, a certified tax adviser and a fellow member of the Taxation Institute of Hong Kong. She acted as the managing director of General Bright Consultants Ltd. from November 1994 to May 2014. She has been the chief financial controller of DIAMOND DRAGON FASHION LTD (星薈亞洲有限公司) since December 2010. She acted as a joint company secretary of the Company from April 2011 to June 2012 and has been the company secretary of the Company since June 2012.

**Ms. Li Jun**, aged 41, is a certified public accountant and has served successively as the head of financial analysis of the finance department and the deputy department head of the audit department of Hisense Company Limited. She was the deputy director of the finance and operation management centre of Hisense Company Limited from January 2009 to August 2012. She acted as a supervisor of the Company from June 2012 to August 2012. She has been the person in charge of finance and the chief accountant of the Company from August 2012 to March 2015.

**Mr. Li Hua**, aged 42, is a Certified Public Accountant. He has successively served as the deputy department head of the financial planning department, deputy director of the information technology centre and head of the operation management department of Hisense Company Limited. He has been the deputy director of the finance and operation management centre of Hisense Company Limited from January 2009 to June 2010. He has acted as the head of the strategic development department of Hisense Company Limited from June 2010 to February 2015. He has been the person in charge of finance and chief accountant of the Company from March 2015 to December 2015.

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

## Report of the Directors

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### PRINCIPAL BUSINESSES

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

### FINAL DIVIDEND

The Group recorded net profit attributable to shareholders of the listed company of RMB 580 million for the year ended 31 December 2015. The Board proposed to pay a cash dividend of RMB 1.5 (tax inclusive) per 10 shares held by all shareholders on the basis of the total share capital of 1,362,725,370 shares of the Company as at 31 December 2015, without bonus issue and not to issue shares by way of conversion of capital reserve (no dividend was paid by the Group for the year ended 31 December 2014).

### RESERVES

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

### DISTRIBUTABLE RESERVES

There were distributable reserves of the Company as at 31 December 2015 are set out in Note 7(34) and Note 11(9) to the financial statements.

### LIQUIDITY AND SOURCES OF FUNDS

For the year ended 31 December 2015, net cash generated from operating activities of the Group amounted to approximately RMB 484 million (2014: net cash generated from operating activities amounted to approximately RMB 966 million).

As at 31 December 2015, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB 1,014 million (2014: RMB 871 million), and bank loans amounting to approximately RMB 223 million (2014: RMB 254 million).

Total capital expenditures of the Group for the year ended 31 December 2015 amounted to approximately RMB 450 million (2014: RMB 766 million).

### HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 31 December 2015, the Group had approximately 32,935 employees, mainly comprising 4,718 technical staff, 15,145 sales representatives, 387 financial staff, 849 administrative staff and 11,836 production staff. The Group had 7 employees with a doctorate degree, 373 with a master's degree and 3,909 with a bachelor's degree. For the year ended 31 December 2015, the Group's staff payroll amounted to RMB 2,508 million (corresponding period in 2014 amounting to RMB 2,483 million).

### EMPLOYEES' TRAINING AND REMUNERATION POLICY

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

The Company has provided 4,309 courses in total during the Reporting Period, and the number of participants reached 136,542. The courses are mainly of enterprise management type, craftsmanship and quality type, corporate culture type, manufacturing type, or technology research and development type, etc., covering employees at different levels, ranging from ground level staff responsible for work such as front-line production and marketing to senior management.

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

## Report of the Directors

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### CHARGE ON THE GROUP'S ASSETS

As at 31 December 2015, the Group's property, plant and equipment (including leasehold land held for own use), investment properties and trade receivables of approximately RMB 324 million (31 December 2014: RMB 254 million) were pledged as security for the Group's borrowings.

### PROPERTY, PLANT AND EQUIPMENT

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

### PENSION SCHEMES

Details of the Group's pension schemes for the year ended 31 December 2015 are set out in note 11 to the financial statements.

### EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

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

### PUBLIC FLOAT

The Directors confirm that as at 29 March 2016, based on publicly available information and to the best of their knowledge, 25% or above of the total issued share capital of the Company are held by the public. Therefore, the public float of the Company satisfies the requirement stipulated under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

### AUDIT COMMITTEE

The ninth session of the audit committee of the Company has reviewed the final results announcement and report of the final results of the Group for the year ended 31 December 2015.

### CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2016 will be approximately RMB 84 million. The Group has sufficient funds to meet the funding requirement for capital expenditure plans and daily operations.

### TRUST DEPOSITS

As at 31 December 2015, the Group did not have any trust deposits with any financial institutions in the PRC. All of the Group's deposits have been deposited in commercial banks and other financial institutions in the PRC and Hong Kong.

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2015, the Group did not have any long-term bank borrowings and its cash and cash equivalents amounted to RMB 1,014 million (2014: RMB 871 million), of which more than RMB 964 million are denominated in Renminbi.

As at 31 December 2015, the Group's current liabilities amounted to RMB 9,446 million, non-current liabilities amounted to RMB 373 million, and shareholders' equity attributable to the shareholders of the Company amounted to RMB 4,044 million. Details of the Group's capital structure are set out in the financial statements which be contained in the annual report of the Company.

## Report of the Directors

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### GEARING RATIO

As at 31 December 2015, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 68.70% (2014: 70.30%).

### INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

### SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

### DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

The Directors of the ninth session of the Board and the supervisors of the Company do not and did not directly or indirectly hold any material interests in any contract of significance of the Company or its subsidiaries subsisting during or at the end of the year 2015.

### REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the ninth session of the Board have reviewed the continuing connected transactions of the Group for the year 2015, and confirmed that these transactions were conducted in the ordinary course of business of the Group in accordance with the relevant agreements governing them and on normal commercial terms which were fair and reasonable and in the interest of the shareholders of the Company as a whole.

### REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY AUDITORS

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

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

## Report of the Directors

### SHARE CAPITAL STRUCTURE

As at 31 December 2015, the share capital structure of the Company was as follows:

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

### TOP TEN SHAREHOLDERS

As at 31 December 2015, there were 30,441 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	44.93%	67.80%	0
HKSCC Nominees Limited <sup>Note 1</sup>	Foreign legal person	459,151,768	33.69%	99.90%	0
Cental Huijin Investment Ltd.	Domestic non-state-owned legal person	26,588,700	1.95%	2.94%	0
China Securities Finance Corporation Limited	Domestic non-state-owned legal person	18,379,176	1.35%	2.04%	0
Zhang Shao Wu	Domestic natural person	7,200,000	0.53%	0.80%	0
ICBC Credit Suisse Fund – Agricultural Bank of China – ICBC Credit Suisse China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0
Central European Fund – Agricultural Bank of China – Central European China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0
Boshi Fund – Agricultural Bank of China – Boshi China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0
Dacheng Fund – Agricultural Bank of China – Dacheng China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0
Jiashi Fund – Agricultural Bank of China – Jiashi China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0
Guangfa Fund – Agricultural Bank of China – Guangfa China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0

## Report of the Directors

Name of Shareholder	Nature of Shareholder	No. of shares held	Percentage to the total issued shares of the Company	Percentage to the relevant class of issued shares of the Company	No. of shares held subject to trading moratorium
Huaxia Fund – Agricultural Bank of China – Huaxia China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0
Yinhua Fund – Agricultural Bank of China – Yinhua China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0
Yifangda Fund – Agricultural Bank of China – Yifangda China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	0
Southern Fund – Agricultural Bank of China – Southern China Securities Financial Asset Management Plan	Other	6,518,300	0.48%	0.72%	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, increased its holding of H shares of the Company by 16,291,000 H shares during the Reporting Period, representing 1.20% of the total number of shares of the Company. Hisense (Hong Kong) Company Limited is the holder of 81,160,000 H shares in total at the end of the Reporting Period, representing 5.96% of the total number of shares of the Company;
2. At the end of the month prior to the date of publication of this results announcement on 29 March 2016, there were 30,811 shareholders of ordinary shares of the Company in total;
3. Zhang Shao Wu, a shareholder of the Company, holds 7,200,000 shares of the Company through customer credit trading guarantee securities account in Guosen Securities Company Limited.

## Report of the Directors

### SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of tradable shares held	Class of shares
Qingdao Hisense Air-conditioning Company Limited	612,316,909	RMB ordinary shares
HKSCC Nominees Limited	459,151,768	Overseas listed foreign shares
Cental Huijin Investment Ltd.	26,588,700	RMB ordinary shares
China Securities Finance Corporation Limited	18,379,176	RMB ordinary shares
Zhang Shao Wu	7,200,000	RMB ordinary shares
ICBC Credit Suisse Fund – Agricultural Bank of China – ICBC Credit Suisse China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Central European Fund – Agricultural Bank of China – Central European China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Boshi Fund – Agricultural Bank of China – Boshi China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Dacheng Fund – Agricultural Bank of China – Dacheng China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Jiashi Fund – Agricultural Bank of China – Jiashi China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Guangfa Fund – Agricultural Bank of China – Guangfa China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Huaxia Fund – Agricultural Bank of China – Huaxia China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Yinhua Fund – Agricultural Bank of China – Yinhua China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Yifangda Fund – Agricultural Bank of China – Yifangda China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares
Southern Fund – Agricultural Bank of China – Southern China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares

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



## Report of the Directors

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

So far as is known to the Directors, supervisors and the chief executive of the Company, as at 31 December 2015, 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 (the “Hong Kong Stock Exchange”):

#### Long position or short position in the shares of the Company

Name of shareholder	Capacity	Type of shares	Number of shares held	Percentage of the 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)	67.80%	44.93%
Qingdao Hisense Electric Holdings Company Limited <sup>Note 1</sup>	Interest of controlled corporation	A shares	612,316,909 (L)	67.80%	44.93%
Hisense Company Limited <sup>Note 1</sup>	Interest of controlled corporation	A shares	612,316,909 (L)	67.80%	44.93%
Hisense (Hong Kong) Company Limited <sup>Note 1</sup>	Beneficial owner	H shares	81,160,000 (L)	17.66%	5.96%
Qingdao Hisense Electric Holdings Company Limited <sup>Note 1</sup>	Interest of controlled corporation	H shares	81,160,000 (L)	17.66%	5.96%
Hisense Company Limited <sup>Note 1</sup>	Interest of controlled corporation	H shares	81,160,000 (L)	17.66%	5.96%
Prime Capital Management Company Limited <sup>Note 2</sup>	Investment manager	H shares	57,886,691 (L)	12.60%	4.25%
Citigroup Inc. <sup>Note 3</sup>	Person having security interests in shares and custodian corporation/ approved lending agent		27,066,610 (L)	5.88 (L)	1.99%
			2,467,000 (S)	0.53 (S)	0.18%
			2,049,000 (P)	0.44 (P)	0.15%

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

#### Notes:

1. Qingdao Hisense Air-conditioning Company Limited is a company directly owned as to 93.33% by Qingdao Hisense Electric Holdings Company Limited, whereas Hisense (Hong Kong) Company Limited is a company directly owned as to 100% by Qingdao Hisense Electric Holdings Company Limited. Qingdao Hisense Electric Holdings Company Limited is in turn owned as to 32.36% by Hisense Company Limited. By virtue of the SFO, Qingdao Hisense Electric Holdings Company Limited and Hisense Company Limited were deemed to be interested in the same parcel of A shares of which Qingdao Hisense Air-conditioning Company Limited was interested and in the same parcel of H shares of which Hisense (Hong Kong) Company Limited was interested.

## Report of the Directors

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2. Prime Capital Management Company Limited was interested in a total of 57,886,691 H shares in the capacity of an investment manager by virtue of the SFO.
3. By virtue of the SFO, Citigroup Inc. was interested in these H shares, in which Citigroup Global Markets Limited was interested in the long position of 22,522,610 H shares; Citigroup Global Markets Hong Kong Limited was interested in the long position of 2,495,000 H shares and the short position of 2,467,000 H shares and Citibank N.A. was interested in the long position of 2,049,000 H shares. Among such interests in the H shares, Citigroup Inc. was interested in the long position of 25,017,610 H shares as person having security interests, the long position of 2,049,000 H shares as custodian corporation or approved lending agent and the short position of 2,467,000 H shares as interest of controlled corporation.

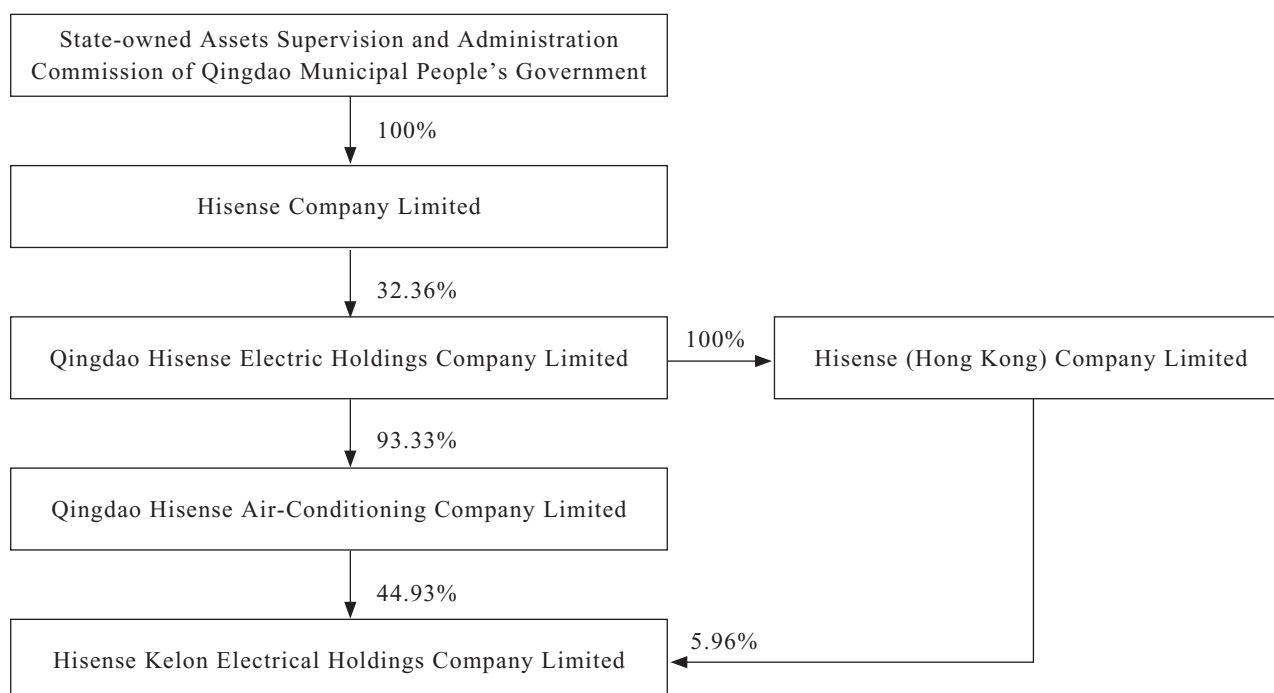
Save as disclosed above, as at 31 December 2015, in so far as the Directors, supervisors and chief executive of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

### **PARTICULARS OF THE CONTROLLING SHAREHOLDERS OF THE COMPANY**

- (a) Qingdao Hisense Air-Conditioning Company Limited, the controlling shareholder of the Company, was incorporated on 17 November 1995. Its registered address is Changsha Road, Hi-tech Industrial Zone, Qingdao, the PRC and the legal representative is Mr. Tang Ye Guo and its registered capital is RMB 674.79 million. Its business scope is the development and manufacture of air-conditioning products and injection moulds and the provision of after-sale repairing services for its products (Permit/licence shall be obtained for the operation of the businesses above if they fall into the requirements of licensure).
- (b) The beneficial controller of the Company is Hisense Company Limited, which was incorporated in August 1979 with its registered address at No. 17 Donghai West Road, Shinan, Qingdao. Mr. Zhou Houjian is the legal representative of Hisense Company Limited and its registered capital is RMB 806.17 million. The scope of business includes: the entrusted operation of state-owned assets; the manufacture and sales of TV sets, refrigerators, freezers, washing machines, small household appliances, disc players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products and the provision of related services; the development of software and the provision of internet services; the technological development and the provision of consultation services; the self-operated import and export business (with its operation subject to the list of projects as approved by the MOFTEC); the foreign economic and technical cooperation (with its operation subject to the list of projects as approved by the MOFTEC); operation of property rights transaction and provision of brokerage and information services; provision of industrial travel agency services; provision of relevant business trainings, property management, leasing of tangible property and leasing of immovable property (Permit/licence shall be obtained for the operation of the businesses above if they fall into the requirements of licensure).
- (c) The ultimate beneficial controller of the Company is the State-owned Assets Supervision and Administration Commission of Qingdao Municipal People's Government.

## Report of the Directors

### (d) Relationship between the Company and its beneficial controllers



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

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

As at 31 December 2015, save as disclosed below and in the sub-section “Movements of the share options during the Reporting Period” under the section headed “Summary on adoption of first share option incentive scheme and the grant thereunder”, none of the members of the Board, supervisors and the chief executive of the Company held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be maintained by the Group pursuant to section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

#### Long position in the shares of the Company

Name of Director	Nature of interest	Number of shares	Percentage to the total issued shares of the Company	Percentage to the relevant class of issued shares of the Company
Tang Ye Guo	Beneficial owner	1,260,000 A Shares <sup>Note 1</sup>	0.09%	0.14%
Jia Shao Qian	Beneficial owner	828,000 A Shares <sup>Note 2</sup>	0.06%	0.09%
Wang Zhi Gang	Beneficial owner	120,600 A Shares <sup>Note 3</sup>	0.009%	0.013%

#### Notes:

- Of these 1,260,000 A Shares, 831,600 A Shares were beneficially owned by Mr. Tang Ye Guo and he was also interested in share options to subscribe for 428,400 A Shares of the Company (representing approximately 0.03% of the total issued share capital of the Company and approximately 0.05% of the total issued A shares of the Company as at the 31 December 2015).

## Report of the Directors

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2. Of these 828,000 A Shares, 539,060 A Shares were beneficially owned by Mr. Jia Shao Qian and he was also interested in share options to subscribe for 288,940 A Shares of the Company (representing approximately 0.02% of the total issued share capital of the Company and approximately 0.03% of the total issued A shares of the Company as at the 31 December 2015).
3. Of these 120,600 A Shares, 59,400 A Shares were beneficially owned by Mr. Wang Zhi Gang and he was also interested in share options to subscribe for 61,200 A Shares of the Company (representing approximately 0.004% of the total issued share capital of the Company and approximately 0.007% of the total issued A shares of the Company as at the 31 December 2015).

### MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2015, the aggregate amount of the Group's purchases from the top five suppliers was RMB 2,651 million, representing 15.63% of the total purchase amount of the Group for the year and the aggregate sales amount to the top five customers was RMB 6,442 million, representing 29.55% of the total sales amount of the Group for the year.

### PURCHASE, SALE OR REDEMPTION OF SHARES

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

### AUDITOR

On 26 June 2015, as considered and approved at the shareholders' general meeting, the Company agreed to re-appoint Ruihua Certified Public Accountants as the auditor of the Company for the financial year of 2015, and the Board was authorized to fix their remuneration.

### PRE-EMPTIVE RIGHTS

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

### TAXATION

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

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

#### (1) Purpose of the Scheme

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

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

## Report of the Directors

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

No.	Name	Position	Outstanding share options as at 1 January 2015 ('0000 shares)	Number of share options exercised during the Reporting Period ('0000 shares)	Number of share options lapsed during the Reporting Period ('0000 shares)	Number of share options cancelled during the Reporting Period ('0000 shares)	Outstanding share options as at 31 December 2015 ('0000 shares)
1	Tang Ye Guo	Chairman	84.42	41.58	–	–	42.84
2	Jia Shao Qian	Director, Vice-President	56.994	28.10	–	–	28.894
3	Wang Zhi Gang	Director, Vice-President	12.06	5.94	–	–	6.12
4	Xiao Jian Lin	Former Director, former President	55.476 <sup>Note 2</sup>	–	55.476	55.476	N/A
5	Mid level management staff and key personnel		789.559	347.361	71.365	71.365	370.833
Total			998.509	422.981	126.841	126.841	448.687

*Notes:*

- All share options available for issue under the Scheme have been granted.
- Mr. Xiao Jian Lin has resigned from his positions as director and president on 17 March 2015.

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

The grant date of the share options is 31 August 2011 and the exercise price is RMB 7.65 per share.

### (4) Validity period of the share options

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

### (5) Exercise Arrangement

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

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

- 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);
- 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
- 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).

## Report of the Directors

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

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

### **(6) Determination method of exercise price**

The exercise price of the grant is the higher of the following two prices: (i) the closing price of the A shares on the last trading day immediately preceding the date of the announcement of the summary of the Scheme (that is, 29 November 2010), which was RMB 7.65 per share; and (ii) the average closing price of the A shares during the last 30 trading days immediately preceding the date of announcement of the summary of the Scheme, which was RMB 7.37 per share. Therefore, the exercise price is RMB 7.65 per share.

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

In accordance with the requirements of the First Share Option Incentive Scheme of Hisense Kelon Electrical Holdings Company Limited (Revised Draft), the Company has elected to use the Black-Scholes option pricing model to calculate the fair value of the share options granted under the Scheme. According to the calculation by such pricing model, the Company recognized an expense of RMB -29.34 million in total in relation to this share option incentive scheme.

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

### **(I) 2 December 2014, the Company entered into the Business Co-operation Framework Agreement, Business Framework Agreement 1, Business Framework Agreement 2 and the Purchase Financing Agency Framework Agreement with Hisense Group, Hisense Electric, Hisense Hitachi, Hisense – Whirlpool and Hisense Hong Kong respectively.**

Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding approximately 44.93% (then owned approximately 45.07% of the issued shares of the Company as at the date of the agreement) of the issued shares of the Company and Hisense Hong Kong holds approximately 5.96% (then owned approximately 3.97% of the issued shares of the Company as at the date of the agreement) of the issued shares of the Company. As Hisense Group is the indirect holding company of Hisense Air-conditioning and Hisense Hong Kong and Hisense Electric is owned as to 39.35% (then owned as to 40.37% as at the date of the agreement) by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries (including without limitation Hisense Marketing and its subsidiaries) are connected persons of the Company according to the Hong Kong Listing Rules. As certain directors of the Company are also senior management of Hisense Hitachi and Hisense – Whirlpool, Hisense Hitachi and Hisense – Whirlpool are connected persons of the Company according to the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange.

Details of the Business Co-operation Framework Agreement with Hisense Group and Hisense Electric, Business Framework Agreement 1 with Hisense Hitachi and Business Framework Agreement 2 with Hisense-Whirlpool can be found in the announcement and the circular published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 2 December 2014 and 19 December 2014 respectively.

## Report of the Directors

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As Hisense Group is the beneficial controller of both Hisense Hong Kong and the Company, Hisense Hong Kong is a connected person of the Company under the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange. Hisense Hong Kong is also a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. Since the financial assistance arrangement under the Purchase Financing Agency Framework Agreement would be for the benefit of the Company on normal commercial terms where no security over the assets of the Company was to be granted in respect of the financial assistance, such arrangement was exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules. Details of the Purchase Financing Agency Framework Agreement can be found in the announcement published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 2 December 2014.

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

### **The Business Co-operation Framework Agreement with Hisense Group and Hisense Electric**

On the one hand, the supply of home electrical appliances, raw materials and parts and components, equipment and moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries can help to lower the production costs of the Group as a result of the increase in production level, which in turn enhance the market competitiveness of the Group's products. At the same time, the Group can continue to develop overseas market and enhance brand competitiveness and awareness. The Group can also increase market share by selling products through the online platform of Hisense Group and Hisense Electric which reduces the product circulation links. Provision of services to Hisense Group and/or its subsidiaries will increase the income of the Group. On the other hand, taking into account the product quality, prices and services provided by Hisense Group, Hisense Electric and/or their respective subsidiaries, purchases of home electrical appliances, equipment, raw materials and parts and components from Hisense Group, Hisense Electric and/or their respective subsidiaries and engagement of their services can meet the manufacture needs of the Company and the development of related business, and can also help reduce costs. Hisense Marketing, a subsidiary of Hisense Group, has over 10 years' experience in overseas operations, professional expertise and mature market network and channels in overseas market. By engaging the export agency services of Hisense Group and/or its subsidiaries which will provide professional management services to the Group for its development of the international market, the Group can largely reduce costs which would have to be committed for running the operation by itself, and use the available resources on the research and development and the quality warranties for the products to be exported, which will be beneficial to the Group in enhancing the stable development of its export business at the same time. As such, the Company entered into the Business Co-operation Framework Agreement with Hisense Group and Hisense Electric, the principal terms of which are as follows:

- (1) The Business Co-operation Framework Agreement shall commence from the date of approval of the Business Co-operation Framework Agreement by the independent shareholders (that is, 21 January 2015) until 31 December 2015, which can be terminated before its expiration by mutual agreement of the parties.

## Report of the Directors

- (2) Pricing for the purchase of home electrical appliances between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances from time to time. Pricing for the purchase of raw materials, equipments, parts and components between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness. Pricing for the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries is the market price determined by the open bidding process. Pricing for the provision of services between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services in the industry. The fees payable by the Group for the provision of the agency services for export for the white goods of the Group is calculated by multiplying the Group's revenue from export of the relevant type of products (which shall be the final amount of revenue for sales by the Group to third party customers in RMB) with an export agency fee percentage. Taking into consideration the audited rate of the charges actually incurred by Hisense Marketing and/or its subsidiaries for providing agency services for export to the Group for the period from March 2011 to June 2012, the rate of the charges actually incurred during the first half of 2012 (being 7.24%) shall be used as the base percentage and the corresponding profit margin for export agency services payable by the Group to Hisense Group and/or its subsidiaries shall be determined according to the growth rate of the revenue from export subject to the export agency services in 2015, pursuant to which the export agency fee percentage during the term of the Business Co-operation Framework Agreement shall also be determined as provided in the table below.

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

*Note:* Growth rate of the revenue from export subject to the export agency services = (the Group's audited revenue from export subject to the export agency services in 2015 – the Group's audited revenue from export subject to the export agency services in 2012)/the Group's audited revenue from export subject to the export agency services in 2012.

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



## Report of the Directors

- (4) The annual caps under the Business Co-operation Framework Agreement are shown in the table below:

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

<b>Types of connected transactions</b>	<b>Division by products or services</b>	<b>Connected person</b>	<b>Annual cap</b>
Sale of products and materials	Sale of home electrical appliance products by the Group	Hisense Group	298,520
		Hisense Electric	8
	Sale of equipment by the Group	Hisense Group	800
	Sale of moulds by the Group	Hisense Group	25,400
		Hisense Electric	9,600
Sale of raw materials, parts and components by the Group	Hisense Group	5,695	
	Hisense Electric	1,010	
Provision of services	Provision of loading and unloading, design, equipment rental and property services by the Group	Hisense Group	719
Purchase of products and materials	Purchase of home electrical appliance products by the Group	Hisense Group	60
		Hisense Electric	20
	Purchase of raw materials, parts and components by the Group	Hisense Group	1,706
		Hisense Electric	1,859
Receipt of services	Receipt of material processing, installation and maintenance, property, medical, leasing, design, inspection, agency services for import and export, property construction, management consultancy, technical support and information system maintenance by the Group	Hisense Group	16,681
		Hisense Electric	1,031
	Receipt of agency services for export of the white goods by the Group	Hisense Group	43,933

## Report of the Directors

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

Connected parties	Type of connected transaction	Particulars of connected transaction	Pricing principle of connected transaction	Connected transaction amount (RMB ten thousand)	Percentage of total amount of similar transactions (%)
Hisense Electric	Purchase	Finished goods	Agreed price	5.53	–
Hisense Group	Purchase	Finished goods	Agreed price	59.72	–
Hisense-Whirlpool	Purchase	Finished goods	Agreed price	17,442.71	0.95
Hisense Hitachi	Purchase	Finished goods	Agreed price	15.72	–
Hisense Electric	Purchase	Materials	Agreed price	1,410.93	0.08
Hisense Group	Purchase	Materials	Agreed price	1,227.21	0.07
Hisense-Whirlpool	Purchase	Materials	Agreed price	567.69	0.03
Hisense Hitachi	Purchase	Materials	Agreed price	550.30	0.03
Hisense Electric	Receipt of services	Receipt of services	Agreed price	795.98	0.04
Hisense Group	Receipt of services	Receipt of services	Agreed price	37,874.05	2.05
Hisense Hong Kong	Receipt of purchase financing agency services	Receipt of purchase financing agency services	Agreed price	16,731.11	0.91
Hisense Electric	Sale	Finished goods	Agreed price	7.87	–
Hisense Group	Sale	Finished goods	Agreed price	236,263.26	10.07
Hisense Hitachi	Sale	Finished goods	Agreed price	15,610.51	0.67
Hisense Electric	Sale	Materials	Agreed price	944.48	0.04
Hisense Group	Sale	Materials	Agreed price	1,556.25	0.07
Hisense-Whirlpool	Sale	Materials	Agreed price	370.73	0.02
Hisense Hitachi	Sale	Materials	Agreed price	231.27	0.01
Hisense Electric	Sale	Moulds	Market price	7,971.22	0.34
Hisense Group	Sale	Moulds	Market price	19,453.96	0.83
Hisense-Whirlpool	Sale	Moulds	Market price	393.15	0.02
Hisense Hitachi	Sale	Moulds	Market price	1,218.26	0.05
Hisense Group	Provision of services	Provision of services	Agreed price	460.38	0.02
Hisense-Whirlpool	Provision of services	Provision of services	Agreed price	174.42	0.01

As at the end of the Reporting Period, the Company and its subsidiaries had the balance of deposit of RMB 790.8131 million and interest income received of RMB 5.0134 million, the actual balance of loan of RMB 0, balance of electronic bank acceptance bill of RMB 1,862.0898 million, and the handling fee for opening accounts for electronic bank acceptance bill of RMB 1.6370 million with Hisense Finance. The actual amount of discounted interest for the provision of draft discount services was RMB 0, the actual amount involved for the provision of settlement and sale of foreign exchange services was US\$ 139.4417 million and the actual service fee paid for the provision of agency services such as settlement services for receipt and payment of funds was RMB 0.3497 million.

## Report of the Directors

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

No.	Agreement	Counterparty to the agreement	Particulars of connected transactions	Annual cap
1	Business Co-operation Framework Agreement dated 10 November 2015	Hisense Group and Hisense Electric	Purchase of home electrical appliance by the Group Purchase of raw materials, parts and components by the Group Receipt of services by the Group Receipt of agency services for export of white goods products by the Group Supply of home electrical appliance by the Group Supply of equipment by the Group Supply of moulds by the Group Supply of raw materials, parts and components by the Group Provision of services by the Group	RMB920,000 RMB35,850,000 RMB201,340,000 RMB399,000,000 RMB3,594,500,000 RMB3,690,000 RMB347,380,000 RMB93,340,000 RMB23,700,000
2	Financial Services Agreement dated 10 November 2015	Hisense Finance	Receipt of deposit services, loan and electronic bank acceptance bill (電子銀行承兌匯票) services, draft discount services (票據貼現服務), settlement and sale of foreign exchange services (結售匯服務) and agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務)	Deposit services: RMB1,500,000,000 (inclusive of interest); loan and electronic bank acceptance bill services: RMB3,000,000,000 (inclusive of interest and service charges); draft discount services: RMB50,000,000; settlement and sale of foreign exchange services: US\$700,000,000; agency services such as settlement services for receipt and payment of funds: RMB3,000,000
3	Purchase Financing Agency Framework Agreement dated 10 November 2015	Hisense Hong Kong	Receipt of financing agency services by the Group to purchase imported raw materials, components and equipment	US\$60,000,000

The term of the Business Co-operation Framework Agreement and the Purchase Financing Agency Framework Agreement commences from 1 January 2016 until 31 December 2016, whereas the term of the Financial Services Agreement commences from 1 January 2016 until 31 December 2017. The relationship between the Group on one hand and Hisense Group, Hisense Electric, Hisense Finance and Hisense Hong Kong on the other hand has been disclosed above.

Details of the agreements can be found in the announcement and the circular published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 10 November 2015 and 2 December 2015 respectively.

## Report of the Directors

### CORPORATE GOVERNANCE CODE

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

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

#### I. PARTICULARS OF THE REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position	Gender	Age	Commencement date of Term of Office	Termination date of Term of Office	Total amount of remuneration before tax received from the Company (RMB ten thousand)	Whether receive remuneration from connected party of the Company
Tang Ye Guo	Chairman	Male	53	2006.6.26	2018.6.25	99.97	No
Liu Hong Xin	Director	Male	49	2015.6.26	2018.6.25	0	Yes
Lin Lan	Director	Male	58	2006.6.26	2018.6.25	0	Yes
Jia Shao Qian	Director Vice President	Male	43	2015.6.26 2007.1.30	2018.6.25 2018.6.25	93.24	No
Wang Zhi Gang	Director Vice President	Male	46	2015.12.28 2015.11.10	2018.6.25 2018.6.25	98.33	No
Xu Xiang Yi	Independent non-executive Director	Male	60	2012.6.26	2018.6.25	9	No
Wang Ai Guo	Independent non-executive Director	Male	51	2011.1.20	2018.6.25	9	No
Wang Xin Yu	Independent non-executive Director	Male	45	2011.9.26	2018.6.25	24	No
Liu Zhen Shun	Chairman of Supervisory Committee	Male	46	2014.1.10	2018.6.25	0	Yes
Yang Qing	Supervisor	Male	42	2015.12.28	2018.6.25	0	Yes
Fan Wei	Supervisor	Female	50	2015.6.26	2018.6.25	30.56	No
Dai Hui Zhong	President	Male	50	2016.1.27	2018.6.25	0	Yes
Gao Yu Ling	Person in charge of finance	Female	35	2015.12.28	2018.6.25	0	Yes
Xia Feng	Secretary to the Board	Male	39	2010.8.27	2018.6.25	36.63	No
Wong Tak Fong	Company Secretary	Female	48	2012.6.26	2018.6.25	16.17	No

## Report of the Directors

Name	Position	Gender	Age	Commencement date of Term of Office	Termination date of Term of Office	Total amount of remuneration before tax received from the Company (RMB ten thousand)	Whether receive remuneration from connected party of the Company
Yu Shu Min	Former Director	Female	64	2006.6.26	2015.11.9	0	Yes
Xiao Jian Lin	Former Director Former President	Male	48	2011.1.20 2014.3.27	2015.3.16 2015.3.16	34.44	No
Tian Ye	Former Director Former President	Male	41	2014.6.26 2015.3.17	2016.1.26 2016.1.26	109.75	No
Huang Xiao Jian	Former Director Former Vice President	Male	57	2014.6.26 2014.3.27	2015.6.7 2015.6.7	46.30	No
Zhang Jian Jun	Former Supervisor	Male	42	2012.6.26	2015.1.14	0	No
Shu Peng	Former Supervisor	Male	41	2015. 1. 15	2015.6.25	11.76	No
Li Jun	Former Person in charge of finance	Female	41	2012. 8.15	2015.3.16	17.30	No
Li Hua	Former Person in charge of finance	Male	42	2015.3.17	2015.12.27	36.48	No

## II. THE DECISION-MAKING PROCEDURES AND BASIS OF DETERMINATION OF THE REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT ARE AS FOLLOWS:

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

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

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

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

## Report of the Directors

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

√ Applicable    □ Not applicable

General status of the litigation (arbitration)	Amount involved (RMB ten thousand)	Whether a liability is expected to be incurred	Progress of the litigation (arbitration)	Results and effects of the litigation (arbitration)	Execution of the judgment of the litigation (arbitration)
A series of related party transactions and unusual cash flows occurred between the Greencool Companies and the Company during the period from October 2001 to July 2005. In addition, during the period, the Greencool Companies, through certain specific third party companies such as Tianjin Lixin Commercial Trading Development Company Limited, were involved in a series of unusual cash flows 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 26 January 2015, the relevant subsidiaries of the Company received the execution judgments of (2009) Fo Zhong Fa Zhi Zi No. 236 and (2010) Fo Zhong Fa Zhi Zi No. 32 from the Foshan Intermediate Court, which provide the execution procedures, and the above 2 mentioned cases have been concluded in accordance with the law.	Progress of the litigation will not affect the profits and losses of the Company for such period.	As at the date hereof, the Company has not yet received execution judgment for 1 case involving Greencool Companies.

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

Stock code	Stock abbreviation	Initial investment cost (RMB ten thousand)	Shareholding percentage in the company (%)	Carrying amount at the end of the period (RMB ten thousand)	Profit and loss for the Reporting Period (RMB ten thousand)	Changes in ownership interests for the Reporting Period (RMB ten thousand)
000404	Huayi Compressor	—	—	—	—	—

In order to better leverage on the shares of Huayi Compressor held by the Company, the Company reduced the shareholding of Huayi Compressor by disposing a total of 20,928,506 shares during the Reporting Period. The corresponding cost of long-term equity investment of RMB 81.8907 million was released and an investment gain of RMB 135.5490 million was recognised. After the disposal, the Company no longer holds shares in Huayi Compressor.

## Report of the Directors

### V. PARTICULARS OF GUARANTEES

Unit: RMB ten thousand

External guarantee given by the Company and its subsidiaries (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	2014-3-5	9.44	Joint liability guarantee	2014.3.5-2015.1.31	Yes	No
Guangdong Refrigerator	22 November 2013	60,000	2015-3-9	9.61	Joint liability guarantee	2015.3.9-2016.1.31	No	No
Guangdong Refrigerator	22 November 2013	60,000	2013-12-10	71.97	Joint liability guarantee	2013.12.10-2015.10.13	Yes	No
Guangdong Refrigerator	22 November 2013	60,000	2014-7-7	110.18	Joint liability guarantee	2014.7.7-2016.1.28	No	No
Guangdong Air-conditioner	3 December 2014	30,000	2015-5-13	140.06	Joint liability guarantee	2015.5.13-2016.1.15	Yes	No
Guangdong Air-conditioner	3 December 2014	30,000	2015-10-26	567.70	Joint liability guarantee	2015.10.26-2016.1.12	No	No
Kelon Air-conditioner	22 November 2013	30,000	2014-5-5	160.00	Joint liability guarantee	2014.5.5-2015.12.31	Yes	No
Kelon Air-conditioner	22 November 2013	30,000	2015-4-8	74.83	Joint liability guarantee	2015.4.8-2015.8.30	Yes	No
Kelon Air-conditioner	22 November 2013	30,000	2014-10-10	401.52	Joint liability guarantee	2014.10.10-2015.6.4	Yes	No
Kelon Air-conditioner	22 November 2013	30,000	2015-11-25	160.00	Joint liability guarantee	2015.11.25-2016.12.31	No	No
Home Appliances Co	22 November 2013	5,000	2014-6-23	125.30	Joint liability guarantee	2014.6.23-2015.5.30	Yes	No
Home Appliances Co	22 November 2013	5,000	2014-6-20	60.00	Joint liability guarantee	2014.6.20-2016.6.11	No	No
Home Appliances Co	22 November 2013	5,000	2015-8-20	127.87	Joint liability guarantee	2015.8.20-2016.5.30	No	No
Home Appliances Co	22 November 2013	5,000	2015-1-16	1,611.27	Joint liability guarantee	2015.1.16-2016.1.14	Yes	No
Yangzhou Refrigerator	22 November 2013	10,000	2013-5-14	76.39	Joint liability guarantee	2013.5.14-2015.1.14	Yes	No
Ronsheng Plastic	22 November 2013	6,000	2015-1-12	2,993.20	Joint liability guarantee	2015.1.12-2015-12-28	Yes	No
Ronsheng Plastic	22 November 2013	6,000	2015-10-16	882.10	Joint liability guarantee	2015.10.16-2016.2.29	No	No
Total limit on the amount of guarantees for subsidiaries approved during the Reporting Period (B1)			0	Actual amount of guarantees for subsidiaries during the Reporting Period (B2)				7,581.44
Total limit on the amount of guarantees for subsidiaries which has been approved at the end of the Reporting Period (B3)		213,000		Total balance of actual amount of guarantees for subsidiaries at the end of the Reporting Period (B4)				1,917.46

## Report of the Directors

The guaranteed party	Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount	Guarantees given by the subsidiaries for its subsidiaries					Completed or not	Whether the guarantee is given for any connected party
		Limit on guaranteed amount	Actual effective date (date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee		
Nil	—	—	—	—	—	—	—	
Total limit on the amount of guarantees for subsidiaries approved during the Reporting Period (C1)			0	Actual amount of guarantees for subsidiaries during the Reporting Period (C2)			0	
Total limit on the amount of guarantees for subsidiaries which has been approved at the end of the Reporting Period (C3)			0	Total balance of actual amount of guarantees for subsidiaries at the end of the Reporting Period (C4)			0	
<b>Total guaranteed amount of the Company (being the sum of the previous three major items)</b>								
Total limit on the amount of guarantees approved during the Reporting Period (A1+B1+C1)			0	Actual amount of guarantees during the Reporting Period (A2+B2+C2)			7,581.44	
Total limit on the amount of guarantees which has been approved at the end of the Reporting Period (A3+B3+C3)		213,000		Total balance of actual amount of guarantees at the end of the Reporting Period (A4+B4+C4)			1,917.46	
Proportion of actual amount of guarantees (being A4+B4+C4) to the net assets of the Company Including:							0.47%	
Guaranteed amount provided for shareholders, beneficial controlling parties and their connected parties (D)								
Guaranteed amount provided directly or indirectly for the guaranteed party with gearing ratio over 70% (E)							727.7	
Total guaranteed amount over 50% of the net asset (F)							727.7	
Sum of the above three guarantees (D+E+F)							727.7	
For guarantees which have not expired, description on liability for guarantees incurred during the Reporting Period or possibility to assume joint liabilities (if any)							Nil	
Description of provision of external guarantee in violation of prescribed procedures							Nil	

## VI. DERIVATIVES INVESTMENT

*Unit: RMB (in ten thousand)*

Name of operators of derivatives investment	Whether or not a connected transaction	Type of derivatives investment	Initial investment of derivatives	Effective Date	Expiry Date	Investment at the beginning of the Reporting Period	Amount of purchase during the Reporting Period	Amount of disposal during the Reporting Period	Amount of provision for impairment (if any)	Investment at the end of the Reporting Period	Proportion of investment to the net asset of the Company	Actual amount of profit and loss during the Reporting Period
											at the end of the Reporting Period (%)	
Bank	No	No	Forward foreign exchange contracts	221,160.98	1 January 2015	31 December 2015	221,160.98	108,783.26	246,601.39	83,342.85	20.61	5,513.18



## Report of the Directors

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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)	26 March 2015
Date of the announcement disclosing the approval of derivatives investment during shareholders' meetings (if any)	26 June 2015
Risk analysis of positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)	<p>The derivatives business of the Company mainly represents the forward foreign exchange contracts used to avoid the risk of foreign exchange fluctuations related to the overseas sales receivables. The Company determines a reasonable range of foreign exchange rates to achieve the hedging purpose.</p> <p>The Company has formulated the "Management Measures for the Foreign Exchange Capital Business" and "the Internal Control System for Forward Foreign Exchange Capital Transactions". The measures specifically regulate the basic principles, operation rules, risk control measures and internal controls that shall be followed when engaging in the business of foreign exchange derivatives. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.</p>
Changes in market price or product fair value of invested derivatives during the Reporting Period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of derivatives' fair value	<p>The assessment of the fair value of the derivatives carried out by the Company mainly represents the outstanding foreign exchange forward contracts entered into by the Company and banks, which are recognized as transactional financial assets or liabilities based on the difference between the quotation of the outstanding foreign exchange forward contracts and the forward exchange rate as at the end of the period. During the Reporting Period, the Company recognized a gain on change in fair value of the derivatives of RMB -2.5391 million. Investment gain amounted to RMB 57.6709 million, resulting in a total profits or losses of RMB 55.1318 million.</p>
Explanations of any significant changes in the Company's accounting policies and specific accounting and auditing principles on derivatives between the Reporting Period and the last reporting period	<p>During the Reporting Period, there were no material changes in the accounting policy and specific accounting and auditing principles for the Company's derivatives business as compared to last reporting period.</p>
Specific opinions of independent directors on the derivatives investment and risk control of the Company	<p>Opinion of independent directors: Commencement of foreign exchange derivatives business by the Company was beneficial to the Company in the prevention of exchange rate fluctuation risks. The Company has devised the Internal Control System for Forward Foreign Exchange Capital Transactions to strengthen internal control and enhance the management of foreign exchange risks by the Company, and the targeted risk control measures adopted were practicable.</p>

## Report of the Directors

### VII. CONSIGNED FINANCING

Applicable  Not applicable

Unit: RMB (in ten thousand)

Name of trustee	Whether it is a connected transaction	Product type	Amount of consigned financing	Commencement date	Expiration date	Mode of determining remuneration	The actual amount of principal received during the Reporting Period	Amount of provision for impairment (if any)	Expected revenue	Actual amount of profit and loss during the Reporting Period	Actual recovery of profit and loss during the Reporting Period
Bank	No	Bank's asset management product	20,000	31 December 2015	1 February 2016	Revenue guaranteed type, investment revenue rate (annual rate of 4%)	0	0	70.13	0	Not applicable
Total			20,000	-	-	-	0	0	70.13	0	-

Source of funding for consigned financing	Internal funding of the Company
Total amount of overdue principal and revenue which was not yet recovered	0
Legal disputes involved (if applicable)	Not applicable
Date of publishing the announcement in respect of the Board meeting held to approve the consigned financing (if applicable)	Not applicable
Date of publishing the announcement in respect of the Shareholders' meeting held to approve the consigned financing (if applicable)	Not applicable
Whether there is any plan for consigned financing in the future	Yes

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

Applicable  Not applicable

Newly consolidated subsidiary:

Jiangmen Hisense Electrical Appliances Co., Ltd., a subsidiary newly established by the Company during the Reporting Period, was consolidated for the Reporting Period.

Subsidiaries no longer included in the scope of consolidation:

During the Reporting Period, the Company cancelled a wholly-owned subsidiary Foshan Shunde Kelon Household Electrical Appliance Company Limited, which was no longer consolidated since the month following the cancellation.

During the Reporting Period, the Company transferred its entire equity interests in a wholly-owned subsidiary Hisense Home Appliance (Europe) Research & Development Center GmbH, which was no longer consolidated since the month following completion of the transfer.

## Report of the Directors

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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”	Hisense (Guangdong) Air-Conditioner Co., Ltd.
“Kelon Air-conditioner”	Guangdong Kelon Air-Conditioner Co., Ltd.
“Home Appliances Co”	Guangdong Hisense Home Appliances Co., Ltd.
“Guangdong Freezer”	Hisense Ronshen (Guangdong) Freezer Co., Ltd.
“Yangzhou Refrigerator”	Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.
“Ronsheng Plastic”	Foshan Shunde Rongsheng Plastic Co., Ltd.
“Huayi Compressor”	Huayi Compressor Company Limited
“Foshan Intermediate Court”	Intermediate People’s Court of Foshan City
“RMB”	Renminbi
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

## Report of the Supervisory Committee

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Dear Shareholders:

During the reporting period, the Supervisory Committee of Hisense Kelon Electrical Holdings Company Limited has faithfully discharged its duties to protect the lawful interests of the Company, its staff and shareholders in compliance with the relevant requirements of the Company Law of the PRC, the Listing Rules of Shenzhen Stock Exchange, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the articles of association of the Company. We would like to report to you the work of the Supervisory Committee during 2015 in accordance with the articles of association of the Company:

### **I. WORK OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD**

During the reporting period, the Supervisory Committee held a total of 8 meetings, details of which are summarized as follows:

- (1) The first meeting of the eighth session of the Supervisory Committee in 2015 was held on 26 March 2015, at which the 2014 annual report of the Company and related matters were considered and approved;
- (2) The second meeting of the eighth session of the Supervisory Committee in 2015 was held on 27 April 2015, at which the 2015 first quarterly report of the Company was considered and approved;
- (3) The third meeting of the eighth session of the Supervisory Committee in 2015 was held on 7 May 2015, at which the resolutions on the election of the new session of the Supervisory Committee of the Company was considered and approved;
- (4) The fourth meeting of the eighth session of the Supervisory Committee in 2015 was held on 22 May 2015, at which the resolutions on the adjustment of participants and number of grant of the first share option incentive scheme of the Company was considered and approved;
- (5) The first meeting of the ninth session of the Supervisory Committee in 2015 was held on 26 June 2015, at which the resolution to elect Mr. Liu Zhen Shun as the chairman of the ninth session of the Supervisory Committee of the Company was considered and approved;
- (6) The second meeting of the ninth session of the Supervisory Committee in 2015 was held on 27 August 2015, at which the 2015 interim report of the Company were considered and approved;
- (7) The third meeting of the ninth session of the Supervisory Committee in 2015 was held on 29 October 2015, at which the 2015 third quarterly report of the Company was considered and approved;
- (8) The fourth meeting of the ninth session of the Supervisory Committee in 2015 was held on 10 November 2015, at which the resolution on the change of shareholder representative supervisor of the Company was considered and approved.

## Report of the Supervisory Committee

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### II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2015

(1) Operation of the Company in compliance with law

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

(2) Examination of the Company's financial situation

Ruihua Certified Public Accountants has audited the Company's financial statement for the year 2015 and issued an auditor's report with standard unqualified opinion. The Supervisory Committee is of the view that the opinion expressed in the auditor's report was fair and objective and the current financial statement has truthfully reflected the state of financial condition and operating results of the Company.

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

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

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

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

After reviewing the Company's 2015 Internal Control Assessment Report, the Company's Supervisory Committee is of the view that:

With reference to the relevant requirements of Basic Norms for Enterprise Internal Control and the Guidelines of the Shenzhen Stock Exchange for the Standardized Operation of Companies Listed on the Main Board, the Company's existing internal control systems are basically sound and cover all levels and segments of the Company's operation, are in compliance with the requirements of the relevant laws and regulations, and suit the actual needs of the Company's operating activities. Each of the internal control systems is able to exert relatively effective control of the different segments in the Company's operation, and is capable of preventing, timely discovering and rectifying possible errors in the Company's operation process, controlling the relevant risks, protecting the safety and completeness of the Company's assets, ensuring the truthfulness, accuracy and timeliness of the accounting records and accounting information. The Company's 2015 Internal Control Assessment Report has fully, objectively and truly reflected the actual internal control situation of the Company, and we agree to the issue of the 2015 Internal Control Assessment Report by the board of directors of the Company.

## Corporate Information

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### REGISTERED OFFICE IN CHINA

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

### PLACE OF BUSINESS IN HONG KONG

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

### SECRETARY FOR THE BOARD OF DIRECTORS & COMPANY SECRETARY

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

### AUTHORIZED REPRESENTATIVES

Tang Ye Guo  
Jia Shao Qian

### INVESTOR COMMUNICATION CENTRE

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445 Dongfeng Road Central, Guangzhou

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

### BANKERS IN CHINA

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

### BANKERS IN HONG KONG

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



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Rui Hua Shen Zi [2016] 95020003

To the shareholders of Hisense Kelon Electrical Holdings Company Limited:

We have audited the accompanying financial statements of Hisense Kelon Electrical Holdings Company Limited (the “Company” or “Hisense Kelon”), which comprise the consolidated and the Company’s balance sheets as at 31 December 2015, and the Company’s and consolidated income statements, the Company’s and consolidated cash flows statements and the Company’s and consolidated statements of changes in equity for 2015 and the notes to the financial statements.

## **I. MANAGEMENT’S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

## **II. AUDITOR’S RESPONSIBILITY**

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

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

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

## Auditor's Report

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### III. AUDIT OPINION

In our opinion, the financial statements of the Company present fairly, in all material aspects, the Company's and consolidated financial position as at 31 December 2015 and the Company's and consolidated results of operations and cash flows for the year 2015 in accordance with Accounting Standards for Business Enterprises.

**Ruihua Certified Public Accountants (IIP)**

Beijing, the People's Republic of China

29 March 2016

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

Chinese Certified Public Accountant: **Yin Jing Lin**



## Consolidated Balance Sheets

31 December 2015

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	1,014,410,146.17	870,663,755.12
Balances with clearing companies		
Lending capital		
Financial assets at fair value through profit or loss		162,460.00
Derivative financial assets		
Notes receivable	2,289,706,048.91	991,796,937.82
Accounts receivable	2,086,596,419.00	1,984,291,386.93
Prepayments	169,804,372.86	498,209,306.68
Insurance premium receivable		
Receivables from reinsurers		
Reserves for reinsurance contract receivable		
Interests receivable		
Dividends receivable		
Other receivables	234,011,936.52	493,051,526.66
Financial assets purchased under agreements to resell		
Inventories	2,270,139,557.55	2,915,921,775.81
Assets classified as held for sale		
Non-current assets due within one year		
Other current assets	467,872,305.65	287,019,824.65
<b>Total current assets</b>	<b>8,532,540,786.66</b>	<b>8,041,116,973.67</b>
<b>Non-current assets:</b>		
Disbursement of loans and advances		
Available-for-sale financial assets	3,900,000.00	4,000,000.00
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	1,323,253,353.15	1,216,043,770.20
Investment properties	28,958,126.07	31,459,416.41
Fixed assets	3,529,787,697.68	2,932,039,091.41
Construction in progress	64,837,848.39	251,551,873.15
Construction materials		
Disposal of fixed assets	1,468,664.05	134,612.95
Productive biological assets		
Oil and gas assets		
Intangible assets	694,379,768.17	670,944,657.29
Development costs		
Goodwill		
Long-term prepaid expenses	10,599,736.59	12,690,220.43
Deferred tax assets	103,091,058.77	106,813,348.23
Other non-current assets		
<b>Total non-current assets</b>	<b>5,760,276,252.87</b>	<b>5,225,676,990.07</b>
<b>Total assets</b>	<b>14,292,817,039.53</b>	<b>13,266,793,963.74</b>

## Consolidated Balance Sheets

31 December 2015

Item	Closing Balance	Opening Balance
<b>Current liabilities:</b>		
Short-term borrowings	223,496,764.71	253,985,142.45
Borrowings from central bank		
Receipt of deposits and deposits from other banks		
Loans from other banks		
Financial liabilities at fair value through profit or loss	9,767,732.75	7,391,136.66
Derivative financial liabilities		
Notes payable	2,931,174,504.52	1,528,195,526.41
Accounts payable	2,878,291,676.53	3,465,854,583.60
Advances from customers	712,934,326.56	765,881,375.85
Proceeds from disposal of financial assets under agreements to repurchase		
Handling fees and commission payable		
Employee remunerations payable	250,749,290.94	249,664,285.98
Taxes payable	161,686,275.79	174,792,592.21
Interests payable		
Dividends payable		2,067.02
Other payables	1,483,744,213.15	1,735,584,905.78
Reinsured accounts payable		
Reserves for reinsurance contract		
Customer brokerage deposits		
Securities underwriting brokerage deposits		
Liabilities classified as held for sale		
Non-current liabilities due within one year		
Other current liabilities	794,105,569.67	680,022,633.56
<b>Total current liabilities</b>	<b>9,445,950,354.62</b>	<b>8,861,374,249.52</b>
<b>Non-current liabilities:</b>		
Long-term borrowings		
Bonds payable		
Including: Preference shares		
Perpetual debts		
Long-term payables		
Long-term employee remunerations payable		
Specific payables		
Provisions	320,959,024.64	404,411,887.77
Deferred income	51,750,592.81	60,261,598.06
Deferred tax liabilities	347,710.13	165,600.70
Other non-current liabilities		
<b>Total non-current liabilities</b>	<b>373,057,327.58</b>	<b>464,839,086.53</b>
<b>Total liabilities</b>	<b>9,819,007,682.20</b>	<b>9,326,213,336.05</b>

## Consolidated Balance Sheets

31 December 2015

Item	Closing Balance	Opening Balance
<b>Shareholders' equity:</b>		
Share capital	1,362,725,370.00	1,358,495,560.00
Other equity instruments		
Including: Preference shares		
Perpetual debts		
Capital reserve	2,155,529,231.17	2,125,930,825.88
Less: treasury shares		
Other comprehensive income	11,482,265.05	39,990,884.45
Special reserves		
Surplus reserves	240,622,313.49	145,189,526.48
General risk provisions		
Undistributed profit	273,658,518.74	-211,243,768.43
Total equity attributable to shareholders of the parent	4,044,017,698.45	3,458,363,028.38
Minority interests	429,791,658.88	482,217,599.31
<b>Total shareholders' equity</b>	<b>4,473,809,357.33</b>	<b>3,940,580,627.69</b>
<b>Total liabilities and shareholders' equity</b>	<b>14,292,817,039.53</b>	<b>13,266,793,963.74</b>

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Yan Zhi Yong**

## Balance Sheets of Parent Company

31 December 2015

	<i>Unit: RMB</i>	
Item	Closing Balance	Opening Balance
<b>Current assets:</b>		
Cash at bank and on hand	61,080,569.87	28,279,997.40
Financial assets at fair value through profit or loss		
Derivative financial assets		
Notes receivable	1,700,531.94	21,212,318.94
Accounts receivable	1,922,803,062.52	1,728,905,969.96
Prepayment	19,592,920.34	437,314,766.27
Interests receivable		
Dividends receivable		
Other receivables	870,833,078.80	834,537,438.77
Inventories	361,065.84	488,848.54
Assets classified as held for sale		
Non-current assets due within one year		
Other current assets	33,290,526.74	
<b>Total current assets</b>	<b>2,909,661,756.05</b>	<b>3,050,739,339.88</b>
<b>Non-current assets:</b>		
Available-for-sale financial assets	3,900,000.00	4,000,000.00
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	3,827,345,192.53	3,722,635,609.58
Investment properties	11,065,556.00	12,449,817.00
Fixed assets	120,208,519.74	136,178,710.74
Construction in progress		
Construction materials		
Disposal of fixed assets		
Productive biological assets		
Oil and gas assets		
Intangible assets	205,243,987.00	210,195,530.00
Development costs		
Goodwill		
Long-term prepaid expenses	1,341,333.40	2,347,333.36
Deferred tax assets		
Other non-current assets		
<b>Total non-current assets</b>	<b>4,169,104,588.67</b>	<b>4,087,807,000.68</b>
<b>Total assets</b>	<b>7,078,766,344.72</b>	<b>7,138,546,340.56</b>

## Balance Sheets of Parent Company

31 December 2015

Item	Closing Balance	Opening Balance
<b>Current liabilities:</b>		
Short-term borrowings		
Financial liabilities at fair value through profit or loss		
Derivative financial liabilities		
Notes payable		
Accounts payable	1,204,712,288.79	1,540,384,205.06
Advances from customers	24,852,528.21	30,571,318.62
Employee remunerations payable	4,240,314.21	4,695,796.34
Taxes payable	5,180,801.40	40,194,681.98
Interests payable		
Dividends payable		
Other payables	859,483,103.22	793,873,733.58
Liabilities classified as held for sale		
Non-current liabilities due within one year		
Other current liabilities	237,006,791.93	484,701,272.85
<b>Total Current Liabilities</b>	<b>2,335,475,827.76</b>	<b>2,894,421,008.43</b>
<b>Non-Current Liabilities:</b>		
Long-term borrowings		
Bonds payable		
Including: Preference shares		
Perpetual debts		
Long-term payables		
Long-term employee remunerations payable		
Specific payables		
Provisions	320,959,024.64	404,411,887.77
Deferred income	31,005,964.43	32,279,217.04
Deferred tax liabilities		
Other non-current liabilities		
<b>Total non-current liabilities</b>	<b>351,964,989.07</b>	<b>436,691,104.81</b>
<b>Total liabilities</b>	<b>2,687,440,816.83</b>	<b>3,331,112,113.24</b>
<b>Shareholders' equity:</b>		
Share capital	1,362,725,370.00	1,358,495,560.00
Other equity instruments		
Including: Preference shares		
Perpetual debts		
Capital reserve	2,277,775,852.34	2,248,177,447.05
Less: Treasury shares		
Other comprehensive income	24,823.98	29,436,301.71
Special reserves		
Surplus reserves	210,013,688.50	114,580,901.49
Undistributed profit	540,785,793.07	56,744,017.07
<b>Total shareholders' equity</b>	<b>4,391,325,527.89</b>	<b>3,807,434,227.32</b>
<b>Total liabilities and shareholders' equity</b>	<b>7,078,766,344.72</b>	<b>7,138,546,340.56</b>

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Yan Zhi Yong**

## Consolidated Income Statement

Unit: RMB

Item	Amount for Current period	Amount for Previous period
<b>I. Total operating revenue</b>	<b>23,471,602,857.98</b>	<b>26,534,420,935.55</b>
Including: Operating revenue	23,471,602,857.98	26,534,420,935.55
Interest income		
Insurance premium earned		
Income from handling fees and commission		
<b>II. Total operating costs</b>	<b>23,685,244,384.01</b>	<b>26,183,318,375.81</b>
Including: Operating costs	18,440,738,979.66	20,784,712,962.70
Interest expenses		
Handling fees and commission expenses		
Refunded premiums		
Net amount of compensation payout		
Net amount of insurance contract reserves provided		
Policyholder dividend expenses		
Reinsurance premium expenses		
Business taxes and surcharges	97,160,017.88	98,323,909.43
Selling and distribution expenses	4,308,881,508.98	4,388,690,223.86
General and administrative expenses	905,237,728.27	856,931,761.63
Financial expenses	-71,444,717.51	-3,966,187.82
Impairment losses on assets	4,670,866.73	58,625,706.01
Add: Gain from changes in fair value (Loss denoted by “-”)	-2,539,056.09	-74,339,051.01
Investment income (Loss denoted by “-”)	530,171,700.74	375,501,155.02
Including: Share of profit of associates and jointly controlled entities	329,436,651.65	311,516,852.93
Foreign exchange gains (Loss denoted by “-”)		
<b>III. Operating profits (loss denoted by “-”)</b>	<b>313,991,118.62</b>	<b>652,264,663.75</b>
Add: Non-operating income	326,848,455.27	124,362,153.94
Including: Gain on disposal of non-current assets	2,557,013.97	1,623,453.29
Less: Non-operating expenses	17,185,413.56	5,391,172.93
Including: Loss on disposal of non-current assets	13,709,993.98	3,967,010.86
<b>IV. Total profit (total loss denoted by “-”)</b>	<b>623,654,160.33</b>	<b>771,235,644.76</b>
Less: Income tax expenses	79,377,763.58	59,725,146.29
<b>V. Net profits (net loss denoted by “-”)</b>	<b>544,276,396.75</b>	<b>711,510,498.47</b>
Net profits attributable to shareholders of the parent	580,335,074.18	672,478,632.35
Profit and loss of minority interests	-36,058,677.43	39,031,866.12

## Consolidated Income Statement

Item	Amount for Current period	Amount for Previous period
<b>VI. Other comprehensive income after tax, net</b>	<b>-28,508,619.40</b>	<b>-359,473.40</b>
Other comprehensive income after tax attributable to owners of the parent, net	-28,508,619.40	-359,473.40
(1) Items not to be reclassified into profit or loss in subsequent periods	4,298,798.14	
1. Changes arising from remeasurement of net liabilities or assets of defined benefit plan		
2. Share of other comprehensive income of the investee not to be reclassified into profit or loss under the equity method	4,298,798.14	
(2) Items to be reclassified into profit or loss in subsequent periods	-32,807,417.54	-359,473.40
1. Share of other comprehensive income of the investee to be reclassified into profit or loss under the equity method in subsequent periods	-33,710,275.87	-145,901.32
2. Gains or losses from changes in fair value of available-for-sale financial assets		
3. Gains or losses on reclassification of held-to-maturity investments as available-for-sale financial assets		
4. The effective portion of gains or losses from cash flow hedges		
5. Differences on translation of foreign currency financial statements	902,858.33	-213,572.08
6. Others		
Other comprehensive income after tax attributable to minority interests, net		
<b>VII. Total comprehensive income</b>	<b>515,767,777.35</b>	<b>711,151,025.07</b>
Total comprehensive income attributable to shareholders of the parent	551,826,454.78	672,119,158.95
Total comprehensive income attributable to minority interests	-36,058,677.43	39,031,866.12
<b>VIII. Earnings per share:</b>		
(1) Basic earnings per share	0.43	0.50
(2) Diluted earnings per share	0.43	0.50

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Yan Zhi Yong**

## Income Statement of Parent Company

Unit: RMB

Item	Amount for Current period	Amount for Previous period
<b>I. Total operating revenue</b>	<b>214,182,431.06</b>	<b>3,697,678,120.33</b>
Less: Operating costs	204,775,847.63	2,766,141,571.10
Business taxes and surcharges	4,957,457.03	35,134,769.91
Selling and distribution expenses	-127,536,451.19	311,811,541.12
General and administrative expenses	41,782,659.96	40,481,244.98
Financial expenses	-32,306,720.09	-2,130,136.76
Impairment losses on assets	4,646,297.18	-62,556,739.39
Add: Gain from changes in fair value (Loss denoted by “-”)		
Investment income (Loss denoted by “-”)	443,167,016.69	339,100,658.73
Including: Share of profit of associates and jointly controlled entities	329,436,651.65	311,516,852.93
<b>II. Operating profits (loss denoted by “-”)</b>	<b>561,030,357.23</b>	<b>947,896,528.10</b>
Add: Non-operating income	19,930,396.52	16,926,025.43
Including: Gain on disposal of non-current assets	713,273.97	64,150.61
Less: Non-operating expenses	1,486,190.74	742,857.31
Including: Loss on disposal of non-current assets	60,436.90	239,448.02
<b>III. Total profit (total loss denoted by “-”)</b>	<b>579,474,563.01</b>	<b>964,079,696.22</b>
Less: Income tax expenses		
<b>IV. Net profits (net loss denoted by “-”)</b>	<b>579,474,563.01</b>	<b>964,079,696.22</b>
<b>V. Other comprehensive income after tax, net</b>	<b>-29,411,477.73</b>	<b>-145,901.32</b>
(1) Items not to be reclassified into profit or loss in subsequent periods	4,298,798.14	
1. Changes arising from remeasurement of net liabilities or assets of defined benefit plan		
2. Share of other comprehensive income of the investee not to be reclassified into profit or loss under the equity method	4,298,798.14	
(2) Items to be reclassified into profit or loss in subsequent periods	-33,710,275.87	-145,901.32
1. Share of other comprehensive income of the investee to be reclassified into profit or loss under the equity method in subsequent periods	-33,710,275.87	-145,901.32
2. Gains or losses from changes in fair value of available-for-sale financial assets		
3. Gains or losses on reclassification of held-to-maturity investments as available-for-sale financial assets		
4. The effective portion of gains or losses from cash flow hedges		
5. Differences on translation of foreign currency financial statements		
6. Others		
<b>VI. Total comprehensive income</b>	<b>550,063,085.28</b>	<b>963,933,794.90</b>
<b>VII. Earnings per share:</b>		
(1) Basic earnings per share		
(2) Diluted earnings per share		

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Yan Zhi Yong**



## Consolidated Cash Flow Statement

Unit: RMB

Item	Amount for Current period	Amount for Previous period
<b>I. Cash flows from operating activities:</b>		
Cash received from sales of goods and rendering of services	13,627,047,678.89	13,458,272,981.18
Net increase in customer deposits and interbank deposits		
Net increase in borrowings from central bank		
Net increase in placements from other financial institutions		
Cash received from original insurance contracts		
Net cash received from reinsurance business		
Net increase in deposits and investments from policyholders		
Net increase from disposal of financial assets at fair value through profit or loss		
Cash received from interests, fees and commissions		
Net increase in placements from banks and other financial institutions		
Net increase in repurchase business capital		
Tax rebates received	886,035,326.88	759,461,588.28
Other cash received concerning operating activities	1,031,767,357.36	1,159,263,877.98
<b>Subtotal of cash inflows from operating activities</b>	<b>15,544,850,363.13</b>	<b>15,376,998,447.44</b>
Cash paid for purchases of commodities and receipt of services	7,874,439,108.26	7,165,880,178.95
Net increase in loans and advances to customers		
Net increase in deposits with central bank and other banks		
Cash paid for compensation under original insurance contract		
Cash paid for interests, fees and commissions		
Cash paid for policyholders' dividend		
Cash paid to and for employees	2,507,782,602.79	2,483,052,331.95
Cash paid for taxes and surcharges	924,949,159.86	947,984,920.48
Cash paid for other operating activities	3,753,418,337.17	3,814,090,558.19
<b>Subtotal of cash outflows from operating activities</b>	<b>15,060,589,208.08</b>	<b>14,411,007,989.57</b>
<b>Net cash flows from operating activities</b>	<b>484,261,155.05</b>	<b>965,990,457.87</b>
<b>II. Cash flows from investing activities:</b>		
Cash received from recovery of investments	330,278,145.68	88,200,000.00
Cash received from investment income	7,410,000.00	10,127,855.18
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	2,191,055.50	9,319,673.61
Net cash received from disposals of subsidiaries and other operation units	19,194.87	
Cash received relating to other investing activities		
<b>Subtotal of cash inflows from investing activities</b>	<b>339,898,396.05</b>	<b>107,647,528.79</b>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	449,658,954.97	766,186,788.01
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	200,000,000.00	
<b>Subtotal of cash outflows from investing activities</b>	<b>649,658,954.97</b>	<b>766,186,788.01</b>
<b>Net cash flows from investing activities</b>	<b>-309,760,558.92</b>	<b>-658,539,259.22</b>

## Consolidated Cash Flow Statement

Item	Amount for Current period	Amount for Previous period
<b>III. Cash flows from financing activities:</b>		
Cash received from capital contribution	32,358,046.50	48,566,371.50
Including: Cash contribution to subsidiaries from minority shareholders' investment		14,594,175.00
Cash received from borrowings	1,446,673,433.29	1,332,590,807.75
Cash received from issuance of bonds		
Cash received relating to other financing activities		
<b>Subtotal of cash inflows from financing activities</b>	<b>1,479,031,479.79</b>	<b>1,381,157,179.25</b>
Cash paid for repayment of borrowings	1,491,559,284.51	1,264,519,716.22
Cash paid for distribution of dividends, profit or payment of interest expenses	20,748,893.89	26,947,098.71
Including: Dividend and profit paid to minority shareholders by subsidiaries	9,167,263.00	2,943,874.55
Cash paid relating to other financing activities		
<b>Subtotal of cash outflows from financing activities</b>	<b>1,512,308,178.40</b>	<b>1,291,466,814.93</b>
<b>Net cash flows from financing activities</b>	<b>-33,276,698.61</b>	<b>89,690,364.32</b>
<b>IV. Effects of foreign exchange rate changes on cash and cash equivalents</b>	<b>896,493.53</b>	<b>-89,985.39</b>
<b>V. Net increase in cash and cash equivalents</b>	<b>142,120,391.05</b>	<b>397,051,577.58</b>
Add: Balance of cash and cash equivalents at the beginning of the period	870,038,755.12	472,987,177.54
<b>VI. Balance of cash and cash equivalents at the end of the period</b>	<b>1,012,159,146.17</b>	<b>870,038,755.12</b>

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Yan Zhi Yong**

## Cash Flow of Parent Company

Unit: RMB

Item	Amount for Current period	Amount for Previous period
<b>I. Cash flows from operating activities:</b>		
Cash received from sales of goods and rendering of services	45,539,719.65	3,144,437,078.13
Tax rebates received		
Cash received concerning other operating activities	1,234,861,919.14	4,706,266,480.65
<b>Subtotal of cash inflows from operating activities</b>	<b>1,280,401,638.79</b>	<b>7,850,703,558.78</b>
Cash paid for purchases of commodities and receipt of labor services		4,018,419,419.99
Cash paid to and for employees	9,959,317.89	318,793,009.54
Cash paid for taxes and surcharges	81,305,970.44	312,758,318.32
Cash paid for other operating activities	1,551,322,424.31	3,575,499,239.76
<b>Subtotal of cash outflow from operating activities</b>	<b>1,642,587,712.64</b>	<b>8,225,469,987.61</b>
<b>Net cash flows from operating activities</b>	<b>-362,186,073.85</b>	<b>-374,766,428.83</b>
<b>II. Cash flow from investing activities:</b>		
Cash received from recovery of investments	330,278,145.68	145,730,000.00
Cash received from investment income	31,957,120.14	32,005,136.18
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	445,174.00	154,932.27
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>362,680,439.82</b>	<b>177,890,068.45</b>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	51,840.00	3,729,659.00
Cash paid for investments		
Net cash paid for acquisition of subsidiaries and other operation units		
Cash paid relating to other investing activities		
<b>Subtotal of cash outflows from investing activities</b>	<b>51,840.00</b>	<b>3,729,659.00</b>
<b>Net cash flows from investing activities</b>	<b>362,628,599.82</b>	<b>174,160,409.45</b>
<b>III. Cash flows from financing activities:</b>		
Cash received from capital contribution	32,358,046.50	33,972,196.50
Cash received from borrowings		
Cash received from issuance of bonds		
Cash received relating to other financing activities		
<b>Subtotal of cash inflows from financing activities</b>	<b>32,358,046.50</b>	<b>33,972,196.50</b>
Cash paid for repayment of borrowings		
Cash paid for distribution of dividends, profit or payment of interest expenses		
Cash paid relating to other financing activities		
<b>Subtotal of cash outflows from financing activities</b>		
<b>Net cash flows from financing activities</b>	<b>32,358,046.50</b>	<b>33,972,196.50</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>32,800,572.47</b>	<b>-166,633,822.88</b>
Add: Balance of cash and cash equivalents at the beginning of the period	28,279,997.40	194,913,820.28
<b>VI. Balance of cash and cash equivalents at the end of the period</b>	<b>61,080,569.87</b>	<b>28,279,997.40</b>

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Yan Zhi Yong**

## Consolidated Statement of Changes in Owners' Equity

Amount for current period

Unit: RMB

Item	Share capital		Other equity instruments		Attributable to the owners of the parent		Current period		Surplus reserves	General risk provisions	Undistributed profits	Minority interests	Total owners' equity
					Capital reserve	Treasury shares	Less: comprehensive income	Other					
<b>I. Closing balance of previous year</b>	1,358,495,560.00				2,125,930,825.88		39,990,884.45		145,189,526.48		-211,243,768.43	482,217,599.31	3,940,580,627.69
Add: Changes in accounting policies													
Correction for error in previous period													
Business combination involving entities under common control													
Other													
<b>II. Opening balance for the year</b>	1,358,495,560.00				2,125,930,825.88		39,990,884.45		145,189,526.48		-211,243,768.43	482,217,599.31	3,940,580,627.69
<b>III. Movements in the current period</b>													
(Decreases denoted in "-")	4,229,810.00				29,598,405.29		-28,508,619.40		95,432,787.01		484,902,287.17	-52,425,940.43	533,228,729.64
(1) Total comprehensive income							-28,508,619.40				580,335,074.18	-36,058,677.43	515,767,777.35
(2) Owners' contributions and capital reductions	4,229,810.00				27,834,818.73								32,064,628.73
1. Ordinary shares contributed by owners	4,229,810.00				30,633,992.02								34,863,802.02
2. Capital contributions by holders of other equity instruments													
3. Amount of share-based payment included in owners' equity					-2,799,173.29								-2,799,173.29
4. Other													
(3) Profit Distribution									95,432,787.01		-95,432,787.01	-16,367,263.00	-16,367,263.00
1. Appropriations to surplus reserve									95,432,787.01		-95,432,787.01		
2. Appropriations to general risk provisions													
3. Distribution to owners (or shareholders)												-16,367,263.00	-16,367,263.00
4. Other													
(4) Transfer of owners' equity													
1. Transfer to capital (or share capital) from capital reserve													
2. Transfer to capital (or share capital) from surplus reserve													
3. Surplus reserves for making up losses													
4. Other													
(5) Special reserves													
1. Provided during the period													
2. Used during the period													
(6) Other					1,763,586.56								1,763,586.56
<b>IV. Closing balance for the period</b>	1,362,725,370.00				2,155,529,231.17		11,482,265.05		240,622,313.49		273,658,518.74	429,791,658.88	4,473,809,357.33

## Consolidated Statement of Changes in Owners' Equity

Amount for previous period

Unit: RMB

Item	Previous period										Total owners' equity		
	Attributable to the owners of the parent					Other comprehensive income							
	Share capital	Preference shares	Other equity instruments Perpetual debts	Others	Capital reserve	Treasury shares	Less:	Special reserves	Surplus reserves	General risk provisions	Undistributed profits	Minority interests	
<b>I. Closing balance for previous year</b>	1,354,054,750.00				2,092,858,847.28				40,350,357.85	145,189,526.48	-883,722,400.78	434,606,641.74	3,183,337,722.57
Add: Changes in accounting policies													
Correction for error in previous period													
Business combination involving entities under common control													
Other													
<b>II. Opening balance for the year</b>	1,354,054,750.00				2,092,858,847.28				40,350,357.85	145,189,526.48	-883,722,400.78	434,606,641.74	3,183,337,722.57
<b>III. Movements in the current period</b>													
(Decreases denoted in "-")	4,440,810.00				33,071,978.60				-359,473.40		672,478,632.35	47,610,957.57	757,242,905.12
(1) Total comprehensive income									-359,473.40		672,478,632.35	39,031,866.12	711,151,025.07
(2) Owners' contributions and capital reductions	4,440,810.00				33,071,978.60						11,522,966.00	49,035,754.60	
1. Ordinary shares contributed by owners	4,440,810.00				35,022,063.86						11,522,966.00	50,985,839.86	
2. Capital contributions by holders of other equity instruments													
3. Amount of share-based payment included in owners' equity					-1,950,085.26								-1,950,085.26
4. Other													
(3) Profit Distribution											-2,943,874.55	-2,943,874.55	
1. Appropriations to surplus reserve													
2. Appropriations to general risk provisions													
3. Distribution to owners (or shareholders)											-2,943,874.55	-2,943,874.55	
4. Other													
(4) Transfer of owners' equity													
1. Transfer to capital (or share capital) from capital reserve													
2. Transfer to capital (or share capital) from surplus reserve													
3. Surplus reserves for making up losses													
4. Other													
(5) Special reserves													
1. Provided during the period													
2. Used during the period													
(6) Other													
<b>IV. Closing balance for the period</b>	1,358,495,560.00				2,125,930,825.88				39,990,884.45	145,189,526.48	-211,243,768.43	482,217,599.31	3,940,580,627.69

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Yan Zhi Yong**

## Statement of Changes in Owners' Equity of the Parent Company

Amount for current period

Unit: RMB

Item	Current period										Total owners' equity	
	Share capital	Preference shares	Other equity instruments		Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits		
<b>I. Closing balance in previous year</b>	1,358,495,560.00				2,248,177,447.05			29,436,301.71		114,580,901.49	56,744,017.07	3,807,434,227.32
Add: Changes in accounting policies												
Correction for error in previous period												
Other												
<b>II. Opening balance for the year</b>	1,358,495,560.00				2,248,177,447.05			29,436,301.71		114,580,901.49	56,744,017.07	3,807,434,227.32
<b>III. Movements in the current period (Decreases denoted in "-")</b>	4,229,810.00				29,590,405.29			-29,411,477.73		95,432,787.01	484,041,776.00	583,891,300.57
(1) Total comprehensive income								-29,411,477.73			579,474,563.01	550,063,085.28
(2) Owners' contributions and capital reductions	4,229,810.00				27,834,818.73							32,064,628.73
1. Ordinary shares contributed by owners	4,229,810.00				30,633,992.02							34,863,802.02
2. Capital contributions by holders of other equity instruments												
3. Amount of share-based payment included in owners' equity					-2,799,173.29							-2,799,173.29
4. Other												
(3) Profit Distribution										95,432,787.01	-95,432,787.01	
1. Appropriations to surplus reserve										95,432,787.01	-95,432,787.01	
2. Distribution to owners (or shareholders)												
3. Other												
(4) Transfer of owners' equity												
1. Transfer to capital (or share capital) from capital reserve												
2. Transfer to capital (or share capital) from surplus reserve												
3. Surplus reserves for making up losses												
4. Other												
(5) Special reserves												
1. Provided during the period												
2. Used during the period												
(6) Other					1,763,586.56							1,763,586.56
<b>IV. Closing balance for the period</b>	1,362,725,370.00				2,277,775,852.34			24,823.98		210,013,688.50	540,785,793.07	4,391,325,527.89

## Statement of Changes in Owners' Equity of the Parent Company

Amount for previous period

Unit: RMB

Item	Other equity instruments				Previous period		Other		Surplus reserves	Undistributed profits	Total owners' equity
	Share capital	Preference shares	Perpetual debts	Others	Less: Capital reserve	Treasury shares	comprehensive income	Special reserves			
<b>I. Closing balance in previous year</b>	1,354,054,750.00				2,223,601,333.16				114,580,901.49	-84,000,229.61	2,808,236,755.04
Add: Changes in accounting policies					-6,246,753.49		29,582,203.03			-23,335,449.54	
Correction for error in previous period											
Other											
<b>II. Opening balance for the year</b>	1,354,054,750.00				2,217,354,579.67		29,582,203.03		114,580,901.49	-907,335,679.15	2,808,236,755.04
<b>III. Movements in the current period (Decreases denoted in "-")</b>	4,440,810.00				30,822,867.38		-145,901.32			964,079,696.22	999,197,472.28
(1) Total comprehensive income							-145,901.32			964,079,696.22	963,933,794.90
(2) Owners' contributions and capital reductions	4,440,810.00				30,822,867.38						35,263,677.38
1. Ordinary shares contributed by owners	4,440,810.00				32,772,952.64						37,213,762.64
2. Capital contributions by holders of other equity instruments											
3. Amount of share-based payment included in owners' equity					-1,950,085.26						-1,950,085.26
4. Other											
(3) Profit Distribution											
1. Appropriations to surplus reserve											
2. Distribution to owners (or shareholders)											
3. Other											
(4) Transfer of owners' equity											
1. Transfer to capital (or share capital) from capital reserve											
2. Transfer to capital (or share capital) from surplus reserve											
3. Surplus reserves for making up losses											
4. Other											
(5) Special reserves											
1. Provided during the period											
2. Used during the period											
(6) Other											
<b>IV. Closing balance for the period</b>	1,358,495,560.00				2,248,177,447.05		29,436,301.71		114,580,901.49	56,744,017.07	3,807,434,227.32

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Yan Zhi Yong**

## Notes to the Financial Statements for 2015

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

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### 1. COMPANY PROFILE

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

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

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

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

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

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

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

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

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



## Notes to the Financial Statements for 2015

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

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### 1. COMPANY PROFILE *(continued)*

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

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

As at 31 December 2015, the total number of shares of the Company was 1,362,725,370.00 and the registered share capital of the Company was RMB1,362,725,370.00; of which, the shareholding of the Company held by Qingdao Hisense Air-Conditioning was 44.93%.

Scope of operations of the Company:

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

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

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

The financial statements were approved at the meeting held on 29 March 2016 by the Board of the Company.

In 2015, there were a total of 34 subsidiaries consolidated into the Company, increased by 1 and decreased by 2 as compared to last year. See Note 6(3) "Illustration of changes in scope of business combination" for more details.

### 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

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

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

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

The financial statements prepared by the Company comply with the requirements of the Accounting Standards for Business Enterprises and truly and completely reflect the financial state as at 31 December 2015 and the operating results, cash flows and other related information of the Company for the year then ended. In addition, the financial statements also comply with the disclosure requirements as contained in the Information Disclosure Regulations for Companies Publicly Issuing Securities No. 15 – General Provisions for Financial Statements (Revised 2014) issued by China Securities Regulatory Commission relating to financial statements and notes thereto in all material respects.

## Notes to the Financial Statements for 2015

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

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### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

#### (1) Accounting period

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

#### (2) Business cycle

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

#### (3) Reporting currency

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

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

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

##### 1. *Business combination involving entities under common control*

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

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

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

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

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

## Notes to the Financial Statements for 2015

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

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

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

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

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

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

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

## Notes to the Financial Statements for 2015

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

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

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

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

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

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

#### (5) Preparation of consolidated financial statements

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

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

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

##### 2. *Preparation of consolidated financial statements*

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

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

## Notes to the Financial Statements for 2015

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

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

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

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

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

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

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

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

## Notes to the Financial Statements for 2015

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

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

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

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

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

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

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

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

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

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

##### 1. Translation of foreign currency transactions

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

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

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

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

## Notes to the Financial Statements for 2015

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

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

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

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

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

##### 3. Translation of financial statements in foreign currency

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

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

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

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

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

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

## Notes to the Financial Statements for 2015

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

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

#### (9) Financial instruments

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

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

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

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

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

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

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

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

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

###### (ii) Held-to-maturity investments

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

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



## Notes to the Financial Statements for 2015

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

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

#### (9) Financial instruments *(continued)*

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

###### (ii) Held-to-maturity investments *(continued)*

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

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

###### (iii) Loans and receivables

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

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

###### (iv) Available-for-sale financial assets

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

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

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

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

## Notes to the Financial Statements for 2015

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

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

#### (9) Financial instruments *(continued)*

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

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

##### (i) Impairment of held-to-maturity investments

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

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

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

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

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

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

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

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

## Notes to the Financial Statements for 2015

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

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

#### (9) Financial instruments *(continued)*

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

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

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

##### 5. *Classification and measurement of financial liabilities*

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

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

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

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

###### (ii) Other financial liabilities

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

###### (iii) Financial guarantee contracts

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

## Notes to the Financial Statements for 2015

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

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

#### (9) Financial instruments *(continued)*

##### 6. *De-recognition of financial liabilities*

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

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

##### 7. *Derivatives and embedded derivatives*

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

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

##### 8. *Offsetting financial assets and financial liabilities*

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

##### 9. *Equity instruments*

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

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

## Notes to the Financial Statements for 2015

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

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

#### (10) Accounts receivable

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

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

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

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

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

##### 2. *Receivables subject to collective provision:*

*Basis for determination of groups is as follows*

Group 1 A group of accounts receivable based on ageing characteristics

Group 2 A group of Greencool receivables.

*Method of provision for bad debts by groups*

Group 1 Using ageing analysis method.

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

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

<b>Ageing</b>	<b>Ratio of provision for bad debts (%)</b>
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

##### *Individually insignificant receivables subject to separate provision*

Reason for individual provision	Receivables which are individually insignificant over one year or above.
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Method for provision for bad debts	Where there is an objective evidence of impairment, receivables shall be separated from the group they belong to and subject to an individual test. The balance of the present value of the future cash flows expected to be derived from the receivables less than the carrying amount shall be treated as impairment loss and accounted for as provision for bad debts
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## Notes to the Financial Statements for 2015

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

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

#### (11) Inventories

##### 1. *Classification of inventories*

Inventories are classified into: raw materials, work in progress, finished goods and etc.

##### 2. *Measurement of inventories*

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

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

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

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

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

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

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

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

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

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

Low-value consumables are expensed upon issuance.

Packaging materials are expensed upon issuance.

#### (12) Long-term equity investments

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

## Notes to the Financial Statements for 2015

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

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

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

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

##### 1. *Determination of investment cost*

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

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

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

## Notes to the Financial Statements for 2015

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

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

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

##### 1. *Determination of investment cost (continued)*

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

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

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

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

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

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

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



## Notes to the Financial Statements for 2015

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

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

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

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

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

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

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

##### (iii) Acquisition of minority interests

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

## Notes to the Financial Statements for 2015

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

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

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

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

##### (iv) Disposal of long-term equity investment

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

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

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

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

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

## Notes to the Financial Statements for 2015

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

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

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

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

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

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

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

##### 3. *Impairment test and provision for impairment*

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

#### (13) Investment properties

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

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

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

#### (14) Fixed assets

##### 1. *Recognition of fixed assets*

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

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

## Notes to the Financial Statements for 2015

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

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

#### (14) Fixed assets *(continued)*

##### 2. Depreciation of fixed assets

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

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

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

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

#### (14) Fixed assets

##### (4) Explanation on other matters

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

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

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

#### (15) Construction in progress

##### 1. Measurement of construction in progress

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

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

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

## Notes to the Financial Statements for 2015

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

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

#### (15) Construction in progress *(continued)*

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

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

#### (16) Borrowing costs

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

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

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

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

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

##### 2. *Period of capitalization of the borrowing costs*

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

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

##### 3. *Calculation of capitalized borrowing costs*

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

## Notes to the Financial Statements for 2015

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

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

#### (16) Borrowing costs *(continued)*

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

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

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

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

#### (17) Intangible asset

##### 1. Initial measurement of intangible assets

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

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

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

##### 2. Subsequent measurement of intangible assets

###### (i) Useful life of intangible assets

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

###### (ii) Amortisation of intangible assets

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

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

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

## Notes to the Financial Statements for 2015

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

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

#### (17) Intangible asset *(continued)*

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

- (iv) Impairment of intangible assets

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

#### (18) Expenditure on research and development

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

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

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

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

#### (19) Long-term prepaid expenses

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

## Notes to the Financial Statements for 2015

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

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

#### (20) Impairment of long-term assets

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

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

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

#### (21) Employee benefits

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

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

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

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

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



## Notes to the Financial Statements for 2015

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

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

#### (21) Employee benefits *(continued)*

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

#### (22) Provisions

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

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

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

#### (23) Share-based payments and equity instruments

##### 1. *Share-based payments*

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

##### 2. *Accounting treatment of share-based payments*

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

##### 3. *Determination of fair value of equity instruments*

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

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

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

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

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

## Notes to the Financial Statements for 2015

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

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

#### (24) Revenue

##### 1. *Sale of goods*

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

##### 2. *Rendering of services*

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

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

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

##### 3. *Transfer of asset use rights*

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

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

#### (25) Government grants

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

##### 1. *Recognition and measurement of government grants*

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

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

## Notes to the Financial Statements for 2015

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

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

#### (25) Government grants *(continued)*

##### 2. *Accounting treatment of government grants*

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

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

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

#### (26) Deferred tax assets/deferred tax liabilities

##### 1. *Current income tax*

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

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

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

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

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

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

## Notes to the Financial Statements for 2015

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

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

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

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

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

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

##### 3. *Income tax expense*

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

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

##### 4. *Offsetting income tax*

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

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

#### (27) Segment information

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

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

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

## Notes to the Financial Statements for 2015

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

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

#### (27) Segment information *(continued)*

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

#### (28) Operating leases

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

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

##### 1. Changes in accounting policies

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

##### 2. Changes in accounting estimates

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

#### (30) Critical accounting judgements and estimates

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

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

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

##### 1. Classification of leases

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

##### 2. Provision for bad debts

The Company adopts the allowance method to account for bad debt loss under the accounting policies of accounts receivable. Impairment of accounts receivable is based on the recoverability of assessed accounts receivable. Given the management's judgment and estimate required for impairment of accounts receivable, the difference between the actual outcome and original estimate will affect the carrying amount of accounts receivable and provision and reversal of bad debts of accounts receivable during the estimate revision period.

## Notes to the Financial Statements for 2015

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

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

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

##### 3. *Allowance for inventories*

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

##### 4. *Provision for impairment of long term assets*

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

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

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

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

##### 5. *Depreciation and amortisation*

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

##### 6. *Deferred income tax assets*

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

## Notes to the Financial Statements for 2015

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

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

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

##### 7. Income tax

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

### 5. TAXATION

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

Type of taxes	Tax basis	Tax rate
Value-added tax	Output value-added tax is computed as 17% or 6% of taxable income. Value-added tax is computed on the difference after deduction of input value-added tax	17% and 6%
Business tax	Taxable business turnover	5%
City maintenance and construction tax	Turnover tax payable	1%-7%
Education surcharges	Turnover tax payable	3%
Corporate income tax	Taxable income	Except for the companies entitled the tax incentives as mentioned in 5.(2) "Tax preferences and approvals", tax rate of other companies is 25%

As the subsidiaries of the Company have to pay taxes in different corporate income tax rates, details of the relevant explanation and tax rates are set out in 5.(2) "Tax preferences and approvals".

#### (2) Tax preferences and approvals

Guangdong Kelon Monld Co., Ltd, a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201444001017) dated 10 October 2014 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 (2014, 2015 and 2016). According to the relevant tax preference regulation on High-tech Enterprise, this subsidiary is entitled to the preferential enterprise income tax rate of 15% in 2014, 2015 and 2016.

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

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

## Notes to the Financial Statements for 2015

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

### 5. TAXATION (continued)

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

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

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

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

The subsidiaries of the Company which were incorporated in Hong Kong are subject to an income tax on the estimated assessable profits derived from or arising in Hong Kong at a rate of 16.5% income tax rate for (2014: 16.5%).

#### (3) Other illustrations

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

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



## Notes to the Financial Statements for 2015

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

### 6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

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

#### (1) Major subsidiaries

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

Name of the subsidiary	Type of subsidiary	Place of registration	Nature of Business	Registered capital	Entity type	Scope of business	Actual investment at the end of the period	Shareholding (%)		% of voting rights held	Con-solidated or not	Minority interest	Gain or loss attributable to minority interest	Dividend attributed to minority interest
								Direct	Indirect					
Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. ("Guangdong Refrigerator")	Wholly-owned subsidiary	Foshan	Industrial	US\$26,800,000	Limited liability company	Manufacture and sale of refrigerators	20,768.71	70%	30%	100%	Yes			
Guangdong Kelon Airconditioner Co., Ltd. ("Guangdong Airconditioner") <sup>1</sup>	Subsidiary	Foshan	Industrial	US\$36,150,000	Limited liability company	Manufacture and sale of airconditioners	28,100.00	60%		100%	Yes			
Hisense Ronshen (Guangdong) Freezer Co., Ltd. ("Guangdong Freezer")	Wholly-owned subsidiary	Foshan	Industrial	23,700.00	Limited liability company	Manufacture and sale of freezers	3,652.26	44%	56%	100%	Yes			
Guangdong Hisense Home Appliances Co., Ltd. ("Hisense Home Appliances") <sup>2</sup>	Subsidiary	Foshan	Industrial	5,740.51	Limited liability company	Manufacture and sale of home appliances, such as metal furniture, plastic furniture, kitchen ventilator, gas stove	5,153.11	81.17%		81.17%	Yes	2,145.13	713.80	216.21
Foshan Shunde Rongsheng Plastic Co., Ltd. ("Rongsheng Plastic")	Subsidiary	Foshan	Industrial	US\$15,827,400	Limited liability company	Manufacture of plastic parts	8,361.64	44.92%	25.13%	70.05%	Yes	8,514.75	117.94	
Guangdong Kelon Mould Co., Ltd. ("Kelon Mould")	Subsidiary	Foshan	Industrial	US\$15,056,100	Limited liability company	Manufacture of mould	9,056.95		70.11%	70.11%	Yes	5,586.32	374.50	
Guangdong Huao Electronics Co., Ltd. ("Huao Electronics")	Subsidiary	Foshan	Industrial	1,000.00	Limited liability company	Research and development, production and sale of electronic products	700.00		70%	100%	Yes			
Guangdong Foshan Shunde Kelon Property Service Co., Ltd. ("Kelon Property")	Wholly-owned subsidiary	Foshan	Service	500.00	Limited liability company	Corporate consultancy management, catering, household decoration design	492.78		100%	100%	Yes			
Foshan Shunde Wangao Import & Export Co., Ltd. ("Wangao I&E")	Wholly-owned subsidiary	Foshan	Commercial	300.00	Limited liability company	Import and export	300.00	20%	80%	100%	Yes			
Foshan Shunde Kelon Jiake Electronics Co., Ltd. ("Jiake Electronics")	Wholly-owned subsidiary	Foshan	Industrial	6,000.00	Limited liability company	IT and communication technology, and micro-electronics technology development	6,000.00	70%	30%	100%	Yes			
Guangdong Kelon Weili Electrical Appliances Co., Ltd. ("Kelon Weili")	Subsidiary	Zhongshan	Industrial	20,000.00	Limited liability company	Production of intelligent washing machines, intelligent air-conditioners and after-sale maintenance services and technology consultation for its products, 70% products for domestic sale		55%	25%	80%	Yes	-436.31	-0.05	

## Notes to the Financial Statements for 2015

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

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

#### (1) Major subsidiaries (continued)

##### 1. Subsidiaries acquired from establishment or investment (continued)

Name of the subsidiary	Type of subsidiary	Place of registration	Nature of Business	Registered capital	Entity type	Scope of business	Actual investment at the end of the period		% of voting rights held or not		Minority interest	Gain or loss attributable to minority interest	Dividend attributed to minority interest
							Direct	Indirect					
Hisense Ronshen (Yingkou) Refrigerator Co., Ltd. ("Yingkou Refrigerator")	Subsidiary	Yingkou	Industrial	20,000.00	Limited liability company	Manufacture and sale of refrigerators	14,442.59	42%	36.79%	78.79%	Yes	2.85	-214.57
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	24,509.73	60%	40%	100%	Yes		
Jiangxi Kelon Combine Electrical Appliances Co., Ltd. ("Combine")*2	Subsidiary	Nanchang	Industrial	2,000.00	Limited liability company	Research and development, production and sale of household and commercial airconditioners, refrigerators, freezers and small household appliances	1,100.00		55%	55%	No		
Hangzhou Kelon Electrical Co., Ltd. ("Hangzhou Kelon")	Wholly-owned subsidiary	Hangzhou	Industrial	2,400.00	Limited liability company	Research and development and production of high efficiency, energy saving and environmental friendly refrigerators, technology for environmental friendly refrigerators, technology consultation, warehousing, and sale of the Company's products	2,400.00		100%	100%	Yes		
Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd. ("Yangzhou Refrigerator")	Wholly-owned subsidiary	Yangzhou	Industrial	US\$44,447,900	Limited liability company	Production and sale of energy saving, environmental friendly refrigerators and other energy saving cooling electrical appliances	32,689.25	74.33%	25.67%	100%	Yes		
Shangqiu Kelon Electrical Co., Ltd. ("Shangqiu Kelon")	Wholly-owned subsidiary	Shangqiu	Industrial	15,000.00	Limited liability company	Research and development, manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small household appliances and parts and accessories, and provision of relevant information and technical consultancy services	15,000.00		100%	100%	Yes		
Zhuhai Kelon Electrical Industrial Development Co., Ltd. ("Zhuhai Kelon")	Wholly-owned subsidiary	Zhuhai	Industrial	US\$29,980,000	Limited liability company	Research and development and manufacture of refrigerators, air-conditioners, freezers, small household appliances and related accessories	23,871.07	75%	25%	100%	Yes		

## Notes to the Financial Statements for 2015

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

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

#### (1) Major subsidiaries (continued)

##### 1. Subsidiaries acquired from establishment or investment (continued)

Name of the subsidiary	Type of subsidiary	Place of registration	Nature of Business	Registered capital	Entity type	Scope of business	Actual investment at the end of the period		% of voting rights held		Consolidated or not	Minority interest	Gain or loss attributable to minority interest	Dividend attributed to minority interest
							Direct	Indirect	Direct	Indirect				
Shenzhen Kelon Purchase Co., Ltd. ("Shenzhen Kelon")	Wholly-owned subsidiary	Shenzhen	Commercial	10,000.00	Limited liability company	Domestic business, material supply and marketing (excluding franchise, control and monopoly of goods); import and export; provision of warehousing, information consultation	10,000.00	95%	5%	100%	Yes			
Pearl River Electric Refrigerator Co., Ltd. ("Pearl River Refrigerator")	Wholly-owned subsidiary	Hong Kong	Commercial	HK\$400,000	Limited liability company	Sale of raw materials and accessories for refrigerators	33.51		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	JPY1,100,000,000	Limited liability company	Technical research and trading in electrical household appliances	2,554.22		100%	100%	Yes			
Kelon International Incorporation ("KII")	Wholly-owned subsidiary	British Virgin Islands	Commercial	US\$50,000	Limited liability company	Investment holding and sale of household appliances	0.0006		100%	100%	Yes			
Hisense (Chengdu) Refrigerator Co., Ltd. ("Chengdu Refrigerator")	Wholly-owned subsidiary	Chengdu	Industrial	5,000.00	Limited liability company	Manufacture of household appliances and refrigeration equipment, sale of the Company's products, and provision of related after-sale services	5,000.00	100%		100%	Yes			
Hisense (Shandong) Refrigerator Co., Ltd. ("Shandong Refrigerator")	Wholly-owned subsidiary	Qingdao	Industrial	27,500.00	Limited liability company	Manufacture of energy saving and environmental friendly refrigerators, freezers and other household energy saving cooling appliances; sale of self-manufactured products of the Company; design and development of new products in the area of energy saving and environmental friendly refrigerators, freezers and energy saving cooling appliances	27,500.00	100%		100%	Yes			
Guangdong Hisense Refrigerator Marketing Co., Ltd. ("Refrigerator Marketing Company")	Subsidiary	Foshan	Commercial	20,081.90	Joint stock limited	Sale and provision of aftersale and technical services of refrigerators, freezers, washing machines, living appliances and other household appliances	15,827.60		78.82%	78.82%	Yes	4,650.92	147.79	93.59

## Notes to the Financial Statements for 2015

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

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

#### (1) Major subsidiaries (continued)

##### 1. Subsidiaries acquired from establishment or investment (continued)

Name of the subsidiary	Type of subsidiary	Place of registration	Nature of Business	Registered capital	Entity type	Scope of business	Actual investment at the end of the period	Shareholding (%)		% of voting rights held	Con-solidated or not	Minority interest	Gain or loss attributable to minority interest	Dividend attributed to minority interest
							Direct	Indirect						
Qingdao Hisense Air-conditioner Marketing Co., Ltd. ("Air-conditioner Marketing Company")	Subsidiary	Qingdao	Commercial	10,091.00	Joint stock limited	General items of operation: sales and provision of after-sale and technical services of air-conditioners, air purifiers, dehumidifiers, living appliances, environmental appliances	7,626.00		75.57%	75.57%	Yes	1,828.11	-1,480.70	194.80
Hisense (Guangdong) Air-Conditioner Company Limited ("Hisense Guangdong Air-Conditioner")	Wholly-owned subsidiary	Jiangmen	Industrial	20,000.00	Limited liability company	Development, manufacture and assembly of air-conditioners, air purifiers, dehumidifiers, living appliances, environmental appliances and other household appliances products, sale of self-manufactured products, provision of after-sale and technical consultancy services related to above products, Import and export of various goods and technologies self-manufactured and distributed (exclusive of goods or technologies subject to business operation restrictions by State or prohibited from import or export)	20,000.00		100%	100%	Yes			
Hisense (Guangdong) Mould Plastic Company Limited ("Hisense Guangdong Mould Plastic")	Wholly-owned subsidiary	Jiangmen	Industrial	1,000.00	Limited liability company	Manufacture of moulds, hardwares, plastic furnitures (exclusive of worn-out plastics), and development, manufacture, assembly and sales of their parts, provision of after-sale and technical consultancy services related to above products, Import and export of various goods and technologies self-manufactured and distributed (items that permission is required by law, no operations shall be carried out until permitted by relevant departments)	1,000.00		100%	100%	Yes			

## Notes to the Financial Statements for 2015

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

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

#### (1) Major subsidiaries (continued)

##### 1. Subsidiaries acquired from establishment or investment (continued)

Name of the subsidiary	Type of subsidiary	Place of registration	Nature of Business	Registered capital	Entity type	Scope of business	Actual investment at the end of the period		% of voting rights held	Con-solidated or not	Minority interest	Gain or loss attributable to minority interest	Dividend attributed to minority interest
							Direct	Indirect					
Jiangmen Hisense Electrical Appliances Co., Ltd. ("Jiangmen Hisense Electrical Appliances") <sup>83</sup>	Wholly-owned subsidiary	Jiangmen	Industrial	1,000.00	Limited liability company	Manufacture of metal products (exclusive gold and silver products), plastic furniture (exclusive of worn-out plastics), moulds, heaters, disinfecting cabinets, CD and DVD cleaners Product, TV stands, electronic spare parts, automatic-equipment, range hoods, gas stoves, ovens, water heaters, steamers, microwaves, electric fans, dishwashers, communications wiring devices and satellite antenna, and provision of relevant after-sale and technical consultancy services (items that permission is required by law, no operations shall be carried out until permitted by relevant departments)		100%	100%	Yes			

## Notes to the Financial Statements for 2015

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

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

#### (1) Major subsidiaries (continued)

##### 2. Subsidiary acquired from business combination under common control

Name of the subsidiary	Type of subsidiary	Place of registration	Nature of Business	Registered capital	Entity type	Scope of business	Actual investment at the end of the period	Shareholding (%) Direct      Indirect	% of voting rights held	Con-solidated or not	Minority interest	Gain or loss attributable to minority interest	Dividend attributed to minority interest
Hisense (Beijing) Electric Co., Ltd. ("Beijing Refrigerator")	Subsidiary	Beijing	Industrial	8,571.00	Limited liability company	Manufacture of refrigerator products and other household appliances; sale of self-manufactured products; import and export of goods and technologies, and provision of import and export agency services	9,210.12	55%	55%	Yes	8,018.63	-59.55	720.00
Hisense (Shandong) Airconditioning Co., Ltd. ("Shandong Airconditioning")	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) Airconditioning 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	-431.07	-4,385.93	
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	7,686.69	1,577.11	412.12
Hisense (Nanjing) Electric Co., Ltd. ("Nanjing Refrigerator")	Subsidiary	Nanjing	Industrial	12,869.15	Limited liability company	Research and development, manufacture and sale of fluorine-free refrigeration products and other household appliances. Import and export of various goods and technologies self-manufactured and distributed	10,173.67	60%	60%	Yes	5,413.14	-396.21	

## Notes to the Financial Statements for 2015

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

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

#### (1) Major subsidiaries (continued)

##### 2. Subsidiary acquired from business combination under common control (continued)

- \*1 The Company holds 60% equity interests in Guangdong Air-conditioner and 70% equity interests in Huaao Electronics, however as the Company has committed to provide financial support to these companies and bear 100% of their losses, therefore the long-term equity investment was accounted for 100% shareholding.
- \*2 The Company holds 55% equity interests in Combine. As Combine has declared in liquidation and reorganization, therefore it has not been included in the consolidated financial statements.
- \*3 The Company's subsidiary, Hisense Home Appliances, invested and established Jiangmen Hisense Electrical Appliances on 28 December 2015, with registered capital of RMB10,000,000.00. As at the date of the statement, Hisense Home Appliances does not pay the registered capital.

##### 3. Illustration of changes in scope of business combination

- (1) Subsidiaries newly consolidated during the period

Unit: RMB

Name	Net assets as at the end of the period	Net profit for the period
Jiangmen Hisense Electrical Appliances		

- (2) Disposal of subsidiaries

Name of the subsidiary	Consideration of disposal	Proportion of equity disposed (%)	Equity disposal method	Date of losing control	Basis of losing control	Difference between consideration of disposal and share of net assets attributable to the Group on the consolidation level
Hisense Home Appliance (Europe) Research & Development Center GmbH	354,760.00	100.00	Transfer	December 2015	Completion of equity transfer formalities	55,228.61
Foshan Shunde Kelon Household Electrical Appliance Company Limited <sup>†1</sup>		100.00	De-registration	December 2015	Cancellation by the Company	

## Notes to the Financial Statements for 2015

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

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

#### (1) Major subsidiaries (continued)

##### 3. Illustration of changes in scope of business combination (continued)

##### (2) Disposal of subsidiaries (continued)

Name of the subsidiary	Residual equity interests on the Date when Control is lost (%)	Carrying amount of residual Equity interest on the date when control is lost	Fair value of Residual equity interest on the date when control is lost	Gains or losses arising from the re-measurement of residual equity interests at fair value	Determination and key assumptions of the fair value of residual equity interests on the date when the control is lost	The amount of other consolidated income relating to the equity investment of the original company taken into gains and losses of investment
Hisense Home Appliance (Europe) Research & Development Center GmbH						-40,631.29
Foshan Shunde Kelon Household Electrical Appliance Company Limited						

\*1: As at the reporting date, Foshan Shunde Kelon Household Electrical Appliance Company Limited has completed cancellation of tax registration but has not completed the industrial and commercial cancellation.

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

Unit: RMB'0000

Name of the subsidiary	Closing balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Refrigerator Marketing Company	415,948.26	2,237.83	418,186.09	396,231.99		396,231.99
Air-conditioner Marketing Company	317,257.31	733.87	317,991.18	310,507.41		310,507.41

(Continued)

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



## Notes to the Financial Statements for 2015

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

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

#### (1) Major subsidiaries *(continued)*

##### 4. Major financial information of the principal non-wholly-owned subsidiaries *(continued)*

Name of the subsidiary	Amount incurred during current year				Amounts incurred in previous year			
	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Refrigerator Marketing Company	786,294.65	697.64	697.64	40,040.97	658,255.99	1,623.16	1,623.16	9,638.90
Air-conditioner Marketing Company	590,916.88	-6,054.15	-6,054.15	-25,815.94	673,619.51	4,255.73	4,255.73	30,878.56

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

Nil.

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

*Unit: RMB*

Major items in the financial statements	Currency	Balances denominated in foreign currency	Exchange rate	Balances denominated in RMB
Cash at bank and on hand	HKD	14,086,932.13	0.83778	11,801,750.00
Net accounts receivable	HKD	437,041,443.73	0.83778	366,144,580.73
Other payables	HKD	762,690,470.14	0.83778	638,966,822.07
Revenue from principal operations	HKD	4,646,662,184.40	0.813325	3,779,246,521.13
Administrative expenses	HKD	1,997,591.04	0.813325	1,624,690.73

Notes to exchange rate:

Consolidated overseas operating entities that are accounted for in foreign currency include Pearl River Refrigerator, Kelon Development, KII and Kelon Japan. The Company has translated the items of assets and liabilities at spot exchange rate on the balance sheet date; items under shareholder's equity (other than unallocated profits) were translated at spot exchange rate, and items such as revenue and fee under profit and loss were translated at average exchange rate. The unallocated profits in opening balances are the unallocated profits in closing balances after translation in last year and the unallocated profits in closing balances are presented as the allocated balances after translation. The difference between assets and liabilities and shareholder's equity would arise the exchange difference through translation and was recognized as Other comprehensive income and presented separately under shareholder's equity in the balance sheet.

## Notes to the Financial Statements for 2015

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

### 7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unless otherwise specified, opening balances refer to balances as at 1 January 2015, whereas closing balances refer to balances as at 31 December 2015, and the current period refers to 2015, whereas the previous period refers to 2014 in the following notes (including major notes to the financial statements of the Company):

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

Item	Closing balance			Opening balance		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
Cash on hand:						
RMB	28,228.78	1.00000	28,228.78	10,000.00	1.00000	10,000.00
Subtotal of cash:			<b>28,228.78</b>			<b>10,000.00</b>
Bank deposits:						
RMB	964,341,992.87	1.00000	964,341,992.87	821,945,447.61	1.00000	821,945,447.61
HKD	611,326.77	0.83778	512,157.40	589,349.85	0.78887	464,920.48
USD	6,908,707.14	6.49366	44,862,826.06	7,363,232.04	6.11900	45,055,608.01
JPY	158,386.00	0.05388	8,533.05	158,386.00	0.05137	8,136.45
EUR	339,016.73	7.09519	2,405,388.38	341,318.49	7.45560	2,544,734.41
Others	3.82		19.63	2,202.38		9,908.16
Subtotal of bank deposits:			<b>1,012,130,917.39</b>			<b>870,028,755.12</b>
Other cash at bank and on hand:						
RMB	2,251,000.00	1.00000	2,251,000.00	625,000.00	1.00000	625,000.00
Subtotal of other cash at bank and on hand:			<b>2,251,000.00</b>			<b>625,000.00</b>
<b>Total</b>			<b>1,014,410,146.17</b>			<b>870,663,755.12</b>

Notes to cash at bank and on hand:

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

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

Item	Closing balance	Opening balance
Security deposit	2,251,000.00	625,000.00
<b>Total</b>	<b>2,251,000.00</b>	<b>625,000.00</b>

#### 2. Financial assets at fair value through profit or loss

##### (1) Category

Item	Closing balance	Opening balance
Financial assets held-for-trading		162,460.00
Including: Derivative financial assets		162,460.00
<b>Total</b>		<b>162,460.00</b>

## Notes to the Financial Statements for 2015

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

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

#### 2. Financial assets at fair value through profit or loss (continued)

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

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

#### 3. Notes receivable

##### (1) Classification of notes receivable

Category	Closing balance	Opening balance
Bank acceptance notes	2,263,591,212.12	967,193,183.44
Commercial acceptance notes	26,114,836.79	24,603,754.38
<b>Total</b>	<b>2,289,706,048.91</b>	<b>991,796,937.82</b>

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

Item	Pledged amounts as at the end of the year	
	Closing balance	Opening balance
Bank acceptance notes	1,329,834,954.24	365,731,397.56
<b>Total</b>	<b>1,329,834,954.24</b>	<b>365,731,397.56</b>

Whereas: the top five notes receivables are as follows:

Issuer	Date of issuance	Maturity date	Amount
Top 1	2015/11/20	2016/5/20	50,000,000.00
Top 2	2015/11/4	2016/5/4	50,000,000.00
Top 3	2015/8/28	2016/2/28	31,850,677.28
Top 4	2015/11/20	2016/5/20	28,366,489.00
Top 5	2015/11/4	2016/5/4	26,858,392.13

- (3) As at the end of the year, there was no discounted notes receivable.
- (4) As at the end of the year, there were no notes receivable that are reclassified to accounts receivable due to inability of the issuers to settle the notes.

## Notes to the Financial Statements for 2015

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

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

#### 3. Notes receivable (continued)

- (5) As at the end of the year, notes endorsed to other parties but not due yet amounted to RMB2,890,620,776.34; in 2014, notes endorsed to other parties but not due yet amounted to RMB6,064,065,561.52.

The top five notes receivables as follows:

Issuer	Date of issuance	Maturity date	Amount
Beijing Jingdong Century Trading Co., Ltd	2015/7/24	2016/1/27	43,875,289.00
Suning Procurement Center of Suning Commerce Group Co., Ltd	2015/7/6	2016/1/6	16,770,145.14
Zhengzhou Huiji Xinji Frozen Product Big World Sanhe Commercial Firm	2015/11/27	2016/5/27	14,410,000.00
Suning Procurement Center of Suning Commerce Group Co., Ltd.	2015/7/6	2016/1/6	11,707,940.20
Qiannan Ruixing Electric Co., Ltd.	2015/11/27	2016/5/27	11,348,144.35

- (6) Please see note 8 “Related Parties and Related Party Transactions” for details of notes receivables from related parties as at the end of the year.

#### 4. Accounts receivable

- (1) *Accounts receivable by category:*

Category	Closing balance			
	Book value		Provision for bad debts	
	Amount	%	Amount	%
Individually significant and subject to separate provision for bad debts				
Ageing analysis Greencool Companies	2,211,818,987.20	100.00	125,222,568.20	5.66
Subtotal	<b>2,211,818,987.20</b>	<b>100.00</b>	<b>125,222,568.20</b>	<b>5.66</b>
Individually insignificant but subject to separate provision for bad debts				
<b>Total</b>	<b>2,211,818,987.20</b>	<b>100.00</b>	<b>125,222,568.20</b>	<b>5.66</b>

## Notes to the Financial Statements for 2015

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

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

#### 4. Accounts receivable (continued)

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

Continued from above table

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

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

Aging	Closing balance			Opening balance		
	Book value		Provision for bad debts	Book value		Provision for bad debts
	Amount	%		Amount	%	
Within three months	2,050,051,659.69	92.69		1,939,033,166.75	90.99	
Over three months but within six months	33,702,888.63	1.52	3,370,288.86	41,524,824.98	1.95	4,152,482.50
Over six months but within one year	12,424,319.08	0.56	6,212,159.54	15,771,755.40	0.74	7,885,877.70
Over one year	115,640,119.80	5.23	115,640,119.80	134,718,629.69	6.32	134,718,629.69
<b>Total</b>	<b>2,211,818,987.20</b>	<b>100.00</b>	<b>125,222,568.20</b>	<b>2,131,048,376.82</b>	<b>100.00</b>	<b>146,756,989.89</b>

Movements in bad debt provision for accounts receivable

Year	Opening balance	Provision for the year	Decrease for the year		Closing balance
			Reversal	Write-off	
2015	146,756,989.89	8,275,590.17	412,740.51	29,397,271.35	125,222,568.20

##### (2) Accounts receivable that are written off

Name	Nature	Amount	Reason for write-off	Whether or not arising from related party transactions
Unrelated party	Payment for goods	29,397,271.35	Not recoverable due to long aging	No
<b>Total</b>		<b>29,397,271.35</b>	—	—

## Notes to the Financial Statements for 2015

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

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

#### 4. Accounts receivable (continued)

##### (2) Accounts receivable that are written off (continued)

Whereas: major accounts receivable written off are as follows:

Name	Nature	Amount	Reason for write-off	The procedure involved in performing write-off	Whether or not arising from related party transactions
Shenzhen Xin Chu Yuan Electronics Technology Co., Ltd.	Payment for goods	4,716,221.76	Not recoverable due to long aging	Approval from Board of directors	No
<b>Total</b>		<b>4,716,221.76</b>	—	—	—

(4) As at 31 December 2015, there was no amounts due from shareholder who holds 5% or more (including 5%) voting shares of the Company in accounts receivable. As at 31 December 2014, there was no amounts due from shareholder who holds 5% or more (including 5%) voting shares of the Company in accounts receivable.

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

No.	Relationship with the Company	Amount	Ageing	Percentage of the total accounts receivable (%)
Top 1	Unrelated party	273,613,998.08	Within three months	12.37
Top 2	Unrelated party	251,064,881.09	Within three months	11.35
Top 3	Related Party	218,756,046.18	Within three months	9.89
Top 4	Unrelated party	192,682,011.91	Within three months	8.71
Top 5	Related Party	99,838,341.12	Within three months	4.51
<b>Total</b>		<b>1,035,955,278.38</b>	—	<b>46.83</b>

(6) Please see note 8 “Related Parties and Related Party Transactions” for details of accounts receivable from related parties as at the end of the year.

(7) As at the end of the year, the balance of accounts receivable amounted to RMB323,908,065.90 were used for factoring secured borrowings to secure borrowings of RMB223,496,764.71.

## Notes to the Financial Statements for 2015

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

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

#### 5. Prepayments

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

Aging	Closing balance		Opening balance	
	Amount	%	Amount	%
Within one year	167,011,167.51	98.36	493,371,989.78	99.03
One to two years	2,793,205.35	1.64	4,837,316.90	0.97
<b>Total</b>	<b>169,804,372.86</b>	<b>100.00</b>	<b>498,209,306.68</b>	<b>100.00</b>

(2) *Top five prepayments*

No.	Relationship with the Company	Amount	Ageing	Reason for non-settlement
Top 1	Unrelated party	31,729,874.21	Within one year	Normal settlement
Top 2	Unrelated party	25,377,088.60	Within one year	Normal settlement
Top 3	Unrelated party	10,318,390.41	Within one year	Normal settlement
Top 4	Unrelated party	7,048,386.00	Within one year	Normal settlement
Top 5	Unrelated party	4,200,000.00	Within one year	Normal settlement
<b>Total</b>		<b>78,673,739.22</b>	—	

(3) As at 31 December 2015, there was no amounts due from shareholder who holds 5% or more (including 5%) voting shares of the Company in the prepayments. As at 31 December 2014, there was no amounts due from shareholder who holds 5% or more (including 5%) voting shares of the Company in the prepayments.

## Notes to the Financial Statements for 2015

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

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

#### 6. Other receivables

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

Category	Closing balance			
	Book value		Provision for bad debts	
	Amount	%	Amount	%
Individually significant and subject to separate provision for bad debts				
Ageing analysis	107,440,722.97	32.35	38,028,986.45	35.40
Greencool Companies	224,630,200.00	67.65	60,030,000.00	26.72
<b>Subtotal</b>	<b>332,070,922.97</b>	<b>100.00</b>	<b>98,058,986.45</b>	<b>29.53</b>
Individually insignificant but subject to separate provision for bad debts				
<b>Total</b>	<b>332,070,922.97</b>	<b>100.00</b>	<b>98,058,986.45</b>	<b>29.53</b>

Continued from above table:

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

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

Aging	Closing balance			Opening balance		
	Book value		Provision for bad debts	Book value		Provision for bad debts
	Amount	%		Amount	%	
Within three months	66,572,325.54	20.05		144,145,632.73	21.36	
Over three months but within six months	1,633,060.48	0.49	163,306.05	2,912,828.41	0.43	291,282.84
Over six months but within one year	2,739,313.11	0.82	1,369,656.56	3,454,638.05	0.51	1,727,319.01
Over one year	36,496,023.84	10.99	36,496,023.84	27,641,395.47	4.10	27,641,395.47
<b>Total</b>	<b>107,440,722.97</b>	<b>32.35</b>	<b>38,028,986.45</b>	<b>178,154,494.66</b>	<b>26.40</b>	<b>29,659,997.32</b>



## Notes to the Financial Statements for 2015

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

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

#### 6. Other receivables (continued)

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

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

Name	Closing balance		Opening balance	
	Amount	Provision for bad debts	Amount	Provision for bad debts
Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool")			12,289,357.71	12,289,357.71
Jiangxi Kesheng Trading Co., Ltd. ("Jiangxi Kesheng")			27,462,676.72	20,103,988.97
Jinan San Ai Fu Chemical Co., Ltd. ("Jinan San Ai Fu")	81,600,000.00		121,496,535.45	24,368,160.49
Greencool Technology Development (Shenzhen) Co., Ltd. ("Shenzhen Greencool Technology")			32,000,000.00	15,519,462.85
Greencool Environmental Engineering Shenzhen Co., Ltd. ("Shenzhen Greencool Environmental")			33,000,000.00	16,004,446.06
Jiangxi Keda Plastic Technology Co. Ltd. ("Jiangxi Keda")	13,000,200.00		13,000,200.00	
Zhuhai Longjia Refrigerating Plant Co., Ltd. ("Zhuhai Longjia")	28,600,000.00		28,600,000.00	
Zhuhai Defa Air-conditioner Fittings Co., Ltd. ("Zhuhai Defa")	21,400,000.00		21,400,000.00	
Wuhan Changrong Electrical Appliance Co., Ltd. ("Wuhan Changrong")	20,000,000.00		20,000,000.00	
Beijing Deheng Solicitors ("Deheng Solicitors")	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00
Shangqiu Bingxiong Freezing Facilities Co., Ltd. ("Shangqiu Bingxiong")	58,030,000.00	58,030,000.00	58,030,000.00	58,030,000.00
<b>Total</b>	<b>224,630,200.00</b>	<b>60,030,000.00</b>	<b>369,278,769.88</b>	<b>148,315,416.08</b>

## Notes to the Financial Statements for 2015

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

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

#### 6. Other receivables (continued)

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

Year	Opening balance	Provision for the year	Decrease for the year		Closing balance
			Reversal	Write-off	
2015	181,775,413.40	4,568,989.13		88,285,416.08	98,058,986.45

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

Name	Nature	Amount	Reasons for write-off	Whether or not arising from related party transactions
Unrelated party	Debt/Balance due	88,285,416.08	Not recoverable due to long aging	No
<b>Total</b>		<b>88,285,416.08</b>	—	—

Whereas: major other receivables written-off are as follows:

Name	Nature	Amount	Reasons for write-off	The procedure involved in performing write-off	whether or not arising from related party transactions
Hainan Greencool	Debt/Balance due	12,289,357.71	Not recoverable due to long aging	Approval from Board of directors	No
Jiangxi Kesheng	Debt/Balance due	20,103,988.97	Not recoverable due to long aging	Approval from Board of directors	No
Jinan San Ai Fu	Debt/Balance due	24,368,160.49	Not recoverable due to long aging	Approval from Board of directors	No
Shenzhen Greencool Technology	Debt/Balance due	15,159,462.85	Not recoverable due to long aging	Approval from Board of directors	No
Shenzhen Greencool Environmental	Debt/Balance due	16,004,446.06	Not recoverable due to long aging	Approval from Board of directors	No
<b>Total</b>		<b>88,285,416.08</b>			

## Notes to the Financial Statements for 2015

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

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

#### 6. Other receivables (continued)

(4) As at 31 December 2015, there was no amounts due from shareholder that holds 5% or more (including 5%) voting shares of the Company in the balance of other receivables. As at 31 December 2014, there was no amounts due from shareholder that holds 5% or more (including 5%) voting shares of the Company in the balance of other receivables.

#### (5) Other receivables by nature

Nature	Closing balance	Opening balance
Inter-group current account payments	236,377,007.93	477,322,300.55
Personal borrowings	9,556,837.81	3,508,590.02
Security deposit	9,828,074.16	1,661,640.00
Others	76,309,003.07	192,334,409.49
<b>Total</b>	<b>332,070,922.97</b>	<b>674,826,940.06</b>

#### (6) Top five other receivables

No.	Relationship with the Company	Amount	Ageing	Percentage of the total other Receivables (%)
Top 1	“Specific third party”	81,600,000.00	Over three years	24.57
Top 2	“Specific third party”	58,030,000.00	Over three years	17.48
Top 3	“Specific third party”	28,600,000.00	Over three years	8.61
Top 4	“Specific third party”	21,400,000.00	Over three years	6.44
Top 5	“Specific third party”	20,000,000.00	Over three years	6.02
<b>Total</b>		<b>209,630,000.00</b>	—	<b>63.12</b>

From October 2001 to July 2005, the Greencool Companies through the third Parties incurred a series of unusual cash inflows and outflows with the Company. The companies are collectively the “specific third party”, please see note 8 (5) “The Greencool Companies had a series of transactions or unusual cash inflows and outflows through the following “Specific Third Party Companies” for details.

(7) Please see note 8 “Related Parties and Related Party Transactions” for details of other receivables from related parties as at the end of the year.

(8) In December 2015, the Qingdao Municipal Finance Bureau informed the company to return a total amount of RMB23,790,000 of “Subsidy of central high-energy-efficiency home appliance” for “Hisense brand” air conditioners, refrigerators and washing machines. The Company did not recognize the result of liquidation and will actively communicate with relevant authorities and procure them to re-cost the subsidy. Therefore, the Company has not adjusted its relevant accounts. If the Company returns the subsidy, the net profit of the Company will decrease by RMB 23,790,000.

## Notes to the Financial Statements for 2015

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

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

#### 7. Inventories

##### (1) Classification of inventories

Item	Closing balance		
	Book value	Provision for declines in value	Carrying amount
Raw materials	275,810,776.13	32,649,563.35	243,161,212.78
Works in progress	149,278,665.25	8,794,941.40	140,483,723.85
Finished goods	1,935,101,650.59	48,607,029.67	1,886,494,620.92
<b>Total</b>	<b>2,360,191,091.97</b>	<b>90,051,534.42</b>	<b>2,270,139,557.55</b>

Continued from above table

Item	Opening balance		
	Book value	Provision for declines in value	Carrying amount
Raw materials	355,829,763.12	30,884,089.84	324,945,673.28
Works in progress	158,031,735.66	8,685,770.52	149,345,965.14
Finished goods	2,516,821,812.70	75,191,675.31	2,441,630,137.39
<b>Total</b>	<b>3,030,683,311.48</b>	<b>114,761,535.67</b>	<b>2,915,921,775.81</b>

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

Inventories category	Opening balance	Provision for the year	Decrease for the year		Closing balance
			Reversal	Write-off	
Raw materials	30,884,089.84	2,528,378.38		762,904.87	32,649,563.35
Works in progress	8,685,770.52	109,170.88			8,794,941.40
Finished goods	75,191,675.31		26,468,671.10	115,974.54	48,607,029.67
<b>Total</b>	<b>114,761,535.67</b>	<b>2,637,549.26</b>	<b>26,468,671.10</b>	<b>878,879.41</b>	<b>90,051,534.42</b>

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

Item	Basis of the provision for declines in value of inventories	Reasons for the write-off of provision for declines in value of inventories during the year
Raw materials	The lower of the cost and net realizable value	Removal due to sales and consumption for production
Works in progress		
Finished goods		

## Notes to the Financial Statements for 2015

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

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

#### 8. Other current assets

Item	Closing balance	Opening balance
Bank's assets management product	200,000,000.00	
Others	267,872,305.65	287,019,824.65
<b>Total</b>	<b>467,872,305.65</b>	<b>287,019,824.65</b>

Notes to other current assets:

- (1) In order to effectively use the idle funds, the Company purchased principal-protected and return-guaranteed personal asset management products from the bank. The commencement date of investment was 31 December 2015 and the expiry date of investment was 1 February 2016. The investment yield was 4.00%;
- (2) Other current assets-others mainly represent value-added tax retained for deduction.

#### 9. Available-for-sale financial assets

##### (1) Available-for-sale financial assets

Item	Closing balance			Opening balance		
	Book value	Impairment provision	Carrying amount	Book value	Impairment provision	Carrying amount
Available-for-sale equity instrument	3,900,000.00		3,900,000.00	4,000,000.00		4,000,000.00
Including: Measured at cost	3,900,000.00		3,900,000.00	4,000,000.00		4,000,000.00
<b>Total</b>	<b>3,900,000.00</b>		<b>3,900,000.00</b>	<b>4,000,000.00</b>		<b>4,000,000.00</b>

Notes to available-for-sale financial assets: All the available-for-sale financial assets held by the Company are investments of equity interests in non-listed companies in PRC.

##### (2) Available-for-sale financial assets measured at cost as at the end of the year

Investee	Book value				Impairment provision				Shareholding in the investee (%)	Cash dividend in current year
	At the beginning of the year	Increase for the year	Decrease for the year	At the end of the year	At the beginning of the year	Increase for the year	Decrease for the year	At the end of the year		
Xinjiang Hisense Kelon Electrical Sales Co., Ltd. ("XinjiangKelon")	100,000.00		100,000.00							
Fujian Kelon Air-conditioner Sales Co., Ltd. ("Fujian Kelon")	100,000.00			100,000.00					2.00	
Hisense International Co., Ltd. ("Hisense International")	3,800,000.00			3,800,000.00					12.67	7,410,000.00
<b>Total</b>	<b>4,000,000.00</b>		<b>100,000.00</b>	<b>3,900,000.00</b>					<b>—</b>	<b>7,410,000.00</b>

## Notes to the Financial Statements for 2015

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

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

#### 10. Investments in joint ventures and associates

##### (1) Investments in joint ventures

Name of investee	Entity type	Registered place	Legal representative	Business nature	Registered capital	% of shareholding	Unit: RMB'0000	
							% of voting rights	Accounting treatment
Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd. ("Hisense-Whirlpool")	Limited liability company	Zhejiang	LEE IAN	Industrial	45,000.00	50.00	50.00	Equity method
Hisense Hitachi	Limited liability company	Shandong	Qing Shan Gong	Industrial	US\$46,000,000	49.00	49.00	Equity method

##### (2) Investments in associates

Name of investee	Entity type	Registered place	Legal representative	Business nature	Registered capital	% of shareholding	Unit: RMB'0000	
							% of voting rights	Accounting treatment
Huayi Compressor Company Limited ("Huayi Compressor") <sup>3</sup>	Joint stock company	Jiangxi	Liu Ti Bin	Industrial	55,962.40			
Attend Logistics Co., Ltd. ("Attend")	Limited liability company	Guangzhou	Ye Wei Long	Logistics	1,000.00	20.00	20.00	Equity method

Notes to investments in joint ventures and associates:

1. There was no significant difference between the significant accounting policies and accounting estimates of the joint ventures and associates and those of the Company.
2. Illustration of evidence of joint control over joint ventures: the production and operation of the enterprise are under joint management of the parties as required by the Articles of Associations of the joint venture.
3. During the reporting period, the Company sold all shares in Huayi Compressor and transferred its investment in Huayi Compressor.

## Notes to the Financial Statements for 2015

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

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

#### 10. Investments in joint ventures and associates (continued)

##### (3) Major financial information of the principal joint ventures

*Unit: RMB'0000*

Item	Closing balance/ Amount incurred during current year		Opening balance/ Amount incurred during previous year	
	Hisense Hitachi	Hisense- Whirlpool	Hisense Hitachi	Hisense- Whirlpool
Current assets	404,116.71	10,661.67	259,821.08	37,961.79
Including: Cash and cash equivalents	263,022.37	2,294.04	181,380.62	6,722.74
Non-current assets	43,732.01	26,533.61	40,554.98	36,222.75
Total assets	447,848.72	37,195.28	300,376.06	74,184.54
Current liabilities	189,408.03	16,412.50	97,777.20	39,884.46
Non-current liabilities	5,771.14		6,634.52	
Total liabilities	195,179.17	16,412.50	104,411.72	39,884.46
Minority interests	9,682.74		6,138.85	
Equity attributable to shareholders of parent	242,986.81	20,782.78	189,825.49	34,300.08
Share of net asset measured in proportion to shareholdings	119,063.53	10,391.39	93,014.49	17,150.04
Adjustment for:	2,613.05		2,965.78	
– Goodwill				
– Unrealized profits from intragroup transactions				
– others	2,613.05		2,965.78	
Carrying amount of investment in equity of joint ventures	121,676.58	10,391.39	95,980.27	17,150.04
Fair value of investment in equity of joint ventures with available quoted price				
Operating revenue	480,934.20	39,843.24	412,998.67	101,818.20
Financial expenses	-6,117.06	-369.97	-5,072.62	-208.26
Income tax expense	17,498.96		14,899.21	
Net profit	84,648.57	-13,517.30	71,087.05	-8,008.98
Net profit from discontinued operations				
Other comprehensive income				
Total comprehensive income	84,648.57	-13,517.30	71,087.05	-8,008.98
Dividend from joint ventures during current year	14,210.00		8,820.00	

## Notes to the Financial Statements for 2015

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

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

#### 10. Investments in joint ventures and associates (continued)

##### (4) Aggregate financial information of the insignificant associates

Unit: RMB'0000

Item	Closing balance/ Amount incurred during current year		Opening balance/ Amount incurred during previous year	
	Huayi Compressor	Attend	Huayi Compressor	Attend
Total carrying amount of investments		257.36	8,189.07	285.00
Amounts in aggregate in proportion to the shareholdings:				
– Net profit		-27.64	700.07	-31.92
– Other comprehensive income			-14.59	
– Total comprehensive income		-27.64	685.48	-31.92

#### 11. Long-term equity investment

Investee	Accounting treatment	Investment cost	Opening balance	Increase for the year	Decrease for the year	Closing balance	% Equity interest held	% voting rights held	Impairment provision	Impairment provided in the year	Cash dividend
1. Investment in joint ventures											
Hisense-Whirlpool	Equity method	225,000,000.00	171,500,403.47		67,586,516.45	103,913,887.02	50.00	50.00			
Hisense Hitachi	Equity method	332,821,597.45	959,802,671.02	399,063,187.08	142,100,000.00	1,216,765,858.10	49.00	49.00			142,100,000.00
2. Investment in associates											
Huayi Compressor	Equity method		81,890,655.26		81,890,655.26						
Attend	Equity method	2,000,000.00	2,850,040.45		276,432.42	2,573,608.03	20.00	20.00			
3. Other long-term equity investment											
Combine *1	Cost method	11,000,000.00	11,000,000.00			11,000,000.00	55.00	55.00	11,000,000.00		
<b>Total</b>		<b>570,821,597.45</b>	<b>1,227,043,770.20</b>	<b>399,063,187.08</b>	<b>291,853,604.13</b>	<b>1,334,253,353.15</b>			<b>11,000,000.00</b>		<b>142,100,000.00</b>

\*1 As Combine, a subsidiary of the Company, has declared in liquidation and reorganization, it has not been included in the consolidated financial statements and impairment has been fully provided for the investment cost;

at the end of the reporting period, all the joint ventures and associates of the Company are unlisted companies.



## Notes to the Financial Statements for 2015

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

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

#### 11. Long-term equity investment (continued)

Whereas:

Item	Closing balance	Opening balance
Listed investment:		
Equity method		81,890,655.26
Associate		81,890,655.26
<b>Total</b>		<b>81,890,655.26</b>
Non-listed investment:		
Equity method	1,323,253,353.15	1,134,153,114.94
Joint venture	1,320,679,745.12	1,131,303,074.49
Associate	2,573,608.03	2,850,040.45
Cost method		
<b>Total</b>	<b>1,323,253,353.15</b>	<b>1,134,153,114.94</b>

#### 12. Investment properties

##### (1) Investment properties measured at cost

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Total cost	68,689,779.02			68,689,779.02
1. Buildings and structures	68,689,779.02			68,689,779.02
2. Total accumulated depreciation and amortization	37,230,362.61	2,501,290.34		39,731,652.95
1. Buildings and structures	37,230,362.61	2,501,290.34		39,731,652.95
3. Total net book value	31,459,416.41			28,958,126.07
1. Buildings and structures	31,459,416.41			28,958,126.07
4. Total accumulated provision for impairment				
1. Buildings and structures				
5. Total carrying amount	31,459,416.41			28,958,126.07
1. Buildings and structures	31,459,416.41			28,958,126.07

##### (2) Notes to investment properties

- (1) Depreciation expense for 2015 amounted to RMB2,501,290.34 and RMB2,500,541.34 for 2014.
- (2) As at 31 December 2015, no investment properties were pledged by the Company.
- (3) As at 31 December 2015, the Company has not obtained ownership certificates for investment properties with cost of RMB13,794,500, accumulated depreciation of RMB8,670,400 and net carrying amount of RMB5,124,100.

Breakdowns are as follows:

Item	Carrying amount
Mee King Building	5,124,135.62
<b>Total</b>	<b>5,124,135.62</b>

## Notes to the Financial Statements for 2015

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

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

#### 12. Investment properties (continued)

##### (2) Notes to investment properties (continued)

- (4) As at 31 December 2015, the Company has not identified any investment properties with the recoverable amount lower than its carrying amount and therefore no provision has been made for impairment.
- (5) Among the investment properties, all buildings and structures are located in the Mainland China with useful lives ranging from 20 to 50 years.

#### 13. Fixed assets

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

Item	Buildings and structures	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Moulds	Total
1. Cost						
1. Opening balance	2,025,094,496.39	2,795,037,147.95	377,207,871.47	28,573,537.15	1,075,858,174.26	6,301,771,227.22
2. Additions in the year	364,506,377.04	507,149,361.09	39,250,599.49	7,648,405.23	311,649,397.18	1,230,204,140.03
(1) Purchase	32,170,516.82	139,356,002.95	29,577,021.84	7,018,559.93	142,059,441.62	350,181,543.16
(2) Transferred from construction in progress	332,335,860.22	367,793,358.14	9,673,577.65	629,845.30	169,589,955.56	880,022,596.87
3. Reductions in the year	3,587,054.85	276,232,405.01	36,853,420.19	3,368,302.88	74,596,060.00	394,637,242.93
(1) Disposal or retirement	3,587,054.85	276,232,405.01	36,853,420.19	3,368,302.88	74,596,060.00	394,637,242.93
4. Closing balance	2,386,013,818.58	3,025,954,104.03	379,605,050.77	32,853,639.50	1,312,911,511.44	7,137,338,124.32
2. Accumulated depreciation						-
1. Opening balance	873,554,957.30	1,466,982,418.66	247,494,269.88	15,163,173.04	637,134,429.12	3,240,329,248.00
2. Additions in the year	94,562,900.51	189,423,175.87	29,966,019.50	4,048,870.23	253,927,636.50	571,928,602.61
(1) Provision	94,562,900.51	189,423,175.87	29,966,019.50	4,048,870.23	253,927,636.50	571,928,602.61
3. Reductions in the year	2,637,650.18	238,201,265.58	18,373,311.70	2,986,411.05	50,199,837.31	312,398,475.82
(1) Disposal or retirement	2,637,650.18	238,201,265.58	18,373,311.70	2,986,411.05	50,199,837.31	312,398,475.82
4. Closing balance	965,480,207.63	1,418,204,328.95	259,086,977.68	16,225,632.22	840,862,228.31	3,499,859,374.79
3. Impairment provision						-
1. Opening balance	34,115,252.48	85,060,237.08	1,592,612.69	444,847.19	8,189,938.37	129,402,887.81
2. Additions in the year	81,732.44	15,313,681.88	74,019.41	716.05	600,000.00	16,070,149.78
(1) Provision	81,732.44	15,313,681.88	74,019.41	716.05	600,000.00	16,070,149.78
3. Reductions in the year	81,732.44	33,047,631.17	36,086.66	126,954.63	4,489,580.84	37,781,985.74
(1) Disposal or retirement	81,732.44	33,047,631.17	36,086.66	126,954.63	4,489,580.84	37,781,985.74
4. Closing balance	34,115,252.48	67,326,287.79	1,630,545.44	318,608.61	4,300,357.53	107,691,051.85
4. Carrying amount						-
1. Opening carrying amount	1,117,424,286.61	1,242,994,492.21	128,120,988.90	12,965,516.92	430,533,806.77	2,932,039,091.41
2. Closing carrying amount	1,386,418,358.47	1,540,423,487.29	118,887,527.65	16,309,398.67	467,748,925.60	3,529,787,697.68

For 2015, the fixed assets transferred from construction in progress amounted to RMB880,022,596.87, for 2014, the fixed assets transferred from construction in progress amounted to RMB729,272,087.74.

- (2) Depreciation expense for 2015 amounted to RMB571,928,602.61 and amounted to RMB469,230,864.51 for 2014.
- (3) As at the end of the year, no fixed asset was idle transitorily.
- (4) As at the end of the year, no fixed asset was held under finance lease.

## Notes to the Financial Statements for 2015

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

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

#### 13. Fixed assets (continued)

##### (5) The rent out fixed asset under operating lease

Item	Closing carrying amount
Buildings and structures	40,401,477.08
<b>Total</b>	<b>40,401,477.08</b>

*Note: Part of the above buildings and structures were rent out, which does not fulfill the definition of investment properties.*

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

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

Item	Carrying amount	Reasons of not obtaining the ownership certificate
Buildings and structures	295,586,071.00	Achieved scheduled availability and were reclassified as fixed assets, the issuance of ownership certificate is in progress

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

#### 14. Constructions in progress

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

Item	Closing balance			Opening balance		
	Book value	Impairment provision	Net carrying amount	Book value	Impairment provision	Net carrying amount
Yangzhou Refrigerator	12,606,059.96		12,606,059.96	15,467,782.11		15,467,782.11
Chengdu Refrigerator	5,893,772.32		5,893,772.32	6,292,337.96		6,292,337.96
Shandong Air-conditioning	1,593,943.45		1,593,943.45	4,848,447.07		4,848,447.07
Shandong Refrigerator	13,389,906.96		13,389,906.96	91,572,755.37		91,572,755.37
Zhejiang Air-conditioning	5,467,547.79		5,467,547.79	34,548,485.95		34,548,485.95
Hisense Guangdong Air-Conditioner	4,380,339.43		4,380,339.43	82,802,325.49		82,802,325.49
Hisense Home Appliance	12,499,451.04		12,499,451.04	7,777,269.95		7,777,269.95
Others	16,777,745.11	7,770,917.67	9,006,827.44	16,013,386.92	7,770,917.67	8,242,469.25
<b>Total</b>	<b>72,608,766.06</b>	<b>7,770,917.67</b>	<b>64,837,848.39</b>	<b>259,322,790.82</b>	<b>7,770,917.67</b>	<b>251,551,873.15</b>

## Notes to the Financial Statements for 2015

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

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

#### 14. Constructions in progress (continued)

##### (2) Movements in major projects of construction in progress

Name of project	Budget	Opening balance	Increase for the year	Transferred to fixed assets	Other reductions	% Contribution in budget	Progress	Source of funding	Closing balance
MES system of refrigerator companies	13,700,000.00		3,731,247.20			27.24	Not completed	Self-funding	3,731,247.20
Production line of U-shell moulding of Chengdu Refrigerator	3,093,162.54		3,093,162.54			100.00	Not completed	Self-funding	3,093,162.54
Plants of Hisense Guangdong Air-Conditioner	310,680,748.00	17,707,714.85	276,507,082.74	294,214,797.59		94.70	completed	Self-funding	
OAK punch presses of Hisense Guangdong Air-Conditioner (6 units)	34,901,285.90	29,098,702.50	5,802,583.40	34,901,285.90		100.00	completed	Self-funding	
Technology transformation for production line equipment of Zhejiang Air-conditioning	70,000,000.00	21,531,850.20	46,186,847.02	64,841,049.43		96.74	Not completed	Self-funding	2,877,647.79
High-speed punch of Shandong Airconditioning	14,550,522.41		14,550,522.41	14,550,522.41		100.00	completed	Self-funding	
Production line of Shangqiu Kelon		7,770,917.67					Pending retirement	Self-funding	7,770,917.67
Others		183,213,605.60	398,752,783.70	471,514,941.54	55,315,656.90				55,135,790.86
<b>Total</b>		<b>259,322,790.82</b>	<b>748,624,229.01</b>	<b>880,022,596.87</b>	<b>55,315,656.90</b>				<b>72,608,766.06</b>

Notes to movements in constructions in progress:

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

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

Items	Opening balance	Increase for the year	Decrease for the year	Closing balance	Reasons
Production line of Shangqiu Kelon	7,770,917.67			7,770,917.67	
<b>Total</b>	<b>7,770,917.67</b>			<b>7,770,917.67</b>	

## Notes to the Financial Statements for 2015

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

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

#### 15. Intangible assets

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

Item	Land use rights	Trademarks	Know-how	Others	Total
1. Cost					
1. Opening balance	808,342,663.63	524,409,198.95	69,420,777.22	57,208,229.65	1,459,380,869.45
2. Additions in the year	37,298,258.26		25,296.51	14,822,429.17	52,145,983.94
(1) Purchase	37,298,258.26		25,296.51	14,822,429.17	52,145,983.94
3. Reductions in the year	1,467,575.65				1,467,575.65
(1) Disposal	1,467,575.65				1,467,575.65
4. Closing balance	844,173,346.24	524,409,198.95	69,446,073.73	72,030,658.82	1,510,059,277.74
2. Accumulated amortization					
1. Opening balance	223,230,839.37	134,130,255.55	56,048,916.24	38,432,794.20	451,842,805.36
2. Additions in the year	17,343,989.95		4,349,130.08	6,890,943.44	28,584,063.47
(1) Provision	17,343,989.95		4,349,130.08	6,890,943.44	28,584,063.47
3. Reductions in the year	1,340,766.06				1,340,766.06
(1) Disposal	1,340,766.06				1,340,766.06
4. Closing balance	239,234,063.26	134,130,255.55	60,398,046.32	45,323,737.64	479,086,102.77
3. Closing balance					
1. Opening balance	50,012,843.19	286,061,116.40		519,447.21	336,593,406.80
2. Additions in the year					
(1) Provision					
3. Reductions in the year					
(1) Disposal					
4. Closing balance	50,012,843.19	286,061,116.40		519,447.21	336,593,406.80
4. Carrying amount					
1. Opening carrying amount	535,098,981.07	104,217,827.00	13,371,860.98	18,255,988.24	670,944,657.29
2. Closing carrying amount	554,926,439.79	104,217,827.00	9,048,027.41	26,187,473.97	694,379,768.17

##### (2) Notes to intangible assets:

- (1) Amortization of intangible assets amounted to RMB28,584,063.47 for 2015, compared to that of RMB26,910,027.78 in 2014.
- (2) As at the end of the year, no land use rights were pledged.
- (3) Trademarks were not amortized due to indefinite useful lives, and no provision was made for impairment of trademarks after tested for impairment.

#### 16. Long-term prepaid expenses

Item	Opening balance	Additions in the year	Amortization in the year	Other deductions	Closing balance	Reasons for other deductions
Others	12,690,220.43	4,205,863.90	6,296,347.74		10,599,736.59	
<b>Total</b>	<b>12,690,220.43</b>	<b>4,205,863.90</b>	<b>6,296,347.74</b>		<b>10,599,736.59</b>	

Notes to long-term prepaid expenses: Long-term prepaid expenses-others mainly represented the overhaul expenses for the fixed assets.

## Notes to the Financial Statements for 2015

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

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

#### 17. Deferred tax assets/deferred tax liabilities

Deferred tax assets and liabilities are presented on a net basis.

(1) *Net of deferred tax assets or liabilities and corresponding deductible or taxable temporary differences*

Item	Net of deferred tax assets or liabilities at the end of the reporting period	Deductible or taxable temporary differences arising from offsetting deferred tax assets and liabilities at the end of the reporting period	Net of deferred tax assets or liabilities at the beginning of the reporting period	Deductible or taxable temporary differences arising from offsetting deferred tax assets and liabilities at the beginning of the reporting period
<b>Deferred tax assets:</b>				
Provision for assets impairment	30,733,323.61	128,573,303.09	29,423,799.12	141,992,086.22
Financial assets held-for-trading	95,140.00	413,400.00	140,541.50	778,150.00
Others	72,262,595.16	481,750,634.40	77,249,007.61	466,938,900.24
<b>Subtotal</b>	<b>103,091,058.77</b>	<b>610,737,337.49</b>	<b>106,813,348.23</b>	<b>609,709,136.46</b>
<b>Deferred tax liabilities:</b>				
Accelerated depreciation	347,710.13	2,318,067.57	165,600.70	1,104,004.67
<b>Subtotal</b>	<b>347,710.13</b>	<b>2,318,067.57</b>	<b>165,600.70</b>	<b>1,104,004.67</b>

(2) *Details of offsetting deferred tax assets and liabilities*

Item	Amount for the year	Amount for previous year
Financial assets held-for-trading		140,541.50

(3) *The deductible tax losses for unrecognized deferred tax assets will expire in following timeframe:*

Year	Closing balance	Opening balance	Remark
2016	2,860,620.93	2,957,949.57	
2017	35,060,859.68	45,951,993.00	
2018	39,298,092.37	39,470,505.84	
2019	179,470,123.94	177,545,662.43	
2020	411,304,654.55		
Infinite	45,091,586.10	43,922,092.59	
<b>Total</b>	<b>713,085,937.57</b>	<b>309,848,203.43</b>	

## Notes to the Financial Statements for 2015

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

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

#### 18. Short-term borrowings

##### (1) Short-term borrowings by category

Item	Closing balance	Opening balance
Secured borrowings <sup>*1</sup>	223,496,764.71	253,985,142.45
<b>Total</b>	<b>223,496,764.71</b>	<b>253,985,142.45</b>

Notes to the categories of short-term borrowings:

<sup>\*1</sup> Secured borrowings represented the borrowings incurred by the pledged accounts receivable of the subsidiaries of the Company, and all were US dollar borrowings. Please see note 7(47) "Assets with limited ownership or use rights" for details of the categories and amounts of pledged borrowings.

(2) As at the end of the period, the Company had no outstanding short-term borrowings due.

#### 19. Financial liabilities at fair value through profit or loss

Item	Closing balance	Opening balance
Financial liabilities held-for-trading	9,767,732.75	7,391,136.66
Including: Derivative financial liabilities	9,767,732.75	7,391,136.66
<b>Total</b>	<b>9,767,732.75</b>	<b>7,391,136.66</b>

Notes to financial liabilities held-for-trading:

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

#### 20. Notes payable

Category	Closing balance	Opening balance
Bank acceptance notes	1,838,720,198.27	970,754,476.87
Commercial acceptance notes	1,092,454,306.25	557,441,049.54
<b>Total</b>	<b>2,931,174,504.52</b>	<b>1,528,195,526.41</b>

Particulars of notes payable:

- (1) As at 31 December 2015, there were no amount due to shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of notes payable. As at 31 December 2014, there were no amount due to shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of notes payable.
- (2) There were no outstanding notes payable due as at the end of the year.
- (3) Please see note 8 "Related Parties and Related Party Transactions" for details of notes payable to related parties as at the end of the year.

## Notes to the Financial Statements for 2015

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

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

#### 21. Accounts payable

##### (1) Ageing analysis of accounts payable

Ageing	Closing balance	Opening balance
Within one year	2,765,359,219.91	3,335,201,948.30
Over one year	112,932,456.62	130,652,635.30
<b>Total</b>	<b>2,878,291,676.53</b>	<b>3,465,854,583.60</b>

(2) As at 31 December 2015, 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 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.

(3) Please see note 8 “Related Parties and Related Party Transactions” for details of accounts payable to related parties as at the end of the year.

#### 22. Advances from customers

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

Ageing	Closing balance	Opening balance
Within one year	647,441,341.44	703,294,210.41
Over one year	65,492,985.12	62,587,165.44
<b>Total</b>	<b>712,934,326.56</b>	<b>765,881,375.85</b>

(2) As at 31 December 2015, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of advances from customers. As at 31 December 2014, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of advances from customers.

(3) Please see note 8 “Related Parties and Related Party Transactions” for details of amount due to related parties in the balance of advances from customers as at the end of the year.

#### 23. Compensations payable to employee

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

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Short-term compensations	241,975,071.22	2,292,168,562.38	2,288,126,541.81	246,017,091.79
2. Post-employment benefit-defined contribution plans	3,702,760.52	203,346,308.16	205,309,506.53	1,739,562.15
3. Termination benefits	3,986,454.24	13,352,737.21	14,346,554.45	2,992,637.00
<b>Total</b>	<b>249,664,285.98</b>	<b>2,508,867,607.75</b>	<b>2,507,782,602.79</b>	<b>250,749,290.94</b>



## Notes to the Financial Statements for 2015

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

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

#### 23. Compensations payable to employee (continued)

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

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Wages and salaries, bonuses, allowances and subsidies	234,505,836.09	1,972,111,514.08	1,967,278,855.96	239,338,494.21
2. Staff welfare	4,174,873.47	117,043,612.61	118,341,351.06	2,877,135.02
3. Social insurance	1,082,639.02	105,694,931.41	105,967,110.53	810,459.90
Including: Medical insurance	666,105.95	88,174,156.83	88,209,054.03	631,208.75
Work-related injury insurance	306,555.86	8,605,338.02	8,789,167.73	122,726.15
Maternity insurance	109,977.21	8,915,436.56	8,968,888.77	56,525.00
4. Housing provident funds	662,447.17	77,950,899.16	77,703,575.33	909,771.00
5. Labor union funds and employee education funds	1,549,275.47	19,367,605.12	18,835,648.93	2,081,231.66
<b>Total</b>	<b>241,975,071.22</b>	<b>2,292,168,562.38</b>	<b>2,288,126,541.81</b>	<b>246,017,091.79</b>

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

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Basic pension insurance	3,397,571.19	191,483,385.64	193,348,926.71	1,532,030.12
2. Unemployment insurance	305,189.33	11,862,922.52	11,960,579.82	207,532.03
<b>Total</b>	<b>3,702,760.52</b>	<b>203,346,308.16</b>	<b>205,309,506.53</b>	<b>1,739,562.15</b>

Notes to compensations payable to employee:

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

#### 24. Taxes payable

Item	Closing balance	Opening balance
Value-added tax	55,481,039.23	44,988,423.65
Business tax	98,072.39	63,909.26
Enterprise income tax	47,157,158.18	80,983,264.18
Individual income tax	4,311,325.58	3,680,314.25
City maintenance and construction tax	5,754,629.77	6,928,866.85
Real estate tax	12,421,121.95	9,823,022.93
Land use tax	4,318,588.72	4,997,247.57
Education surcharges	3,303,614.08	4,652,099.25
Embankment maintenance fee	8,025,085.06	3,281,842.31
Others	20,815,640.83	15,393,601.96
<b>Total</b>	<b>161,686,275.79</b>	<b>174,792,592.21</b>

## Notes to the Financial Statements for 2015

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

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

#### 25. Dividends payable

Name	Closing balance	Opening balance
Yingleng (Group) Co., Ltd.		2,067.02
<b>Total</b>		<b>2,067.02</b>

#### 26. Other payables

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

Aging	Closing balance	Opening balance
Within one year	1,130,585,835.70	1,328,493,785.03
Over one year	353,158,377.45	407,091,120.75
<b>Total</b>	<b>1,483,744,213.15</b>	<b>1,735,584,905.78</b>

(2) As at 31 December 2015, 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 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.

(3) Please see note 8 “Related Parties and Related Party Transactions” for details of amount due to related parties in the balance of other payables as at the end of the year.

##### (4) Particulars of other payables of significant amounts due over one year

Name	Amount	Reasons for remaining outstanding	Remark
Zhuhai Longjia	17,766,425.03	Current account	Specific third party Company amount
Jiangxi Greencool	13,000,000.00	Current account	Greencool Companies

#### 27. Other current liabilities

Item	Closing balance	Opening balance	Reasons for the balance
Installation fees	223,801,506.00	251,034,465.20	Installation fee provided for but not yet paid in respect of goods sold
Sales discounts	383,724,421.71	261,526,162.20	Incurred but not yet settled
Transportation fees	6,575,760.00	13,590,621.68	Incurred but not yet settled
Marketing fees	68,831,266.69	61,792,224.98	Incurred but not yet settled
Power fees	10,732,725.85	11,014,661.53	Incurred but not yet settled
Agency fees	30,338,030.76	21,579,061.96	Incurred but not yet settled
Others	70,101,858.66	59,485,436.01	Incurred but not yet settled
<b>Total</b>	<b>794,105,569.67</b>	<b>680,022,633.56</b>	

## Notes to the Financial Statements for 2015

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

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

#### 28. Provisions

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Pending litigation	4,617,529.65	64,269.38		4,681,799.03
Provision for warranties*	399,794,358.12		83,517,132.51	316,277,225.61
<b>Total</b>	<b>404,411,887.77</b>	<b>64,269.38</b>	<b>83,517,132.51</b>	<b>320,959,024.64</b>

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

#### 29. Deferred income

Item	Closing balance	Opening balance
Deferred income	51,750,592.81	60,261,598.06
<b>Total</b>	<b>51,750,592.81</b>	<b>60,261,598.06</b>

Breakdown of the deferred income is as follows:

Item	Closing balance	Opening balance
State debenture projects for technical advancement and industry upgrade	21,450,000.00	21,450,000.00
Production technology reform project for energy-saving household SBS large-size refrigerator	1,025,000.00	1,475,000.00
Technology reform project for design and production of high-precision smart moulds	1,866,666.67	2,146,666.67
Others	27,408,926.14	35,189,931.39
<b>Total</b>	<b>51,750,592.81</b>	<b>60,261,598.06</b>

#### 30. Share capital

Categories of shares	Opening balance	Increase for the year	Decrease for the year	Closing balance
Restricted floating shares subject to terms of lock-up	710,325.00	362,220.00		1,072,545.00
Including: Other domestic shares				
Including: Shares held by domestic natural persons	710,325.00	362,220.00		1,072,545.00
Unrestricted floating shares not subject to terms of lock-up	1,357,785,235.00	3,867,590.00		1,361,652,825.00
Including: RMB ordinary shares	898,195,427.00	3,867,590.00		902,063,017.00
Overseas listed foreign shares	459,589,808.00			459,589,808.00
<b>Total number of shares</b>	<b>1,358,495,560.00</b>	<b>4,229,810.00</b>		<b>1,362,725,370.00</b>

Changes for the year was attributable to fulfillment of the exercise conditions and exercise of the share options for the second exercise period of the Company's first share option scheme. The total number of shares as a result of the exercise of share option was 4,229,810, as verified by the Ruihua Yan Zi [2015] No. 95020003 capital verification report issued by Ruihua Certified Public Accountant.

## Notes to the Financial Statements for 2015

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

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

#### 31. Capital reserve

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

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Share premium	2,003,136,239.79	30,633,992.02		2,033,770,231.81
Other capital reserve	122,794,586.09	1,987,779.36	3,023,366.09	121,758,999.36
<b>Total</b>	<b>2,125,930,825.88</b>	<b>32,621,771.38</b>	<b>3,023,366.09</b>	<b>2,155,529,231.17</b>

##### (2) Notes to capital reserve:

- (1) The increase in share premium for the year was mainly attributable to the premium from exercising share options.
- (2) The increase in other capital reserve for the year was attributable to the amount accounted for the share options provided and the increased shares amount of equity of Hisense Hitachi's owners; the decrease for the year was due to exercising of share options.

#### 32. Other comprehensive income

Item	Opening balance	Amount incurred in the year						Closing balance
		Amount before income tax for the year	Less: Amount included in other comprehensive income in previous period transferred to profit or loss in current period	Less: income tax expense	Attributable to parent after tax	Attributable to minority interest after tax		
1. Other comprehensive income that would not be reclassified subsequently to profit or loss	-4,298,798.14		-4,298,798.14			4,298,798.14		
Including: Share of other comprehensive income of investee that would not be reclassified into profit or loss under equity method	-4,298,798.14		-4,298,798.14			4,298,798.14		
2. Other comprehensive income that would be reclassified subsequently to profit or loss	44,289,682.59	862,227.04	33,669,644.58		-32,807,417.54		11,482,265.05	
Including: Share of other comprehensive income of investee that would be reclassified into profit or loss under equity method	33,735,099.85		33,710,275.87		-33,710,275.87		24,823.98	
Difference arising from translation of financial statements presented in foreign currency	10,554,582.74	862,227.04	-40,631.29		902,858.33		11,457,441.07	
<b>Total other comprehensive income</b>	<b>39,990,884.45</b>	<b>862,227.04</b>	<b>29,370,846.44</b>		<b>-28,508,619.40</b>		<b>11,482,265.05</b>	

## Notes to the Financial Statements for 2015

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

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

#### 33. Surplus reserve

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Statutory surplus reserve	145,189,526.48	95,432,787.01		240,622,313.49
<b>Total</b>	<b>145,189,526.48</b>	<b>95,432,787.01</b>		<b>240,622,313.49</b>

#### 34. Undistributed profits

Item	Ratio for appropriation or distribution	Amount for the year	Amount for previous year
Undistributed profits at the end of previous period		-211,243,768.43	-883,722,400.78
Add: Adjustment to undistributed profits at the beginning of the year			
Undistributed profits at the beginning of the period		-211,243,768.43	-883,722,400.78
Add: Net profits attributable to the shareholders of the parent in current period		580,335,074.18	672,478,632.35
Less: Appropriation of statutory surplus reserve	15%	95,432,787.01	
Dividends payable on ordinary shares			
<b>Undistributed profits at the end of the period</b>		<b>273,658,518.74</b>	<b>-211,243,768.43</b>

#### 35. Operating revenue and operating costs

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

Item	Amount for the year	Amount for previous year
Revenue from principal operations	21,803,678,507.86	24,370,988,051.17
Revenue from other operations	1,667,924,350.12	2,163,432,884.38
<b>Total operating revenue</b>	<b>23,471,602,857.98</b>	<b>26,534,420,935.55</b>
Costs of principal operations	16,966,319,509.39	18,762,900,237.84
Costs of other operations	1,474,419,470.27	2,021,812,724.86
<b>Total operating costs</b>	<b>18,440,738,979.66</b>	<b>20,784,712,962.70</b>

## Notes to the Financial Statements for 2015

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

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

#### 35. Operating revenue and operating costs (continued)

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

Products	Amount for the year		Amount for previous year	
	Operating revenue	Operating costs	Operating revenue	Operating costs
1. Refrigerators and washing machines	11,555,814,929.64	8,866,010,017.35	11,864,028,175.03	9,268,105,140.56
2. Air-conditioners	8,986,110,462.69	7,133,925,803.36	11,342,514,901.50	8,620,900,642.94
3. Others	1,261,753,115.53	966,383,688.68	1,164,444,974.64	873,894,454.34
<b>Total</b>	<b>21,803,678,507.86</b>	<b>16,966,319,509.39</b>	<b>24,370,988,051.17</b>	<b>18,762,900,237.84</b>

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

Region	Amount for the year		Amount for previous year	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Domestic	14,266,558,516.03	10,386,859,889.56	17,178,988,978.86	12,359,306,312.99
Overseas	7,537,119,991.83	6,579,459,619.83	7,191,999,072.31	6,403,593,924.85
<b>Total</b>	<b>21,803,678,507.86</b>	<b>16,966,319,509.39</b>	<b>24,370,988,051.17</b>	<b>18,762,900,237.84</b>

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

No.	Amount for the year	Percentage of the total revenue from principal operations of the Company (%)
Top 1	2,289,060,008.62	10.50
Top 2	1,694,626,053.47	7.77
Top 3	1,035,527,475.16	4.75
Top 4	745,187,809.73	3.42
Top 5	677,593,564.44	3.11
<b>Total</b>	<b>6,441,994,911.42</b>	<b>29.55</b>

## Notes to the Financial Statements for 2015

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

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

#### 36. Business tax and surcharges

Item	Standard charge rate	Amount for the year	Amount for previous year
Business tax	5%	2,165,936.99	3,401,098.98
City maintenance and construction tax	1%-7%	54,001,968.49	56,341,133.10
Education surcharges	3%	35,295,853.05	36,796,529.02
Others		5,696,259.35	1,785,148.33
<b>Total</b>		<b>97,160,017.88</b>	<b>98,323,909.43</b>

#### 37. Financial expenses

Item	Amount for the year	Amount for previous year
Interest expenses*	11,581,630.89	15,003,224.16
Less: Interest incomes	5,689,252.09	3,791,604.77
Exchange gain or loss	-57,267,840.76	-11,103,123.31
Others	-20,069,255.55	-4,074,683.90
<b>Total</b>	<b>-71,444,717.51</b>	<b>-3,966,187.82</b>

\* Interest expenses for 2015 and 2014 were wholly interests on bank borrowings of which the last term of repayment is within five years.

#### 38. Impairment losses on assets

Item	Amount for the year	Amount for previous year
1. Bad debt loss	12,431,838.79	2,146,769.82
2. Decline in value of inventories	-23,831,121.84	34,861,947.83
3. Impairment loss on fixed assets	16,070,149.78	21,616,988.36
<b>Total</b>	<b>4,670,866.73</b>	<b>58,625,706.01</b>

## Notes to the Financial Statements for 2015

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

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

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

Sources of gain arising from changes in fair value	Amount for the year	Amount for previous year
Financial assets held-for-trading	-162,460.00	-66,952,559.35
Including: Gain from changes in fair value of derivative financial instruments	-162,460.00	-66,952,559.35
Financial liabilities held-for-trading	-2,376,596.09	-7,386,491.66
<b>Total</b>	<b>-2,539,056.09</b>	<b>-74,339,051.01</b>

#### 40. Investment gain

##### (1) Breakdown of investment gain

Item	Amount for the year	Amount for previous year
Gain from available-for-sale financial assets during holding period	7,410,000.00	9,500,000.00
Gain from long-term equity investment under the equity method	329,436,651.65	311,516,852.93
Gain from disposal of long-term equity investment	135,654,196.76	
Gain from disposal of financial assets at fair value through profit or loss	57,670,852.33	54,484,302.09
<b>Total</b>	<b>530,171,700.74</b>	<b>375,501,155.02</b>

##### (2) Gain from available-for-sale financial assets during holding period

Investee	Amount for the year	Amount for previous year
Hisense International Marketing	7,410,000.00	9,500,000.00
<b>Total</b>	<b>7,410,000.00</b>	<b>9,500,000.00</b>

##### (3) Gain from long-term equity investment under the equity method

Investee	Amount for the year	Amount for previous year
Huayi Compressor		7,000,709.29
Hisense-Whirlpool	-67,586,516.45	-39,616,078.84
Attend	-276,432.42	-319,175.63
Hisense Hitachi	397,299,600.52	344,451,398.11
<b>Total</b>	<b>329,436,651.65</b>	<b>311,516,852.93</b>

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



## Notes to the Financial Statements for 2015

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

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

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

##### Non-operating income

Item	Amount for the year	Amount for previous year
Total gain from disposal of non-current assets	2,557,013.97	1,623,453.29
Including: Gain from disposal of fixed assets	2,557,013.97	1,623,453.29
Government grants	209,588,520.85	82,298,890.90
Others	114,702,920.45	40,439,809.75
<b>Total</b>	<b>326,848,455.27</b>	<b>124,362,153.94</b>

Details of government grants during the year are as follows:

Item	Amount incurred during current year	Amount incurred during previous year
1. Government grants related to assets		
Production technology reform project for energy-saving household SBS large-size refrigerator* <sup>1</sup>	450,000.00	450,000.00
Production capacity expansion and technology renovation project for low-carbon, energy-saving, chlorine-free refrigerator* <sup>2</sup>	280,000.00	280,000.00
Government grants related to other assets	9,128,335.44	5,916,962.67
<b>Subtotal</b>	<b>9,858,335.44</b>	<b>6,646,962.67</b>
2. Government grants related to income		
Jiangmen Pengjiang district industrial subsidy	81,718,700.00	
Other government grants	118,011,485.41	75,651,928.23
<b>Subtotal</b>	<b>199,730,185.41</b>	<b>75,651,928.23</b>
<b>Total</b>	<b>209,588,520.85</b>	<b>82,298,890.90</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. From 2009 to 2015, income in the amount of each year of RMB450,000.00 was recognized and there was still RMB1,025,000.00 subject to deferred recognition.

\*<sup>2</sup> The government grants were granted to Hisense Mould, a subsidiary of the Company, by the Commission Of Economy and Informatization of Qingdao Municipal under the “Approval of the Commission Of Economy and Informatization of Qingdao Municipal on the Application for Investment by the Central Government on Technology Reforms of Small-to-Medium Industrial Enterprises 2012 by the Technology Renovation Project for Manufacturing Sophisticated Intelligent Moulds of Qingdao Hisense Mould Co., Ltd.” (Qing Jing Xin Pi Zi [2012] No. 5) for use in the technology renovation project for manufacturing sophisticated intelligent moulds in 2012. The government grants for the project were recognized as deferred income upon receipt by Hisense Mould in August 2012. Hisense Mould has recognized the amount from the month after receipt as non-operating income over a period of 10 years. In 2012, Hisense Mould has recognized income in the amount of RMB93,333.33 in relation to the item for the year. From 2013 to 2015, income in the amount of each year of RMB280,000.00 was recognized and there was still RMB1,866,666.67 subject to deferred recognition.

## Notes to the Financial Statements for 2015

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

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

#### 41. Non-operating income and non-operating expenses (continued)

##### Non-operating expenses

Item	Amount for the year	Amount for previous year
Total loss on disposal of non-current assets	13,709,993.98	3,967,010.86
Including: Loss on disposal of fixed assets	13,732,878.98	3,967,010.86
Others	3,475,419.58	1,424,162.07
<b>Total</b>	<b>17,185,413.56</b>	<b>5,391,172.93</b>

#### 42. Income tax expense

##### (1) Income tax expense statement

Item	Amount for the year	Amount for previous year
Current income tax expenses	75,473,364.69	129,756,032.80
Including: PRC Enterprise income tax	75,129,488.44	125,223,500.64
Hong Kong profit tax	343,876.25	4,532,532.16
Deferred income tax expenses	3,904,398.89	-70,030,886.51
<b>Total</b>	<b>79,377,763.58</b>	<b>59,725,146.29</b>

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

Item	Amount for the year
Total profits	623,654,160.33
Income tax expense calculated at statutory (or applicable) tax rates	155,913,540.08
Effect of application of different tax rate to certain subsidiaries	-7,434,861.15
Adjustment to income tax in previous year	6,069,222.49
Effect of non-taxable income	-84,107,742.03
Effect of non-deductible cost, expense and loss	24,504,313.56
Effect of utilization of deductible losses unrecognized as deferred tax assets in previous period	-154,149,055.09
Effect of deductible temporary difference or deductible loss unrecognized as deferred tax assets in current period	167,182,408.85
Changes in opening balance of deferred tax assets/liabilities arising from changes in tax rate	-4,184,231.44
Effect of super deduction of research and development expense	-24,415,831.69
Others	
<b>Income tax expense</b>	<b>79,377,763.58</b>

## Notes to the Financial Statements for 2015

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

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

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

Item		Amount for the year	Amount for previous year
Net profits attributable to ordinary shareholders of the Company during the reporting period	P1	580,335,074.18	672,478,632.35
Non-recurring profit and loss attributable to ordinary shareholders of the Company during the reporting period	F	347,874,616.29	89,547,344.88
Net profits after non-recurring profit and loss attributable to ordinary shareholders of the Company during the reporting period	P2=P1-F	232,460,457.89	582,931,287.47
Effect of dilutive events on net profits attributable to ordinary shareholders of the Company	P3		
Effect of dilutive events on net profits after non-recurring profit and loss attributable to ordinary shareholders of the Company	P4		
Weighted average number of outstanding ordinary shares	S	1,360,962,949.17	1,356,645,223.00
Add: Increase in the weighted average number of ordinary shares assuming full conversion of dilutive potential ordinary shares into outstanding ordinary shares	X1		
Weighted average number of ordinary shares used for calculation of diluted earnings per share	X2=S+X1	1,360,962,949.17	1,356,645,223.00
Basic earnings per share attributable to ordinary shareholders of the Company	Y1=P1/S	0.43	0.50
Basic earnings per share attributable to ordinary shareholders of the Company after non-recurring profit and loss	Y2=P2/S	0.17	0.43
Diluted earnings per share attributable to ordinary shareholders of the Company	Y3=(P1+P3)/X2	0.43	0.50
Diluted earnings per share attributable to ordinary shareholders of the Company after non-recurring profit and loss	Y4=(P2+P4)/X2	0.17	0.43

## Notes to the Financial Statements for 2015

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

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

#### 44. Other comprehensive income

Item	Amount for the year	Amount for previous year
1. Recognition of share of other comprehensive income of the investee under equity method		-145,901.32
Less: Income tax effect arising from recognition of share of other comprehensive income of the investee under equity method		
Add: Net amount included in other comprehensive income in previous period transferred to profit or loss in current period	-29,411,477.73	
<b>Subtotal</b>	<b>-29,411,477.73</b>	<b>-145,901.32</b>
2. Difference arising from translation of foreign currency financial statements	862,227.04	-213,572.08
Less: Net amount transferred to profit or loss upon disposal of foreign operations in current period	-40,631.29	
<b>Subtotal</b>	<b>902,858.33</b>	<b>-213,572.08</b>
3. Others		
Less: Income tax effect arising from other items accounted into other comprehensive income		
Net amount of other items accounted into other comprehensive income in previous period transferred to profit or loss in current period		
<b>Subtotal</b>		
<b>Total</b>	<b>-28,508,619.40</b>	<b>-359,473.40</b>

#### 45. Notes to cash flows statement

##### *(1) Other cash receipt related to operating activities*

Item	Amount for the year	Amount for previous year
Interest incomes	5,689,252.09	3,791,604.77
Government grants	132,389,595.16	75,651,928.23
Others	893,688,510.11	1,079,820,344.98
<b>Total</b>	<b>1,031,767,357.36</b>	<b>1,159,263,877.98</b>

## Notes to the Financial Statements for 2015

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

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

#### 45. Notes to cash flows statement *(continued)*

##### *(2) Other cash payment related to operating activities*

<b>Item</b>	<b>Amount for the year</b>	<b>Amount for previous year</b>
Cash payments for general and administrative expenses	441,662,152.46	428,633,158.96
Cash payments for sales expenses	2,775,208,142.86	2,886,030,649.19
Bank charges	11,198,565.34	11,475,903.16
Others	525,349,476.51	487,950,846.88
<b>Total</b>	<b>3,753,418,337.17</b>	<b>3,814,090,558.19</b>

##### *(3) Other cash payment related to investing activities*

<b>Item</b>	<b>Amount for the year</b>	<b>Amount for previous year</b>
Acquisition of assets management products	200,000,000.00	
<b>Total</b>	<b>200,000,000.00</b>	

## Notes to the Financial Statements for 2015

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

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

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

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

Supplementary information	Amount for the year	Amount for previous year
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	544,276,396.75	711,510,498.47
Add: Provision for assets impairment	4,670,866.73	58,625,706.01
Depreciation of fixed assets	574,429,892.95	471,731,405.85
Amortization of intangible assets	28,584,063.47	26,910,027.78
Amortization of long-term prepaid expenses	6,296,347.74	3,715,375.44
Loss on disposal of fixed assets, intangible assets and other long-term assets	11,152,980.01	2,357,431.47
Loss on retirement of fixed assets		
Loss on change in fair value	2,539,056.09	74,339,051.01
Financial expenses	11,581,630.89	15,003,224.16
Investment loss	-530,171,700.74	-375,501,155.02
Decrease in deferred tax assets	3,722,289.46	-70,196,487.21
Increase in deferred tax liabilities	182,109.43	165,600.70
Decrease in inventories	670,492,219.51	-419,561,921.35
Decrease in operating receivables	-1,143,950,409.75	734,465,465.36
Increase in operating payables	300,455,412.51	-267,573,764.80
Others		
Net cash flows from operating activities	484,261,155.05	965,990,457.87
<b>2. Significant investment and financing activities not involving cash receipts and payments:</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	1,012,159,146.17	870,038,755.12
Less: Cash at the beginning of the period	870,038,755.12	472,987,177.54
Add: Cash equivalents at the end of the period		
Less: Cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	142,120,391.05	397,051,577.58

##### (2) Details of cash and cash equivalents

Item	Amount for the year	Amount for previous year
1. Cash	1,012,159,146.17	870,038,755.12
Including: Cash on hand	28,228.78	10,000.00
Bank deposits that are readily available for payment	1,012,130,917.39	870,028,755.12
Other cash at bank and on hand that are readily available for payment		
2. Cash equivalents		
Including: Bond investments due within three months		
3. Cash and cash equivalents as at the end of the period	1,012,159,146.17	870,038,755.12

## Notes to the Financial Statements for 2015

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

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

#### 47. Assets with limited ownership or use rights

Item	Closing carrying amount	Reason for limitation
Monetary funds	2,251,000.00	As secured amount
Account receivables	323,908,065.90	As collaterals for short-term borrowings
<b>Total</b>	<b>326,159,065.90</b>	

#### 48. Net current assets

Item	Closing balance	Opening balance
Current assets (consolidated)	8,532,540,786.66	8,041,116,973.67
Less: Current liabilities (consolidated)	9,445,950,354.62	8,861,374,249.52
Net current assets (consolidated)	-913,409,567.96	-820,257,275.85
Current assets (the parent)	2,909,661,756.05	3,050,739,339.88
Less: Current liabilities (the parent)	2,335,475,827.76	2,894,421,008.43
Net current assets (the parent)	574,185,928.29	156,318,331.45

#### 49. Total assets less current liabilities

Item	Closing balance	Opening balance
Total assets (consolidated)	14,292,817,039.53	13,266,793,963.74
Less: Current liabilities (consolidated)	9,445,950,354.62	8,861,374,249.52
Total assets less current liabilities (consolidated)	4,846,866,684.91	4,405,419,714.22
Total assets (the parent)	7,078,766,344.72	7,138,546,340.56
Less: Current liabilities (the parent)	2,335,475,827.76	2,894,421,008.43
Total assets less current liabilities (the parent)	4,743,290,516.96	4,244,125,332.13

## Notes to the Financial Statements for 2015

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

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

#### 50. Segment information

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

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

Amount for current period	Refrigerators and washing machines	Air-conditioners	Others	Inter-segment elimination	Total
1. Revenue from external sales	11,555,814,929.64	8,986,110,462.69	1,261,753,115.53		21,803,678,507.86
2. Revenue from inter-segment transactions			1,079,389,775.96	-1,079,389,775.96	
3. Gain from investment in associates and joint ventures	-67,586,516.45	397,299,600.52	-276,432.42		329,436,651.65
4. Depreciation and amortization	313,722,331.33	194,093,039.02	95,198,586.07		603,013,956.42
5. Gain arising from changes in fair value	-1,047,895.89	-1,047,895.89	-443,264.31		-2,539,056.09
6. Impairment losses on assets	826,341.84	896,797.23	2,947,727.66		4,670,866.73
7. Total profit (losses)	119,249,485.09	274,892,882.63	272,497,698.63	-42,985,906.02	623,654,160.33
8. Income tax expense	-7,795,680.15	65,156,537.50	22,016,906.23		79,377,763.58
9. Net profit (loss) (including minority interests)	127,045,165.24	209,736,345.13	250,480,792.40	-42,985,906.02	544,276,396.75
10. Total assets	14,153,219,695.64	9,306,682,399.33	3,830,688,869.63	-12,997,773,925.07	14,292,817,039.53
11. Total liabilities	9,559,782,106.94	7,128,189,003.57	2,163,808,333.46	-9,032,771,761.77	9,819,007,682.20
12. Additions to other non-current assets other than long-term equity investments	34,127,280.60	359,832,752.77	33,529,646.48		427,489,679.85

Continued from above table

Amount for previous period	Refrigerators and washing machines	Air-conditioners	Others	Inter-segment elimination	Total
1. Revenue from external sales	11,864,028,175.03	11,342,514,901.50	1,164,444,974.64		24,370,988,051.17
2. Revenue from inter-segment transactions			1,167,709,264.45	-1,167,709,264.45	
3. Gain from investment in associates and joint ventures	-32,615,369.55	344,451,398.11	-319,175.63		311,516,852.93
4. Depreciation and amortization	340,888,192.48	160,804,441.46	-1,268,122.29		500,424,511.65
5. Gain arising from changes in fair value	-31,515,479.90	-29,910,879.16	-12,912,691.95		-74,339,051.01
6. Impairment losses on assets	23,811,177.70	36,884,260.65	-2,069,732.34		58,625,706.01
7. Total profit (losses)	139,168,506.62	522,949,903.74	163,603,402.85	-54,486,168.45	771,235,644.76
8. Income tax expense	37,156,783.38	3,668,910.35	18,899,452.56		59,725,146.29
9. Net profit (loss) (including minority interests)	102,011,723.24	519,280,993.39	144,703,950.29	-54,486,168.45	711,510,498.47
10. Total assets	11,997,088,181.69	9,477,802,119.66	3,682,785,008.26	-11,890,881,345.87	13,266,793,963.74
11. Total liabilities	8,145,845,933.47	7,351,150,477.03	2,394,229,900.30	-8,565,012,974.75	9,326,213,336.05
12. Additions to other non-current assets other than long-term equity investments	285,719,193.14	421,677,482.96	78,411,251.21		785,807,927.31



## Notes to the Financial Statements for 2015

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

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

#### 50. Segment information (continued)

##### (2) Geographic Information

Region	2015	2014
Revenue from domestic transactions	14,266,558,516.03	17,178,988,978.86
Revenues from overseas transactions	7,537,119,991.83	7,191,999,072.31
<b>Total</b>	<b>21,803,678,507.86</b>	<b>24,370,988,051.17</b>
Non-current assets – Domestic	5,749,543,669.67	5,212,995,836.79
Non-current assets – Overseas	10,732,583.20	12,681,153.28
<b>Total</b>	<b>5,760,276,252.87</b>	<b>5,225,676,990.07</b>

The Company operates mainly in Mainland China. Most of the Company's non-current assets are in Mainland China. Therefore it is not necessary to present further details of the regional information.

### 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

#### 1. Particulars of the parent and the ultimate shareholder

(Amount Unit: RMB'0000)

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

Continued from above table

Name of the parent	Registered capital	Shareholding of the parent in the Company (%)	Voting rights of the parent in the Company (%)	Ultimate holding company of the Company	Organization code
Qingdao Hisense Air-conditioning	67,479	44.93	44.93	State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government	61430651-4
Hisense Group	80,617			State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government	913702001635787718

## Notes to the Financial Statements for 2015

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

### 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

2. For information about the subsidiaries, associates and joint ventures of the Company, please see note 6 “Business Combination and Consolidated Financial Statements”, note 7(10) “Investment in joint ventures and associates” and note 7(11) “Long-term equity investment”.

#### 3. Greencool Companies

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

#### 4. Other related parties of the Company

Name of other related parties	Relationship with the Company	Organization code
Hisense Finance Co., Ltd. (“Hisense Finance”)	Subsidiary of ultimate holding company	71788291x
Hisense Electric Co., Ltd. (“Hisense Electric”)	Subsidiary of ultimate holding company	26462882-x
Shunde Yunlong Consultancy Service Limited (“Shunde Yunlong Consultancy”)	Minority shareholder of Huao Electronics	
Beijing Xuehua Group Company Limited (“Xuehua Group”)	Minority shareholder of Beijing Refrigerator	
Beijing Embraco Snowflake compressor Co., Ltd. (“Embraco”)	Associate of Xuehua Group	
Hisense (Hong Kong) Company Limited (“Hisense Hong Kong”)	Subsidiary of ultimate holding company	

#### 5. The Greencool Companies had a series of transactions or unusual cash inflows and outflows through the following “Specific Third Party Companies”

Name of related party	Relationship with the Company
Jiangxi Kesheng	Specific Third Party Company
Jinan San Ai Fu	Specific Third Party Company
Jiangxi Keda	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 for 2015

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

### 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

#### 6. Related party transactions

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

Related party	Particulars of related party transactions	Pricing and decision-making procedures of related party transactions	Amount for the year		Amount for previous year	
			Amount	Percentage of the amount for similar transactions (%)	Amount	Percentage of the amount for similar transactions (%)
Hisense-Whirlpool	Finished goods	Agreed price	174,427,103.06	0.95	430,133,686.79	2.07
Hisense Electric and its subsidiaries	Finished goods	Agreed price	55,319.66		70,512.82	
Hisense Group and its subsidiaries	Finished goods	Agreed price	597,210.79		2,284,666.67	0.01
Hisense Hitachi	Finished goods	Agreed prices	157,204.27			
<b>Subtotal of purchase of finished goods</b>			<b>175,236,837.78</b>	<b>0.95</b>	<b>432,488,866.28</b>	<b>2.08</b>
Hisense Electric and its subsidiaries	Raw materials	Agreed price	14,109,274.78	0.08	22,214,693.81	0.11
Hisense Group and its subsidiaries	Raw materials	Agreed price	12,272,113.28	0.07	16,672,758.10	0.08
Hisense-Whirlpool	Raw materials	Agreed price	5,676,894.22	0.03	8,593,163.00	0.04
Hisense Hitachi	Raw materials	Agreed price	5,502,978.80	0.03	6,230,202.75	0.03
Huayi Compressor and its subsidiaries	Raw materials	Agreed price	562,474,466.58	3.05	757,992,072.20	3.65
Embraco	Raw materials	Agreed price	37,430,951.28	0.20	23,497,568.39	0.11
<b>Subtotal of purchase of raw materials</b>			<b>637,466,678.94</b>	<b>3.46</b>	<b>835,200,458.25</b>	<b>4.02</b>
Hisense Electric and its subsidiaries	Receipt of services	Agreed price	7,959,777.25	0.04	9,996,984.51	0.05
Xuehua Group	Receipt of services	Agreed price	1,509,759.62	0.01	1,485,040.46	0.01
Hisense Group and its subsidiaries	Receipt of services	Agreed price	378,740,525.61	2.05	395,453,887.87	1.90
<b>Subtotal of receipt of services</b>			<b>388,210,062.48</b>	<b>2.10</b>	<b>406,935,912.84</b>	<b>1.96</b>
Hisense Hong Kong	Financing purchase		167,311,138.67	0.91	213,244,123.52	1.03
<b>Subtotal of financing purchase</b>			<b>167,311,138.67</b>	<b>0.91</b>	<b>213,244,123.52</b>	<b>1.03</b>

## Notes to the Financial Statements for 2015

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

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### 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

#### 6. Related party transactions *(continued)*

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

- (1) The Company and Hisense Group and Hisense Electric entered into a Business Cooperation Framework Agreement on 2 December 2014. During the effective period of the agreement, the transaction with the Company as the purchaser and recipient of services was subject to an aggregate cap (exclusive of value-added tax) of RMB652,900,000.
- (2) The Company and Hisense Whirlpool entered into a Business Framework Agreement (II) on 2 December 2014. During the effective period of the agreement, the transaction with the Company as the purchaser and recipient of services was subject to an aggregate cap (exclusive of value-added tax) of RMB768,870,000.
- (3) The Company and Hisense Hitachi entered into a Business Framework Agreement (I) on 2 December 2014. During the effective period of the agreement, the transaction with the Company as the purchaser was subject to an aggregate cap (exclusive of value-added tax) of RMB27,670,000.
- (4) The Company and Hisense Hong Kong entered into a Financing Purchase Framework Agreement on 2 December 2014. During the effective period of the agreement, the transaction in which Hisense Kelon engaged Hisense Hong Kong to perform financing purchase as its agent was subject to an aggregate cap of US\$100,000,000.

The above agreements were considered and approved at the ninth interim meeting of the Company's eighth session of the board of directors in 2014 convened on 2 December 2014 and the first extraordinary general meeting in 2015 convened on 21 January 2015 respectively.

- (5) The above transactions with Hisense Group and its subsidiaries, Hisense Electrical Appliances and its subsidiaries, Hisense Hong Kong, Embraco, and Xuehua Group constitute continuous connected transactions under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the relevant disclosure requirement and shareholders' approval requirement under Chapter 14A of the Listing Rules with respect to such continuing connected transactions (with the exceptions of (A) the Purchase Financing Agency Framework Agreement between the Company and Hisense Hong Kong, which was made on normal commercial terms and in the interest of the Company, without any charge on the Group's assets for the financial assistance; (B) the connected transactions conducted between the Company and Xuehua Group and Embraco respectively were made on normal commercial terms and all applicable percentage ratios were under 1%, while Xuehua Group and Embraco are connected persons of the Company at the subsidiary level. As such, the respective connected transactions between the Company and Hisense Hong Kong, Embraco and Xuehua Group were exempted from the requirements of reporting, announcement and shareholders' approval according to rules 14A.65(4) and 14A.76(1) (b) under the Listing Rules).

Other than the above transactions, the transactions with related parties conducted in 2015 as disclosed in note 8 of the financial statements in the 2015 annual report do not constitute connected transactions under Chapter 14A of the Listing Rules.

## Notes to the Financial Statements for 2015

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

### 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

#### 6. Related party transactions (continued)

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

Related party	Particulars of related party transactions	Pricing and decision-making Procedures of related party transactions	Amount for the year		Amount for previous year	
			Amount	Percentage of the amount for similar transactions (%)	Amount	Percentage of the amount for similar transactions (%)
Hisense Electric and its subsidiaries	Finished goods	Agreed price	78,685.49		4,745.21	
Hisense Hitachi	Finished goods	Agreed price	156,105,059.69	0.67	41,950,005.66	0.16
Hisense Group and its subsidiaries	Finished goods	Agreed price	2,362,632,558.07	10.07	1,782,987,606.97	6.72
<b>Subtotal of sale of finished product</b>			<b>2,518,816,303.25</b>	<b>10.74</b>	<b>1,824,942,357.84</b>	<b>6.88</b>
Hisense-Whirlpool	Raw materials	Agreed price	3,707,255.84	0.02	12,300,354.33	0.05
Hisense Group and its subsidiaries	Raw materials	Agreed price	15,562,543.10	0.07	12,317,816.40	0.05
Hisense Hitachi	Raw materials	Agreed price	2,312,711.31	0.01	1,178,388.59	
Hisense Electric and its subsidiaries	Raw materials	Agreed price	9,444,794.00	0.04	592,472.70	
Huayi Compressor and its subsidiaries	Raw materials	Agreed price			2,085,169.42	0.01
<b>Subtotal of sale of raw materials</b>			<b>31,027,304.25</b>	<b>0.14</b>	<b>28,474,201.44</b>	<b>0.11</b>
Hisense Group and its subsidiaries	Mould and equipment	Market price	194,539,564.98	0.83	208,313,517.39	0.79
Hisense Hitachi	Moulds	Market price	12,182,643.94	0.05	7,523,076.91	0.03
Hisense-Whirlpool	Mould and equipment	Market price	3,931,457.95	0.02	4,196,474.36	0.02
Hisense Electric and its subsidiaries	Moulds	Market price	79,712,191.84	0.34	71,042,006.08	0.27
<b>Subtotal of sale of moulds</b>			<b>290,365,858.71</b>	<b>1.24</b>	<b>291,075,074.74</b>	<b>1.11</b>
Attend	Provision of Services	Agreed price			3,600.00	
Hisense-Whirlpool	Provision of Services	Agreed price	1,744,249.86	0.01	2,970,942.16	0.01
Hisense Group and its subsidiaries	Provision of Services	Agreed price	4,603,820.37	0.02	5,129,018.69	0.02
<b>Subtotal of rendering of services</b>			<b>6,348,070.23</b>	<b>0.03</b>	<b>8,103,560.85</b>	<b>0.03</b>

## Notes to the Financial Statements for 2015

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

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### 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

#### 6. Related party transactions *(continued)*

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

- (1) The Company and Hisense Group and Hisense Electric entered into a Business Cooperation Framework Agreement on 2 December 2014. During the effective period of the agreement, the transaction with the Company as the supplier and service provider was subject to an aggregate cap (exclusive of value-added tax) of RMB3,417,520,000.
- (2) The Company and Hisense Whirlpool entered into a Business Framework Agreement (II) on 2 December 2014. During the effective period of the agreement, the transaction with the Company as the supplier and service provider was subject to an aggregate cap (exclusive of value-added tax) of RMB23,660,000.
- (3) The Company and Hisense Hitachi entered into a Business Framework Agreement (I) on 2 December 2014. During the effective period of the agreement, the transaction with the Company as the supplier and service provider was subject to an aggregate cap (exclusive of value-added tax) of RMB175,160,000.

The above agreements were considered and approved at the ninth interim meeting of the Company's eighth session of the board of directors in 2014 convened on 2 December 2014 and the first extraordinary general meeting in 2015 convened on 21 January 2015 respectively.

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

Other than the above transactions, the transactions with related parties conducted in 2015 as disclosed in note 8 of the financial statements in the 2015 annual report do not constitute connected transactions under Chapter 14A of the Listing Rules.

## Notes to the Financial Statements for 2015

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

### 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

#### 6. Related party transactions *(continued)*

##### *(3) Related party guarantees*

Guarantor	Guaranteed party	Amount (RMB'0000)	Inception date of guarantee	Expiry date of guarantee	Nature of guarantee	Execution of guarantee is completed or not
Hisense Group	Shandong Refrigerator	223.21	2014-3-26	2016-1-31	Import letter of credit	No
<b>Subtotal</b>		<b>223.21</b>	<b>-</b>	<b>-</b>		

Notes to related party guarantees:

- (1) In April 2013, Hisense Group and the business department of Qingdao branch of Agricultural Bank entered into a Maximum Guarantee Contract (No. 84100520130002413), pursuant to which Hisense Group would provide guarantee securities for the liabilities under the maximum credit limit of RMB100,000,000 arising from various businesses with Shandong Refrigerator by the business department of Qingdao branch of Agricultural Bank during the period from 25 April 2013 to 23 April 2014.
- (2) In August 2014, Hisense Group and the business department of Qingdao branch of Agricultural Bank entered into a Maximum Guarantee Contract (No. 84100520140001566), pursuant to which Hisense Group would provide guarantee securities for the liabilities under the maximum credit limit of RMB100,000,000 arising from various businesses with Shandong Refrigerator by the business department of Qingdao branch of Agricultural Bank during the period from 11 August 2014 to 18 November 2014.
- (3) In January 2015, Hisense Group and the Business department of Qingdao branch of Agricultural Bank entered into a Maximum Guarantee Contract (No. 84100520150000609), 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 Air-conditioning by the Business department of Qingdao branch of Agricultural Bank during the period from 1 January 2015 to 31 December 2015.
- (4) As at 31 December 2015, the Company and its subsidiaries had balances of deposit of RMB790,813,100, bank loans of RMB0.00, and notes payable of RMB1,862,089,800 with Hisense Finance. For the year, loan interests paid to Hisense Finance amounted to RMB0.00, interests paid in respect of discounted notes amounted to 0.00, handling fees paid for electronic bank acceptance amounted to RMB1,637,000 and settlement service fees paid for receipt and payment of funds amounted to RMB349,700. Interest income received from Hisense Finance for the deposits amounted to RMB5,013,400. Provision of exchange settlement and sales services by Hisense Finance amounted to RMB905,478,700 for the year.

## Notes to the Financial Statements for 2015

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

### 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

#### 7. Receivables from and payables to related parties

##### *(1) Receivables from related parties*

Item	Related party	Closing balance		Opening balance	
		Book value	Provision for bad debts	Book value	Provision for bad debts
Notes receivable	Hisense Electric and its subsidiaries	7,968,511.83		1,777,900.00	
Notes receivable	Hisense Group and its subsidiaries	18,521,879.30		7,742,513.97	
	<b>Subtotal</b>	<b>26,490,391.13</b>		<b>9,520,413.97</b>	
Accounts receivable	Hisense Electric and its subsidiaries	13,140,965.43		5,369,800.07	
Accounts receivable	Hisense Group and its subsidiaries	484,133,955.77		425,687,562.52	863,752.76
Accounts receivable	Hisense-Whirlpool	2,228,918.22		2,433,508.67	
Accounts receivable	Hisense Hitachi	13,738,299.43		6,246,024.20	
	<b>Subtotal</b>	<b>513,242,138.85</b>		<b>439,736,895.46</b>	<b>863,752.76</b>
Other receivables	Hisense Electric and its subsidiaries	135,000.00		163,006.00	
Other receivables	Hisense Group and its subsidiaries			158,946.20	
Other receivables	Hisense-Whirlpool			7,237,588.19	
Other receivables	Xuehua Group and its subsidiaries			7,200,000.00	
	<b>Subtotal</b>	<b>135,000.00</b>		<b>14,759,540.39</b>	
Prepayments	Hisense Group and its subsidiaries			1,119,996.81	
	<b>Subtotal</b>			<b>1,119,996.81</b>	



## Notes to the Financial Statements for 2015

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

### 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

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

##### *(2) Payables to related parties*

Item	Related party	Closing balance	Opening balance
Note payable	Hisense Electric and its subsidiaries	1,084,475.65	
<b>Subtotal</b>		<b>1,084,475.65</b>	
Accounts payable	Huayi Compressor and its subsidiaries	155,109,870.39	182,978,262.08
Accounts payable	Embraco	11,295,970.83	8,609,219.66
Accounts payable	Hisense Group and its subsidiaries	64,450,631.26	30,670,272.38
Accounts payable	Hisense-Whirlpool	15,862,455.79	141,394,148.65
Accounts payable	Hisense Hitachi	476,911.85	1,592.78
Accounts payable	Hisense Electric and its subsidiaries		8,396.50
<b>Subtotal</b>		<b>247,195,840.12</b>	<b>363,661,892.05</b>
Other payables	Hisense Group and its subsidiaries	42,815,570.99	2,852,656.51
Other payables	Huayi Compressor and its subsidiaries	1,530,000.00	1,500,000.00
Other payables	Embraco	120,000.00	100,000.00
Other payables	Combine		5,099,880.00
Other payables	Hisense-Whirlpool		200,000.00
Other payables	Xuehua Group and its subsidiaries	55,178.70	
<b>Subtotal</b>		<b>44,520,749.69</b>	<b>9,752,536.51</b>
Advances	Hisense Group and its subsidiaries	18,923,626.06	1,769,699.72
Advances	Hisense Electric and its subsidiaries	1,191,000.00	933,000.00
<b>Subtotal</b>		<b>20,114,626.06</b>	<b>2,702,699.72</b>

#### 8. Transactions with “specific third party companies”

Item	Related party	At the end of the year Book value	At the beginning of the year Book value
Other receivables	Jiangxi Kesheng		27,462,676.72
	Jinan San Ai Fu	81,600,000.00	121,496,535.45
	Jiangxi Keda	13,000,200.00	13,000,200.00
	Zhuhai Longjia	28,600,000.00	28,600,000.00
	Zhuhai Defa	21,400,000.00	21,400,000.00
	Wuhan Changrong	20,000,000.00	20,000,000.00
	Deheng Solicitors	2,000,000.00	2,000,000.00
	Shangqiu Bingxiong	58,030,000.00	58,030,000.00
<b>Subtotal of other receivables</b>		<b>224,630,200.00</b>	<b>291,989,412.17</b>
Other payables	Zhuhai Longjia	17,766,425.03	28,316,425.03
	Tianjin Taijin		65,000,000.00
<b>Subtotal of other payables</b>		<b>17,766,425.03</b>	<b>93,316,425.03</b>

## Notes to the Financial Statements for 2015

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

### 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

#### 9. Transactions with Greencool Companies

Item	Related party	At the end of the year Book value	At the beginning of the year Book value
Other receivables	Shenzhen Greencool Environmental		33,000,000.00
	Shenzhen Greencool Technology		32,000,000.00
	Hainan Greencool		12,289,357.71
<b>Subtotal of other receivables</b>			<b>77,289,357.71</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>

### 9. SHARE-BASED PAYMENT

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

Item	Amount for the year
Total equity instruments granted during the period	-293,417.77
Total equity instruments exercised during the period	30,633,992.02
Total equity instruments expired during the period	
Range of exercise price of share options outstanding and remaining contractual term as the end of the period	Exercise price of share options was RMB7.65, with remaining contractual term of 242 days
Range of exercise price of other equity instruments and remaining contractual term as at the end of the period	

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

Item	Amount for the year
Determination on fair value of equity instruments at the date of grant	Fair value of share options granted under the Scheme calculated by using the Black-Scholes option pricing model
Determination on the best estimate of the number of exercisable equity instruments	Determined by taking into account the number of the participants, expected gain of share options and performance assessment of participants, etc
Reasons for significant discrepancies between estimates of current period and previous period	No
Accumulated amount of equity settled share-based payments in capital reserve	8,716,058.46
Total expense recognized for equity settled share-based payments	8,716,058.46

## Notes to the Financial Statements for 2015

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

### 9. SHARE-BASED PAYMENT (continued)

#### 3. Share-based services

Item	Amount for the year
Total amount of employee services received in exchange for share-based payments	8,716,058.46
Total amount of other services received in exchange for share-based payments	

#### 4. Shares granted

Category	Exercise price	Outstanding as at 1 January 2015	Transferred to/from other categories during the year	Lapsed during the year	Exercised during the year	Expired during the year	Outstanding
							as at 31 December 2015
Directors	RMB7.65	2,299,960	-210,460	554,760	756,200		778,540
Senior management	RMB7.65	2,225,940	-2,225,940				
Other management	RMB7.65	5,459,190	2,436,400	713,650	3,473,610		3,708,330
<b>Total</b>		<b>9,985,090</b>		<b>1,268,410</b>	<b>4,229,810</b>		<b>4,486,870</b>

The board of directors of the Company has completed the registration in respect of the grant of share options under the First Share Option Incentive Scheme of Hisense Kelon Electrical Holdings Company Limited (the "Scheme") under the authorization granted at the general meeting of the Company on 28 September 2011, and the basic information are as follows:

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

## Notes to the Financial Statements for 2015

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

### 9. SHARE-BASED PAYMENT (continued)

#### 4. Shares granted (continued)

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

In 2013, the conditions to exercise for the first exercise period of the first phase share option incentive scheme of the Company were fulfilled. Upon approval at the fourth interim meeting of the Company's eighth session of the board of directors in 2013, 163 eligible participants all exercised their share options during the first exercise period, and there were 4,897,860 exercisable share options in total at the exercise price of RMB7.65. In May 2014, 148 eligible participants of the Company exercised their share options with 4,440,810 share options exercised. During the first phase to exercise share options, 9 participants were no longer eligible for this share option incentive. Board of directors of the Company decided to disqualify the above 9 participants and cancel 416,100 share options accordingly.

On 22 May 2015, 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 approved at the sixth interim meeting of the Company's eighth session of the board of directors in 2015 and 1,268,410 share options were cancelled as a result. Upon the adjustment, 8,716,680 share options can be granted under the scheme.

In May 2015, the conditions for the second exercise period of the first share option incentive scheme of the Company were fulfilled. 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., 138 participants of the Company's share option incentive scheme have exercised the share options underlying 4,229,810 shares at an exercise price of RMB7.65/ share for the second exercise period.

As at 31 December 2015, there were 4,486,870 share options of the Company granted yet outstanding.

### 10. CONTINGENCIES

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

As at 31 December 2015, 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		36,333,062.80
<b>Total</b>			<b>41,333,062.80</b>

## Notes to the Financial Statements for 2015

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

### 10. CONTINGENCIES (continued)

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

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

Plaintiff	Defendant	Causes	Total amount involved
Supplier of raw materials	The Company	Dispute over sale and purchase contract and processing contract	2,141,683.14
Others	The Company	Labor dispute and others	12,825,585.02
<b>Total</b>			<b>14,967,268.16</b>

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

Plaintiff	Defendant	Causes	Total amount involved
The Company	Shangqiu Kelon	Default in goods payment	25,660,900.00
<b>Total</b>			<b>25,660,900.00</b>

It represented that the Company requested the defendants to repay the goods payment along with the accrued interests and bear all the litigation fees, for which the civil judgment has taken effect.

### 11. OTHER SIGNIFICANT EVENTS

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

Item	Opening balance	Amount of financial assets/liabilities	Gain or loss from change in fair value	Impairment provision for the year	Closing balance
Financial assets					
Derivative financial assets	162,460.00		-162,460.00		
<b>Subtotal of financial assets</b>	<b>162,460.00</b>		<b>-162,460.00</b>		
Financial liabilities					
Derivative financial liabilities	7,391,136.66	9,767,732.75	-2,376,596.09		9,767,732.75
<b>Subtotal of financial liabilities</b>	<b>7,391,136.66</b>	<b>9,767,732.75</b>	<b>-2,376,596.09</b>		<b>9,767,732.75</b>

## Notes to the Financial Statements for 2015

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

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### 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 with respect to the above financial instruments include: credit risk, liquidity risk, interest rate risk and foreign currency risk.

##### *(1) Credit risk*

Credit risk is the risk to which the Company is exposed to on financial losses due to the failure of clients or financial instrument counterparties to fulfill their contractual obligations, mainly with respect to bank balances, trade and other receivables and financial derivative.

The Company maintains substantially all of its bank balances in several major large state banks in PRC. With strong support to those banks from the state, the Board believes these assets are not exposed to significant credit risk that would cause financial losses.

The Company mitigates its exposure to risks in respect of trade and other receivables by dealing with diversified customers with healthy financial positions. Certain new customers are required by the Company to make cash payment in order to minimise credit risk. The Company seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk. In addition, all receivable balances are monitored on an ongoing basis and overdue balances are followed up by senior management.

The credit risk on derivative instruments is not significant as the counterparties are high creditworthy banks rated by international credit-rating agencies.

The maximum exposure to credit risk at reporting date is the carrying amount of each class of financial assets shown on the consolidated financial statements.

##### *(2) Liquidity risk*

In respect of the management of liquidity risk, the Company monitors and maintains cash and cash equivalents at a level which is adequate, in the management's point of views, to finance the Company's operations and mitigate the effects of short-term fluctuations in cash flows. The Company's treasury department is responsible for maintaining a balance between continuity of funding and flexibility through the use of bank credit in order to meet the Company's liquidity requirements.

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

## Notes to the Financial Statements for 2015

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

### 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 interestbearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks, which are mostly short-term in nature whereas interest-bearing financial liabilities are primarily short-term bank borrowings. As at 31 December 2015, the Company's short-term bank borrowings were at fixed rate. As all the Company's borrowings were factored accounts receivable, any change in the interest rate is not considered to have significant impact on the Company's performance.

##### (4) Foreign currency risk

Foreign currency risk is the risk of loss due to adverse change in exchange rates with respect to investments and transactions denominated in foreign currencies. The Group's monetary assets and transactions are mainly denominated in RMB, HKD, USD, JPY and EUR. The exchange rates between RMB, HKD, USD, JPY and EUR are not pegged, and there is fluctuation in exchange rates between RMB, USD, JPY and EUR.

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

Currency	Closing balance		Opening balance	
	Assets	Liabilities	Assets	Liabilities
USD	714,005,807.08	313,848,803.32	820,825,155.22	293,087,628.93
EUR	34,726,854.56	5,290,675.09	36,886,178.77	4,099,568.80

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	2015	2014
	Increase/Decrease in profit after tax	Increase/Decrease in profit after tax
<b>USD to RMB</b>		
Appreciates by 5%	15,005,887.64	19,790,157.24
Depreciates by 5%	-15,005,887.64	-19,790,157.24
<b>EUR to RMB</b>		
Appreciates by 5%	1,103,856.73	1,229,497.87
Depreciates by 5%	-1,103,856.73	-1,229,497.87

## Notes to the Financial Statements for 2015

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

### 11. OTHER SIGNIFICANT EVENTS (continued)

#### 2. Financial risk management objectives and policies (continued)

##### (4) Foreign currency risk (continued)

Sensitivity analysis of change in forward rate:

Item	2015 Increase/Decrease in profit after tax	2014 Increase/Decrease in profit before tax
<b>USD to RMB</b>		
Appreciates by 5%	-3,131,250.00	-12,480,000.00
Depreciates by 5%	3,131,250.00	12,480,000.00
<b>EUR to RMB</b>		
Appreciates by 5%	-1,539,136.76	-881,250.00
Depreciates by 5%	1,539,136.76	881,250.00

#### 3. Capital management

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 31 December 2014.

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

Item	End of 2015	End of 2014
Total debt	9,819,007,682.20	9,326,213,336.05
Including: Short-term borrowings	223,496,764.71	253,985,142.45
Accounts payable	2,878,291,676.53	3,465,854,583.60
Notes payable	2,931,174,504.52	1,528,195,526.41
Other payables	1,483,744,213.15	1,735,584,905.78
Less: Cash and cash equivalents	1,012,159,146.17	870,038,755.12
Net debt	8,806,848,536.03	8,456,174,580.93
Equity attributable to shareholders of parent	4,044,017,698.45	3,458,363,028.38
Capital and net debt	12,850,866,234.48	11,914,537,609.31
Gearing ratio	68.53%	70.97%



## Notes to the Financial Statements for 2015

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

### 11. OTHER SIGNIFICANT EVENTS (continued)

#### 4. Directors and supervisors' emoluments

The emoluments paid or payable to the directors and supervisors of the Company are as follows:

(1) As at 31 December 2015

Unit: RMB'0000

Name	Position	Emoluments of independent director	Salaries and allowances	Pension scheme contributions	Total
<b>Executive director</b>					
Tang Ye Guo	Chairman		93.01	6.96	99.97
Liu Hong Xin	Director				
Lin Lan	Director				
Jia Shao Qian	Director and vice-president		86.43	6.81	93.24
Wang Zhi Gang	Director and vice-president		91.67	6.66	98.33
Yu Shu Min	Former director				
Xiao Jian Lin	Former director and former president		27.91	6.53	34.44
Tian Ye	Former director and former president		105.95	3.80	109.75
Huang Xiao Jian	Former director and former vice-president		39.64	6.66	46.30
<b>Independent non-executive director</b>					
Xu Xiang Yi	Independent non-executive director	9			9
Wang Ai Guo	Independent non-executive director	9			9
Wang Xin Yu	Independent non-executive director	24			24
<b>Supervisor</b>					
Liu Zhen Shun	Chairman of Supervisory Committee				
Yang Qing	Supervisor				
Fan Wei	Supervisor		28.51	2.05	30.56
Zhang Jian Jun	Former supervisor				
Shu Peng	Former supervisor		10.73	1.03	11.76
Gao Yu Ling	Former supervisor and financial officer				
<b>Total</b>		<b>42</b>	<b>483.85</b>	<b>40.50</b>	<b>566.35</b>

- (1) During the year, no emoluments were paid by the Company to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived or agreed to waive any emoluments during the year.
- (2) Mr. Liu Hong Xin was appointed as director of the Company in June 2015; Mr. Jia Shao Qian was appointed as director June 2015; Mr. Wang Zhi Gang was appointed as vice president of the Company in November 2015 and as director of the Company in December 2015; Mr. Yang Qing was appointed as supervisor of the Company in December 2015; Ms. Fan Wei was appointed as supervisor of the Company in June 2015.

## Notes to the Financial Statements for 2015

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

### 11. OTHER SIGNIFICANT EVENTS (continued)

#### 4. Directors and supervisors' emoluments (continued)

As at 31 December 2014

Unit: RMB'0000

Name	Position	Emoluments of independent director	Salaries and allowances	Pension scheme contributions	Total
<b>Executive director</b>					
Tang Ye Guo	Chairman		96.1	3.87	99.97
Yu Shu Min	Director				–
Lin Lan	Director				–
Xiao Jian Lin	Director		85.22	3.37	88.59
Tian Ye	Director and President		133.59	3.87	137.46
Huang Xiao Jian	Director and vice-president		98.18	2.16	100.34
Jia Shao Qian	Vice-president		68.86	3.22	72.08
Ren Li Ren	Former director and former president		50.59	3.76	54.35
Gan Yong He	Former director and former vice-president		25.39	0.22	25.61
Zhang Yu Qing	Former vice-president		76.04	3.87	79.91
Wang Yun Li	Former vice-president		90.43	3.84	94.27
<b>Independent non-executive director</b>					
Xu Xiang Yi	Independent non-executive Director	9			9
Wang Ai Guo	Independent non-executive Director	9			9
Wang Xin Yu	Independent non-executive Director	24			24
<b>Supervisor</b>					
Liu Zhen Shun	Chairman of Supervisory Committee				
Shu Peng	Supervisor		26.03	0.69	26.72
Gao Yu Ling	Supervisor				
Zhang Jian Jun	Former supervisor		30.22		30.22
<b>Total</b>		<b>42</b>	<b>780.65</b>	<b>28.87</b>	<b>851.52</b>

(3) Note: During the year, no emoluments were paid by the Company to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived or agreed to waive any emoluments during the year.

(4) Mr. Tian Ye was appointed as director of the Company in June 2014 and as president of the Company in March 2015; Mr. Huang Xiao Jian was appointed as vice president of the Company in March 2014 and as director of the Company in June 2014; Mr. Liu Zhen Shun was appointed as supervisor of the Company on 10 January 2014; Ms. Gao Yu Ling was appointed on 10 January 2014; Mr. Shu Peng was appointed in January 2015.

## Notes to the Financial Statements for 2015

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

### 11. OTHER SIGNIFICANT EVENTS (continued)

#### 4. Directors and supervisors' emoluments (continued)

##### (2) Five highest paid individuals

In 2015, four (2014: four) of the five highest paid individuals of the Company were directors. The aggregate of the emoluments in respect of the other one individual (2014: one) is as follows (in respect of the range of emoluments for 2015, emoluments of 2 individuals exceeded RMB1,000,000 and below 1,500,000, and those of three individuals were below RMB1,000,000, in respect of the range of emoluments for 2014, all their emoluments were below RMB1,000,000):

Unit: RMB'0000

Item	Amount for current period	Amount for previous period
Emolument	134.45	94.27

#### 5. Key management personnel emoluments

Unit: RMB'0000

Item	2015	2014
Salaries and other short-term employee benefits	97.84	130.04
Retirement benefit scheme costs	8.74	4.56
<b>Total</b>	<b>106.58</b>	<b>134.60</b>

Note: Key management personnel refers to the senior management (other than directors and supervisors) who has the authority and responsibility for planning, directing and controlling the corporate activities.

#### 6. Retirement benefit scheme

The Company and its subsidiaries contributes mainly to a defined contribution pension scheme, which is administered by the provincial government, in respect of employees of the Company and its subsidiaries. According to such scheme, the Company and its subsidiaries shall make contributions to the pension fund at certain percentage of the total salaries and wages of their employees.

The total costs charged to the profit or loss approximately of RMB386,992,100 (2014: RMB375,333,300) represented contributions payable to the scheme by the Company and its subsidiaries at percentages specified by the scheme.

#### 7. Leases

##### (1) Different categories of leased assets of the Company are as follows:

Unit: RMB'0000

Categories of leased assets under operating leases	Closing carrying amount	Opening carrying amount
Buildings and structures	6,935.96	3,145.94
<b>Total</b>	<b>6,935.96</b>	<b>3,145.94</b>

## Notes to the Financial Statements for 2015

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

### 11. OTHER SIGNIFICANT EVENTS *(continued)*

#### 7. Leases *(continued)*

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

The Company's investment properties are also leased to a number of tenants for different terms. The rental income for 2015 amounted to RMB18,821,900 (2014: RMB8,110,400).

The minimum lease payments receivable under non-cancellable operating leases at the end of reporting period are as follows:

*Unit: RMB'0000*

<b>Item</b>	<b>Amount for the year</b>	<b>Amount for previous year</b>
Within one year	575.77	177.14
Over one year but within five years	1,825.94	224.72
<b>Total</b>	<b>2,401.71</b>	<b>401.86</b>

##### (3) *The Company as lessee under operating lease*

The Company leases certain leasehold land and buildings and plant and machinery under operating leases with lease terms ranging from one to five years. The operating lease payments for the year ended 31 December 2015 were as follows:

*Unit: RMB'0000*

<b>Operating lease payments</b>	<b>Amount for the year</b>	<b>Amount for previous year</b>
Leasehold land and buildings	3,233.12	2,861.39
Plant and machinery	137.82	
<b>Total</b>	<b>3,370.94</b>	<b>2,861.39</b>

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

*Unit: RMB'0000*

<b>Item</b>	<b>Amount for the year</b>	<b>Amount for previous year</b>
Within one year	1,469.45	852.87
Over one year but within five years	2,119.36	1,527.75
<b>Total</b>	<b>3,588.81</b>	<b>2,380.62</b>

## Notes to the Financial Statements for 2015

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

### 11. OTHER SIGNIFICANT EVENTS *(continued)*

#### 8. Capital commitment

*Unit: RMB'0000*

Item	Closing balance	Opening balance
Commitments in respect of investment in subsidiaries and jointly controlled entity:		
– Authorized but not yet contracted		
– Contracted but not paid	8,373.73	44,277.00
Commitments in respect of acquisition of the property, plant and equipment of subsidiaries:		
– Contracted but not paid		

#### 9. Dividends

On 29 March 2016, the Proposed Profit Distribution Plan for 2015 was considered and approved at the first meeting of 2016 of the ninth session off the Board of the Company: Based on the total share capital of 1,362,725,370 shares of the Company as at 31 December 2015, a cash dividend of RMB1.5 (tax inclusive) was to be paid to all shareholders for every 10 shares held, amounted to a total distributed profit of RMB204,408,805.50. The undistributed profit would be rolled over for distribution in subsequent years. There was no issue of bonus share and no transfer of capital reserve to share capital. Such resolution is subject to the approval of 2015 annual general meeting of the Company.

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

#### 1. Accounts receivable

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

Category	Closing balance			
	Book value		Provision for bad debts	
	Amount	%	Amount	%
Individually significant and subject to separate provision for bad debts				
Ageing analysis	2,035,204,371.64	100.00	112,401,309.12	5.52
Greencool Companies				
<b>Subtotal</b>	<b>2,035,204,371.64</b>	<b>100.00</b>	<b>112,401,309.12</b>	<b>5.52</b>
Individually insignificant but subject to separate provision for bad debts				
<b>Total</b>	<b>2,035,204,371.64</b>	<b>100.00</b>	<b>112,401,309.12</b>	<b>5.52</b>

## Notes to the Financial Statements for 2015

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

### 12 NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

#### 1. Accounts receivable (continued)

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

Continued from above table

Category	Opening balance			
	Book value		Provision for bad debts	
	Amount	%	Amount	%
Individually significant and subject to separate provision for bad debts				
Ageing analysis	1,867,953,870.49	100.00	139,047,900.53	7.44
Greencool Companies				
<b>Subtotal</b>	<b>1,867,953,870.49</b>	<b>100.00</b>	<b>139,047,900.53</b>	<b>7.44</b>
Individually insignificant but subject to separate provision for bad debts				
<b>Total</b>	<b>1,867,953,870.49</b>	<b>100.00</b>	<b>139,047,900.53</b>	<b>7.44</b>

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

Aging	Closing balance			Opening balance		
	Book value		Provision for bad debts	Book value		Provision for bad debts
	Amount	%		Amount	%	
Within three months	1,922,039,306.17	94.44		1,719,843,329.52	92.07	
Over three months but within six months	432,205.64	0.02	43,220.56	3,057,481.35	0.16	305,748.14
Over six months but within one year	749,542.54	0.04	374,771.27	12,621,814.46	0.68	6,310,907.23
Over one year	111,983,317.29	5.50	111,983,317.29	132,431,245.16	7.09	132,431,245.16
<b>Total</b>	<b>2,035,204,371.64</b>	<b>100.00</b>	<b>112,401,309.12</b>	<b>1,867,953,870.49</b>	<b>100.00</b>	<b>139,047,900.53</b>

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

	Opening balance	Provision for the year	Decrease for the year		Closing balance
			reversal	Write-off	
2015	139,047,900.53	1,716,839.39		28,363,430.80	112,401,309.12

## Notes to the Financial Statements for 2015

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

### 12 NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

#### 1. Accounts receivable (continued)

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

Name	Nature	Amount	Reason for write-off	Whether or not arising from related party transactions
Unrelated party	Payment for goods	28,363,430.80	Not recoverable due to long aging	No
<b>Total</b>		<b>28,363,430.80</b>		

Whereas: major accounts receivable written off are as follows:

Name	Nature	Amount	Reason for write-off	The procedure involved in performing write-off	Whether or not arising from related party transactions
Shenzhen Xin Chu Yuan Electronic Technology Co., Ltd.	Payment for goods	4,716,221.76	Not recoverable due to long aging	Approval from Board of directors	No
<b>Total</b>		<b>4,716,221.76</b>	—	—	—

(4) As at 31 December 2015, 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 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.

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

No.	Relationship with the Company	Amount	Ageing	Percentage of the total accounts receivable (%)
Top 1	Subsidiary	1,358,060,934.36	Within three months	66.73
Top 2	Subsidiary	479,859,136.07	Within three months	23.58
Top 3	Related party	29,917,643.58	Within three months	1.47
Top 4	Related party	28,147,267.92	Within three months	1.38
Top 5	Related party	18,339,495.78	Within three months	0.90
<b>Total</b>		<b>1,914,324,477.71</b>	—	<b>94.06</b>

## Notes to the Financial Statements for 2015

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

### 12 NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

#### 2. Other receivables

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

Category	Closing balance			
	Book value		Provision for bad debts	
	Amount	(%)	Amount	(%)
Individually significant and subject to separate provision for bad debts				
Ageing analysis Greencool Companies	895,511,451.28	100.00	24,678,372.48	2.76
<b>Subtotal</b>	<b>895,511,451.28</b>	<b>100.00</b>	<b>24,678,372.48</b>	<b>2.76</b>
Individually insignificant but subject to separate provision for bad debts				
<b>Total</b>	<b>895,511,451.28</b>	<b>100.00</b>	<b>24,678,372.48</b>	<b>2.76</b>

Continued from above table

Category	Opening balance			
	Book value		Provision for bad debts	
	Amount	%	Amount	%
Individually significant and subject to separate provision for bad debts				
Ageing analysis Greencool Companies	127,393,675.52	14.88	3,800,000.00	2.98
	728,892,677.94	85.12	17,948,914.69	2.46
<b>Subtotal</b>	<b>728,892,677.94</b>	<b>85.12</b>	<b>17,948,914.69</b>	<b>2.46</b>
Individually insignificant but subject to separate provision for bad debts				
<b>Total</b>	<b>856,286,353.46</b>	<b>100.00</b>	<b>21,748,914.69</b>	<b>2.54</b>



## Notes to the Financial Statements for 2015

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

### 12 NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

#### 2. Other receivables (continued)

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

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

Aging	Closing balance			Opening balance		
	Book value		Provision for bad debts	book value		Provision for bad debts
	Amount	%		Amount	%	
Within three months	870,695,632.19	97.23		710,231,259.64	82.94	
Over three months but within six months	152,718.46	0.02	15,271.85			
Over six months but within one year				1,425,007.20	0.17	712,503.59
Over one year	24,663,100.63	2.75	24,663,100.63	17,236,411.10	2.01	17,236,411.10
<b>Total</b>	<b>895,511,451.28</b>	<b>100.00</b>	<b>24,678,372.48</b>	<b>728,892,677.94</b>	<b>85.12</b>	<b>17,948,914.69</b>

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

	Opening balance	Provision for the year	Decrease for the year		Closing balance
			Reversal	Write-off	
2015	21,748,914.69	2,929,457.79			24,678,372.48

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

Nil.

##### (4) As at 31 December 2015, 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 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.

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

Name	Relationship with the Company	Amount	Ageing	Percentage of the total other receivables (%)
Top 1	Subsidiary	239,162,016.08	Within three months	26.71
Top 2	Subsidiary	175,676,197.34	Within three months	19.62
Top 3	Subsidiary	118,730,537.50	Within three months	13.26
Top 4	Subsidiary	110,821,652.42	Within three months	12.38
Top 5	Subsidiary	89,317,950.24	Within three months	9.97
<b>Total</b>		<b>733,708,353.58</b>	–	<b>81.94</b>

## Notes to the Financial Statements for 2015

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

### 12 NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

#### 3. Long-term equity investment

investee	Accounting treatment	investment cost	Opening balance	Changes	Closing balance	% equity interest held	% voting rights held	impairment provision	Impairment provided in the year	Cash dividend in the year
Huayi Compressor	Equity method		81,890,655.26	-81,890,655.26						
Attend	Equity method	2,000,000.00	2,850,040.45	-276,432.42	2,573,608.03	20.00	20.00			
Hisense-Whirlpool	Equity method	225,000,000.00	171,500,403.47	-67,586,516.45	103,913,887.02	50.00	50.00			
Hisense Hitachi	Equity method	332,821,597.45	959,802,671.02	256,963,187.08	1,216,765,858.10	49.00	49.00			142,100,000.00
<b>Subtotal of equity method</b>		<b>559,821,597.45</b>	<b>1,216,043,770.20</b>	<b>107,209,582.95</b>	<b>1,323,253,353.15</b>					<b>142,100,000.00</b>
Guangdong Refrigerator	Cost method	155,552,425.85	155,552,425.85		155,552,425.85	70.00	70.00			
Kelon Air-conditioner	Cost method	281,000,000.00	281,000,000.00		281,000,000.00	60.00	100.00	59,381,641.00		
Guangdong Freezer	Cost method	15,668,880.00	15,668,880.00		15,668,880.00	44.00	44.00			
Kelon Household Electrical Appliance*	Cost method	2,500,000.00	2,500,000.00	-2,500,000.00						
Hisense Home Appliances	Cost method	32,634,553.70	51,531,053.70		51,531,053.70	81.17	81.17			9,318,926.74
Rongsheng Plastic	Cost method	53,270,064.00	53,270,064.00		53,270,064.00	44.92	44.92			
Wangao I&E	Cost method	600,000.00	600,000.00		600,000.00	20.00	20.00			
Jiake Electronics	Cost method	42,000,000.00	42,000,000.00		42,000,000.00	70.00	70.00			
Kelon Weili	Cost method					55.00	55.00			
Yingkou Refrigerator	Cost method	84,000,000.00	84,000,000.00		84,000,000.00	42.00	42.00			
Jiangxi Kelon	Cost method	147,763,896.00	147,763,896.00		147,763,896.00	60.00	60.00			
Hangzhou Kelon	Cost method	24,000,000.00	24,000,000.00		24,000,000.00	100.00	100.00			
Yangzhou Refrigerator	Cost method	252,356,998.00	252,356,998.00		252,356,998.00	74.33	74.33			
Zhubai Kelon	Cost method	189,101,850.00	189,101,850.00		189,101,850.00	75.00	75.00			
Shenzhen Kelon	Cost method	95,000,000.00	95,000,000.00		95,000,000.00	95.00	95.00			
Kelon Development	Cost method	11,200,000.00	11,200,000.00		11,200,000.00	100.00	100.00			
Chengdu Refrigerator	Cost method	50,000,000.00	50,000,000.00		50,000,000.00	100.00	100.00			
Beijing Refrigerator	Cost method	92,101,178.17	92,101,178.17		92,101,178.17	55.00	55.00			8,800,000.00
Shandong Air-conditioning	Cost method	567,175,477.74	567,175,477.74		567,175,477.74	100.00	100.00			
Zhejiang Air-conditioning	Cost method	54,523,643.83	54,523,643.83		54,523,643.83	51.00	51.00			
Hisense Mould	Cost method	121,628,013.09	121,628,013.09		121,628,013.09	78.70	78.70			15,228,193.40
Shandong Refrigerator	Cost method	275,000,000.00	275,000,000.00		275,000,000.00	100.00	100.00			
<b>Subtotal of cost method</b>		<b>2,547,076,980.38</b>	<b>2,565,973,480.38</b>	<b>-2,500,000.00</b>	<b>2,563,473,480.38</b>			<b>59,381,641.00</b>		<b>33,347,120.14</b>
<b>Total</b>		<b>3,106,898,577.83</b>	<b>3,782,017,250.58</b>	<b>104,709,582.95</b>	<b>3,886,726,833.53</b>			<b>59,381,641.00</b>		<b>175,447,120.14</b>

Note: \*During the reporting period, Kelon Household Electrical has been cancelled.

## Notes to the Financial Statements for 2015

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

### 12 NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

#### 4. Operating revenue and operating costs

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

Item	Amount for the year	Amount for previous year
Revenue from principal operations	164,651,474.29	3,588,402,090.51
Revenue from other operations	49,530,956.77	109,276,029.82
Total operating revenue	214,182,431.06	3,697,678,120.33
Costs of principal operations	165,015,532.90	2,704,169,299.20
Costs of other operations	39,760,314.73	61,972,271.90
<b>Total operating costs</b>	<b>204,775,847.63</b>	<b>2,766,141,571.10</b>

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

Product	Amount for the year		Amount for previous year	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Refrigerators and washing machines	-1,023,399.04	1,193,965.23	1,885,135,759.83	1,510,163,413.14
Air-conditioners	165,674,873.33	163,821,567.67	1,703,266,330.68	1,194,005,886.06
<b>Total</b>	<b>164,651,474.29</b>	<b>165,015,532.90</b>	<b>3,588,402,090.51</b>	<b>2,704,169,299.20</b>

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

Region	Amount for the year		Amount for previous year	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Domestic	-1,634,619.63	998,591.85	3,588,402,090.51	2,704,169,299.20
Overseas	166,286,093.92	164,016,941.05		
<b>Total</b>	<b>164,651,474.29</b>	<b>165,015,532.90</b>	<b>3,588,402,090.51</b>	<b>2,704,169,299.20</b>

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

No.	Amount for the year	Percentage of the total revenue from principal operations of the Company (%)
Top 1	88,618,738.46	53.82
Top 2	29,917,643.58	18.17
Top 3	25,477,729.54	15.47
Top 4	18,227,479.34	11.07
Top 5	4,044,503.00	2.46
<b>Total</b>	<b>166,286,093.92</b>	<b>100.99</b>

## Notes to the Financial Statements for 2015

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

### 12 NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

#### 5. investment gain

##### (1) Breakdown of investment gain

Item	Amount for the year	Amount for previous year
Gain from long-term equity investment under the cost method	33,347,120.14	10,877,281.00
Gain from available-for-sale financial assets during holding period	7,410,000.00	9,500,000.00
Gain from long-term equity investment under the equity method	329,436,651.65	311,516,852.93
Gain from disposal of long-term equity investment	72,973,244.90	7,206,524.80
<b>Total</b>	<b>443,167,016.69</b>	<b>339,100,658.73</b>

##### (2) Gain from long-term equity investments under the cost method

Investee	Amount for the year	Amount for previous year
Hisense Home Appliances	9,318,926.74	
Hisense Mould	15,228,193.40	10,877,281.00
Beijing Refrigerator	8,800,000.00	
<b>Total</b>	<b>33,347,120.14</b>	<b>10,877,281.00</b>

##### (3) Gain from available-for-sale financial assets during holding period

Investee	Amount for the year	Amount for previous year
Hisense International Marketing	7,410,000.00	9,500,000.00
<b>Total</b>	<b>7,410,000.00</b>	<b>9,500,000.00</b>

##### (4) Gain from long-term equity investment under the equity method

Investee	Amount for the year	Amount for previous year
Huayi Compressor		7,000,709.29
Hisense Whirlpool	-67,586,516.45	-39,616,078.84
Attend	-276,432.42	-319,175.63
Hisense Hitachi	397,299,600.52	344,451,398.11
<b>Total</b>	<b>329,436,651.65</b>	<b>311,516,852.93</b>

## Notes to the Financial Statements for 2015

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

### 12 NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

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

Supplementary information	Amount for the year	Amount for previous year
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	579,474,563.01	964,079,696.22
Add: Provision for assets impairment	4,646,297.18	-62,556,739.39
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets	23,181,848.00	26,073,649.96
Amortization of intangible assets	9,450,808.19	9,751,648.00
Amortization of long-term prepaid expenses	1,005,999.96	670,666.64
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain denoted in "bracket")	-652,837.07	175,297.41
Loss on retirement of fixed assets (Gain denoted in "bracket")		
Loss on change in fair value (Gain denoted in "bracket")		
Financial expenses (Gain denoted in "bracket")		
Investment loss (Gain denoted in "bracket")	-443,167,016.69	-339,100,658.73
Decrease in deferred tax assets (Increase denoted in "bracket")		
Increase in deferred tax liabilities (Decrease denoted in "bracket")		
Decrease in inventories (Increase denoted in "bracket")	242,941.47	1,722,180,928.99
Decrease in operating receivables (Increase denoted in "bracket")	108,978,353.17	1,555,687,319.49
Increase in operating payables (Decrease denoted in "bracket")	-645,347,031.07	-4,251,728,237.42
Others		
Net cash flows from operating activities	-362,186,073.85	-374,766,428.83
<b>2. Significant investment 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	61,080,569.87	28,279,997.40
Less: Cash at the beginning of the period	28,279,997.40	194,913,820.28
Add: Cash equivalents at the end of the period		
Less: Cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	32,800,572.47	-166,633,822.88

## Notes to the Financial Statements for 2015

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

### 13. SUPPLEMENTARY INFORMATION

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

Item	Amount for the year	Amount for previous year
Profit or loss from disposal of non-current assets	124,501,216.75	-2,343,557.57
Return, reduction and exemption of taxes surpassing approval or without official approval document		
Government grants included in the gain or loss (excluding those government grants that are closely related to the enterprise's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	173,616,297.39	82,298,890.90
Capital occupation fees received from non-financial enterprises that are included in current profits or losses		
Gain arising under the circumstance where the investment cost for acquisition of subsidiaries, associates and joint ventures is lower than the fair value of the net assets attributable to the enterprise		
Gain or loss arising from non-monetary assets exchange		
Gain or loss arising from entrusted investment or entrusted asset management		
Asset impairment provided due to forced majeure (e.g. natural disasters)		
Gain or loss arising from debt restructuring		
Corporate restructuring expenses (e.g. staff placement costs and integration expenses)	-22,087,867.83	-36,817,863.11
Gain or loss arising from the difference between the fair value and transaction price in obviously unfair transactions		
Net current profit or loss of subsidiaries arising from business combination under common control from beginning of year to the combination date		
Gain or loss arising from contingencies irrelevant to the Company's normal business		
Gain or loss from changes in fair values of financial assets and liabilities held-for-trading except for effective hedging activities related to the Company's normal operations and investment gain from disposal of financial assets and liabilities held-for-trading and available-for-sale financial assets		
Reversal of impairment provision for accounts receivable individually tested for impairment		12,585,064.60
Gain or loss arising from entrusted loan		
Gain or loss arising from changes in fair value of investment properties measured subsequently by using fair value model		
Effect on current profit or loss of one-off adjustment to current profit or loss as required by taxation, accounting and other laws and regulations		
Custody fee income from entrusted operations		
Other non-operating income and expense other than the aforementioned items	111,227,500.87	39,015,647.68
Other profit or loss items within the meaning of non-recurring profit or loss		
Total non-recurring profit or loss	387,257,147.18	94,738,182.50
Less: Effect of income tax on non-recurring profit or loss	33,493,517.67	15,218,459.01
Net non-recurring profit or loss	353,763,629.51	79,519,723.49
Less: Net effect of non-recurring profit or loss attributable to minority interests (after tax)	5,889,013.22	-10,027,621.39
Non-recurring profit or loss attributable to ordinary shareholders of the Company	347,874,616.29	89,547,344.88

## Notes to the Financial Statements for 2015

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

### 13. SUPPLEMENTARY INFORMATION (continued)

#### 2. Return on net asset and earnings per share

2015

Profit for the reporting period	Weighted Average of return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	15.49	0.43	0.43
Net profit attributable to ordinary shareholders of the Company after non-recurring profit or loss	6.20	0.17	0.17

2014

Profit for the reporting period	Weighted Average of return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	21.65	0.50	0.50
Net profit attributable to ordinary shareholders of the Company after non-recurring profit or loss	18.76	0.43	0.43

## Notes to the Financial Statements for 2015

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

### 13. SUPPLEMENTARY INFORMATION (continued)

#### 3. Illustration of abnormal balances for major items in financial statement of the Company and the reasons

Statement item	Closing balance (or amount for the current year)	Opening balance (or amount for previous year)	% Change	Reasons for change
Notes receivable	2,289,706,048.91	991,796,937.82	130.86%	Mainly due to increase in payment via the issuance of notes payable and retention of notes receivable during the reporting period
Prepayments	169,804,372.86	498,209,306.68	-65.92%	Mainly due to decrease in construction prepayment during the current period
Other receivables	234,011,936.52	493,051,526.66	-52.54%	Mainly due to the other receivables from Greencool Companies were audited and written off during the reporting period
Other current assets	467,872,305.65	287,019,824.65	63.01%	Mainly due to the acquisition of assets management products at the end of the reporting period
Construction in progress	64,837,848.39	251,551,873.15	-74.22%	Mainly due to the completion of construction in progress and their transfer into fixed assets and intangible assets during the reporting period
Notes payable	2,931,174,504.52	1,528,195,526.41	91.81%	Mainly due to increase in payment acceptance during the reporting period
Other comprehensive income	11,482,265.05	39,990,884.45	-71.29%	Mainly due to other comprehensive income arising from the disposal of Huayi compressor
Financial expenses	-71,444,717.51	-3,966,187.82	Nil	Mainly due to the significant increase in gains of exchange
Impairment losses on assets	4,670,866.73	58,625,706.01	-92.03%	Mainly due to decrease in closing stocks and reversal of provision of inventory impairment at the end of the reporting period
Gain arising from changes in value fair	-2,539,056.09	-74,339,051.01	Nil	Mainly due to changes in outstanding forward transactions and changes in transactions transferred out upon maturity during the current period
Investment income	530,171,700.74	375,501,155.02	41.19%	Mainly due to disposal of Huayi compressor's equity
Non-operating income	326,848,455.27	124,362,153.94	162.82%	Mainly due to increase in government's subsidies during the reporting period
Non-operating expense	17,185,413.56	5,391,172.93	218.77%	Mainly due to disposal of fixed assets during the reporting period
Income tax expense	79,377,763.58	59,725,146.29	32.91%	Mainly due to changes in deferred tax assets during the reporting period
Cash received from disposal of investment	330,278,145.68	88,200,000.00	274.47%	Mainly due to disposal of Huayi compressor
Cash paid for purchasing and constructing fixed assets, intangible assets and other long-term assets	449,658,954.97	766,186,788.01	-41.31%	Mainly due to increase in investment in Jiangmen Air-conditioning and Shandong Refrigerator, the subsidiaries of the Company
Payment of other cash related to investment	200,000,000.00			Mainly due to the acquisition of assets management products at the end of the reporting period
Cash received from investors	32,358,046.50	48,566,371.50	-33.37%	Mainly due to increase in investment in subsidiaries by minority shareholders in previous year



## Notes to the Financial Statements for 2015

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

### 13. SUPPLEMENTARY INFORMATION (continued)

#### 4. Five-year financial summary

Unit: RMB'0000

Statement item	2015	2014	2013	2012	2011
Total operating revenue	2,347,160.29	2,653,442.09	2,436,002.13	1,895,891.53	1,848,866.32
Total profits	62,365.42	77,123.56	129,941.28	74,285.40	24,669.96
Income tax	7,937.78	5,972.51	5,361.89	1,054.84	2,125.04
Net profit	54,427.64	71,151.05	124,579.39	73,230.56	22,544.92
Net profit attributable to equity holders of the parent	58,033.51	67,247.86	121,566.96	71,776.47	22,701.51
Minority interests	-3,605.87	3,903.19	3,012.43	1,454.09	-156.59

Continued from above table

Statement item	As at 31 December 2015	As at 31 December 2014	As at 31 December 2013	As at 31 December 2012	As at 31 December 2011
Total assets	1,429,281.70	1,326,679.40	1,220,803.09	929,501.14	763,543.96
Total liabilities	981,900.77	932,621.34	902,469.32	742,180.34	647,462.47
Net assets	447,380.94	394,058.06	318,333.77	187,320.80	116,081.49
Total equity attributable to equity holders of the parent	404,401.77	345,836.30	274,873.11	151,204.22	80,512.36
Minority interests	42,979.17	48,221.76	43,460.66	36,116.58	35,569.13
Total Equity	447,380.94	394,058.06	318,333.77	187,320.80	116,081.49