

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

Interim Report 2016



The Board of Directors (the “Board”) of Hisense Kelon Electrical Holdings Company Limited (the “Company”) hereby announces the unaudited interim report of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2016 (the “Reporting Period”) together with comparative figures for the corresponding period in 2015. This interim report has been reviewed by the Company’s Audit Committee.

FINANCIAL INFORMATION PREPARED IN ACCORDANCE WITH CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

(Unless otherwise specified, all amounts are denominated in RMB)

1. CONSOLIDATED BALANCE SHEETS

Item	<i>Unit: RMB</i>	
	Closing balance	Opening Balance
Current assets:		
Cash at bank and on hand	2,086,541,421.01	1,014,410,146.17
Balances with clearing companies		
Lending capital		
Financial assets at fair value through profit or loss	-	-
Derivative financial assets		
Notes receivable	3,198,213,709.39	2,289,706,048.91
Accounts receivable	3,480,922,808.73	2,086,596,419.00
Prepayments	144,538,379.42	169,804,372.86
Insurance premium receivable		
Receivables from reinsurers		
Reserves for reinsurance contract receivable		
Interests receivable		-
Dividends receivable	-	-
Other receivables	263,917,080.47	234,011,936.52
Financial assets purchased under agreements to resell		
Inventories	2,118,856,499.16	2,270,139,557.55
Assets classified as held for sale		
Non-current assets due within one year		
Other current assets	626,343,884.03	467,872,305.65
Total current assets	11,919,333,782.21	8,532,540,786.66
Non-current assets:		
Disbursement of loans and advances		
Available-for-sale financial assets	3,900,000.00	3,900,000.00
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	1,353,001,374.73	1,323,253,353.15
Investment properties	27,707,481.40	28,958,126.07
Fixed assets	3,424,574,371.47	3,529,787,697.68
Construction in progress	70,876,339.34	64,837,848.39
Construction materials		
Disposal of fixed assets	933,019.53	1,468,664.05
Productive biological assets		
Oil and gas assets		
Intangible assets	694,744,378.55	694,379,768.17
Development costs		
Goodwill		
Long-term prepaid expenses	7,396,685.81	10,599,736.59
Deferred tax assets	94,385,863.57	103,091,058.77
Other non-current assets		
Total non-current assets	5,677,519,514.40	5,760,276,252.87
Total assets	17,596,853,296.61	14,292,817,039.53

1. CONSOLIDATED BALANCE SHEETS — *Continued*

Unit: RMB

Item	Closing balance	Opening Balance
Current liabilities:		
Short-term borrowings	248,102,137.59	223,496,764.71
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	716,847.98	9,767,732.75
Derivative financial liabilities		
Notes payable	4,444,534,151.45	2,931,174,504.52
Accounts payable	3,975,928,414.37	2,878,291,676.53
Advances from customers	502,253,817.62	712,934,326.56
Proceeds from disposal of financial assets under agreements to repurchase		
Handling fees and commission payable		
Employee remunerations payable	242,790,794.88	250,749,290.94
Taxes payable	239,766,016.93	161,686,275.79
Interests payable	-	-
Dividends payable	204,436,525.50	-
Other payables	1,672,625,997.79	1,483,744,213.15
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	893,915,241.52	794,105,569.67
Total current liabilities	12,425,069,945.63	9,445,950,354.62

1. CONSOLIDATED BALANCE SHEETS — *Continued*

Item	Closing balance	Opening Balance
<i>Unit: RMB</i>		
Non-current liabilities:		
Long-term borrowings		
Bonds payable		
Including: Preference shares		
Perpetual debts		
Long-term payables		
Long-term employee remunerations payable		
Specific payables		
Estimated liabilities	281,120,516.56	320,959,024.64
Deferred income	51,971,085.09	51,750,592.81
Deferred income tax liabilities	507,942.24	347,710.13
Other non-current liabilities		
Total non-current liabilities	333,599,543.89	373,057,327.58
Total liabilities	12,758,669,489.52	9,819,007,682.20
Owners' equity:		
Share capital	1,362,725,370.00	1,362,725,370.00
Other equity instruments		
Including: Preference shares		
Perpetual debts		
Capital reserve	2,155,529,231.17	2,155,529,231.17
Less: Treasury shares		
Other comprehensive income	12,444,291.01	11,482,265.05
Special reserves		
Surplus reserves	240,622,313.49	240,622,313.49
General risk provisions		
Undistributed profit	628,529,194.55	273,658,518.74
Total equity attributable to shareholders of the parent	4,399,850,400.22	4,044,017,698.45
Minority interests	438,333,406.87	429,791,658.88
Total owners' equity	4,838,183,807.09	4,473,809,357.33
Total liabilities and owners' equity	17,596,853,296.61	14,292,817,039.53

Legal representative: Tang Ye Guo

Chief financial officer: Gao Yu Ling

Accounting supervisor: Yan Zhi Yong

2. BALANCE SHEETS OF PARENT COMPANY

Unit: RMB

Item	Closing Balance	Opening Balance
Current assets:		
Cash at bank and on hand	440,926,354.88	61,080,569.87
Financial assets at fair value through profit or loss	-	-
Derivative financial assets		
Notes receivable	-	1,700,531.94
Accounts receivable	899,543,491.94	1,922,803,062.52
Prepayment	19,592,920.34	19,592,920.34
Interests receivable	-	-
Dividends receivable	8,387,028.00	-
Other receivables	1,191,209,102.93	870,833,078.80
Inventories	55,320.35	361,065.84
Assets classified as held for sale		
Non-current assets due within one year		
Other current assets	105,219,855.97	33,290,526.74
Total current assets	2,664,934,074.41	2,909,661,756.05
Non-current assets:		
Available-for-sale financial assets	3,900,000.00	3,900,000.00
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	3,857,093,214.11	3,827,345,192.53
Investment properties	10,373,426.00	11,065,556.00
Fixed assets	109,319,290.74	120,208,519.74
Construction in progress	-	-
Construction materials		
Disposal of fixed assets	-	-
Productive biological assets		
Oil and gas assets		
Intangible assets	200,890,878.00	205,243,987.00
Development costs		
Goodwill		
Long-term prepaid expenses	838,333.42	1,341,333.40
Deferred tax assets	-	-
Other non-current assets		
Total non-current assets	4,182,415,142.27	4,169,104,588.67
Total assets	6,847,349,216.68	7,078,766,344.72

2. BALANCE SHEETS OF PARENT COMPANY — *Continued*

Item	Closing Balance	Opening Balance
		<i>Unit: RMB</i>
Current liabilities:		
Short-term borrowings	-	-
Financial liabilities at fair value through profit or loss	-	-
Derivative financial liabilities		
Notes payable	-	-
Accounts payable	1,040,225,938.26	1,204,712,288.79
Advances from customers	26,157,313.75	24,852,528.21
Employee remunerations payable	3,721,437.76	4,240,314.21
Taxes payable	2,797,154.04	5,180,801.40
Interests payable	-	-
Dividends payable	204,408,805.50	-
Other payables	665,146,317.84	859,483,103.22
Liabilities classified as held for sale		
Non-current liabilities due within one year		
Other current liabilities	150,457,563.97	237,006,791.93
Total current liabilities	2,092,914,531.12	2,335,475,827.76
Non-current liabilities:		
Long-term borrowings		
Bonds payable		
Including: Preference shares		
Perpetual debts		
Long-term payables		
Long-term employee remunerations payable		
Specific payables		
Estimated liabilities	281,120,516.56	320,959,024.64
Deferred income	30,663,333.03	31,005,964.43
Deferred income tax liabilities		
Other non-current liabilities		
Total non-current liabilities	311,783,849.59	351,964,989.07
Total liabilities	2,404,698,380.71	2,687,440,816.83
Owners' equity:		
Share capital	1,362,725,370.00	1,362,725,370.00
Other equity instruments		
Including: Preference shares		
Perpetual debts		
Capital reserve	2,277,775,852.34	2,277,775,852.34
Less: Treasury shares		
Other comprehensive income	24,823.98	24,823.98
Special reserves		
Surplus reserves	210,013,688.50	210,013,688.50
Undistributed profit	592,111,101.15	540,785,793.07
Total (owners' equity)	4,442,650,835.97	4,391,325,527.89
Total liabilities and Owners' equity	6,847,349,216.68	7,078,766,344.72

Legal representative: Tang Ye Guo

Chief financial officer: Gao Yu Ling

Accounting supervisor: Yan Zhi Yong

3. CONSOLIDATED INCOME STATEMENT

Unit: RMB

Item	Amount for current period	Amount for previous period
I. Total operating revenue	13,122,951,531.51	13,611,148,619.89
Including: Operating revenue	13,122,951,531.51	13,611,148,619.89
Interest income		
Insurance premium earned		
Income from handling fees and commission		
II. Total operating costs	12,681,242,170.15	13,468,670,270.85
Including: Operating costs	10,044,258,231.63	10,800,650,891.99
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	53,955,707.45	30,886,280.24
Selling expenses	2,172,369,108.67	2,210,836,967.94
Management expenses	458,091,291.92	430,232,672.22
Financial expenses	-33,394,686.74	-24,809,869.01
Impairment losses on assets	-14,037,482.78	20,873,327.47
Add: Gain from changes in fair value (Loss denoted by "-")	9,050,884.77	53,113,821.77
Investment income (Loss denoted by "-")	190,519,070.38	290,512,875.51
Including: Share of profit of associates and jointly controlled entities	189,978,021.58	127,811,784.18
Foreign exchange gains (Loss denoted by "-")		
III. Operating profits (Loss denoted by "-")	641,279,316.51	486,105,046.32
Add: Non-operating income	56,931,787.09	101,692,390.83
Including: Gain on disposal of non-current assets	785,867.64	1,040,721.35
Less: Non-operating expenses	1,651,046.75	9,347,599.79
Including: Loss on disposal of non-current assets	760,157.38	7,334,966.96
IV. Total profit (Total loss denoted by "-")	696,560,056.85	578,449,837.36
Less: Income tax expenses	105,932,299.43	64,380,329.92
V. Net profits (Net loss denoted by "-")	590,627,757.42	514,069,507.44
Net profits attributable to shareholders of the parent	559,279,481.31	505,717,733.90
Profit and loss of minority interests	31,348,276.11	8,351,773.54
VI. Other comprehensive income after tax, net	962,025.96	-30,230,236.21
Other comprehensive income after tax attributable to owners of the parent, net	962,025.96	-30,230,236.21
A. Items not to be reclassified into profit or loss in subsequent periods	-	-29,411,477.73
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		29,411,477.73
B. Items to be reclassified into profit or loss in subsequent periods	962,025.96	-818,758.48
1. Share of other comprehensive income of the investee to be reclassified into profit or loss under the equity method in subsequent periods		
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	962,025.96	-818,758.48
6. Others		
Other comprehensive income after tax attributable to minority interests, net		
VII. Total comprehensive income	591,589,783.38	483,839,271.23
Total comprehensive income attributable to owners of the parent	560,241,507.27	475,487,497.69
Total comprehensive income attributable to minority interests	31,348,276.11	8,351,773.54
VIII. Earnings per share:		
(1) Basic earnings per share	0.41	0.37
(2) Diluted earnings per share	0.41	0.37

Legal representative: Tang Ye Guo

Chief financial officer: Gao Yu Ling

Accounting supervisor: Yan Zhi Yong

4. INCOME STATEMENT OF PARENT COMPANY

Item	<i>Unit: RMB</i>	
	Amount for current period	Amount for previous period
I. Operating revenue	10,341,975.20	25,868,823.41
Less: Operating costs	6,282,258.00	26,507,302.40
Business taxes and surcharges	538,601.18	3,902,274.41
Selling expenses	-18,303,337.92	-155,720,281.19
Management expenses	21,308,903.97	18,538,946.49
Financial expenses	-12,107,242.22	-401,369.93
Impairment losses on assets	-1,491,919.50	4,088,727.17
Add: Gain from changes in fair value (Loss denoted by "-")	-	-
Investment income (Loss denoted by "-")	240,472,699.58	295,367,872.47
Including: Share of profit of associates and jointly controlled entities	189,978,021.58	127,811,784.18
II. Operating profits (Loss denoted by "-")	254,587,411.27	424,321,096.53
Add: Non-operating income	497,093.13	1,195,093.43
Including: Gain on disposal of non-current assets		
Less: Non-operating expenses	-649,609.18	1,027,489.01
Including: Loss on disposal of non-current assets	19,987.71	52,497.90
III. Total profit (Total loss denoted by "-")	255,734,113.58	424,488,700.95
Less: Income tax expenses	-	-
IV. Net profits (Net loss denoted by "-")	255,734,113.58	424,488,700.95
V. Other comprehensive income after tax, net	-	-29,411,477.73
A. Items not to be reclassified into profit or loss in subsequent periods	-	-29,411,477.73
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		-29,411,477.73
B. Items to be reclassified into profit or loss in subsequent periods	-	-
1. Share of other comprehensive income of the investee to be reclassified into profit or loss under the equity method in subsequent periods		
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		
VI. Total comprehensive income	255,734,113.58	395,077,223.22
VII. Earnings per share:		
(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

5. CONSOLIDATED CASH FLOW STATEMENT

Unit: RMB

Item	Amount for current period	Amount for previous period
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	9,029,697,663.46	6,227,820,959.38
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 capital borrowed		
Net increase in repurchase business capital		
Tax rebates received	434,364,375.99	443,199,992.26
Other cash received concerning operating activities	222,370,600.19	264,680,100.87
Subtotal of cash inflows from operating activities	9,686,432,639.64	6,935,701,052.51
Cash paid for purchases of commodities and receipt of services	4,727,872,044.53	3,292,850,945.61
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	1,337,523,544.48	1,361,502,120.62
Cash paid for taxes and surcharges	496,244,616.89	407,033,653.93
Cash paid for other operating activities	2,058,071,163.11	2,073,479,177.64
Subtotal of cash outflows from operating activities	8,619,711,369.01	7,134,865,897.80
Net cash flows from operating activities	1,066,721,270.63	-199,164,845.29
II. Cash flows from investing activities:		
Cash received from recovery of investments	160,230,000.00	330,278,145.68
Cash received from investment income	6,004,000.00	7,410,000.00
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	267,886.43	605,807.79
Net cash received from disposals of subsidiaries and other operation units	-	-
Cash received relating to other investing activities	200,000,000.00	-
Subtotal of cash inflows from investing activities	366,501,886.43	338,293,953.47
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	129,400,021.03	289,212,638.80
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	361,000,000.00	-
Subtotal of cash outflows from investing activities	490,400,021.03	289,212,638.80
Net cash flows from investing activities	-123,898,134.60	49,081,314.67

5. CONSOLIDATED CASH FLOW STATEMENT — *Continued*

Item	Amount for current period	Unit: RMB Amount for previous period
III. Cash flows from financing activities:		
Cash received from capital contribution	-	32,358,046.50
Including: Cash contribution to subsidiaries from minority shareholders' investment		
Cash received from borrowings	699,918,728.63	934,143,486.71
Cash received from issuance of bonds		
Cash received relating to other financing activities	-	-
Subtotal of cash inflows from financing activities	699,918,728.63	966,501,533.21
Cash paid for repayment of borrowings	542,305,035.90	799,523,193.18
Cash paid for distribution of dividends, profit or payment of interest expenses	28,395,158.78	8,519,142.00
Including: Dividend and profit paid to minority shareholders by subsidiaries		
Cash paid relating to other financing activities	1,190,281.40	259,000.00
Subtotal of cash outflows from financing activities	571,890,476.08	808,301,335.18
Net cash flows from financing activities	128,028,252.55	158,200,198.03
IV. Effects of foreign exchange rate changes on cash and cash equivalents	89,604.86	-6,045.00
V. Net increase in cash and cash equivalents	1,070,940,993.44	8,110,622.41
Add: Balance of cash and cash equivalents at the beginning of the period	1,012,159,146.17	870,038,755.12
VI. Balance of cash and cash equivalents at the end of the period	2,083,100,139.61	878,149,377.53

Legal representative: Tang Ye Guo

Chief financial officer: Gao Yu Ling

Accounting supervisor: Yan Zhi Yong

6. CASH FLOW OF PARENT COMPANY

Unit: RMB

Item	Amount for current period	Amount for previous period
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	197,125,923.55	166,327,676.10
Tax rebates received	29,135,408.48	-
Cash received concerning other operating activities	604,869,361.74	291,362,572.26
Subtotal of cash inflows from operation activities	831,130,693.77	457,690,248.36
Cash paid for purchases of commodities and receipt of labor services	-	-
Cash paid to and for employees	13,125,283.67	9,204,433.51
Cash paid for taxes and surcharges	5,526,903.36	79,995,026.92
Cash paid for other operating activities	534,977,071.73	728,973,850.04
Subtotal of cash outflow from operating activities	553,629,258.76	818,173,310.47
Net cash flows from operating activities	277,501,435.01	-360,483,062.11
II. Cash flow from investing activities:		
Cash received from recovery of investments	160,230,000.00	330,278,145.68
Cash received from investment income	42,107,650.00	31,957,120.14
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	6,700.00	335,539.00
Net cash received from disposals of subsidiaries and other operation units	-	-
Cash received relating to other investing activities	-	-
Subtotal of cash inflows from investing activities	202,344,350.00	362,570,804.82
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	-	-
Cash paid for investments	-	-
Net cash paid for acquisition of subsidiaries and other operation units	-	-
Cash paid relating to other investing activities	100,000,000.00	-
Subtotal of cash outflows from investing activities	100,000,000.00	-
Net cash flows from investing activities	102,344,350.00	362,570,804.82
III. Cash flows from financing activities:		
Cash received from capital contribution	-	32,358,046.50
Cash received from borrowings	-	-
Cash received from issuance of bonds	-	-
Cash received relating to other financing activities	-	-
Subtotal of cash inflows from financing activities	-	32,358,046.50
Cash paid for repayment of borrowings	-	-
Cash paid for distribution of dividends, profit or payment of interest expenses	-	-
Cash paid relating to other financing activities	-	-
Subtotal of cash outflows from financing activities	-	-
Net cash flows from financing activities	-	32,358,046.50
IV. Effects of foreign exchange rate changes on cash and cash equivalents		
V. Net increase in cash and cash equivalents	379,845,785.01	34,445,789.21
Add: Balance of cash and cash equivalents at the beginning of the period	61,080,569.87	28,279,997.40
VI. Balance of cash and cash equivalents at the end of the period	440,926,354.88	62,725,786.61

Legal representative: Tang Ye Guo

Chief financial officer: Gao Yu Ling

Accounting supervisor: Yan Zhi Yong

7. CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Unit: RMB

Amount for current period	Previous period												Total shareholders' equity
	Attributable to shareholders of the parent												
	Other equity instruments				Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provisions	Undistributed profits	Minority interests		
Share capital	Preference shares	Perpetual debts	Others	Capital reserve									
I. Closing balance of previous year	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	4,473,809,367.33
Add: Changes in accounting policies													
Correction for error in previous period											-		-
Business combination involving entities under common control													
Other													-
II. Opening balance for the year	1,362,725,370.00				2,155,529,231.17		11,482,265.05	-	240,622,313.49		273,658,518.74	429,791,658.88	4,473,809,367.33
III. Movements in the current period													
(Decreases denoted in "-")	-				-		962,025.96	-	-		354,870,675.81	8,541,747.99	364,374,449.76
(1) Total comprehensive income							962,025.96				559,279,481.31	31,348,276.11	591,589,783.38
(2) Shareholders' contributions and capital reductions													
1. Ordinary shares contributed by owners					-								
2. Capital contributions by holders of other equity instruments													
3. Amount of sharebased payment included in shareholders' equity													
4. Other													
(3) Profit Distribution	-				-		-	-	-		-204,408,805.50	-22,806,528.12	-227,215,333.62
1. Appropriations to surplus reserve													
2. Appropriations to general risk provisions													
3. Distribution to owners (or shareholders)											-204,408,805.50	-22,806,528.12	-227,215,333.62
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													
IV. Closing balance for the period	1,362,725,370.00				2,155,529,231.17		12,444,291.01	-	240,622,313.49		628,529,194.55	438,333,406.87	4,838,183,807.09

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

Unit: RMB

Amount for previous year	Previous period												Total shareholders' equity
	Other equity instruments					Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provisions	Undistributed profits	Minority interests	
	Share capital	Preference shares	Perpetual debts	Others	Capital reserve								
I. Closing balance for previous year	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													-
II. Opening balance for the year	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
III. Movements in the current period													
(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 shareholders	4,229,810.00				30,633,992.02								34,863,802.02
2. Capital contributions by holders of other equity instruments													-
3. Amount of sharebased 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
IV. Closing balance for the period	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

Legal representative: Tang Ye Guo

Chief financial officer: Gao Yu Ling

Accounting supervisor: Yan Zhi Yong

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

Unit: RMB

Amount for current period	Current period										
	Attributable to shareholders of the parent										
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Total shareholders' equity
Preference shares		Perpetual debts	Others								
I. Closing balance of previous year	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
Add: Changes in accounting policies							-				-
Correction for error in previous period											-
Other											-
II. Opening balance for the year	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
III. Movements in the current period (Decreases denoted in "-")	-				-		-	-	-	51,325,308.08	51,325,308.08
(1) Total comprehensive income							-			255,734,113.58	255,734,113.58
(2) Owners' contributions and capital reductions											-
1. Ordinary shares contributed by shareholders					-						-
2. Capital contributions by holders of other equity instruments											-
3. Amount of share-based payment included in shareholders' equity											-
4. Other											-
(3) Profit Distribution	-				-		-	-	-	-204,408,805.50	-204,408,805.50
1. Appropriations to surplus reserve											-
2. Distribution to owners (or shareholders)										-204,408,805.50	-204,408,805.50
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											-
IV. Closing balance for the period	1,362,725,370.00				2,277,775,852.34		24,823.98	-	210,013,688.50	592,111,101.15	4,442,650,835.979

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

Unit: RMB

Amount for previous year	Previous period										
	Other equity instruments				Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Total shareholders' equity
Item	Share capital	Preference shares	Perpetual debts	Others							
I. Closing balance for previous year	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											-
II. Opening balance for the year	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
III. Movements in the current period											
(Decreases denoted in "-")	4,229,810.00				29,598,405.29		-9,411,477.73	-	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) Shareholders' 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 shareholders' 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
IV. Closing balance for the period	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

Legal representative: Tang Ye Guo

Chief financial officer: Gao Yu Ling

Accounting supervisor: Yan Zhi Yong

NOTES TO THE FINANCIAL STATEMENTS

Half year of 2016

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

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 longer held shares of the Company.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

1. COMPANY PROFILE — *Continued*

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

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

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

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

As at 30 June 2016, the total number of shares of the Company was 1,362,725,370 and the registered share capital of the Company was RMB1,362,725,370.00; of which, the shareholding of the Company held by Qingdao Hisense Air-Conditioning was 44.93%.

Scope of operations of the Company:

The Company and its subsidiaries are principally engaged in home appliances (such as refrigerators) development and manufacture, domestic and overseas sales of products, provision of after-sale services and transportation of own products.

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

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

This financial statements was approved by the Board of the Company on 25 August 2016.

In the first half of 2016, there were a total of 34 subsidiaries consolidated into the Company. See Note 6 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 February 15, 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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS — *Continued*

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

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 30 June 2016 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.

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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

4. Accounting treatment for business combinations involving entities under common and not under common control — *Continued*

(1) ***Business combination involving entities under common control — Continued***

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

For a business combination involving entities not under common control that is achieved in stages, the Company shall determine whether the business combination shall be treated as “a bundle of transactions” in accordance with the determination standards as contained in the “Circular on the Publication of Interpretation 5 on Accounting Standards for Business Enterprises” issued by the Ministry of Finance (Cai Kuai (2012) No. 19) and Section 51 of “Accounting Standards for Business Enterprises 33 – Consolidated Financial Statements” (Refer to note 4(5)ii). 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:

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

5. Preparation of consolidated financial statements

(1) *Criteria for the recognition of scope of consolidation*

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

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

(2) *Preparation of consolidated financial statements*

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

5. Preparation of consolidated financial statements — *Continued*

(2) *Preparation of consolidated financial statements — Continued*

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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)(2)② "Long-term equity investment by using equity method".

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

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

7. Criteria for the recognition of cash and cash equivalents

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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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*

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

8. Foreign currency transactions and translation of financial statements in foreign currency — *Continued*

(3) *Translation of financial statements in foreign currency — Continued*

The cash flows in foreign currency and of overseas operations are translated at the spot exchange rates on the dates of the cash flows or the 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 be recognised in profit or loss for the period. For partial disposals of equity interests in foreign operations which are associates or joint ventures, the exchange differences arising from the translation of financial statements in foreign currency of the foreign operation is reclassified to profit or loss for the period in which the disposal took place on a pro rata basis.

9. Financial instruments

The 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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

9. Financial instruments — *Continued*

(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.

① *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 shortterm 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.

② *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.

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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

9. Financial instruments — *Continued*

(2) **Classification, recognition and measurement of financial assets** — *Continued*

③ *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.

④ *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 — *Continued*

Half year of 2016

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 Company 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.

① *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.

② *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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

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

Where the conditions of de-recognition are satisfied upon partial transfer of the financial asset, the carrying amount of the transferred financial asset is allocated between the derecognized and nonderecognised 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 derecognised; 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 recognized amount.

① *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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

9. Financial instruments — *Continued*

(5) **Classification and measurement of financial liabilities** — *Continued*

② *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 amortization are recognised in profit or loss for the current period.

③ *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 recognized amount less the accumulated amortisation determined in accordance with the Accounting Standards for Business Enterprises 14 — Income, whichever is the higher.

(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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

9. Financial instruments — *Continued*

(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.

10. Accounts receivable

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

① *The basis or criteria for determination of individually significant receivables*

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

② *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.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued

10. Accounts receivable — Continued

(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:

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

Individually insignificant receivables subject to separate provision:

Reason for individual provision Receivables which are individually insignificant over one year or above.

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

11. Inventories — *Continued*

(4) The group adopts the perpetual inventories system.

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

Low-value consumables are expensed upon issuance.

Packaging materials are expensed upon issuance.

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".

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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

12. Long-term equity investments — *Continued*

(1) *Determination of investment cost — Continued*

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued

12. Long-term equity investments — Continued

(2) Subsequent measurement and recognition of profit or loss

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

① Long-term equity investments accounted for by using the cost method

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

② Long-term equity investments accounted for by using the equity method

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

12. Long-term equity investments — *Continued*

(2) *Subsequent measurement and recognition of profit or loss — Continued*

② *Long-term equity investments accounted for by using the equity method — Continued*

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

③ *Acquisition of minority interests*

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

④ *Disposal of long-term equity investment*

In the consolidated financial statements, if the parent disposes part of the long-term equity investment in the subsidiary without losing its control, the difference between the disposal price and the Company's share in the net assets of the subsidiary attributable to the disposal of the long-term equity investment is recognised in the shareholders' equity; if the parent disposes part of the long-term equity investment in the subsidiary resulting in the loss of its control over the subsidiary, the accounting treatment shall be in accordance with the policies as set out in note 4(5)(2) "Preparation of consolidated financial statements".

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

12. Long-term equity investments — *Continued*

(2) *Subsequent measurement and recognition of profit or loss — Continued*

④ *Disposal of long-term equity investment — Continued*

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

12. Long-term equity investments — *Continued*

(3) *Impairment test and provision for impairment*

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

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:

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

(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:

<u>Category</u>	<u>Useful life (year)</u>	<u>Rate of residual value (%)</u>	<u>Annual depreciation rates</u>
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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

14. Fixed assets — *Continued*

(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.

(4) **Other explanations**

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

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

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

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

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:

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

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

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

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

(3) *Calculation of capitalized borrowing costs*

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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*

① *Useful life of intangible assets*

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

② *Amortisation of intangible assets*

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

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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

17. Intangible asset — *Continued*

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

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

④ *Impairment of intangible assets*

Please see note 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:

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

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

③ It can be demonstrated how the intangible asset will generate economic benefits, including demonstrating that there is an existing market for products produced by the intangible asset or for the intangible asset itself, and that it can be used if the intangible asset is to be used internally;

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

⑤ The expenditure attributable to the intangible asset at its development phase can be reliably measured.

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

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.

20. Impairment on long term assets

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

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

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

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. Nonmonetary welfare is measured at fair value.

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

21. Employee benefits — *Continued*

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.

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

23. Share-based payments and equity instruments — *Continued*

(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.

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:

- ① 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.
- ② 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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

24. Revenue — *Continued*

(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:

- ① 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.
- ② 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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*

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

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

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

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

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

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

(3) *Income tax expense*

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

26. Deferred tax assets/deferred tax liabilities — *Continued*

(4) *Offsetting income tax*

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

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

27. Segment information

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

29. Changes in significant accounting policies and accounting estimates

(1) *Changes in accounting policies*

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

(2) *Changes in accounting estimates*

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

(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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

30. Critical accounting judgements and estimates — *Continued*

(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, being the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset, it indicates impairment.

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

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

(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.

(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 expending 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.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

5. TAXATION

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

Type of taxes	Tax basis	Tax rate
Value-added tax	Sales tax is computed on 17%, 11%, 6%, 5% and 3%, respectively, of the taxable income. Value-added tax is computed on the difference after deduction of input value-added tax of the current period.	17%, 11%, 6%, 5%, 3%
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 Mould 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). Pursuant to the tax preference regulation on High-tech Enterprises, 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 Hightech 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.

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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

5. TAXATION — *Continued*

2. Tax preferences and approvals — *Continued*

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. The re-assessment of high-and-new technological enterprise status for Yangzhou Refrigerator in 2016 is under progress, and according to the relevant requirements on State tax, the preferential rate of 15% is effective temporarily during the re-assessment period.

Hisense (Chengdu) Refrigerator Co., Ltd., a subsidiary of the Company, received Chuan Jing Xin Chan Ye Han No. (2014)176 from Sichuan Province Commission of Economy and Information Technology on 7 March 2014. The principal activities of this subsidiary are recognized as industrial projects encouraged by the State. Pursuant to the tax preference regulation on Western Development policies, this subsidiary is entitled to the preferential enterprise income tax rate of 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% (2015: 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-added amount 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 — Continued

Half year of 2016

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) Subsidiaries

1. Subsidiaries acquired through 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	Consolidated 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	20,888.32	70%	30%	100%	Yes			
Guangdong Kelon Airconditioner Co., Ltd. ("Guangdong Airconditioner") ¹	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	3,700.10	44%	56%	100%	Yes			
Guangdong Hisense Home Appliances Co., Ltd. ("Hisense Home Appliances")	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	2,323.70	373.14	194.57
Foshan Shunde Rongsheng Plastic Co., Ltd. ("Rongsheng Plastic")	Subsidiary	Foshan	Industrial	US\$15,827,400	Limited liability company	Manufacture of plastic parts	8,431.26	44.92%	26.13%	70.06%	Yes	8,704.27	189.52	
Guangdong Kelon Mould Co., Ltd. ("Kelon Mould")	Subsidiary	Foshan	Industrial	US\$15,056,100	Limited liability company	Manufacture of moulds	9,123.89		70.11%	70.11%	Yes	5,832.21	245.89	
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. ("Kelon Jiake")	Wholly-owned subsidiary	Foshan	Industrial	6,000.00	Limited liability company	IT and communication technology, and microelectronics 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	-	
Hisense Ronshen (Yingkou) Refrigerator Co., Ltd. ("Yingkou Refrigerator")	Subsidiary	Yingkou	Industrial	20,000.00	Limited liability company	Manufacture and sale of refrigerators	14,532.33	42%	36.79%	78.79%	Yes	-77.72	-80.57	
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	24,733.03	60%	40%	100%	Yes			

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

(1) Subsidiaries — *Continued*

1. Subsidiaries acquired through 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	Consolidated or not	Minority interest	Gain or loss attributable to minority interest	Dividend attributed to minority interest
								Direct	Indirect					
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	32,860.25	74.33%	26.67%	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, airconditioners, freezers, small household appliances and related accessories	23,984.88	75%	25%	100%	Yes			
Shenzhen Kelon Purchase Co., Ltd. ("Shenzhen Kelon")	Wholly-owned subsidiary	Shenzhen	Commercial	10,000.00	Limited liability company	Domestic business, material supply and marketing (excluding franchise, control and monopoly of goods); import and export; provision of warehousing, information consultation	10,000.00	95%	5%	100%	Yes			
Pearl River Electric Refrigerator Co., Ltd. ("Pearl River Refrigerator")	Wholly-owned subsidiary	Hong Kong	Commercial	HK\$400,000	Limited liability company	Sale of raw materials and accessories for refrigerators	34.28		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 of electrical household appliances	2,612.82		100%	100%	Yes			

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS — Continued

(1) Subsidiaries — Continued

1. Subsidiaries acquired through 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	Consolidated or not	Minority interest	Gain or loss attributable to minority interest	Dividend attributed to minority interest
								Direct	Indirect					
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 selfmanufactured 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 after-sale and technical services of refrigerators, freezers, washing machines, living appliances and other household appliances	16,827.60		78.82%	78.82%	Yes	4,962.76	409.04	97.20
Qingdao Hisense Airconditioner Marketing Co., Ltd. ("Airconditioner 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 airconditioners, air purifiers, dehumidifiers, living appliances, environmental appliances	7,626.00		75.57%	75.57%	Yes	3,092.09	1,263.98	-
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 airconditioners, air purifiers, dehumidifiers, living appliances, environmental appliances and other household appliances products, sale of selfmanufactured products, provision of after-sale and technical consultancy services related to above products, import and export of various goods and technologies selfmanufactured 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			

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

(1) Subsidiaries — *Continued*

1. Subsidiaries acquired through 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	Consolidated or not	Minority interest	Gain or loss attributable to minority interest	Dividend attributed to minority interest
								Direct	Indirect					
Hisense (Guangdong) Mould Plastic Company Limited ("Hisense Guangdong Mould Plastic")	Wholly-owned subsidiary	Jiangmen	Industrial	1,000.00	Limited liability company	Manufacture of moulds, hardware, 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 selfmanufactured 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	-51.03	-51.03	
Jiangmen Hisense Electrical Appliances Jiangmen Co., Ltd	Wholly-owned subsidiary	Jiangmen	Industrial	1,000.00	Limited liability company	Manufacture and management of metal furniture (excluding gold and silver products), plastic furniture (excluding waste plastics), mold, heater, disinfection cabinet, CD and DVD cleaning supplies, TV stand, electronic components, automation equipment, range hoods, gas stoves, electric ovens, water heaters, steam boxes, microwave ovens, electric fans, dishwashers, communications wiring equipment, direct broadcast satellite receiving antenna and provide the relevant after-sale services and technical advisory services. (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 — Continued

Half year of 2016

6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS — Continued

(1) Subsidiaries — Continued

2. Subsidiaries acquired through 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 (%)		% of voting rights Consolidated held or not	Minority interest	Gain or loss attributable to minority interest	Dividend attributed to minority interest
							Direct	Indirect					
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	6,485.67	-2.96	1,530.00
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 airconditioning 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	-187.82	243.25	
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	7,890.88	663.08	458.89
Hisense (Nanjing) Electric Co., Ltd. ("Nanjing Refrigerator")	Subsidiary	Nanjing	Industrial	12,869.15	Limited liability company	Research and development, manufacture and sale of fluorinefree refrigeration products and other household appliances. Import and export of various self-manufactured and distributed goods and technologies	10,173.67		60%	60% Yes	5,294.62	-118.52	

*1: The Company holds 60% equity interests in Guangdong Air-conditioner and 70% equity interests in Huao Electronics, however as the Company has committed to provide financial support to these companies and bear their losses in entirety, the long-term equity investment was accounted for as 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. Illustration of changes in scope of business combination

Nil.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

(1) Subsidiaries — *Continued*

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	447,228.48	1,974.32	449,202.80	425,719.08		425,719.08
Air-conditioner Marketing Company	397,683.94	952.16	398,636.10	385,978.43		385,978.43
Name of the subsidiary	Opening 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

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

Nil.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

6. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS — Continued

(1) Subsidiaries — Continued

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

Major items in the financial statements	Currency	Balances denominated in foreign currency	Exchange rate	Unit: RMB Balances denominated in RMB
Cash at bank and on hand	HKD	33,304,991.01	0.8547	28,464,776.67
Net accounts receivable	HKD	796,854,806.98	0.8547	681,047,897.88
Other payables	HKD	762,193,103.91	0.8547	651,423,580.12
Revenue from principal operations	HKD	2,601,911,929.93	0.8524	2,217,869,729.07
Administrative expenses	HKD	1,273,927.70	0.8524	1,085,895.97

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 — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unless otherwise specified, opening balances refer to balances as at 1 January 2016, whereas closing balances refer to balances as at 30 June 2016; and the current period refers to January to June 2016, whereas the previous period refers to January to June 2016 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	100.00	1.0000	100.00	28,228.78	1.0000	28,228.78
Subtotal in cash:			100.00			28,228.78
Bank deposits:						
RMB	2,023,322,136.42	1.0000	2,023,322,136.42	964,341,992.87	1.0000	964,341,992.87
HKD	379,401.28	0.8547	324,274.27	611,326.77	0.8378	512,157.40
USD	5,265,738.96	6.6312	34,918,168.20	6,908,707.14	6.4937	44,862,826.06
JPY	158,386.00	0.0645	10,209.08	158,386.00	0.0539	8,533.05
EUR	3,325,455.11	7.3750	24,525,231.47	339,016.73	7.0952	2,405,388.38
Others			20.17			19.63
Subtotal of bank deposits:			2,083,100,039.61			1,012,130,917.39
Other cash at bank and on hand:						
RMB	3,441,281.40	1.0000	3,441,281.40	2,251,000.00	1.0000	2,251,000.00
Subtotal of other cash at bank and on hand:			3,441,281.40			2,251,000.00
Total			2,086,541,421.01			1,014,410,146.17

Notes to cash at bank and on hand:

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

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

Item	Closing balance	Opening balance
Security deposit	3,441,281.40	2,251,000.00
Total	3,441,281.40	2,251,000.00

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

2. Financial assets at fair value through profit or loss

(1) Category

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Financial assets held-for-trading	-	-
Including: Derivative financial assets	-	-
Total	-	-

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

- ① There was no financial assets held-for-trading as at the end of the period.
- ② Derivative financial assets mainly represented the outstanding forward exchange settlement and sale contracts entered into by the Company and banks, which were recognized as the financial assets or liabilities held-for-trading based on the difference between the quoted price of the outstanding forward contracts and the forward rates as at the end of the period.

3. Notes receivable

(1) Classification of notes receivable

<u>Category</u>	<u>Closing balance</u>	<u>Opening balance</u>
Bank acceptance notes	3,148,776,144.41	2,263,591,212.12
Commercial acceptance notes	49,437,564.98	26,114,836.79
Total	3,198,213,709.39	2,289,706,048.91

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

3. Notes receivable — Continued

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

Item	Pledged amounts as at the end of the period	
	Closing balance	Opening balance
Bank acceptance notes	2,158,100,139.01	1,329,834,954.24
Total	2,158,100,139.01	1,329,834,954.24

Whereas: the top five notes receivables are as follows:

Issuer	Date of issuance	Maturity date	Amount
Top 1	2016-6-16	2016-12-16	94,893,024.56
Top 2	2016-06-24	2016-12-24	80,013,932.95
Top 3	2016-5-27	2016-11-26	60,055,947.14
Top 4	2016-4-8	2016-10-8	41,640,366.15
Top 5	2016-5-24	2016-11-24	31,998,486.35

(3) As at the end of the period, the discounted notes receivable was RMB13,285,518.00.

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

(5) As at the end of the period, notes endorsed to other parties but not due yet amounted to RMB1,225,766,322.60 (31 December 2015: RMB2,890,620,776.34), with the top five notes receivables as follows:

Issuer	Date of issuance	Maturity date	Amount
Beijing Jingdong Century Trading Co, Ltd	2016-5-19	2016-11-19	39,841,738.28
GOME Electrical Appliances Holding Limited	2016-6-24	2016-12-24	12,000,000.00
Beijing Jingdong Century Trading Co, Ltd	2016-3-31	2016-09-30	11,166,469.55
GOME (Xian) Electrical Appliances Co, Ltd (西安市國美電器有限公司)	2016-6-22	2016-12-22	10,252,717.13
Suning (Shenzhen) Commerce and Sales Co., Ltd (深圳市蘇寧雲商銷售有限公司)	2016-5-12	2016-11-12	10,000,000.00

(6) Please see note 8 "Related Parties and Related transactions" for details of notes receivables from related parties as at the end of the period.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**4. Accounts receivable****(1) Accounts receivable by category:**

Category	Closing balance			
	Book value		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and subject to separate provision for bad debts				
Ageing analysis Greencool Companies	3,604,092,521.35	100.00	123,169,712.62	3.42
Subtotal	3,604,092,521.35	100.00	123,169,712.62	3.42
Individually insignificant but subject to separate provision for bad debts				
Total	3,604,092,521.35	100.00	123,169,712.62	3.42

Continued from above table

Category	Opening balance			
	Book value		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
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	5.64
Subtotal	2,211,818,987.20	100.00	125,222,568.20	5.64
Individually insignificant but subject to separate provision for bad debts				
Total	2,211,818,987.20	100.00	125,222,568.20	5.64

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

4. Accounts receivable — Continued

(1) Accounts receivable by category: — Continued

Accounts receivable in the group provided for bad debts by using ageing analysis method:

Age	Closing balance			Opening balance		
	Book value		Provision for bad debts	Book value		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within three months	3,443,770,208.83	95.55		2,050,051,659.69	92.69	
Over three months but within six months	36,465,867.29	1.01	3,646,586.73	33,702,888.63	1.52	3,370,288.86
Over six months but within one year	8,666,638.68	0.24	4,333,319.34	12,424,319.08	0.56	6,212,159.54
Over one year	115,189,806.55	3.20	115,189,806.55	115,640,119.80	5.23	115,640,119.80
Total	3,604,092,521.35	100.00	123,169,712.62	2,211,818,987.20	100.00	125,222,568.20

Movements in bad debt provision for accounts receivable

Year	Opening balance	Provision for the year	Decrease for the period		Closing balance
			Closing balance	Write-off	
First half 2016	125,222,568.20	528,112.94	2,580,968.52		123,169,712.62

(2) Accounts receivable that are written off

Nil.

- (3) As at 30 June 2016, there was no amounts due from shareholder who holds 5% or more voting shares of the Company in accounts receivable. As at 31 December 2015, there was no amounts due from shareholder who holds 5% or more voting shares of the Company in accounts receivable.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

4. Accounts receivable — Continued

(4) Top five accounts receivable

No.	Relationship with the Company	Amount	Age	Percentage of the total accounts receivable (%)
Top 1	Unrelated party	541,675,099.75	Within three months	15.03
Top 2	Unrelated party	358,970,047.82	Within three months	9.96
Top 3	Unrelated party	250,720,089.00	Within three months	6.96
Top 4	Related party	132,215,456.67	Within three months	3.67
Top 5	Unrelated party	115,667,621.72	Within three months	3.21
Total		1,399,248,314.96	—	38.83

(5) Please see note 8 “Related Parties and Related Transactions” for details of accounts receivable from related parties as at the end of the period.

(6) As at the end of the period, the balance of accounts receivable amounted to RMB236,608,357.04 were used for factoring secured borrowings to secure borrowings of RMB218,102,137.59.

5. Prepayments

(1) Prepayments are presented by aging as follows:

Age	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within one year	144,125,285.61	99.71	167,011,167.51	98.36
One to two years	413,093.81	0.29	2,793,205.35	1.64
Total	144,538,379.42	100.00	169,804,372.86	100.00

(2) Top five prepayments

No.	Relationship with the Company	Amount	Age	Reason for nonsettlement
Top 1	Unrelated party	44,757,125.47	Within one year	Normal settlement
Top 2	Unrelated party	17,354,867.58	Within one year	Normal settlement
Top 3	Unrelated party	5,302,885.33	Within one year	Normal settlement
Top 4	Unrelated party	2,827,135.29	Within one year	Normal settlement
Top 5	Unrelated party	2,597,140.46	Within one year	Normal settlement
Total		72,839,154.13	—	

(3) As at 30 June 2016, there was no amounts due from shareholder who holds 5% or more voting shares of the Company in the prepayments. As at 31 December 2015, there was no amounts due from shareholder who holds 5% or more voting shares of the Company in the prepayments.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

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	Percentage (%)	Amount	Percentage (%)
Individually significant and subject to separate provision for bad debts				
Ageing analysis	136,076,445.35	37.72	36,759,564.88	27.01
Greencool Companies	224,630,200.00	62.28	60,030,000.00	26.72
Subtotal	360,706,645.35	100.00	96,789,564.88	26.83
Individually insignificant but subject to separate provision for bad debts				
Total	360,706,645.35	100.00	96,789,564.88	26.83

Continued from above table:

Category	Opening balance			
	Book value		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and subject to separate provision for bad debts				
Ageing analysis	107,440,722.97	32.35	38,028,986.45	33.17
Greencool Companies	224,630,200.00	67.65	60,030,000.00	26.72
Subtotal	332,070,922.97	100.00	98,058,986.45	29.53
Individually insignificant but subject to separate provision for bad debts				
Total	332,070,922.97	100.00	98,058,986.45	29.53

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

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 aging are as follows:

Age	Closing balance			Opening balance		
	Book value		Provision for bad debts	Book value		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within three months	95,009,701.86	26.34		66,572,325.54	20.05	
Over three months but within six months	4,376,742.85	1.21	437,674.29	1,633,060.48	0.49	163,306.05
Over six months but within one year	736,220.10	0.20	368,110.05	2,739,313.11	0.82	1,369,656.56
Over one year	35,953,780.54	9.97	35,953,780.54	36,496,023.84	10.99	36,496,023.84
Total	136,076,445.35	37.72	36,759,564.88	107,440,722.97	32.35	38,028,986.45

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
Jinan San Ai Fu Chemical Co., Ltd. ("Jinan San Ai")	81,600,000.00		81,600,000.00	
Jiangxi Keda Plastic Technology Co. Ltd. ("Jiangxi Keda")	13,000,200.00		13,000,200.00	
Zhuhai Longjia Refrigerating Plant Co., Ltd. ("Zhuhai Longjia")	28,600,000.00		28,600,000.00	
Zhuhai Defa Air-conditioner Fittings Co., Ltd. ("Zhuhai Defa")	21,400,000.00		21,400,000.00	
Wuhan Changrong Electrical Appliance Co., Ltd. ("Wuhan Changrong")	20,000,000.00		20,000,000.00	
Beijing Deheng Solicitors ("Deheng Solicitors")	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00
Shangqiu Bingxiong Freezing Facilities Co., Ltd. ("Shangqiu Bingxiong")	58,030,000.00	58,030,000.00	58,030,000.00	58,030,000.00
Total	224,630,200.00	60,030,000.00	224,630,200.00	60,030,000.00

(2) Movements in provision for impairment of other receivables:

Year	Decrease for the period				
	Opening balance	Provision for the period	Closing balance	Reversal	Write-off
First half of 2016	98,058,986.45	750,610.87	2,020,032.44		96,789,564.88

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

6. Other receivables — Continued

(3) Other receivables that are written off

Nil

(4) As at 30 June 2016, there was no amounts due from shareholder that holds 5% or more voting shares of the Company in the balance of other receivables. As at 31 December 2015, there was no amounts due from shareholder that holds 5% or more 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	333,287,219.45	236,377,007.93
Personal borrowings	5,797,876.58	9,556,837.81
Security deposit	6,430,037.36	9,828,074.16
Others	15,191,511.96	76,309,003.07
Total	360,706,645.35	332,070,922.97

(6) Top five other receivables

No.	Relationship with the Company	Amount	Age	Percentage of the total other receivables (%)
Top 1	"Specific third party"	81,600,000.00	Over three years	22.62
Top 2	"Specific third party"	58,030,000.00	Over three years	16.09
Top 3	"Specific third party"	28,600,000.00	Over three years	7.93
Top 4	"Specific third party"	21,400,000.00	Over three years	5.93
Top 5	"Specific third party"	20,000,000.00	Over three years	5.54
Total		209,630,000.00	—	58.11

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.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

6. Other receivables — Continued

- (7) Please see note 8 “Related Parties and Related Transactions” for details of other receivables from related parties as at the end of the period.
- (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.

7. Inventories

(1) Classification of inventories

Item	Closing balance		
	Book value	Provision for declines in value	Carrying amount
Raw materials	262,495,404.50	31,327,706.11	231,167,698.39
Works in progress	168,701,678.75	8,794,941.40	159,906,737.35
Finished goods	1,763,925,162.96	36,143,099.54	1,727,782,063.42
Total	2,195,122,246.21	76,265,747.05	2,118,856,499.16

Continued from above table

Item	Opening 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
Total	2,360,191,091.97	90,051,534.42	2,270,139,557.55

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**7. Inventories — Continued****(2) Provision for declines in value of inventories**

<u>Inventories category</u>	<u>Opening balance</u>	<u>Provision for the year</u>	<u>Decrease for the period</u>		<u>Write-off</u>
			<u>Closing balance</u>	<u>Reversal</u>	
Raw materials	32,649,563.35		149,496.50	1,172,360.74	31,327,706.11
Works in progress	8,794,941.40				8,794,941.40
Finished goods	48,607,029.67		12,463,930.13		36,143,099.54
Total	90,051,534.42		12,613,426.63	1,172,360.74	76,265,747.05

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

<u>Item</u>	<u>Basis of the provision for declines in value of inventories</u>	<u>Reasons for the write-off of provision for declines in value of inventories during the year</u>
Raw materials	The lower of the cost and net realizable value	Removal due to sales
Works in progress		
Finished goods		

8. Other current assets

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Bank's assets management product	361,000,000.00	200,000,000.00
Other	265,343,884.03	267,872,305.65
Total	626,343,884.03	467,872,305.65

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. For the balance as at the end of the period, the commencement date of investment amounted to RMB 161 million was 18 April 2016 and the expiry date of investment was 1 August 2016. The investment yield was 4.84%; the commencement date of investment amounted to RMB 200 million was 30 June 2016 and the expiry date of investment was 6 September 2016. The investment yield was 4.40%
- (2) Other current assets-others mainly represent value-added tax retained for deduction.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

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	3,900,000.00		3,900,000.00
Including: Measured at cost	3,900,000.00		3,900,000.00	3,900,000.00		3,900,000.00
Total	3,900,000.00		3,900,000.00	3,900,000.00		3,900,000.00

Notes to available-for-sale financial assets: All the available-for-sale financial assets held by the Company are investments in non-listed companies in PRC.

(2) Available-for-sale financial assets measured at cost as at the end of the Reporting Period

Investee	Book value				Impairment provision				Shareholding in the investee (%)	Cash dividend in current period
	At the beginning of the period	Increase for the period	Decrease for the period	At the end of the period	At the beginning of the period	Increase for the period	Decrease for the period	At the end of the period		
Fujian Kelon Air-condition Sales Co., Ltd. ("Fujian Kelon")	100,000.00			100,000.00					2.00	
Hisense International Marketing Co., Ltd. ("Hisense International Marketing")	3,800,000.00			3,800,000.00					12.67	6,004,000.00
Total	3,900,000.00			3,900,000.00					-	6,004,000.00

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

10. Investments in joint ventures and associates

(1) Investments in joint ventures

Unit: RMB'0000

Name of investee	Entity type	Registered place	Legal representative	Business nature	Registered capital	% of shareholding	% 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

Unit: RMB'0000

Name of investee	Entity type	Registered place	Legal representative	Business nature	Registered capital	% of shareholding	% of voting rights	Accounting treatment
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.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

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 period		Opening balance/Amount incurred during previous period	
	Hisense Hitachi	Hisense-Whirlpool	Hisense Hitachi	Hisense-Whirlpool
Current assets	505,657.40	12,887.51	404,116.71	10,661.67
Including: Cash and cash equivalents	326,321.87	4,289.05	262,196.11	2,294.04
Non-current assets	42,508.96	24,883.39	43,732.01	26,533.61
Total assets	548,166.36	37,770.90	447,848.72	37,195.28
Current liabilities	282,521.39	22,460.61	189,408.03	16,412.50
Non-current liabilities	126.86		5,771.14	
Total liabilities	282,648.24	22,460.61	195,179.17	16,412.50
Minority interests	10,543.97	0.00	9,682.74	
Equity attributable to shareholders of parent	254,974.14	15,310.30	242,986.81	20,782.78
Share of net asset measured in proportion to shareholdings	124,937.33	7,655.15	119,063.53	10,391.39
Adjustment for:	2,458.68		2,613.05	
— Goodwill				
— Unrealized profits from intragroup transactions				
— others	2,458.68		2,613.05	
Carrying amount of investment in equity of joint ventures	127,396.01	7,655.15	121,676.58	10,391.39
Fair value of investment in equity of joint ventures with available quoted price				
Operating revenue	281,540.16	19,270.18	218,330.30	18,958.09
Financial expenses	-3,053.17	-44.40	-2,897.99	-200.39
Income tax expense	10,701.31		7,011.85	
Net profit	46,801.82	-5,472.48	34,695.12	-6,981.16
Net profit from discontinued operations				
Other comprehensive income				
Total comprehensive income	46,801.82	-5,472.48	34,695.12	-6,981.16
Dividend from joint ventures during current year	16,023.00		14,210.00	

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

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 period	Opening balance/ Amount incurred during previous period
Associate:	Attend	Attend
Total carrying amount of investments	248.98	257.36
Amounts in aggregate in proportion to the shareholdings:		
— Net profit	-8.38	-12.34
— Other comprehensive income		
— Total comprehensive income	-8.38	-12.34

11. Long-term equity investment

Investee	Accounting treatment	Investment cost	Opening balance	Increase for the period	Decrease for the period	Closing balance	% Equity interest held	% voting rights held	Impairment provision	Impairment provided in the period	Cash dividend
1. Investment in joint ventures											
Hisense-Whitpool	Equity method	225,000,000.00	103,913,887.02		27,362,398.33	76,551,488.69	50.00	50.00			
Hisense Hitachi	Equity method	332,821,597.45	1,216,765,858.10	217,424,224.22	160,230,000.00	1,273,960,082.32	49.00	49.00			160,230,000.00
2. Investment in associates											
Attend	Equity method	2,000,000.00	2,573,608.03		83,804.31	2,489,803.72	20.00	20.00			
3. Other long-term equity investment											
Combine*1	Equity method	11,000,000.00	11,000,000.00			11,000,000.00	55.00	55.00	11,000,000.00		
Total		570,821,597.45	1,334,253,353.15	217,424,224.22	187,676,202.64	1,364,001,374.73			11,000,000.00		160,230,000.00

*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;

as at the end of the Reporting Period, all the joint ventures and associates of the Company are unlisted companies.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**11. Long-term equity investment — Continued**

Whereas:

Item	Closing balance	Opening balance
Non-listed investment:		
Equity method	1,353,001,374.73	1,323,253,353.15
Joint venture	1,350,511,571.01	1,320,679,745.12
Associate	2,489,803.72	2,573,608.03
Total	1,353,001,374.73	1,323,253,353.15

12. Investment properties**(1) Investment properties measured at cost**

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
A. Total cost	68,689,779.02			68,689,779.02
1. Buildings and structures	68,689,779.02			68,689,779.02
B. Total accumulated depreciation and amortization	39,731,652.95	1,250,644.67		40,982,297.62
1. Buildings and structures	39,731,652.95	1,250,644.67		40,982,297.62
C. Total net book value	28,958,126.07			27,707,481.40
1. Buildings and structures	28,958,126.07			27,707,481.40
D. Total accumulated provision for impairment				
1. Buildings and structures				
E. Total carrying amount	28,958,126.07			27,707,481.40
1. Buildings and structures	28,958,126.07			27,707,481.40

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

12. Investment properties — *Continued*

(2) *Notes to investment properties*

- ① Depreciation expense during the first half of 2016 amounted to RMB1,250,644.67 and RMB1,250,146.67 for the first half of 2015.
- ② As at 30 June 2016, no investment properties were pledged by the Company.
- ③ As at 30 June 2016, the Company has not obtained ownership certificates for the investment property, with cost of RMB13,794,500, accumulated depreciation of RMB9,011,500 and net carrying amount of RMB4,783,000.

Breakdowns are as follows:

<u>Item</u>	<u>Carrying Amount</u>
Mee King Building	4,783,027.28
Total	<u>4,783,027.28</u>

- ④ As at 30 June 2016, 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.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

13. Fixed assets

(1) Particulars of fixed assets

Item	Buildings and structures	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Moulds	Total
A. Cost						
1. Opening balance	2,386,013,818.58	3,025,954,104.03	379,605,050.77	32,853,639.50	1,312,911,511.44	7,137,338,124.32
2. Additions in the period	47,475,046.80	70,555,594.81	17,225,035.61	852,215.80	85,046,406.15	221,154,299.17
(1) Purchase	34,623,887.24	24,884,233.26	1,913,306.36	367,170.55	54,704,764.59	116,493,362.00
(2) Transferred from construction in progress	12,851,159.56	45,671,361.55	15,311,729.25	485,045.25	30,341,641.56	104,660,937.17
3. Reductions in the period		22,784,116.55	1,031,360.18	920,514.27	18,821,113.30	43,557,104.30
(1) Disposal or retirement		22,784,116.55	1,031,360.18	920,514.27	18,821,113.30	43,557,104.30
4. Closing balance	2,433,488,865.38	3,073,725,582.29	395,798,726.20	32,785,341.03	1,379,136,804.29	7,314,935,319.19
B. Accumulated depreciation						
1. Opening 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
2. Additions in the period	49,440,848.70	110,224,142.46	16,398,295.76	2,204,009.15	143,538,563.59	321,805,859.66
(1) Provision	49,440,848.70	110,224,142.46	16,398,295.76	2,204,009.15	143,538,563.59	321,805,859.66
3. Reductions in the period		17,895,721.53	615,792.96	643,224.18	14,340,343.35	33,495,082.02
(1) Disposal or retirement		17,895,721.53	615,792.96	643,224.18	14,340,343.35	33,495,082.02
4. Closing balance	1,014,921,056.33	1,510,532,749.88	274,869,480.48	17,786,417.19	970,060,448.55	3,788,170,152.43
C. Impairment provision						
1. Opening balance	34,115,252.48	67,326,287.79	1,630,545.44	318,608.61	4,300,357.53	107,691,051.85
2. Additions in the period		1,898,221.00				1,898,221.00
(1) Provision		1,898,221.00				1,898,221.00
3. Reductions in the period		4,861,273.89	83,686.81		2,453,516.86	7,398,477.56
(1) Disposal or retirement		4,861,273.89	83,686.81		2,453,516.86	7,398,477.56
4. Closing balance	34,115,252.48	64,363,234.90	1,546,858.63	318,608.61	1,846,840.67	102,190,795.29
D. Carrying amount						
1. Opening 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
2. Closing carrying amount	1,384,452,556.57	1,498,829,597.51	119,382,387.09	14,680,315.23	407,229,515.07	3,424,574,371.47

In the first half of 2016, the fixed assets transferred from construction in progress amounted to RMB104,660,937.17 (the previous period: RMB647,721,519.05).

- (2) Depreciation expense for the first half of 2016 amounted to RMB321,805,859.66 and amounted to RMB317,049,648.16 for the first half of 2015.
- (3) As at the end of the period, no fixed asset was idle transitorily.
- (4) As at the end of the period, no fixed asset was held under finance lease.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

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	24,154,114.75
Total	24,154,114.75

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 period, no fixed asset was held for sale.

(7) As at the end of the period, fixed asset which has not obtained the ownership certificate

Item	Carrying amount	Reasons of not obtaining the ownership certificate
Buildings and structures	289,766,186.00	Achieved scheduled availability and were reclassified as fixed assets, the issuance of ownership certificate is in progress

(8) As at the end of the period, 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	24,860,823.78		24,860,823.78	12,606,059.96		12,606,059.96
Chengdu Refrigerator Shandong	1,458,867.06		1,458,867.06	5,893,772.32		5,893,772.32
Air-conditioning	6,694,188.89		6,694,188.89	1,593,943.45		1,593,943.45
Shandong Refrigerator Zhejiang	18,899,353.19		18,899,353.19	13,389,906.96		13,389,906.96
Air-conditioning	104,776.32		104,776.32	5,467,547.79		5,467,547.79
Hisense Guangdong						
Air-Conditioner	3,125,222.22		3,125,222.22	4,380,339.43		4,380,339.43
Hisense Home Appliance	1,408,672.04		1,408,672.04	12,499,451.04		12,499,451.04
Others	22,095,353.51	7,770,917.67	14,324,435.84	16,777,745.11	7,770,917.67	9,006,827.44
Total	78,647,257.01	7,770,917.67	70,876,339.34	72,608,766.06	7,770,917.67	64,837,848.39

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

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	2,222,301.75	2,011,046.29	1,924,528.30	30.90	Not completed	Self-funding	2,017,974.36
Production line of U-shell moulding of Chengdu Refrigerator	3,093,162.54	3,093,162.54		3,093,162.54		100.00	Completed	Self-funding	
Technology transformation for production line equipment of Zhejiang Air-conditioning	70,000,000.00	2,877,647.79		2,877,647.79		100.00	Completed	Self-funding	
Technology transformation of washing machine line equipment of Shangdong Refridgerator	14,360,000.00		7,141,862.77			49.73	Not completed	Self-funding	7,141,862.77
Production line of Shangqiu Kelon		7,770,917.67					Pending retirement	Self-funding	7,770,917.67
Others		55,135,790.86	109,778,749.71	96,679,080.55	6,518,957.81				61,716,502.21
Total		72,608,766.06	119,142,914.23	104,660,937.17	8,443,486.11				78,647,257.01

Notes to movements in constructions in progress:

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

(3) Provision for impairment of constructions in progress

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance	Reasons
Production line of Shangqiu Kelon	7,770,917.67			7,770,917.67	
Total	7,770,917.67			7,770,917.67	

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

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
A. Cost					
1. Opening balance	844,173,346.24	524,409,198.95	69,446,073.73	72,030,658.82	1,510,059,277.74
2. Additions in the period	6,965,497.73			8,443,486.11	15,408,983.84
(1) Purchase	6,965,497.73			8,443,486.11	15,408,983.84
3. Reductions in the period					
(1) Disposal					
4. Closing balance	851,138,843.97	524,409,198.95	69,446,073.73	80,474,144.93	1,525,468,261.58
B. Accumulated amortization					
1. Opening balance	239,234,063.26	134,130,255.55	60,398,046.32	45,323,737.64	479,086,102.77
2. Additions in the period	8,444,099.47		2,040,592.97	4,559,681.02	15,044,373.46
(1) Provision	8,444,099.47		2,040,592.97	4,559,681.02	15,044,373.46
3. Reductions in the period					
(1) Disposal					
4. Closing balance	247,678,162.73	134,130,255.55	62,438,639.29	49,883,418.66	494,130,476.23
C. Impairment provision					
1. Opening balance	50,012,843.19	286,061,116.40		519,447.21	336,593,406.80
2. Additions in the period					
(1) Provision					
3. Reductions in the period					
(1) Disposal					
4. Closing balance	50,012,843.19	286,061,116.40		519,447.21	336,593,406.80
D. Carrying amount					
1. Opening carrying amount	553,447,838.05	104,217,827.00	7,007,434.44	30,071,279.06	694,744,378.55
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 RMB15,044,373.46 for the first half of 2016, compared to that of RMB14,697,869.25 in the first half of 2015.
- ② As at the end of the period, no land use rights were pledged.
- ③ Trademarks were not amortized due to indefinite useful lives, and no provision was made for impairment of trademarks after tested for impairment at the end of the period.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

16. Long-term prepaid expenses

Item	Opening balance	Additions in the period	Amortization in the period	Other deductions	Closing balance	Reasons for Other deductions
Others	10,599,736.59	293,000.00	3,496,050.78		7,396,685.81	
Total	10,599,736.59	293,000.00	3,496,050.78		7,396,685.81	

Notes to long-term prepaid expenses: Long-term prepaid expenses – others mainly represented the overhaul expenses for the fixed assets.

17. Deferred tax assets/deferred tax liabilities

Net of deferred tax assets or liabilities and corresponding deductible or taxable temporary differences arising from offsetting

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
Deferred tax assets:				
Provision for assets impairment	25,834,510.82	136,622,111.82	30,733,323.61	128,573,303.09
Financial assets/liabilities held-for-trading	34,295.54	228,636.90	95,140.00	413,400.00
Others	68,517,057.21	446,255,783.34	72,262,595.16	481,750,634.40
Subtotal	94,385,863.57	583,106,532.06	103,091,058.77	610,737,337.49
Deferred tax liabilities:				
Accelerated depreciation	507,942.24	3,386,281.60	347,710.13	2,318,067.57
Subtotal	507,942.24	3,386,281.60	347,710.13	2,318,067.57

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

18. Short-term borrowings

(1) Short-term borrowings by category

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Secured borrowings	218,102,137.59	223,496,764.71
Discounted borrowings	30,000,000.00	
Total	248,102,137.59	223,496,764.71

Notes to the categories of short-term borrowings:

Secured borrowings represented the borrowings incurred by the pledged accounts receivable of the subsidiaries of the Company, all were US dollar and Euro 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

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Financial liabilities held-for-trading	716,847.98	9,767,732.75
Including: Derivative financial liabilities	716,847.98	9,767,732.75
Total	716,847.98	9,767,732.75

Notes to financial liabilities held-for-trading:

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

20. Notes payable

<u>Category</u>	<u>Closing balance</u>	<u>Opening balance</u>
Bank acceptance notes	2,589,506,581.28	1,838,720,198.27
Commercial acceptance notes	1,855,027,570.17	1,092,454,306.25
Total	4,444,534,151.45	2,931,174,504.52

Particulars of notes payable:

- ① As at 30 June 2016, there were no amount due to shareholders holding 5% or more of the voting shares of the Company in the balance of notes payable. As at 31 December 2015, there were no amount due to shareholders holding 5% or more 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 period.
- ③ Please see note 8 “Related Parties and Related Transactions” for details of notes payable to related parties as at the end of the period.

21. Accounts payable

(1) Ageing analysis of accounts payable

<u>Age</u>	<u>Closing balance</u>	<u>Opening balance</u>
Within one year	3,860,745,341.20	2,765,359,219.91
Over one year	115,183,073.17	112,932,456.62
Total	3,975,928,414.37	2,878,291,676.53

- (2) As at 30 June 2016, there was no amount due to shareholders holding 5% or more of the voting shares of the Company in the balance of accounts payable. As at 31 December 2015, there was no amount due to shareholders holding 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 Transactions” for details of accounts payable to related parties as at the end of the period.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

22. Advances from customers

(1) Aging analysis of advances from customers

Age	Closing balance	Opening balance
Within one year	436,879,235.97	647,441,341.44
Over one year	65,374,581.65	65,492,985.12
Total	502,253,817.62	712,934,326.56

(2) As at 30 June 2016, there was no amount due to shareholders holding 5% or more of the voting shares of the Company in the balance of advances from customers. As at 31 December 2015, there was no amount due to shareholders holding 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 Transactions" for details of amount due to related parties in the balance of advances from customers as at the end of the period.

23. Compensations payable to employee

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

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
1. Short-term compensations	246,017,091.79	1,268,935,934.51	1,275,063,213.43	239,889,812.87
2. Post-employment benefit-defined contribution plans	1,739,562.15	96,071,930.64	95,642,945.20	2,168,547.59
3. Termination benefits	2,992,637.00	2,305,297.85	4,565,500.43	732,434.42
Total	250,749,290.94	1,367,313,163.00	1,375,271,659.06	242,790,794.88

(2) Short-term compensations are as follows:

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
1. Wages and salaries, bonuses, allowances and subsidies	239,338,494.21	1,081,865,609.06	1,092,051,229.12	229,152,874.15
2. Staff welfare	2,877,135.02	74,764,761.85	73,180,609.75	4,461,287.12
3. Social insurance	810,459.90	54,320,076.16	54,102,470.87	1,028,065.19
Including: Medical insurance	631,208.75	47,553,227.63	47,401,673.31	782,763.07
Work-related injury insurance	122,726.15	3,318,436.82	3,281,597.27	159,565.70
Maternity insurance	56,525.00	3,448,411.71	3,419,200.29	85,736.42
4. Housing provident funds	909,771.00	50,356,828.49	49,850,425.83	1,416,173.66
5. Labor union funds and employee education funds	2,081,231.66	7,628,658.95	5,878,477.86	3,831,412.75
Total	246,017,091.79	1,268,935,934.51	1,275,063,213.43	239,889,812.87

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**23. Compensations payable to employee — Continued****(3) Defined contribution plans are as follows:**

<u>Item</u>	<u>Opening balance</u>	<u>Increase for the period</u>	<u>Decrease for the period</u>	<u>Closing balance</u>
1. Basic pension insurance	1,532,030.12	90,818,624.71	90,664,178.19	1,686,476.64
2. Unemployment insurance	207,532.03	5,253,305.93	4,978,767.01	482,070.95
Total	1,739,562.15	96,071,930.64	95,642,945.20	2,168,547.59

Notes to compensations payable to employee:

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

24. Taxes payable

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Value-added tax	90,605,994.00	55,481,039.23
Business tax	26,190.00	98,072.39
Enterprise income tax	78,360,641.95	47,157,158.18
Individual income tax	4,965,190.33	4,311,325.58
City maintenance and construction tax	9,232,270.97	5,754,629.77
Real estate tax	11,884,581.78	12,421,121.95
Land use tax	2,625,630.22	4,318,588.72
Education surcharges	6,793,972.81	3,303,614.08
Embankment maintenance fee	6,710,454.02	8,025,085.06
Others	28,561,090.85	20,815,640.83
Total	239,766,016.93	161,686,275.79

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

25. Dividends payable

<u>Name</u>	<u>Closing balance</u>	<u>Opening balance</u>
Shareholders of listed companies	204,408,805.50	
Other minority interests	27,720.00	
Total	204,436,525.50	

26. Other payables

(1) *Ageing analysis of other payables:*

<u>Age</u>	<u>Closing balance</u>	<u>Opening balance</u>
Within one year	1,315,452,162.85	1,130,585,835.70
Over one year	357,173,834.94	353,158,377.45
Total	1,672,625,997.79	1,483,744,213.15

(2) As at 30 June 2016, there was no amount due to shareholders holding 5% or more of the voting shares of the Company in the balance of other payables. As at 31 December 2015, there was no amount due to shareholders holding 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 Transactions" for details of amount due to related parties in the balance of other payables as at the end of the period.

(4) *Particulars of other payables of significant amounts due over one year*

<u>Name</u>	<u>Amount</u>	<u>Reasons for remaining outstanding</u>	<u>Remark</u>
Zhuhai Longjia	17,766,425.03	Current account	Specific third party companies account
Jiangxi Greencool	13,000,000.00	Current account	Greencool Companies

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**27. Other current liabilities**

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>	<u>Reasons for the balance</u>
Installation fees	320,330,903.38	223,801,506.00	Installation fee provided for but not yet paid in respect of goods sold
Sales discounts	373,702,180.49	383,724,421.71	Incurred but not yet settled
Transportation fees	13,523,382.70	6,575,760.00	Incurred but not yet settled
Marketing fees	70,083,433.25	68,831,266.69	Incurred but not yet settled
Power fees	10,523,558.52	10,732,725.85	Incurred but not yet settled
Agency fees	30,581,639.11	30,338,030.76	Incurred but not yet settled
Others	75,170,144.07	70,101,858.66	Incurred but not yet settled
Total	893,915,241.52	794,105,569.67	

28. Provisions

<u>Item</u>	<u>Opening balance</u>	<u>Increase for the period</u>	<u>Decrease for the period</u>	<u>Closing balance</u>
Pending litigation	4,681,799.03		904,882.08	3,776,916.95
Provision for warranties*	316,277,225.61		38,933,626.00	277,343,599.61
Total	320,959,024.64		39,838,508.08	281,120,516.56

* 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.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

29. Deferred income

Item	Closing balance	Opening balance
Deferred income	51,971,085.09	51,750,592.81
Total	51,971,085.09	51,750,592.81

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	800,000.00	1,025,000.00
Technology reform project for design and production of high-pressuring smart moulds	1,726,666.67	1,866,666.67
Others	27,994,418.42	27,408,926.14
Total	51,971,085.09	51,750,592.81

30. Share capital

Share classes	Opening balance	Increase for the period	Decrease for the period	Closing balance
Restricted floating shares subject to lock-up	1,072,545.00	39,090.00		1,111,635.00
Including: Other domestic shares				
Including: Shares held by domestic natural persons	1,072,545.00	39,090.00		1,111,635.00
Unrestricted floating shares not subject to lock-up	1,361,652,825.00		39,090.00	1,361,613,735.00
Including: RMB ordinary shares	902,063,017.00		39,090.00	902,023,927.00
Overseas listed foreign shares	459,589,808.00			459,589,808.00
Total number of shares	1,362,725,370.00	39,090.00	39,090.00	1,362,725,370.00

All the restricted floating shares subject to lock-up are lock-up shares held by senior management. During the reporting period, as an increase of 39,090 shares held by senior management resulting from newly employed senior management, the restricted floating shares subject to lock-up of the Company increased to 1,111,635 shares during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

31. Capital reserve

(1) Changes in capital reserve

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
Share premium	2,033,770,231.81			2,033,770,231.81
Other capital reserve	121,758,999.36			121,758,999.36
Total	2,155,529,231.17			2,155,529,231.17

32. Other comprehensive income

Item	Opening balance	Amount incurred in the period					Attributable to minority interest after tax	Closing balance
		Amount before income tax for the period	Less: Amount included in other comprehensive income in previous period and transferred to profit or loss in current period	Less: income tax expense	Attributable to parent after tax			
1. Other comprehensive income that would not be reclassified subsequently to profit or loss Including: Share of other comprehensive income of investee that not to be reclassified into profit or loss under equity method								
2. Other comprehensive income that would be reclassified subsequently to profit or loss Including: Share of other comprehensive income of investee that would be reclassified into profit or loss under equity method	11,482,265.05	962,025.96			962,025.96		12,444,291.01	
Difference arising from translation of financial statements presented in foreign currency	24,823.98						24,823.98	
	11,457,441.07	962,025.96			962,025.96		12,419,467.03	
Total other comprehensive income	11,482,265.05	962,025.96			962,025.96		12,444,291.01	

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

33. Surplus reserve

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
Statutory surplus reserve	240,622,313.49			240,622,313.49
Total	240,622,313.49			240,622,313.49

34. Undistributed profits

Item	Ratio for appropriation or distribution	Amount for the period	Amount for previous period
Undistributed profits at the end of previous period		273,658,518.74	-211,243,768.43
Add: Adjustment to undistributed profits at the beginning of the period			
Undistributed profits at the beginning of the period		273,658,518.74	-211,243,768.43
Add: Net profits attributable to the shareholders of the parent in current period		559,279,481.31	580,335,074.18
Less: Appropriation of statutory surplus reserve	10%		95,432,787.01
Dividends payable on ordinary shares		204,408,805.50	
Undistributed profits at the end of the period		628,529,194.55	273,658,518.74

35. Operating revenue and operating costs

(1) Operating revenue and operating costs

Item	Amount for the period	Amount for previous period
Revenue from principal operations	12,160,903,726.53	12,487,779,215.49
Revenue from other operations	962,047,804.98	1,123,369,404.40
Total operating revenue	13,122,951,531.51	13,611,148,619.89
Costs of principal operations	9,175,148,808.22	9,781,224,754.56
Costs of other operations	869,109,423.41	1,019,426,137.43
Total operating costs	10,044,258,231.63	10,800,650,891.99

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

35. Operating revenue and operating costs — Continued

(2) Principal operations (by products)

Products	Amount for the period		Amount for previous period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
1. Refrigerators and washing machines	6,041,357,800.87	4,483,624,314.27	6,136,651,831.84	4,759,023,251.48
2. Air-conditioners	5,416,889,955.83	4,186,656,955.15	5,793,122,043.63	4,597,727,838.07
3. Others	702,655,969.83	504,867,538.80	558,005,340.02	424,473,665.01
Total	12,160,903,726.53	9,175,148,808.22	12,487,779,215.49	9,781,224,754.56

(3) Principal operations (by region)

Region	Amount for the period		Amount for previous period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Domestic	7,532,607,084.66	5,291,560,808.05	8,403,560,311.36	6,141,490,802.42
Overseas	4,628,296,641.87	3,883,588,000.17	4,084,218,904.13	3,639,733,952.14
Total	12,160,903,726.53	9,175,148,808.22	12,487,779,215.49	9,781,224,754.56

(4) Operating revenue from the top five customers

No.	Amount for the period	Percentage of the total revenue from principal operations of the Company (%)
Top 1	1,273,168,375.72	10.47
Top 2	837,887,461.71	6.89
Top 3	563,343,830.73	4.63
Top 4	402,549,866.36	3.31
Top 5	298,938,957.78	2.46
Total	3,375,888,492.30	27.76

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**36. Business tax and surcharges**

Item	Standard charge rate	Amount for the period	Amount for previous period
Business tax	5%	501,404.78	878,259.41
City maintenance and construction tax	1%-7%	32,000,827.91	17,433,115.11
Education surcharges	3%, 2%	21,453,474.76	12,574,905.72
Total		53,955,707.45	30,886,280.24

37. Financial expenses

Item	Amount for the period	Amount for previous period
Interest expenses*	6,579,120.82	5,543,081.06
Less: Interest income	4,109,203.50	2,896,619.54
Exchange gain or loss	-37,017,657.72	-16,495,792.59
Others	1,153,053.66	-10,960,537.94
Total	-33,394,686.74	-24,809,869.01

* Interest expenses for the half year of 2016 and for the half year of 2015 were the interests on bank borrowings of the last instalment of repayment within five years.

38. Impairment losses on assets

Item	Amount for the period	Amount for previous period
1. Bad debt loss	-3,322,277.15	12,408,484.13
2. Loss on decline in value of inventories	-12,613,426.63	-4,000,114.21
3. Impairment loss on fixed assets	1,898,221.00	12,464,957.55
Total	-14,037,482.78	20,873,327.47

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

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 period	Amount for previous period
Financial assets held-for-trading		45,722,685.11
Including: Gain from changes in fair value of derivative financial instruments		45,722,685.11
Financial liabilities held-for-trading	9,050,884.77	7,391,136.66
Total	9,050,884.77	53,113,821.77

40. Investment gain**(1) Breakdown of investment gain**

Item	Amount for the period	Amount for previous period
Gain from available-for-sale financial assets during holding period	6,004,000.00	7,410,000.00
Gain from long-term equity investment under the equity method	189,978,021.58	127,811,784.18
Gain from disposal of long-term equity investment		135,598,968.15
Gain from disposal of financial assets at fair value through profit or loss	-6,164,321.06	19,692,123.18
Gain from purchase of wealth management products	701,369.86	
Total	190,519,070.38	290,512,875.51

(2) Gain from available-for-sale financial assets during holding period

Investee	Amount for the period	Amount for previous period
Hisense International Marketing	6,004,000.00	7,410,000.00
Total	6,004,000.00	7,410,000.00

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

40. Investment gain — *Continued*

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

<u>Investee</u>	<u>Amount for the period</u>	<u>Amount for previous period</u>
Attend	-83,804.31	-123,441.24
Hisense-Whirlpool	-27,362,398.33	-34,905,811.85
Hisense Hitachi	217,424,224.22	162,841,037.27
Total	189,978,021.58	127,811,784.18

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

41. Non-operating income and non-operating expenses

Non-operating income

<u>Item</u>	<u>Amount for the period</u>	<u>Amount for previous period</u>
Total gain from disposal of non-current assets	785,867.64	1,040,721.35
Including: Gain from disposal of fixed assets	785,867.64	1,040,721.35
Government grants	49,131,191.63	95,745,088.44
Other	7,014,727.82	4,906,581.04
Total	56,931,787.09	101,692,390.83

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

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

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

Item	Amount for the period	Amount for previous period
1. Government grants related to assets		
Production technology reform project for energy-saving household SBS large-size refrigerator* ¹	225,000.00	225,000.00
Production capacity expansion and technology renovation project for low-carbon, energy-saving, chlorine-free refrigerator* ²	140,000.00	140,000.00
Government grants related to other assets	3,131,876.32	4,288,077.72
Subtotal	3,496,876.32	4,653,077.72
2. Government grants related to income		
Other government subsidies	45,634,315.31	91,092,010.72
Subtotal	45,634,315.31	91,092,010.72
Total	49,131,191.63	95,745,088.44

¹ 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 2016, income in the amount of each year of RMB450,000.00 was recognized and there was still RMB800,000.00 subject to deferred recognition.

² 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 2016, income in the amount of each year of RMB280,000.00 was recognized and there was still RMB1,726,666.67 subject to deferred recognition.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**41. Non-operating income and non-operating expenses — Continued***Non-operating expenses*

Item	Amount for the period	Amount for previous period
Total loss on disposal of non-current assets	760,157.38	7,334,966.96
Including: Loss on disposal of fixed assets	760,157.38	7,334,966.96
Other	890,889.37	2,012,632.83
Total	1,651,046.75	9,347,599.79

42. Income tax expenses*(1) Income tax expenses*

Item	Amount for the period	Amount for previous period
Current income tax	97,227,104.23	95,447,366.39
Including: PRC enterprise income tax	97,227,104.23	88,651,587.23
Hong Kong profit tax		6,795,779.16
Deferred tax expenses	8,705,195.20	-31,067,036.47
Total	105,932,299.43	64,380,329.92

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

Item	Amount for the period
Total profits	696,560,056.85
Income tax expense calculated at statutory (or applicable) tax rates	196,629,521.84
Effect of application of different tax rate to certain subsidiaries	-21,511,232.56
Adjustment to income tax in previous period	
Profit and loss attributable to joint ventures and associated companies	-47,494,505.40
Effect of non-taxable income	
Effect of non-deductible cost, expense and loss	-1,501,000.00
Effect of utilization of deductible losses unrecognized as deferred tax assets in previous period	630,846.42
Effect of deductible temporary difference or deductible loss unrecognized as deferred tax assets in current period	10,381,677.65
Changes in opening balance of deferred tax assets/liabilities arising from changes in tax rate	-22,830,118.14
Effect of super deduction of research and development expense	
Others	-8,372,890.38
Income tax expense	105,932,299.43

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

43. Calculation of basic and diluted earnings per share

Item		Amount for the period	Amount for previous period
Net profits attributable to ordinary shareholders of the Company of the reporting period	P1	559,279,481.31	505,717,733.90
Non-recurring item attributable to ordinary shareholders of the Company of the reporting period	F	40,118,251.42	218,189,788.05
Net profits after non-recurring item attributable to ordinary shareholders of the Company of the reporting period	P2=P1-F	519,161,229.89	287,527,945.85
Effect of dilutive events on net profits attributable to ordinary shareholders of the Company	P3		
Effect of dilutive events on net profits after non-recurring item attributable to ordinary shareholders of the Company	P4		
Weighted average number of ordinary shares	S	1,362,725,370.00	1,359,200,528.33
Add: Additional weighted average number of ordinary shares assuming conversion of all dilutive potential ordinary shares to ordinary shares	X1		
Weighted average number of ordinary shares in the calculation of diluted earnings per share	X2=S+X1	1,362,725,370.00	1,359,200,528.33
Basic earnings per share attributable to ordinary shareholders of the Company	Y1=P1/S	0.41	0.37
Basic earnings per share attributable to ordinary shareholders of the Company after nonrecurring items	Y2=P2/S	0.38	0.21
Diluted earnings per share attributable to ordinary shareholders of the Company	Y3=(P1+P3)/X2	0.41	0.37
Diluted earnings per share attributable to ordinary shareholders of the Company after non-recurring items	Y4=(P2+P4)/X2	0.38	0.21

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

44. Other comprehensive incomes

Item	Amount for the period	Amount for previous period
1. Recognition of share of other comprehensive incomes of the investee based on equity method		-33,710,275.87
Less: Income tax effect arising from recognition of share of other comprehensive incomes of the investee based on equity method		
Add: Net amount accounted for as other comprehensive incomes in the previous period and transferred to profit and loss in the current period		4,298,798.14
Subtotal		-29,411,477.73
2. Difference on translation of foreign currency financial statements	962,025.96	-818,758.48
Less: Net amount transferred to gain/(loss) upon disposal of foreign operations in the current period		
Subtotal	962,025.96	-818,758.48
3. Other		
Less: Income tax effect arising from other items under other comprehensive income		
Net amount of other items under other comprehensive income of previous period transferred in the current period		
Subtotal		
Total	962,025.96	-30,230,236.21

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**45. Notes to cash flows statement***(1) Other cash receipt related to operating activities*

Item	Amount for the period	Amount for previous period
Interest incomes	4,109,203.50	2,896,619.54
Government grants	30,537,415.05	92,477,937.66
Other	187,723,981.64	169,305,543.67
Total	222,370,600.19	264,680,100.87

(2) Other cash payment related to operating activities

Item	Amount for the period	Amount for previous period
Cash payments for general and administrative expense	243,427,595.62	251,838,732.09
Cash payments for sales expenses	1,450,784,222.60	1,347,984,708.00
Bank charges	6,904,452.04	1,469,497.12
Other	356,954,892.85	472,186,240.43
Total	2,058,071,163.11	2,073,479,177.64

(3) Other cash payment related to investing activities

Item	Amount for the period	Amount for previous period
Acquisition of assets management products	361,000,000.00	
Total	361,000,000.00	

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

46. Supplementary information on cash flows statement

(1) Supplementary information on cash flows statement

Supplementary information	Amount for the period	Amount for previous period
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	590,627,757.42	514,069,507.44
Add: Provision for assets impairment	-14,037,482.78	20,873,327.47
Depreciation of fixed assets	323,056,504.33	318,300,292.83
Amortization of intangible assets	14,790,701.67	14,697,869.25
Amortization of long-term prepaid expenses	3,496,050.78	3,012,474.16
Loss on disposals of fixed assets, intangible and other longterm assets	-25,710.26	6,294,245.61
Loss on scrapping of fixed assets		
Loss on change in fair value	-9,050,884.77	53,113,821.77
Financial expenses	6,579,120.82	-30,352,950.07
Investment loss	-190,519,070.38	-290,512,875.51
Decrease in deferred tax assets	8,705,195.20	-31,067,036.47
Increase in deferred tax liabilities	160,232.11	-130,574.05
Decrease in inventory	165,068,845.76	-432,081,841.86
Decrease in operating receivables	-2,304,150,923.57	-2,067,029,097.85
Increase in operating payables	2,472,020,934.30	1,721,647,991.99
Others		
Net cash flows from operating activities	1,066,721,270.63	-199,164,845.29
2. Significant investing and financing activities not involving cash receipts and payment:		
Liabilities converted into equity		
Convertible company debentures due within one year		
Fixed assets under finance leases		
3. Net movement in cash and cash equivalents:		
Cash at the end of the period	2,083,100,139.61	878,149,377.53
Less: Cash at the beginning of the period	1,012,159,146.17	870,038,755.12
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	1,070,940,993.44	8,110,622.41

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**46. Supplementary information on cash flows statement — Continued****(2) Details of cash and cash equivalents**

Item	Closing balance	Opening balance
1. Cash	2,083,100,139.61	1,012,159,146.17
Including: Cash on hand	100.00	28,228.78
Bank deposit that are readily available for payment	2,083,100,039.61	1,012,130,917.39
Other cash that are readily available for payment		
2. Cash equivalents		
Including: Bond investments due within three months		
3. Cash and cash equivalents as at the end of the period	2,083,100,139.61	1,012,159,146.17

47. Assets with limited ownership or use rights

Item	Closing carrying amount	Reason for limitation
Monetary funds	3,441,281.40	As secured amount
Notes receivables	2,158,100,139.01	As collaterals for notes
Account receivables	236,608,357.04	As collaterals for short-term borrowings
Total	2,398,149,777.45	

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**48. Net current assets**

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Current assets (Consolidated)	11,919,333,782.21	8,532,540,786.66
Less: Current liabilities (Consolidated)	12,425,069,945.63	9,445,950,354.62
Net current assets (Consolidated)	-505,736,163.42	-913,409,567.96
Current assets (the parent)	2,664,934,074.41	2,909,661,756.05
Less: Current liabilities (the parent)	2,092,914,531.12	2,335,475,827.76
Net current assets (the parent)	572,019,543.29	574,185,928.29

49. Total assets less current liabilities

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Total assets (Consolidated)	17,596,853,296.61	14,292,817,039.53
Less: Current liabilities (Consolidated)	12,425,069,945.63	9,445,950,354.62
Total assets less current liabilities (Consolidated)	5,171,783,350.98	4,846,866,684.91
Total assets (the parent)	6,847,349,216.68	7,078,766,344.72
Less: current liabilities (the parent)	2,092,914,531.12	2,335,475,827.76
Total assets less current liabilities (the parent)	4,754,434,685.56	4,743,290,516.96

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

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 the period	Refrigerators and washing machines	Air-conditioners	Others	Inter-segment elimination	Total
1. Revenue from external sales	6,041,357,800.87	5,416,889,955.83	702,655,969.83		12,160,903,726.53
2. Revenue from Inter-segment			672,173,231.55	-672,173,231.55	
3. Gain from investment in associates and jointly controlled entities	-27,362,398.33	217,424,224.22	-83,804.31		189,978,021.58
4. Depreciation and amortization	179,950,744.44	119,090,768.20	38,805,693.36		337,847,206.00
5. Gain from changes in fair value	4,433,060.83	4,433,060.83	184,763.11		9,050,884.77
6. Impairment losses on assets	-8,131,026.03	-5,829,456.75	-77,000.00		-14,037,482.78
7. Total profit (Total loss)	221,281,099.54	408,548,324.16	84,389,434.70	-17,658,801.55	696,560,056.85
8. Income tax expenses	57,025,180.64	27,478,787.50	21,428,331.29		105,932,299.43
9. Net profit (net loss) (including minority interests)	164,255,918.90	381,069,536.66	62,961,103.41	-17,658,801.55	590,627,757.42
10. Total assets	14,011,715,077.91	10,750,661,852.88	3,973,369,533.57	-11,138,893,167.75	17,596,853,296.61
11. Total liabilities	9,460,920,837.23	8,507,616,636.87	2,443,239,743.62	-7,653,107,728.20	12,758,669,489.52
12. Additions to other non-current assets other than long-term equity investments	-8,463,922.16	-60,147,376.91	-43,893,460.98		-112,504,760.05

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

50. Segment information — Continued

(1) Segment profit or loss and assets and liabilities — Continued

Continued from above table

Amount for previous period	Refrigerators and washing machines	Air-conditioners	Others	Inter-segment elimination	Total
1. Revenue from external sales	6,136,651,831.84	5,793,122,043.63	558,005,340.02		12,487,779,215.49
2. Revenue from Inter-segment			566,503,360.66	-566,503,360.66	
3. Gain from investment in associates and jointly controlled entities	-34,905,811.85	162,841,037.27	-123,441.24		127,811,784.18
4. Depreciation and amortization	197,664,510.72	92,360,362.20	45,985,763.32		336,010,636.24
5. Gain from changes in fair value	23,117,472.33	24,524,066.45	5,472,282.99		53,113,821.77
6. Impairment losses on assets	12,150,229.02	8,365,319.47	357,778.98		20,873,327.47
7. Total profit (Total loss)	106,105,797.34	274,655,711.17	252,174,499.30	-54,486,170.45	578,449,837.36
8. Income tax expenses	52,917,164.89	770,306.50	10,692,858.53		64,380,329.92
9. Net profit (net loss) (including minority interests)	53,188,632.45	273,885,404.67	241,481,640.77	-54,486,170.45	514,069,507.44
10. Total assets	12,402,487,086.05	12,421,901,717.31	3,870,706,529.19	-12,516,493,360.94	16,178,601,971.61
11. Total liabilities	8,290,649,600.96	9,921,667,497.54	2,511,371,115.46	-8,992,403,692.82	11,731,284,521.14
12. Additions to other non-current assets other than long-term equity investments	74,572,137.17	383,326,275.66	-38,574,427.58		419,323,985.25

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**50. Segment information — Continued****(2) Geographic Information**

Region	Half year of 2016	Half year of 2015
Revenue from domestic transactions	7,532,607,084.66	8,403,560,311.36
Revenues from overseas transactions	4,628,296,641.87	4,084,218,904.13
Total	12,160,903,726.53	12,487,779,215.49
Region	Closing balance	Opening balance
Non-current assets — Domestic	5,667,444,725.96	5,749,543,669.67
Non-current assets — Overseas	10,074,788.44	10,732,583.20
Total	5,677,519,514.40	5,760,276,252.87

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

8. RELATED PARTIES AND RELATED TRANSACTIONS

1. Particulars of the parent

(Unit: RMB'0000)

Name of the Parent	Relationship	Category of enterprise	Place of registration	Legal Representative	Business Nature
Qingdao Hisense Air-conditioning	Controlling Shareholder	Foreign-sino Joint Venture	Qingdao	Tang Ye Guo	Manufacture of air-conditioners, moulds and provision of after-sale services
Hisense Group	Ultimate Holding shareholder	State wholly-owned	Qingdao	Zhou Houjian	Entrusted operation of state-owned assets; manufacture and sales of household appliances, communication, products and services

Continued from above table

Name of the Parent	Registered capital	Shareholding of the parent (%)	Voting rights of the parent (%)	Ultimate holding company	Creditability code Organization code
Qingdao Hisense Air-conditioning	67,479	44.93	44.93	State-owned Assets Supervision and Administration Commission of Qingdao Municipal	913702126143065147
Hisense Group	80,617			State-owned Assets Supervision and Administration Commission of Qingdao Municipal	913702001635787718

2. For information on the subsidiaries, associates and joint ventures of the Company, please see note 6 "Business Combination and consolidated Financial Statements", note 7(10) "Investments 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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

8. RELATED PARTIES AND RELATED TRANSACTIONS — Continued

4. Other related parties of the Company

<u>Name of other related parties</u>	<u>Relationship of other related parties with the Company</u>	<u>Organization Code</u>
Hisense Finance Co., Ltd. ("Hisense Finance")	Subsidiary of ultimate holding company	9137020071788291XT
Hisense Electric Co., Ltd. ("Hisense Electrical")	Subsidiary of ultimate holding company	26462882-x
Beijing Xuehua Group Company Limited ("Xuehua Group")	Minority shareholder of Beijing Refrigerator	
Beijing Embraco Snowflake Compressor Co., Ltd. ("Embraco")	Associate of Xuehua Group	
Hisense (HK) Co., Ltd. ("Hisense Hong Kong")	Subsidiary of ultimate holding company	

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

<u>Name of related party</u>	<u>Relationship with the Company</u>
Jinan San Ai Fu	Specific Third Party Company
Jianxi Keda	Specific Third Party Company
Zhuhai Longjia	Specific Third Party Company
Zhuhai Defa	Specific Third Party Company
Wuhan Changrong	Specific Third Party Company
Deheng Solicitors	Specific Third Party Company
Shangqiu Bingxiong	Specific Third Party Company

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

8. RELATED PARTIES AND RELATED TRANSACTIONS — Continued

6. Related party transactions

(1) Purchase of goods/receipt of services

Related Party	Particulars of related parties transactions	Pricing and decision-making procedures of related parties transactions	Amount for the Period		Amount for previous Period	
			Amount	Percentage to similar transaction (%)	Amount	Percentage to similar transaction (%)
Hisense Electrical Appliances and its subsidiaries	Purchase of finished goods	Agreed Price	114,222.21	0.00	52,051.29	0.00
Hisense Whirlpool	Purchase of finished goods	Agreed Price	107,137,870.97	1.07	79,618,286.63	0.74
Hisense Hitachi	Purchase of finished goods	Agreed Price			157,204.27	0.00
Subtotal of purchase of finished good			107,252,093.18	1.07	79,827,542.19	0.74
Hisense Group and its subsidiaries	Purchase of raw materials	Agreed Price	1,502,863.32	0.01	4,044,598.06	0.04
Hisense Electrical Appliances and its subsidiaries	Purchase of raw materials	Agreed Price	954,454.65	0.01	1,631,870.46	0.02
Hisense Whirlpool	Purchase of raw materials	Agreed Price	826,363.03	0.01	1,550,835.75	0.01
Hisense Hitachi	Purchase of raw materials	Agreed Price	3,888,124.88	0.04	2,438,609.96	0.02
Embraco	Purchase of raw materials	Agreed Price	16,699,929.56	0.17	20,792,179.97	0.19
Subtotal of purchase of raw materials			23,871,735.44	0.24	30,458,094.20	0.28
Hisense Group and its subsidiaries	Receipt of services	Agreed Price	238,557,046.00	2.38	203,057,305.44	1.88
Hisense Electrical Appliances and its subsidiaries	Receipt of services	Agreed Price	9,628,628.93	0.10	5,307,936.47	0.05
Xuehua Group	Receipt of services	Agreed Price	509,851.41	0.01		
Subtotal of receipt of services			248,695,526.34	2.49	208,365,241.91	1.93
Hisense Hong Kong	Financing Agency	Agreed Price	104,033,923.30	1.04	133,617,519.56	1.24
Subtotal of financing purchase			104,033,923.30	1.04	133,617,519.56	1.24

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

8. RELATED PARTIES AND RELATED TRANSACTIONS — *Continued*

6. Related party transactions — *Continued*

(1) *Purchase of goods/receipt of services — Continued*

- ① The Company and entered into a Business Cooperation Framework Agreement with Hisense Group and Hisense Electrical Appliances on 10 November 2015. During the effective term of the agreement, the transaction with the Company being the purchaser and recipient of service was subject to an aggregate cap (exclusive of tax) of RMB637,110,000.
- ② The Company and Hisense Whirlpool entered into a Business Framework Agreement (II) on 10 November 2015. During the effective term of the agreement, the transaction with the Company being the purchaser and recipient of service was subject to an aggregate cap (exclusive of tax) of RMB373,630,000.
- ③ The Company and Hisense Hitachi entered into a Business Framework Agreement (I) on 10 November 2015. During the effective term of the agreement, the transaction with the Company being the purchaser was subject to an aggregate cap (exclusive of tax) of RMB8,700,000.
- ④ The Company and Hisense Hong Kong entered into a Factoring Purchase Framework Agreement on 10 November 2015. During the effective period of the agreement, the transaction in which Hisense Kelon engaged Hisense Hong Kong to perform factoring purchase as its agent was subject to an aggregate cap of USD60,000,000.

The above agreements were considered and approved at the third interim meeting of the Company's ninth session of the board of directors in 2015 convened on 10 November 2015 and the Second extraordinary general meeting in 2015 convened on 28 December 2015 respectively.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

8. RELATED PARTIES AND RELATED TRANSACTIONS — *Continued*

6. Related party transactions — *Continued*

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

Name of related party	Particulars of related transactions	Pricing policies and procedures for decision-making	Amount for the Period		Amount for previous Period	
			Amount	Percentage to similar transaction (%)	Amount	Percentage to similar transaction (%)
Hisense Group and its subsidiaries	Sale of finished goods	Agreed price	1,529,076,729.55	11.65	1,240,590,940.80	9.11
Hisense Electrical Appliances and its subsidiaries	Sale of finished goods	Agreed price	55,589.75			
Hisense Hitachi	Sale of finished goods	Agreed price	76,443,537.08	0.58	65,117,693.52	0.48
Subtotal of sales amount of finished product			1,605,575,856.38	12.23	1,305,708,634.32	9.59
Hisense Group and its subsidiaries	materials	Agreed price	16,741,059.15	0.13	7,523,820.92	0.06
Hisense Electrical Appliances and its subsidiaries	materials	Agreed price	10,101,454.80	0.08		
Hisense Hitachi	materials	Agreed price	663,321.02	0.01	1,215,812.27	0.01
Subtotal of sales amount of raw materials			27,505,834.97	0.22	8,739,633.19	0.07
Hisense Group and its subsidiaries	Sale of mould and equipment	Market price	101,970,791.34	0.78	69,854,521.24	0.51
Hisense Electrical Appliances and its subsidiaries	Sale of mould	Market price	55,318,782.10	0.42	37,631,516.42	0.28
Hisense Whirlpool	Sale of mould and equipment	Market price	854,700.85	0.01		
Hisense Hitachi	Sale of mould	Market price	3,452,991.45	0.03	8,074,130.50	0.06
Subtotal of sales amount of moulds			161,597,265.74	1.24	115,560,168.16	0.85
Hisense Group and its subsidiaries	Rendering of service	Agreed price	8,653,284.26	0.07	1,419,721.57	0.01
Hisense Whirlpool	Rendering of service	Agreed price	630,725.44		960,689.89	0.01
Xuehua Group	Rendering of service	Agreed price			806,630.56	0.01
Subtotal of rendering of service			9,284,009.70	0.07	3,187,042.02	0.031

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

8. RELATED PARTIES AND RELATED TRANSACTIONS — Continued

6. Related party transactions — Continued

(2) Sale of goods/rendering of service — Continued

- ① The Company entered into a Business Cooperation Framework Agreement with Hisense Group and Hisense Electrical Appliances on 10 November 2015. During the effective period of the agreement, the transaction with the Company being the supplier and service provider was subject to an aggregate cap (exclusive of tax) of RMB4,062,610,000.
- ② The Company and Hisense Whirlpool entered into a Business Framework Agreement (II) on 10 November 2015. During the effective period of the agreement, the transaction with the Company being the supplier and service provider was subject to an aggregate cap (exclusive of tax) of RMB21,320,000.
- ③ The Company and Hisense Hitachi entered into a Business Framework Agreement (I) on 10 November 2015. During the effective period of the agreement, the transaction with the Company being the supplier and service provider was subject to an aggregate cap (exclusive of tax) of RMB215,820,000.

The above agreements were considered and approved at the third interim meeting of the Company's ninth session of the board of directors in 2015 convened on 10 November 2015 and the second extraordinary general meeting in 2015 convened on 28 December 2015 respectively.

(3) Particulars of related party guarantees

Guarantor	Guaranteed Party	Amount (RMB'0000)	Effective Date of Guarantee	Expiry Date of Guarantee	Nature of Guarantee	Guarantee Completed
Hisense Group	Shandong Refrigerator	230.12	2015-4-4	2017-2-28	Import letter of credit	No
Total		230.12	—	—		

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

8. RELATED PARTIES AND RELATED TRANSACTIONS — *Continued*

6. Related party transactions — *Continued*

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

Particulars of related party guarantee:

- (1) 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 Refrigerator by the business department of Qingdao branch of Agricultural Bank during the period from 1 January 2015 to 31 December 2015.
- (2) In January 2016, Hisense Group and the business department of Qingdao branch of Agricultural Bank entered into a Maximum Guarantee Contract (No. 84100520160000554), pursuant to which Hisense Group would provide guarantee securities for the liabilities under the maximum credit limit of RMB100,000,000 arising from various businesses with Shandong Refrigerator by the business department of Qingdao branch of Agricultural Bank during the period from 1 January 2016 to 30 May 2016.

As at 30 June 2016, the Company had the balance of deposit of RMB 1,498,000,000, interest income received of RMB 3,282,100, the balance of loan of RMB 0, balance of electronic bank acceptance bill of RMB 2,624,000,000, the handling fee for opening accounts for electronic bank acceptance bill of RMB 1,376,500, interest payment for discounted notes of RMB3,563,700, settlement and sale of foreign exchange services of US\$15,480,000 and the service fee paid for the provision of agency services such as settlement services for receipt and payment of funds of RMB177,200 with Hisense Finance.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

8. RELATED PARTIES AND RELATED 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 Electrical and its subsidiaries	6,026,524.61		7,968,511.83	
Notes Receivable	Hisense Group and its subsidiaries	31,535,823.44		18,521,879.30	
Subtotal		37,562,348.05		26,490,391.13	
Accounts Receivable	Hisense Electrical and its subsidiaries	30,886,622.81		13,140,965.43	
Accounts Receivable	Hisense Group and its subsidiaries	649,165,494.44		484,133,955.77	
Accounts Receivable	Hisense Whirlpool	2,610,014.37		2,228,918.22	
Accounts Receivable	Hisense Hitachi	27,543,597.98		13,738,299.43	
Subtotal		710,205,729.60		513,242,138.85	
Other Receivables	Hisense Electrical and its subsidiaries	135,000.00		135,000.00	
Other Receivables	Hisense Group and its subsidiaries	110,539.20			
Subtotal		245,539.20		135,000.00	

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

8. RELATED PARTIES AND RELATED TRANSACTIONS — *Continued*

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

(2) *Amount due to Related Parties from Listed Companies*

<u>Item</u>	<u>Related Parties</u>	<u>Closing Balance</u>	<u>Opening Balance</u>
Note payable	Hisense Electrical and its subsidiaries	2,000,000.00	1,084,475.65
Subtotal		2,000,000.00	1,084,475.65
Accounts Payable	Hisense Electrical and its subsidiaries	72,195.70	
Accounts Payable	Hisense Group and its subsidiaries	94,326,999.48	64,450,631.26
Accounts Payable	Hisense Whirlpool	14,857,097.37	15,862,455.79
Accounts Payable	Hisense Hitachi	625,339.52	476,911.85
Accounts Payable	Embraco	12,852,756.71	11,295,970.83
Subtotal		122,734,388.78	92,085,969.73
Other Payables	Hisense Group and its subsidiaries	42,882,866.57	42,815,570.99
Other Payables	Hisense Electrical and its subsidiaries	865.77	
Other Payables	Hisense Hitachi		55,178.70
Other Payables	Embraco	120,000.00	120,000.00
Subtotal		43,003,732.34	42,990,749.69
Advances from Customers	Hisense Group and its subsidiaries	16,013,452.16	18,923,626.06
Advances from Customers	Hisense Electrical and its subsidiaries	341,276.24	1,191,000.00
Subtotal		16,354,728.40	20,114,626.06

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

8. RELATED PARTIES AND RELATED TRANSACTIONS — Continued**8. Transactions with “specific third party companies”**

<u>Item</u>	<u>Related Parties</u>	<u>Closing Balance Carrying Amount</u>	<u>Opening Balance Carrying Amount</u>
Other Receivables	Jinan San Ai Fu	81,600,000.00	81,600,000.00
	Jiangxi Keda	13,000,200.00	13,000,200.00
	Zhuhai Longjia	28,600,000.00	28,600,000.00
	Zhuhai Defa	21,400,000.00	21,400,000.00
	Wuhan Changrong	20,000,000.00	20,000,000.00
	Deheng Solicitors	2,000,000.00	2,000,000.00
	Shangqiu Bingxiang	58,030,000.00	58,030,000.00
Subtotal of other receivables		224,630,200.00	224,630,200.00
Other Payables	Zhuhai Longjia	17,766,425.03	17,766,425.03
Subtotal of other payables		17,766,425.03	17,766,425.039

9. Transactions with Greencool Companies

<u>Item</u>	<u>Related parties</u>	<u>Closing Balance Book Value</u>	<u>Opening Balance Book Value</u>
Other Payables	Jiangxi Greencool	13,000,000.00	13,000,000.00
Subtotal of other payables		13,000,000.00	13,000,000.00

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

9. SHARE-BASED PAYMENT

1. General information about share-based payments

<u>Item</u>	<u>Amount for the period</u>
Total equity instruments granted during the period	
Total equity instruments exercised during the period	
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 62 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

<u>Item</u>	<u>Amount for the period</u>
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 BlackScholes option pricing model
Determination on the best estimate of the number of exercisable equity instruments	Determined by taking into account of the number of participants, expected gain of share options and performance assessment of participants, etc.
Reasons for significant discrepancies between estimates of current period and previous period	Nil
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

3. Share-based services

<u>Item</u>	<u>Amount for the period</u>
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	

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

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

Category	Exercise Price	Outstanding as at 1 January 2016	Transferred to/from other categories during the Year	Lapsed during the year	Exercised during the Year	Expired during the year	Outstanding as at 30 June 2016
Directors	RMB7.65	778,540					778,540
Other Management	RMB7.65	3,708,330					3,708,330
Total		4,486,870					4,486,870

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 follow:

- 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 Company 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).

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

9. SHARE-BASED PAYMENT — *Continued*

4. Share granted — *Continued*

- 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.

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 adjustment to participants, and the number of shares granted under the first share option incentive scheme of the Company was approved in the sixth interim meeting in 2015 by the Company's eighth session of the Board of directors. A total of 1,268,410 share options were cancelled, and after the adjustment, there were a total of 8,716,680 share options granted but not yet exercised.

In May 2015, the conditions for exercising the vesting rights for the second phase of share options incentive scheme of the Company were fulfilled. Upon the application by the Board of directors of the Company's, the confirmation by Shenzhen Stock Exchange and the approval by China Securities Depository and Clearing Corporation Limited (CSDC) - Shenzhen Branch to register, 138 incentive scheme participants have exercised their vesting rights in the second phase of vesting period to subscribe a total of 4,229,810 shares at an exercise price of RMB7.65/share.

As at 30 June 2016, a total of 4,486,870 share options have been granted by the Company which were not yet exercised.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

10. CONTINGENCIES**1. Contingent Liabilities arising from Pending litigations and arbitration and their financial impacts**

As at 30 June 2016, the pending litigations involving the Company are summarized as follows:

(1) Cases with the Company as the Plaintiff

<u>Plaintiff</u>	<u>Defendant</u>	<u>Causes</u>	<u>Total Amount Involved</u>
The Company	Beijing Diamond Advertising Co., Ltd	Dispute over advertising contract	5,000,000.00
The Company and its subsidiaries	Other		23,707,062.80
Total			28,707,062.80

(2) Cases with the Company as the defendant

<u>Plaintiff</u>	<u>Defendant</u>	<u>Causes</u>	<u>Total Amount Involved</u>
Supplier of raw materials	The Company	Dispute over sale and purchase contract and processing contract	2,315,026.14
Other	The Company	Labor dispute and others	11,554,995.80
Total			13,870,021.94

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

<u>Plaintiff</u>	<u>Defendant</u>	<u>Causes</u>	<u>Total Amount Involved</u>
The Company	Shanqiu Kelon	Purchase amount outstanding	25,660,900.00
Total			25,660,900.00

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

11. OTHER SIGNIFICANT EVENTS**1. Assets and liabilities measured at fair value**

Item	Opening Balance	Amount of Financial Assets/liabilities	Gain/(loss) from change in fair Value	Impairment provision for the period	Closing Balance
Financial Assets					
Derivative financial assets					
Subtotal of financial Assets					
Financial liabilities					
Derivative financial liabilities	9,767,732.75	716,847.98	9,050,884.77		716,847.98
Subtotal of financial liabilities	9,767,732.75	716,847.98	9,050,884.77		716,847.98

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 and bank borrowings. Details of the financial instruments were disclosed in the relevant notes.

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

11. OTHER SIGNIFICANT EVENTS — *Continued*

2. Financial risk Management objectives and policies — *Continued*

(1) **Credit Risk**

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

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

The Company mitigates its exposure to risk relating to trade and other receivables by dealing with diversified customers with solid financial foundation. Certain new customers are required to place cash deposits with the Group to reduce the maximum exposure to credit risk. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk. In addition, all receivable balances are monitored on an ongoing basis and overdue balances are followed up by senior management.

The credit risk on derivative instruments is not significant as the counterparties are high creditworthy banks rated by international credit-rating agencies.

The maximum exposure to credit risk at reporting date is the carrying amount of each class of financial assets shown on the consolidated financial statements.

(2) **Liquidity Risk**

In the management of liquidity risk, the Company monitors and maintains cash and cash equivalents at a level which is adequate, in the management's point of views, to finance the Company's operations and mitigate the effects of short-term fluctuations in cash flows. The Company's treasury department is responsible for maintaining a balance between continuity of funding and flexibility through the use of bank credit and loan in order to meet the Company's liquidity requirements.

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

11. OTHER SIGNIFICANT EVENTS — *Continued*

2. Financial risk Management objectives and policies — *Continued*

(3) *Interest Rate Risk*

The Company is exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks, which are mostly short-term in nature whereas interest-bearing financial liabilities are primarily short-term bank borrowings. As at 30 June 2016, the Company's short-term bank borrowings were at fixed rate. As all the Company's borrowings were short term loans, any change in the interest rate from time to time is not considered to have significant impact on the Company's performance.

(4) *Foreign Currency Risk*

Foreign currency risk is the risk of loss due to adverse change in exchange rates relating to investments and transactions denominated in foreign currencies. The Group's monetary assets and transactions are mainly denominated in RMB, HKD, USD, JPY and EUR. The exchange rates between RMB, HKD, USD, JPY and EUR are not pegged, and there is fluctuation of exchange rates between RMB, USD, JPY and EUR.

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

Currency	Closing Balance		Opening Balance	
	Assets	Liabilities	Assets	Liabilities
USD	1,092,470,118.73	334,157,098.33	714,005,807.08	313,848,803.32
EUR	157,122,315.76	43,249,895.95	34,726,854.56	5,290,675.09

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

11. OTHER SIGNIFICANT EVENTS — Continued

2. Financial risk Management objectives and policies — Continued

(4) Foreign Currency Risk — Continued

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:

<u>Item</u>	<u>Amount for the Period Increase/Decrease in Profit after tax</u>	<u>Amount for the Previous Period Increase/Decrease in profit after tax</u>
USD to RMB		
Appreciates by 5%	28,436,738.27	35,693,666.63
Depreciates by 5%	-28,436,738.27	-35,693,666.63
EUR to RMB		
Appreciates by 5%	4,270,215.74	3,641,199.01
Depreciates by 5%	-4,270,215.74	-3,641,199.01

Sensitivity analysis of change in forward rate:

<u>Item</u>	<u>Amount for the Period Increase/Decrease in Profit after tax</u>	<u>Amount for the Previous Period Increase/Decrease in profit after tax</u>
USD to RMB		
Appreciates by 5%	-2,437,500.00	-9,450,000.00
Depreciates by 5%	2,437,500.00	9,450,000.00
EUR to RMB		
Appreciates by 5%	-1,060,500.00	-1,207,500.00
Depreciates by 5%	1,060,500.00	1,207,500.00

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

11. OTHER SIGNIFICANT EVENTS — *Continued*

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 Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the periods ended 30 June 2016 and 31 December 2015.

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

<u>Item</u>	<u>Closing Balance</u>	<u>Opening Balance</u>
Total Debt	12,758,669,489.52	9,819,007,682.20
Including: Short-term borrowings	248,102,137.59	223,496,764.71
Accounts payable	3,975,928,414.37	2,878,291,676.53
Notes Payables	4,444,534,151.45	2,931,174,504.52
Other Payables	1,672,625,997.79	1,483,744,213.15
Less: Cash and Cash equivalents	2,083,100,139.61	1,012,159,146.17
Net Debt	10,675,569,349.91	8,806,848,536.03
Equity attributable to shareholders of the Parent	4,399,850,400.22	4,044,017,698.45
Capital and net debt	15,075,419,750.13	12,850,866,234.48
Gearing Ratio	70.81%	68.53%

4. Retirement Benefit Scheme

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

The total costs charged to the profit or loss approximately of RMB200,748,800 (half year of 2015: RMB172,594,700) represents contributions to the scheme by the Company and subsidiaries at rates specified in the scheme.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

11. OTHER SIGNIFICANT EVENTS — Continued**5. Leases***(1) Different categories of leased assets of the Company are as follows:*

<u>Categories of leased assets under operating leases</u>	<u>Closing Carrying Amount</u>	<i>Unit: RMB'0000</i> <u>Opening Carrying Amount</u>
Buildings and structures	5,186.16	6,935.96
Total	5,186.16	6,935.96

(2) The Company as lessor under operating lease

The Company's investment properties are also leased to a number of tenants for different terms. The rental income for the half year of 2016 amounted to RMB12,963,300 (half year of 2015: RMB7,117,900).

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

<u>Item</u>	<u>Amount for the Period</u>	<i>Unit: RMB'0000</i> <u>Amount for previous Period</u>
Within one year	647.96	592.73
Over one year but within five years, inclusive	1623.43	293.28
Total	2,271.39	886.01

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

11. OTHER SIGNIFICANT EVENTS — Continued

5. Leases — Continued

(3) The Company as lessee under operating lease

The Company leases certain leasehold land and buildings and plant and machinery under operating leases with lease terms from one to five years. The operating lease payments for the period ended 30 June 2016 was as follows:

	Amount for the Period	Unit: RMB'0000 Amount for previous period
Operating lease payments		
Leasehold land and buildings	1,810.55	1,716.53
Plant and machinery	114.54	105.51
Total	1,925.09	1,822.04

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

	Amount for the period	Unit: RMB'0000 Amount for previous period
Item		
Within one year	1,629.22	1,159.47
Over one year but within five years	1,114.69	2,921.25
Total	2,743.91	4,080.72

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

11. OTHER SIGNIFICANT EVENTS — Continued

6. Capital Commitment

Item	Closing Balance	Unit: RMB'0000
		Opening Balance
Commitments for the investment in subsidiaries and jointly controlled entity:		
- Authorized but not yet contracted for		
- Contracted but not provided for	1,864.34	23,299.80
Commitments for the acquisition of property, plant and equipment of subsidiaries:		
- Contracted but not paid		

7. Events after the Balance Sheet Date

The Board of the Company has considered and approved the Resolution on acquisition of 50% equity interests of Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd (海信惠而浦(浙江)电器有限公司) by the Company at the meeting held on 3 August 2016, as approved by the Board of the Company, the Company has entered into an Equity Transfer Agreement with Whirlpool (Hong Kong) Limited ("Whirlpool Hong Kong"), in which the Company acquired 50% equity interests of Hisense Whirlpool held by Whirlpool Hong Kong in a consideration of US\$1.

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

1. Accounts Receivable

(1) Disclosure of accounts receivable by categories:

Category	Closing Balance			
	Carrying Amount		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance
Individually significant and subject to separate provision				
Ageing analysis	1,012,472,914.00	100.00	112,929,422.06	11.15
Greencool Companies				
Subtotal	1,012,472,914.00	100.00	112,929,422.06	11.15
Individually insignificant but subject to separate provision				
Total	1,012,472,914.00	100.00	112,929,422.06	11.15

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

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

1. Accounts Receivable — Continued

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

Continued from above table

Category	Opening Balance			
	Carrying Amount		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance
Individually significant and subject to separate provision				
Aging Analysis	2,035,204,371.64	100.00	112,401,309.12	5.52
Greencool Companies				
Subtotal	<u>2,035,204,371.64</u>	<u>100.00</u>	<u>112,401,309.12</u>	<u>5.52</u>
Individually insignificant but subject to separate provision				
Total	<u>2,035,204,371.64</u>	<u>100.00</u>	<u>112,401,309.12</u>	<u>5.52</u>

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

Age	Closing Balance			Opening Balance		
	Carrying Amount		Provision for bad debts	Carrying Amount		Provision for bad debts
	Amount	% of total Balance		Amount	% of total Balance	
Within three months	899,054,920.45	88.80		1,922,039,306.17	94.44	
Over three months but within six months	302,742.97	0.03	30,274.30	432,205.64	0.02	43,220.56
Over six months but within one year	432,205.64	0.04	216,102.82	749,542.54	0.04	374,771.27
Over one year	<u>112,683,044.94</u>	<u>11.13</u>	<u>112,683,044.94</u>	<u>111,983,317.29</u>	<u>5.50</u>	<u>111,983,317.29</u>
Total	<u>1,012,472,914.00</u>	<u>100.00</u>	<u>112,929,422.06</u>	<u>2,035,204,371.64</u>	<u>100.00</u>	<u>112,401,309.12</u>

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

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

1. Accounts Receivable — Continued

(2) Movements in provision for accounts receivable

	Decrease for the Year				Closing Balance
	Opening Balance	Provision for the Year	Reversal	Write-off	
Half year of 2016	112,401,309.12	528,112.94			112,929,422.06

(3) Accounts receivable that were written off

Nil.

- (4) As at 30 June 2016, 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 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.

(5) Top five accounts Receivable

No.	Relationship with the Company	Amount	Ageing	Percentage of the total accounts receivables amount(%)
Top 1	Subsidiary	533,920,525.20	Within three months	52.73
Top 2	Subsidiary	362,127,148.76	Within three months	35.77
Top 3	unrelated Party	16,475,363.73	Over one year	1.63
Top 4	unrelated Party	8,513,462.61	Over one year	0.84
Top 5	unrelated Party	6,626,755.30	Over one year	0.65
Total		927,663,255.60		91.62

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

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:

Item	Closing Balance			
	Book value		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and subject to separate provision				
Ageing Analysis	1,213,867,442.97	100.00	22,658,340.04	1.87
Greencoal Companies				
Subtotal	1,213,867,442.97	100.00	22,658,340.04	1.87
Individually insignificant but subject to separate provision				
Total	1,213,867,442.97	100.00	22,658,340.04	1.87

Continued from above table

Category	Opening Balance			
	Book value		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and subject to separate provision				
Ageing Analysis	895,511,451.28	100.00	24,678,372.48	2.76
Greencoal Companies				
Subtotal	895,511,451.28	100.00	24,678,372.48	2.76
Individually insignificant but subject to separate provision				
Total	895,511,451.28	100.00	24,678,372.48	2.76

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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 bad debts by using ageing analysis:

Age	Closing Balance			Opening Balance		
	Book value		Provision for bad debts	Book value		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within three months	1,191,130,631.31	98.13		870,695,632.19	97.23	
Over three months but within six months	69,162.36	0.01	6,916.24	152,718.46	0.02	15,271.85
Over six months but within one year	32,451.00	0.00	16,225.50			
Over one year	22,635,198.30	1.86	22,635,198.30	24,663,100.63	2.75	24,663,100.63
Total	1,213,867,442.97	100.00	22,658,340.04	895,511,451.28	100.00	24,678,372.48

(2) *Movements in provision for other receivables*

	Opening Balance	Provision for the Year	Decrease for the year		Ending Balance
			Reversal	Write-off	
Half year of 2016	24,678,372.48		2,020,032.44		22,658,340.04

(3) *Other receivables that are written off*

Nil.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

2. Other Receivables — *Continued*

(4) As at 30 June 2016, there was no other receivables from shareholder that holds 5% or more (including 5%) shares of the voting rights of the Company. As at 31 December 2015, there was no other receivable from shareholder that holds 5% or more (including 5%) shares of the voting rights of the Company.

(5) *Top five other receivables*

<u>Name of the Companies</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Ageing</u>	<u>Percentage of the total other receivables amount (%)</u>
Top 1	Subsidiary	341,780,707.65	Within three months	28.16
Top 2	Subsidiary	244,648,771.49	Within three months	20.15
Top 3	Subsidiary	179,706,487.52	Within three months	14.80
Top 4	Subsidiary	118,730,537.50	Within three months	9.78
Top 5	Subsidiary	101,170,684.78	Within three months	8.33
Total		986,037,188.94	-	81.22

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

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

3. Long-term equity investments

Investee	Accounting treatment	Investment cost	Opening balance	Changes	Closing balance	% Equity interest held	% Voting rights held	Provision for impairment	Impairment provided in the year	Cash dividend in the year
Attend	Equity method	2,000,000.00	2,573,608.03	-83,804.31	2,489,803.72	20.00	20.00			
Hisense Whirlpool	Equity method	225,000,000.00	103,913,887.02	-27,362,398.33	76,551,488.69	50.00	50.00			
Hisense Hitachi	Equity method	332,821,597.45	1,216,765,858.10	57,194,224.22	1,273,960,082.32	49.00	49.00			160,230,000.00
Equity method Subtotal		559,821,597.45	1,323,253,353.15	29,748,021.58	1,353,001,374.73					160,230,000.00
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			
HEA Co.	Cost method	32,634,553.70	51,531,053.70		51,531,053.70	81.17	81.17			8,387,028.00
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			
Kelon Jiale	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			
Zuhai 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			18,700,000.00
Shandong Air-Conditioner	Cost method	567,175,477.74	567,175,477.74		567,175,477.74	100.00	100.00			
Zhejiang Air-Conditioner	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			17,403,650.00
Shandong Refrigerator	Cost method	275,000,000.00	275,000,000.00		275,000,000.00	100.00	100.00			
Subtotal by cost method		2,544,576,980.38	2,563,473,480.38		2,563,473,480.38			59,381,641.00		44,490,678.00
Total		3,104,398,577.83	3,886,726,833.53	29,748,021.58	3,916,474,855.11			59,381,641.00		204,720,678.00

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

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 period	Amount for previous period
Revenue from principal operations	-308,029.72	-1,599,012.47
Revenue from other operations	10,650,004.92	27,467,835.88
Total operating revenue	10,341,975.20	25,868,823.41
Costs of principal operations	559,599.45	842,675.62
Costs of other operations	5,722,658.55	25,664,626.78
Total operating costs	6,282,258.00	26,507,302.40

(2) Principal operations (by products)

Products	Amount for the period		Amount for previous period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Refrigerators and washing machines	-308,029.72	559,599.45	-1,599,012.47	842,675.62
Air-conditioners				
Total	-308,029.72	559,599.45	-1,599,012.47	842,675.62

(3) Principal operations (by regions)

Region	Amount for the period		Amount for previous period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Domestic	-308,029.72	559,599.45	-1,599,012.47	842,675.62
Overseas				
Total	-308,029.72	559,599.45	-1,599,012.47	842,675.62

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

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

5. Investment income

(1) Breakdowns of investment income

Item	Amount for the period	Amount for previous period
Income from long-term equity investment — the cost method	44,490,678.00	24,547,120.14
Investment income from financial assets held-for-trading	6,004,000.00	7,410,000.00
Income from long-term equity investment — the equity method	189,978,021.58	127,811,784.18
Income from disposal of long-term equity investment		135,598,968.15
Total	240,472,699.58	295,367,872.47

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

Investee	Amount for the period	Amount for previous period
Hisense Home Appliances	8,387,028.00	9,318,926.74
Beijing Refrigerator	18,700,000.00	
Hisense Mould	17,403,650.00	15,228,193.40
Total	44,490,678.00	24,547,120.14

(3) Investment income from financial assets held-for-trading

Investee	Amount for the period	Amount for previous period
Hisense International Marketing	6,004,000.00	7,410,000.00
Total	6,004,000.00	7,410,000.00

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

Investee	Amount for the period	Amount for previous period
Hisense Whirlpool	-27,362,398.33	-34,905,811.85
Attend	-83,804.31	-123,441.24
Hisense Hitachi	217,424,224.22	162,841,037.27
Total	189,978,021.58	127,811,784.18

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

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

6. Supplementary information on cash flows statement

Supplementary information	Amount for the period	Amount for previous period
1. Reconciliation of net profit to cash flows from operating activities		
Net profit	255,734,113.58	424,488,700.95
Add: Provision for assets impairment	-1,491,919.50	4,088,727.17
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets	10,865,840.74	11,603,855.64
Amortization of intangible assets	4,353,109.00	4,979,320.68
Amortization of long-term prepaid expenses		
Loss on disposals of fixed assets, intangible and other long-term assets (Gain denoted by "-")	19,687.71	-393,634.00
Loss on scrapping of fixed assets (Gain denoted by "-")		
Loss on change in fair value (Gain denoted by "-")		
Financial expenses (Gain denoted by "-")		
Investment loss (Gain denoted by "-")	-240,472,699.58	-295,367,872.47
Decrease in deferred tax assets (Increase denoted by "-")		
Increase in deferred tax liabilities (Decrease denoted by "-")		
Decrease in inventory (Increase denoted by "-")	305,745.49	-19,528.66
Decrease in operating receivables (Increase denoted by "-")	524,573,466.65	-266,245,751.87
Increase in operating payables (Decrease denoted by "-")	-276,385,909.08	-243,616,879.55
Others		
Net cash flows from operating activities	<u>277,501,435.01</u>	<u>-360,483,062.11</u>
2. Significant investing and financing activities not involving cash receipts and payment:		
Liabilities converted into equity		
Convertible company debentures due within one year		
Fixed assets under finance leases		
3. Net movement in cash and cash equivalents		
Cash at the end of the period	440,926,354.88	62,725,786.61
Less: Cash at the beginning of the period	61,080,569.87	28,279,997.40
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	<u><u>379,845,785.01</u></u>	<u><u>34,445,789.21</u></u>

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2016

13. SUPPLEMENTARY INFORMATION

1. Breakdown of non-recurring profit or loss

Item	Amount for the period	Amount for previous period
Profit or loss from disposal of non-current assets	25,710.26	129,254,722.54
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)	45,211,964.43	95,745,088.44
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)		
Gain or loss arising from the difference between the fair value and transaction price in obviously unfair transactions		
Net current profit or loss of subsidiaries arising from business combination under common control from beginning of year to the combination date		
Gain or loss arising from contingencies irrelevant to the Company's normal business		
Gain or loss from changes in fair values of financial assets and liabilities held-for-trading except for effective hedging activities related to the Company's normal operations and investment gain from disposal of financial assets and liabilities held-for-trading and available-for-sale financial assets		
Reversal of impairment provision for accounts receivable individually tested for impairment		
Gain or loss arising from entrusted loan		
Gain or loss arising from changes in fair value of investment properties measured subsequently by using fair value model		
Effect on current profit or loss of one-off adjustment to current profit or loss as required by taxation, accounting and other laws and regulations		
Custody fee income from entrusted operations		
Other non-operating income and expense other than the aforementioned items	6,123,838.46	2,893,948.21
Other profit or loss items within the meaning of nonrecurring profit or loss		
Total non-recurring profit or loss	51,361,513.15	227,893,759.19
Less: Effect of income tax on non-recurring profit or loss	4,477,695.78	7,335,504.15
Net non-recurring profit or loss	46,883,817.37	220,558,255.04
Less: Net effect of non-recurring profit or loss attributable to minority interests (after tax)	6,765,565.95	2,368,466.99
Non-recurring profit or loss attributable to ordinary shareholders of the Company	40,118,251.42	218,189,788.05

NOTES TO THE FINANCIAL STATEMENTS — Continued*Half year of 2016***13. SUPPLEMENTARY INFORMATION — Continued****2. Return on net asset and earnings per share****Half year of 2016**

<u>Profit for the reporting period</u>	<u>Weighted average of return on net assets (%)</u>	<u>Earnings per share</u>	
		<u>Basic earnings per share</u>	<u>Diluted earnings per share</u>
Net profit attributable to ordinary shareholders of the Company	13.04	0.41	0.41
Net profit attributable to ordinary shareholders of the Company after non-recurring profit or loss	12.01	0.38	0.38

Half year of 2015

<u>Profit for the reporting period</u>	<u>Weighted average of return on net assets (%)</u>	<u>Earnings per share</u>	
		<u>Basic earnings per share</u>	<u>Diluted earnings per share</u>
Net profit attributable to ordinary shareholders of the Company	13.66	0.37	0.37
Net profit attributable to ordinary shareholders of the Company after deducting nonrecurring gain or loss	7.77	0.21	0.21

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2016

13. SUPPLEMENTARY INFORMATION — Continued

3. Reasons for changes of major items in the financial statements of the Company

Item	Closing Balance (current period)	Opening balance (correspondence period last year)	Change (%)	Reasons of change
Cash and cash equivalents	2,086,541,421.01	1,014,410,146.17	105.69	Mainly due to continuous improvement of the Company's operation, an increase in operating profit and a decrease in inventory occupancy resulted in an increase in operating cash flow and net cash amount
Notes receivable	3,198,213,709.39	2,289,706,048.91	39.68	Mainly due to an increase in payment in form of notes as it is the peak season for sales as at the end of the Reporting Period
Accounts receivable	3,480,922,808.73	2,086,596,419.00	66.82	Mainly due to the end of the Reporting Period being the peak season for sales, increased sales resulted in an increase in accounts receivable
Other current assets	626,343,884.03	467,872,305.65	33.87	Mainly due to an increase in purchase of investment and wealth management products
Notes payable	4,444,534,151.45	2,931,174,504.52	51.63	Mainly due to an increase in billing and notes payable at the end of the Reporting Period
Accounts payable	3,975,928,414.37	2,878,291,676.53	38.14	Mainly due to an increase in accounts payable caused by an increase in production volume as it is the peak season for sales and production as at the end of the Reporting Period
Taxes payable	239,766,016.93	161,686,275.79	48.29	Mainly due to an increase in VAT and income taxes payable as at the end of the Reporting Period
Business taxes and surcharges	53,955,707.45	30,886,280.24	74.69	Mainly due to the change in the corresponding taxes and surcharges caused by the change in amount of taxes payable
Financial expenses	-33,394,686.74	-24,809,869.01	N/A	Mainly due to an increase in foreign exchange gains
Loss from asset devaluation	-14,037,482.78	20,873,327.47	N/A	Mainly due to a decrease in expected loss on value depreciation caused by optimization of inventory structure and acceleration of turnover during the Reporting Period
Profit from fair value changes	9,050,884.77	53,113,821.77	-82.96	Mainly due to changes in outstanding forward transactions and changes in settlement for due transactions for the current period
Investment income	190,519,070.38	290,512,875.51	-34.42	Mainly due to a decrease in investment income caused by the recognized investment gain from disposal of equity interests of Huayi Compressor in the previous period which did not occur in the current period
Non-operating income	56,931,787.09	101,692,390.83	-44.02	Mainly due to a decrease in government grants received during the current period
Income tax expenses	105,932,299.43	64,380,329.92	64.54	Mainly due to the changes in deferred income tax of the companies
Cash received from product sales and rendering of services	9,029,697,663.46	6,227,820,959.38	44.99	Mainly due to an increase in payment received from bank acceptance bills at their maturity and an increase in payment collection from export business during the current period
Cash paid for purchase of goods and services received	4,727,872,044.53	3,292,850,945.61	43.58	Mainly due to an increase in notes payable at maturity during the Reporting Period
Cash received from disposals of investments	160,230,000.00	330,278,145.68	-51.49	Mainly due to the returns in investment received from disposal of equity interests of Huayi Compressor in the previous period which did not occur in the current period
Cash paid to acquire fixed assets, intangible assets and other long-term assets	129,400,021.03	289,212,638.80	-55.26	Mainly due to a decrease in infrastructure investment of the Company during the Reporting Period
Cash paid for repayment of borrowings	542,305,035.90	799,523,193.18	-32.17	Mainly due to the changes in factoring accounts receivable business

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016. No interim dividend was paid for the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

I. ANALYSIS OF THE COMPANY'S OPERATION

1. Overall operation of the Company

During the Reporting Period, the performance of domestic white goods market remained sluggish. According to the statistics of China Market Monitor Company Limited (CMM), as at June 2016, the cumulative retail volume of the refrigerator industry declined by 9.29% and its cumulative retail amount decreased by 7.78% year-to-year, the cumulative retail volume of the air-conditioner industry decreased by 6.74% and its cumulative retail amount decreased by 5.84% year-to-year. The overseas market has picked up. According to the Customs statistics, the export volume of the refrigeration industry in the first half of 2016 increased by 11.50% year-to-year, and the export volume of the air-conditioning industry increased by 19.70% year-to-year.

During the Reporting Period, the Company insisted on the operating directions of "adhering to high-end awareness, highlighting product advantages, consolidating market network, enhancing system efficiency and exploring international market" formulated at the beginning of the year to implement various tasks. The Company recorded operating revenue of RMB13,123 million, representing a year-to-year decrease of 3.59%, and principal operating revenue of RMB12,161 million, representing a year-to-year decrease of 2.62%. Among these, the revenue from the refrigerator and washing machine business accounted for 49.68% of the principal operating revenue, representing a year-to-year decrease of 1.55%; revenue from the air-conditioner business accounted for 44.54% of the principal operating revenue, representing a year-to-year decrease of 6.49%; the domestic sales business recorded a principal operating revenue of RMB7,533 million, representing a year-to-year decrease of 10.36%, whereas the export sales business recorded a principal operating revenue of RMB4,628 million, representing a year-to-year increase of 13.32%. The Company achieved net profits attributable to shareholders of the listed company of RMB559 million, representing a year-to-year increase of 10.59%, and the earnings per share were RMB0.41, in which the net profits, net of non-recurring gains or losses, was 519 million, representing a year-to-year increase of 80.56%.

During the Reporting Period, the Company adhered to implement various efficiency enhancement, cost reduction and product popularity projects formulated at the beginning of the year. The inventory turnover of the Company's refrigerators accelerated by 13 days year-to-year by strongly reducing inventory occupancy and accelerating inventory turnover. In addition, as the technology and products of smart home appliances and smart living industry are gradually maturing and users are getting more and more experienced in using them, the market scale can hopefully expand rapidly. With the technological advantages and operation experience gained by Hisense Group in smart television system and operation platform, the Company will strive for a rapid growth in the scale of its smart home appliances and smart living operation.

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

During the Reporting Period, the refrigerators and washing machines business of the Company adhered to the "spirit of craftsmanship", followed the concept of "providing good refrigerators for Chinese families", as well as insisted on enhancing the product quality, intelligence level and user experience. The Company launched the "Beiduofen+ (倍多分+)" cross French-door refrigerator series with exquisite appearance, large capacity and new intelligent control system", which won the 2016 China Household Electrical Appliance Product Prize (中國家電艾普蘭產品獎). By enhancing its variety of high-end cross door refrigerator products, our product sales structure has gradually improved with a further increase in gross profit margin and profitability of the products. According to the statistics of CMM, the market share of the Company in the cross door refrigerator retail volume in the first half of 2016 increased by 5.04 percentage points year-to-year; the gross profit margin of the Company's refrigerators and washing machines business also significantly increased by 3.34 percentage points. Moreover, the Company emphasized on developing sports marketing by grasping the opportunity of Hisense Group becoming the global sponsor of UEFA European Football Championship 2016. "Quality assurance for Ronshen refrigerators" first appeared in the major international sports event, which greatly enhanced the image of our brand and the Company. The operating quality of the refrigerators and washing machines business was continuously improved by enhancing product competitiveness, optimizing the product structure and improving internal fundamental management on an ongoing basis.

3. Air-conditioner business

During the Reporting Period, our air-conditioner business continued to focus on product intelligentization and differentiation and further enhanced the product competitiveness by upgrading intelligent products and pursuing technological innovation. The Company launched different types of differentiating products such as a new model of "Xuanzhan (炫轉)" air-conditioner, "Pearl (珍珠)" air-conditioner with beauty function and UEFA European Football Championship commemorative model "Little Fighter (小炫風)" air-conditioner to improve user experience by enhancing smart function. In the 2016 Cold Air-conditioning Industry Summit and China Intelligent Air Conditioning Forum (2016冷年空調產業高峰會暨中國智能空調高峰論壇), Hisense's "Pearl" air-conditioner won the Innovative Product Award in the air-conditioning industry with its advanced intelligent technology and product creativity. In respect of export, by implementing strategies like sports marketing and actively adjusting product structure as well as increasing overseas marketing effort of inverter products, the growth of air-conditioning products of the Company remained higher than the industry growth. According to the Customs export statistics, the export volume of the Company's air-conditioning products in the first half of 2016 increased by 30.9% year-to-year, which was higher than the industry growth level of 19.7%. The operating quality of the Company's air-conditioning business was improved by enhancing product competitiveness, optimizing the product structure and improving internal fundamental management on an ongoing basis. During the Reporting Period, the decline of the gross profit margin of the Company's air-conditioning business in 2015 was overturned and its gross profit margin significantly increased by 2.08 percentage points.

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

4. Outlook

Looking ahead to the second half of 2016, the continuous high temperature across the nation during July and August allows the air conditioner industry to digest and clear its stock. The substantial drop in the stock level of the Company and within the industry is favourable to the beginning of a new air conditioner production year and to the creation of a virtuous cycle in the market. It is expected that the air conditioner industry will not repeat the passive situation it suffered at the second half of 2015 when the stock of the industry as a whole stayed at a high level. The Company will seize this golden opportunity in the industry and in the market and will commit to perform the following tasks to ensure our operation will be steadily enhanced:

Marketing: Increasing the marketing effort of high-end products and increasing its proportion; optimizing customer structure and enhancing the gross profit margin of products; actively adjusting the product structure in order to accelerate the enhancement of the quality of overseas market expansion.

Channel management: Maintaining building of the best management team; enlarging the three-tier to four-tier core network coverage; expanding the network of core stores; improving the channel network quality; enhancing the ability of online operation and increasing the scale and proportion of e-commerce.

Enhancing customers' satisfaction: Further improving product quality and raising the service standards such as specification, timeliness and skills; improving the service quality and enhancing customers' satisfaction.

System improvement: Improving system with the key strategy of "improving marketing efficiency"; continuing to ensure enhancement of manufacturing efficiency by implementing measures such as automation, universalness and information technology.

Cost control: Strengthening the cost control ability and increasing the ratio of cost input to output.

Capital management: Strengthening the receivables management, continuing to improve inventory management, accelerating inventory and receivables turnover and settling the due receivables and abnormal occupancy of inventories; and enhancing the efficiency of capital utilization.

II. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD

(I) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

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

Yes No

Items	Reporting Period	Corresponding period last year	Increase or decrease as compared to corresponding period last year (%)
Operating revenue (RMB)	13,122,951,531.51	13,611,148,619.89	-3.59
Net profits attributable to shareholders of listed company (RMB)	559,279,481.31	505,717,733.90	10.59
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	519,161,229.89	287,527,945.85	80.56
Net cash flow from operating activities (RMB)	1,066,721,270.63	-199,164,845.29	N/A
Basic earnings per share (RMB/share)	0.41	0.37	10.81
Diluted earnings per share (RMB/share)	0.41	0.37	10.81
Weighted average rate of return on net assets (%)	13.04	13.66	-0.62

Items	End of the Reporting Period	End of last year	Increase or decrease as compared to end of last year (%)
Total assets (RMB)	17,596,853,296.61	14,292,817,039.53	23.12
Net assets attributable to shareholders of listed company (RMB)	4,399,850,400.22	4,044,017,698.45	8.80

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

Item	Amount	Description
Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)	25,710.26	
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)	45,211,964.43	
Other non-operating income and expenses other than the aforementioned items	6,123,838.46	
Less: Effect of income tax	4,477,695.78	
Effect of minority interests (after tax)	6,765,565.95	
Total	40,118,251.42	-

Unit: RMB

MANAGEMENT DISCUSSION AND ANALYSIS — *Continued*

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

(III) ANALYSIS OF PRINCIPAL BUSINESS

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

Unit: RMB

<u>Items</u>	<u>Closing Balance (current period)</u>	<u>Opening balance (correspondence period last year)</u>	<u>Change (%)</u>	<u>Reasons of change</u>
Cash and cash equivalents	2,086,541,421.01	1,014,410,146.17	105.69	Mainly due to continuous improvement of the Company's operation, an increase in operating profit and a decrease in inventory occupancy resulted in an increase in operating cash flow and net cash amount
Notes receivable	3,198,213,709.39	2,289,706,048.91	39.68	Mainly due to an increase in payment in form of notes as it is the peak season for sales as at the end of the Reporting Period
Accounts receivable	3,480,922,808.73	2,086,596,419.00	66.82	Mainly due to the end of the Reporting Period being the peak season for sales, increased sales resulted in an increase in accounts receivable
Other current assets	626,343,884.03	467,872,305.65	33.87	Mainly due to an increase in purchase of investment and wealth management products
Notes payable	4,444,534,151.45	2,931,174,504.52	51.63	Mainly due to an increase in in billing and notes payable at the end of the Reporting Period
Accounts payable	3,975,928,414.37	2,878,291,676.53	38.14	Mainly due to an increase in accounts payable caused by an increase in production volume as it is the peak season for sales and production as at the end of the Reporting Period
Taxes payable	239,766,016.93	161,686,275.79	48.29	Mainly due to an increase in VAT and income taxes payable as at the end of the Reporting Period
Business taxes and surcharges	53,955,707.45	30,886,280.24	74.69	Mainly due to the change in the corresponding taxes and surcharges caused by the change in amount of taxes payable
Financial expenses	-33,394,686.74	-24,809,869.01	N/A	Mainly due to an increase in foreign exchange gains
Loss from asset devaluation	-14,037,482.78	20,873,327.47	N/A	Mainly due to a decrease in expected loss on value depreciation caused by optimization of inventory structure and acceleration of turnover during the Reporting Period

MANAGEMENT DISCUSSION AND ANALYSIS — Continued

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

(III) ANALYSIS OF PRINCIPAL BUSINESS — Continued

Items	Closing Balance (current period)	Opening balance (correspondence period last year)	Change (%)	Reasons of change
Profit from fair value changes	9,050,884.77	53,113,821.77	-82.96	Mainly due to changes in outstanding forward transactions and changes in settlement for due transactions for the current period
Investment income	190,519,070.38	290,512,875.51	-34.42	Mainly due to a decrease in investment income caused by the recognized investment gain from disposal of equity interests of Huayi Compressor in the previous period which did not occur in the current period
Non-operating income	56,931,787.09	101,692,390.83	-44.02	Mainly due to a decrease in government grants received during the current period
Income tax expenses	105,932,299.43	64,380,329.92	64.54	Mainly due to the changes in deferred income tax of the companies
Cash received from product sales and rendering of services	9,029,697,663.46	6,227,820,959.38	44.99	Mainly due to an increase in payment received from bank acceptance bills at their maturity and an increase in payment collection from export business during the current period
Cash paid for purchase of goods and services received	4,727,872,044.53	3,292,850,945.61	43.58	Mainly due to an increase in notes payable at maturity during the Reporting Period
Cash received from disposals of investments	160,230,000.00	330,278,145.68	-51.49	Mainly due to the returns in investment received from disposal of equity interests of Huayi Compressor in the previous period which did not occur in the current period
Cash paid to acquire fixed assets, intangible assets and other long-term assets	129,400,021.03	289,212,638.80	-55.26	Mainly due to a decrease in infrastructure investment of the Company during the Reporting Period
Cash paid for repayment of borrowings	542,305,035.90	799,523,193.18	-32.17	Mainly due to the changes in factoring accounts receivable business

MANAGEMENT DISCUSSION AND ANALYSIS — *Continued*

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

(IV) DESCRIPTION OF PRINCIPAL BUSINESS SEGMENTS

Unit: RMB

<u>Item</u>	<u>Revenue from operating businesses</u>	<u>Costs of operating businesses</u>	<u>Gross profit margin (%)</u>	<u>Increase or decrease in revenue from operating as businesses compared to corresponding period last year (%)</u>	<u>Increase or decrease in costs of operating businesses as compared to corresponding period last year (%)</u>	<u>Increase or decrease in gross profit margin as compared to corresponding period last year (%)</u>
By industry						
Home appliances manufacturing industry	12,160,903,726.53	9,175,148,808.22	24.55	-2.62	-6.20	2.88
By product						
Refrigerators and washing machines	6,041,357,800.87	4,483,624,314.27	25.78	-1.55	-5.79	3.34
Air-conditioners	5,416,889,955.83	4,186,656,955.15	22.71	-6.49	-8.94	2.08
Others	702,655,969.83	504,867,538.80	28.15	25.92	18.94	4.22
By region						
Mainland	7,532,607,084.66	5,291,560,808.05	29.75	-10.36	-13.84	2.83
Overseas	4,628,296,641.87	3,883,588,000.17	16.09	13.32	6.70	5.21

III. CORE COMPETITIVENESS ANALYSIS

1. Technological advantages

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

MANAGEMENT DISCUSSION AND ANALYSIS — Continued

III. CORE COMPETITIVENESS ANALYSIS — Continued

2. Brand advantages

The three brand names used in 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.

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

Name of company	Company type	Industry	Major product or service	Registered capital	Total assets (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	Home appliances industry	Production and sale of commercial air-conditioners	US\$46 million	548,166.36	265,518.12	281,540.16	40,965.44	46,801.82

LIQUIDITY AND SOURCES OF CAPITAL

Net cash generated from operating activities of the Group was approximately RMB1,066 million for the six months ended 30 June 2016 (for the six months ended 30 June 2015: RMB-199 million).

As at 30 June 2016, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB2,086 million (as at 30 June 2015: RMB879 million) and bank loans amounting to approximately RMB248 million (as at 30 June 2015: RMB388 million).

Total capital expenditures of the Group for the six months ended 30 June 2016 amounted to approximately RMB129 million (for the six months ended 30 June 2015: RMB289 million).

GEARING RATIO

As at 30 June 2016, the Group’s gearing ratio (calculated according to the formula: total liabilities divided by total assets) was 73% (as at 30 June 2015: 73%).

TRUST DEPOSITS

As at 30 June 2016, the Group did not have any trust deposits with any financial institutions in the PRC. All of the Group’s deposits have been deposited in commercial banks and other financial institutions in the PRC and Hong Kong.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 June 2016, the Group had approximately 32,226 employees, mainly comprising 4,857 technical staff, 14,595 sales representatives, 351 financial staff, 783 administrative staff and 11,640 production staff. The Group had 9 employees with a doctorate degree, 378 with a master's degree and 3,795 with a bachelor's degree. There were 419 employees who occupied mid-level positions or above in the Group according to the national standards. For the six months ended 30 June 2016, the Group's staff payroll amounted to RMB1,338 million (corresponding period in 2015 amounted to RMB1,362 million).

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

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2016, the Group's property, plant and equipment (including leasehold land held for own use) and investment properties and trade receivables of approximately RMB237 million (31 December 2015: RMB417 million) were pledged as security for the Group's borrowings.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

SHARE CAPITAL STRUCTURE

As at 30 June 2016, the share capital structure of the Company was as follows:

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

TOP TEN SHAREHOLDERS

As at 30 June 2016, there were 28,478 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
Hisense Air-conditioning	State-owned legal person	612,316,909	44.93%	67.80%	0
HKSCC Nominees Limited ^{Note 1}	Foreign legal person	459,144,769	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 ^{Note 2}	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
Southern Fund – Agricultural Bank of China – Southern 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
Central European Fund – Agricultural Bank of China – Central European 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
Huaxia Fund – Agricultural Bank of China – Huaxia 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
Yifangda Fund – Agricultural Bank of China – Yifangda 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

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, a party acting in concert with the controlling shareholder of the Company, is the holder of 81.16 million H shares in total at the end of the Reporting Period, representing 5.96% of the total number of shares of the Company.
2. 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.

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of tradable shares held	Class of shares
Hisense Air-conditioning	612,316,909	RMB ordinary shares Overseas listed
HKSCC Nominees Limited	459,144,769	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
Southern Fund – Agricultural Bank of China – Southern 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
Central European Fund – Agricultural Bank of China – Central European 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
Jiashi Fund – Agricultural Bank of China – Jiashi 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
Yinhua Fund – Agricultural Bank of China – Yinhua China Securities Financial Asset Management Plan	6,518,300	RMB ordinary shares

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES

So far as is known to any Directors, supervisors and the chief executive of the Company, as at 30 June 2016, the following persons (other than the Directors, supervisors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited:

LONG POSITION AND SHORT POSITION IN THE SHARES OF THE COMPANY

Name of shareholder	Capacity	Type of shares	Number of shares held	Percentage of the respective type of shares	Percentage of the total number of shares in issue
Qingdao Hisense Air-conditioning Company Limited ^{Note 1}	Beneficial owner	A shares	612,316,909 (L)	67.80%	44.93%
Qingdao Hisense Electric Holdings Company Limited ^{Note 1}	Interest of controlled corporation	A shares	612,316,909 (L)	67.80%	44.93%
Hisense Group ^{Note 1}	Interest of controlled corporation	A shares	612,316,909 (L)	67.80%	44.93%
Hisense (Hong Kong) Company Limited ^{Note 1}	Beneficial owner	H shares	81,160,000 (L)	17.66%	5.96%
Qingdao Hisense Electric Holdings Company Limited ^{Note 1}	Interest of controlled corporation	H shares	81,160,000 (L)	17.66%	5.96%
Hisense Group ^{Note 1}	Interest of controlled corporation	H shares	81,160,000 (L)	17.66%	5.96%
Prime Capital Management Company Limited ^{Note 2}	Investment manager	H shares	54,971,255 (L)	11.96%	4.03%
Citigroup Inc. ^{Note 3}	Person having security interests in shares and custodian corporation/ approved lending agent	H shares	28,395,596 (L)	6.17 (L)	2.08%
			2,467,000 (S)	0.53 (S)	0.18%
			3,344,986 (P)	0.72 (P)	0.25%

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

Notes:

- Hisense Air-conditioning 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 Group and is accustomed or obliged to act in accordance with the directions or instructions of Hisense Group. By virtue of the SFO, Qingdao Hisense Electric Holdings Company Limited and Hisense Group were deemed to be interested in the same parcel of A shares of which Hisense Air-conditioning was interested and in the same parcel of H shares of which Hisense (Hong Kong) Company Limited was interested.
- Prime Capital Management Company Limited was interested in a total of 54,971,255 H shares in the capacity of an investment manager by virtue of the SFO.
- 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 25,050,610 H shares and the short position of 2,467,000 H shares and Citibank N.A. was interested in the long position of 3,344,986 H shares. Among such interests in the H shares, Citigroup Inc. was interested in the long position of 21,721,612 H shares as person having security interests, the long position of 3,344,986 H shares as custodian corporation or approved lending agent and the long position of 3,328,998 H shares and the short position of 2,467,000 H shares as interest of controlled corporation.

Save as disclosed above, as at 30 June 2016, in so far as the Directors, supervisors and chief executive of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

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

As at 30 June 2016, save as disclosed below and in the section "The First Share Option Incentive Scheme", none of the members of the Board, supervisors and the chief executive of the Company and their respective associates held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be maintained by the Group pursuant to section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code.

LONG POSITION IN THE SHARES OF THE COMPANY

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Number of shares</u>	<u>Percentage to the total issued shares of the Company</u>	<u>Percentage to the relevant class of issued shares of the Company</u>
Tang Ye Guo	Beneficial owner	1,260,000 A Shares <i>(Note 1)</i>	0.09%	0.14%
Jia Shao Qian	Beneficial owner	828,000 A Shares <i>(Note 2)</i>	0.06%	0.09%
Wang Yun Li	Beneficial owner	358,630 A Shares <i>(Note 3)</i>	0.03%	0.04%

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 30 June 2016).
- 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 30 June 2016).
- Of these 358,630 A Shares, 52,120 A Shares were beneficially owned by Mr. Wang Yun Li and he was also interested in share options to subscribe for 306,510 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 30 June 2016).

PURCHASE, SALE AND REDEMPTION OF SECURITIES

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

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the interim results announcement and the interim report for the period ended 30 June 2016.

THE FIRST SHARE OPTION INCENTIVE SCHEME

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

No.	Name	Position	Outstanding share options as at 1 January 2016 (‘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 30 June 2016 (‘0000 shares)
1	Tang Ye Guo	Chairman	42.84	-	-	-	42.84
2	Jia Shao Qian	Director, Vice-President	28.894	-	-	-	28.894
3	Wang Yun Li	Director, Vice-President	30.651	-	-	-	30.651
4	Wang Zhi Gang	Former Director, Vice-President	6.12	-	-	-	6.12
5	Mid level management staff and key personnel		340.182	-	-	-	340.182
	Total		<u>448,687</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>448,687</u>

Notes:

- All share options available for issue under the first share option incentive scheme have been granted.
- Mr. Wang Zhi Gang has resigned from his position as director on 5 May 2016.
- As this scheme will expire on 31 August 2016, after the expiration date of this scheme, share options granted but not yet exercised will lapse automatically. On 25 August 2016, the Resolution on cancellation of share options granted but not yet exercised under the first share option incentive scheme of the Company was approved in the third meeting in 2016 held by the board of directors of the Company, and it is agreed that, after the expiration date of this scheme, a total of 4.48687 million share options granted but not yet exercised under this scheme will be cancelled involving 139 grantees..

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

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

(3) VALIDITY PERIOD OF THE SHARE OPTIONS

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

(4) EXERCISE ARRANGEMENT

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

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

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

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

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

CORPORATE GOVERNANCE CODE

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

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

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

Connected parties	Type of connected transaction	Particulars of connected transaction	Pricing principle of connected transaction	Connected transaction amount (RMB ten thousand)	Percentage of total amount of similar transactions (%)
Hisense Electric	Purchase	Finished goods	Agreed price	11.42	0.00
Hisense-Whirlpool	Purchase	Finished goods	Agreed price	10,713.79	1.07
Hisense Group	Purchase	Materials	Agreed price	150.29	0.01
Hisense Electric	Purchase	Materials	Agreed price	95.45	0.01
Hisense-Whirlpool	Purchase	Materials	Agreed price	82.64	0.01
Hisense Hitachi	Purchase	Materials	Agreed price	388.81	0.04
Hisense Group	Receipt of services	Receipt of services	Agreed price	23,855.70	2.38
Hisense Electric	Receipt of services	Receipt of services	Agreed price	962.86	0.10
Hisense Hong Kong	Receipt of purchase financing agency services	Receipt of purchase financing agency services	Agreed price	10,403.39	1.04
Hisense Group	Sale	Finished goods	Agreed price	152,907.67	11.65
Hisense Electric	Sale	Finished goods	Agreed price	5.56	-
Hisense Hitachi	Sale	Finished goods	Agreed price	7,644.35	0.58
Hisense Group	Sale	Materials	Agreed price	1,674.11	0.13
Hisense Electric	Sale	Materials	Agreed price	1,010.15	0.08
Hisense Hitachi	Sale	Materials	Agreed price	66.33	0.01
Hisense Group	Sale	Moulds	Market price	10,197.08	0.78
Hisense Electric	Sale	Moulds	Market price	5,531.88	0.42
Hisense-Whirlpool	Sale	Moulds	Market price	85.47	0.01
Hisense Hitachi	Sale	Moulds	Market price	345.30	0.03
Hisense Group	Provision of services	Provision of services	Agreed price	865.33	0.07
Hisense-Whirlpool	Provision of services	Provision of services	Agreed price	63.07	-

As at the end of the Reporting Period, the Company and its subsidiaries had the balance of deposit of approximately RMB1,498,000,000 and interest income received of approximately RMB3,282,100, the actual balance of loan of RMB0, balance of electronic bank acceptance bill of approximately RMB2,624,000,000, and the handling fee for opening accounts for electronic bank acceptance bill of approximately RMB1,376,500 with Hisense Finance. The actual amount of discounted interest for the provision of draft discount services was approximately RMB3,563,700, the actual amount involved for the provision of settlement and sale of foreign exchange services was approximately US\$15,480,000 and the actual service fee paid for the provision of agency services such as settlement services for receipt and payment of funds was approximately RMB177,200.

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

II. ENTRUSTED WEALTH MANAGEMENT

✓ Applicable □ Not applicable

Unit: RMB (in ten thousand)

Name of trustee	Connection	Whether it is a connected transaction		Product type	Amount of entrusted wealth management	Commencement		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
						date	Expiration date					
Bank	No	No		Bank's wealth management product	16,100	2016-04-18	2016-08-01	Non-guaranteed and floating income, investment revenue rate (annual rate of 4.84%)	0		221.80	0
Bank	No	No		Bank's wealth management product	20,000	2016-06-30	2016-09-06	Non-guaranteed and floating income, investment revenue rate (annual rate of 4.40%)	0		161.53	0
Total					36,100	-	-	-	0		383.33	0

Source of funding for entrusted wealth management

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 entrusted wealth management (if applicable)

Not applicable

Date of publishing the announcement in respect of the Shareholders' meeting held to approve the entrusted wealth management (if applicable)

Not applicable

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

III. PARTICULARS OF GUARANTEES

✓ Applicable □ Not applicable

Unit: RMB (in ten thousand)

External guarantee given by the Company (excluding guarantees for its subsidiaries)

<u>The guaranteed party</u>	<u>Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount</u>	<u>Limit on guaranteed amount</u>	<u>Actual effective date (date of agreement)</u>	<u>Actual guaranteed amount</u>	<u>Type of guarantee</u>	<u>Period of guarantee</u>	<u>Completed or not</u>	<u>Whether the guarantee is given for any connected party</u>
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

<u>The guaranteed party</u>	<u>Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount</u>	<u>Guaranteed amount</u>	<u>Actual effective date (date of agreement)</u>	<u>Actual guaranteed amount</u>	<u>Type of guarantee</u>	<u>Period of guarantee</u>	<u>Completed or not</u>	<u>Whether the guarantee is given for any connected party</u>
Guangdong Refrigerator	11 November 2015	50,000	2015-3-9	9.61	Joint liability guarantee;	2015.3.9-2016.1.31	Yes	Yes
Guangdong Refrigerator	11 November 2015	50,000	2014-7-7	119.49	Joint liability guarantee	2014.7.7-2016.6.12	Yes	Yes
Guangdong Air-conditioner	11 November 2015	30,000	2015-10-26	584.70	Joint liability guarantee	2015.10.26-2016.1.12	Yes	Yes
Home Appliances Co	11 November 2015	5,000	2014-6-20	60.00	Joint liability guarantee	2014.6.20-2016.6.11	Yes	Yes
Home Appliances Co	11 November 2015	5,000	2015-8-20	127.87	Joint liability guarantee;	2015.8.20-2016.5.30	Yes	Yes
Ronsheng Plastic	11 November 2015	6,000	2015-10-16	908.52	Joint liability guarantee	2015.10.16-2016.2.29	Yes	Yes
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)				1,810.19
Total limit on the amount of guarantees for subsidiaries which has been approved at the end of the Reporting Period (B3)			153,500.00	Total balance of actual amount of guarantees for subsidiaries at the end of the Reporting Period (B4)				0

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

III. PARTICULARS OF GUARANTEES — *CONTINUED*

Guarantees given by the subsidiaries 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 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
Total guaranteed amount of the Company (being the sum of the previous three major items)									
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)					1,810.19
Total limit on the amount of guarantees which has been approved at the end of the Reporting Period (A3+B3+C3)			153,500.00	Total balance of actual amount of guarantees at the end of the Reporting Period (A4+B4+C4)					0
Proportion of actual amount of guarantees (being A4+B4+C4) to the net assets of the Company									0%
Including:									
Guaranteed amount provided for shareholders, beneficial controlling parties and their connected parties (D)									0
Guaranteed amount provided directly or indirectly for the guaranteed party with gearing ratio over 70% (E)									0
Total guaranteed amount over 50% of the net asset (F)									0
Sum of the above three guarantees (D+E+F)									0
Statement on possibility to assume joint liabilities for guarantees which have not expired									Nil
Description of provision of external guarantee in violation of prescribed procedures									Nil

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

IV. DERIVATIVES INVESTMENT

Unit: RMB (in ten thousand)

Name of operators of derivatives investment	Connection	Whether or not a connected transaction	Type of derivatives investment	Initial investment of derivatives investment	Effective Date	Expiry Date	Investment at the beginning of the Reporting Period	Amount of purchase during the Reporting Period	Amount of disposal during the Reporting Period	Amount of provision for impairment (if any)	Investment at the end of the Reporting Period	Proportion of investment to the net asset of the Company at the end of the Reporting Period (%)	Actual amount of profit and loss during the Reporting Period
Bank	No	No	Forward foreign exchange contracts	83,342.85	1 January 2016	30 June 2016	83,342.85	50,716.09	69,967.03		64,091.91	14.57%	288.66

Source of derivatives investment funding Export trade payment

Date of the announcement disclosing the approval of derivatives investment by the Board (if any) 30 March 2016

Date of the announcement disclosing the approval of derivatives investment during shareholders' meetings (if any) 25 June 2016

Risk analysis of positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)

The derivatives business of the Company mainly represents the forward foreign exchange contracts used to avoid the risk of foreign exchange fluctuations related to the overseas sales receivables. The Company determines a reasonable range of foreign exchange rates to achieve the hedging purpose. The Company has formulated the "Management Measures for the Foreign Exchange Capital Business" and "the Internal Control System for Forward Foreign Exchange Capital Transactions". The measures specifically regulate the basic principles, operation rules, risk control measures and internal controls that shall be followed when engaging in the business of foreign exchange derivatives. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.

IV. DERIVATIVES INVESTMENT — *Continued*

Changes in market price or product fair value of invested derivatives during the Reporting Period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of derivatives' fair value

The assessment of the fair value of the derivatives carried out by the Company mainly represents the outstanding foreign exchange forward contracts entered into by the Company and banks, which are recognized as 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 RMB9.0509 million. Investment gain amounted to RMB-6.1643 million, resulting in a total profits or losses of RMB2.8866 million.

Explanations of any significant changes in the Company's accounting policies and specific accounting and auditing principles on derivatives between the Reporting Period and the last reporting period

During the Reporting Period, there were no material changes in the accounting policy and specific accounting and auditing principles for the Company's derivatives business as compared to last reporting period.

Specific opinions of independent Directors on the derivatives investment and risk control of the Company

Opinion of independent directors: Commencement of foreign exchange derivatives business by the Company was beneficial to the Company in the prevention of exchange rate fluctuation risks. The Company has devised the Internal Control System for Forward Foreign Exchange Capital Transactions to strengthen internal control and enhance the management of foreign exchange risks by the Company, and the targeted risk control measures adopted were practicable.

This 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.
"Home Appliances Co"	GuangDong Hisense Home Appliances Co., Ltd. Its former name is Guangdong Kelon Fittings Co., Ltd., which has been changed since 10 April 2014
"Ronsheng Plastic"	Foshan Shunde Rongsheng Plastic Co., Ltd
"Foshan Intermediate Court"	Intermediate People's Court of Foshan City, Guangdong Province
"RMB"	Renminbi
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited