

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



Annual Report
2016

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Company Profile

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

The Company adheres to its core philosophy of “relying on technology and the talents of its people to build up the Company”, and makes “technology” to be the primary driving force for the Company’s development. Leveraging on the superior refrigeration technology in the industry and the technology-rich nature of its products, the Company is renowned in the industry to have been awarded many honors for its technology and products. In 2016, with the Company’s strong commitment in the promotion of sports marketing, we grasped the opportunity arising from Hisense Group’s premium sponsorship of UEFA European Football Championship 2016. “Quality assurance for Ronshen refrigerators” first appeared in a major international sports event. Besides, in the sports events sponsored by Hisense Group such as the National Gymnastics Team, the F1 Team, the Australian Open Tennis Championships and Schalke Football Club etc., the Company’s high-end refrigerators, air-conditioners, washing machines and other products appeared in the top international sports contests. This has greatly improved the image of our brand and the Company. Hisense Refrigerators won the “2016 Canstar Blue Most Satisfied Customers Award” by Canstar Blue, an Australian rating agency. At the 5th China International Consumer Electronics Leader Innovation Awards Ceremony, Hisense Bei Duo Fen Cross French-door refrigerators (BCD-620WTGVBP) won the “Technology Innovation Award” of 2016 China International Consumer Electronics Leader Innovation Awards with their innovative technology. At the “12th China Household Electrical Appliances Innovation Achievement Award” ceremony of the IFA held in Berlin, Germany, Hisense won the most iconic awards for the year, namely “Technology Innovation Award” and “Product Innovation Award”, by virtue of its two leading scientific and technological achievements in the industry, i.e. “the critical technology of adaptive control in inverter compressor” and “pearl goddess air-conditioner”. The revolutionary innovative technology of Hisense washing machines, namely the third generation of spin waterfall washing technology, won the “Technology Innovation Award”. In addition, Hisense Air-Conditioner won the “Air-conditioning Industry Quality Leader in China Award” by China Association for Quality Inspection and was honored as one of the “Top Ten Brands” by China Household Electric Appliance Research Institute.

The Company will adhere to the operating strategy of “strengthening the high-end strategy, expanding the advanced network, raising system efficiency, accelerating business expansion, expanding the international market, ensuring economies of scale”, and will adhere to the development strategy of high-end products to accentuate the advantages of product differentiation, to improve its customer matrix, to expand the advanced network, to increase the sales capability, to improve the NPS management system, to strive to expand the overseas market, to continue the work of raising production efficiency, to enhance the integrated capability of the Company in all areas, including technology level, service quality, product grade, market scale and sustainability etc., to achieve a steady growth in scale, efficiency and market share.

Major Events Calendar

JANUARY

Hisense Kelon sponsored the Half Marathon organized by the Shunde Ronggui government, which attracted around 10,000 marathon lovers from all parts of the PRC to participate in the competition. Hisense Kelon has sponsored the Ronggui government in organizing the Half Marathon for 29 consecutive years.

Hisense Kelon passed the assessment of the China Academy of Safety Science and Technology and obtained the “Occupational Health and Safety Management Systems Certificate” and the “Environmental Management Systems Certificate” issued by the China Academy of Safety Science and Technology.

FEBRUARY

At the iF Hannover Industrial Design Forum held in Hannover, Germany, which is reputed as the “Oscar of Industrial Design”, the three-drum sorting washing machine of Hisense was awarded the 2016 iF Product Award, and gained recognitions and compliments from the international design industry.

JUNE

With the Company’s strong commitment in the promotion of sports marketing, we grasped the opportunity arising from Hisense Group’s premium sponsorship of UEFA European Football Championship 2016. “Quality assurance for Ronshen refrigerators” first appeared in a major international sports event. Besides, in the sports events sponsored by Hisense Group such as the National Gymnastics Team, the F1 Team, the Australian Open Tennis Championships and Schalke Football Club etc., the Company’s high-end refrigerators, air-conditioners, washing machines and other products appeared in the top international sports contests. This has greatly improved the image of our brand and the Company.

JULY

At the 5th China International Consumer Electronics Leader Innovation Awards Ceremony, Hisense Bei Duo Fen Cross French-door refrigerators (BCD-620WTGVBP) won the “Technology Innovation Award” of 2016 China International Consumer Electronics Leader Innovation Awards with their innovative technology.

Hisense Refrigerators fulfilled its corporate social responsibility by inviting teachers and students of Beichuan Hisense Chenjiaba Primary School to participate in the “Studying, Watching the Sea and the World” activity, and by setting up the “Watching the Sea Scholarship” to subsidize outstanding student representatives.

AUGUST

At the “13th Chinese Air-conditioning Industry Summit”, which was organized by cheaa.com and under the guidance of China Household Electrical Appliances Association and Department of Information Resources of the State Information Center, Hisense obtained two major awards, namely the “the Leading Brand of Intelligent Inverter Air-conditioners in the Air-conditioning Industry of 2016-2017” and “the Leading Product of Comfortable Inverter Air-conditioners in the Air-conditioning Industry of 2016-2017”.

SEPTEMBER

Hisense Air-Conditioner won the “Air-conditioning Industry Quality Leader in China Award” by China Association for Quality Inspection.

Hisense Air-Conditioner was honored as one of the “Top Ten Brands” by China Household Electric Appliance Research Institute.

At the “12th China Household Electrical Appliances Innovation Achievement Award” ceremony of the IFA held in Berlin, Germany, Hisense won the most iconic awards for the year, namely “Technology Innovation Award” and “Product Innovation Award”, by virtue of its two leading scientific and technological achievements in the industry, i.e. “the critical technology of adaptive control in inverter compressor” and “pearl goddess air-conditioner”. The revolutionary innovative technology of Hisense washing machines, namely the third generation of spin waterfall washing technology, won the “Technology Innovation Award”.

Major Events Calendar

NOVEMBER

Hisense Refrigerators won the “2016 Canstar Blue Most Satisfied Customers Award” by Canstar Blue, an Australian rating agency, signifying that Hisense Refrigerators was the brand that was given the highest rating by the agency in its assessment of the level of satisfaction.

DECEMBER

Hisense Kelon’s “Xuanzhuan” series air-conditioners won the “Excellent Appearance Design Award” of the 18th China Patent Awards” by virtue of its outlook design.

Hisense Kelon passed the assessment and was given the title “National Model Enterprise of Intellectual Property Rights”.

Chairman's Statement

Dear Shareholders:

I am pleased to present the annual report of the Company for the year ended 31 December 2016 (the “**Reporting Period**”) for shareholders' review.

During the Reporting Period, the downward pressure on the Chinese economy increased, the real estate market first showed an improvement but followed by a decline, the domestic sales market was weak and the refrigerator market continued its downward trend in 2014 and 2015. According to the statistics of China Market Monitor Co., Ltd. (CMM), the cumulative retail sales volume of the refrigerator industry recorded a year-on-year decrease of 4.6% in 2016 and the cumulative retail sales amount decreased by 3.4% year-on-year. Benefiting from the continuous hot weather, the downward trend of the air-conditioner market has been reversed since August. According to the statistics of CMM, the cumulative retail sales volume of the air-conditioner industry recorded a year-on-year increase of 3.5% in 2016 and the cumulative retail sales amount increased by 5.6% year-on-year. In relation to the export market, overseas demand increased gradually, leading to a recovery in the export market. According to the statistics of the Customs, the export volume of refrigeration products rose 13.4% year-on-year in 2016 and the export volume for the air-conditioning products rose 16.8% year-on-year.

The structure of white goods products was upgraded continuously while “Intelligence” and “green” remained as the theme of the industry. In respect of refrigerator products, according to the statistics of CMM, the cumulative retail market share of French-style refrigerators increased by 6.3 percentage points year-on-year in 2016, while the cumulative retail market share of side-by-side refrigerators increased by 2.2 percentage points year-on-year. The cumulative retail market share of air-cooled refrigerators increased by 14.9 percentage points year-on-year and the cumulative retail market share of inverter refrigerators increased by 7.4 percentage points year-on-year. As for air-conditioning products, according to the statistics of CMM, the retail market share of artistic cabinet air-conditioners in the cabinet air-conditioner market increased by 9.1 percentage points year-on-year in 2016. The cumulative retail market share of intelligent air-conditioners increased by 7.9 percentage points year-on-year and the cumulative retail market share of inverter air-conditioners increased by 2.7 percentage points year-on-year.

With the continuous development of intelligent household, many enterprises have shifted their focus from “intelligent household appliance” to “intelligent home”. This will further drive the development of white goods towards the trend of being more intelligent, artistic and high-end.

During the Reporting Period, in light of the business environment with economic downturn and low demand, the Company adhered to its operating strategies of “maintaining the high-end awareness, accentuating the product advantages, consolidating market network, enhancing system efficiency and expanding the international market” to carry out its business and stopped the declining trend in its profits of 2014 and 2015 and achieved a larger growth. The Company recorded an operating revenue of RMB26,730 million, representing a year-on-year increase of 13.88%, and a principal operating revenue of RMB24,671 million, representing a year-on-year increase of 13.15%, of which revenue from the refrigerator and washing machine business accounted for 51.80% of the principal operating revenue, representing a year-on-year increase of 10.58%; revenue from the air-conditioner business accounted for 42.08% of the principal operating revenue, representing a year-on-year increase of 15.52%. The domestic sales business recorded a principal operating revenue of RMB16,209 million, representing a year-on-year increase of 13.62%, whereas the export sales business recorded a principal operating revenue of RMB8,462 million, representing a year-on-year increase of 12.27%. The Company recorded net profits attributable to equity holders of the listed company of RMB1,088 million, representing a year-on-year increase of 87.43%, of which net profits after deducting non-recurring profit and loss were RMB998 million, representing a year-on-year increase of 329.29%. Earnings per share were RMB0.80.

Technological innovation is the primary driving force of product intelligentization and is also the foundation of continuous upgrade and raising the competitiveness of products. The Company adhered to its development strategy of “Technology orientation and prudent operation”, and increased the competitiveness of products through upgrading technological innovation, improving product quality and adding value to products.

Chairman's Statement

During the Reporting Period, the Company's refrigerator and washing machine business focused on customers' "dissatisfaction" and conducted research and product design based on various dimensions including energy efficiency, silence, fresh-keeping, internal and external appearance, intelligentization and innovative functions, so as to enhance product competitiveness. As for household air-conditioners, during the Reporting Period, the Company's air-conditioner business adhered to its development philosophy of "breakthrough in core technology, product innovation and customer satisfaction" and introduced a series of differentiated intelligent inverter products. As for commercial air-conditioners, the Company launched the Kelon air-source heat pump heater series with VVI technology, which can discharge water of about 50°C when the temperature is as low as -20°C, achieving a stable and strong heat generation. Kelon central heater, by virtue of its advantages in technology and product quality, successively won the tenders of "coal-to-electricity" projects of seven districts and counties such as Daxing district of Beijing, Tongzhou, Mentougou and Shunyi, placing the Company at the top of the market share of Beijing's "coal-to-electricity" projects.

Looking forward to 2017, the downward pressure on the Chinese economy will remain. Market demands on the white goods will still be low. Besides, raw material costs, man power and labour costs, logistics and transportation costs as well as installation service costs will continue to rise, creating great pressure on our operation and development. However, on the other hand, the industry trend of "high-end" and "intelligentization" will continue. After the reduction in the air-conditioner inventory in 2016, the merchants' inventory volume has been greatly reduced, providing benign conditions for manufacturers' delivery of products and realizing a healthy market cycle.

In 2017, the Company will firmly uphold the operating strategies of "strengthening the high-end strategy, expanding the advanced network, raising system efficiency, accelerating business expansion, expanding the international market, ensuring economies of scale" to grasp the opportunities of upgrading its business, strengthening high-end strategies, highlighting high-end products and increasing brand values; optimizing our customer composition and developing a high-quality network; raising system efficiency; adhering to the system efficiency which focuses on "marketing efficiency"; accelerating business expansion; expanding the international market; improving capital efficiency in order to strive for steady increase in the scale, performance and market share of the Company.

In 2016, the business development of the Company has received the care and strong support from all shareholders, general staff, financial institutions, partners and the government. I would like to express my gratitude to every one of them and hope to receive your continued support in the forthcoming year. We believe that our objectives will be gradually achieved through careful and in-depth planning. With the concerted efforts and commitment of our staff, a brand-new corporate spirit and pragmatic style of work as driving forces of the enterprise to take on the challenges ahead, the development of the Company will be advanced. I also earnestly look forward to sharing a better future of Hisense Kelon with you all.

Tang Ye Guo
Chairman

The PRC, 29 March 2017

Management Discussion and Analysis

I. INDUSTRY OVERVIEW

During the Reporting Period, the downward pressure on the Chinese economy increased, the real estate market first showed an improvement but followed by a decline and the domestic sales market was weak and the refrigerator market continued its downward trend in 2014 and 2015. According to the statistics of China Market Monitor Co., Ltd. (CMM), the cumulative retail sales volume of the refrigerator industry recorded a year-on-year decrease of 4.6% in 2016 and the cumulative retail sales amount decreased by 3.4% year-on-year. Benefiting from the continuous hot weather, the downward trend of the air-conditioner market has been reversed since August. According to the statistics of CMM, the cumulative retail sales volume of the air-conditioner industry recorded a year-on-year increase of 3.5% in 2016 and the cumulative retail sales amount increased by 5.6% year-on-year. In relation to the export market, overseas demand increased gradually, leading to a recovery in the export market. According to the statistics of the Customs, the export volume of refrigeration products rose 13.4% year-on-year in 2016, and the export volume for the air-conditioning products rose 16.8% year-on-year.

The structure of white goods products was upgraded continuously while “Intelligence” and “green” remained as the theme of the industry. In respect of refrigerator products, according to the statistics of CMM, the cumulative retail market share of French-style refrigerators increased by 6.3 percentage points year-on-year in 2016, while the cumulative retail market share of side-by-side refrigerators increased by 2.2 percentage points year-on-year. The cumulative retail market share of air-cooled refrigerators increased by 14.9 percentage points year-on-year and the cumulative retail market share of inverter refrigerators increased by 7.4 percentage points year-on-year. As for air-conditioning products, according to the statistics of CMM, the retail market share of artistic cabinet air-conditioners in the cabinet air-conditioner market increased by 9.1 percentage points year-on-year in 2016. The cumulative retail market share of intelligent air-conditioners increased by 7.9 percentage points year-on-year and the cumulative retail market share of inverter air-conditioners increased by 2.7 percentage points year-on-year.

With the continuous development of intelligent household, many enterprises have shifted their focus from “intelligent household appliance” to “intelligent home”. This will further drive the development of white goods towards the trend of being more intelligent, artistic and high-end.

II. ANALYSIS OF THE COMPANY’S OPERATION

1. Overall situation

During the Reporting Period, in light of the business environment with economic downturn and low demand, the Company adhered to its operating strategies of “maintaining the high-end awareness, accentuating the product advantages, consolidating market network, enhancing system efficiency and expanding the international market” to carry out its business and stopped the declining trend in its profits of 2014 and 2015 and achieved a larger growth. The Company recorded an operating revenue of RMB26,730 million, representing a year-on-year increase of 13.88%, and a principal operating revenue of RMB24,671 million, representing a year-on-year increase of 13.15%, of which revenue from the refrigerator and washing machine business accounted for 51.80% of the principal operating revenue, representing a year-on-year increase of 10.58%; revenue from the air-conditioner business accounted for 42.08% of the principal operating revenue, representing a year-on-year increase of 15.52%. The domestic sales business recorded a principal operating revenue of RMB16,209 million, representing a year-on-year increase of 13.62%, whereas the export sales business recorded a principal operating revenue of RMB8,462 million, representing a year-on-year increase of 12.27%. The Company recorded net profits attributable to equity holders of the listed company of RMB1,088 million, representing a year-on-year increase of 87.43%, of which net profits after deducting non-recurring profit and loss were RMB998 million, representing a year-on-year increase of 329.29%. Earnings per share were RMB0.80.

During the Reporting Period, the Company was committed to implement measures for enhancing efficiency and reducing costs as well as generalization of products, largely reducing inventories and accelerating the inventory turnover rate. The inventory turnover was reduced by 7 days year-on-year.

As the technology and products of intelligent household appliances and intelligent household industries have gradually become mature which enriched the users’ experiences, the market scale is expected to grow rapidly. During the Reporting Period, the Company leveraged on the technological advantages and operating experience in intelligent TV system and operation platform of Hisense Group and achieved a rapid improvement in the intelligent household appliances.

Management Discussion and Analysis

2. Technology orientation

Technological innovation is the primary driving force of product intelligentization and is also the foundation of continuous upgrade and raising the competitiveness of products. The Company adhered to its development strategy of “Technology orientation and prudent operation”, and increased the competitiveness of products through upgrading technological innovation, improving product quality and adding value to products.

Refrigerator and washing machine business:

During the Reporting Period, the Company’s refrigerator and washing machine business focused on customers’ “dissatisfaction” and conducted research and product design based on various dimensions including energy efficiency, silence, fresh-keeping, internal and external appearance, intelligentization and innovative functions, so as to enhance product competitiveness. Technology aspect: The Company produced the fresh-keeping refrigerator with “DBD purification technology” that performs the functions of “hydrating, anti-bacteria and purification” which was recognized as having reached the world-leading level at the technology assessment conference held by China National Light Industry Council, which strengthened the Company’s leading position in fresh-keeping technology in the industry. As the first company in China introducing the “automatic in-door ice-making technology”, the Company’s refrigerator technology was recognized as world-leading technology by the Guangdong Provincial Light Industry Association by virtue of its key technologies such as in-door automatic ice-making installation system, design of water injection system and micro-computer control system. By virtue of innovative technologies, at the 5th China International Consumer Electronics Leader Innovation Awards Ceremony, Hisense “Bei Duo Fen +” refrigerators won the “Technology Innovation Award” of the Leader Innovation Awards; at the 12th “China Household Electrical Appliances Innovation Achievement Award” ceremony, Hisense washing machine won the “Technology Innovation Award” by virtue of the third generation of spin water fall washing technology.

Product aspect: In 2016, the Company launched the 4th generation of the Hisense intelligent refrigerator equipped with the intelligent 4.0 system and offered functions such as online shopping, food storage period enquiry, online cuisine recommendation and intelligent temperature-control using means of intelligent networking technology through Hisense’s smart cloud technology platform. By virtue of its mastery of the development of intelligentization, “Hisense” was awarded the “2015-2016 Intelligent Technological Brand in the Refrigerator Industry” and Hisense “Bei Duo Fen+” refrigerator was awarded “2015-2016 Star of Intelligence in the Refrigerator Industry”.

Outlook design aspect: The Company upheld its strategy of product differentiation, strived to improve the quality of products’ outlook by innovating design theories based on users’ experience. At the iF Hannover Industrial Design Forum held in Hannover, Germany, which is reputed as the “Oscar of Industrial Design”, the three-drum sorting washing machine of Hisense was awarded the 2016 iF Product Award because of its unique design and recognized by international design community.

Air-conditioner business:

As for household air-conditioners, during the Reporting Period, the Company’s air-conditioner business adhered to its development philosophy of “breakthrough in core technology, product innovation and customer satisfaction” and introduced a series of differentiated intelligent inverter products. The Hisense “Pearl” goddess series air-conditioner (海信“珍珠”女神系列掛機) developed by the Company applied the intelligent light-sensor control and combined advanced technology of the industry, including NANOE Anti-bacteria Technology and WIFI Intelligent Technology. The Company launched the X700 series artistic cylindrical cabinet air-conditioner, which is designed in a golden ratio shape featuring ultra-wide-angle air supply and high-static pressure and provides extra-long distance airflow. With technological innovation and functional enhancement, users’ experience with product was further improved and the Company’ high-end sophisticated products strategy was further implemented. In 2016, Hisense “Pearl” air-conditioner was awarded “Leading Comfortable Inverter Product in the Air-conditioner Industry in 2016-2017” and “Innovative Product of the Year”; the Company’s X700 series artistic cylindrical cabinet air-conditioner was awarded “Leading Intelligent Technological Innovation of the Chinese Air-conditioner Industry”. The Company was awarded “First Prize of Technology Advancement of Chinese Household Electrical Appliance in China 2016” by virtue of its artistic air-conditioner equipped with decentralized dual-flow ventilation technology.

Management Discussion and Analysis

As for commercial air-conditioners, the Company launched the Kelon air-source heat pump heater series with VVI technology, which can discharge water of about 50°C when the temperature is as low as -20°C, achieving a stable and strong heat generation. Kelon central heater, by virtue of its advantages in technology and product quality, successively won the tenders of “coal-to-electricity” projects of seven districts and counties such as Daxing district of Beijing, Tongzhou, Mentougou and Shunyi, placing the Company at the top of the market share of Beijing’s “coal-to-electricity” projects.

3. Refrigerator and washing machine business

During the Reporting Period, the Company was committed to implement its strategy for high-end products. As a result, product quality, intelligentization level and user’s experience improved continuously. Leveraging on the “Hisense Cloud” platform of the Hisense Group, the Company has successfully developed various functions of refrigerators such as remote control, food management, cuisine recommendation and online shopping. Currently, this platform has been widely applied in middle-end and high-end refrigerators. In addition, the new high-end products such as 620 Litres cross-design steel products, 500 Litres cross-design four-door refrigerators, which are equipped with “DBD purification and preservation technology” and 485 Litres French-style side-by-side refrigerators were released as scheduled. The high-end product mix was further enriched. According to the statistics of CMM, in 2016, the cumulative retail market share of side-by-side refrigerators of the Company increased 4.05 percentage points year-on-year. Against the macro-environment of weak growth in the domestic sales market, the Company endeavored to explore areas with profit growth so as to speed up the development of its business. Due to the substantial improvement in the scale and economic efficiency of our commercial refrigerators, the commercial refrigerators became a new business for raising efficiency of the Company. As for the foundational work, both product quality and NPS improved continuously. Indicators of key quality projects improved year-on-year and the NPS of products grew steadily. The Company also continued to implement information system projects, “Xinshang-Intelligent Store Management System (信商·智慧門店管理系統)”, “WMS” and “SRM” systems as well as security system for research and development were launched as scheduled, which promoted production-efficiency enhancement measures such as manufacturing, research and development and marketing. Moreover, the Company made great effort on sports marketing and captured the favorable opportunity for Hisense Group’s top sponsor of the 2016 European Championships, so as to largely expand its overseas market. It was the first time for “Quality assurance for Ronshen refrigerators” to appear on stage of world-class international sports events, which contributed significantly in enhancing the brand image and the Company’s reputation. As one of the major brands in the Australia refrigerator market, Hisense refrigerator was awarded “2016 Most Satisfied Customers Award” in November 2016 by CanstarBlue, a rating agency in Australia.

Driven by the increase of product competitiveness, continuous optimization of product mix and continuous improvement of internal basic management, the operation quality of the Company’s refrigerator and washing machine business continued to improve and the gross profit margin of such business increased by 1.52 percentage points year-on-year.

4. Air-conditioner business

As for household air-conditioners, during the Reporting Period, the Company was committed to the promotion of the inverter technology and achieved comparative advantages of our products and perfected our inverters through intelligent technology upgrade and differentiation in appearance. The Company released a “smart ecosystem” strategy and focused on the demands from different users. The Company also combined various advanced technology in the industry such as new dual-mode inverter technology, NANO E360° airflow system, 16.5 dB ultra-silent technology, intelligent light-sensing technology and smart cloud technology and introduced different series of intelligent inverter sophisticated products such as “Xuanzhuan” air-conditioner, “Pearl” air-conditioner and “Xiaoxuanfeng” air-conditioner. As a result, the market share of inverter products steadily increased. According to the statistics of CMM, the cumulative retail market share of our inverter air-conditioners in 2016 increased by 0.78 percentage point year-on-year. As for the sales channel, the Company developed more channels and focused on developing the third and fourth tier markets. The market scale of Hisense air-conditioner business in third and fourth tier markets was expanded by 21.4% year-on-year. In addition, the Company strictly monitored the inventory level and inventory structure, and substantially accelerated the inventory turnover rate.

Management Discussion and Analysis

As for commercial air-conditioners, Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. (“Hisense Hitachi”, a company in which the Company has equity interest) adhered to the management philosophy of “integrity, professionalism, quality and sophistication” and insisted on using technology to promote innovation in products. In addition to continuing to maintain the advantages in the field of public construction and to have strategic cooperation with a number of real estate companies in the PRC in the real estate field, the scale of Hisense Hitachi in the retail of home installation field maintained a rapid growth of more than 60% for 4 consecutive years. In 2016, Hisense Hitachi recorded an operating revenue of RMB6,532 million, representing a year-on-year increase of 35.81%, and a net profit of RMB1,223 million, representing a year-on-year increase of 44.52%, contributing significantly to the Company’s profit.

As for the export business, the Company boosted its export capacity and entered into international high-end market more swiftly through the opportunity arising from Hisense Group’s sponsorships in sports events, such as the UEFA European Championship, the China’s Olympic National Gymnastics Team, the F1 Team, the Australian Open Tennis Championships and Schalke Football Club. According to the statistics of the Customs, in 2016, the export volume for the air-conditioning products of the Company recorded a year-on-year increase of 32.7%, which was much higher than the industry’s average growth rate of 16.8%.

With the continuous enrichment and upgrade of intelligent inverter sophisticated products and the stable improvement of product competitiveness, and through implementation of our differentiation marketing strategy, the operating results of air-conditioner business grew sharply. Gross profit margin increased by 4.20 percentage points year-on-year.

Major risks and uncertainties

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

(1) Credit risk

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

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

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

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

(2) Liquidity risk

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

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

Management Discussion and Analysis

(3) Interest rate risk

The interest rate risk that the Group is exposed to is primarily from changes in interest rates of interest-bearing financial assets and liabilities. The interest-bearing financial assets of the Group are mainly deposits with banks, which are mostly short-term in nature, whereas interest-bearing financial liabilities are mainly short-term bank borrowings. As at 31 December 2016, the interest rates of the Group's short-term bank borrowings were at a fixed rate. As all the Group's borrowings were factored accounts receivable, any change in the interest rate is not considered to have a significant impact on the Group's performance.

(4) Foreign currency risk

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

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

Environmental policies and performance

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

The Group continued to carry out technology improvement and efficiency enhancement projects to enhance efficiency, conserve energy and reduce consumption. The Group also formulated an environmental protection and resources conservation system and established a sound ISO14001 environmental management system and continuously maintained the effective operation of those systems. The ISO14001 environmental management system of the Group has passed the re-certification audit by the China Academy of Safety Science and Technology in November 2016, which assured the certification remained valid. The Group has established a sound occupational health and safety management system and has formulated the Occupational Health and Safety and Environmental Management System Manual and Procedure Document. The occupational health and safety management system of the Group has passed the re-certification audit by the China Academy of Safety Science and Technology in November 2016, which assured the certification remained valid. The Company continued to organize activities relating to standardisation of safe production and corporate compliance with each of its 7 subsidiaries obtaining an "A Grade Safe Production Standardization Enterprise Certificate" (一級安全生產標準化企業證書) issued by the State Administration of Work Safety in June 2014.

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

Compliance with laws and regulations

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

Management Discussion and Analysis

Relationships with staff, customers, suppliers and other persons

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

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

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

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

III. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD

(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

Item	2016	2015	Increase or decrease as compared to last year (%)	2014
Operating revenue (RMB)	26,730,219,497.07	23,471,602,857.98	13.88	26,534,420,935.55
Net profits attributable to shareholders of listed company (RMB)	1,087,732,130.38	580,335,074.18	87.43	672,478,632.35
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	997,923,876.59	232,460,457.89	329.29	582,931,287.47
Net cash flow from operating activities (RMB)	2,925,929,985.25	484,261,155.05	504.20	965,990,457.87
Basic earnings per share (RMB/share)	0.80	0.43	86.05	0.50
Diluted earnings per share (RMB/share)	0.80	0.43	86.05	0.50
Weighted average rate of return on net assets (%)	24.23	15.49	8.74	21.65

Management Discussion and Analysis

Items	31 December 2016	31 December 2015	Increase or decrease as compared to end of last year (%)	31 December 2014
Total assets (RMB)	19,055,058,608.32	14,292,817,039.53	33.32	13,266,793,963.74
Net assets attributable to shareholders of listed company (RMB)	4,867,466,177.17	4,044,017,698.45	20.36	3,458,363,028.38

QUARTERLY MAJOR FINANCIAL INDICATORS

Item	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenue (RMB)	5,765,448,152.85	7,357,503,378.66	7,307,367,677.79	6,299,900,287.77
Net profits attributable to shareholders of listed company (RMB)	146,360,992.25	412,918,489.06	304,094,646.88	224,358,002.19
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	138,018,516.72	381,142,713.17	281,740,052.09	197,022,594.61
Net cash flow from operating activities (RMB)	-297,155,279.62	1,363,876,550.25	1,334,098,269.54	525,110,445.08

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

Unit: RMB

Item	Amount of 2016	Amount of 2015	Amount of 2014	Description
Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)	-15,647,219.04	124,501,216.75	-2,343,557.57	
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)	104,597,125.81	173,616,297.39	82,298,890.90	
Corporate restructuring expenses (e.g. staff placement costs and integration expenses)	–	-22,087,867.83	-36,817,863.11	
Reversal of impairment provision for accounts receivable individually tested for impairment	–	–	12,585,064.60	
Other non-operating income and expenses other than the aforementioned items	24,049,500.83	111,227,500.87	39,015,647.68	
Less: Effect of income tax	14,854,388.82	33,493,517.67	15,218,459.01	
Effect of minority interests (after tax)	8,336,764.99	5,889,013.22	-10,027,621.39	
Total	89,808,253.79	347,874,616.29	89,547,344.88	

Management Discussion and Analysis

(III) ANALYSIS OF PRINCIPAL BUSINESS

1. Income

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

Yes No

Industry Category	Item (ten thousand units/sets)	2016	2015	Increase or decrease as compared to corresponding period last year (%)
Home appliances manufacturing industry	Sales volume	1,862	1,646	13.15
	Production volume	1,871	1,570	19.19
	Inventory volume	117	108	8.99

2. Composition of operating revenue

Unit: RMB

Item	2016		2015		Increase or decrease as compared to corresponding period last year (%)
	Amount	Weight to operating revenue (%)	Amount	Weight to operating revenue (%)	
By industry					
Home appliances manufacturing industry	24,670,924,400.24	100.00	21,803,678,507.86	100.00	13.15
By product					
Refrigerators and washing machines	12,778,722,120.61	51.80	11,555,814,929.64	53.00	10.58
Air-conditioners	10,380,981,134.10	42.08	8,986,110,462.69	41.21	15.52
Others	1,511,221,145.53	6.12	1,261,753,115.53	5.79	19.77
By region					
Domestic	16,208,992,881.10	65.70	14,266,558,516.03	65.43	13.62
Overseas	8,461,931,519.14	34.30	7,537,119,991.83	34.57	12.27

Management Discussion and Analysis

3. Composition of operating costs

Unit: RMB ten thousand

Industry Category	Item	2016	2015		Weight to operating costs (%)	Increase or decrease as compared to corresponding period last year (%)
		Amount	Amount	Weight to operating costs (%)		
Home appliances manufacturing industry	Raw materials	1,680,152.40	90.55	1,521,967.68	89.71	10.39
	Staff wages	65,227.38	3.52	59,465.79	3.50	9.69
	Depreciation	54,657.70	2.95	45,550.18	2.68	19.99
	Energy	12,311.39	0.66	14,267.56	0.84	-13.71

4. Expenses

Unit: RMB

Expense Item	2016	2015	Increase or decrease as compared to corresponding period last year (%)	Reason for the significant changes
Sales expense	4,640,737,321.53	4,308,881,508.98	7.70	No significant change
Management expense	946,745,876.45	905,237,728.27	4.59	No significant change
Finance expense	-85,989,063.41	-71,444,717.51	N/A	No significant change

Management Discussion and Analysis

5. Cash Flow

Unit: RMB

Item	2016	2015	Increase or decrease as compared to corresponding period last year (%)
Sub-total of cash inflows from operating activities	22,863,018,974.92	15,544,850,363.13	47.08
Sub-total of cash outflows from operating activities	19,937,088,989.67	15,060,589,208.08	32.38
Net cash flows from operating activities	2,925,929,985.25	484,261,155.05	504.20
Sub-total of cash inflows from investing activities	2,158,969,055.54	339,898,396.05	535.18
Sub-total of cash outflows from investing activities	3,355,984,997.99	649,658,954.97	416.58
Net cash flows from investing activities	-1,197,015,942.45	-309,760,558.92	N/A
Sub-total of cash inflows from financing activities	696,098,227.11	1,479,031,479.79	-52.94
Sub-total of cash outflows from financing activities	2,645,390,143.11	1,512,308,178.40	74.92
Net cash flows from financing activities	-1,949,291,916.00	-33,276,698.61	N/A
Net increase in cash and cash equivalents	-217,174,252.29	142,120,391.05	N/A

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

Applicable Not applicable

The cash inflows from operating activities increased as compared to corresponding period last year mainly due to increased scale of sales of the Company, the corresponding increase in receipt from sales and the increase in payment received from bank acceptance bills at their maturity during the Reporting Period.

The cash outflows from operating activities increased as compared to corresponding period last year mainly due to increased scale of sales of the Company and the increase in the expenses of procurement and payment for materials during the Reporting Period.

The cash inflows from investing activities increased as compared to corresponding period last year mainly due to the increase in the receipt from wealth management products of the Company upon maturity during the Reporting Period.

The cash outflows from investing activities increased as compared to corresponding period last year mainly due to the increase in the purchase of wealth management products by the Company for investment during the Reporting Period.

The cash inflows from financing activities decreased as compared to corresponding period last year mainly due to the substantial decrease in the amount of the Company's borrowings during the Reporting Period.

The cash outflows from financing activities increased as compared to corresponding period last year mainly due to the increase in the margin deposits of the Company during the Reporting Period.

Management Discussion and Analysis

6. Research and development inputs

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

Description of research and development inputs of the Company

Item	2016	2015	Proportion of change(%)
Number of research and development staff	1093	995	9.85
Proportion of number of research and development staff (%)	3.22	3.02	0.20
Amount of research and development inputs (RMB)	573,604,984.75	507,821,663.05	12.95
Proportion of research and development inputs to operating revenue (%)	2.15	2.16	-0.01
Amount of capitalized research and development inputs (RMB)	0	0	0
Proportion of capitalized research and development inputs to research and development inputs	0	0	0

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

Unit: RMB

Item	Revenue from operating businesses	Costs of operating businesses	Gross profit margin (%)	Increase or decrease in revenue from operating businesses as compared to corresponding period last year (%)	Increase or decrease in costs of operating businesses as compared to corresponding period last year (%)	Increase or decrease in gross profit margin as compared to corresponding period last year (%)
By industry						
Home appliances manufacturing industry	24,670,924,400.24	18,555,853,421.38	24.79	13.15	9.37	2.60
By product						
Refrigerators and washing machines	12,778,722,120.61	9,609,817,899.92	24.80	10.58	8.39	1.52
Air-conditioners	10,380,981,134.10	7,805,544,151.26	24.81	15.52	9.41	4.20
Others	1,511,221,145.53	1,140,491,370.20	24.53	19.77	18.02	1.12
By region						
Domestic	16,208,992,881.10	11,404,909,593.01	29.64	13.62	9.80	2.45
Overseas	8,461,931,519.14	7,150,943,828.37	15.49	12.27	8.69	2.78

Management Discussion and Analysis

(V) ASSETS AND LIABILITIES POSITION

Significant changes in asset items

Unit: RMB

Items	At the end of 2016		At the end of 2015		Change in proportion (%)	Explanation of significant changes
	Amount	Percentage to total assets (%)	Amount	Percentage to total assets (%)		
Cash at bank and on hand	2,227,421,330.74	11.69	1,014,410,146.17	7.10	4.59	Mainly due to the increase in net operating cash flows resulted from the improvement of the operation of the Company
Notes receivable	3,281,453,069.10	17.22	2,289,706,048.91	16.02	1.20	Mainly due to increase in the scale of the Company payment via the issuance of notes payable and retention of notes receivable during the Reporting Period
Accounts receivable	2,725,129,183.33	14.30	2,086,596,419.00	14.60	-0.30	Mainly due to the increase in scale of sales
Inventories	2,660,044,996.38	13.96	2,270,139,557.55	15.88	-1.92	No significant change
Other current assets	1,678,765,851.25	8.81	467,872,305.65	3.27	5.54	Mainly due to the increase in the purchase of wealth management products by the Company at the end of the Reporting Period
Investment properties	26,456,837.73	0.14	28,958,126.07	0.20	-0.06	No significant change
Long-term equity investment	1,627,383,596.00	8.54	1,323,253,353.15	9.26	-0.72	No significant change
Fixed assets	3,481,725,652.28	18.27	3,529,787,697.68	24.70	-6.43	No significant change
Construction in progress	72,942,458.27	0.38	64,837,848.39	0.45	-0.07	No significant change
Short-term borrowings	-	-	223,496,764.71	1.56	-1.56	Mainly due to the settlement of factoring accounts receivable business by the Company at the end of the Reporting Period
Notes payable	5,227,854,741.07	27.44	2,931,174,504.52	20.51	6.93	Mainly due to the increase in issuance of electronic acceptance bills during the Reporting Period
Accounts payable	4,367,268,398.09	22.92	2,878,291,676.53	20.14	2.78	Mainly due to the increase in accounts payable caused by increase in production volume and increase in scale of sales at the end of the Reporting Period
Employee remunerations payable	334,204,436.58	1.75	250,749,290.94	1.75	-0.00	Mainly due to the increase in annual remuneration payable at the end of the Reporting Period
Taxes payable	222,919,921.87	1.17	161,686,275.79	1.13	0.04	Mainly due to the increase in income tax payable at the end of the Reporting Period

Management Discussion and Analysis

(VI) ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Unit: RMB

Items	Amount at the beginning of the period	Gain or loss from change in fair value during the period	Accumulated changes in fair value accounted in equity	Impairment provided during the period	Amount purchased during the period	Amount sold during the period	Amount at the end of the period
Financial assets							
1. Financial assets measured at fair value where changes in fair value are accounted for as gain or loss of the period (excluding derivative financial assets)		9,695,070.04					9,695,070.04
2. Derivative financial assets							
3. Financial assets available for sale							
Sub-total of financial assets		9,695,070.04					9,695,070.04
Investment Properties							
Productive biological assets							
Others							
Total		9,695,070.04					9,695,070.04
Financial liabilities	-9,767,732.75	9,767,732.75					

(VII) CORE COMPETITIVENESS ANALYSIS

1. Technological advantages

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

2. Brand advantages

The three brand names used in products of the Company, namely “Hisense”, “Ronshen” and “Kelon”, have good brand reputation and market base. Among these brands, the market share of “Hisense” inverter air-conditioners had ranked first in China for thirteen consecutive years, while the market share of “Ronshen” refrigerators had ranked first in China for eleven years. “High technology and high quality” reflects the Company’s core brand value. At the same time, the Company gradually accelerated the process of internationalization and continuously promoted the internationalisation of its own brands. According to the statistical data of GFK, the sale market share of the Company’s refrigerator products in South Africa in November 2016 outperformed its competitors and ranked top in the market for the first time; the sale market share of the Company’s refrigerator products in Australia in 2016 ranked in top three for the first time.

Management Discussion and Analysis

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

Name of company	Company type	Major business	Registered capital	Total assets (RMB ten thousand)	Net assets (RMB ten thousand)	Operating revenue (RMB ten thousand)	Operating profit (RMB ten thousand)	Net profits (RMB ten thousand)
Hisense Hitachi	A company in which the Company has equity interest	Production and sale of commercial air-conditioners	US\$46 million	686,411.63	341,051.67	651,846.73	136,657.84	122,335.38

Acquisition and disposal of subsidiaries during the Reporting Period

Applicable Not applicable

Name of company	Means of acquisition and disposal of subsidiaries during the Reporting Period	Effect on the overall production, operation and results
Hisense Changsha Electronic Commerce Limited	Newly established	Meeting the Company's operation needs.
Qingdao Hisense Commercial Cold Chain Co., Ltd	Newly established	Meeting the Company's industrial development needs.
Foshan Shunde Bao Hong Property Management Company Limited	Newly established	Meeting the Company's operation needs.
Zhejiang Hisense Electric Appliance Co., Ltd. (Formerly named Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd.)	Equity transfer	This equity transfer increased the Company's percentage of shareholding in Zhejiang Hisense. The equity transfer has been completed and Zhejiang Hisense is no longer a joint venture of the Company but a wholly-owned subsidiary of the Company and its results is now consolidated into the Company's accounts.

(IX) Material changes of major assets

Major assets	Description of the material changes
Equity assets	No significant change
Fixed assets	No significant change
Intangible assets	No significant change
Projects in progress	No significant change

Management Discussion and Analysis

(X) Particulars of acquisition of major equity investment during the Reporting Period

√ Applicable □ Not applicable

Unit: RMB ten thousand

Name of the investee company	Principal business	Investment method	Amount of investment	Percentage		Source of funding	Counterparty	Investment period	Product type	Status as at the date of the balance sheet	Expected revenue	Gain or loss	Involvement in litigation
				of shareholding	of							Reporting Period	
Zhejiang Hisense Electric Appliance Co., Ltd. ^{Note}	Development, production and sale of washing machines and refrigerators	Acquisition	US\$1	50%		Own funding	Whirlpool (Hong Kong) Limited	-	-	Equity transfer process has been completed	-	1,383.26	No
Total	-	-	US\$1	-	-	-	-	-	-	-	-	1,383.26	-

Note: Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd. is now renamed as Zhejiang Hisense Electric Appliance Co., Ltd.

The Company previously held 50% interest in Zhejiang Hisense. During the reporting period, the Company acquired the remaining 50% interest in Zhejiang Hisense with additional investment. After the acquisition, the Company holds 100% interest in Zhejiang Hisense. Such equity transfer increased the Company's current net profits of RMB13,832,600.

IV. OUTLOOK

Looking forward to 2017, the downward pressure on the Chinese economy will remain. Market demands on the white goods will still be low. Besides, raw material costs, man power and labour costs, logistics and transportation costs as well as installation service costs will continue to rise, creating great pressure on our operation and development. However, on the other hand, the industry trend of “high-end” and “intelligentization” will continue. After the reduction in the air-conditioner inventory in 2016, the merchants' inventory volume has been greatly reduced, providing benign conditions for manufacturers' delivery of products and realizing a healthy market cycle.

In 2017, the Company will firmly uphold the operating strategies of “strengthening the high-end strategy, expanding the advanced network, raising system efficiency, accelerating business expansion, expanding the international market, ensuring economies of scale” to grasp the opportunities of upgrading its business, so as to achieve steady increases in its scale, performance and market share by implementing the following:

1. Strengthening high-end strategies, highlighting high-end products and increasing brand values: to increase investment in pre-research and research and development (R&D), accelerate the mastery of key technology, establish a comprehensive R&D system, continuously enhance its R&D capability, increase R&D efficiency and provide strong technical support for high-end products; strictly monitor the R&D and manufacturing process, ensure product quality, strictly monitor the closed-loop management which has been found problematic in the NPS investigation, focus on resolving users' major dissatisfaction and ensure achievement of the NPS goals; endeavor to overcome bottlenecks in respect of materials, structure and art work, improve product appearance and improve the brand image; promote high-end products with greater dedication to boost growth, set up a storage management system for high-end products, trace the demand of high-end customers, identify and tackle the problems from user's experience in a timely manner, promote sales and increase the share of high-end products; continue to leverage on the operation platform under Hisense Group to establish a smart household ecosphere and further increase the scale of the “intelligent household.”

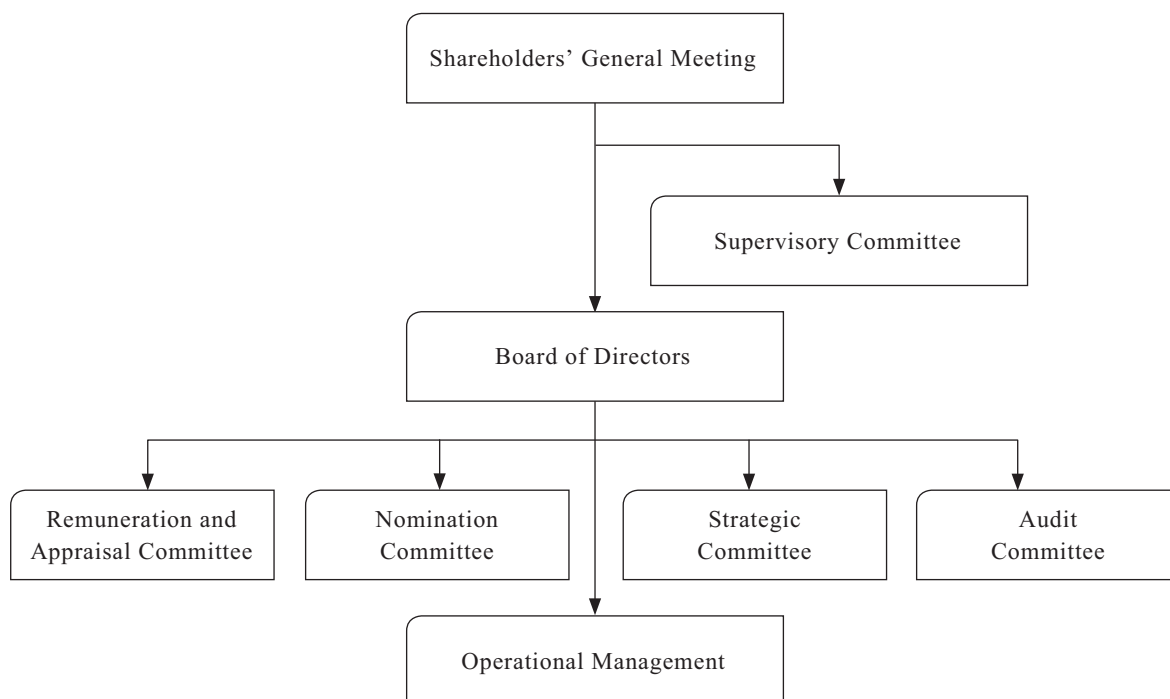
Management Discussion and Analysis

2. Optimizing our customer composition and developing a high-quality network: to grasp the rise of the third and fourth tier markets, establish a high-quality customer base, promote brand reputation and growth of business scale of our third and fourth tier markets through customer's recognition, manage our customer base of the third and fourth tier markets by way of categorization in accordance with their potential value, provide more support to high-quality potential customers and eliminate the poor-quality customers with small business scale and bad reputation; plan to develop durable goods (high price-performance products) with adaptations to the third and fourth tier markets, fulfill the users' demands, arouse merchants' motivation and accelerate sales growth.
3. Raising system efficiency: to implement system enhancement with "enhancing efficiency in marketing" as the emphasis; continue to execute various tasks in automation, generalization and informatization to raise production efficiency.
4. Accelerating business expansion: through establishing a team of talents, enhancing professional R&D capability, implementing the strategy of product differentiation and enhancing product competitiveness to achieve rapid growth in business scale and economic efficiency of "washing machine", "commercial cold chain", "commercial air-conditioner", "environmental appliances" and "kitchen appliances".
5. Expanding the international market: to adhere to the strategy of "the great overseas market"; to accentuate the concept of high-end from the planning stage in respect of the development of overseas products, improve product quality and the degree of sophistication and meticulousness, produce star products for export, continue to launch high-end product promotion activities and ensure the quality of overseas expansion.
6. Improving capital efficiency: to accelerate inventory turnover and receivable turnover, reduce ineffective use of funds and enhance the ability to utilize capital; carry out detailed management on cost-control and improve the efficiency of capital utilization.

Corporate Governance Report

Sound corporate governance is the basic assurance to the long-term healthy and stable development of a corporation, whereas continued enhancement of the governance level is a necessary measure to maintain the healthy development of the company. During the Reporting Period, the Company has further amended the Articles of Association of the Company mainly related to distribution of profits of the Company. The shareholders' general meetings, meetings of the board of directors and its various specialized committees and the supervisory committee performed their functions, coordinated with each other and maintained effective check and balance in accordance with the laws, regulations and the relevant systems, which continuously enhanced the level of corporate governance of the Company.

I. Corporate governance structure:



(a) Shareholders' General Meeting

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

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

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

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

Corporate Governance Report

In 2016, one Annual General Meeting (“AGM”) and one Extraordinary General Meetings on 26 September 2016 (“EGM”) have been held by the Company. The shareholding held by the shareholders attending the AGM, the EGM represented 46.61% and 47.01% of all the then issued shares of the Company respectively. The attendance records of Directors attending the general meetings are set out in the following table:

The attendance of the general meetings by the Directors

Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Tang Ye Guo	2	2	0	100%
Mr. Liu Hong Xin	2	0	0	—
Mr. Lin Lan	2	0	0	—
Mr. Dai Hui Zhong <i>(Note 1)</i>	1	0	0	—
Mr. Jia Shao Qian	2	0	0	—
Mr. Wang Yun Li <i>(Note 1)</i>	1	0	0	—
Mr. Wang Xin Yu	2	1	0	50%
Mr. Xu Xiang Yi	2	0	0	—
Mr. Ma Jin Quan <i>(Note 2)</i>	0	0	0	—
Mr. Tian Ye <i>(Note 3)</i>	0	0	0	—
Mr. Wang Zhi Gang <i>(Note 4)</i>	0	0	0	—
Mr. Wang Ai Guo <i>(Note 5)</i>	2	0	0	—

Notes:

1. Mr. Dai Hui Zhong and Mr. Wang Yun Li were appointed as Directors on 24 June 2016;
2. Mr. Ma Jin Quan was appointed as an independent non-executive Director on 9 January 2017;
3. Mr. Tian Ye ceased to be a Director with effect from 27 January 2016;
4. Mr. Wang Zhi Gang ceased to be a Director with effect from 5 May 2016;
5. Mr. Wang Ai Guo ceased to be an independent non-executive Director with effect from 9 January 2017; and
6. All Directors who were unable to attend the general meetings in person had applied for leave in writing before the commencement of the general meetings.

Rights of Shareholders

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

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

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

Procedures by which enquiries may be made by shareholders

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

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

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

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

Procedures for putting forward proposals at shareholders' general meeting

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

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

(b) The Board of Directors

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

As at 1 January 2016, the Board was composed of the executive Directors Mr. Tang Ye Guo (Chairman), Mr. Liu Hong Xin, Mr. Tian Ye (President), Mr. Lin Lan, Mr. Jia Shao Qian and Mr. Wang Zhi Gang and the independent non-executive Directors Mr. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo. The following changes in the composition of the Board took place during the Reporting Period up to the date of this report:

- (i) Mr. Tian Ye ceased to be a Director with effect from 27 January 2016;
- (ii) Mr. Wang Zhi Gang ceased to be a Director with effect from 5 May 2016;
- (iii) Mr. Dai Hui Zhong and Mr. Wang Yun Li were elected as the Directors of the ninth session of the Board of the Company at the annual general meeting of the Company held on 24 June 2016;
- (iv) Mr. Wang Ai Guo ceased to be an independent non-executive Director with effect from 9 January 2017; and
- (v) Mr. Ma Jin Quan was elected as an independent non-executive Director of the ninth session of the Board of the Company at the 2017 first extraordinary general meeting of the Company held on 9 January 2017.

Members of the ninth session of the Board of the Company, in particular the Chairman and the President, do not have any relationship in finance, business, family or other significant aspects.

Board Diversity Policy

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

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

Corporate Governance Report

Members of the Board have different backgrounds with extensive experience in various fields such as science and technology, corporate management and finance and accounting. The biographies and roles of the Directors are set out on pages 38 to 40 of this annual report.

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

The Board is also responsible for overseeing the preparation of the accounts for each fiscal period to ensure that such accounts truly and fairly reflect the Company's business operation, results and cash flow performance during that period. The Operational Management of the Company provides proper explanation and sufficient information to the Board so as to enable it to make an informed assessment of the financial information and other information submitted to it for approval. In preparing the accounts for the year ended 31 December 2016, the Directors:

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

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

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

Corporate Governance Report

In 2016, the ninth session of the Board of the Company has held 10 meetings to discuss the Company's operating results, overall strategies, investment proposals as well as operating and financial performance. The Directors attended the meetings in person or by their proxies, and their attendance records are set out in the following table:

The attendance of the meetings of the ninth session of the Board				
Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Tang Ye Guo	10	10	0	100%
Mr. Liu Hong Xin	10	10	0	100%
Mr. Lin Lan	10	10	0	100%
Mr. Dai Hui Zhong <i>(Note 1)</i>	5	5	0	100%
Mr. Jia Shao Qian	10	10	0	100%
Mr. Wang Yun Li <i>(Note 1)</i>	5	5	0	100%
Mr. Xu Xiang Yi	10	10	0	100%
Mr. Wang Xin Yu	10	10	0	100%
Mr. Wang Ai Guo <i>(Note 2)</i>	10	10	0	100%
Mr. Tian Ye <i>(Note 3)</i>	0	0	0	100%
Mr. Wang Zhi Gang <i>(Note 4)</i>	5	5	0	100%
Mr. Ma Jin Quan <i>(Note 5)</i>	0	0	0	—

Notes:

1. Mr. Dai Hui Zhong and Mr. Wang Yun Li were appointed as the Directors of the Company on 24 June 2016;
2. Mr. Wang Ai Guo ceased to be a Director with effect from 9 January 2017;
3. Mr. Tian Ye ceased to be a Director with effect from 27 January 2016;
4. Mr. Wang Zhi Gang ceased to be a Director with effect from 5 May 2016; and
5. Mr. Ma Jin Quan was elected as an independent non-executive Director of the ninth session of the Board of the Company at the 2017 first extraordinary general meeting of the Company held on 9 January 2017.

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

Corporate Governance Report

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

Independent Non-Executive Directors

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

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

Specialized committees of the Board of Directors

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

Remuneration and Appraisal Committee

The ninth session of the Board has established the Remuneration and Appraisal Committee with specific written terms of reference. During the Reporting Period and up to the date hereof, the Remuneration and Appraisal Committee consisted of the Directors, namely, Mr. Lin Lan and Mr. Liu Hong Xin and the independent non-executive Directors, namely, Mr. Ma Jin Quan (since 9 January 2017), Mr. Wang Ai Guo (till 8 January 2017), Mr. Xu Xiang Yi and Mr. Wang Xin Yu. Mr. Xu Xiang Yi acted as the chairman of the committee.

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

- (A) to analyze the appraisal standard of the Directors and senior management and to carry out the appraisal and make recommendations based on the actual conditions of the Company;
- (B) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- (C) to make recommendations in situations where Directors or senior management accept responsibilities and resign or are proposed to be dismissed for their defaults and failure to perform their duties;
- (D) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

Corporate Governance Report

- (E) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- (F) to make recommendations to the Board for the remuneration of independent non-executive Directors;
- (G) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- (H) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- (I) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions of other positions in the group;
- (J) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and
- (K) other duties provided under applicable regulatory rules and other matters authorized by the Board.

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

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

The attendance of the meetings of the Remuneration and Appraisal Committee under the Board

Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Liu Hong Xin	5	5	0	100%
Mr. Lin Lan	5	5	0	100%
Mr. Wang Xin Yu	5	5	0	100%
Mr. Wang Ai Guo <i>(Note 1)</i>	5	5	0	100%
Mr. Xu Xiang Yi	5	5	0	100%
Mr. Ma Jin Quan <i>(Note 2)</i>	0	0	0	—

Note:

1. Mr. Wang Ai Guo ceased to be a member of the Remuneration and Appraisal Committee with effect from 9 January 2017; and
2. Mr. Ma Jin Quan was appointed as a member of the Remuneration and Appraisal Committee on 9 January 2017.

Corporate Governance Report

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

1. the disclosure of the annual remuneration of the Directors, supervisors and senior management in the 2015 annual report;
2. the resolution in respect of the basic annual remuneration of the senior management of the Company;
3. the resolution in respect of adjustment of the remuneration of the independent non-executive Directors of the Company;
4. the resolution in respect of the risk annual remuneration of senior management of the Company for the year of 2015;
5. the resolution in respect of adjustment of the basic annual remuneration of the Chairman of the Company; and
6. the resolution in respect of the pre-tax annual remuneration of Mr. Ma Jin Quan, the candidate of independent non-executive Director of the ninth session of the Board of the Company to be RMB140,000.

Members of the Remuneration and Appraisal Committee confirmed that the remuneration of the Directors, supervisors and senior management during the Reporting Period are in line with the remuneration appraisal system set up by the Company and the remuneration policies have been strictly implemented. Details of the remuneration of the Directors, the supervisors and the senior management of the Company for the year ended 31 December 2016 are set out on pages 58 to 59 of this annual report.

Nomination Committee

The ninth session of the Board of the Company has established the Nomination Committee with specific written terms of reference. During the Reporting Period and up to the date hereof, the Nomination Committee comprised three independent non-executive Directors, namely, Mr. Xu Xiang Yi, Mr. Wang Xin Yu, Mr. Ma Jin Quan (since 9 January 2017) and Mr. Wang Ai Guo (till 8 January 2017), and Directors, namely, Mr. Tang Ye Guo and Mr. Jia Shao Qian. Mr. Xu Xiang Yi acted as the chairman of the committee.

The major duties and authority of the Nomination Committee are:

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

Corporate Governance Report

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

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

Name	The attendance of the meeting of the Nomination Committee under the Board			
	Number of meeting which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance Rate for the year
Mr. Tang Ye Guo	3	3	0	100%
Mr. Jia Shao Qian	3	3	0	100%
Mr. Wang Xin Yu	3	3	0	100%
Mr. Wang Ai Guo <i>(Note 1)</i>	3	3	0	100%
Mr. Xu Xiang Yi	3	3	0	100%
Mr. Ma Jin Quan <i>(Note 2)</i>	0	0	0	—

Notes:

1. Mr. Wang Ai Guo ceased to be a member of the Nomination Committee with effect from 9 January 2017; and
2. Mr. Ma Jin Quan was appointed as a member of the Nomination Committee since 9 January 2017.

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

- (1) the resolution in respect of the nomination of Mr. Dai Hui Zhong as candidate of the President of the Company;
- (2) the resolution in respect of the nomination of Mr. Wang Yun Li as the Vice-President of the Company;
- (3) the resolution in respect of the nomination of Mr. Dai Hui Zhong as candidate of the executive Director of the ninth session of the Board of the Company;
- (4) the resolution in respect of the nomination of Mr. Wang Yun Li as candidate of the executive Director of the ninth session of the Board of the Company;
- (5) the resolution in respect of the nomination of Mr. Ma Jin Quan as candidate of the independent non-executive Director of the ninth session of the Board of the Company.

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

Strategic Committee

The ninth session of the Board of the Company has established the Strategic Committee with specific written terms of reference. During the Reporting Period and up to the date hereof, the Strategic Committee of the ninth session of the Board comprised Mr. Tang Ye Guo, Mr. Tian Ye (till 26 January 2016), Mr. Lin Lan, Mr. Liu Hong Xin and Mr. Jia Shao Qian and Mr. Dai Hui Zhong (since 24 June 2016). Mr. Tang Ye Guo acted as the chairman of the committee.

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

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

Audit Committee

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

The major duties and authority of the Audit Committee are:

- (A) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditing body, and to approve the remuneration and terms of engagement of the external auditing body, and any questions of its resignation or dismissal;
- (B) to review and monitor the independence and objectivity of the external auditing body and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditing body the nature and scope of the audit and reporting obligations before the audit commences;

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- (C) to develop and implement policy on engaging an external auditing body to supply non-audit services. For this purpose, “external auditing body” includes any entity that is under common control, ownership or management with the auditing body or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (D) to monitor the integrity of the Company’s financial statements and annual reports and accounts, interim reports and quarterly reports, and to review significant financial reporting judgments presented in these reports. In reviewing these reports before submission to the Board, the committee should focus particularly on:
 - 1. any changes in accounting policies and practices;
 - 2. areas involving major judgments;
 - 3. significant adjustments resulting from the audit;
 - 4. the going concern assumptions and any qualifications;
 - 5. compliance with accounting standards; and
 - 6. compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (E) regarding item (D) above:
 - 1. members of the committee should liaise with the Board and senior management and the committee must meet, at least twice a year, with the Company’s auditing body; and
 - 2. the committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, and it should give due consideration to any matters that have been raised by the Company’s staff responsible for the accounting and financial reporting function, compliance officer or auditing body;
- (F) to examine and review the Company’s financial controls, internal control and risk management systems;
- (G) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experiences, training programmes and budget of the Company’s accounting and financial reporting function;
- (H) to research major findings of investigation on internal control matters as delegated by the Board or on its own initiative and management’s response to these findings;
- (I) where an internal audit function exists, to ensure co-ordination between the internal and external auditing bodies, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to examine, review and monitor its effectiveness;
- (J) to examine and review the Group’s financial and accounting policies and practices;
- (K) to review the explanatory letter on audit work provided to the management by the external auditing body, any material queries raised by the auditing body to management about the accounting records, financial accounts or systems of control and management’s response;

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- (L) to ensure that the Board will provide a timely response to the issues raised in the explanatory letter on audit work provided to the management by the external auditing body;
- (M) to report to the Board on the matters specified in its terms of reference;
- (N) to audit and review the following arrangements set by the Company: the arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters the Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (O) to act as the key representative body for overseeing the Company's relationship with the external auditing body;
- (P) to establish a whistle-blowing mechanism to pay attention to and openly handle the enquiries and complaints made by the staff, customers, suppliers and investors of the Company and social media on the truthfulness, accuracy and completeness of the financial information;
- (Q) to make recommendation regarding the establishment and modification of corporate governance mechanism and to provide effective supervision over the implementation of resolutions of the Board by senior management of the Company; and
- (R) to consider such other matters as the Board may authorize.

All members of the Audit Committee under the ninth session of the Board of the Company are independent non-executive Directors. During the Reporting Period and up to the date hereof, the Audit Committee consisted of Mr. Xu Xiang Yi, Mr. Wang Xin Yu, Mr. Ma Jin Quan (since 9 January 2017) and Mr. Wang Ai Guo (till 8 January 2017). Mr. Wang Xin Yu acted as the chairman of the committee.

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

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

Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Wang Xin Yu	3	3	0	100%
Mr. Wang Ai Guo <i>(Note 1)</i>	3	3	0	100%
Mr. Xu Xiang Yi	3	3	0	100%
Mr. Ma Jin Quan <i>(Note 2)</i>	0	0	0	—

Note:

1. Mr. Wang Ai Guo ceased to be a member of the Audit Committee with effect from 9 January 2017; and
2. Mr. Ma Jin Quan was appointed as a member of the Audit Committee since 9 January 2017.

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In 2016, the Audit Committee accomplished the following major tasks:

1. having reviewed the annual, interim and quarterly financial reports of the Company;
2. having considered and approved the report on internal control for the year of 2015 and the final report for the audit work conducted by the auditing body for the year of 2015;
3. having considered and approved the resolution on the election of Mr. Wang Xin Yu as the chairman of the Audit Committee of the ninth session of the Board of the Company;
4. having considered and approved the resolution on the reappointment of Ruihua Certified Public Accountants as the auditor of the Company for the year of 2016;
5. having reviewed the connected transactions of the Company to ensure that the connected transactions were in compliance with the principles of fairness, impartiality and transparency with sufficient protection of the medium and minority shareholders' interests;
6. having reviewed the effectiveness of the company's internal control system; and
7. having made recommendations on significant events of the Company and reminded the senior management of the Company of the relevant risks.

(e) Supervisory Committee

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

During the Reporting Period, the ninth session of the Supervisory Committee was composed of two shareholder representative supervisors, namely Mr. Liu Zhen Shun, and Mr. Yang Qing and one employee representative supervisor, Ms. Fan Wei, with Mr. Liu Zhen Shun acting as the chairman of the Supervisory Committee.

Details of the above-mentioned supervisors' biographies are set out on page 40 of this annual report.

II. Compliance with the CG Code

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

Training of the Directors

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

Corporate Governance Report

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

Name	Type of training <i>(Note)</i>
Mr. Tang Ye Guo	b
Ms. Liu Hong Xin	a, b
Mr. Lin Lan	a, b
Mr. Dai Hui Zhong	a, b
Mr. Jia Shao Qian	b
Mr. Wang Yun Li	b
Mr. Wang Xin Yu	b
Mr. Wang Ai Guo	b
Mr. Xu Xiang Yi	b

Notes:

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

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

Chairman and President

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

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

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

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

Corporate Governance Report

Internal Control

During the Reporting Period, pursuant to the provisions and requirements of the “Basic Norms for Enterprise Internal Control” and its ancillary guidelines, with the objectives of enhancing the level of corporate operation and management and risk prevention ability, as well as reasonably ensuring the compliance of the Company’s operation with law and regulation, the safety of assets, the truthfulness and completeness of the financial reports and relevant information, optimizing the efficiency and efficacy of operation and promoting the implementation of strategies for sustainable development by the Company, and taking into account the Company’s internal control system and assessment method and on the basis of daily supervision and specific supervision of internal control, the Company has determined the scope of assessment in internal control that require emphasis, including organizational structure, development strategies, human resources, social responsibility, corporate culture, funding activities, procurement business, asset management, sales business, research and development, engineering project, guarantee business, outsourcing of business, financial reporting, comprehensive budgeting, contract management, internal information transmission and information system, and has carried out assessment on the effectiveness of the Company’s internal control in 2016. Conclusions were drawn in respect of the effectiveness of internal control: during the Reporting Period, the Company has established internal control for all businesses and matters included in the scope of assessment, and the internal control has been effectively executed to achieve the objectives of the Company’s internal control without significant shortfalls.

The Board of the Company has reviewed the effectiveness of the internal control system of the Company during the year. During the course of the review, the Board considered that the Company had established an appropriate internal control system for the Company based on the actual situation and was not aware of any significant defect in the internal control system of the Company. In addition, the Company has engaged Ruihua Certified Public Accountants to perform independent audit on the effectiveness of the Company’s internal control and an audit report on internal control has been issued. The auditor is of the view that as at 31 December 2016, the Company has maintained effective internal control related to financial reporting in accordance with “Basic Norms for Enterprise Internal Control” and the relevant requirements in all material aspects.

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

III. Securities Transactions by Directors

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

IV. Auditor

In 2016, as considered and approved at the shareholders’ general meeting, the Company agreed to reappoint Ruihua Certified Public Accountants as the auditor of the Company for the year of 2016, and the Board was authorized to fix their remuneration. The Company agreed to pay a remuneration of approximately RMB1,800,000 and RMB700,000 to the auditors for the provision of audit services for financial reporting and internal control respectively for the year ended 31 December 2016 and bear the corresponding travel expenses.

V. Company secretary

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

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

Profiles of Directors, Supervisors & Members of the Senior Management

Directors:

Mr. Tang Ye Guo, aged 54, holds a doctorate degree in management, has successively held the positions of the chief accountant, the deputy general manager, the general manager and director of Hisense Electric Co., Ltd.. From August 2003 to September 2005, he served as an assistant to the president and the vice president of Hisense Company Limited, and the general manager and chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited. Mr. Tang was the chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited and a director of Hisense Electric Co., Ltd. and the president of the Company from September 2005 to June 2006. He has acted as the vice president of Hisense Company Limited and chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited and the chairman of the board of directors of the Company from June 2006 to April 2010. He has been the vice president and a director of Hisense Company Limited and chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited and the chairman of the board of directors of the Company since April 2010.

Mr. Liu Hong Xin, aged 50, holds a bachelor degree in management, has successively served as the general manager of the Xi'an branch and the general manager of the Zheng Zhou branch of Hisense Electric Co., Ltd., the general manager of 貴陽海信電子有限公司 (Guiyang Hisense Electronics Company Limited), the deputy general manager of Hisense Electric Co., Ltd. and the general manager of 營銷公司 (Marketing Company). He served as the general manager of Hisense Electric Co., Ltd. from January 2006 to June 2006 and a director and general manager of Hisense Electric Co., Ltd. from June 2006 to April 2010. He has been a director of Hisense Company Limited and a director and general manager of Hisense Electric Co., Ltd. from April 2010 to November 2014. He has been a director of Hisense Company Limited and a director of Hisense Electric Co., Ltd. from November 2014 to June 2015. He has been a director of Hisense Company Limited, the chairman of the board of directors of Hisense Electric Co., Ltd. and a director of the Company from June 2015 to October 2015. He has been a director and president of Hisense Company Limited, the chairman of the board of directors of Hisense Electric Co., Ltd. and a director of the Company since October 2015.

Mr. Lin Lan, aged 59, holder of a doctorate degree in mechanical engineering, has worked as the manager of the power system software development department of 西門子諮詢公司 (Siemens, currently known as "AMEC Limited" in the UK), the senior project manager and senior engineer of GE 動力系統公司 (GE Power Systems). Mr. Lin acted as the vice president of the Company from September 2002 to June 2006. He served as a director of the Company from June 2006 to July 2006 and he has served as the vice president of Hisense Company Limited and a director of the Company from July 2006 to May 2007. He has been the vice-president of Hisense Company Limited, a director of Hisense Electric Co., Ltd. and a director of the Company from May 2007 to December 2009. He has been a director and vice-president of Hisense Company Limited, a director of Hisense Electric Co., Ltd. and a director of the Company since December 2009.

Mr. Dai Hui Zhong, aged 51, holds a bachelor degree in machinery manufacturing technology and equipment, has served successively as the general manager of the plastic products and metal department, assistant to the general manager and general manager of the module department and general manager of purchase centre of Hisense Electric Co., Ltd.. From April 2013 to November 2014, he has served as the deputy general manager of Hisense Electric Co., Ltd.. From November 2014 to June 2015, he has served as the general manager of Hisense Electric Co., Ltd.. He has served as a director and general manager of Hisense Electric Co., Ltd. from June 2015 to October 2015 and he has served as a director of Hisense Company Limited and a director and general manager of Hisense Electric Co., Ltd. from October 2015 to January 2016. He has served as a director of Hisense Company Limited, a director of Hisense Electric Co., Ltd. and the president of the Company from January 2016 to June 2016. He has served as a director of Hisense Company Limited, a director of Hisense Electric Co., Ltd. and a director and president of the Company from June 2016 to February 2017. He has been a director of Hisense Company Limited, Hisense Electric Co., Ltd. and the Company since March 2017.

Mr. Jia Shao Qian, aged 44, holds a master degree in management, has served as a legal adviser in the corporate legal department, a supervisor of public relations in the president office, deputy manager of the president office, manager of the president office of Hisense Company Limited and the chief supervisor of Hisense Electric Co., Ltd.. He has served as the vice president of the Company from January 2007 to June 2015 and he has served as a director and vice president of the Company from June 2015 to February 2017. He has been a director and president of the Company since March 2017.

Profiles of Directors, Supervisors & Members of the Senior Management

Mr. Wang Yun Li, aged 44, holds a bachelor degree in English for science and technology, was the deputy sales general manager of Hisense Electric Co., Ltd. and the deputy general manager of the PRC marketing company of the Company. He was the vice president of the Company and the general manager of the PRC marketing company of the Company from December 2010 to January 2012. From February 2012 to March 2014, he was the vice president of the Company and the deputy general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.. From March 2014 to July 2015, he was the deputy general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.. From July 2015 to December 2015, he was the deputy head of the marketing and management department of Hisense Company Limited. He has served as the general manager of Hisense (Shandong) Air Conditioning Co., Ltd. from January 2016 to May 2016. He has served as the vice president of the Company from May 2016 to June 2016. He has been a director and vice president of the Company since June 2016.

Mr. Ma Jin Quan, aged 74, graduated from Northwestern Polytechnical University (西北工業大學) and is a senior engineer. He was the executive deputy factory manager of Shanxi Color Picture Tube Plant (陝西彩色顯像管總廠), the executive deputy general manager of IRICO Group Corporation (彩虹集團公司), the factory manager of Huanghe Machinery Plant (黃河機器製造廠), the chairman and general manager of Huanghe Mechanical and Electrical Joint Stock Company Limited (黃河機電股份有限公司), and the director and general manager of IRICO Group Corporation (彩虹集團公司). From November 2006 to June 2012, he was the external director of Panzhihua Iron & Steel (Group) Corporation (攀枝花鋼鐵(集團)公司). From April 2008 to April 2014, he acted as the independent director of China XD Electric Co., Ltd. (中國西電電氣股份有限公司) (listed on the Shanghai Stock Exchange). From May 2009 to May 2015, he acted as the independent director of Hisense Electric Co., Ltd. (青島海信電器股份有限公司) (listed on the Shanghai Stock Exchange). From November 2013 to the present, he has been an independent director of Xi'an Future International Information Co., Ltd. (西安未來國際信息股份有限公司) (listed on the New Third Board (新三板)). He has been an independent non-executive director of the Company since January 2017.

Mr. Xu Xiang Yi, aged 61, holds a Ph. D. in Law, a professor of the School of Management of Shandong University. He is a Ph. D. supervisor in business management. He has been an independent director and supervisor of Shandong Hi-speed Company Limited (listed on the Shanghai Stock Exchange) and an independent director of Hisense Electric Co., Ltd. (listed on the Shanghai Stock Exchange), Tongling Jingda Special Magnet Wire Co., Ltd. (listed on the Shanghai Stock Exchange), Shandong Demian Incorporated Company (listed on the Shanghai Stock Exchange), Baolingbao Biology Co., Ltd. (listed on the Shanghai Stock Exchange) and Shandong Longji Machinery Co., Ltd. (listed on the Shenzhen Stock Exchange). He was the Dean of the School of Management of Shandong University from January 2004 to December 2012, and is currently the professor of the second grade and the head of corporate governance research centre of Shandong University. He has been an independent director of Shandong Tianli Drying Technology And Equipment Co., Ltd. (listed on the New Third Board (新三板)) since November 2014, an independent director of Hengtong Logistics Co., Ltd (listed on the Shanghai Stock Exchange) since December 2014. He has been an independent director of Shandong Luyitong Intelligent Electric PLC (listed on the Shenzhen Stock Exchange) since February 2015. He has been an independent non-executive director of the Company since June 2012.

Mr. Wang Xin Yu, aged 46, obtained a M.B.A from the University of Chicago Booth School of Business. He served as the director of MBK Partners from October 2005 to February 2010 and he was a director of Luye Pharma Group Ltd. (listed on the Singapore Stock Exchange) from August 2008 to February 2010. He has acted as the managing director of JP Capital Investment Limited from September 2010 to September 2016. He has been a managing director of Intelligent Capital Limited since September 2016. He has acted as an independent non-executive director of the Company since September 2011.

Profiles of Directors, Supervisors & Members of the Senior Management

Mr. Wang Ai Guo, aged 52, is a post-doctoral fellow in accountancy in Tianjin University of Finance & Economics (天津財經大學). He was an associate professor at the Faculty of Accountancy of Shandong Economics College (山東經濟學院) from 1995 to 2000, and was a professor at the Faculty of Accountancy of Shandong Economics College from 2000 to 2011. He was the dean of the School of Accountancy of Shandong University of Finance and Economics (山東財經大學) from 2011 to 2014. He is currently the dean, a professor and a Ph. D. supervisor of the School of Business of University of Jinan (濟南大學商學院), a council member of China Appraisal Society (中國資產評估協會), a council member of Accounting Society of China and the vice-chairman and the secretary-general of Accounting Education Committee of Accounting Society of Shandong Province (山東省會計學會會計教育專業委員會). He was an independent director of Laiwu Steel Co., Ltd (萊蕪鋼鐵股份有限公司) (listed on the Shanghai Stock Exchange) from June 2008 to February 2012 and an independent director of Shandong Zhangqiu Blower Co., Ltd. (山東省章丘鼓風機股份有限公司) (listed on the Shenzhen Stock Exchange) from July 2009 to July 2015 and an independent non-executive director of China Corn Oil Company Limited (中國玉米油股份有限公司) (listed on The Stock Exchange of Hong Kong Limited) since November 2009. He has been an independent director of Shandong Chenming Paper Holdings Co. Ltd (山東晨鳴紙業集團股份有限公司) (listed on the Shenzhen Stock Exchange and The Stock Exchange of Hong Kong Limited) since April 2010. He has also been an independent director of Shandong Iron and Steel Company Ltd (山東鋼鐵股份有限公司) (listed on the Shanghai Stock Exchange) since April 2012. He has served as an independent non-executive director of the Company from January 2011 to January 2017.

Mr. Tian Ye, aged 42, has served successively as the head of the financial planning department of Hisense Electric Co., Ltd., deputy manager of the business department of the sales company of Hisense Company Limited, deputy manager of the financial planning department of Hisense Electric Co., Ltd., the deputy general manager and general manager of Hisense South Africa Development Company and the deputy manager of the purchase department, manager of general manager's office and general manager of purchase centre of Hisense Electric Co., Ltd. He has served as the assistant to the general manager of Hisense Electric Co., Ltd. from August 2006 to March 2010, the deputy general manager of Hisense Electric Co., Ltd. from March 2010 to April 2013 and the vice president of the Company from May 2013 to March 2015. He has served as a director of the Company from June 2014 to January 2016. He has been the president of the Company from March 2015 to January 2016.

Supervisors:

Mr. Liu Zhen Shun, aged 47, holds a bachelor degree in law. He has served as the head of the legal department and the legal director of Hisense Company Limited. He was the deputy head of the legal affairs department, the deputy secretary of the discipline inspection committee of Hisense Company Limited from March 2005 to June 2012. He has been the head of the legal affairs department, the deputy secretary of the discipline inspection committee of Hisense Company Limited since July 2012. He has served as the chairman of the Supervisory Committee of the Company since January 2014.

Mr. Yang Qing, aged 43, holder of a bachelor degree in accounting, has successively served as the finance manager of Qingdao Hisense Air-Conditioning Company Ltd, the finance manager of Qingdao Hisense Marketing Co., Ltd. and the assistant of the general manager of the marketing company of the Company. He has served as the head of the audit department of Hisense Company Limited from June 2013 to May 2014 and the chief accountant of 青島海信網絡科技有限公司 (Qingdao Hisense Cyber Technology Company Limited) from June 2014 to January 2017. He has been the vice chief accountant and deputy head of the financial management department of Hisense Company Limited since January 2017. He has served as a supervisor of the Company since December 2015.

Ms. Fan Wei, aged 51, holds a bachelor degree in textiles, has served as the head and deputy head of the research and development centre of the Company. She was the head of the president office and deputy head of the technical quality department of the Company from December 2008 to February 2015 and the head of the president office of the Company since February 2015. She has served as a supervisor of the Company since June 2015.

Profiles of Directors, Supervisors & Members of the Senior Management

Senior Management Members:

Mr. Wang Zhi Gang, aged 47, holds a doctorate degree in refrigeration and cryogenic engineering, has successively served as the chief designer of the technical centre of Hisense Company Limited, the deputy department head of the commercial machines business department of Qingdao Hisense Air-Conditioning Company Limited, the department head of the product development department of Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd., Mr. Wang has been the deputy general manager of Guangdong Kelon Air-conditioner Co., Ltd from December 2008 to July 2014 and the deputy general manager of Hisense (Shandong) Air Conditioning Co., Ltd. from July 2014 to November 2015. He has served as the vice president of the Company from November 2015 to December 2015. He has served as a director and vice president of the Company from December 2015 to May 2016. He has been a vice president of the company since May 2016.

Ms. Gao Yu Ling, aged 36, holds a master's degree in accountancy. She has successively served as the treasury supervisor, tax supervisor, audit supervisor, accounting supervisor and financial management supervisor of the finance centre of Hisense Electric Co., Ltd.. She was the deputy director of the finance centre of Hisense Electric Co., Ltd. from April 2012 to February 2013. She was the deputy department head of the finance and operation management department of Hisense Company Limited from March 2013 to February 2015. She was a supervisor of the Company from January 2014 to December 2015. She has been the person in charge of finance of the Company since December 2015.

Mr. Xia Feng, aged 40, holds a master degree in management, and was previously the head of the capital operating department of Hisense Company Limited, deputy manager of the marketing department of Qingdao Hisense Air-Conditioning Company Limited, and deputy manager of securities department, representative of securities affairs, manager of securities department and secretary to the board of directors of Hisense Electric Co., Ltd.. He has been the secretary to the board of directors of the Company from August 2010 to March 2017.

Ms. Wong Tak Fong, aged 49, holds a master degree in Business Administration from the University of Bradford, the United Kingdom, and is a fellow member of the Institute of Chartered Secretaries and Administrators in the United Kingdom and the Hong Kong Institute of Chartered Secretaries and a certified tax adviser and a fellow member of the Taxation Institute of Hong Kong. She acted as the managing director of General Bright Consultants Ltd. from November 1994 to May 2014. She has been the chief financial controller of Diamond Dragon Fashion Ltd (星薈亞洲有限公司) since December 2010. She acted as a joint company secretary of the Company from April 2011 to June 2012 and has been the company secretary of the Company since June 2012.

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

Report of the Directors

PRINCIPAL BUSINESSES

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

FINAL DIVIDEND

The Group recorded net profit attributable to shareholders of the listed company of RMB1,087 million for the year ended 31 December 2016. The Board proposed to pay a cash dividend of RMB3 (tax inclusive) per 10 shares held by all shareholders (the “**Proposed Dividend**”) on the basis of the total share capital of 1,362,725,370 shares of the Company as at 31 December 2016, without bonus issue and not to issue shares by way of conversion of capital reserve (For the year ended 31 December 2015, the Company paid a cash dividend of RMB1.5 (tax inclusive) per 10 shares held by all shareholders on the basis of the total share capital of 1,362,725,370 shares of the Company as at 31 December 2015).

The Proposed Dividend is subject to approval by the shareholders at the 2016 annual general meeting (the “**Annual General Meeting**”). Subject to the approval of the Proposed Dividend by the shareholders, the Proposed Dividend is expected to be paid on or about 15 August 2017. The total amount of profits to be so distributed is expected to be RMB408,817,611.00. Details of the payment of the Proposed Dividend will be announced after conclusion of the Annual General Meeting.

RESERVES

Movements in the reserves of the Group during the Reporting Period are set out in Note 6 (29-32) to the financial statements.

DISTRIBUTABLE RESERVES

There were distributable reserves of the Company as at 31 December 2016 are set out in Note 6 (32) and Note 14 to the financial statements.

LIQUIDITY AND SOURCES OF FUNDS

For the year ended 31 December 2016, net cash generated from operating activities of the Group amounted to approximately RMB2,926 million (2015: net cash generated from operating activities amounted to approximately RMB484 million).

As at 31 December 2016, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB2,227 million (2015: RMB1,014 million), and no bank loans amounting (2015: RMB223 million).

Total capital expenditures of the Group for the year ended 31 December 2016 amounted to approximately RMB295 million (2015: RMB450 million).

HUMAN RESOURCES AND EMPLOYEES’ REMUNERATION

As at 31 December 2016, the Group had approximately 33,967 employees, mainly comprising 4,305 technical staff, 14,424 sales representatives, 335 financial staff, 733 administrative staff and 14,170 production staff. The Group had 9 employees with a doctorate degree, 458 with a master’s degree and 3,840 with a bachelor’s degree. For the year ended 31 December 2016, the Group’s staff payroll amounted to RMB2,584 million (corresponding period in 2015 amounting to RMB2,508 million).

EMPLOYEES’ TRAINING AND REMUNERATION POLICY

Employees and talented personnel are the basis for corporate development. Through the platform provided by Hisense College, the Company has established a three-tier training system, a well-rounded curriculum system and a training regulatory system. The Company has also actively promoted the building up of teacher resources internally and externally in order to effectively support the development of its management and technical team and improve its human resources. Every year, the Company will formulate education and training programs for employees based on the annual operational strategy and human resources development needs.

Report of the Directors

The Company has provided 9,528 overall course hours to a total of 94,458 participants during the Reporting Period. The courses mainly included areas such as corporate management, quality craftsmanship, corporate culture, production and manufacturing, as well as technological research and development and they are provided for employees at different levels, ranging from base level staff responsible for works such as front-line production and marketing to senior management.

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

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2016, the Group's did not have property, plant and equipment (including leasehold land held for own use), investment properties and trade receivables (31 December 2015: RMB324 million) pledged as security for the Group's borrowings.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 6 (11 and 12) to the financial statements.

PENSION SCHEMES

Details of the Group's pension schemes for the year ended 31 December 2016 are set out in note 15 to the financial statements.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

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

PUBLIC FLOAT

The Directors confirm that as at 29 March 2017, based on publicly available information and to the best of their knowledge, 25% or above of the total issued share capital of the Company are held by the public. Therefore, the public float of the Company satisfies the requirement stipulated under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**").

AUDIT COMMITTEE

The ninth session of the audit committee of the Company has reviewed the final results announcement and report of the final results of the Group for the year ended 31 December 2016.

CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2017 will be approximately RMB30 million. The Group has sufficient funds to meet the funding requirement for capital expenditure plans and daily operations.

TRUST DEPOSITS

As at 31 December 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.

Report of the Directors

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2016, the Group did not have any long-term bank borrowings and its cash and cash equivalents amounted to RMB2,227 million (2015: RMB 1,014 million), of which more than RMB1,969 million are denominated in Renminbi.

As at 31 December 2016, the Group's current liabilities amounted to RMB13,362 million, non-current liabilities amounted to RMB370 million, and shareholders' equity attributable to the shareholders of the Company amounted to RMB4,867 million. Details of the Group's capital structure are set out in the financial statements which will be contained in the annual report of the Company.

GEARING RATIO

As at 31 December 2016, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 72.06% (2015: 68.70%).

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

The Directors of the ninth session of the Board and the supervisors of the Company do not and did not directly or indirectly hold any material interests in any contract of significance of the Company or its subsidiaries subsisting during or at the end of the year 2016.

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the ninth session of the Board have reviewed the continuing connected transactions of the Group for the year 2016, and confirmed that these transactions were conducted in the ordinary course of business of the Group in accordance with the relevant agreements governing them and on normal commercial terms which were fair and reasonable and in the interest of the shareholders of the Company as a whole.

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY AUDITORS

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Report of the Directors

SHARE CAPITAL STRUCTURE

As at 31 December 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 31 December 2016, there were 31,115 shareholders of the Company (the “Shareholders”) in total, of which the top ten Shareholders were as follows:

Name of Shareholder	Nature of Shareholder	No. of shares held	Percentage to the total issued shares of the Company	Percentage to the relevant class of issued shares of the Company	No. of shares held subject to trading moratorium
Qingdao Hisense Air-conditioning Company Limited	State-owned legal person	584,894,878	42.92%	64.76%	0
HKSCC Nominees Limited ^{Note 1}	Foreign legal person	458,145,169	33.62%	99.69%	0
Cental Huijin Investment Ltd.	State-owned legal person	26,588,700	1.95%	2.94%	0
Zhang Shao Wu	Domestic natural person	7,200,000	0.53%	0.80%	0
Bank of China Limited – Huatai-PineBridge Quantified Enhanced Mixed Type Securities Investment Fund	Other	6,516,609	0.48%	0.72%	0
China Construction Bank Corporation-Boshi Yufu Shanghai Shenzhen 300 Index Securities Investment Fund	Other	6,466,000	0.47%	0.72%	0
Industrial and Commercial Bank of China Limited – China Universal Outward Growth Stock-Type Securities Investment Fund	Other	4,999,947	0.37%	0.55%	0
Galaxy Futures Company Limited – Galaxy Futures Prospect No.1 Asset Management Plan	Other	4,765,918	0.35%	0.53%	0
Vanguard Investments Australia Limited-Emerging Markets Stock Index Fund (Stock Exchange)	Foreign legal person	4,168,227	0.31%	0.46%	0
Industrial and Commercial Bank of China Limited – Southern Big Data 100 Index Securities Investment Fund	Other	3,586,525	0.26%	0.40%	0

Report of the Directors

Notes:

1. The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, among which, Hisense (Hong Kong) Company Limited, a party acting in concert with the controlling shareholder of the Company, increased its holding of H shares of the Company by 16,042,000 H shares during the Reporting Period, representing 1.18% of the total number of shares of the Company. Hisense (Hong Kong) Company Limited is the holder of 97,202,000 H shares in total at the end of the Reporting Period, representing 7.13% of the total number of shares of the Company.
2. At the end of the month prior to the date of publication of this results announcement on 29 March 2017, there were 26,286 shareholders of ordinary shares of the Company in total.
3. Zhang Shao Wu, a shareholder of the Company, holds 7,200,000 shares of the Company through customer credit trading guarantee securities account in Guosen Securities Company Limited.

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of tradable shares held	Class of shares
Qingdao Hisense Air-conditioning Company Limited	584,894,878	RMB ordinary shares
HKSCC Nominees Limited	458,145,169	Overseas listed foreign shares
Cental Huijin Investment Ltd.	26,588,700	RMB ordinary shares
Zhang Shao Wu	7,200,000	RMB ordinary shares
Bank of China Limited – Huatai-PineBridge Quantified Enhanced Mixed Type Securities Investment Fund	6,516,609	RMB ordinary shares
China Construction Bank Corporation-Boshi Yufu Shanghai Shenzhen 300 Index Securities Investment Fund	6,466,000	RMB ordinary shares
Industrial and Commercial Bank of China Limited – China Universal Outward Growth Stock-Type Securities Investment Fund	4,999,947	RMB ordinary shares
Galaxy Futures Company Limited – Galaxy Futures Prospect No.1 Asset Management Plan	4,765,918	RMB ordinary shares
Vanguard Investments Australia Limited-Emerging Markets Stock Index Fund (Stock Exchange)	4,168,227	Overseas listed foreign shares
Industrial and Commercial Bank of China Limited – Southern Big Data 100 Index Securities Investment Fund	3,586,525	RMB ordinary shares

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

Report of the Directors

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

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

Long position or short position in the shares of the Company

Name of shareholder	Capacity	Type of shares	Number of shares held	Percentage of the respective type of shares	Percentage of the total number of shares in issue
Qingdao Hisense Air-conditioning Company Limited ^{Note 1}	Beneficial owner	A shares	584,894,878 (L)	64.76%	42.92%
Qingdao Hisense Electric Holdings Company Limited ^{Note 1}	Interest of controlled corporation	A shares	584,894,878 (L)	64.76%	42.92%
Hisense Company Limited ^{Note 1}	Interest of controlled corporation	A shares	584,894,878 (L)	64.76%	42.92%
Hisense (Hong Kong) Company Limited ^{Note 1}	Beneficial owner	H shares	97,202,000 (L)	21.15%	7.13%
Qingdao Hisense Electric Holdings Company Limited ^{Note 1}	Interest of controlled corporation	H shares	97,202,000 (L)	21.15%	7.13%
Hisense Company Limited ^{Note 1}	Interest of controlled corporation	H shares	97,202,000 (L)	21.15%	7.13%

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

Note:

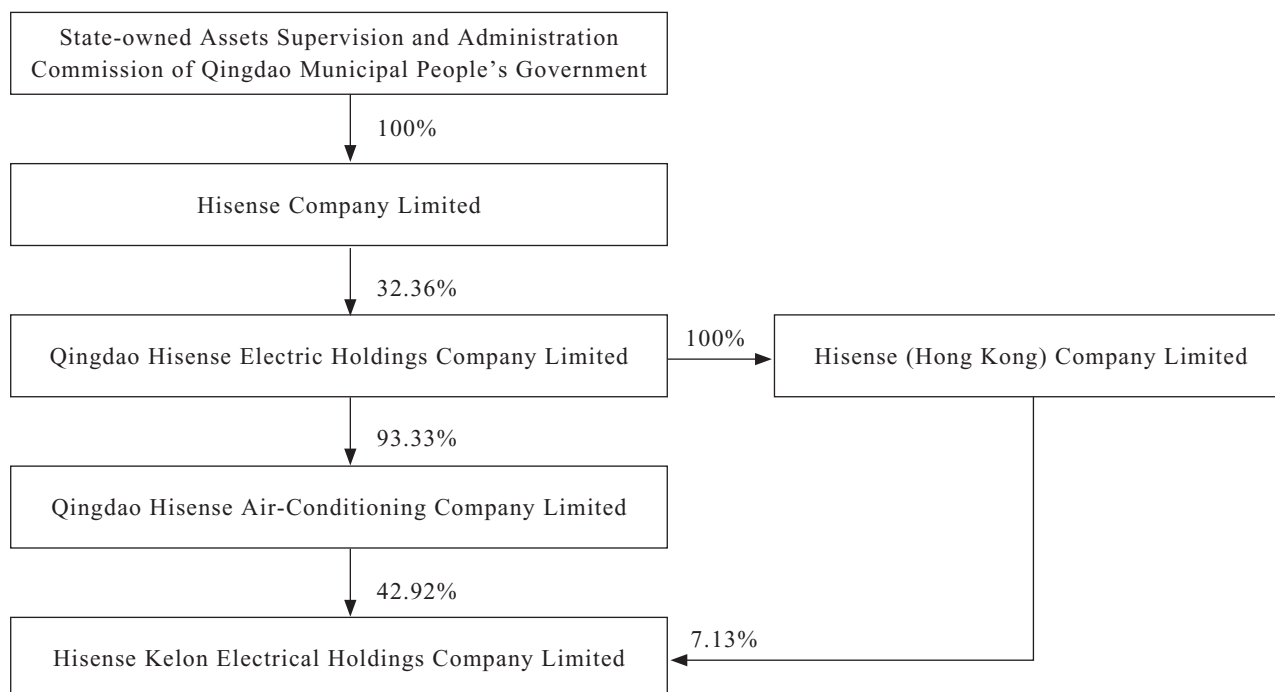
1. Qingdao Hisense Air-conditioning Company Limited is a company directly owned as to 93.33% by Qingdao Hisense Electric Holdings Company Limited, whereas Hisense (Hong Kong) Company Limited is a company directly owned as to 100% by Qingdao Hisense Electric Holdings Company Limited. Qingdao Hisense Electric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

Save as disclosed above, as at 31 December 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.

Report of the Directors

PARTICULARS OF THE CONTROLLING SHAREHOLDERS OF THE COMPANY

1. Qingdao Hisense Air-Conditioning Company Limited, the controlling shareholder of the Company, was incorporated on 17 November 1995. Its registered address is Changsha Road, Hi-tech Industrial Zone, Qingdao, the PRC and the legal representative is Mr. Tang Ye Guo and its registered capital is RMB674.79 million. Its business scope is the development and manufacture of air-conditioning products and injection moulds and the provision of after-sale repairing services for its products (Permit/licence shall be obtained for the operation of the businesses above if they fall into the requirements of licensure).
2. The beneficial controller of the Company is Hisense Company Limited, which was incorporated in August 1979 with its registered address at No. 17 Donghai West Road, Shinan, Qingdao. Mr. Zhou Houjian is the legal representative of Hisense Company Limited and its registered capital is RMB806.17 million. The scope of business includes: the entrusted operation of state-owned assets; the manufacture and sales of TV sets, refrigerators, freezers, washing machines, small household appliances, disc players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products and the provision of related services; the development of software and the provision of internet services; the technological development and the provision of consultation services; the self-operated import and export business (with its operation subject to the list of projects as approved by the MOFTEC); the foreign economic and technical cooperation (with its operation subject to the list of projects as approved by the MOFTEC); operation of property rights transaction and provision of brokerage and information services; provision of industrial travel agency services; provision of relevant business trainings, property management, leasing of tangible property and leasing of immovable property (projects which require permit/approval under the laws, commencement of operations of the businesses which require approval from the relevant department).
3. The ultimate beneficial controller of the Company is the State-owned Assets Supervision and Administration Commission of Qingdao Municipal People's Government.
4. Relationship between the Company and its beneficial controllers:



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

Report of the Directors

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

As at 31 December 2016, save as disclosed below and in the sub-section “Movements of the share options during the Reporting Period” under the section headed “Summary on adoption of first share option incentive scheme and the grant thereunder”, none of the members of the Board, supervisors and the chief executive of the Company held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be maintained by the Group pursuant to section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Long position in the shares of the Company

Name of Director	Nature of interest	Number of shares	Percentage to the total issued shares of the Company (%)	Percentage to the relevant class of issued shares of the Company (%)
Tang Ye Guo	Beneficial owner	831,600 A Shares	0.061	0.092
Jia Shao Qian	Beneficial owner	539,060 A Shares	0.040	0.060
Wang Yun Li	Beneficial owner	52,120 A Shares	0.004	0.006

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2016, the aggregate amount of the Group’s purchases from the top five suppliers was RMB3,064 million, representing 16.52% of the total purchase amount of the Group for the year and the aggregate sales amount to the top five customers was RMB6,438 million, representing 26.09% of the total sales amount of the Group for the year.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDITOR

On 24 June 2016, as considered and approved at the shareholders’ general meeting, the Company agreed to re-appoint Ruihua Certified Public Accountants as the auditor of the Company for the financial year of 2016, and the Board was authorized to fix their remuneration.

PRE-EMPTIVE RIGHTS

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

TAXATION

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

Report of the Directors

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

(1) Purpose of the Scheme

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

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

(2) 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 31 December 2016 (‘0000 shares)
1	Tang Ye Guo	Chairman	42.84	–	42.84	42.84	0
2	Jia Shao Qian	Director, Vice-President	28.894	–	28.894	28.894	0
3	Wang Yun Li	Director, Vice-President	30.651	–	30.651	30.651	0
4	Wang Zhi Gang	Former Director, Vice-President	6.12	–	6.12	6.12 <i>(Note 2)</i>	0
5	Mid level management staff and key personnel		340.182	–	340.182	340.182	0
Total			448.687	–	448.687	448.687	0

Notes:

- All share options available for issue under the Scheme have been granted.
- Mr. Wang Zhi Gang has resigned from his position as director on 5 May 2016.
- The Share Options for subscribing 4,486,870 A Shares which were granted on 31 August 2011 pursuant to the Scheme have lapsed on 31 August 2016 and were cancelled on 5 September 2016 (details of which are disclosed in the Company’s overseas regulatory announcement dated 5 September 2016).

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

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

(4) Validity period of the share options

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

Report of the Directors

(5) Exercise Arrangement

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

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

- 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.

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

(6) Determination method of exercise price

The exercise price of the grant is the higher of the following two prices: (i) the closing price of the A shares on the last trading day immediately preceding the date of the announcement of the summary of the Scheme (that is, 29 November 2010), which was RMB7.65 per share; and (ii) the average closing price of the A shares during the last 30 trading days immediately preceding the date of announcement of the summary of the Scheme, which was RMB7.37 per share. Therefore, the exercise price is RMB7.65 per share.

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

- (I) **On 10 November 2015, the Company entered into the Business Co-operation Framework Agreement, Financial Services Agreement, Business Framework Agreement 1, Business Framework Agreement 2 and the Purchase Financing Agency Framework Agreement with Hisense Group, Hisense Electric, Hisense Finance, Hisense Hitachi, Hisense-Whirlpool and Hisense Hong Kong respectively. On 3 August 2016, the Company entered into a supplemental agreement to the Financial Services Agreement and Hisense Finance with Hisense Finance.**

Report of the Directors

Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding approximately 42.92% (then owned approximately 44.93% of the issued shares of the Company as at the date of the agreement) of the issued shares of the Company and Hisense Hong Kong holds approximately 7.13% (then owned approximately 5.96% of the issued shares of the Company as at the date of the agreement) of the issued shares of the Company and Hisense Electric is owned as to 39.35% (then owned as to 39.35% as at the date of the agreement) by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries (including without limitation Hisense Marketing and its subsidiaries) are connected persons of the Company according to the Hong Kong Listing Rules. Hisense Finance is a subsidiary of Hisense Group, Hisense Finance therefore is a connected person of the Company according to the Hong Kong Listing Rules. As certain directors of the Company are also senior management of Hisense Hitachi and Hisense-Whirlpool, Hisense Hitachi and Hisense-Whirlpool are connected persons of the Company according to the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange.

Details of the Business Co-operation Framework Agreement with Hisense Group and Hisense Electric, the Financial Services Agreement with Hisense Finance, Business Framework Agreement 1 with Hisense Hitachi and Business Framework Agreement 2 with Hisense-Whirlpool can be found in the announcement and the circular published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 10 November 2015, 2 December 2015, 3 August 2016 and 8 September 2016 respectively.

As Hisense Group is the beneficial controller of both Hisense Hong Kong and the Company, Hisense Hong Kong is a connected person of the Company under the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange. Hisense Hong Kong is also a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. Since the financial assistance arrangement under the Purchase Financing Agency Framework Agreement would be for the benefit of the Company on normal commercial terms where no security over the assets of the Company was to be granted in respect of the financial assistance, such arrangement was exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules. Details of the Purchase Financing Agency Framework Agreement can be found in the announcement published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 10 November 2015.

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

1. The Business Co-operation Framework Agreement with Hisense Group and Hisense Electric

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

Report of the Directors

- (1) The Business Co-operation Framework Agreement shall commence from the date of approval of the Business Co-operation Framework Agreement from 1 January 2016 until 31 December 2016, which can be terminated before its expiration by mutual agreement of the parties.
- (2) Pricing for the mutual purchase of home electrical appliances between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances from time to time. Pricing for the mutual purchase of raw materials, equipments, parts and components between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness. Pricing for the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries is the market price determined by the open bidding process. Pricing for the mutual provision of services between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services in the industry. The fees payable by the Group for the provision of the agency services for export for the white goods of the Group is calculated by multiplying the Group's revenue from export of the relevant type of products (which shall be the final amount of revenue for sales by the Group to third party customers in RMB) with an export agency fee percentage. Taking into consideration the audited rate of the charges actually incurred by Hisense Marketing and/or its subsidiaries for providing agency services for export to the Group for the period from March 2011 to June 2012, the rate of the charges actually incurred during the first half of 2012 (being 7.24%) shall be used as the base percentage and the corresponding profit margin for export agency services payable by the Group to Hisense Group and/or its subsidiaries shall be determined according to the growth rate of the revenue from export subject to the export agency services in 2016, pursuant to which the export agency fee percentage during the term of the Business Co-operation Framework Agreement shall also be determined as provided in the table below:

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

Note: Growth rate of the revenue from export subject to the export agency services = (the Group's audited revenue from export subject to the export agency services in 2016-the Group's audited revenue from export subject to the export agency services in 2012)/the Group's audited revenue from export subject to the export agency services in 2012.

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

Report of the Directors

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

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

Types of connected transactions	Division by products or services	Connected person	Annual cap
Sale of products and materials	Sale of home electrical appliance products by the Group	Hisense Group	359,430
		Hisense Electric	20
	Sale of equipment by the Group	Hisense Group	369
	Sale of moulds by the Group	Hisense Group	25,138
		Hisense Electric	9,600
Sale of raw materials, parts and components by the Group	Hisense Group	3,374	
	Hisense Electric	5,960	
Provision of services	Provision of design, processing services and property services by the Group	Hisense Group	2,170
	Provision of labour services by the Group	Hisense Electric	200
Purchase of products and materials	Purchase of home electrical appliance products by the Group	Hisense Group	63
		Hisense Electric	29
	Purchase of raw materials, parts and components by the Group	Hisense Group	1,173
Hisense Electric		2,412	
Receipt of services	Receipt of material processing, installation and maintenance, property, medical, leasing, design, inspection, agency services for import and export, property construction, management consultancy, technical support and information system maintenance by the Group	Hisense Group	17,742
		Hisense Electric	2,392
	Receipt of agency services for export of the white goods by the Group	Hisense Group	39,900

2. The Financial Services Agreement and the Supplemental Agreement to the Financial Services Agreement with Hisense Finance

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

- (1) The term of the Financial Services Agreement shall commence from the date of approval of the Financial Services Agreement from 1 January 2016 until 31 December 2017, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.
- (2) The services to be provided by Hisense Finance to the Group include deposit services, loan and electronic bank acceptance bill (電子銀行承兌匯票) services, draft discount services (票據貼現服務), settlement and sale of foreign exchange services (結售匯服務) and agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務).
- (3) The interest rate payable for the Group's deposits with Hisense Finance shall not be lower than the rate payable by normal commercial banks in the PRC for comparable deposits. The interest rate charged for the loans provided to the Group by Hisense Finance shall not be higher than the rate charged by normal commercial banks in the PRC for comparable loans. The service fees charged for the provision of electronic bank acceptance bill services by Hisense Finance for the Group shall not be higher than the standard service fees charged by normal commercial banks in the PRC for comparable services. Hisense Finance may require the Group to provide guarantee or security or pledge over assets in respect of the loan services and the electronic bank acceptance bill services rendered, depending on the then circumstances and business needs. The discount rate for the provision of draft discount services by Hisense Finance to the Group shall be determined on the basis of the rediscount rate (再貼現利率) quoted by The People's Bank of China and with reference to market level and shall not be higher than the discount rate charged by normal commercial banks in the PRC providing such services to the Group. The level of services (including the level of exchange rates) for the settlement and sale of foreign exchange at Hisense Finance shall not be worse than the level of services (including the level of exchange rates) of normal commercial banks in the PRC providing such services to the Group. The charging standard for service fees chargeable for the provision of agency services such as settlements services for receipt and payment of funds by Hisense Finance for the Group shall not be higher than the charging standard for service fees for such services of normal commercial banks or similar agencies in the PRC during the corresponding period.
- (4) The maximum daily balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the cap of RMB3,000,000,000 (inclusive of interest) on any given day. The maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the Financial Services Agreement shall not exceed the cap of RMB4.5 billion (inclusive of interest and service fees). The annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services during the term of the Financial Services Agreement shall not exceed the cap of RMB50,000,000. The annual amount settled or sold by Hisense Finance for the Group shall not exceed the cap of US\$700,000,000. The annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務) shall not exceed the cap of RMB3,000,000.

Report of the Directors

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

Connected parties	Type of connected transaction	Particulars of connected transaction	Pricing principle of connected transaction	Connected transaction amount (RMB ten thousand)	Percentage of total amount of similar transactions (%)
Hisense Group	Purchase	Finished goods	Agreed price	1.51	0.00
Hisense Electric	Purchase	Finished goods	Agreed price	13.40	0.00
Zhejiang Hisense	Purchase	Finished goods	Agreed price	19,868.55	0.97
Hisense Group	Purchase	Materials	Agreed price	1,078.73	0.05
Hisense Electric	Purchase	Materials	Agreed price	1,489.45	0.07
Zhejiang Hisense	Purchase	Materials	Agreed price	653.48	0.03
Hisense Hitachi	Purchase	Materials	Agreed price	745.50	0.04
Zhejiang Hisense	Purchase	Equipment	Agreed price	111.11	0.01
Hisense Group	Receipt of services	Receipt of services	Agreed price	48,552.73	2.37
Hisense Electric	Receipt of services	Receipt of services	Agreed price	1,457.52	0.07
Hisense Hong Kong	Receipt of purchase financing agency services	Receipt of purchase financing agency services	Agreed price	25,760.84	1.26
Hisense Group	Sale	Finished goods	Agreed price	300,737.19	11.25
Hisense Electric	Sale	Finished goods	Agreed price	17.22	0.00
Hisense Hitachi	Sale	Finished goods	Agreed price	19,286.05	0.72
Hisense Group	Sale	Materials	Agreed price	3,257.99	0.12
Hisense Electric	Sale	Materials	Agreed price	2,881.25	0.11
Zhejiang Hisense	Sale	Materials	Agreed price	382.15	0.01
Hisense Hitachi	Sale	Materials	Agreed price	355.13	0.01
Hisense Group	Sale	Moulds	Market price	23,196.62	0.87
Hisense Electric	Sale	Moulds	Market price	8,499.35	0.32
Zhejiang Hisense	Sale	Moulds	Market price	85.47	0.00
Hisense Hitachi	Sale	Moulds	Market price	860.47	0.03
Hisense Group	Provision of services	Provision of services	Agreed price	1,246.91	0.05
Hisense Electric	Provision of services	Provision of services	Agreed price	43.61	0.00
Zhejiang Hisense	Provision of services	Provision of services	Agreed price	7.52	0.00

As at the end of the Reporting Period, the Company and its subsidiaries had the balance of deposit of RMB1,909,000,000 and interest income received of RMB10,366,500, the actual balance of loan of RMB0, balance of electronic bank acceptance bill of RMB2,865,000,000, and the handling fee for opening accounts for electronic bank acceptance bill of RMB2,912,900 with Hisense Finance. The actual amount of discounted interest for the provision of draft discount services was RMB3,563,700, the actual amount involved for the provision of settlement and sale of foreign exchange services was 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 RMB313,100.

Report of the Directors

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

No.	Agreement	Counterparty to the agreement	Particulars of connected transactions	Annual cap
1	Business Co-operation Framework Agreement dated 17 November 2016	Hisense Group and Hisense Electric	Purchase of home electrical appliances by the Group	RMB1,600,000
			Purchase of raw materials, parts and components by the Group	RMB118,670,000
			Receipt of services by the Group	RMB582,600,000
			Supply of home electrical appliances by the Group	RMB10,241,130,000
			Supply of equipment by the Group	RMB19,300,000
			Supply of moulds by the Group	RMB451,000,000
			Supply of raw materials, parts and components by the Group	RMB112,090,000
			Provision of services by the Group	RMB37,280,000
2	Purchase Financing Agency Framework Agreement dated 17 November 2016	Hisense Hong Kong	Receipt of financing agency services by the Group to purchase imported raw materials, components and equipment	US\$65,000,000

The term of the Business Co-operation Framework Agreement and the Purchase Financing Agency Framework Agreement commences from the date of approval of such agreements by the independent shareholders (that is, 9 January 2017) until 31 December 2017. The relationship between the Group on one hand and Hisense Group, Hisense Electric and Hisense Hong Kong on the other hand has been disclosed above.

Details of the agreements can be found in the announcements and the circular published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 17 November 2016 and 23 December 2016 respectively.

Report of the Directors

CORPORATE GOVERNANCE CODE

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

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

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

Name	Position	Gender	Age	Status	Total amount of remuneration before tax received from the Company (RMB ten thousand)	Whether receive remuneration from connected party of the Company
Tang Ye Guo	Chairman	Male	54	Current	268.36	No
Liu Hong Xin	Director	Male	50	Current	0	Yes
Lin Lan	Director	Male	59	Current	0	Yes
Dai Hui Zhong	Director	Male	51	Current	243.71	No
Jia Shao Qian	Director, President	Male	44	Current	166.62	No
Wang Yun Li	Director, Vice President	Male	44	Current	169.25	No
Ma Jin Quan	Independent non-executive Director	Male	74	Current	0	No
Xu Xiang Yi	Independent non-executive Director	Male	61	Current	11.5	No
Wang Xin Yu	Independent non-executive Director	Male	46	Current	24	No
Liu Zhen Shun	Chairman of Supervisory Committee	Male	47	Current	0	Yes
Yang Qing	Supervisor	Male	43	Current	0	Yes
Fan Wei	Supervisor	Female	51	Current	54.46	No
Wang Zhi Gang	Vice President	Male	47	Current	117.59	No
Gao Yu Ling	Person in charge of finance	Female	36	Current	113.96	No
Xia Feng	Former Secretary to the Board	Male	40	Resigned	46.93	No
Wong Tak Fong	Company Secretary	Female	49	Current	17.19	No
Tian Ye	Former Director, Former President	Male	42	Resigned	0	Yes
Wang Ai Guo	Former Independent non-executive Director	Male	52	Resigned	11.5	No

Report of the Directors

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

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

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

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

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

III. PARTICULARS OF GUARANTEES

√ Applicable □ Not applicable

Unit: RMB (in ten thousand)

The guaranteed party	Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount	External guarantee given by the Company (excluding guarantees for its subsidiaries)						Whether the guarantee is given for any connected party
		Limit on guaranteed amount	Actual effective date (date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee	Completed or not	
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

Report of the Directors

Guarantees given by the Company for its subsidiaries

The guaranteed party	Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount	Guaranteed amount	Actual effective date (date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee	Completed or not	Whether the guarantee is given for any connected party
Guangdong Refrigerator	11 November 2015	50,000	2015-3-9	9.61	Joint liability guarantee;	2015.3.9-2016.1.31	Yes	No
Guangdong Refrigerator	11 November 2015	50,000	2014-7-7	119.49	Joint liability guarantee	2014.7.7-2016.6.12	Yes	No
Guangdong Air-conditioner	11 November 2015	30,000	2015-10-26	584.70	Joint liability guarantee	2015.10.26-2016.1.12	Yes	No
Home Appliances Co	11 November 2015	5,000	2014-6-20	60.00	Joint liability guarantee	2014.6.20-2016.6.11	Yes	No
Home Appliances Co	11 November 2015	5,000	2015-8-20	127.87	Joint liability guarantee;	2015.8.20-2016.5.30	Yes	No
Ronsheng Plastic	11 November 2015	6,000	2015-10-16	908.52	Joint liability guarantee	2015.10.16-2016.2.29	Yes	No
Total limit on the amount of guarantees for subsidiaries approved during the Reporting Period (B1)				0	Actual amount of guarantees for subsidiaries during the Reporting Period (B2)			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

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

Report of the Directors

IV. PARTICULARS OF ENTRUSTED WEALTH MANAGEMENT

√ Applicable □ Not applicable

Unit: RMB (in ten thousand)

Name of trustee	Whether it is a connected transaction	Product type	Amount of consigned financing	Commencement date	Expiration date	Mode of determining remuneration	The actual amount of principal received during the Reporting Period	Amount of provision for impairment (if any)	Expected revenue	Actual amount of profit and loss during the Reporting Period	Actual recovery of profit and loss during the Reporting Period
Bank	No	Bank's wealth management product	306,100	1 January 2016	31 December 2016	agreement	196,100.00		2,550.64	1,205.58	1,205.58
Total					—	—	196,100.00		2,550.64	1,205.58	1,205.58

Source of funding for consigned financing

Internal funding of the Company

The amount of consigned financing is cumulative amount. The Company considered the fund size using in consigned financing to be not exceeding RMB1,700,000,000 and the above amount is allowed to be reused within such fund size.

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)

24 October 2016

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

Not applicable

Whether there is any plan for entrusted wealth management in the future

Yes

V. DERIVATIVES INVESTMENT

Unit: RMB (in ten thousand)

Name of operators of derivatives investment	Whether or not a connected transaction	Type of derivatives investment	Initial investment of derivatives	Effective Date	Expiry Date	Investment at the beginning of the Reporting Period	Amount of purchase during the Reporting Period	Amount of disposal during the Reporting Period	Amount of provision for impairment (if any)	Investment at the end of the Reporting Period	Proportion of investment to the net asset of the Company at the end of the Reporting Period (%)	Actual amount of profit and loss during the Reporting Period
Bank	No	Forward foreign exchange contracts	83,342.85	1 January 2016	31 December 2016	83,342.85	119,947.77	146,688.87		56,601.75	11.63	1,645.48

Source of derivatives investment funding

Export trade receipts

Litigation involved (if applicable)

Not applicable

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

30 March 2016

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

25 June 2016

Report of the Directors

<p>Risk analysis of positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)</p>	<p>The derivatives business of the Company mainly represents the forward foreign exchange contracts used to avoid the risk of foreign exchange fluctuations related to the overseas sales receivables. The Company locks in the foreign exchange rates within a reasonable range to achieve the hedging purpose.</p>
<p>Changes in market price or product fair value of invested derivatives during the Reporting Period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of derivatives' fair value</p>	<p>The Company has formulated the "Management Measures for the Foreign Exchange Capital Business" and "the Internal Control System for Forward Foreign Exchange Capital Transactions". The measures specifically regulate the basic principles, operation rules, risk control measures and internal controls that shall be followed when engaging in the derivatives business. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.</p>
<p>Explanations of any significant changes in the Company's accounting policies and specific accounting and auditing principles on derivatives between the Reporting Period and the last reporting period</p>	<p>The assessment of the fair value of the derivatives carried out by the Company mainly represents the outstanding foreign exchange forward contracts entered into by the Company and banks during the Reporting Period, which are recognized as transactional financial assets or liabilities based on the difference between the quotation of the outstanding foreign exchange forward contracts and the forward exchange rate as at the end of the period. During the Reporting Period, the Company recognized a gain on change in fair value of the derivatives of RMB 19.4628 million. Investment gain amounted to RMB-3.008 million, resulting in a total profits or losses of RMB16.4548 million.</p>
<p>Specific opinions of independent directors on the derivatives investment and risk control of the Company</p>	<p>During the Reporting Period, there were no material changes in the accounting policy and specific accounting and auditing principles for the Company's derivatives business as compared to last reporting period.</p>
	<p>Opinion of independent directors: Commencement of foreign exchange derivatives business by the Company was beneficial to the Company in the prevention of exchange rate fluctuation risks. The Company has devised the Internal Control System for Forward Foreign Exchange Capital Transactions to strengthen internal control and enhance the management of foreign exchange risks by the Company, and the targeted risk control measures adopted were practicable.</p>

Report of the Directors

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

Applicable Not applicable

Newly consolidated subsidiary:

The Company has established three new subsidiaries, namely Hisense Changsha Electronic Commerce Limited, Qingdao Hisense Commercial Cold Chain Co., Ltd and Foshan Shunde Bao Hong Property Management Company Limited during the Reporting Period, and their results are consolidated into the Company's accounts for the Reporting Period.

During the Reporting Period, the Company acquired from Whirlpool (Hong Kong) Limited its 50% equity interest in Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd. (which is now renamed as Zhejiang Hisense Electric Appliance Co., Ltd.). The equity transfer has been completed and Zhejiang Hisense Electric Appliance Co., Ltd. became a wholly-owned subsidiary of the Company and its results are now consolidated into the Company's accounts.

Report of the Directors

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.
“Zhejiang Hisense”	Zhejiang Hisense Electric Appliance Co., Ltd., formerly 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., formerly known as Guangdong Kelon Fittings Co., Ltd., of which the change of name was effective on 10 April 2014
“Ronsheng Plastic”	Foshan Shunde Rongsheng Plastic Co., Ltd
“RMB”	Renminbi
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

Report of the Supervisory Committee

Dear Shareholders:

During the reporting period, the Supervisory Committee of Hisense Kelon Electrical Holdings Company Limited has faithfully discharged its duties to protect the lawful interests of the Company, its staff and shareholders in compliance with the relevant requirements of the Company Law of the PRC, the Listing Rules of Shenzhen Stock Exchange, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the articles of association of the Company. We would like to report to you the work of the Supervisory Committee during 2016 in accordance with the articles of association of the Company:

I. WORK OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

During the reporting period, the Supervisory Committee held a total of 4 meetings, details of which are summarized as follows:

- (1) The first meeting of the ninth session of the Supervisory Committee in 2016 was held on 29 March 2016, at which the 2015 annual report of the Company and related matters were considered and approved;
- (2) The second meeting of the ninth session of the Supervisory Committee in 2016 was held on 25 April 2016, at which the 2016 first quarterly report of the Company was considered and approved;
- (3) The third meeting of the ninth session of the Supervisory Committee in 2016 was held on 25 August 2016, at which the 2016 interim report of the Company and the proposal on cancelling the shares options granted but not yet exercised under the first share option incentive scheme of the Company were considered and approved; and
- (4) The fourth meeting of the ninth session of the Supervisory Committee in 2016 was held on 21 October 2016, at which the 2016 third quarterly report of the Company was considered and approved.

II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2016

- (1) Operation of the Company in compliance with law

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

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

Ruihua Certified Public Accountants has audited the Company's financial statement for the year 2016 and issued an auditor's report with standard unqualified opinion. The Supervisory Committee is of the view that the opinion expressed in the auditor's report was fair and objective and the current financial statement has truthfully reflected the state of financial condition and operating results of the Company.

- (3) During the reporting period, the Company had not made any investments which were funded by capital raising activities.
- (4) During the reporting period, the Company had not disposed of any substantial assets.

Report of the Supervisory Committee

- (5) During the reporting period, the connected transactions which the Company entered into with connected parties were fair and reasonable and the prices were fairly determined without prejudicing the interests of any non-connected shareholders and the Company.
- (6) Opinion of the Company's Supervisory Committee on the Company's internal control assessment report.

After reviewing the Company's 2016 Internal Control Assessment Report, the Company's Supervisory Committee is of the view that:

With reference to the relevant requirements of the Basic Norms for Enterprise Internal Control and the Guidelines of the Shenzhen Stock Exchange for the Standardized Operation of Companies Listed on the Main Board, the Company's existing internal control systems are basically sound and cover all levels and segments of the Company's operation, are in compliance with the requirements of the relevant laws and regulations, and suit the actual needs of the Company's operating activities. Each of the internal control systems is able to exert relatively effective control of the different segments in the Company's operation, and is capable of preventing, timely discovering and rectifying possible errors in the Company's operation process, controlling the relevant risks, protecting the safety and completeness of the Company's assets, ensuring the truthfulness, accuracy and timeliness of the accounting records and accounting information. The Company's 2016 Internal Control Assessment Report has fully, objectively and truly reflected the actual internal control situation of the Company, and we agree to the issue of the 2016 Internal Control Assessment Report by the board of directors of the Company.

Corporate Information

REGISTERED OFFICE IN CHINA

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

PLACE OF BUSINESS IN HONG KONG

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

SECRETARY FOR THE BOARD OF DIRECTORS & COMPANY SECRETARY

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

AUTHORIZED REPRESENTATIVES

Tang Ye Guo
Jia Shao Qian

INVESTOR COMMUNICATION CENTRE

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LEGAL ADVISERS

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445 Dongfeng Road Central, Guangzhou

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

BANKERS IN CHINA

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

BANKERS IN HONG KONG

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



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Rui Hua Shen Zi [2017] 95010021

To the shareholders of Hisense Kelon Electrical Holdings Company Limited:

I. AUDIT OPINION

We have audited the financial statements of Hisense Kelon Electrical Holdings Company Limited (the “Company” or “Hisense Kelon”), which comprise the consolidated and the Company’s balance sheets as at 31 December 2016, and the Company’s and consolidated income statements, the Company’s and consolidated cash flows statements and the Company’s and consolidated statements of changes in equity for 2016 and the notes to the financial statements.

In our opinion, the accompanying financial statements of Hisense Kelon present fairly, in all material aspects, Hisense Kelon’s and consolidated financial position as at 31 December 2016 and its and consolidated results of operations and cash flows for the year 2016 in accordance with the Accounting Standards for Business Enterprises.

II. BASIS OF AUDIT OPINION

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

III. KEY AUDIT MATTERS

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

(i) Provision for impairment of intangible assets with an indefinite useful life

1. Description

As stated in note 4(20) “Impairment of long-term assets”, intangible assets with an indefinite useful life will be tested for impairment annually, regardless of whether there is any indication of impairment. 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 is made and an impairment loss are recognised 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. The intangible assets with an indefinite useful life of Hisense Kelon are trademarks. As at 31 December 2016, the balance of trademarks was RMB524,409,198.95. After deducting the accumulated amortization of RMB134,130,255.55 in accordance with the original standards and the provision for impairment made of RMB286,061,116.40, their carrying amount was RMB104,217,827.00. The sufficiency of provision for impairment of trademarks has a material impact on the financial statements.

Hisense Kelon determines the recoverable amount of trademarks based on the valuation under the income approach. Management was required to make significant judgement in estimating the future cash inflows and determining the relevant valuation parameters when carrying out the valuation under the income approach.

In view of the large amount involved in the matter and the need for management to make significant judgments, we treat the provision for impairment of intangible assets with an indefinite useful life as a key audit matter.

2. Audit response

Our main audit procedures for impairment of intangible assets with an indefinite useful life include but are not limited to:

- (1) we discussed with the valuation expert appointed by the management about the valuation method adopted, the estimation of future cash inflows and the determination of the relevant valuation parameters;
- (2) by comparing historical cash flows, we reviewed the management's judgment on the future development trend, and evaluated the future cash flows estimated by the management;
- (3) with the support of our internal valuation experts, we reviewed the discount rate used in the valuation under the income approach;
- (4) we reviewed the calculation of the provision for impairment of intangible assets and the related accounting treatment.

(ii) Provision for declines in value of finished goods

1. Description

As stated in note 4(11) "Inventories", the finished goods of Hisense Kelon are measured at the lower of cost and net realizable value. As at 31 December 2016, the balance of finished goods was RMB2,099,019,876.15; the provision for declines in value of finished goods was RMB34,624,334.37; and the carrying amount of finished goods was RMB2,064,395,541.78. The sufficiency of provision for declines in value of finished goods has a material impact on the financial statements.

Hisense Kelon determines the net realisable value of finished goods based on the estimated selling price of finished goods less the estimated sales expenses and related taxes.

The management estimates the expected selling price of finished goods based on their conditions, and the management is required to make significant judgments in the estimation process.

In view of the large amount involved in the matter and the need for management to make significant judgments, we treat the provision for declines in value of finished goods as a key audit matter.

Auditor's Report

2. *Audit response*

Our main audit procedures for provision for declines in value of finished goods include but are not limited to:

- (1) we evaluated and tested key internal controls relating to the provision for declines in value of finished goods;
- (2) we carried out stock counting procedures for the finished goods of Hisense Kelon, checked the quantity and condition of finished goods, and focused on the finished goods with long ageing;
- (3) we obtained the calculation table of provision for declines in value of finished goods of Hisense Kelon, selected certain product models on a sampling basis and compared their records and ageing in the table against the results of our stock counting;
- (4) by comparing historical selling prices of similar products and reviewing the trend in future selling prices of products based on seasonal and cyclical characteristics, we assessed the selling prices estimated by the management and checked the same against the actual selling prices subsequent to the balance sheet date;
- (5) by comparing historical selling expenses and relevant taxation and fees of similar products, we assessed the selling expenses and relevant taxation and fees estimated by the management and checked the same against the actual amount incurred subsequent to the balance sheet date;
- (6) we selected certain finished goods and re-calculated their recoverable amount and the balance of provision for declines in value of finished goods as at the end of the period.

IV. OTHER INFORMATION

The management (the "Management") of Hisense Kelon is responsible for the other information. The other information comprises the information included in the 2016 annual report of Hisense Kelon, but does not include the financial statements and our auditor's report thereon.

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

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

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

Auditor's Report

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

The management is responsible for preparing of the financial statements that give a fair view in accordance with Accounting Standards for Business Enterprises, and designing, implementing and maintaining the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing Hisense Kelon's ability to continue as a going concern, and using the going concern basis of accounting unless the management either intend to liquidate Hisense Kelon or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

Auditor's Report

- (6) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Hisense Kelon to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Ruihua Certified Public Accountants (LLP)

Beijing, the People's Republic of China

29 March 2017

Chinese Certified Public Accountant: **Wang Xi Xian**

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

Consolidated Balance Sheets

31 December 2016

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Notes	Closing Balance	Opening Balance
Current assets:			
Cash at bank and on hand	6(1)	2,227,421,330.74	1,014,410,146.17
Balances with clearing companies			
Lending capital			
Financial assets at fair value through profit or loss	6(2)	9,695,070.04	
Derivative financial assets			
Notes receivable	6(3)	3,281,453,069.10	2,289,706,048.91
Accounts receivable	6(4)	2,725,129,183.33	2,086,596,419.00
Prepayments	6(5)	174,049,069.34	169,804,372.86
Insurance premium receivable			
Receivables from reinsurers			
Reserves for reinsurance contract receivable			
Interests receivable			
Dividends receivable			
Other receivables	6(6)	245,420,469.20	234,011,936.52
Financial assets purchased under agreements to resell			
Inventories	6(7)	2,660,044,996.38	2,270,139,557.55
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets	6(8)	1,678,765,851.25	467,872,305.65
Total current assets		13,001,979,039.38	8,532,540,786.66
Non-current assets:			
Disbursement of loans and advances			
Available-for-sale financial assets	6(9)	3,900,000.00	3,900,000.00
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	6(10)	1,627,383,596.00	1,323,253,353.15
Investment properties	6(11)	26,456,837.73	28,958,126.07
Fixed assets	6(12)	3,481,725,652.28	3,529,787,697.68
Construction in progress	6(13)	72,942,458.27	64,837,848.39
Construction materials			
Disposal of fixed assets		907,836.24	1,468,664.05
Productive biological assets			
Oil and gas assets			
Intangible assets	6(14)	737,341,935.68	694,379,768.17
Development costs			
Goodwill			
Long-term prepaid expenses	6(15)	5,158,532.22	10,599,736.59
Deferred tax assets	6(16)	97,262,720.52	103,091,058.77
Other non-current assets			
Total non-current assets		6,053,079,568.94	5,760,276,252.87
Total assets		19,055,058,608.32	14,292,817,039.53

Consolidated Balance Sheets

31 December 2016

Item	<i>Notes</i>	Closing Balance	Opening Balance
Current liabilities:			
Short-term borrowings	6(17)		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	6(18)		9,767,732.75
Derivative financial liabilities			
Notes payable	6(19)	5,227,854,741.07	2,931,174,504.52
Accounts payable	6(20)	4,367,268,398.09	2,878,291,676.53
Advances from customers	6(21)	831,778,792.45	712,934,326.56
Proceeds from disposal of financial assets under agreements to repurchase			
Handling fees and commission payable			
Employee remunerations payable	6(22)	334,204,436.58	250,749,290.94
Taxes payable	6(23)	222,919,921.87	161,686,275.79
Interests payable			
Dividends payable			
Other payables	6(24)	1,661,704,359.95	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	6(25)	715,840,695.57	794,105,569.67
Total current liabilities		13,361,571,345.58	9,445,950,354.62

Consolidated Balance Sheets

31 December 2016

Item	Notes	Closing Balance	Opening Balance
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preference shares			
Perpetual debts			
Long-term payables			
Long-term employee remunerations payable			
Specific payables			
Provisions	6(26)	314,632,715.41	320,959,024.64
Deferred income	6(27)	54,687,498.01	51,750,592.81
Deferred tax liabilities		706,994.87	347,710.13
Other non-current liabilities			
Total non-current liabilities		370,027,208.29	373,057,327.58
Total liabilities		13,731,598,553.87	9,819,007,682.20
Shareholders' equity:			
Share capital	6(28)	1,362,725,370.00	1,362,725,370.00
Other equity instruments			
Including: Preference shares			
Perpetual debts			
Capital reserve	6(29)	2,092,861,943.89	2,155,529,231.17
Less: treasury shares			
Other comprehensive income	6(30)	14,274,706.17	11,482,265.05
Special reserves			
Surplus reserves	6(31)	313,689,564.15	240,622,313.49
General risk provisions			
Undistributed profit	6(32)	1,083,914,592.96	273,658,518.74
Total equity attributable to shareholders of the parent		4,867,466,177.17	4,044,017,698.45
Minority interests		455,993,877.28	429,791,658.88
Total shareholders' equity		5,323,460,054.45	4,473,809,357.33
Total liabilities and shareholders' equity		19,055,058,608.32	14,292,817,039.53

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

Balance Sheets of Parent Company

31 December 2016

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Notes	Closing Balance	Opening Balance
Current assets:			
Cash at bank and on hand		91,532,499.69	61,080,569.87
Financial assets at fair value through profit or loss			
Derivative financial assets			
Notes receivable			1,700,531.94
Accounts receivable	16(1)	69,467,051.91	1,922,803,062.52
Prepayment		19,592,920.34	19,592,920.34
Interests receivable			
Dividends receivable			
Other receivables	16(2)	1,286,513,407.88	870,833,078.80
Inventories		54,658.30	361,065.84
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets		16,197,007.75	33,290,526.74
Total current assets		1,483,357,545.87	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	16(3)	4,144,545,909.49	3,827,345,192.53
Investment properties		9,681,297.00	11,065,556.00
Fixed assets		43,579,821.24	120,208,519.74
Construction in progress			
Construction materials			
Disposal of fixed assets			
Productive biological assets			
Oil and gas assets			
Intangible assets		189,597,968.00	205,243,987.00
Development costs			
Goodwill			
Long-term prepaid expenses		326,444.49	1,341,333.40
Deferred tax assets			
Other non-current assets			
Total non-current assets		4,391,631,440.22	4,169,104,588.67
Total assets		5,874,988,986.09	7,078,766,344.72

Balance Sheets of Parent Company

31 December 2016

Item	<i>Notes</i>	Closing Balance	Opening Balance
Current liabilities:			
Short-term borrowings			
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities			
Notes payable			
Accounts payable		253,322,052.24	1,204,712,288.79
Advances from customers		24,460,718.63	24,852,528.21
Employee remunerations payable		3,843,432.68	4,240,314.21
Taxes payable		5,612,536.84	5,180,801.40
Interests payable			
Dividends payable			
Other payables		474,050,346.52	859,483,103.22
Liabilities classified as held for sale			
Non-current liabilities due within one year			
Other current liabilities		17,349,989.49	237,006,791.93
Total Current Liabilities		778,639,076.40	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			
Provisions		148,784,803.02	320,959,024.64
Deferred income		30,000,701.63	31,005,964.43
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities		178,785,504.65	351,964,989.07
Total liabilities		957,424,581.05	2,687,440,816.83
Shareholders' equity:			
Share capital		1,362,725,370.00	1,362,725,370.00
Other equity instruments			
Including: Preference shares			
Perpetual debts			
Capital reserve		2,277,775,852.34	2,277,775,852.34
Less: Treasury shares			
Other comprehensive income			24,823.98
Special reserves			
Surplus reserves		283,080,939.16	210,013,688.50
General risk provisions			
Undistributed profit		993,982,243.54	540,785,793.07
Total shareholders' equity		4,917,564,405.04	4,391,325,527.89
Total liabilities and shareholders' equity		5,874,988,986.09	7,078,766,344.72

Consolidated Income Statement

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Notes	Amount for Current period	Amount for Previous period
I. Total operating revenue		26,730,219,497.07	23,471,602,857.98
Including: Operating revenue	6(33)	26,730,219,497.07	23,471,602,857.98
Interest income			
Insurance premium earned			
Income from handling fees and commission			
II. Total operating costs		26,206,506,245.86	23,685,244,384.01
Including: Operating costs	6(33)	20,486,653,055.35	18,440,738,979.66
Interest expenses			
Handling fees and commission expenses			
Refunded premiums			
Net amount of compensation payout			
Net amount of insurance contract reserves provided			
Policyholder dividend expenses			
Reinsurance premium expenses			
Taxes and surcharges	6(34)	222,794,528.65	97,160,017.88
Selling and distribution expenses		4,640,737,321.53	4,308,881,508.98
General and administrative expenses		946,745,876.45	905,237,728.27
Financial expenses	6(35)	-85,989,063.41	-71,444,717.51
Impairment losses on assets	6(36)	-4,435,472.71	4,670,866.73
Add: Gain from changes in fair value (Loss denoted by “-”)	6(37)	19,462,802.79	-2,539,056.09
Investment income (Loss denoted by “-”)	6(38)	522,079,140.57	530,171,700.74
Including: Share of profit of associates and jointly controlled entities		534,444,157.61	329,436,651.65
Foreign exchange gains (Loss denoted by “-”)			
III. Operating profits (loss denoted by “-”)		1,065,255,194.57	313,991,118.62
Add: Non-operating income	6(39)	243,092,611.26	326,848,455.27
Including: Gain on disposal of non-current assets		15,941,862.96	2,557,013.97
Less: Non-operating expenses	6(40)	38,006,334.61	17,185,413.56
Including: Loss on disposal of non-current assets		4,172,176.73	13,709,993.98
IV. Total profit (total loss denoted by “-”)		1,270,341,471.22	623,654,160.33
Less: Income tax expenses	6(41)	128,747,697.52	79,377,763.58
V. Net profits (net loss denoted by “-”)		1,141,593,773.70	544,276,396.75
Net profits attributable to shareholders of the parent		1,087,732,130.38	580,335,074.18
Profit and loss of minority interests		53,861,643.32	-36,058,677.43

Consolidated Income Statement

Item	<i>Notes</i>	Amount for Current period	Amount for Previous period
VI. Other comprehensive income after tax, net		2,792,441.12	-28,508,619.40
Other comprehensive income after tax attributable to owners of the parent, net		2,792,441.12	-28,508,619.40
(1) Items not to be reclassified into profit or loss in subsequent periods			4,298,798.14
1. Changes arising from remeasurement of net liabilities or assets of defined benefit plan			
2. Share of other comprehensive income of the investee not to be reclassified into profit or loss under the equity method			4,298,798.14
(2) Items to be reclassified into profit or loss in subsequent periods		2,792,441.12	-32,807,417.54
1. Share of other comprehensive income of the investee to be reclassified into profit or loss under the equity method in subsequent periods		-24,823.98	-33,710,275.87
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		2,817,265.10	902,858.33
6. Others			
Other comprehensive income after tax attributable to minority interests, net			
VII. Total comprehensive income		1,144,386,214.82	515,767,777.35
Total comprehensive income attributable to shareholders of the parent		1,090,524,571.50	551,826,454.78
Total comprehensive income attributable to minority interests		53,861,643.32	-36,058,677.43
VIII. Earnings per share:			
(1) Basic earnings per share		0.80	0.43
(2) Diluted earnings per share		0.80	0.43

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

Income Statement of Parent Company

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Notes	Amount for Current period	Amount for Previous period
I. Total operating revenue	16(4)	66,468,579.35	214,182,431.06
Less: Operating costs	16(4)	54,611,793.32	204,775,847.63
Taxes and surcharges		4,361,956.33	4,957,457.03
Selling and distribution expenses		-141,473,969.78	-127,536,451.19
General and administrative expenses		29,984,537.50	41,782,659.96
Financial expenses		-33,113,088.93	-32,306,720.09
Impairment losses on assets		312,088.85	4,646,297.18
Add: Gain from changes in fair value (Loss denoted by “-”)			
Investment income (Loss denoted by “-”)	16(5)	602,517,281.42	443,167,016.69
Including: Share of profit of associates and jointly controlled entities		534,444,157.61	329,436,651.65
II. Operating profits (loss denoted by “-”)		754,302,543.48	561,030,357.23
Add: Non-operating income		1,165,719.26	19,930,396.52
Including: Gain on disposal of non-current assets		548.62	713,273.97
Less: Non-operating expenses		24,795,756.11	1,486,190.74
Including: Loss on disposal of non-current assets		31,428.83	60,436.90
III. Total profit (total loss denoted by “-”)		730,672,506.63	579,474,563.01
Less: Income tax expenses			
IV. Net profits (net loss denoted by “-”)		730,672,506.63	579,474,563.01
V. Other comprehensive income after tax, net		-24,823.98	-29,411,477.73
(1) Items not to be reclassified into profit or loss in subsequent periods			4,298,798.14
1. Changes arising from remeasurement of net liabilities or assets of defined benefit plan			
2. Share of other comprehensive income of the investee not to be reclassified into profit or loss under the equity method			4,298,798.14
(2) Items to be reclassified into profit or loss in subsequent periods		-24,823.98	-33,710,275.87
1. Share of other comprehensive income of the investee to be reclassified into profit or loss under the equity method in subsequent periods		-24,823.98	-33,710,275.87
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		730,647,682.65	550,063,085.28
VII. Earnings per share:	16(4)		
(1) Basic earnings per share			
(2) Diluted earnings per share			

Consolidated Cash Flow Statement

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Notes	Amount for Current period	Amount for Previous period
I. Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		21,309,745,838.99	13,627,047,678.89
Net increase in customer deposits and interbank deposits			
Net increase in borrowings from central bank			
Net increase in placements from other financial institutions			
Cash received from original insurance contracts			
Net cash received from reinsurance business			
Net increase in deposits and investments from policyholders			
Net increase from disposal of financial assets at fair value through profit or loss			
Cash received from interests, fees and commissions			
Net increase in placements from banks and other financial institutions			
Net increase in repurchase business capital			
Tax rebates received		899,489,867.81	886,035,326.88
Other cash received concerning operating activities	6(44)	653,783,268.12	1,031,767,357.36
Subtotal of cash inflows from operating activities		22,863,018,974.92	15,544,850,363.13
Cash paid for purchases of commodities and receipt of services		12,296,084,108.54	7,874,439,108.26
Net increase in loans and advances to customers			
Net increase in deposits with central bank and other banks			
Cash paid for compensation under original insurance contract			
Cash paid for interests, fees and commissions			
Cash paid for policyholders' dividend			
Cash paid to and for employees		2,583,930,351.26	2,507,782,602.79
Cash paid for taxes and surcharges		1,074,901,831.90	924,949,159.86
Cash paid for other operating activities	6(44)	3,982,172,697.97	3,753,418,337.17
Subtotal of cash outflows from operating activities		19,937,088,989.67	15,060,589,208.08
Net cash flows from operating activities	6(45)	2,925,929,985.25	484,261,155.05
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		18,059,845.19	7,410,000.00
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		3,348,405.37	2,191,055.50
Net cash received from disposals of subsidiaries and other operation units			19,194.87
Cash received relating to other investing activities	6(44)	1,977,330,804.98	
Subtotal of cash inflows from investing activities		2,158,969,055.54	339,898,396.05
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		294,984,997.99	449,658,954.97
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	6(44)	3,061,000,000.00	200,000,000.00
Subtotal of cash outflows from investing activities		3,355,984,997.99	649,658,954.97
Net cash flows from investing activities		-1,197,015,942.45	-309,760,558.92

Consolidated Cash Flow Statement

Item	<i>Notes</i>	Amount for Current period	Amount for Previous period
III. Cash flows from financing activities:			
Cash received from capital contribution		1,500,000.00	32,358,046.50
Including: Cash contribution to subsidiaries from minority shareholders' investment		1,500,000.00	
Cash received from borrowings		694,598,227.11	1,446,673,433.29
Cash received from issuance of bonds			
Cash received relating to other financing activities			
Subtotal of cash inflows from financing activities		696,098,227.11	1,479,031,479.79
Cash paid for repayment of borrowings		920,079,749.98	1,491,559,284.51
Cash paid for distribution of dividends, profit or payment of interest expenses		235,165,259.47	20,748,893.89
Including: Dividend and profit paid to minority shareholders by subsidiaries		22,801,168.20	9,167,263.00
Cash paid relating to other financing activities	6(44)	1,490,145,133.66	
Subtotal of cash outflows from financing activities		2,645,390,143.11	1,512,308,178.40
Net cash flows from financing activities		-1,949,291,916.00	-33,276,698.61
IV. Effects of foreign exchange rate changes on cash and cash equivalents			
		3,203,620.91	896,493.53
V. Net increase in cash and cash equivalents			
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		794,984,893.88	1,012,159,146.17

Cash Flow Statement of Parent Company

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Notes	Amount for Current period	Amount for Previous period
I. Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		158,640,777.04	45,539,719.65
Tax rebates received		29,135,408.48	
Cash received concerning other operating activities		1,065,356,745.31	1,234,861,919.14
Subtotal of cash inflows from operating activities		1,253,132,930.83	1,280,401,638.79
Cash paid for purchases of commodities and receipt of labor services		125,132,590.18	
Cash paid to and for employees		22,832,257.34	9,959,317.89
Cash paid for taxes and surcharges		6,495,557.65	81,305,970.44
Cash paid for other operating activities		1,006,344,229.37	1,551,322,424.31
Subtotal of cash outflow from operating activities		1,160,804,634.54	1,642,587,712.64
Net cash flows from operating activities		92,328,296.29	-362,186,073.85
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		51,314,404.03	31,957,120.14
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		7,150.00	445,174.00
Net cash received from disposals of subsidiaries and other operation units			
Cash received relating to other investing activities		100,000,000.00	
Subtotal of cash inflows from investing activities		311,551,554.03	362,680,439.82
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		49,115.00	51,840.00
Cash paid for investments		69,020,000.00	
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		169,069,115.00	51,840.00
Net cash flows from investing activities		142,482,439.03	362,628,599.82
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		204,408,805.50	
Cash paid relating to other financing activities			
Subtotal of cash outflows from financing activities		204,408,805.50	
Net cash flows from financing activities		-204,408,805.50	32,358,046.50
IV. Effects of foreign exchange rate changes on cash and cash equivalents			
V. Net increase in cash and cash equivalents			
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			
		91,482,499.69	61,080,569.87

Consolidated Statement of Changes in Owners' Equity

Amount for current period

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Other equity instruments		Current period		Capital reserve	Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provisions	Undistributed profits	Minority interests	Total owners' equity
			Attributable to the owners of the parent	Less:									
	Share capital	Preference shares	Perpetual debts	Others									
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	4,473,809,357.33
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	4,473,809,357.33
III. Movements in the current period													
(Decreases denoted in "-")					-62,667,287.28		2,792,441.12		73,067,250.66		810,256,074.22	26,202,218.40	849,650,697.12
(1) Total comprehensive income							2,792,441.12				1,087,732,130.38	53,861,643.32	1,144,386,214.82
(2) Owners' contributions and capital reductions					-62,667,287.28							-4,852,712.72	-67,520,000.00
1. Ordinary shares contributed by owners												1,500,000.00	1,500,000.00
2. Capital contributions by holders of other equity instruments													
3. Amount of share-based payment included in owners' equity													
4. Other					-62,667,287.28							-6,352,712.72	-69,020,000.00
(3) Profit Distribution									73,067,250.66		-277,476,056.16	-22,806,712.20	-227,215,517.70
1. Appropriations to surplus reserve									73,067,250.66		-73,067,250.66		
2. Appropriations to general risk provisions													
3. Distribution to owners (or shareholders)											-204,408,805.50	-22,806,712.20	-227,215,517.70
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				2,092,861,943.89		14,274,706.17		313,689,564.15		1,083,914,592.96	455,993,877.28	5,323,460,054.45

Consolidated Statement of Changes in Owners' Equity

Amount for previous period

Unit: RMB

Item			Previous period		Attributable to the owners of the parent		Other		General risk provisions	Undistributed profits	Minority interests	Total owners' equity	
	Share capital	Preference shares	Other equity instruments	Others	Capital reserve	Treasury shares	Less: comprehensive income	Special reserves					Surplus reserves
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 owners	4,229,810.00				30,633,992.02								34,863,802.02
2. Capital contributions by holders of other equity instruments													
3. Amount of share-based payment included in owners' equity					-2,799,173.29								-2,799,173.29
4. Other													
(3) Profit Distribution									95,432,787.01		-95,432,787.01	-16,367,263.00	-16,367,263.00
1. Appropriations to surplus reserve									95,432,787.01		-95,432,787.01		
2. Appropriations to general risk provisions													
3. Distribution to owners (or shareholders)												-16,367,263.00	-16,367,263.00
4. Other													
(4) Transfer of owners' equity													
1. Transfer to capital (or share capital) from capital reserve													
2. Transfer to capital (or share capital) from surplus reserve													
3. Surplus reserves for making up losses													
4. Other													
(5) Special reserves													
1. Provided during the period													
2. Used during the period													
(6) Other					1,763,586.56								1,763,586.56
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

Statement of Changes in Owners' Equity of the Parent Company

Amount for current period

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Share capital	Preference shares	Other equity instruments		Capital reserve	Treasury shares	Current period		Surplus reserves	General risk provisions	Undistributed profits	Total owners' equity
			Perpetual debts	Others			Less: comprehensive income	Other special reserves				
I. Closing balance in 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 "-")							-24,823.98		73,067,250.66		453,196,450.47	526,238,877.15
(1) Total comprehensive income							24,823.98				730,672,506.63	730,647,682.65
(2) Owners' contributions and capital reductions												
1. Ordinary shares contributed by owners												
2. Capital contributions by holders of other equity instruments												
3. Amount of share-based payment included in owners' equity												
4. Other												
(3) Profit Distribution									73,067,250.66		-277,476,056.16	-204,408,805.50
1. Appropriations to surplus reserve									73,067,250.66		-73,067,250.66	
2. Appropriations to general risk provisions												
3. Distribution to owners (or shareholders)											-204,408,805.50	-204,408,805.50
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				2,277,775,852.34				283,080,939.16		993,982,243.54	4,917,564,405.04

Statement of Changes in Owners' Equity of the Parent Company

Amount for previous period

Unit: RMB

Item	Share capital	Preference shares	Other equity instruments		Capital reserve	Treasury shares	Previous period		Surplus reserves	General risk provisions	Undistributed profits	Total owners' equity
			Perpetual debts	Others			Less: comprehensive income	Other				
I. Closing balance in 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			-29,411,477.73	95,432,787.01		484,041,776.00	583,891,300.57
(1) Total comprehensive income								-29,411,477.73			579,474,563.01	550,063,085.28
(2) Owners' contributions and capital reductions	4,229,810.00				27,834,818.73							32,064,628.73
1. Ordinary shares contributed by owners	4,229,810.00				30,633,992.02							34,863,802.02
2. Capital contributions by holders of other equity instruments												
3. Amount of share-based payment included in owners' equity					-2,799,173.29							-2,799,173.29
4. Other												
(3) Profit Distribution									95,432,787.01		-95,432,787.01	
1. Appropriations to surplus reserve									95,432,787.01		-95,432,787.01	
2. Appropriations to general risk provisions												
3. Distribution to owners (or shareholders)												
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				2,277,775,852.34			24,823.98	210,013,688.50		540,785,793.07	4,391,325,527.89

Notes to the Financial Statements for 2016

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

1. COMPANY PROFILE

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements for 2016

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

1. COMPANY PROFILE *(continued)*

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

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

As at 31 December 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 42.92%.

Scope of operations of the Company:

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

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

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

The financial statements were approved at the meeting held on 29 March 2017 by the Board of the Company.

In 2016, there were a total of 39 subsidiaries consolidated into the Company, details of which are set out in note 8 “Interests in other entities”. The number of subsidiaries of the Company consolidated increased by 4 from last year, details of which are set out in note 7 “Change in scope of consolidation”.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

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

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

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

The financial statements prepared by the Company comply with the requirements of the Accounting Standards for Business Enterprises and truly and completely reflect the financial state as at 31 December 2016 and the operating results, cash flows and other related information of the Company for the year 2016. In addition, the financial statements also comply with the disclosure requirements as contained in the Information Disclosure Regulations for Companies Publicly Issuing Securities No. 15 – General Provisions for Financial Statements (Revised 2014) issued by China Securities Regulatory Commission relating to financial statements and notes thereto in all material respects.

Notes to the Financial Statements for 2016

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

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 Company's accounting periods are divided into annual and interim periods. An interim period refers to a reporting period less than a full accounting year. The Company adopts a calendar year, being the period from 1 January to 31 December of each year, as its financial year.

(2) Business cycle

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

(3) Reporting currency

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

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

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

1. *Business combination involving entities under common control*

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

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

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

Notes to the Financial Statements for 2016

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

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*

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.

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

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

Notes to the Financial Statements for 2016

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

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

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

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

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

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

(5) Preparation of consolidated financial statements

1. *Criteria for the recognition of scope of consolidated financial statements*

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

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

2. *Preparation of consolidated financial statements*

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

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

Notes to the Financial Statements for 2016

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

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

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

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

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

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

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

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

Notes to the Financial Statements for 2016

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

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

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

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

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

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

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

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

Cash and cash equivalents of the Company include cash on hand, deposits readily available for payment, and highly liquid investments with a short maturity of generally within three months when acquired that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

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

1. Translation of foreign currency transactions

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

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

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

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

Notes to the Financial Statements for 2016

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

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

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

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

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

3. Translation of financial statements in foreign currency

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

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

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 average exchange rates for the current period. 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.

Notes to the Financial Statements for 2016

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

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

(9) Financial instruments

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

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

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

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

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

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

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

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

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

(ii) Held-to-maturity investments

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

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

Notes to the Financial Statements for 2016

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

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

(9) Financial instruments *(continued)*

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

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

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

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

(iii) Loans and receivables

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

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

(iv) Available-for-sale financial assets

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

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

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

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

Notes to the Financial Statements for 2016

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

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

(9) Financial instruments *(continued)*

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

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

(i) Impairment of held-to-maturity investments

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

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

In the event that decline in fair value of the available-for-sale equity instrument investment is regarded as severe or non-temporary decline on the basis of comprehensive related factors, it indicates that there is impairment loss of the available-for-sale equity instrument. In which, “severe decline” refers to accumulative decline in fair value which is more than 20%; and “non-temporary decline” refers to the fair value that decreased continuously for more than 12 months.

When the available-for-sale financial assets impair, the accumulated loss originally included in the other comprehensive income arising from the decrease in fair value will be transferred out and included in the profit or loss for the period. The accumulated loss that will be transferred out is the balance of the acquired initial cost of the assets, after deduction of the principal recovered and the amounts amortised, current fair value and the impairment loss originally included in the profit or loss.

The originally recognized impairment loss is reversed if there is objective evidence showing 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 of the financial assets was recognized. The impairment loss reversal of the available-for-sale equity instrument investment will be recognized as other comprehensive income, and the impairment loss reversal of the available-for-sale debt instrument will be included in the profit or loss for the period.

Equity instrument investment (that is not quoted in an active market and its fair value cannot be measured reliably) or the impairment loss of a derivative financial asset (which links to and must be settled by delivery of such equity instrument) will not be reversed.

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

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

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

Notes to the Financial Statements for 2016

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

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

(9) Financial instruments *(continued)*

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

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

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

5. *Classification and measurement of financial liabilities*

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

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

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

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

(ii) Other financial liabilities

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

(iii) Financial guarantee contracts

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

Notes to the Financial Statements for 2016

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

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

(9) Financial instruments *(continued)*

6. *De-recognition of financial liabilities*

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

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

7. *Derivatives and embedded derivatives*

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

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

8. *Offsetting financial assets and financial liabilities*

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

9. *Equity instruments*

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

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

Notes to the Financial Statements for 2016

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

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

(10) Accounts receivable

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

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

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

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

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

2. *Receivables subject to collective provision*

Basis for determination of groups is as follows

Group 1 A group of accounts receivable based on ageing characteristics

Group 2 A group of Greencool receivables.

Method of provision for bad debts by groups

Group 1 Using ageing analysis method

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

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

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.
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Method for provision for bad debts	Where there is an objective evidence of impairment, receivables shall be separated from the group they belong to and subject to an individual test. The balance of the present value of the future cash flows expected to be derived from the receivables less than the carrying amount shall be treated as impairment loss and accounted for as provision for bad debts
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Notes to the Financial Statements for 2016

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

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

(11) Inventories

1. *Classification of inventories*

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

2. *Measurement of inventories*

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

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

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

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

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

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

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

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

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

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

Low-value consumables are expensed upon issuance.

Packaging materials are expensed upon issuance.

(12) Long-term equity investments

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

Notes to the Financial Statements for 2016

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

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

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

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

1. *Determination of investment cost*

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

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

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

Notes to the Financial Statements for 2016

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

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

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

1. *Determination of investment cost (continued)*

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

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

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

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

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

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

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

Notes to the Financial Statements for 2016

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

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

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

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

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

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

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

(iii) Acquisition of minority interests

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

Notes to the Financial Statements for 2016

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

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

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

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

(iv) Disposal of long-term equity investment

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

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

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

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

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

Notes to the Financial Statements for 2016

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

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

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

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

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

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

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

3. *Impairment test and provision for impairment*

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

(13) Investment properties

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

Investment property is initially measured at cost. Subsequent expenditures related to an investment property shall be included in cost of investment property only when the economic benefits associated with the asset will likely flow to the Group and its cost can be measured reliably. All other expenditures on investment property shall be included in profit or loss for the current period when incurred.

The Company adopts cost method for subsequent measurement of investment property, which is depreciated or amortised using the same policy as that for buildings and land use rights.

The method for impairment test of investment property and measurement of impairment provision are detailed in note 4(20) "Impairment of long-term assets".

In the event that an owner-occupied property or inventories is converted to an investment property (or vice versa), upon the conversion, the property shall be stated at the carrying amount prior to the conversion.

If an investment property is disposed of or if it withdraws permanently from use and no economic benefit will be obtained from the disposal, the recognition of it as an investment property shall be terminated. When an investment property is sold, transferred, retired or damaged, the amount of proceeds on disposal of the property net of the carrying amount and related tax and surcharges is recognised in profit or loss for the current period.

(14) Fixed assets

1. *Recognition of fixed assets*

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

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

Notes to the Financial Statements for 2016

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

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(14) Fixed assets (continued)

2. Depreciation of fixed assets

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

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

Estimated net residual value of a fixed asset is the estimated amount that the Company would obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the stage and in the condition expected at the end of its useful life.

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

Please see note 4(20) "Impairment of long-term assets" for recognition of provision for impairment of fixed assets of the Company.

4. Explanation on other matters

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

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

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

(15) Construction in progress

1. Measurement of construction in progress

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

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

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

Notes to the Financial Statements for 2016

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

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

(15) Construction in progress *(continued)*

3. *Provision for impairment of construction in progress*

Please see note 4(20) "Impairment of long-term assets" for the recognition of provision for impairment on construction in progress.

(16) Borrowing costs

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

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

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

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

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

2. *Period of capitalization of the borrowing costs*

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

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

3. *Calculation of capitalized borrowing costs*

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

Notes to the Financial Statements for 2016

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

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

(16) Borrowing costs *(continued)*

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

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

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

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

(17) Intangible asset

1. Initial measurement of intangible assets

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

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

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

2. Subsequent measurement of intangible assets

(i) Useful life of intangible assets

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

(ii) Amortisation of intangible assets

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

During the end of the period, the Company shall check the useful life and the amortization method of intangible assets with limited useful life and carry out accounting estimate change in case that a change happens. In addition, the Company shall check the useful life of intangible assets with indefinite useful life, if there are evidences showing that the intangible assets can bring economic benefit for the Company within the foreseeable period, the Company shall estimate the useful life and carry out amortization according to the amortization policy for intangible assets with finite useful life.

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

Notes to the Financial Statements for 2016

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

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

(17) Intangible asset *(continued)*

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

- (iv) Impairment of intangible assets

Please see note 4(20) "Impairment of long-term assets" for the recognition of provision for impairment of intangible assets.

(18) Expenditure on research and development

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

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

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

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

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

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

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

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

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

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

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

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

(19) Long-term prepaid expenses

1. Long-term prepaid expenses are expenditures that have been incurred but should be recognized as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortized on a straight-line basis over the expected beneficial period.

2. Pre-operating expenses during the establishment period should be recognized directly in profit or loss in the month as incurred.

Notes to the Financial Statements for 2016

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

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

(20) Impairment of long-term assets

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

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

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

(21) Employee benefits

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

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

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

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

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

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.

Notes to the Financial Statements for 2016

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

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

(22) Provisions

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

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

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

(23) Share-based payments and equity instruments

1. *Share-based payments*

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

2. *Accounting treatment of share-based payments*

The equity-settled share-based payment in return for employees' services shall be measured based on the fair value of equity instruments granted to the employees on the grant date. If the equity-settled share-based payment cannot be vested until the services are completed in vesting period or until the prescribed performance conditions are met, then within the vesting period, the amount of fair value should, based on the best estimate of the number of vested equity instruments, be included in relevant costs or expenses according to the straight-line method, and the capital reserves should be increased accordingly when the equity instruments can be vested upon grant.

3. *Determination of fair value of equity instruments*

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

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

On each balance sheet date within the vesting period, the estimated number of exercisable equity instruments is amended based on the best estimate made by the Company according to the latest available subsequent information as to changes in the number of employees with exercisable rights. The effect of the above estimate is included in relevant costs or expenses for the period and the capital reserve is adjusted accordingly. As at the exercise date, the final estimated number of exercisable equity instruments should equal the actual number of exercisable equity instruments.

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

When there is changes in the Company's share-based payment plans, if the modification increases the fair value of the equity instruments granted, corresponding recognition of service increases in accordance with the increase in the fair value of the equity instruments. Increase in the fair value of equity instruments refers to the differences between the fair values of the date of modification. If the modification reduces the total fair value of shares paid or is not conducive to the use of other employees' share-based payment plans, it will continue to be accounted for, as if the change had not occurred, unless the Company cancelled some or all of the equity instruments granted.

During the vesting period, if the equity instruments granted are cancelled, the Company would treat the cancelled equity instruments granted as accelerated vesting, and the amount within the remaining period should be recognized immediately in profit or loss while recognizing the capital reverses. If employees or other parties can meet non-vesting conditions but do not meet within the vesting period, the Company will treat it as cancelled equity instruments granted.

Notes to the Financial Statements for 2016

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

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

(24) Revenue

1. *Sale of goods*

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

2. *Rendering of services*

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

The outcome of a transaction concerning the rendering of services can be reliably estimated, which shall concurrently satisfy: (i) The relevant amount of revenue can be reliably measured; (ii) it is probable that the economic benefits will flow into the enterprise; (iii) the completion schedule of the transaction can be reliably ascertained; and (iv) transaction costs incurred and to be incurred can be reliably measured.

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

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

When a contract or agreement signed by the Company includes sales of goods and rendering of services, if sales of goods and rendering of services can be differentiated and separately measured, they will be recognized respectively. If sales of goods and rendering of services cannot be differentiated or cannot be separately measured, they will be recognized as sales of goods in full.

3. *Transfer of asset use rights*

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

- (i) The interest income is recognised on basis of the length of time during which and effective interest rate at which the Company's cash funds are utilized by the others.
- (ii) The royalty income is recognised as income on the accrual basis in accordance with the underlying contracts or agreements.

(25) Government grants

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

Notes to the Financial Statements for 2016

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

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

(25) Government grants *(continued)*

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

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

Government grants are generally recognized when received and measured at the amount actually received, but are measured at the amount likely to be received when there is conclusive evidence at the end of the period that the Company will meet related requirements of such grants and will be able to receive the grants. The government grants so measured should also satisfy the following conditions: (1) the amount of the grants be confirmed with competent authorities in written form or reasonably deduced from related requirements under financial fund management measures officially released without material uncertainties; (2) the grants be given based on financial support projects and fund management policies officially published and voluntarily disclosed by local financial authorities in accordance with the Requirements for Disclosure of Government Information, where such policies should be open to any company satisfying conditions required and not specifically for certain companies; (3) the date of payment be specified in related documents and the payment thereof will be covered by corresponding budget to ensure such grants will be paid on time as specified; (4) pursuant to the specific situation between the Company and such grants, other relevant conditions (if any) should be satisfied.

A government grant related to an asset shall be recognized as deferred income, and evenly amortised to profit or loss over the useful life of the asset. For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss over the periods in which the related costs are recognised; where the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the current period.

For the repayment of a government grant already recognized, if there is any balance of related deferred income, the repayment shall be set-off against the book balance of deferred income, and any excess shall be recognized in profit or loss for the period; if there is no related deferred income, the repayment shall be recognized immediately 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 for 2016

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

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 for 2016

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

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

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

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

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

(28) Operating leases

(1) *The Company as lessee under operating leases*

Lease payment for operating lease is recognized as related asset cost or profits and losses for the current period using the straight-line method over the lease term. The initial direct cost is accounted in profit or loss for the current period. Contingent rental is recognized as profit or loss for the current period upon occurrence.

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

Rental income is recognized in profit or loss for the current period using the straight-line method over the lease term. The initial direct cost where the amount is significant is capitalized when incurred, and accounted for as profit or loss for the current period on the same basis as recognition of rental income over the entire lease period; the initial direct cost where the amount is less significant is included in the profit or loss for the period when incurred. Contingent rental is recognized as profit or loss for the current period upon occurrence.

Notes to the Financial Statements for 2016

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

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

(29) Changes in significant accounting policies and accounting estimates

1. *Changes in accounting policies*

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

2. *Changes in accounting estimates*

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

(30) Critical accounting judgements and estimates

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

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

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

1. *Classification of leases*

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

2. *Provision for bad debts*

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

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 for 2016

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

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

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

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

5. *Depreciation and amortisation*

The Company shall provide depreciation and amortisation for investment properties, fixed assets and intangible assets over their useful lives and after taking into account of their residual value by using straight-line method. The Company shall regularly review the useful lives to determine the amount depreciated and amortised to be accounted for in each reporting period. The useful life is determined by the Company according to its previous experience on similar assets and estimated technical updates. If there is any material change in the estimate previously made, the depreciation and amortisation will be adjusted over the future period.

6. *Deferred income tax assets*

The deferred income tax assets will be recognised for all unused tax losses to the extent that it is probable there will be sufficient taxable profits against which the loss is utilised. This requires the Company's management to apply numerous judgments to estimate the timing and amount of the future taxable profits so as to determine the amount of deferred income tax assets to be recognised with reference to the tax planning strategy.

7. *Income tax*

There are some uncertainties in tax treatment and calculation for some transactions of the Company during its ordinary course of business. The approval from the tax authority is required for pre-tax expensing of some items. Any difference between the final determined outcome of such tax matters and the initially estimated amount will exert an effect on the current income tax and deferred income tax during the period in which the final amount is determined.

8. *Sales discount*

In recognising revenue from sales of goods, the Company estimates the relevant expenses in accordance with the terms of the sales agreement and deducts the sales discounts provided to customers from the revenue from sales of goods.

Notes to the Financial Statements for 2016

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

5. TAXATION

(1) The types and rates of taxes applicable to the Group

Type of taxes	Tax basis	Tax rate
Value-added tax	Output value-added tax is computed at 17%, 13%, 11%, 6%, 5% 17%, 13%, 11%, 6% and 5% of taxable income. Value-added tax is computed on the difference after deduction of input value-added tax. Input value-added tax is not deductible for value-added tax to which simple collection method is applicable.	
Business tax	Taxable business turnover	5%
City maintenance and construction tax	Turnover tax payable	5%, 7%
Education surcharges	Turnover tax payable	3%
Enterprise income tax	Taxable income	25%/for details, please see the table below

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

Notes on taxpayers subject to different enterprise income tax rates

Name of tax payer	Income tax rate
Guangdong Kelon Mould Co., Ltd.	15%
Hisense (Shandong) Air-Conditioning Co. Ltd.	15%
Qingdao Hisense Mould Co., Ltd.	15%
Hisense (Shandong) Refrigerator Ltd.	15%
Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.	15%
Hisense (Chengdu) Refrigerator Co., Ltd.	15%
Kelon International Incorporation	16.5%
Pearl River Electric Refrigerator Co., Ltd.	16.5%
Kelon Development Co., Ltd.	16.5%

Business tax at 5% was applicable to the revenue of the Company and its subsidiaries from the provision of services such as property leasing. In accordance with the relevant requirements including the Notice on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (Cai Shui [2016] No. 36), value-added tax shall be paid for the revenue of the Company and its subsidiaries from the provision of services such as property leasing since 1 May 2016 at rates of 11%, 5% and 6%, respectively. The rate of 5% is applicable to the simple collection method.

Notes to the Financial Statements for 2016

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

5. TAXATION (continued)

(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). According to the relevant tax preference regulation on High-tech Enterprise, this subsidiary is entitled to the preferential enterprise income tax rate of 15% in 2014, 2015 and 2016.

Hisense (Shandong) Air-conditioning Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201437100159) dated 14 October 2014 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, Qingdao State Taxation Bureau and Qingdao Local Taxation Bureau, with an effective period of three years (2014, 2015 and 2016). According to the relevant tax preference regulation on High-tech Enterprises, the applicable enterprise income tax rate for this subsidiary is 15% in 2014, 2015 and 2016.

Qingdao Hisense Mould Co., Ltd., a subsidiary of the Company, received the Certificate of Hightech Enterprise (Number: GR201437100092) dated 14 October 2014 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, Qingdao State Taxation Bureau and Qingdao Local Taxation Bureau, with an effective period of three years (2014, 2015 and 2016). According to the relevant tax preference regulation on High-tech Enterprises, the applicable enterprise income tax rate for this subsidiary is 15% in 2014, 2015 and 2016.

Hisense (Shandong) Refrigerator Ltd., a subsidiary of the Company, received the Certificate of Hightech Enterprise (Number: GR201437100091) dated 14 October 2014 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, Qingdao State Taxation Bureau and Qingdao Local Taxation Bureau, with an effective period of three years (2014, 2015 and 2016). According to the relevant tax preference regulation on High-tech Enterprises, the applicable enterprise income tax rate for this subsidiary is 15% in 2014, 2015 and 2016.

Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201632000323) dated 20 October 2016 which was jointly issued by the Jiangsu Science and Technology Department, Jiangsu Finance Department, Jiangsu Provincial State Taxation Bureau and Jiangsu Local Taxation Bureau, with an effective period of three years (2016, 2017 and 2018). According to the relevant tax preference regulation on Hightech Enterprises, the applicable enterprise income tax rate for this subsidiary is 15% in 2016, 2017 and 2018.

Hisense (Chengdu) Refrigerator Co., Ltd, a subsidiary of the Company, received a Letter of Chuan Jing Xin Chan Ye Han [2014] No.176 issued by Economic and Information Commission of Sichuan in 7 March 2014. The principle business of Chengdu Refrigerator was recognized as the state incentive items. According to the tax treaty in relation to western development policy, the applicable enterprises income tax for this subsidiary is 15% from 2014 to 2020.

The subsidiaries of the Company which were incorporated in Hong Kong are subject to an income tax on the estimated assessable profits derived from or arising in Hong Kong at a rate of 16.5% income tax rate for (2015: 16.5%).

(3) Other illustrations

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

Notes to the Financial Statements for 2016

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

6. 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 31 December 2016, and the current period refers to 2016, whereas the previous period refers to 2015 in the following notes (including major notes to the financial statements of the Company):

1. Cash at bank and on hand

Item	Closing balance	Opening balance
Cash on hand		28,228.78
Bank deposits	794,984,893.88	1,012,130,917.39
Other cash at bank and on hand	1,432,436,436.86	2,251,000.00
Total	2,227,421,330.74	1,014,410,146.17
Including: Total amount deposited overseas	99,102,782.41	10,596,467.68

Notes to cash at bank and on hand:

Other cash at bank and on hand at the end of the period represented mainly security deposit.

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

Item	Closing balance	Opening balance
Security deposit	1,432,436,436.86	2,251,000.00
Total	1,432,436,436.86	2,251,000.00

2. Financial assets at fair value through profit or loss

(1) Category

Item	Closing balance	Opening balance
Financial assets held-for-trading	9,695,070.04	
Including: Derivative financial assets	9,695,070.04	
Total	9,695,070.04	

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

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

3. Notes receivable

(1) Classification of notes receivable

Category	Closing balance	Opening balance
Bank acceptance notes	3,265,788,951.82	2,263,591,212.12
Commercial acceptance notes	15,664,117.28	26,114,836.79
Total	3,281,453,069.10	2,289,706,048.91

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Notes receivable (continued)

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

Item	Pledged amounts as at the end of the year
Bank acceptance notes	1,016,579,209.51
Total	1,016,579,209.51

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

Item	Amount derecognized as at the end of the year	Amount not derecognized as at the end of the year
Bank acceptance notes	2,586,547,361.48	
Including: Endorsed and not due	2,586,547,361.48	
Discounted and not due		
Commercial acceptance notes	12,261,078.88	
Including: Endorsed and not due	12,261,078.88	
Discounted and not due		
Total	2,598,808,440.36	

(4) As at the end of the year, there were no notes receivable that were reclassified into accounts receivable due to failure of the issuers to settle the notes.

4. Accounts receivable

(1) Accounts receivable by category

Category	Closing balance				Carrying amount
	Book value		Provision for bad debts		
	Amount	%	Amount	%	
Individually significant and subject to separate provision for bad debts					
Accounts receivable subject to collective provision for bad debts based on credit risk features					
Ageing analysis method	2,857,617,668.81	100.00	132,488,485.48	4.64	2,725,129,183.33
Greencool Companies					
Subtotal	2,857,617,668.81	100.00	132,488,485.48	4.64	2,725,129,183.33
Individually insignificant but subject to separate provision for bad debts					
Total	2,857,617,668.81	100.00	132,488,485.48	4.64	2,725,129,183.33

(continued)

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivable (continued)

(1) Accounts receivable by category (continued)

Category	Opening balance				
	Book value		Provision for bad debts		Carrying amount
	Amount	%	Amount	%	
Individually significant and subject to separate provision for bad debts					
Accounts receivable subject to collective provision for bad debts based on credit risk features					
Ageing analysis method	2,211,818,987.20	100.00	125,222,568.20	5.66	2,086,596,419.00
Greencool Companies					
Subtotal	2,211,818,987.20	100.00	125,222,568.20	5.66	2,086,596,419.00
Individually insignificant but subject to separate provision for bad debts					
Total	2,211,818,987.20	100.00	125,222,568.20	5.66	2,086,596,419.00

Accounts receivable in the group provided for bad debts by using ageing analysis method are analyzed based on invoice date as follows:

Ageing	Closing balance		
	Accounts receivable	Provision for bad debts	%
Within three months	2,672,469,962.21		
Over three months but within six months	53,608,872.08	5,360,887.21	10.00
Over six months but within one year	8,822,472.50	4,411,236.25	50.00
Over one year	122,716,362.02	122,716,362.02	100.00
Total	2,857,617,668.81	132,488,485.48	4.64

(2) Provision for bad debts made, recovered or reversed during the year

Provision for bad debts made during the year amounted to RMB10,017,190.48; provision for bad debts recovered or reversed during the year amounted to RMB2,751,273.20.

(3) Accounts receivable written-off during the year

There were no accounts receivable written-off during the year.

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

The total top five accounts receivable of the Company by closing balance of debtors amounted to RMB1,066,910,031.85, accounting for 37.34% of the closing balance of accounts receivable. A provision for bad debts of RMB29,034,887.41 in total was made as at the end of the year.

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Prepayments

(1) *Prepayments are presented by ageing as follows*

Ageing	Closing balance		Opening balance	
	Amount	%	Amount	%
Within one year	173,949,833.71	99.94	167,011,167.51	98.36
One to two years	99,235.63	0.06	2,793,205.35	1.64
Total	174,049,069.34	100.00	169,804,372.86	100.00

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

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

The total top five prepayments of the Company by supplier based on closing balance amounted to RMB86,310,719.20, accounting for 49.59% of total closing balance of prepayments.

6. Other receivables

(1) *Other receivables are disclosed by category as follows*

Category	Closing balance				
	Book value		Provision for bad debts		Carrying amount
	Amount	%	Amount	%	
Individually significant and subject to separate provision for bad debts					
Other receivables subject to collective provision for bad debts based on credit risk features					
Ageing analysis method	117,638,475.30	34.37	36,818,206.10	31.30	80,820,269.20
Greencool Companies	224,630,200.00	65.63	60,030,000.00	26.72	164,600,200.00
Subtotal	342,268,675.30	100.00	96,848,206.10	28.30	245,420,469.20
Individually insignificant but subject to separate provision for bad debts					
Total	342,268,675.30	100.00	96,848,206.10	28.30	245,420,469.20
Category	Opening balance				
	Book value		Provision for bad debts		Carrying amount
	Amount	%	Amount	%	
Individually significant and subject to separate provision for bad debts					
Other receivables subject to collective provision for bad debts based on credit risk features					
Ageing analysis method	107,440,722.97	32.35	38,028,986.45	35.40	69,411,736.52
Greencool Companies	224,630,200.00	67.65	60,030,000.00	26.72	164,600,200.00
Subtotal	332,070,922.97	100.00	98,058,986.45	29.53	234,011,936.52
Individually insignificant but subject to separate provision for bad debts					
Total	332,070,922.97	100.00	98,058,986.45	29.53	234,011,936.52

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

(1) Other receivables are disclosed by category as follows (continued)

(i) Other receivables in the group provided for bad debts by aging are as follows:

Ageing	Closing balance		%
	Other receivable	Provision for bad debts	
Within three months	70,412,523.83		
Over three months but within six months	9,938,490.04	993,849.00	10.00
Over six months but within one year	2,926,208.66	1,463,104.33	50.00
Over one year	34,361,252.77	34,361,252.77	100.00
Total	117,638,475.30	36,818,206.10	31.30

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

(2) Provision for bad debts made, recovered or reversed during the year

Provision for bad debts made during the year amounted to RMB2,704,446.96; provision for bad debts recovered or reversed during the year amounted to RMB3,915,227.31.

(3) Other receivables written-off during the year

There were no other receivables written-off during the year.

(4) Other receivables by nature

Nature	Closing balance	Opening balance
Security deposit	27,245,966.69	9,828,074.16
Refund of tax for exports	32,871,458.04	25,766,364.39
Balance with Greencool Companies	224,630,200.00	224,630,200.00
Other current account	57,521,050.57	71,846,284.42
Total	342,268,675.30	332,070,922.97

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

(5) Top five other receivables by debtor as at the end of the period

No.	Relationship with the Company	Amount	Ageing	Percentage of total other receivables (%)	Provision for bad debts Closing balance
Top 1	"Specific third party"	81,600,000.00	Over three years	23.84	
Top 2	"Specific third party"	58,030,000.00	Over three years	16.95	58,030,000.00
Top 3	"Specific third party"	28,600,000.00	Over three years	8.36	
Top 4	"Specific third party"	21,400,000.00	Over three years	6.25	
Top 5	"Specific third party"	20,000,000.00	Over three years	5.84	
Total		209,630,000.00	-	61.24	58,030,000.00

From October 2001 to July 2005, the Greencool Companies through the third Parties incurred a series of unusual cash inflows and outflows with the Company. The companies are collectively the "specific third party", please see note 11 (6) "The Greencool Companies had a series of transactions or unusual cash inflows and outflows through the following "Specific Third Party Companies" for details.

7. Inventories

(1) Classification of inventories

Item	Book value	Closing balance	
		Provision for declines in value	Carrying amount
Raw materials	391,186,649.59	33,088,574.25	358,098,075.34
Works in progress	246,660,429.33	9,109,050.07	237,551,379.26
Finished goods	2,099,019,876.15	34,624,334.37	2,064,395,541.78
Total	2,736,866,955.07	76,821,958.69	2,660,044,996.38

Continued from above table

Item	Book value	Opening balance	
		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 for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Inventories (continued)

(2) Provision for declines in value of inventories

Item	Increase for the year			Decrease for the year		Closing balance
	Opening balance	Provision for the year	Others	Recovered or written-off	Others	
Raw materials	32,649,563.35	1,667,334.62	12,545,237.13	13,773,560.85		33,088,574.25
Works in progress	8,794,941.40	314,108.67				9,109,050.07
Finished goods	48,607,029.67	4,227,825.03		18,210,520.33		34,624,334.37
Total	90,051,534.42	6,209,268.32	12,545,237.13	31,984,081.18		76,821,958.69

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

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

8. Other current assets

Item	Closing balance	Opening balance
Wealth management products	1,300,000,000.00	200,000,000.00
Prepaid tax and tax deductible	357,920,598.92	247,757,825.71
Long-term prepaid expenses	20,845,252.33	20,114,479.94
Total	1,678,765,851.25	467,872,305.65

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 instruments	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

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

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Available-for-sale financial assets (continued)

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

Investee	Book value				Impairment provision				Shareholding in the investee (%)	Cash dividend in current year
	At the beginning of the year	Increase for the year	Decrease for the year	At the end of the year	At the beginning of the year	Increase for the year	Decrease for the year	At the end of the year		
Fujian Kelon Air-conditioner 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

10. Long-term equity investments

Investee	Opening balance	Increase in investment	Decrease in investment	Gains or losses from investment recognised using equity method	Adjustment for other comprehensive income	Change for the year				Closing balance	Closing balance of provision for impairment	
						Other change in equity	Declaration of cash dividend or profit	Provision for impairment made	Other decreases			
I. Joint ventures												
Zhejiang Hisense Electric Co., Ltd.	103,913,887.02			-36,319,775.98					67,594,111.04			
Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.	1,216,765,858.10			570,847,737.90		160,230,000.00				1,627,383,596.00		
Subtotal	1,320,679,745.12			534,527,961.92		160,230,000.00			67,594,111.04	1,627,383,596.00		
II. Associates												
Attend Logistics Co., Ltd.	2,573,608.03		2,489,803.72	-83,804.31								
Subtotal	2,573,608.03		2,489,803.72	-83,804.31								
III. Others												
Jiangxi Kelon Combine Electrical Appliances Co., Ltd.	11,000,000.00									11,000,000.00		11,000,000.00
Subtotal	11,000,000.00									11,000,000.00		11,000,000.00
Total	1,334,253,353.15		2,489,803.72	534,444,157.61		160,230,000.00			67,594,111.04	1,638,383,596.00		11,000,000.00

- Note:
- As Jiangxi Kelon Combine Electrical Appliances Co., Ltd., a subsidiary of the Company, has been declared in liquidation, it has not been included in the consolidated financial statements and impairment has been fully provided for the investment cost.
 - Zhejiang Hisense Electric Co., Ltd. ("Zhejiang Hisense") was formerly a joint venture of the Company and known as Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd. and was renamed as "Zhejiang Hisense Electric Co., Ltd." following its acquisition. Please see note 7(1) for details.
 - Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. was hereinafter referred to as "Hisense Hitachi".
 - Attend Logistics Co., Ltd. ("Attend") was liquidated during the year.
 - As at the end of the Reporting Period, all the joint ventures and associates of the Company were unlisted companies.

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Long-term equity investments (continued)

Including:

Item	Closing balance	Opening balance
Unlisted investments		
Equity method	1,627,383,596.00	1,323,253,353.15
Joint ventures	1,627,383,596.00	1,320,679,745.12
Associates		2,573,608.03
Total	1,627,383,596.00	1,323,253,353.15

11. Investment properties

(1) Investment properties measured at cost

Item	Buildings and structures	Land use rights	Construction in progress	Total
I. Original carrying amount				
1. Opening balance	68,689,779.02			68,689,779.02
2. Increase for the year				
3. Decrease for the year				
4. Closing balance	68,689,779.02			68,689,779.02
II. Accumulated depreciation and accumulated amortisation				
1. Opening balance	39,731,652.95			39,731,652.95
2. Increase for the year	2,501,288.34			2,501,288.34
(1) Provision made or amortisation	2,501,288.34			2,501,288.34
3. Decrease for the year				
4. Closing balance	42,232,941.29			42,232,941.29
III. Provision for impairment				
1. Opening balance				
2. Increase for the year				
3. Decrease for the year				
4. Closing balance				
IV. Carrying amount				
1. Carrying amount as at the end of the year	26,456,837.73			26,456,837.73
2. Carrying amount as at the beginning of the year	28,958,126.07			28,958,126.07

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

Item	Carrying amount	Reason for failure to obtain ownership certificates
Mee King Building	4,441,918.94	Due to historical reasons; in the process of application

(3) Depreciation expenses for 2016 amounted to RMB2,501,288.34, and depreciation expenses for 2015 amounted to RMB2,501,290.34.

(4) As at 31 December 2016, no investment properties were pledged by the Company.

(5) Among the investment properties, all buildings and structures are located in the Mainland China with useful lives ranging from 20 to 50 years.

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Fixed assets

(1) Particulars of fixed assets

Item	Buildings and structures	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Moulds	Total
I. Original carrying amount						
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. Increase for the year	159,340,827.68	375,663,414.81	45,836,516.99	3,413,865.87	360,982,741.31	945,237,366.66
(1) Additions	34,831,664.96	38,553,522.99	19,806,865.65	940,414.94	119,082,941.56	213,215,410.10
(2) Transfer from construction in progress	13,579,194.05	88,284,679.65	18,107,016.53	939,845.84	136,319,312.06	257,230,048.13
(3) Increase arising from business combination	110,929,968.67	248,825,212.17	7,922,634.81	1,533,605.09	105,580,487.69	474,791,908.43
3. Decrease for the year	56,749,216.00	55,432,790.36	8,113,943.48	1,588,074.53	70,296,077.20	192,180,101.57
(1) Disposal or retirement	56,749,216.00	55,432,790.36	8,113,943.48	1,588,074.53	70,296,077.20	192,180,101.57
4. Closing balance	2,488,605,430.26	3,346,184,728.48	417,327,624.28	34,679,430.84	1,603,598,175.55	7,890,395,389.41
II. 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. Increase for the year	133,858,563.46	332,581,762.90	38,864,629.18	4,871,019.21	376,139,868.89	886,315,843.64
(1) Provision made	99,523,590.79	231,480,345.05	32,996,459.02	4,462,812.66	294,514,591.59	662,977,799.11
(2) Increase arising from business combination	34,334,972.67	101,101,417.85	5,868,170.16	408,206.55	81,625,277.30	223,338,044.53
3. Decrease for the year	22,914,549.09	47,618,533.32	4,238,860.03	1,307,022.31	65,493,176.58	141,572,141.33
(1) Disposal or retirement	22,914,549.09	47,618,533.32	4,238,860.03	1,307,022.31	65,493,176.58	141,572,141.33
4. Closing balance	1,076,424,222.00	1,703,167,558.53	293,712,746.83	19,789,629.12	1,151,508,920.62	4,244,603,077.10
III. Provision for impairment						
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. Increase for the year	3,509,903.87	75,077,079.10	1,109,174.51		10,756,947.17	90,453,104.65
(1) Provision made		1,901,032.14	260,091.02		15,547.00	2,176,670.16
(2) Increase arising from business combination	3,509,903.87	73,176,046.96	849,083.49		10,741,400.17	88,276,434.49
3. Decrease for the year	24,447,969.00	6,728,703.28	130,762.02		2,770,062.17	34,077,496.47
(1) Disposal or retirement	24,447,969.00	6,728,703.28	130,762.02		2,770,062.17	34,077,496.47
4. Closing balance	13,177,187.35	135,674,663.61	2,608,957.93	318,608.61	12,287,242.53	164,066,660.03
IV. Carrying amount						
1. Carrying amount as at the end of the year	1,399,004,020.91	1,507,342,506.34	121,005,919.52	14,571,193.11	439,802,012.40	3,481,725,652.28
2. Carrying amount as at the beginning of the year	1,386,418,358.47	1,540,423,487.29	118,887,527.65	16,309,398.67	467,748,925.60	3,529,787,697.68

For 2016, the fixed assets transferred from construction in progress amounted to RMB257,230,048.13; for 2015, the fixed assets transferred from construction in progress amounted to RMB880,022,596.87.

- (2) Depreciation expenses for 2016 amounted to RMB662,977,799.11, and depreciation expenses for 2015 amounted to RMB571,928,602.61.
- (3) As at the end of the year, no fixed asset was idle transitorily.
- (4) As at the end of the year, no fixed asset was held under finance lease.

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Fixed assets (continued)

(5) The rent out fixed asset under operating lease

Item	Closing carrying amount
Buildings and structures	41,587,042.24
Total	41,587,042.24

Note: Part of the above buildings and structures were rent out, which does not fulfill the definition of investment properties.

(6) As at the end of the year, no fixed asset was held for sale.

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

Item	Carrying amount	Reason for failure to obtain ownership certificates
Buildings and structures	306,503,112.99	Achieved scheduled availability and were reclassified as fixed assets, the issuance of ownership certificate is in progress

(8) As at the end of the year, no building or structure was pledged.

13. 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
MES system of refrigerator companies	1,464,230.79		1,464,230.79	3,731,247.20		3,731,247.20
Production line of U-shell moulding of Chengdu Refrigerator				3,093,162.54		3,093,162.54
Technology transformation for production line equipment of Zhejiang Air-conditioning				2,877,647.79		2,877,647.79
Technology transformation of washing machine line equipment of Shandong Refrigerator	141,777.77		141,777.77			
Hisense Mould CNC machining center	14,449,245.30		14,449,245.30			
New laboratory of Shandong Air-conditioning	2,779,709.64		2,779,709.64	38,353.59		38,353.59
Production line of Shangqiu Kelon	7,770,917.67	7,770,917.67		7,770,917.67	7,770,917.67	
Others	54,107,494.77		54,107,494.77	55,097,437.27		55,097,437.27
Total	80,713,375.94	7,770,917.67	72,942,458.27	72,608,766.06	7,770,917.67	64,837,848.39

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Constructions in progress (continued)

(2) Movements in key constructions in progress

Name of project	Budget	Opening balance	Increase for the year	Transferred to fixed assets	Other Decrease	% Contribution in budget	Progress	Source of funding	Closing balance
MES system of refrigerator companies	8,500,000.00	3,731,247.20	4,659,626.56	2,976,629.08	3,950,013.89	98.72	Not completed	Self-funding	1,464,230.79
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 Shandong Refrigerator	14,360,000.00		13,008,942.68	12,867,164.91		90.59	Not completed	Self-funding	141,777.77
Hisense Mould CNC machining center	21,060,151.00		14,449,245.30			68.61	Not completed	Self-funding	14,449,245.30
New laboratory of Shandong Air-conditioning	4,000,000.00	38,353.59	3,753,621.47	1,012,265.42		94.80	Not completed	Self-funding	2,779,709.64
Production line of Shangqiu Kelon		7,770,917.67					Pending retirement	Self-funding	7,770,917.67
Others		55,097,437.27	246,409,125.64	234,403,178.39	12,995,889.75				54,107,494.77
Total		72,608,766.06	282,280,561.65	257,230,048.13	16,945,903.64				80,713,375.94

Note: All constructions in progress of the Company were self-financed, without capitalisation of borrowing cost and interest.

(3) As at the end of the year, the Company had made no provision for constructions in progress.

14. Intangible assets

(1) Particulars of intangible assets

Item	Land use rights	Trademarks	Know-how	Others	Total
I. Original carrying amount					
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. Increase for the year	50,657,760.86		3,733,383.20	29,836,674.25	84,227,818.31
(1) Additions	8,958,390.69			27,430,977.39	36,389,368.08
(2) Increase arising from business combination	41,699,370.17		3,733,383.20	2,405,696.86	47,838,450.23
3. Decrease for the year			79,009.05		79,009.05
(1) Disposal or retirement			79,009.05		79,009.05
4. Closing balance	894,831,107.10	524,409,198.95	73,100,447.88	101,867,333.07	1,594,208,087.00
II. Accumulated amortisation					
1. Opening balance	239,234,063.26	134,130,255.55	60,398,046.32	45,323,737.64	479,086,102.77
2. Increase for the year	20,881,772.03		7,308,806.97	11,917,690.80	40,108,269.80
(1) Provision made	17,296,958.65		3,575,423.77	11,048,101.82	31,920,484.24
(2) Increase arising from business combination	3,584,813.38		3,733,383.20	869,588.98	8,187,785.56
3. Decrease for the year			18,633.59		18,633.59
(1) Disposal or retirement			18,633.59		18,633.59
4. Closing balance	260,115,835.29	134,130,255.55	67,688,219.70	57,241,428.44	519,175,738.98
III. Provision for impairment					
1. Opening balance	50,012,843.19	286,061,116.40		519,447.21	336,593,406.80
2. Increase for the year				1,097,005.54	1,097,005.54
(1) Provision made					
(2) Increase arising from business combination				1,097,005.54	1,097,005.54
3. Decrease for the year					
(1) Disposal or retirement					
4. Closing balance	50,012,843.19	286,061,116.40		1,616,452.75	337,690,412.34
IV. Carrying amount					
1. Carrying amount as at the end of the year	584,702,428.62	104,217,827.00	5,412,228.18	43,009,451.88	737,341,935.68
2. Carrying amount as at the beginning of the year	554,926,439.79	104,217,827.00	9,048,027.41	26,187,473.97	694,379,768.17

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Intangible assets (continued)

(2) Notes to intangible assets:

- (i) Amortization of intangible assets amounted to RMB31,920,484.24 for 2016, compared to that of RMB28,584,063.47 for 2015.
- (ii) As at the end of the year, no land use rights were pledged.
- (iii) Trademarks were not amortized due to indefinite useful lives, and no provision was made for impairment of trademarks after tested for impairment as at the end of the year.

15. Long-term prepaid expenses

Item	Opening balance	Increase for the year	Amortization for the year	Other deductions	Closing balance	Reason for other deductions
Long-term prepaid expenses	10,599,736.59	1,258,072.40	6,699,276.77		5,158,532.22	
Total	10,599,736.59	1,258,072.40	6,699,276.77		5,158,532.22	

16. Deferred tax assets/deferred tax liabilities

(1) Breakdown of deferred tax assets

Item	Closing balance		Opening balance	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Provision for impairment of assets	105,636,306.58	25,008,846.91	128,573,303.09	30,733,323.61
Financial assets/liabilities held-for-trading			413,400.00	95,140.00
Accrued expenses	426,660,559.68	65,800,330.12	479,492,999.40	71,923,949.91
Others	28,200,966.23	6,453,543.49	2,257,635.00	338,645.25
Total	560,497,832.49	97,262,720.52	610,737,337.49	103,091,058.77

(2) Breakdown of deferred tax liabilities

Item	Closing balance		Opening balance	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Accelerated depreciation	4,370,599.07	655,589.86	2,318,067.57	347,710.13
Financial assets held-for-trading	342,700.09	51,405.01		
Total	4,713,299.16	706,994.87	2,318,067.57	347,710.13

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Deferred tax assets/deferred tax liabilities (continued)

(3) Breakdown of unrecognized deferred tax assets

Item	Closing balance	Opening balance
Deductible temporary difference	1,473,462,034.60	1,552,540,244.26
Deductible tax loss	1,095,453,140.50	713,085,937.57
Total	2,568,915,175.10	2,265,626,181.83

(4) The deductible tax losses for unrecognized deferred tax assets will expire in following timeframe

Year	Closing balance	Opening balance	Remark
2016		2,860,620.93	
2017	35,060,859.68	35,060,859.68	
2018	39,298,092.37	39,298,092.37	
2019	168,480,401.88	179,470,123.94	
2020	378,607,027.42	411,304,654.55	
2021	418,791,155.09		
Infinite	55,215,604.06	45,091,586.10	
Total	1,095,453,140.50	713,085,937.57	

17. Short-term borrowings

(1) Short-term borrowings by category:

Item	Closing balance	Opening balance
Secured borrowings* ¹		223,496,764.71
Total		223,496,764.71

Notes to the categories of short-term borrowings:

*¹: Secured borrowings represented the borrowings incurred by the pledged accounts receivable of the subsidiaries of the Company, and there was no such balance as at the end of the year.

18. Financial liabilities at fair value through profit or loss

Item	Closing balance	Opening balance
Financial liabilities held-for-trading		9,767,732.75
Including: Derivative financial liabilities		9,767,732.75
Total		9,767,732.75

Note to financial liabilities held-for-trading:

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

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Notes payable

Category	Closing balance	Opening balance
Bank acceptance notes	2,874,368,029.91	1,838,720,198.27
Commercial acceptance notes	2,353,486,711.16	1,092,454,306.25
Total	5,227,854,741.07	2,931,174,504.52

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

20. Accounts payable

(1) Ageing analysis of accounts payable

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

Ageing	Closing balance	Opening balance
Within one year	4,228,675,470.71	2,765,359,219.91
Over one year	138,592,927.38	112,932,456.62
Total	4,367,268,398.09	2,878,291,676.53

(2) As at 31 December 2016, accounts payable with ageing of over one year amounted to RMB138,592,927.38 (31 December 2015: RMB112,932,456.62), which represented mainly raw material payable and was not settled yet.

21. Advances from customers

(1) Aging analysis of advances from customers

Ageing	Closing balance	Opening balance
Within one year	761,276,548.71	647,441,341.44
Over one year	70,502,243.74	65,492,985.12
Total	831,778,792.45	712,934,326.56

(2) As at 31 December 2016, advances from customers with ageing of over one year amounted to RMB70,502,243.74 (31 December 2015: RMB65,492,985.12), which represented advances from customers for sale of goods and were not recognised as revenue yet as the relevant products had not been sold.

22. Compensations payable to employee

(1) Compensations payable to employee are listed as follows

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Short-term compensations	246,017,091.79	2,454,212,689.13	2,368,701,138.98	331,528,641.94
2. Post-employment benefits – defined contribution plans	1,739,562.15	206,695,542.28	205,759,309.79	2,675,794.64
3. Termination benefits	2,992,637.00	6,477,265.49	9,469,902.49	
Total	250,749,290.94	2,667,385,496.90	2,583,930,351.26	334,204,436.58

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. Compensations payable to employee (continued)

(2) Short-term compensations are as follows

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Wages and salaries, bonuses, allowances and subsidies	239,338,494.21	2,111,796,129.04	2,027,908,659.24	323,225,964.01
2. Staff welfare	2,877,135.02	136,344,495.02	135,958,135.12	3,263,494.92
3. Social insurance	810,459.90	107,330,367.04	107,082,568.98	1,058,257.96
Including: Medical insurance	631,208.75	89,170,216.33	89,004,555.60	796,869.48
Work-related injury insurance	122,726.15	9,127,588.18	9,086,704.62	163,609.71
Maternity insurance	56,525.00	9,032,562.53	8,991,308.76	97,778.77
4. Housing provident funds	909,771.00	79,362,191.70	78,684,379.59	1,587,583.11
5. Labour union funds and employee education funds	2,081,231.66	19,379,506.33	19,067,396.05	2,393,341.94
Total	246,017,091.79	2,454,212,689.13	2,368,701,138.98	331,528,641.94

(3) Defined contribution plans are as follows

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Basic pension insurance	1,532,030.12	194,636,553.61	193,991,953.57	2,176,630.16
2. Unemployment insurance	207,532.03	12,058,988.67	11,767,356.22	499,164.48
Total	1,739,562.15	206,695,542.28	205,759,309.79	2,675,794.64

Note to compensations payable to employee:

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

23. Taxes payable

Item	Closing balance	Opening balance
Value-added tax	82,246,757.61	55,481,039.23
Enterprise income tax	68,621,231.37	47,157,158.18
Individual Income Tax	4,639,480.50	4,311,325.58
City maintenance and construction tax	7,632,545.67	5,754,629.77
Real estate tax	11,990,480.66	12,421,121.95
Land use tax	5,734,020.04	4,318,588.72
Educational surcharges	5,447,785.36	3,303,614.08
Embankment maintenance fee	8,861,240.23	8,025,085.06
Others	27,746,380.43	20,913,713.22
Total	222,919,921.87	161,686,275.79

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. Other payables

(1) Other payables by nature

Item	Closing balance	Opening balance
Current account	1,150,735,199.84	940,598,258.25
Deposit and margin	366,895,575.76	389,226,592.55
Payment for project and equipment	113,307,159.32	123,152,937.32
Amount payable to Greencool Companies and specific third party	30,766,425.03	30,766,425.03
Total	1,661,704,359.95	1,483,744,213.15

(2) Significant other payables with ageing of over 1 year

Name	Closing balance	Reason for unsettlement or carrying forward
Zhuhai Longjia	17,766,425.03	Current account with specific third party
Jiangxi Greencool	13,000,000.00	Balance with Greencool Companies

25. Other current liabilities

Item	Closing balance	Opening balance	Reasons for the balance
Installation fees	295,026,292.70	223,801,506.00	Installation fee provided for but not yet paid in respect of goods sold
Sales discounts	157,511,860.42	383,724,421.71	Incurred but not yet settled
Transportation fees	10,337,920.24	6,575,760.00	Incurred but not yet settled
Marketing fees	57,127,001.01	68,831,266.69	Incurred but not yet settled
Power fees	13,681,910.89	10,732,725.85	Incurred but not yet settled
Agency fees	26,430,996.02	30,338,030.76	Incurred but not yet settled
Others	155,724,714.29	70,101,858.66	Incurred but not yet settled
Total	715,840,695.57	794,105,569.67	

26. Provisions

Item	Closing balance	Opening balance
Pending litigation	5,377,637.34	4,681,799.03
Provision for warranties*	285,465,078.07	316,277,225.61
Others	23,790,000.00	
Total	314,632,715.41	320,959,024.64

* 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 for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Deferred income

Item	Closing balance	Opening balance
Deferred income	54,687,498.01	51,750,592.81
Total	54,687,498.01	51,750,592.81

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance	Reason for occurrence
Government grants	51,750,592.81	11,319,710.00	8,382,804.80	54,687,498.01	Amortization of government grants
Total	51,750,592.81	11,319,710.00	8,382,804.80	54,687,498.01	–

Of which, items relating to government grants:

Liabilities	Opening balance	New grants received during the year	Amount included in non-operating income during the year	Other changes	Closing balance	Related to assets/revenue
State debenture projects for technical advancement and industry upgrade	21,450,000.00				21,450,000.00	Related to assets
Technology reform project for design and production of high-precision smart moulds	1,866,666.67		280,000.00		1,586,666.67	Related to assets
Production technology reform project for energy-saving household SBS large-size refrigerator	1,012,500.00		450,000.00		562,500.00	Related to assets
Others	27,421,426.14	11,319,710.00	7,652,804.80		31,088,331.34	Related to assets
Total	51,750,592.81	11,319,710.00	8,382,804.80		54,687,498.01	

28. Share capital

Categories of shares	Opening balance	Change for the year (+,-)					Subtotal	Closing balance
		Issue of new shares	Bonus issue	Conversion from reserve	Others			
Restricted floating shares subject to terms of lock-up	1,072,545.00				39,090.00	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	39,090.00	1,111,635.00	
Unrestricted floating shares not subject to terms of lock-up	1,361,652,825.00				-39,090.00	-39,090.00	1,361,613,735.00	
Including: RMB ordinary shares	902,063,017.00				-39,090.00	-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						1,362,725,370.00	

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. Capital reserve

(1) Changes in capital reserve

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Share premium	2,033,770,231.81	2,960,741.45	62,667,287.28	1,974,063,685.98
Other capital reserve	121,758,999.36		2,960,741.45	118,798,257.91
Total	2,155,529,231.17	2,960,741.45	65,628,028.73	2,092,861,943.89

(2) Notes to change in capital reserve:

The decrease in share premium during the year was mainly due to the acquisition of minority interests in subsidiaries of the Company.

30. Other comprehensive income

Item	Opening balance	Amount incurred in the year						Closing balance
		Amount before income tax for the year	Less: Amount included in other comprehensive income in previous period transferred to profit or loss in current period	Less: income tax expense	Attributable to parent after tax	Attributable to minority interest after tax		
1. Other comprehensive income that would not be reclassified subsequently to profit or loss Including: Share of other comprehensive income of investee that would not 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	2,817,265.10	24,823.98		2,792,441.12		14,274,706.17	
Difference arising from translation of financial statements presented in foreign currency	24,823.98		24,823.98		-24,823.98			
Total other comprehensive income	11,457,441.07	2,817,265.10	24,823.98		2,817,265.10		14,274,706.17	

31. Surplus reserve

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Statutory surplus reserve	240,622,313.49	73,067,250.66		313,689,564.15
Total	240,622,313.49	73,067,250.66		313,689,564.15

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. Undistributed profits

Item	Amount for the year	Amount for previous year
Undistributed profits at the end of the previous year before adjustment	273,658,518.74	-211,243,768.43
Adjustment for total undistributed profits as at the beginning of the year (+ for increase and-for decrease)		
Undistributed profits as at the beginning of the year after adjustment	273,658,518.74	-211,243,768.43
Add: Net profits attributable to the shareholders of the parent in current year	1,087,732,130.38	580,335,074.18
Less: Appropriation of statutory surplus reserve	73,067,250.66	95,432,787.01
Dividends payable on ordinary shares	204,408,805.50	
Undistributed profits at the end of the year	1,083,914,592.96	273,658,518.74

33. Operating revenue and operating costs

(1) Operating revenue and operating costs

Item	Amount for the year	Amount for previous year
Revenue from principal operations	24,670,924,400.24	21,803,678,507.86
Revenue from other operations	2,059,295,096.83	1,667,924,350.12
Total operating revenue	26,730,219,497.07	23,471,602,857.98
Costs of principal operations	18,555,853,421.38	16,966,319,509.39
Costs of other operations	1,930,799,633.97	1,474,419,470.27
Total operating costs	20,486,653,055.35	18,440,738,979.66

(2) Principal operations (by products)

Products	Amount for the year		Amount for previous year	
	Operating revenue	Operating costs	Operating revenue	Operating costs
1. Refrigerators and washing machines	12,778,722,120.61	9,609,817,899.92	11,555,814,929.64	8,866,010,017.35
2. Air-conditioners	10,380,981,134.10	7,805,544,151.26	8,986,110,462.69	7,133,925,803.36
3. Others	1,511,221,145.53	1,140,491,370.20	1,261,753,115.53	966,383,688.68
Total	24,670,924,400.24	18,555,853,421.38	21,803,678,507.86	16,966,319,509.39

(3) Principal operations (by regions)

Region	Amount for the year		Amount for previous year	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Domestic	16,208,992,881.10	11,404,909,593.01	14,266,558,516.03	10,386,859,889.56
Overseas	8,461,931,519.14	7,150,943,828.37	7,537,119,991.83	6,579,459,619.83
Total	24,670,924,400.24	18,555,853,421.38	21,803,678,507.86	16,966,319,509.39

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. Operating revenue and operating costs (continued)

(4) Operating revenue from the top five customers of the Company

No.	Amount for the year	Percentage of the total revenue from principal operations of the Company (%)
Top 1	2,237,063,064.68	9.07
Top 2	1,434,599,970.08	5.81
Top 3	1,374,294,266.23	5.57
Top 4	769,527,141.77	3.12
Top 5	622,098,466.28	2.52
Total	6,437,582,909.04	26.09

34. Tax and surcharges

Item	Amount for the year	Amount for previous year
Business tax	422,241.65	2,165,936.99
City maintenance and construction tax	66,321,735.57	54,001,968.49
Education surcharges	46,600,787.46	35,295,853.05
Real estate tax	15,527,354.68	
Land use tax	8,299,101.83	
Waste electronic fund	65,087,180.00	
Others	20,536,127.46	5,696,259.35
Total	222,794,528.65	97,160,017.88

Note: (1) For details of the standard charge rate of various taxes and surcharges, please see note 5 "Taxation".

(2) In accordance with the requirements of the Notice of the Ministry of Finance on the Provisions Concerning the Accounting Treatments on Value-Added Tax (Cai Kuai [2016] No. 22), since May 2016, all taxation and expenses incurred in the operation of the Company are included in the accounting of taxes and surcharges.

35. Financial expenses

Item	Amount for the year	Amount for previous year
Interest expenses*	7,955,285.77	11,581,630.89
Less: Interest incomes	12,774,479.24	5,689,252.09
Exchange gain or loss	-88,442,403.71	-57,267,840.76
Others	7,272,533.77	-20,069,255.55
Total	-85,989,063.41	-71,444,717.51

* Interest expenses for 2016 and 2015 were wholly interests on bank borrowings of which the last term of repayment is within five years.

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. Impairment losses on assets

Item	Amount for the year	Amount for previous year
1. Bad debt loss	6,055,136.93	12,431,838.79
2. Decline in value of inventories	-12,667,279.80	-23,831,121.84
3. Impairment loss on fixed assets	2,176,670.16	16,070,149.78
Total	-4,435,472.71	4,670,866.73

37. Gain arising from changes in fair value

Sources of gain arising from changes in fair value	Amount for the year	Amount for previous year
Financial assets at fair value through profit or loss	9,695,070.04	-162,460.00
Including: Gain from changes in fair value of derivative financial instruments	9,695,070.04	-162,460.00
Financial liabilities at fair value through profit or loss	9,767,732.75	-2,376,596.09
Including: Gain from changes in fair value of derivative financial instruments	9,767,732.75	-2,376,596.09
Total	19,462,802.79	-2,539,056.09

38. Investment gain

Item	Amount for the year	Amount for previous year
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	534,444,157.61	329,436,651.65
Gain from disposal of long-term equity investment	-27,416,905.27	135,654,196.76
Gain from disposal of financial assets at fair value through profit or loss	-3,007,956.96	57,670,852.33
Gain from investment in wealth management products	12,055,845.19	
Total	522,079,140.57	530,171,700.74

Gain from available-for-sale financial assets during holding period

Investee	Amount for the year	Amount for previous year
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 for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. Investment gain (continued)

Gain from long-term equity investment under the equity method

Investee	Amount for the year	Amount for previous year
Zhejiang Hisense	-36,319,775.98	-67,586,516.45
Attend	-83,804.31	-276,432.42
Hisense Hitachi	570,847,737.90	397,299,600.52
Total	534,444,157.61	329,436,651.65

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

39. Non-operating income

Non-operating income

Item	Amount for the year	Amount for previous year
Total gain from disposal of non-current assets	15,941,862.96	2,557,013.97
Including: Gain from disposal of fixed assets	15,941,862.96	2,557,013.97
Government grants	169,267,089.59	209,588,520.85
Others	57,883,658.71	114,702,920.45
Total	243,092,611.26	326,848,455.27

Of which, government grants included in current profit or loss:

Grant item	Amount for the year	Amount for previous year	Related to assets/revenue
Jiangmen Pengjiang district industrial subsidy		81,718,700.00	Related to revenue
Others of government grants	160,884,284.79	118,011,485.41	Related to revenue
Others of government grants	8,382,804.80	9,858,335.44	Related to assets
Total	169,267,089.59	209,588,520.85	

40. Non-operating expenses

Item	Amount for the year	Amount for previous year
Total loss on disposal of non-current assets	4,172,176.73	13,709,993.98
Including: Loss on disposal of fixed assets	4,172,176.73	13,709,993.98
Others	33,834,157.88	3,475,419.58
Total	38,006,334.61	17,185,413.56

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

41. Income tax expense

(1) Income tax expense statement

Item	Amount for the year	Amount for previous year
Current income tax expenses	122,560,074.53	75,473,364.69
Including: PRC Enterprise income tax	122,560,074.53	75,129,488.44
Hong Kong profit tax		343,876.25
Deferred income tax expenses	6,187,622.99	3,904,398.89
Total	128,747,697.52	79,377,763.58

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

Item	Amount for the year
Total profits	1,270,341,471.22
Income tax expense calculated at statutory (or applicable) tax rates	317,585,367.81
Effect of application of different tax rate to certain subsidiaries	-22,153,127.97
Adjustment to income tax in previous year	7,228,666.62
Effect of non-taxable income	-149,028,922.32
Effect of non-deductible cost, expense and loss	3,392,086.63
Effect of utilization of deductible losses unrecognized as deferred tax assets in previous period	-22,662,538.61
Effect of deductible temporary difference or deductible loss unrecognized as deferred tax assets in current period	19,966,538.98
Changes in opening balance of deferred tax assets/liabilities arising from changes in tax rate	-25,580,373.62
Effect of super deduction of research and development expense	
Others	
Income tax expense	128,747,697.52

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

42. Calculation of basic and diluted earnings per share

Item		Amount for the year	Amount for previous year
Net profits attributable to ordinary shareholders of the Company during the reporting period	P1	1,087,732,130.38	580,335,074.18
Non-recurring profit and loss attributable to ordinary shareholders of the Company during the reporting period	F	89,808,253.79	347,874,616.29
Net profits after non-recurring profit and loss attributable to ordinary shareholders of the Company during the reporting period	P2=P1-F	997,923,876.59	232,460,457.89
Effect of dilutive events on net profits attributable to ordinary shareholders of the Company	P3		
Effect of dilutive events on net profits after non-recurring profit and loss attributable to ordinary shareholders of the Company	P4		
Weighted average number of outstanding ordinary shares	S	1,362,725,370.00	1,360,962,949.17
Add: Increase in the weighted average number of ordinary shares assuming full conversion of dilutive potential ordinary shares into outstanding ordinary shares	X1		
Weighted average number of ordinary shares used for calculation of diluted earnings per share	X2=S+X1	1,362,725,370.00	1,360,962,949.17
Basic earnings per share attributable to ordinary shareholders of the Company	Y1=P1/S	0.80	0.43
Basic earnings per share attributable to ordinary shareholders of the Company after non-recurring profit and loss	Y2=P2/S	0.73	0.17
Diluted earnings per share attributable to ordinary shareholders of the Company	Y3=(P1+P3)/X2	0.80	0.43
Diluted earnings per share attributable to ordinary shareholders of the Company after non-recurring profit and loss	Y4=(P2+P4)/X2	0.73	0.17

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

43. Other comprehensive income

Please see note 6(30) for details.

44. Notes to cash flows statement

(1) Other cash receipt related to operating activities

Item	Amount for the year	Amount for previous year
Interest incomes	12,774,479.24	5,689,252.09
Government grants	81,519,779.67	132,389,595.16
Others	559,489,009.21	893,688,510.11
Total	653,783,268.12	1,031,767,357.36

(2) Other cash payment related to operating activities

Item	Amount for the year	Amount for previous year
Cash payments for general and administrative expenses	474,192,089.82	441,662,152.46
Cash payments for sales expenses	2,908,313,109.71	2,775,208,142.86
Bank charges	11,926,055.07	11,198,565.34
Others	587,741,443.37	525,349,476.51
Total	3,982,172,697.97	3,753,418,337.17

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

44. Notes to cash flows statement *(continued)*

(3) Other cash receipt related to investing activities

Item	Amount for the year	Amount for previous year
Disposal of wealth management products upon maturity	1,961,000,000.00	
Net cash receipts from acquisition of subsidiaries	16,330,804.98	
Total	1,977,330,804.98	

(4) Other cash payment related to investing activities

Item	Amount for the year	Amount for previous year
Acquisition of wealth management products	3,061,000,000.00	200,000,000.00
Total	3,061,000,000.00	200,000,000.00

(5) Other cash payments related to financing activities

Item	Amount for the year	Amount for previous year
Security deposit	1,421,125,133.66	
Acquisition of minority interests in subsidiaries	69,020,000.00	
Total	1,490,145,133.66	

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

45. Supplementary information to cash flows statement

(1) Supplementary information to cash flows statement

Supplementary information	Amount for the year	Amount for previous year
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	1,141,593,773.70	544,276,396.75
Add: Provision for assets impairment	-4,435,472.71	4,670,866.73
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets	665,479,087.45	574,429,892.95
Amortization of intangible assets	31,920,484.24	28,584,063.47
Amortization of long-term prepaid expenses	6,699,276.77	6,296,347.74
Loss on disposal of fixed assets, intangible assets and other long-term assets		
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain denoted in "-")	-11,769,686.23	11,152,980.01
Loss on retirement of fixed assets (Gain denoted in "-")		
Loss on change in fair value (Gain denoted in "-")	-19,462,802.79	2,539,056.09
Financial expenses (Gain denoted in "-")	7,955,285.77	11,581,630.89
Investment loss (Gain denoted in "-")	-522,079,140.57	-530,171,700.74
Decrease in deferred tax assets (Increase denoted in "-")	5,828,338.25	3,722,289.46
Increase in deferred tax liabilities (Decrease denoted in "-")	359,284.74	182,109.43
Decrease in inventories (Increase denoted in "-")	-376,675,863.10	670,492,219.51
Decrease in operating receivables (Increase denoted in "-")	-1,784,506,636.00	-1,143,950,409.75
Increase in operating payables (Decrease denoted in "-")	3,785,024,055.73	300,455,412.51
Others		
Net cash flows from operating activities	2,925,929,985.25	484,261,155.05
2. Significant investment and financing activities not involving cash receipts and payments:		
Liabilities converted into equity		
Convertible company debentures due within one year		
Fixed assets under finance leases		
3. Net movement in cash and cash equivalents:		
Cash at the end of the period	794,984,893.88	1,012,159,146.17
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	-217,174,252.29	142,120,391.05

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

45. Supplementary information to cash flows statement (continued)

(2) Net cash paid for acquisition of subsidiaries during the year

Item	Amount
Cash and cash equivalents paid during the year in relation to business combinations occurred during the period	
Including: Zhejiang Hisense Electric Co., Ltd.	
Less: Cash and cash equivalents held by subsidiaries at the date of acquisition	16,330,804.98
Including: Zhejiang Hisense Electric Co., Ltd.	16,330,804.98
Net cash paid for acquisition of subsidiaries	<u>-16,330,804.98</u>

Note: Net cash paid for acquisition of subsidiaries is presented in "Other cash receipt related to investing activities" in positive figures.

(3) Details of cash and cash equivalents

Item	Amount for the year	Amount for previous year
1. Cash	794,984,893.88	1,012,159,146.17
Including: Cash on hand		28,228.78
Bank deposits that are readily available for payment	794,984,893.88	1,012,130,917.39
Other cash at bank and on hand that are readily available for payment		
2. Cash equivalents		
Including: Bond investments due within three months		
3. Cash and cash equivalents as at the end of the year	794,984,893.88	1,012,159,146.17
Including: Cash and cash equivalents of the parent or subsidiaries subject to restrictions on use		

46. Assets with limited ownership or use rights

Item	Closing carrying amount	Reason for limitation
Cash at bank and on hand	1,432,436,436.86	As secured amount
Notes receivable	1,016,579,209.51	As collaterals for bank acceptance notes
Total	<u>2,449,015,646.37</u>	

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

47. Monetary items in foreign currencies

(1) Monetary items in foreign currencies

Item	Closing balance of foreign currency	Translation rate	Closing balance denominated in RMB
Cash at bank and on hand			
Including: USD	35,188,511.87	6.9370	244,102,706.84
EUR	1,091,970.27	7.3068	7,978,808.37
HKD	6,066,383.70	0.89451	5,426,440.88
GBP	55,556.61	8.5094	472,753.42
AUD	3.50	5.0157	17.55
Accounts receivable			
Including: USD	150,804,373.42	6.9370	1,046,129,938.41
EUR	6,015,107.49	7.3068	43,951,187.41
Other receivables:			
Including: USD	50,000.00	6.9370	346,850.00
HKD	140,676.00	0.89451	125,836.09
Accounts payable			
Including: USD	8,472,863.80	6.9370	58,776,256.18
EUR	78,435.98	7.3068	573,116.02
Other payables:			
Including: USD	4,148,473.47	6.9370	28,777,960.46
EUR	88,250.00	7.3068	644,825.10

(2) Overseas operating entities

Name	Principal place of business	Functional currency	Whether there is change of functional currency
Kelon International Incorporation	Hong Kong	HKD	No
Pearl River Electric Refrigerator Co., Ltd.	Hong Kong	HKD	No
Kelon Development Co., Ltd.	Hong Kong	HKD	No
Kelon (Japan) Ltd	Japan	JPY	No

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

48. Segment information

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

(1) Segment profit or loss and assets and liabilities

Amount for current period	Refrigerators and washing machines	Air-conditioners	Others	Inter-segment elimination	Total
1. Revenue from external sales	12,778,722,120.61	10,380,981,134.10	1,511,221,145.53		24,670,924,400.24
2. Revenue from inter-segment transactions			1,421,972,654.09	-1,421,972,654.09	
3. Gain from investment in associates and joint ventures	-36,319,775.98	570,847,737.90	-83,804.31		534,444,157.61
4. Depreciation and amortization	379,801,361.26	229,060,142.67	88,538,067.76		697,399,571.69
5. Gain arising from changes in fair value	9,363,479.52	9,363,479.52	735,843.75		19,462,802.79
6. Impairment losses on assets	-8,481,794.86	1,378,521.44	2,667,800.71		-4,435,472.71
7. Total profit (losses)	339,173,744.17	811,227,846.76	137,598,681.84	-17,658,801.55	1,270,341,471.22
8. Income tax expense	74,143,764.70	22,934,503.68	31,669,429.14		128,747,697.52
9. Net profit (loss) (including minority interests)	265,029,979.47	788,293,343.08	105,929,252.70	-17,658,801.55	1,141,593,773.70
10. Total assets	16,353,487,356.13	9,041,182,287.58	4,024,041,294.03	-10,363,652,329.42	19,055,058,608.32
11. Total liabilities	11,403,174,704.17	6,845,206,682.64	2,369,794,279.08	-6,886,577,112.02	13,731,598,553.87
12. Additions to other non-current assets other than long-term equity investments	150,999,965.93	-104,416,041.45	-57,910,851.26		-11,326,926.78

Continued from above table

Amount for previous period	Refrigerators and washing machines	Air-conditioners	Others	Inter-segment elimination	Total
1. Revenue from external sales	11,555,814,929.64	8,986,110,462.69	1,261,753,115.53		21,803,678,507.86
2. Revenue from inter-segment transactions			1,079,389,775.96	-1,079,389,775.96	
3. Gain from investment in associates and joint ventures	-67,586,516.45	397,299,600.52	-276,432.42		329,436,651.65
4. Depreciation and amortization	313,722,331.33	194,093,039.02	95,198,586.07		603,013,956.42
5. Gain arising from changes in fair value	-1,047,895.89	-1,047,895.89	-443,264.31		-2,539,056.09
6. Impairment losses on assets	826,341.84	896,797.23	2,947,727.66		4,670,866.73
7. Total profit (losses)	119,249,485.09	274,892,882.63	272,497,698.63	-42,985,906.02	623,654,160.33
8. Income tax expense	-7,795,680.15	65,156,537.50	22,016,906.23		79,377,763.58
9. Net profit (loss) (including minority interests)	127,045,165.24	209,736,345.13	250,480,792.40	-42,985,906.02	544,276,396.75
10. Total assets	14,153,219,695.64	9,306,682,399.33	3,830,688,869.63	-12,997,773,925.07	14,292,817,039.53
11. Total liabilities	9,559,782,106.94	7,128,189,003.57	2,163,808,333.46	-9,032,771,761.77	9,819,007,682.20
12. Additions to other non-current assets other than long-term equity investments	34,127,280.60	359,832,752.77	33,529,646.48		427,489,679.85

Notes to the Financial Statements for 2016

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

48. Segment information (continued)

(2) Geographic Information

Region	2016	2015
Revenue from domestic transactions	16,208,992,881.10	14,266,558,516.03
Revenues from overseas transactions	8,461,931,519.14	7,537,119,991.83
Total	24,670,924,400.24	21,803,678,507.86
Non-current assets – Domestic	6,051,857,671.33	5,749,543,669.67
Non-current assets – Overseas	1,221,897.61	10,732,583.20
Total	6,053,079,568.94	5,760,276,252.87

The Company operates mainly in Mainland China. Most of the Company's non-current assets are in Mainland China. Therefore it is not necessary to present further details of the regional information.

7. CHANGE IN SCOPE OF CONSOLIDATION

1. Business combination not under common control

(1) Business combination not under common control during the year

Name of acquiree	Date of acquisition of equity interest	Cost of acquisition of equity interest	Percentage of equity interest acquired (%)	Method for acquisition of equity interest	Date of acquisition	Basis for determination of date of acquisition	Revenue of acquiree for the period from the date of acquisition to the end of the year	Net profit of acquiree for the period from the date of acquisition to the end of the year
Zhejiang Hisense Electric Co., Ltd. ("Zhejiang Hisense")	For details, please see the table below				18 November 2016	Completion of equity transfer and acquisition of control	99,625,948.63	-13,753,796.15

Business combination carried out by steps where control was acquired during the year

Date of acquisition of equity interest	Cost of acquisition of equity interest	Percentage of equity interest acquired (%)	Method for acquisition
3 November 2008	225,000,000.00	50%	Establishment through investment
18 November 2016	6.90	50%	Business combination not under common control

Note: Zhejiang Hisense was formerly a joint venture of the Company and known as Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd. and was renamed as "Zhejiang Hisense Electric Co., Ltd." following its acquisition.

Notes to the Financial Statements for 2016

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

7. CHANGE IN SCOPE OF CONSOLIDATION (continued)

1. Business combination not under common control (continued)

(2) Cost of combination and goodwill

Item	Zhejiang Hisense
Cost of combination	
– Cash	6.90
– Fair value as at the date of acquisition of equity interest held before the date of acquisition	40,713,342.16
Total cost of combination	40,713,349.06
Less: Share of fair value of identifiable net assets acquired	81,426,684.32
Goodwill/excess of share of fair value of identifiable net assets acquired over cost of combination	-40,713,335.26

(i) Determination of fair value of cost of combination

On 18 November 2016, the Company acquired 50% equity interest in Whirlpool (Hong Kong) Limited, the joint venture partner of Zhejiang Hisense, at a consideration of US\$1.00 (equivalent to approximately RMB6.90). The price has business essence but does not meet the meaning of fair value under the Accounting Standards for Business Enterprises. As such, the Company adopted the valuation of all equity interest in Zhejiang Hisense as at 30 June 2016 carried out by Wanlong (Shanghai) Assets Appraisal Co., Ltd. (萬隆(上海)資產評估有限公司), adjusted for the change in net assets from the period from the base date of valuation to the date of acquisition, as the fair value of the equity interest as at the date of acquisition.

(ii) The Company included the excess of share of net identifiable assets of Zhejiang Hisense over cost of combination in non-operating income for the current period.

(3) Identifiable assets and liabilities of the acquiree at the date of acquisition

Item	Zhejiang Hisense	
	Fair value at the date of acquisition	Carrying amount at the date of acquisition
Assets:		
Current assets	146,605,252.72	154,254,230.86
Non-current assets	205,740,677.19	251,853,236.81
Liabilities:		
Current liabilities	270,919,245.59	270,919,245.59
Net assets	81,426,684.32	135,188,222.08
Less: Minority interest		
Net assets acquired	81,426,684.32	135,188,222.08

Method for determination of fair value of identifiable assets and liabilities: The fair value of identifiable assets and liabilities was based on the valuation of net assets and liabilities of Zhejiang Hisense as at 30 June 2016 carried out by Wanlong (Shanghai) Assets Appraisal Co., Ltd., adjusted for the changes from the period from the base date of valuation to the date of acquisition.

Notes to the Financial Statements for 2016

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

7. CHANGE IN SCOPE OF CONSOLIDATION (continued)

1. Business combination not under common control (continued)

(4) Gain or loss on re-measurement of equity interest held before the date of acquisition at fair value

Name of acquiree	Carrying amount as at the date of acquisition of equity interest held before the date of acquisition	Fair value as at the date of acquisition of equity interest held before the date of acquisition	Gain or loss on re-measurement of equity interest held before the date of acquisition at fair value	Method for determination of fair value as at the date of acquisition of equity interest held before the date of acquisition and major assumptions	Amount of other comprehensive income relating to equity interest held before the date of acquisition transferred to investment income
Zhejiang Hisense	67,594,111.04	40,713,342.16	-26,880,768.88	Valuation	

2. Changes in scope of consolidation for other reasons

- On 18 October 2016, the Company established Qingdao Hisense Commercial Cold Chain Co., Ltd. (青島海信商用冷鏈股份有限公司) with a registered capital of RMB36,500,000, into which the Company contributed RMB35,000,000, accounting for 95.89% of its registered capital. The Company has its control and has consolidated its results since 18 October 2016.
- On 7 June 2016, the Company established Hisense Changsha Electronic Commerce Co., Ltd. (海信長沙電子商務有限公司), a wholly-owned subsidiary of the Company with a registered capital of RMB10,000,000, into which the Company contributed RMB10,000,000, accounting for 100.00% of its registered capital. As at the balance sheet date, the contribution had not been paid yet. The Company has its control and has consolidated its results since 7 June 2016.
- On 16 December 2016, the Company established Foshan Shunde Baohong Property Management Co., Ltd. (佛山市順德區寶弘物業管理有限公司), a wholly-owned subsidiary of the Company, with a registered capital of RMB295,658,200, into which the Company contributed RMB295,658,200, accounting for 100.00% of its registered capital. As at the balance sheet date, the contribution had not been paid yet. The Company has its control and has consolidated its results since 16 December 2016.

8. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Composition of enterprise group

Name of subsidiary	Abbreviation	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Method for acquisition
					Direct	Indirect	
Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.	Guangdong Refrigerator	Foshan	Foshan	Manufacturing	70%	30%	Establishment or investment
Guangdong Kelon Air-conditioner Co., Ltd. (i)	Guangdong Air-conditioner	Foshan	Foshan	Manufacturing	60%		Establishment or investment
Hisense Ronshen (Guangdong) Freezer Co., Ltd.	Guangdong Freezer	Foshan	Foshan	Manufacturing	44%	56%	Establishment or investment
Guangdong Hisense Home Appliances Co., Ltd.	Hisense Home Appliances	Foshan	Foshan	Manufacturing	81.17%		Establishment or investment
Foshan Shunde Rongsheng Plastic Co., Ltd.	Rongsheng Plastic	Foshan	Foshan	Manufacturing	44.92%	25.13%	Establishment or investment

Notes to the Financial Statements for 2016

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

8. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

(1) Composition of enterprise group (continued)

Name of subsidiary	Abbreviation	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Method for acquisition
					Direct	Indirect	
Guangdong Kelon Mould Co., Ltd.	Kelon Mould	Foshan	Foshan	Manufacturing		70.11%	Establishment or investment
Guangdong Huaao Electronics Co., Ltd. (i)	Huaao Electronics	Foshan	Foshan	Manufacturing		70%	Establishment or investment
Guangdong Foshan Shunde Kelon Property Service Co., Ltd.	Kelon Property	Foshan	Foshan	Provision of services		100%	Establishment or investment
Foshan Shunde Wangao Import & Export Co., Ltd.	Wangao I&E	Foshan	Foshan	Trading	20%	80%	Establishment or investment
Foshan Shunde Kelon Jiake Electronics Co., Ltd.	Jiake Electronics	Foshan	Foshan	Manufacturing	70%	30%	Establishment or investment
Guangdong Kelon Weili Electrical Appliances Co., Ltd.	Kelon Weili	Zhongshan	Zhongshan	Manufacturing	55%	25%	Establishment or investment
Hisense Ronshen (Yingkou) Refrigerator Co., Ltd.	Yingkou Refrigerator	Yingkou	Yingkou	Manufacturing	42%	36.79%	Establishment or investment
Jiangxi Kelon Industrial Development Co., Ltd.	Jiangxi Kelon	Nanchang	Nanchang	Manufacturing	60%	40%	Establishment or investment
Jiangxi Kelon Combine Electrical Appliances Co., Ltd. (ii)	Combine	Nanchang	Nanchang	Manufacturing		55%	Establishment or investment
Hangzhou Kelon Electrical Co., Ltd.	Hangzhou Kelon	Hangzhou	Hangzhou	Manufacturing	100%		Establishment or investment
Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.	Yangzhou Refrigerator	Yangzhou	Yangzhou	Manufacturing	74.33%	25.67%	Establishment or investment
Shangqiu Kelon Electrical Co., Ltd.	Shangqiu Kelon	Shangqiu	Shangqiu	Manufacturing		100%	Establishment or investment
Zhuhai Kelon Electrical Industrial Development Co., Ltd.	Zhuhai Kelon	Zhuhai	Zhuhai	Manufacturing	75%	25%	Establishment or investment
Shenzhen Kelon Purchase Co., Ltd.	Shenzhen Kelon	Shenzhen	Shenzhen	Trading	95%	5%	Establishment or investment
Pearl River Electric Refrigerator Co., Ltd.	Pearl River Refrigerator	Hong Kong	Hong Kong	Trading		100%	Establishment or investment
Kelon Development Co., Ltd.	Kelon Development	Hong Kong	Hong Kong	Investment	100%		Establishment or investment
Kelon (Japan) Ltd	Kelon Japan	Japan	Japan	Trading		100%	Establishment or investment
Kelon International Incorporation	KII	Hong Kong	British Virgin Islands	Trading		100%	Establishment or investment
Hisense (Chengdu) Refrigerator Co., Ltd.	Chengdu Refrigerator	Chengdu	Chengdu	Manufacturing	100%		Establishment or investment
Hisense (Shandong) Refrigerator Ltd.	Shandong Refrigerator	Qingdao	Qingdao	Manufacturing	100%		Establishment or investment
Guangdong Hisense Refrigerator Marketing Co., Ltd.	Refrigerator Marketing Company	Foshan	Foshan	Trading		78.82%	Establishment or investment

Notes to the Financial Statements for 2016

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

8. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

(1) Composition of enterprise group (continued)

Name of subsidiary	Abbreviation	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Method for acquisition
					Direct	Indirect	
Qingdao Hisense Air-conditioner Marketing Co., Ltd.	Airconditioner Marketing Company	Qingdao	Qingdao	Trading		75.57%	Establishment or investment
Hisense (Guangdong) Air-Conditioner Company Limited	Hisense Guangdong Air-Conditioner	Jiangmen	Jiangmen	Manufacturing		100%	Establishment or investment
Hisense (Guangdong) Mould Plastic Company Limited	Hisense Guangdong Mould Plastic	Jiangmen	Jiangmen	Manufacturing		100%	Establishment or investment
Jiangmen Hisense Electrical Appliances Co., Ltd.	Jiangmen Hisense Electrical Appliances	Jiangmen	Jiangmen	Manufacturing		100%	Establishment or investment
Hisense (Beijing) Electric Co., Ltd.	Beijing Refrigerator	Beijing	Beijing	Manufacturing	55%		Business combination under common control
Hisense (Shandong) Air-Conditioning Co. Ltd.	Shandong Air-conditioning	Qingdao	Qingdao	Manufacturing	100%		Business combination under common control
Hisense (Zhejiang) Air-conditioning Co., Ltd.	Zhejiang Air-conditioning	Huzhou	Huzhou	Manufacturing		100%	Business combination under common control
Qingdao Hisense Mould Co., Ltd.	Hisense Mould	Qingdao	Qingdao	Manufacturing	78.70%		Business combination under common control
Hisense (Nanjing) Electric Company Limited	Nanjing Refrigerator	Nanjing	Nanjing	Manufacturing		60%	Business combination under common control
Zhejiang Hisense Electric Co., Ltd.	Zhejiang Hisense	Huzhou	Huzhou	Manufacturing	100%		Business combination not under common control
Qingdao Hisense Commercial Cold Chain Co., Ltd.	Commercial Cold Chain	Qingdao	Qingdao	Manufacturing		95.89%	Establishment or investment
Hisense Changsha Electronic Commerce Co., Ltd.	Changsha Electronic	Changsha	Changsha	Trading		100%	Establishment or investment
Foshan Shunde Baohong Property Management Co., Ltd.	Baohong Property	Foshan	Foshan	Provision of services, manufacturing		100%	Establishment or investment

Notes to the Financial Statements for 2016

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

8. INTERESTS IN OTHER ENTITIES *(continued)*

1. Interests in subsidiaries *(continued)*

(1) *Composition of enterprise group (continued)*

Notes:

- (i) The Company holds 60% equity interest in Guangdong Air-conditioner and 70% equity interest in Huao Electronics. However, as the Company has undertaken to provide them with financial support, bear 100% of their losses and enjoy 100% of their voting rights, they have been accounted for as long-term equity investment at a 100% shareholding percentage;
- (ii) The Company holds 55% equity interest in Combine. As Combine had been declared in liquidation, it has not been included in the consolidated financial statements.
- (iii) All subsidiaries incorporated in the PRC are companies with limited liability, save for Refrigerator Marketing Company, Air-conditioner Marketing Company and Commercial Cold Chain which are joint-stock companies with limited liability.

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

Name of subsidiary	Percentage of minority interest (%)	Gain or loss attributable to minority interests for the year	Dividends paid to minority interests for the year	Closing balance of minority interests
Refrigerator Marketing Company	21.18	6,149,120.60	850,860.00	51,807,460.05
Air-conditioner Marketing Company	24.43	9,320,625.99		27,601,775.79

(3) *Major financial information of principal non-wholly-owned subsidiaries* RMB'0000

Name of subsidiary	Closing balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Refrigerator Marketing Company	584,683.44	2,080.42	586,763.86	562,308.79		562,308.79
Air-conditioner Marketing Company	279,391.51	1,199.64	280,591.15	269,291.78		269,291.78

(Continued)

Name of 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

Notes to the Financial Statements for 2016

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

8. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

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

Name of subsidiary	Amount for the year				Amount for previous year			
	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Refrigerator Marketing Company	796,626.71	2,902.62	2,902.62	160,795.38	786,294.65	697.64	697.64	40,040.97
Air-conditioner Marketing Company	647,686.29	3,815.60	3,815.60	77,650.63	590,916.88	-6,054.15	-6,054.15	-25,815.94

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

(1) Note to change in the ownership interest in subsidiary

On 22 September 2016, the Company acquired 49% minority interest in Zhejiang Air-conditioning, a subsidiary of the Company, following which the Company holds its 100% equity interest and still has control over it.

(2) Impact of the transaction on minority interests and equity attributable to owners of the parent company

Item	Zhejiang Air-conditioning
Cost of purchase	
– Cash	69,020,000.00
Total cost of purchase/consideration for disposal	69,020,000.00
Less: Share of net assets of subsidiary based on the shareholding percentage acquired/disposed of	6,352,712.72
Difference	62,667,287.28
Including: Adjustment to capital reserves	-62,667,287.28
Adjustment to surplus reserves	
Adjustment to undistributed profits	

3. Interests in joint ventures or associates

(1) Significant joint ventures or associates

Name of joint venture or associate	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Accounting method for investment in joint ventures or associates
				Direct	Indirect	
Zhejiang Hisense (i)	Huzhou	Huzhou	Manufacturing			
Hisense Hitachi	Qingdao	Qingdao	Manufacturing	49.00	49.00	Equity method
Attend (ii)	Guangzhou	Guangzhou	Logistics			

Notes:

(i) 18 November 2016, the Company acquired from the joint venture partner in respect of Zhejiang Hisense all of its equity interest in Zhejiang Hisense. Upon acquisition, the Company holds 100% equity interest in Zhejiang Hisense and has consolidated its results. Please see note 7(1) for details.

(ii) Attend was liquidated during the year.

Notes to the Financial Statements for 2016

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

8. INTERESTS IN OTHER ENTITIES *(continued)*

3. Interests in joint ventures or associates *(continued)*

(2) Major financial information of significant associates

Item	Closing balance/ Amount for the year		Opening balance/ Amount for previous year	
	Hisense Hitachi	Zhejiang Hisense	Hisense Hitachi	Zhejiang Hisense
Current assets	634,886.85		404,116.71	10,661.67
Including: Cash and cash equivalents	420,152.54		263,022.37	2,294.04
Non-current assets	51,524.78		43,732.01	26,533.61
Total assets	686,411.63		447,848.72	37,195.28
Current liabilities	337,334.70		189,408.03	16,412.50
Non-current liabilities	8,025.26		5,771.14	
Total liabilities	345,359.96		195,179.17	16,412.50
Minority interest	13,635.23		9,682.74	
Equity attributable to shareholders of the parent company	327,416.44		242,986.81	20,782.78
Share of net assets based on shareholding percentage	160,434.06		119,063.53	10,391.39
Adjustments			2,613.05	
– Goodwill				
– Unrealized profit from intra-group transactions				
– Others	2,304.30		2,613.05	
Carrying amount of equity investments in joint ventures	162,738.36		121,676.58	10,391.39
Fair value of investments in joint ventures with public quoted prices				
Operating revenue	651,846.73	38,899.86	480,934.20	39,843.24
Net profit	122,335.38	-7,263.96	84,648.57	-13,517.30
Net profit from discontinued operations				
Other comprehensive income				
Total comprehensive income	122,335.38	-7,263.96	84,648.57	-13,517.30
Dividend received from joint ventures during the year	16,023.00		14,210.00	

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

Item	Closing balance/ Amount for the year	Opening balance/ Amount for previous year
Associates:		
Total carrying amount of investments		257.36
Amounts in aggregate in proportion to the shareholdings:		
– Net profit	-8.38	-27.64
– Other comprehensive income		
– Total comprehensive income	-8.38	-27.64

Notes to the Financial Statements for 2016

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

9. RISKS RELATING TO FINANCIAL INSTRUMENTS

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

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

(1) Credit risk

Credit risk is the risk to which the Company is exposed to on financial losses due to the failure of clients or financial instrument counterparties to fulfill their contractual obligations, mainly with respect to bank balances, trade and other receivables and financial derivative.

The Company maintains substantially all of its bank balances in several major large state banks in PRC. With strong support to those banks from the state, the Board believes these assets are not exposed to significant credit risk that would cause financial losses.

The Company mitigates its exposure to risks in respect of trade and other receivables by dealing with diversified customers with healthy financial positions. Certain new customers are required by the Company to make cash payment in order to minimise credit risk. The Company seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk. In addition, all receivable balances are monitored on an ongoing basis and overdue balances are followed up by senior management.

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

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

(2) Liquidity risk

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

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

Notes to the Financial Statements for 2016

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

9. RISKS RELATING TO FINANCIAL INSTRUMENTS (continued)

(2) Liquidity risk (continued)

As at the balance sheet date, the undiscounted contractual cash flows of financial assets and financial liabilities of the Company based on maturity date were as follows:

31 December 2016

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets					
Cash at bank and on hand	2,227,421,330.74			2,227,421,330.74	
Financial assets at fair value through profit or loss	9,695,070.04			9,695,070.04	
Notes receivable	3,281,453,069.10			3,281,453,069.10	
Accounts receivable	2,857,617,668.81			2,857,617,668.81	
Other receivables	342,268,675.30			342,268,675.30	
Other current assets	1,678,765,851.25			1,678,765,851.25	
Total	10,397,221,665.24			10,397,221,665.24	
Financial liabilities					
Notes payable	5,227,854,741.07			5,227,854,741.07	
Accounts payable	4,367,268,398.09			4,367,268,398.09	
Other payables	1,661,704,359.95			1,661,704,359.95	
Other current liabilities	715,840,695.57			715,840,695.57	
Total	11,972,668,194.68			11,972,668,194.68	

31 December 2015

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets					
Cash at bank and on hand	1,014,410,146.17			1,014,410,146.17	
Notes receivable	2,289,706,048.91			2,289,706,048.91	
Accounts receivable	2,211,818,987.20			2,211,818,987.20	
Other receivables	332,070,922.97			332,070,922.97	
Other current assets	467,872,305.65			467,872,305.65	
Total	6,315,878,410.90			6,315,878,410.90	
Financial liabilities					
Short-term borrowings	223,496,764.71			223,496,764.71	
Financial liabilities at fair value through profit or loss	9,767,732.75			9,767,732.75	
Notes payable	2,931,174,504.52			2,931,174,504.52	
Accounts payable	2,878,291,676.53			2,878,291,676.53	
Other payables	1,483,744,213.15			1,483,744,213.15	
Other current liabilities	794,105,569.67			794,105,569.67	
Total	8,320,580,461.33			8,320,580,461.33	

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

Item	Closing balance		Opening balance	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Borrowing with the last instalment of repayment within five years			223,496,764.71	

Notes to the Financial Statements for 2016

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

9. RISKS RELATING TO FINANCIAL INSTRUMENTS *(continued)*

(3) Interest rate risk

The Company is exposed to interest rate risk due to changes in interest rates of interestbearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks, which are mostly short-term in nature whereas interest-bearing financial liabilities are primarily short-term bank borrowings. As at 31 December 2016, the Company had no short-term bank borrowings. As such, any change in the interest rate is not considered to have significant impact on the Company's performance.

(4) Foreign currency risk

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

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

Currency	Closing balance		Opening balance	
	Assets	Liabilities	Assets	Liabilities
USD	1,290,579,495.25	87,554,216.64	714,005,807.08	313,848,803.32
EUR	51,929,995.78	1,217,941.12	34,726,854.56	5,290,675.09

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

Sensitivity analysis of change in exchange rate:

Item	2016	2015
	Increase/Decrease in profit after tax	Increase/Decrease in profit after tax
USD to RMB		
Appreciates by 5%	45,113,447.95	15,005,887.64
Depreciates by 5%	-45,113,447.95	-15,005,887.64
EUR to RMB		
Appreciates by 5%	1,901,702.05	1,103,856.73
Depreciates by 5%	-1,901,702.05	-1,103,856.73

Sensitivity analysis of change in forward rate:

Item	2016	2015
	Increase/Decrease in profit after tax	Increase/Decrease in profit before tax
USD to RMB		
Appreciates by 5%	-750,000.00	-3,131,250.00
Depreciates by 5%	750,000.00	3,131,250.00
EUR to RMB		
Appreciates by 5%	-2,191,586.25	-1,539,136.76
Depreciates by 5%	2,191,586.25	1,539,136.76

Notes to the Financial Statements for 2016

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

10. DISCLOSURE OF FAIR VALUE

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

Item	Fair value as at the end of the year			Total
	Level 1 Fair value measurement	Level 2 Fair value measurement	Level 3 Fair value measurement	
I. Fair value measurement on a recurring basis				
(i) Financial assets at fair value through profit or loss				
1. Financial assets held-for-trading				
(1) Derivative financial assets		9,695,070.04		9,695,070.04
Total assets measured at fair value on a recurring basis				
		9,695,070.04		9,695,070.04
(ii) Financial liabilities held-for-trading				
Including: Derivative financial liabilities				
Total liabilities measured at fair value on a recurring basis				

2. Valuation techniques and qualitative and quantitative information for level 2 items measured on and not on a recurring basis

As at the balance sheet date, the Company had obtained forward rate quotations from contracted banks, which were determined based on the remaining term to maturity. The fair values of forward exchange contracts were determined by multiplying the difference between the quotations and agreed exchange rate for forward exchange contracts by the amount for forward exchange settlement.

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Particulars of the parent and the ultimate shareholder

<i>(Amount Unit: RMB '0000)</i>					
Name of the parent	Relationship	Category of enterprise	Registration address	Legal representative	Business nature
Qingdao Hisense Air-conditioning	Controlling shareholder	Foreign-sino joint venture	Qingdao	Tang Ye Guo	Manufacture of air conditioners, moulds and provision of after-sale services
Hisense Group	Ultimate Controlling shareholder	State wholly-owned	Qingdao	Zhou Hou Jian	Entrusted operation of state-owned assets; manufacture and sales of household appliances, communication products and provision of related services

Notes to the Financial Statements for 2016

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

1. Particulars of the parent and the ultimate shareholder (continued)

Continued from above table

Name of the parent	Registered capital	Shareholding of the parent in the Company (%)	Voting rights of the parent in the Company (%)	Ultimate holding company of the Company	Creditability code
Qingdao Hisense Air-conditioning	67,479	42.92	42.92	State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government	913702126143065147
Hisense Group	80,617			State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government	913702001635787718

2. Subsidiaries of the Company

Please see note 8(1) "Interests in subsidiaries".

3. Joint ventures and associates of the Company

For details of the joint ventures and associates of the Company, please see note 8(3) "Interests in joint ventures or associates".

4. Greencool Companies

Name of related parties of Greencool Companies	Relationship with the Company
Guangdong Greencool	Former controlling shareholder of the Company
Jiangxi Greencool Electrical Appliance Co., Ltd. ("Jiangxi Greencool")	Related party of Guangdong Greencool

5. Other related parties of the Company

Name of other related parties	Relationship with the Company
Hisense Finance Co., Ltd. ("Hisense Finance")	Subsidiary of ultimate holding company
Hisense Electric Co., Ltd. ("Hisense Electric")	Subsidiary of ultimate holding company
Beijing Xuehua Group Company Limited ("Xuehua Group")	Minority shareholder of Beijing Refrigerator
Hisense (Hong Kong) Company Limited ("Hisense Hong Kong")	Subsidiary of ultimate holding company

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

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

Notes to the Financial Statements for 2016

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

7. Related party transactions

(1) Purchase of goods/receipt of services

Related party	Particulars of related party transactions	Pricing and decision-making procedures of related party transactions	Amount for the year		Amount for previous year	
			Amount	Percentage of the amount for similar transactions (%)	Amount	Percentage of the amount for similar transactions (%)
Zhejiang Hisense	Finished goods	Agreed price	198,685,542.32	0.97	174,427,103.06	0.95
Hisense Electric and its subsidiaries	Finished goods	Agreed price	134,004.95		55,319.66	
Hisense Group and its subsidiaries	Finished goods	Agreed price	15,124.79		597,210.79	
Hisense Hitachi	Finished goods	Agreed prices			157,204.27	
Subtotal of purchase of finished goods			198,834,672.06	0.97	175,236,837.78	0.95
Hisense Electric and its subsidiaries	Raw materials	Agreed price	14,894,481.40	0.07	14,109,274.78	0.08
Hisense Group and its subsidiaries	Raw materials	Agreed price	10,787,314.34	0.05	12,272,113.28	0.07
Zhejiang Hisense	Raw materials	Agreed price	6,534,835.95	0.03	5,676,894.22	0.03
Hisense Hitachi	Raw materials	Agreed price	7,454,966.23	0.04	5,502,978.80	0.03
Subtotal of purchase of raw materials			39,671,597.92	0.19	37,561,261.08	0.21
Zhejiang Hisense	Equipment	Agreed price	1,111,111.11	0.01		
Subtotal of purchase of equipment			1,111,111.11	0.01		
Hisense Electric and its subsidiaries	Receipt of services	Agreed price	14,575,170.73	0.07	7,959,777.25	0.04
Xuehua Group	Receipt of services	Agreed price	1,695,834.54	0.01	1,509,759.62	0.01
Hisense Group and its subsidiaries	Receipt of services	Agreed price	485,527,316.96	2.37	378,740,525.61	2.05
Subtotal of receipt of services			501,798,322.23	2.45	388,210,062.48	2.10
Hisense Hong Kong	Financing purchase		257,608,352.83	1.26	167,311,138.67	0.91
Subtotal of financing purchase			257,608,352.83	1.26	167,311,138.67	0.91

Notes to the Financial Statements for 2016

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

7. Related party transactions *(continued)*

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

- (1) The Company and Hisense Group and Hisense Electric entered into a Business Cooperation Framework Agreement on 10 November 2015. During the effective period of the agreement, the transaction with the Company as the purchaser and recipient of services was subject to an aggregate cap (exclusive of value-added tax) of RMB637,110,000.
- (2) The Company and Zhejiang Hisense entered into a Business Framework Agreement (II) on 10 November 2015. During the effective period of the agreement, the transaction with the Company as the purchaser and recipient of services was subject to an aggregate cap (exclusive of value-added tax) of RMB373,630,000.
- (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 as the purchaser was subject to an aggregate cap (exclusive of value-added tax) of RMB8,700,000.
- (4) The Company and Hisense Hong Kong entered into a Financing 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 financing purchase as its agent was subject to an aggregate cap of US\$60,000,000.

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.

- (5) The above transactions with Hisense Group and its subsidiaries, Hisense Electrical Appliances and its subsidiaries, Hisense Hong Kong, constitute continuous connected transactions under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the relevant disclosure requirement and shareholders' approval requirement under Chapter 14A of the Listing Rules with respect to such continuing connected transactions (with the exceptions of the Purchase Financing Agency Framework Agreement between the Company and Hisense Hong Kong, which was made on normal commercial terms and in the interest of the Company, without any charge on the Group's assets for the financial assistance. As such, the connected transactions between the Company and Hisense Hong Kong were exempted from the requirements of reporting, announcement and shareholders' approval according to rules 14A.65(4) and 14A.76(1) (b) under the Listing Rules).

Other than the above transactions, the transactions with related parties conducted in 2016 as disclosed in note 11 of the financial statements in the 2016 annual report do not constitute connected transactions under Chapter 14A of the Listing Rules.

Notes to the Financial Statements for 2016

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

7. Related party transactions (continued)

(2) Sale of goods/rendering of service

Related party	Particulars of related party transactions	Pricing and decision-making Procedures of related party transactions	Amount for the year		Amount for previous year	
			Amount	Percentage of the amount for similar transactions (%)	Amount	Percentage of the amount for similar transactions (%)
Hisense Electric and its subsidiaries	Finished goods	Agreed price	172,161.55		78,685.49	
Hisense Hitachi	Finished goods	Agreed price	192,860,478.78	0.72	156,105,059.69	0.67
Hisense Group and its subsidiaries	Finished goods	Agreed price	3,007,371,896.33	11.25	2,362,632,558.07	10.07
Subtotal of sale of finished goods			3,200,404,536.66	11.97	2,518,816,303.25	10.74
Zhejiang Hisense	Raw materials	Agreed price	3,821,458.64	0.01	3,707,255.84	0.02
Hisense Group and its subsidiaries	Raw materials	Agreed price	32,579,947.26	0.12	15,562,543.10	0.07
Hisense Hitachi	Raw materials	Agreed price	3,551,343.88	0.01	2,312,711.31	0.01
Hisense Electric and its subsidiaries	Raw materials	Agreed price	28,812,549.88	0.11	9,444,794.00	0.04
Subtotal of sale of raw materials			68,765,299.66	0.25	31,027,304.25	0.14
Hisense Group and its subsidiaries	Mould and equipment	Market price	231,966,160.65	0.87	194,539,564.98	0.83
Hisense Hitachi	Moulds	Market price	8,604,700.89	0.03	12,182,643.94	0.05
Zhejiang Hisense	Mould and equipment	Market price	854,700.87		3,931,457.95	0.02
Hisense Electric and its subsidiaries	Moulds	Market price	84,993,480.12	0.32	79,712,191.84	0.34
Subtotal of sale of moulds			326,419,042.53	1.22	290,365,858.71	1.24
Hisense Electric and its subsidiaries	Provision of services	Agreed price	436,118.95			
Zhejiang Hisense	Provision of services	Agreed price	75,213.67		1,744,249.86	0.01
Hisense Group and its subsidiaries	Provision of Services	Agreed price	12,469,090.15	0.05	4,603,820.37	0.02
Subtotal of rendering of services			12,980,422.77	0.05	6,348,070.23	0.03

Notes to the Financial Statements for 2016

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

7. Related party transactions *(continued)*

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

- (1) The Company and Hisense Group and Hisense Electric entered into a Business Cooperation Framework Agreement on 10 November 2015. During the effective period of the agreement, the transaction with the Company as the supplier and service provider was subject to an aggregate cap (exclusive of value-added tax) of RMB4,062,610,000.
- (2) The Company and Zhejiang Hisense entered into a Business Framework Agreement (II) on 10 November 2015. During the effective period of the agreement, the transaction with the Company as the supplier and service provider was subject to an aggregate cap (exclusive of value-added tax) of 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 as the supplier and service provider was subject to an aggregate cap (exclusive of value-added 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.

- (4) The above transactions with Hisense Group and its subsidiaries, Hisense Electrical Appliances and its subsidiaries, constitute continuous connected transactions under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the relevant disclosure requirement and shareholders' approval requirement under Chapter 14A of the Listing Rules.

Other than the above transactions, the transactions with related parties conducted in 2016 as disclosed in note 11 of the financial statements in the 2016 annual report do not constitute connected transactions under Chapter 14A of the Listing Rules.

Notes to the Financial Statements for 2016

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

7. Related party transactions *(continued)*

(3) *Related party guarantees*

Guarantor	Guaranteed party	Amount (RMB'0000)	Inception date of guarantee	Expiry date of guarantee	Nature of guarantee	Execution of guarantee is completed or not
Hisense Group	Shandong Refrigerator	223.21	2014-3-26	2016-1-31	Import letter of credit	Yes
Hisense Group	Shandong Refrigerator	166.49	2016-3-4	2017-2-28	Import letter of credit	No
Subtotal		389.70	-	-		

Notes to related party guarantees:

- (1) In April 2013, Hisense Group and the business department of Qingdao branch of Agricultural Bank entered into a Maximum Guarantee Contract (No. 84100520130002413), pursuant to which Hisense Group would provide guarantee securities for the liabilities under the maximum credit limit of RMB100,000,000 arising from various businesses with Shandong Refrigerator by the business department of Qingdao branch of Agricultural Bank during the period from 25 April 2013 to 23 April 2014.
- (2) In August 2014, Hisense Group and the business department of Qingdao branch of Agricultural Bank entered into a Maximum Guarantee Contract (No. 84100520140001566), pursuant to which Hisense Group would provide guarantee securities for the liabilities under the maximum credit limit of RMB100,000,000 arising from various businesses with Shandong Refrigerator by the business department of Qingdao branch of Agricultural Bank during the period from 11 August 2014 to 18 November 2014.
- (3) In January 2015, Hisense Group and the Business department of Qingdao branch of Agricultural Bank entered into a Maximum Guarantee Contract (No. 84100520150000609), pursuant to which Hisense Group would provide guarantee securities for the liabilities under the maximum credit limit of RMB100,000,000 arising from various businesses with Shandong Air-conditioning by the Business department of Qingdao branch of Agricultural Bank during the period from 1 January 2015 to 31 December 2015.
- (4) 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.

(4) *Key management personnel emoluments*

Please see note 15(4) for details.

Notes to the Financial Statements for 2016

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

7. Related party transactions (continued)

(5) Other connected transactions

As at 31 December 2016, the Company and its subsidiaries had balances of deposit of RMB1,909,474,900 with Hisense Finance, including balance of restricted bank deposit of RMB1,417,280,800 balance of bank loan of RMB0.00, balance of notes payable of RMB2,864,606,100, balance of pledged notes receivable of RMB1,016,579,200. For the year, loan interests paid to Hisense Finance amounted to RMB0.00, interests paid in respect of discounted notes amounted to RMB3,563,700, handling fees paid for electronic bank acceptance amounted to RMB2,912,900 and settlement service fees paid for receipt and payment of funds amounted to RMB313,100. Interest income received from Hisense Finance for the deposits amounted to RMB10,366,500. Provision of exchange settlement and sales services by Hisense Finance amounted to RMB100,541,900 for the year.

8. Receivables from and payables to related parties

(1) Receivables from related parties

Item	Related party	Closing balance		Opening balance	
		Book value	Provision for bad debts	Book value	Provision for bad debts
Notes receivable	Hisense Electric and its subsidiaries	9,757,198.10		7,968,511.83	
Notes receivable	Hisense Group and its subsidiaries	5,897,256.62		18,521,879.30	
Notes receivable	Hisense Hitachi	100,000.00			
Subtotal		15,754,454.72		26,490,391.13	
Accounts receivable	Hisense Electric and its subsidiaries	26,886,474.22		13,140,965.43	
Accounts receivable	Hisense Group and its subsidiaries	788,750,643.07	539,160.91	484,133,955.77	
Accounts receivable	Zhejiang Hisense			2,228,918.22	
Accounts receivable	Hisense Hitachi	25,933,799.59		13,738,299.43	
Subtotal		841,570,916.88	539,160.91	513,242,138.85	
Other receivables	Hisense Electric and its subsidiaries	10,000.00		135,000.00	
Other receivables	Hisense Group and its subsidiaries	249,037.12			
Subtotal		259,037.12		135,000.00	
Prepayments	Hisense Group and its subsidiaries	550,955.34			
Subtotal		550,955.34			

Notes to the Financial Statements for 2016

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

8. Receivables from and payables to related parties (continued)

(2) Payables to related parties

Item	Related party	Closing balance	Opening balance
Note payable	Hisense Electric and its subsidiaries	3,281,866.38	1,084,475.65
Subtotal		3,281,866.38	1,084,475.65
Accounts payable	Hisense Group and its subsidiaries	55,770,650.47	64,450,631.26
Accounts payable	Zhejiang Hisense		15,862,455.79
Accounts payable	Hisense Hitachi	305,322.35	476,911.85
Accounts payable	Hisense Electric and its subsidiaries	33,433.77	
Subtotal		56,109,406.59	80,789,998.90
Other payables	Hisense Group and its subsidiaries	22,333,006.67	42,815,570.99
Other payables	Hisense Hitachi	1,710.00	
Other payables	Xuehua Group and its subsidiaries		55,178.70
Subtotal		22,334,716.67	44,870,749.69
Advances	Hisense Group and its subsidiaries	2,182,418.55	18,923,626.06
Advances	Hisense Electric and its subsidiaries		1,191,000.00
Subtotal		2,182,418.55	20,114,626.06

9. Transactions with “specific third party companies”

Item	Related party	At the end of the year Book value	At the beginning of the year Book value
	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 Bingxiong	58,030,000.00	58,030,000.00
Subtotal of other receivables		224,630,200.00	224,630,200.00
Other payables	Zhuhai Longjia	17,766,425.03	17,766,425.03
Subtotal of other payables		17,766,425.03	17,766,425.03

Notes to the Financial Statements for 2016

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

10. Transactions with Greencool Companies

Item	Related party	At the end of the year Book value	At the beginning of the year Book value
Other payables	Jiangxi Greencool	13,000,000.00	13,000,000.00
Subtotal of other payables		13,000,000.00	13,000,000.00

12. SHARE-BASED PAYMENT

1. General information about share-based payments

Item	Amount for the year
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	
Range of exercise price of other equity instruments and remaining contractual term as at the end of the period	

2. Equity settled share-based payments

Item	Amount for the year
Determination on fair value of equity instruments at the date of grant	Fair value of share options granted under the Scheme calculated by using the Black-Scholes option pricing model
Determination on the best estimate of the number of exercisable equity instruments	Determined by taking into account the number of the participants, expected gain of share options and performance assessment of participants, etc
Reasons for significant discrepancies between estimates of current period and previous period	No
Accumulated amount of equity settled share-based payments in capital reserve	8,716,058.46
Total expense recognized for equity settled share-based payments	8,716,058.46

3. Share-based services

Item	Amount for the year
Total amount of employee services received in exchange for share-based payments	
Total amount of other services received in exchange for share-based payments	

Notes to the Financial Statements for 2016

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

12. SHARE-BASED PAYMENT (continued)

4. Shares 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 31 December 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 follows:

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

Notes to the Financial Statements for 2016

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

12. SHARE-BASED PAYMENT *(continued)*

4. Shares granted *(continued)*

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

In 2013, the conditions to exercise for the first exercise period of the first phase share option incentive scheme of the Company were fulfilled. Upon approval at the fourth interim meeting of the Company's eighth session of the board of directors in 2013, 163 eligible participants all exercised their share options during the first exercise period, and there were 4,897,860 exercisable share options in total at the exercise price of RMB7.65. In May 2014, 148 eligible participants of the Company exercised their share options with 4,440,810 share options exercised. During the first phase to exercise share options, 9 participants were no longer eligible for this share option incentive. Board of directors of the Company decided to disqualify the above 9 participants and cancel 416,100 share options accordingly.

On 22 May 2015, the resolution on the adjustment of the participants and number of shares to be granted under the first share option incentive scheme of the Company was approved at the sixth interim meeting of the Company's eighth session of the board of directors in 2015 and 1,268,410 share options were cancelled as a result. Upon the adjustment, 8,716,680 share options can be granted under the scheme.

In May 2015, the conditions for the second exercise period of the first share option incentive scheme of the Company were fulfilled. Upon application by the Company's board of directors, confirmation by the Shenzhen Stock Exchange and approval by and registration with the Shenzhen branch of China Government Securities Depository Trust & Clearing Co. Ltd., 138 participants of the Company's share option incentive scheme have exercised the share options underlying 4,229,810 shares at an exercise price of RMB7.65/ share for the second exercise period.

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 of the ninth session of the board of directors of the Company. As this scheme has expired, share options granted but not yet exercised under this scheme have lapsed automatically. The board of directors of the Company agreed to cancel a total of 4,486,870 share options granted but not yet exercised under this scheme.

The Company submitted an application to the Shenzhen branch of China Securities Depository and Clearing Company Limited for the cancellation of the aforesaid share options and received the List of Share Options to be Cancelled reviewed and confirmed by the Shenzhen branch of China Securities Depository and Clearing Company Limited on 5 September 2016. The cancellation of the share options was completed.

Notes to the Financial Statements for 2016

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

13. COMMITMENTS AND CONTINGENCIES

1. Significant commitments

(1) Capital commitments

Unit: RMB'0000

Item	Closing balance	Opening balance
Commitments in respect of investment in subsidiaries and jointly controlled entity (commitment to purchase long-term assets):		
– Authorized but not contracted		
– Contracted but not paid	3,047.41	8,373.73
Commitments in respect of acquisition of the property, plant and equipment of subsidiaries (commitment for external investment):		
– Contracted but not paid		

(2) Operating lease commitments

Please see note 15(6) for details

2. Contingencies

(1) Contingent liabilities arising from pending litigations and arbitration and their financial impacts

As at 31 December 2016, the Company was involved, as defendant, in litigations with amount of RMB18,264,320.05, and provision of RMB5,377,637.34 had been made.

14. SUBSEQUENT EVENTS

1. Profit distribution

On 29 March 2017, the Proposed Profit Distribution Plan for 2016 was considered and approved at the first meeting of 2017 of the ninth session of the Board of the Company: Based on the total share capital of 1,362,725,370 shares of the Company as at 31 December 2016, a cash dividend of RMB3 (tax inclusive) was to be paid to all shareholders for every 10 shares held, amounting to a total distributed profit of RMB408,817,611.00. The undistributed profit would be rolled over for distribution in subsequent years. There will be no issue of bonus share and no transfer of capital reserve to share capital during the year. Such resolution is subject to the approval at 2016 annual general meeting of the Company.

Notes to the Financial Statements for 2016

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

15. OTHER SIGNIFICANT EVENTS

1. Assets and liabilities measured at fair value

Item	Opening balance	Amount of financial assets/liabilities	Gain or loss from change in fair value	Impairment provision for the year	Closing balance
Financial assets					
Derivative financial assets			9,695,070.04		9,695,070.04
Subtotal of financial assets			9,695,070.04		9,695,070.04
Financial liabilities					
Derivative financial liabilities	9,767,732.75		9,767,732.75		
Subtotal of financial liabilities	9,767,732.75		9,767,732.75		

2. Capital management

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

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

Item	End of 2016	End of 2015
Total debt	13,731,598,553.87	9,819,007,682.20
Including: Short-term borrowings		223,496,764.71
Accounts payable	4,367,268,398.09	2,878,291,676.53
Notes payable	5,227,854,741.07	2,931,174,504.52
Other payables	1,661,704,359.95	1,483,744,213.15
Less: Cash and cash equivalents	794,984,893.88	1,012,159,146.17
Net debt	12,936,613,659.99	8,806,848,536.03
Equity attributable to shareholders of parent	4,867,466,177.17	4,044,017,698.45
Capital and net debt	17,804,079,837.16	12,850,866,234.48
Gearing ratio	72.66%	68.53%

Notes to the Financial Statements for 2016

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

15. OTHER SIGNIFICANT EVENTS (continued)

3. Directors and supervisors' emoluments

The emoluments paid or payable to the directors and supervisors of the Company are as follows:

(1) As at 31 December 2016

Unit: RMB'0000

Name	Position	Emoluments of independent director	Salaries and allowances	Pension scheme contributions	Total
Executive directors					
Tang Ye Guo	Chairman		260.06	8.30	268.36
Liu Hong Xin	Director				
Lin Lan	Director				
Dai Hui Zhong	Director		237.44	6.27	243.71
Jia Shao Qian	Director and president		159.40	7.22	166.62
Wang Yun Li	Director and vice president		161.71	7.54	169.25
Wang Zhi Gang	Former director and vice president		110.10	7.49	117.59
Tian Ye	Former director and former president				
Independent non-executive director					
Ma Jin Quan	Independent non-executive director				
Xu Xiang Yi	Independent non-executive director	11.50			11.50
Wang Xin Yu	Independent non-executive director	24.00			24.00
Wang Ai Guo	Former independent non-executive director	11.50			11.50
Supervisors					
Liu Zhen Shun	Chairman of the Supervisory Committee				
Yang Qing	Supervisor				
Fan Wei	Supervisor		52.30	2.16	54.46
Total		47.00	981.01	38.98	1,066.99

- (i) Note: During the year, no emoluments were paid by the Company to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived or agreed to waive any emoluments during the year.
- (ii) Mr. Wang Yun Li was appointed as vice president of the Company in May 2016 and as director of the Company in June 2016; Mr. Dai Hui Zhong was appointed as director of the Company in June 2016; Mr. Ma Jin Quan was appointed as an independent director of the Company in January 2017.

Notes to the Financial Statements for 2016

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

15. OTHER SIGNIFICANT EVENTS (continued)

3. Directors and supervisors' emoluments (continued)

As at 31 December 2015

Unit: RMB'0000

Name	Position	Emoluments of independent director	Salaries and allowances	Pension scheme contributions	Total
Executive director					
Tang Ye Guo	Chairman		93.01	6.96	99.97
Liu Hong Xin	Director				
Lin Lan	Director				
Jia Shao Qian	Director and vice-president		86.43	6.81	93.24
Wang Zhi Gang	Director and vice-president		91.67	6.66	98.33
Yu Shu Min	Former director				
Xiao Jian Lin	Former director and former president		27.91	6.53	34.44
Tian Ye	Former director and former president		105.95	3.80	109.75
Huang Xiao Jian	Former director and former vice-president		39.64	6.66	46.30
Independent non-executive director					
Xu Xiang Yi	Independent non-executive director	9			9
Wang Ai Guo	Independent non-executive director	9			9
Wang Xin Yu	Independent non-executive director	24			24
Supervisor					
Liu Zhen Shun	Chairman of Supervisory Committee				
Yang Qing	Supervisor				
Fan Wei	Supervisor		28.51	2.05	30.56
Zhang Jian Jun	Former supervisor				
Shu Peng	Former supervisor		10.73	1.03	11.76
Gao Yu Ling	Former supervisor and financial officer				
Total		42	483.85	40.50	566.35

- (i) During the year, no emoluments were paid by the Company to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived or agreed to waive any emoluments during the year.
- (ii) Mr. Liu Hong Xin was appointed as director of the Company in June 2015; Mr. Jia Shao Qian was appointed as director June 2015; Mr. Wang Zhi Gang was appointed as vice president of the Company in November 2015 and as director of the Company in December 2015; Mr. Yang Qing was appointed as supervisor of the Company in December 2015; Ms. Fan Wei was appointed as supervisor of the Company in June 2015.

Notes to the Financial Statements for 2016

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

15. OTHER SIGNIFICANT EVENTS (continued)

3. Directors and supervisors' emoluments (continued)

(2) Five highest paid individuals

In 2016, four (2015: four) of the five highest paid individuals of the Company were directors. The aggregate of the emoluments in respect of the other one individual (2015: one) is as follows (in respect of the range of emoluments for 2016, emoluments of one individual exceeded RMB2,500,000 and below RMB3,000,000, that of one individual exceeded RMB2,000,000 and below RMB2,500,000, and those of three individuals exceeded RMB1,500,000 and below RMB2,000,000; in respect of the range of emoluments for 2015, those of two individuals exceeded RMB1,000,000 and below RMB1,500,000, and those of three individuals were below RMB1,000,000):

Unit: RMB'0000

Item	Amount for current period	Amount for previous period
Salaries, allowance and pension scheme contributions	152.79	134.45

4. Key management personnel emoluments

Unit: RMB'0000

Item	2016	2015
Directors and supervisors		
Emoluments, salaries and allowances of independent directors	1,028.01	525.85
Pension scheme contributions	38.98	40.50
Emoluments of other key management personnel		
Salaries and allowances	165.11	97.84
Pension scheme contributions	12.97	8.74
Total	1,245.07	672.93

Note: Key management personnel refers to the senior management who has the authority and responsibility for planning, directing and controlling the corporate activities.

5. Pension scheme

The Company and its subsidiaries contributes mainly to a defined contribution pension scheme, which is administered by the provincial government, in respect of employees of the Company and its subsidiaries. According to such scheme, the Company and its subsidiaries shall make contributions to the pension fund at certain percentage of the total salaries and wages of their employees.

Notes to the Financial Statements for 2016

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

15. OTHER SIGNIFICANT EVENTS (continued)

6. Leases

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

Unit: RMB'0000

Categories of leased assets under operating leases	Closing carrying amount	Opening carrying amount
Buildings and structures	6,804.39	6,935.96
Total	6,804.39	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 2016 amounted to RMB24,950,800 (2015: RMB18,821,900). The minimum lease payments receivable under non-cancellable operating leases at the end of reporting period are as follows:

Unit: RMB'0000

Item	Amount for the year	Amount for previous year
Within one year	969.10	575.77
Over one year but within five years	708.52	1,825.94
Total	1,677.62	2,401.71

(3) *The Company as lessee under operating lease*

The Company leases certain leasehold land and buildings and plant and machinery under operating leases with lease terms ranging from one to five years. The operating lease payments for the year ended 31 December 2016 were as follows:

Unit: RMB'0000

Operating lease payments	Amount for the year	Amount for previous year
Leasehold land and buildings	3,175.26	3,233.12
Plant and machinery	101.18	137.82
Total	3,276.44	3,370.94

Notes to the Financial Statements for 2016

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

15. OTHER SIGNIFICANT EVENTS (continued)

6. Leases (continued)

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

Unit: RMB'0000

Item	Amount for the year	Amount for previous year
Within one year	2,019.43	1,469.45
Over one year but within five years	1,182.92	2,119.36
Total	3,202.35	3,588.81

7. Auditors' remuneration

In 2016, as considered and approved at the shareholders' general meeting, the Company agreed to reappoint Ruihua Certified Public Accountants as the auditor of the Company for the year of 2016, and the Board was authorized to fix their remuneration. The Company agreed to pay a remuneration of approximately RMB1,800,000 and RMB700,000 to the auditors for the provision of audit services for financial reporting and internal control respectively for the year ended 31 December 2016 and bear the corresponding travel expenses.

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

1. Accounts receivable

(1) *Accounts receivable by category*

Category	Book value		Closing balance		Carrying amount
	Amount	%	Amount	Ratio of provision	
Individually significant and subject to separate provision for bad debts					
Accounts receivable subject to collective provision for bad debts based on credit risk features:					
Ageing analysis method	185,780,146.77	100.00	116,313,094.86	62.61	69,467,051.91
Greencool Companies					
Subtotal	185,780,146.77	100.00	116,313,094.86	62.61	69,467,051.91
Individually insignificant but subject to separate provision for bad debts					
Total	185,780,146.77	100.00	116,313,094.86	62.61	69,467,051.91

Notes to the Financial Statements for 2016

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Accounts receivable (continued)

(1) Accounts receivable by category (continued)

(Continued)

Category	Book value		Closing balance		Carrying amount
	Amount	%	Amount	Ratio of provision	
				%	
Individually significant and subject to separate provision for bad debts					
Accounts receivable subject to collective provision for bad debts based on credit risk features:					
Ageing analysis method	2,035,204,371.64	100.00	112,401,309.12	5.52	1,922,803,062.52
Greencool Companies					
Subtotal	2,035,204,371.64	100.00	112,401,309.12	5.52	1,922,803,062.52
Individually insignificant but subject to separate provision for bad debts					
Total	2,035,204,371.64	100.00	112,401,309.12	5.52	1,922,803,062.52

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

Ageing	Closing balance		Percentage
	Accounts receivable	Provision for bad debts	
Within three months	69,467,051.91		
Over three months but within six months			
Over six months but within one year	116,313,094.86	116,313,094.86	100%
Total	185,780,146.77	116,313,094.86	62.61%

(2) Provision for bad debts made, recovered or reversed during the year

Provision for bad debts made during the year amounted to RMB3,911,785.74; there was no provision for bad debts recovered or reversed during the year.

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

The total top five accounts receivable of the Company by closing balance of debtors amounted to RMB129,294,625.26, accounting for 69.60% of the closing balance of accounts receivable. A provision for bad debts of RMB13,994,294.97 in total was made as at the end of the year.

Notes to the Financial Statements for 2016

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables

(1) Other receivables are disclosed by category as follows

Category	Book value		Closing balance		Carrying amount
	Amount	%	Amount	Ratio of provision	
				%	
Individually significant and subject to separate provision for bad debts					
Other receivables subject to collective provision for bad debts based on credit risk features					
Ageing analysis method	1,307,592,083.47	100.00	21,078,675.59	1.61	1,286,513,407.88
Greencool Companies					
Subtotal	1,307,592,083.47	100.00	21,078,675.59	1.61	1,286,513,407.88
Individually insignificant but subject to separate provision for bad debts					
Total	1,307,592,083.47	100.00	21,078,675.59	1.61	1,286,513,407.88

(Continued)

Category	Book value		Closing balance		Carrying amount
	Amount	%	Amount	Ratio of provision	
				%	
Individually significant and subject to separate provision for bad debts					
Other receivables subject to collective provision for bad debts based on credit risk features					
Ageing analysis method	895,511,451.28	100.00	24,678,372.48	2.76	870,833,078.80
Greencool Companies					
Subtotal	895,511,451.28	100.00	24,678,372.48	2.76	870,833,078.80
Individually insignificant but subject to separate provision for bad debts					
Total	895,511,451.28	100.00	24,678,372.48	2.76	870,833,078.80

Notes to the Financial Statements for 2016

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables (continued)

(1) Other receivables are disclosed by category as follows (continued)

Other receivables in the group provided for bad debts by aging are as follows

Ageing	Closing balance		
	Other receivables	Provision for bad debts	Percentage
Within three months	1,284,653,464.99		
Over three months but within six months	2,066,603.21	206,660.32	10.00%
Over six months but within one year			
Over one year	20,872,015.27	20,872,015.27	100.00%
Total	1,307,592,083.47	21,078,675.59	1.61%

(2) Provision for bad debts made, recovered or reversed during the year

No provision for bad debts was made during the year; provision for bad debts recovered or reversed during the year amounted to RMB3,599,696.89.

(3) Other receivables by nature

Nature	Book value as at the end of the year	Book value as at the beginning of the year
Security deposit	4,243,043.14	3,314,171.50
Other current account	1,303,349,040.33	892,197,279.78
Total	1,307,592,083.47	895,511,451.28

(5) Top five other receivables by debtor as at the end of the period

Name	Nature	Closing balance	Ageing	Percentage of closing balance of total other receivables (%)	Provision for bad debts Closing balance
Top 1	Inter-group current account payments	399,433,406.40	Within three months	30.55	
Top 2	Inter-group current account payments	294,570,390.57	Within three months	22.53	
Top 3	Inter-group current account payments	214,414,337.32	Within three months	16.40	
Top 4	Inter-group current account payments	120,789,515.79	Within three months	9.24	
Top 5	Inter-group current account payments	118,756,457.50	Within three months	9.08	
Total	-	1,147,964,107.58	-	87.80	

Notes to the Financial Statements for 2016

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

3. Long-term equity investments

(1) Breakdown of long-term equity investments

Item	Closing balance			Opening balance		
	Book value	Impairment provision	Carrying amount	Book value	Impairment provision	Carrying amount
Investments in subsidiaries	2,576,543,954.49	59,381,641.00	2,517,162,313.49	2,563,473,480.38	59,381,641.00	2,504,091,839.38
Investments in associates and joint ventures	1,627,383,596.00		1,627,383,596.00	1,323,253,353.15		1,323,253,353.15
Total	4,203,927,550.49	59,381,641.00	4,144,545,909.49	3,886,726,833.53	59,381,641.00	3,827,345,192.53

(2) Investments in subsidiaries

Investee	Opening balance	Increase for the year	Decrease for the year	Closing balance	Provision for impairment made during the year	Closing balance of provision for impairment
Guangdong Refrigerator	155,552,425.85			155,552,425.85		
Guangdong Air-conditioner	281,000,000.00			281,000,000.00		59,381,641.00
Guangdong Freezer	15,668,880.00			15,668,880.00		
Hisense Home Appliances	51,531,053.70			51,531,053.70		
Rongsheng Plastic	53,270,064.00			53,270,064.00		
Wangao I&E	600,000.00			600,000.00		
Jiake Electronics	42,000,000.00			42,000,000.00		
Yingkou Refrigerator	84,000,000.00			84,000,000.00		
Jiangxi Kelon	147,763,896.00			147,763,896.00		
Hangzhou Kelon	24,000,000.00			24,000,000.00		
Yangzhou Refrigerator	252,356,998.00			252,356,998.00		
Zhuhai Kelon	189,101,850.00			189,101,850.00		
Shenzhen Kelon	95,000,000.00			95,000,000.00		
Kelon Development	11,200,000.00			11,200,000.00		
Chengdu Refrigerator	50,000,000.00			50,000,000.00		
Beijing Refrigerator	92,101,178.17			92,101,178.17		
Shandong Air-conditioning	567,175,477.74			567,175,477.74		
Zhejiang Air-conditioning	54,523,643.83	69,020,000.00	123,543,643.83			
Hisense Mould	121,628,013.09			121,628,013.09		
Shandong Refrigerator	275,000,000.00			275,000,000.00		
Zhejiang Hisense		67,594,117.94		67,594,117.94		
Total	2,563,473,480.38	136,614,117.94	123,543,643.83	2,576,543,954.49		59,381,641.00

Notes to the Financial Statements for 2016

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

3. Long-term equity investments (continued)

(3) Investments in associates and joint ventures

Investee	Opening balance	Increase in investment	Decrease in investment	Change for the year		
				Gains or losses from investment recognised using equity method	Adjustment for other comprehensive income	Other change in equity
I. Joint ventures						
Zhejiang Hisense	103,913,887.02			-36,319,775.98		
Hisense Hitachi	1,216,765,858.10			570,847,737.90		
Subtotal	1,320,679,745.12			534,527,961.92		
II. Associates						
Attend	2,573,608.03		2,489,803.72	-83,804.31		
Subtotal	2,573,608.03		2,489,803.72	-83,804.31		
Total	1,323,253,353.15		2,489,803.72	534,444,157.61		

(Continued)

Investee	Change for the year				Closing balance of provision for impairment
	Declaration of cash dividend or profit	Provision for impairment made	Other decreases	Closing balance	
I. Joint ventures					
Zhejiang Hisense			67,594,111.04	-	
Hisense Hitachi	160,230,000.00			1,627,383,596.00	
Subtotal	160,230,000.00		67,594,111.04	1,627,383,596.00	
II. Associates					
Attend					
Subtotal					
Total	160,230,000.00		67,594,111.04	1,627,383,596.00	

4. Operating revenue and operating costs

Item	Amount for the year	Amount for previous year
Revenue from principal operations	34,831,354.17	164,651,474.29
Revenue from other operations	31,637,225.18	49,530,956.77
Total operating revenue	66,468,579.35	214,182,431.06
Costs of principal operations	32,469,093.46	165,015,532.90
Costs of other operations	22,142,699.86	39,760,314.73
Total operating costs	54,611,793.32	204,775,847.63

Notes to the Financial Statements for 2016

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

5. Investment gain

(1) Breakdown of investment gain

Item	Amount for the year	Amount for previous year
Gain from long-term equity investment under the cost method	44,490,678.00	33,347,120.14
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	534,444,157.61	329,436,651.65
Gain from disposal of long-term equity investment	16,758,719.78	72,973,244.90
Gain from investment in wealth management products	819,726.03	
Total	602,517,281.42	443,167,016.69

(2) Gain from long-term equity investments under the cost method

Investee	Amount for the year	Amount for previous year
Hisense Home Appliances	8,387,028.00	9,318,926.74
Hisense Mould	17,403,650.00	15,228,193.40
Beijing Refrigerator	18,700,000.00	8,800,000.00
Total	44,490,678.00	33,347,120.14

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

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

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

Investee	Amount for the year	Amount for previous year
Zhejiang Hisense	-36,319,775.98	-67,586,516.45
Attend	-83,804.31	-276,432.42
Hisense Hitachi	570,847,737.90	397,299,600.52
Total	534,444,157.61	329,436,651.65

Notes to the Financial Statements for 2016

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

17. SUPPLEMENTARY INFORMATION

1. Breakdown of non-recurring profit or loss

Item	Amount	Amount for previous year Notes
Profit or loss from disposal of non-current assets	-15,647,219.04	
Return, reduction and exemption of taxes surpassing approval or without official approval document		
Government grants included in the gain or loss (excluding those government grants that are closely related to the enterprise's normal operation and business and are received with fixed amounts or with fixed percentage in compliance with national policies)	104,597,125.81	
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	24,049,500.83	
Other profit or loss items within the meaning of non-recurring profit or loss		
Subtotal	112,999,407.60	
Effect of income tax	14,854,388.82	
Effect of minority interests (after tax)	8,336,764.99	
Total	89,808,253.79	

Notes to the Financial Statements for 2016

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

17. SUPPLEMENTARY INFORMATION (continued)

2. Return on net asset and earnings per share

2016

Profit for the reporting period	Weighted Average of return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	24.23	0.80	0.80
Net profit attributable to ordinary shareholders of the Company after non-recurring profit or loss	22.23	0.73	0.73

2015

Profit for the reporting period	Weighted Average of return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	15.49	0.43	0.43
Net profit attributable to ordinary shareholders of the Company after non-recurring profit or loss	6.20	0.17	0.17

Notes to the Financial Statements for 2016

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

17. SUPPLEMENTARY INFORMATION (continued)

3. Five-year financial summary

Unit: RMB'0000

Statement item	2016	2015	2014	2013	2012
Total operating revenue	2,673,021.95	2,347,160.29	2,653,442.09	2,436,002.13	1,895,891.53
Total profits	127,034.15	62,365.42	77,123.56	129,941.28	74,285.40
Income tax	12,874.77	7,937.78	5,972.51	5,361.89	1,054.84
Net profit	114,159.38	54,427.64	71,151.05	124,579.39	73,230.56
Net profit attributable to equity holders of the parent	108,773.21	58,033.51	67,247.86	121,566.96	71,776.47
Minority interests	5,386.17	-3,605.87	3,903.19	3,012.43	1,454.09

Continued from above table

Statement item	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014	As at 31 December 2013	As at 31 December 2012
Total assets	1,905,505.86	1,429,281.70	1,326,679.40	1,220,803.09	929,501.14
Total liabilities	1,373,159.85	981,900.77	932,621.34	902,469.32	742,180.34
Net assets	532,346.01	447,380.94	394,058.06	318,333.77	187,320.80
Total equity attributable to equity holders of the parent	486,746.62	404,401.77	345,836.30	274,873.11	151,204.22
Minority interests	45,599.39	42,979.17	48,221.76	43,460.66	36,116.58
Total Equity	532,346.01	447,380.94	394,058.06	318,333.77	187,320.80