

Hisense 海信科龙

海信科龍電器股份有限公司

Hisense Kelon Electrical Holdings Company Limited

Stock Code: 00921



INTERIM
REPORT
2017

The Board of Directors (the "Board") of Hisense Kelon Electrical Holdings Company Limited (the "Company") hereby announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2017 (the "Reporting Period") together with comparative figures for the corresponding period in 2016. This interim results announcement has been reviewed by the Company's Audit Committee.

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

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

I. AUDITOR'S REPORT

Whether the interim report has already been audited or not

Yes No

The interim financial report of the Company has not been audited.

II. FINANCIAL STATEMENTS

The unit in the financial statements of the financial report is: RMB

1. CONSOLIDATED BALANCE SHEETS

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Item	Notes	Closing balance	<i>Unit: RMB</i>
			Opening Balance
Current assets:			
Cash at bank and on hand	6 (1)	3,900,614,157.25	2,227,421,330.74
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)	2,408,697,765.69	3,281,453,069.10
Accounts receivable	6 (4)	4,732,996,618.97	2,725,129,183.33
Prepayments	6 (5)	198,056,545.58	174,049,069.34
Insurance premium receivable			
Receivables from reinsurers			
Reserves for reinsurance contract receivable			
Interests receivable			
Dividends receivable			
Other receivables	6 (6)	441,822,972.75	245,420,469.20
Financial assets purchased under agreements to resell			
Inventories	6 (7)	2,834,958,196.07	2,660,044,996.38
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets	6 (8)	384,256,493.04	1,678,765,851.25
Total current assets		14,901,402,749.35	13,001,979,039.38
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)	2,198,473,929.07	1,627,383,596.00
Investment properties	6 (11)	25,494,073.06	26,456,837.73
Fixed assets	6 (12)	3,345,511,110.56	3,481,725,652.28
Construction in progress	6 (13)	121,410,404.41	72,942,458.27
Construction materials			
Disposal of fixed assets		824,584.98	907,836.24
Productive biological assets			
Oil and gas assets			
Intangible assets	6 (14)	728,545,607.20	737,341,935.68
Development costs			
Goodwill			
Long-term prepaid expenses	6 (15)	3,646,900.74	5,158,532.22
Deferred tax assets	6 (16)	99,403,639.95	97,262,720.52
Other non-current assets			
Total non-current assets		6,527,210,249.97	6,053,079,568.94
Total assets		21,428,612,999.32	19,055,058,608.32

1. CONSOLIDATED BALANCE SHEETS — *Continued*

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Notes	Closing balance	Opening Balance
Current liabilities:			
Short-term borrowings			
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 (17)	5,071,196.80	
Derivative financial liabilities			
Notes payable	6 (18)	5,631,545,292.10	5,227,854,741.07
Accounts payable	6 (19)	5,243,379,145.50	4,367,268,398.09
Advances from customers	6 (20)	778,652,810.80	831,778,792.45
Proceeds from disposal of financial assets under agreements to repurchase			
Handling fees and commission payable			
Employee remunerations payable	6 (21)	257,253,279.43	334,204,436.58
Taxes payable	6 (22)	255,711,911.82	222,919,921.87
Interests payable			
Dividends payable	6 (23)	408,817,611.00	
Other payables	6 (24)	1,916,807,274.78	1,661,704,359.95
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)	917,190,154.53	715,840,695.57
Total current liabilities		15,414,428,676.76	13,361,571,345.58

1. CONSOLIDATED BALANCE SHEETS — Continued

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

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			
Estimated liabilities	6 (26)	330,782,307.63	314,632,715.41
Deferred income	6 (27)	65,751,397.28	54,687,498.01
Deferred income tax liabilities	6 (16)	842,034.68	706,994.87
Other non-current liabilities			
Total non-current liabilities		397,375,739.59	370,027,208.29
Total liabilities		15,811,804,416.35	13,731,598,553.87
Owners' 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	2,092,861,943.89
Less: Treasury shares			
Other comprehensive income	6 (30)	12,896,058.69	14,274,706.17
Special reserves			
Surplus reserves	6 (31)	313,689,564.15	313,689,564.15
General risk provisions			
Undistributed profit	6 (32)	1,347,195,841.26	1,083,914,592.96
Total equity attributable to shareholders of the parent		5,129,368,777.99	4,867,466,177.17
Minority interests		487,439,804.98	455,993,877.28
Total owners' equity		5,616,808,582.97	5,323,460,054.45
Total liabilities and owners' equity		21,428,612,999.32	19,055,058,608.32

Legal representative: Tang Ye Guo

Chief financial officer: Gao Yu Ling

Accounting supervisor: Liang Hong Tao

2. BALANCE SHEETS OF PARENT COMPANY

Unit: RMB

Item	Notes	Closing Balance	Opening Balance
Current assets:			
Cash at bank and on hand		270,652,891.19	91,532,499.69
Financial assets at fair value through profit or loss			
Derivative financial assets			
Notes receivable			
Accounts receivable	16 (1)	48,563,365.54	69,467,051.91
Prepayment		19,592,920.34	19,592,920.34
Interests receivable			
Dividends receivable		13,407,908.71	
Other receivables	16 (2)	994,786,728.77	1,286,513,407.88
Inventories		74,253.04	54,658.30
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets		12,502,158.96	16,197,007.75
Total current assets		1,359,580,226.55	1,483,357,545.87
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)	4,947,689,824.62	4,144,545,909.49
Investment properties		8,989,167.00	9,681,297.00
Fixed assets		35,264,791.41	43,579,821.24
Construction in progress			
Construction materials			
Disposal of fixed assets			
Productive biological assets			
Oil and gas assets			
Intangible assets		186,401,493.00	189,597,968.00
Development costs			
Goodwill			
Long-term prepaid expenses			326,444.49
Deferred tax assets			
Other non-current assets			
Total non-current assets		5,182,245,276.03	4,391,631,440.22
Total assets		6,541,825,502.58	5,874,988,986.09

2. BALANCE SHEETS OF PARENT COMPANY — *Continued*

Item	Notes	<i>Unit: RMB</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		273,981,815.86	253,322,052.24
Advances from customers		24,339,290.65	24,460,718.63
Employee remunerations payable		1,581,673.91	3,843,432.68
Taxes payable		1,147,110.88	5,612,536.84
Interests payable			
Dividends payable		408,817,611.00	
Other payables		725,972,059.51	474,050,346.52
Liabilities classified as held for sale			
Non-current liabilities due within one year			
Other current liabilities		23,415,831.83	17,349,989.49
Total current liabilities		1,459,255,393.64	778,639,076.40
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preference shares			
Perpetual debts			
Long-term payables			
Long-term employee remunerations payable			
Specific payables			
Estimated liabilities		153,172,641.13	148,784,803.02
Deferred income		29,498,070.23	30,000,701.63
Deferred income tax liabilities			
Other non-current liabilities			
Total non-current liabilities		182,670,711.36	178,785,504.65
Total liabilities		1,641,926,105.00	957,424,581.05
Owners' equity:			
Share capital		1,362,725,370.00	1,362,725,370.00
Other equity instruments			
Including: Preference shares			
Perpetual debts			
Capital reserve		2,277,775,852.34	2,277,775,852.34
Less: Treasury shares			
Other comprehensive income			
Special reserves			
Surplus reserves		283,080,939.16	283,080,939.16
Undistributed profit		976,317,236.08	993,982,243.54
Total owners' equity		4,899,899,397.58	4,917,564,405.04
Total liabilities and Owners' equity		6,541,825,502.58	5,874,988,986.09

Legal representative: Tang Ye Guo

Chief financial officer: Gao Yu Ling

Accounting supervisor: Liang Hong Tao

3. CONSOLIDATED INCOME STATEMENT

Unit: RMB

Item	Notes	Amount for current period	Amount for previous period
I. Total operating revenue		17,606,357,421.41	13,122,951,531.51
Including: Operating revenue	6 (33)	17,606,357,421.41	13,122,951,531.51
Interest income			
Insurance premium earned			
Income from handling fees and commission			
II. Total operating costs		17,262,230,654.38	12,681,242,170.15
Including: Operating costs	6 (33)	14,347,700,763.30	10,044,258,231.63
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)	135,074,666.02	53,955,707.45
Selling expenses		2,267,388,760.01	2,172,369,108.67
Management expenses		508,288,225.78	458,091,291.92
Financial expenses	6 (35)	4,669,098.25	-33,394,686.74
Impairment losses on assets	6 (36)	-890,858.98	-14,037,482.78
Add: Gain from changes in fair value (Loss denoted by "-")	6 (37)	-14,766,266.84	9,050,884.77
Investment income (Loss denoted by "-")	6 (38)	366,251,715.27	190,519,070.38
Including: Share of profit of associates and jointly controlled entities		331,090,333.07	189,978,021.58
Foreign exchange gains (Loss denoted by "-")			
Other income	6 (39)	35,231,407.16	
III. Operating profits (Loss denoted by "-")		730,843,622.62	641,279,316.51
Add: Non-operating income	6 (40)	101,429,806.22	56,931,787.09
Including: Gain on disposal of non-current assets		9,181,467.94	785,867.64
Less: Non-operating expenses	6 (41)	8,913,127.67	1,651,046.75
Including: Loss on disposal of non-current assets		7,893,283.68	760,157.38
IV. Total profit (Total loss denoted by "-")		823,360,301.17	696,560,056.85
Less: Income tax expenses	6 (42)	117,992,544.82	105,932,299.43
V. Net profits (Net loss denoted by "-")		705,367,756.35	590,627,757.42
Net profits attributable to shareholders of the parent		672,098,859.30	559,279,481.31
Profit and loss of minority interests		33,268,897.05	31,348,276.11
VI. Other comprehensive income after tax, net		-1,378,647.48	962,025.96
Other comprehensive income after tax attributable to owners of the parent, net		-1,378,647.48	962,025.96
A. Items not to be reclassified into profit or loss in subsequent periods			
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			
B. Items to be reclassified into profit or loss in subsequent periods		-1,378,647.48	962,025.96
1. Share of other comprehensive income of the investee to be reclassified into profit or loss under the equity method in subsequent periods			
2. Gains or losses from changes in fair value of available-for-sale financial assets			
3. Gains or losses on reclassification of held-to-maturity investments as available-for-sale financial assets			
4. The effective portion of gains or losses from cash flow hedges			
5. Differences on translation of foreign currency financial statements		-1,378,647.48	962,025.96
6. Others			
Other comprehensive income after tax attributable to minority interests, net			
VII. Total comprehensive income		703,989,108.87	591,589,783.38
Total comprehensive income attributable to owners of the parent		670,720,211.82	560,241,507.27
Total comprehensive income attributable to minority interests		33,268,897.05	31,348,276.11
VIII. Earnings per share:			
(1) Basic earnings per share	6 (43)	0.49	0.41
(2) Diluted earnings per share	6 (43)	0.49	0.41

Legal representative: Tang Ye Guo

Chief financial officer: Gao Yu Ling

Accounting supervisor: Liang Hong Tao

4. INCOME STATEMENT OF PARENT COMPANY

Item	Notes	Unit: RMB	
		Amount for current period	Amount for previous period
I. Operating revenue	16 (4)	34,278,980.47	10,341,975.20
Less: Operating costs	16 (5)	34,093,751.94	6,282,258.00
Taxes and surcharges		790,726.62	538,601.18
Selling expenses		16,268,889.61	-18,303,337.92
Management expenses		12,743,633.09	21,308,903.97
Financial expenses		14,538,006.88	-12,107,242.22
Impairment losses on assets		-3,626,222.07	-1,491,919.50
Add: Gain from changes in fair value (Loss denoted by "-")			
Investment income (Loss denoted by "-")	16 (5)	414,150,493.24	240,472,699.58
Including: Share of profit of associates and jointly controlled entities		331,090,333.07	189,978,021.58
Other income			
II. Operating profits (Loss denoted by "-")		373,620,687.64	254,587,411.27
Add: Non-operating income		17,456,707.84	497,093.13
Including: Gain on disposal of non-current assets			
Less: Non-operating expenses		-75,208.06	-649,609.18
Including: Loss on disposal of non-current assets		1,462.33	19,987.71
III. Total profit (Total loss denoted by "-")		391,152,603.54	255,734,113.58
Less: Income tax expenses			
IV. Net profits (Net loss denoted by "-")		391,152,603.54	255,734,113.58
V. Other comprehensive income after tax, net			
A. Items not to be reclassified into profit or loss in subsequent periods			
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			
B. Items to be reclassified into profit or loss in subsequent periods			
1. Share of other comprehensive income of the investee to be reclassified into profit or loss under the equity method in subsequent periods			
2. Gains or losses from changes in fair value of available-for-sale financial assets			
3. Gains or losses on reclassification of held-to-maturity investments as available-for-sale financial assets			
4. The effective portion of gains or losses from cash flow hedges			
5. Differences on translation of foreign currency financial statements			
6. Others			
VI. Total comprehensive income		391,152,603.54	255,734,113.58
VII. Earnings per share:			
(1) Basic earnings per share			
(2) Diluted earnings per share			

Legal representative: Tang Ye Guo

Chief financial officer: Gao Yu Ling

Accounting supervisor: Liang Hong Tao

5. CONSOLIDATED CASH FLOW STATEMENT

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		12,156,017,540.22	9,029,697,663.46
Net increase in customer deposits and interbank deposits			
Net increase in borrowings from central bank			
Net increase in placements from other financial institutions			
Cash received from original insurance contracts			
Net cash received from reinsurance business			
Net increase in deposits and investments from policyholders			
Net increase from disposal of financial assets at fair value through profit or loss			
Cash received from interests, fees and commissions			
Net increase in capital borrowed			
Net increase in repurchase business capital			
Tax rebates received		591,629,782.01	434,364,375.99
Other cash received concerning operating activities	6 (45)	282,834,325.81	222,370,600.19
Subtotal of cash inflows from operating activities		13,030,481,648.04	9,686,432,639.64
Cash paid for purchases of commodities and receipt of services		8,187,278,779.82	4,727,872,044.53
Net increase in loans and advances to customers			
Net increase in deposits with central bank and other banks			
Cash paid for compensation under original insurance contract			
Cash paid for interests, fees and commissions			
Cash paid for policyholders' dividend			
Cash paid to and for employees		1,510,659,976.41	1,337,523,544.48
Cash paid for taxes and surcharges		563,260,302.62	496,244,616.89
Cash paid for other operating activities	6 (45)	2,169,134,464.20	2,058,071,163.11
Subtotal of cash outflows from operating activities		12,430,333,523.05	8,619,711,369.01
Net cash flows from operating activities	6 (46)	600,148,124.99	1,066,721,270.63
II. Cash flows from investing activities:			
Cash received from recovery of investments			160,230,000.00
Cash received from investment income		31,459,934.06	6,004,000.00
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		1,110,463.69	267,886.43
Net cash received from disposals of subsidiaries and other operation units			
Cash received relating to other investing activities	6 (45)	2,800,000,000.00	200,000,000.00
Subtotal of cash inflows from investing activities		2,832,570,397.75	366,501,886.43
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		197,559,248.87	129,400,021.03
Cash paid for investments		240,000,000.00	
Net increase in pledge loans			
Cash paid for acquiring subsidiaries and other operation units			
Cash paid relating to other investing activities	6 (45)	1,500,000,000.00	361,000,000.00
Subtotal of cash outflows from investing activities		1,937,559,248.87	490,400,021.03
Net cash flows from investing activities		895,011,148.88	-123,898,134.60

5. CONSOLIDATED CASH FLOW STATEMENT — *Continued*

Item	Notes	<i>Unit: RMB</i>	
		Amount for current period	Amount for previous period
III. Cash flows from financing activities:			
Cash received from capital contribution		13,791,096.00	
Including: Cash contribution to subsidiaries from minority shareholders' investment		13,791,096.00	
Cash received from borrowings			699,918,728.63
Cash received from issuance of bonds			
Cash received relating to other financing activities			
Subtotal of cash inflows from financing activities		13,791,096.00	699,918,728.63
Cash paid for repayment of borrowings			542,305,035.90
Cash paid for distribution of dividends, profit or payment of interest expenses		13,043,592.32	28,395,158.78
Including: Dividend and profit paid to minority shareholders by subsidiaries			
Cash paid relating to other financing activities	6 (45)	1,016,209,836.70	1,190,281.40
Subtotal of cash outflows from financing activities		1,029,253,429.02	571,890,476.08
Net cash flows from financing activities		-1,015,462,333.02	128,028,252.55
IV. Effects of foreign exchange rate changes on cash and cash equivalents			
		-1,175,966.03	89,604.86
V. Net increase in cash and cash equivalents			
		478,520,974.82	1,070,940,993.44
Add: Balance of cash and cash equivalents at the beginning of the period		794,984,893.88	1,012,159,146.17
VI. Balance of cash and cash equivalents at the end of the period		1,273,505,868.70	2,083,100,139.61

Legal representative: Tang Ye Guo

Chief financial officer: Gao Yu Ling

Accounting supervisor: Liang Hong Tao

6. CASH FLOW OF PARENT COMPANY

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		124,325,218.86	197,125,923.55
Tax rebates received			29,135,408.48
Cash received concerning other operating activities		286,438,389.17	604,869,361.74
Subtotal of cash inflows from operation activities		410,763,608.03	831,130,693.77
Cash paid for purchases of commodities and receipt of labor services			
Cash paid to and for employees		31,907,812.22	13,125,283.67
Cash paid for taxes and surcharges		5,678,433.05	5,526,903.36
Cash paid for other operating activities		171,446,569.66	534,977,071.73
Subtotal of cash outflow from operating activities		209,032,814.93	553,629,258.76
Net cash flows from operating activities		201,730,793.10	277,501,435.01
II. Cash flow from investing activities:			
Cash received from recovery of investments			160,230,000.00
Cash received from investment income		39,023,369.40	42,107,650.00
Net cash received from disposals of fixed assets, intangible assets and other long-term assets			6,700.00
Net cash received from disposals of subsidiaries and other operation units			
Cash received relating to other investing activities			
Subtotal of cash inflows from investing activities		39,023,369.40	202,344,350.00
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		145,771.00	
Cash paid for investments		240,000,000.00	
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		240,145,771.00	100,000,000.00
Net cash flows from investing activities		-201,122,401.60	102,344,350.00
III. Cash flows from financing activities:			
Cash received from capital contribution			
Cash received from borrowings			
Cash received from issuance of bonds			
Cash received relating to other financing activities		50,000.00	
Subtotal of cash inflows from financing activities		50,000.00	
Cash paid for repayment of borrowings			
Cash paid for distribution of dividends, profit or payment of interest expenses			
Cash paid relating to other financing activities			
Subtotal of cash outflows from financing activities			
Net cash flows from financing activities		50,000.00	
IV. Effects of foreign exchange rate changes on cash and cash equivalents			
V. Net increase in cash and cash equivalents			
		658,391.50	379,845,785.01
Add: Balance of cash and cash equivalents at the beginning of the period		91,482,499.69	61,080,569.87
VI. Balance of cash and cash equivalents at the end of the period		92,140,891.19	440,926,354.88

Legal representative: Tang Ye Guo

Chief financial officer: Gao Yu Ling

Accounting supervisor: Liang Hong Tao

7. CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Unit: RMB

Amount for current period	Previous period												
	Attributable to shareholders of the parent												
	Other equity instruments				Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provisions	Undistributed profits	Minority interests	Total shareholders' equity	
Share capital	Preference shares	Perpetual debts	Others	Capital reserve									
I. Closing balance of previous year	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
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				2,092,861,943.89		14,274,706.17		313,689,564.15		1,083,914,592.96	455,993,877.28	5,323,460,054.45
III. Movements in the current period (Decreases denoted in "-")													
(1) Total comprehensive income							-1,378,647.48				263,281,248.30	31,445,927.70	293,348,528.52
(2) Shareholders' contributions and capital reductions												13,791,096.00	13,791,096.00
1. Ordinary shares contributed by owners												13,791,096.00	13,791,096.00
2. Capital contributions by holders of other equity instruments													
3. Amount of sharebased payment included in shareholders' equity													
4. Other													
(3) Profit Distribution											-408,817,611.00	-15,614,065.35	-424,431,676.35
1. Appropriations to surplus reserve													
2. Appropriations to general risk provisions													
3. Distribution to owners (or shareholders)											-408,817,611.00	-15,614,065.35	-424,431,676.35
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		12,896,058.69		313,689,564.15		1,347,195,841.26	487,439,804.98	5,616,808,582.97

Legal representative: Tang Ye Guo

Chief financial officer: Gao Yu Ling

Accounting supervisor: Liang Hong Tao

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

Unit: RMB

Amount for previous year	Previous period												Total shareholders' equity
	Other equity instruments				Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provisions	Undistributed profits	Minority interests	
Item	Share capital	Preference shares	Perpetual debts	Others									Treasury shares
I. Closing balance for 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 shareholders												1,500,000.00	1,500,000.00
2. Capital contributions by holders of other equity instruments													
3. Amount of sharebased 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

Legal representative: Tang Ye Guo

Chief financial officer: Gao Yu Ling

Accounting supervisor: Liang Hong Tao

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

Unit: RMB

Amount for current period	Current period										
	Attributable to shareholders of the parent										
	Other equity instruments				Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Total shareholders' equity
Share capital	Preference shares	Perpetual debts	Others								
I. Closing balance of previous year	1,362,725,370.00				2,277,775,852.34				283,080,939.16	993,982,243.54	4,917,564,405.04
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				283,080,939.16	993,982,243.54	4,917,564,405.04
III. Movements in the current period (Decreases denoted in "-")										-17,665,007.46	-17,665,007.46
(1) Total comprehensive income										391,152,603.54	391,152,603.54
(2) Owners' contributions and capital reductions											
1. Ordinary shares contributed by shareholders											
2. Capital contributions by holders of other equity instruments											
3. Amount of share-based payment included in shareholders' equity											
4. Other											
(3) Profit Distribution										-408,817,611.00	-408,817,611.00
1. Appropriations to surplus reserve											
2. Distribution to owners (or shareholders)										-408,817,611.00	-408,817,611.00
3. Other											
(4) Transfer of owners' equity											
1. Transfer to capital (or share capital) from capital reserve											
2. Transfer to capital (or share capital) from surplus reserve											
3. Surplus reserves for making up losses											
4. Other											
(5) Special reserves											
1. Provided during the period											
2. Used during the period											
(6) Other											
IV. Closing balance for the period	1,362,725,370.00				2,277,775,852.34				283,080,939.16	976,317,236.08	4,899,899,397.58

Legal representative: Tang Ye Guo

Chief financial officer: Gao Yu Ling

Accounting supervisor: Liang Hong Tao

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

Unit: RMB

Amount for previous year	Other equity instruments					Previous period					Total shareholders' equity
	Share capital	Preference shares	Perpetual debts	Others	Capital reserve	Treasury shares	Less: Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	
I. Closing balance for 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 "-")											
(1) Total comprehensive income							-24,823.98		73,067,250.66	453,196,450.47	526,238,877.15
(2) Shareholders' contributions and capital reductions							-24,823.98			730,672,506.63	730,647,682.65
1. Ordinary shares contributed by owners											
2. Capital contributions by holders of other equity instruments											
3. Amount of share-based payment included in shareholders' equity											
4. Other											
(3) Profit Distribution									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. Distribution to owners (or shareholders)										-204,408,805.50	-204,408,805.50
3. Other											
(4) Transfer of owners' equity											
1. Transfer to capital (or share capital) from capital reserve											
2. Transfer to capital (or share capital) from surplus reserve											
3. Surplus reserves for making up losses											
4. Other											
(5) Special reserves											
1. Provided during the period											
2. Used during the period											
(6) Other											
IV. Closing balance for the period	1,362,725,370.00				2,277,775,852.34				283,080,939.16	993,982,243.54	4,917,564,405.04

Legal representative: Tang Ye Guo

Chief financial officer: Gao Yu Ling

Accounting supervisor: Liang Hong Tao

NOTES TO THE FINANCIAL STATEMENTS

Half year of 2017

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

1. COMPANY PROFILE

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

1. COMPANY PROFILE — *Continued*

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

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

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

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

As at 30 June 2017, the total number of shares of the Company was 1,362,725,370 and the registered share capital of the Company was RMB1,362,725,370.00; of which, the shareholding of the Company held by Qingdao Hisense Air-Conditioning was 37.92%.

Scope of operations of the Company:

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

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

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

This financial statements was approved by the Board of the Company on 10 August 2017.

During the reporting period, 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 1 and decreased by 1 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 42 specific accounting standards, application guidelines for Accounting Standards for Business Enterprises, explanation of Accounting Standards for Business Enterprises and other relevant regulations (hereinafter collectively referred to as "Accounting Standards For Business Enterprises") issued and revised on February 15, 2006 or later, and the Information Disclosure Regulations for Companies Publicly Issuing Securities No. 15 — General Provisions for Financial Statements (Revised 2014) issued by China Securities Regulatory Commission.

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS — Continued

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

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

The financial statements prepared by the Company comply with the requirements of the Accounting Standards for Business Enterprises and truly and completely reflect the financial state as at 30 June 2017 and the operating results, cash flows and other related information of the Company for the year then ended. In addition, the financial statements also comply with the disclosure requirements as contained in the Information Disclosure Regulations for Companies Publicly Issuing Securities No. 15 — General Provisions for Financial Statements (Revised 2014) issued by China Securities Regulatory Commission relating to financial statements and notes thereto in all material respects.

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

1. Accounting period

The 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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

5. Preparation of consolidated financial statements

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

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

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

(2) *Preparation of consolidated financial statements*

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

5. Preparation of consolidated financial statements — *Continued*

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

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

The Company shall determine whether a series of transactions in relation to disposal of equity investment in or even loss of control over a subsidiary in stages should be treated as a bundle of transactions. When the economic effects and terms and conditions of the transactions in relation to the disposal of equity investment met one or more of the following situations, the series of transactions shall normally be accounted for as a bundle of transactions: (i) these transactions are entered into simultaneously or after considering the mutual consequences of each individual transaction; (ii) these transactions need to be considered as a whole in order to achieve a deal in commercial sense; (iii) the occurrence of an individual transaction depends on the occurrence of one or more individual transaction(s) in the series; (iv) The result of an individual transaction is not economical, but it would be economical after taking into account the other transactions in the series. When the transactions are not treated as a bundle of transactions, each of the individual transactions shall be accounted for as the "portion disposal of long term equity investment in a subsidiary which would not lead to loss of control" (detailed in note 4(12)(2)④ "Disposal of long-term equity investment" or the "loss of control due to portion disposal of equity investment in a subsidiary or otherwise" (detailed in the previous paragraph), as the case may be. When the transactions in relation to disposal of equity investment in or even loss of control over a subsidiary are treated as a bundle of transactions, each of the transactions shall be accounted for as one transaction in relation to disposal of the subsidiary leading to loss of control; however, the difference between the consideration received from the disposal and the share of net assets of the subsidiary disposed in each individual transaction before loss of control shall be recognised as other comprehensive income in the consolidated financial statements, and reclassified as profit or loss for the period when control is lost.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

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

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

The investment in joint ventures is accounted for using the equity method in accordance with the accounting policies as set out in note 4(12)(2)② "Long-term equity investment by using equity method".

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

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

7. Criteria for the recognition of cash and cash equivalents

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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

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

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

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

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

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

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

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

The following displays the methods for translating financial statements in foreign currency of foreign operations into the statements in RMB: The asset and liability items in the balance sheets are translated at the spot exchange rates on the balance sheet date. Under the shareholders’ equity, the items other than “undistributed profits” are translated at the spot exchange rates at the transaction dates. The income and expense items in the income statements are translated at the spot 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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

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

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

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

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

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

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

9. Financial instruments

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

(1) *Determination of fair value for financial assets and financial liabilities*

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

9. Financial instruments — *Continued*

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

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

① *Financial assets at fair value through profit or loss*

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

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

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

② *Held-to-maturity investments*

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

9. Financial instruments — *Continued*

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

③ *Loans and receivables*

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

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

④ *Available-for-sale financial assets*

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

9. Financial instruments — *Continued*

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

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

① Impairment of held-to-maturity investments

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

② Impairment of available-for-sale financial assets

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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

9. Financial instruments — *Continued*

(4) *Basis for recognition and measurement of transfer of financial assets — Continued*

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

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

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

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

(5) *Classification and measurement of financial liabilities*

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

① *Financial liabilities at fair value through profit or loss*

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

9. Financial instruments — *Continued*

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

② *Other financial liabilities*

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

③ *Financial guarantee contracts*

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

(6) **De-recognition of financial liabilities**

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

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

(7) **Derivatives and embedded derivatives**

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

9. Financial instruments — *Continued*

(8) *Offsetting financial assets and financial liabilities*

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

(9) *Equity instruments*

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

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

10. Accounts receivable

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued

10. Accounts receivable — Continued

(2) Receivables subject to collective provision:

Basis for determination of groups is as follows

Group 1 A group of accounts receivable based on ageing characteristics

Group 2 A group of Greencool receivables.

Method of provision for bad debts by groups

Group 1 Using ageing analysis method.

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

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

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

Individually insignificant receivables subject to separate provision:

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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, and materials ready for sale, is determined based on the estimated selling price less the estimated selling and distribution costs and related taxes in the ordinary course of business;

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

11. Inventories — *Continued*

(4) The group adopts the perpetual inventories system.

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

Low-value consumables are expensed upon issuance.

Packaging materials are expensed upon issuance.

12. Long-term equity investments

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

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

(1) ***Determination of investment cost***

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

12. Long-term equity investments — *Continued*

(1) *Determination of investment cost — Continued*

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

12. Long-term equity investments — *Continued*

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

12. Long-term equity investments — *Continued*

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

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

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

③ *Acquisition of minority interests*

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

④ *Disposal of long-term equity investment*

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

12. Long-term equity investments — *Continued*

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

12. Long-term equity investments — *Continued*

(3) *Impairment test and provision for impairment*

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

13. Investment properties

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

Investment 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:

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

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

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 on long term assets" for recognition of provision for impairment of fixed assets of the Company.

(4) Other explanations

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

15. Construction in progress

(1) Measurement of construction in progress

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

(2) Timing of transfer from construction in progress to fixed assets

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

(3) Provision for impairment loss on construction in progress

Please see note 4(20) "Impairment on 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:

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

16. Borrowing costs — *Continued*

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

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

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

(3) *Calculation of capitalized borrowing costs*

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

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.

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES — Continued**17. Intangible asset****(1) Initial measurement of intangible assets**

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

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

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

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

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

② Amortisation of intangible assets

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

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.

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

④ Impairment of intangible assets

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

18. Expenditure on research and development

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

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

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

- (3) Expenditure at the research phase of an internal research and development project is recognized in profit or loss for the period when it is incurred.
- (4) Expenditure at the development phase of an internal research and development project is recognised as an intangible asset only if all of the following conditions are satisfied at the same time:
 - ① It is technically feasible to complete the intangible asset so that it will be available for use or sale;
 - ② Management intends to complete and to use or sell the intangible asset;
 - ③ It can be demonstrated how the intangible asset will generate economic benefits, including demonstrating that there is an existing market for products produced by the intangible asset or for the intangible asset itself, and that it can be used if the intangible asset is to be used internally;
 - ④ There are adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible assets;
 - ⑤ The expenditure attributable to the intangible asset at its development phase can be reliably measured.
- (5) All the expenditures on research and development which cannot be distinguished between the research phase and development phase are recognised in the profit or loss when incurred.

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 — *Continued*

Half year of 2017

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

20 Impairment on long term assets

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

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

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

21. Employee benefits

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

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

21. Employee benefits — *Continued*

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

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

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

22. Provisions

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

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

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

23. Share-based payments and equity instruments

(1) *Share-based payments*

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

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

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

24. Revenue — *Continued*

(2) *Rendering of services — Continued*

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:

- ① If the cost incurred is expected to be recoverable, the revenue from rendering of services shall be recognised at the cost that has been incurred, and an equivalent amount is carried forward to profit or loss as service cost.
- ② If the cost incurred is not expected to be recoverable, the cost that has been incurred shall be recognised in the profit or loss for the period, and no revenue from such services is recognised.

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:

- ① The interest income is recognised on basis of the length of time during which and effective interest rate at which the Company's cash funds are utilized by the others.
- ② The royalty income is recognised 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.

Government grants obtained for acquisition or construction of long-term assets or other forms of longterm 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.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

25. Government grants — *Continued*

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.

A government grant related to the ordinary activities of the Company shall be recognized as "Other income" based on the nature of the economic business. A government grant not related to the ordinary activities shall be recognized as non-operating revenue.

26. Deferred tax assets/deferred tax liabilities

(1) *Current income tax*

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

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

(2) *Deferred income tax assets and deferred income tax liabilities*

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

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

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

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

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

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

(3) *Income tax expense*

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

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

(4) *Offsetting income tax*

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

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

27. Segment information

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

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

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

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

28. Operating leases

(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 — *Continued*

Half year of 2017

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

29. Changes in significant accounting policies and accounting estimates

(1) *Changes in accounting policies*

On 28 April 2017, the Ministry of Finance issued the Accounting Standards for Business Enterprises No. 42 – Noncurrent assets held for sale, disposal groups and discontinued operation based on Accounting (2017) No. 13, and such accounting standards were implemented since 28 May 2017. On 10 May 2017, the Ministry of Finance issued the Accounting Standards for Business Enterprises No. 16 – Government grants (2017 revision) based on Accounting (2017) No. 15, and such accounting standards were implemented since 12 June 2017. The Company started to implement the above two accounting standards according to the schedule required by the Ministry of Finance.

Prior to the implementation of the Accounting Standards for Business Enterprises No. 16 – Government grants (2017 revision), the Company included the government grants received in the non-operating income. After the implementation of the Accounting Standards for Business Enterprises No. 16 – Government grants (2017 revision), the Company applied the new standard to the government grants which existed on 1 January 2017, while adjustments were made on the government grants newly conferred between 1 January 2017 and the date of implementation of this standard in accordance with this standard, which were: the government grants relating to ordinary activities and existed after 1 January 2017 would be included in other income; the government grants not relating to ordinary activities would be included in non-operating income.

The changes in accounting policies and the adjustments of accounting subjects only affect the presentation of financial statements. They do not affect the profits and losses, total assets, and net assets of the Company, and do not involve the retroactive adjustments of the financial statements in previous years.

(2) *Changes in accounting estimates*

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

30. Critical accounting judgements and estimates

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

30. Critical accounting judgements and estimates — *Continued*

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.

(4) *Provision for impairment of long term assets*

At the balance sheet date, the Company makes its judgment as to whether there is any evidence indicating potential impairment of non-current assets other than financial assets. Intangible assets with indefinite useful life shall be tested for impairment when there is any indication of impairment in addition to the annual impairment testing. Other non-current assets other than financial assets shall be tested for impairment if there is any evidence indicating that their carrying amount cannot be recovered.

When the carrying amount of an asset or asset groups is higher than the recoverable amount, being the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset, it indicates impairment.

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

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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

30. Critical accounting judgements and estimates — *Continued*

(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 — Continued

Half year of 2017

5. TAXATION

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

Type of taxes	Tax basis	Tax rate
Value-added tax	Sales tax is computed on 17%, 13%, 11%, 6% and 5%, respectively, of the taxable income. Value-added tax is computed on the difference after deduction of input value-added tax of the current period. Input value-added tax is not deductible for value-added tax to which simple collection method is applicable.	17%, 13%, 11%, 6%, 5%
Business tax	Taxable business turnover	5%
City maintenance and construction tax	Turnover tax payable	5%, 7%
Education surcharges	Turnover tax payable	3%
Corporate 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%
Hisense Mould (Deutschland) GmbH	15%

2. Tax preferences and approvals

Guangdong Kelon Mould Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201444001017) dated 10 October 2014 which was jointly issued by the Guangdong Science and Technology Department, Guangdong Provincial Finance Department, Guangdong Provincial State Tax Bureau and Guangdong Provincial Local Taxation Bureau, with an effective period of three years (2014, 2015 and 2016). Pursuant to the tax preference regulation on High-tech Enterprises, this subsidiary is entitled to the preferential enterprise income tax rate of 15% in 2014, 2015 and 2016. The re-assessment of high-and-new technological enterprise status for Kelon Mould in 2017 is under progress, and according to the relevant requirements on State tax, the preferential rate of 15% is effective temporarily during the re-assessment period.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

5. TAXATION — *Continued*

2. Tax preferences and approvals — *Continued*

Hisense (Shandong) Air-Conditioning Co. Ltd., a subsidiary of the Company, received the Certificate of Hightech Enterprise (Number: GR201437100159) dated 14 October 2014 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, Qingdao State Taxation Bureau and Qingdao Local Taxation Bureau, with an effective period of three years (2014, 2015 and 2016). According to the relevant tax preference regulation on High-tech Enterprises, the applicable enterprise income tax rate for this subsidiary is 15% in 2014, 2015 and 2016. The re-assessment of high-and-new technological enterprise status for Shandong Airconditioning in 2017 is under progress, and according to the relevant requirements on State tax, the preferential rate of 15% is effective temporarily during the re-assessment period.

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. The re-assessment of high-and-new technological enterprise status for Hisense Mould in 2017 is under progress, and according to the relevant requirements on State tax, the preferential rate of 15% is effective temporarily during the re-assessment period.

Hisense (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. The re-assessment of high-and-new technological enterprise status for Shandong Refrigerator in 2017 is under progress, and according to the relevant requirements on State tax, the preferential rate of 15% is effective temporarily during the re-assessment period.

Hisense 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 Chuan Jing Xin Chan Ye Han No. (2014)176 from Sichuan Province Commission of Economy and Information Technology on 7 March 2014. The principal activities of this subsidiary are recognized as industrial projects encouraged by the State. Pursuant to the tax preference regulation on Western Development policies, this subsidiary is entitled to the preferential enterprise income tax rate of 15% from 2014 to 2020.

The subsidiaries of the Company which were incorporated in Hong Kong are subject to an income tax on the estimated assessable profits derived from or arising in Hong Kong at a rate of 16.5% (2016: 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 — *Continued*

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unless otherwise specified, opening balances refer to balances as at 1 January 2017, whereas closing balances refer to balances as at 30 June 2017; and the current period refers to January to June 2017, whereas the previous period refers to January to June 2016 in the following notes (including major notes to the financial statements of the Company):

1. Cash at bank and on hand

Item	Closing balance	Opening balance
Cash on hand:	6,313.99	
Bank deposits:	1,273,499,554.71	794,984,893.88
Other cash at bank and on hand:	2,627,108,288.55	1,432,436,436.86
Total	3,900,614,157.25	2,227,421,330.74
Including: Total amount deposited overseas	159,226,975.33	99,102,782.41

Notes to cash at bank and on hand:

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

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

Item	Closing balance	Opening balance
Security deposit	2,627,108,288.55	1,432,436,436.86
Total	2,627,108,288.55	1,432,436,436.86

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

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
<hr/>		
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 period.

3. Notes receivable

(1) Classification of notes receivable

Category	Closing balance	Opening balance
Bank acceptance notes	2,284,460,692.42	3,265,788,951.82
Commercial acceptance notes	124,237,073.27	15,664,117.28
<hr/>		
Total	2,408,697,765.69	3,281,453,069.10

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

3. Notes receivable — *Continued*

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

Item	Pledged amounts as at the end of the period
Bank acceptance notes	1,260,591,370.38
Total	1,260,591,370.38

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

Item	Amount derecognized as at the end of the period	Amount not derecognized as at the end of the period
Bank acceptance notes	3,302,517,303.32	
Including: Endorsed and not due	3,302,517,303.32	
Discounted and not due		
Commercial acceptance notes	5,780,428.74	
Including: Endorsed and not due	5,780,428.74	
Discounted and not due		
Total	3,308,297,732.06	

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

4. Accounts receivable

(1) Accounts receivable by category:

Category	Book value		Closing balance		Carrying amount
	Amount	Percentage (%)	Provision for bad debts		
			Amount	Percentage (%)	
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	4,858,931,278.10	100	125,934,659.13	2.59	4,732,996,618.97
Greencool Companies					
Subtotal	4,858,931,278.10	100	125,934,659.13	2.59	4,732,996,618.97
Individually insignificant but subject to separate provision for bad debts					
Total	4,858,931,278.10	100	125,934,659.13	2.59	4,732,996,618.97

Continued

Category	Book value		Opening balance		Carrying amount
	Amount	Percentage (%)	Provision for bad debts		
			Amount	Percentage (%)	
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	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

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

4. Accounts receivable — *Continued*

(1) *Accounts receivable by category: — Continued*

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

Age	Closing balance		
	Accounts receivable	Provision for bad debts	Percentage (%)
Within three months	4,677,268,489.38		
Over three months but within six months	56,902,244.30	5,690,224.43	10.00
Over six months but within one year	9,032,219.44	4,516,109.72	50.00
Over one year	115,728,324.98	115,728,324.98	100.00
Total	4,858,931,278.10	125,934,659.13	2.59

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

Provision for bad debts made during the period amounted to RMB240,475.54; provision for bad debts recovered or reversed during the period amounted to RMB6,794,301.89.

(3) *Accounts receivable written-off during the period*

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

(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 RMB2,715,455,552.86, accounting for 55.89% of the closing balance of accounts receivable. A provision for bad debts of RMB8,682,443.05 in total was made as at the end of the period.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

5. Prepayments

(1) *Prepayments are presented by aging as follows:*

Age	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within one year	197,251,170.41	99.59	173,949,833.71	99.94
One to two years	805,375.17	0.41	99,235.63	0.06
Total	198,056,545.58	100.00	174,049,069.34	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 RMB122,128,740.84, accounting for 61.66% of total closing balance of prepayments.

6. Other receivables

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

Category	Closing balance				Carrying amount
	Book value		Provision for bad debts		
	Amount	Percentage (%)	Amount	Percentage (%)	
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	315,001,870.65	58.37	37,779,097.90	11.99	277,222,772.75
Greencool Companies	224,630,200.00	41.63	60,030,000.00	26.72	164,600,200.00
Subtotal	539,632,070.65	100.00	97,809,097.90	18.13	441,822,972.75
Individually insignificant but subject to separate provision for bad debts					
Total	539,632,070.65	100.00	97,809,097.90	18.13	441,822,972.75

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

6. Other receivables — Continued

(1) Other receivables are disclosed by category as follows: — Continued

Continued

Category	Book value		Opening balance		Carrying amount
	Amount	Percentage (%)	Amount	Percentage (%)	
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	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

① Other receivables in the group provided for bad debts by aging are as follows:

Age	Closing balance		
	Other receivables	Provision for bad debts	Percentage (%)
Within three months	266,429,515.91		
Over three months but within six months	10,539,464.15	1,053,946.42	10.00
Over six months but within one year	2,615,478.22	1,307,739.11	50.00
Over one year	35,417,412.37	35,417,412.37	100.00
Total	315,001,870.65	37,779,097.90	11.99

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**6. Other receivables — Continued****(1) Other receivables are disclosed by category as follows: — Continued**

② 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 Law Offices ("DeHeng Law Offices")	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

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.

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

Provision for bad debts made during the period amounted to RMB1,146,983.57; provision for bad debts recovered or reversed during the period amounted to RMB186,091.77.

(3) Other receivables written-off during the period

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**6. Other receivables — Continued****(4) Other receivables by nature**

Nature	Closing balance	Opening balance
Security deposit	16,277,538.77	27,245,966.69
Refund of tax for exports	159,737,509.97	32,871,458.04
Balance with Greencool Companies	224,630,200.00	224,630,200.00
Other current account	138,986,821.91	57,521,050.57
Total	539,632,070.65	342,268,675.30

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

The total top five other receivables of the Company by closing balance of debtors amounted to RMB349,367,509.97, accounting for 64.74% of the closing balance of other receivables. A provision for bad debts of RMB58,030,000.00 in total was made as at the end of the period.

7. Inventories**(1) Classification of inventories**

Item	Closing balance		
	Book value	Provision for declines in value	Carrying amount
Raw materials	333,821,980.44	32,870,223.87	300,951,756.57
Works in progress	236,234,487.19	9,115,021.72	227,119,465.47
Finished goods	2,343,740,507.53	36,853,533.50	2,306,886,974.03
Total	2,913,796,975.16	78,838,779.09	2,834,958,196.07

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

7. Inventories — Continued

(1) Classification of inventories — Continued

Continued from above table

Item	Opening balance		Carrying amount
	Book value	Provision for declines in value	
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

(2) Provision for declines in value of inventories

Item	Opening balance	Increase for the period		Decrease for the period		Closing balance
		Provision for the period	Others	Recovered or written-off	Others	
Raw materials	33,088,574.25	532,560.00		750,909.90		32,870,224.35
Works in progress	9,109,050.07	12,623.71		6,652.55		9,115,021.23
Finished goods	34,624,334.37	9,750,312.64		7,521,113.50		36,853,533.51
Total	76,821,958.69	10,295,496.35		8,278,675.95		78,838,779.09

(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
Works in progress		
Finished goods		

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

8. Other current assets

Item	Closing balance	Opening balance
Assets management product		1,300,000,000.00
Prepaid tax and tax deductible	357,971,275.10	357,920,598.92
Long-term prepaid expenses	26,285,217.94	20,845,252.33
Total	384,256,493.04	1,678,765,851.25

9. Available-for-sale financial assets

(1) Available-for-sale financial assets

Item	Closing balance			Opening balance		
	Book value	Impairment provision	Carrying amount	Book value	Impairment provision	Carrying amount
Available-for-sale equity instrument	3,900,000.00		3,900,000.00	3,900,000.00		3,900,000.00
Including: Measured at cost	3,900,000.00		3,900,000.00	3,900,000.00		3,900,000.00
Total	3,900,000.00		3,900,000.00	3,900,000.00		3,900,000.00

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

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

Investee	Book value			Impairment provision			Shareholding in the investee (%)	Cash dividend at the end of the period
	At the beginning of the period	Increase for the period	Decrease for the period	At the end of the period	At the beginning of the period	Increase for the period		
Fujian Kelon Air-condition Sales Co., Ltd. ("Fujian Kelon")	100,000.00			100,000.00			2.00	
Hisense International Marketing Co., Ltd. ("Hisense International Marketing")	3,800,000.00			3,800,000.00			12.67	13,227,800.00
Total	3,900,000.00			3,900,000.00			-	13,227,800.00

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

10. Long-term equity investment

Investee	Opening balance	Change for the period							Closing balance	Closing balance of provision for impairment	
		Increase in investment	Decrease in investment	Gains or losses from investment recognised using equity method	Adjustment for other comprehensive income	Other change in equity	Declaration of cash dividend or profit	Provision for impairment made			Other decreases
I. Joint ventures											
Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.	1,627,383,596.00			331,193,198.81						1,958,576,794.81	
Subtotal	1,627,383,596.00			331,193,198.81						1,958,576,794.81	
II. Associates											
Hisense Financial Holdings Co., Ltd.		240,000,000.00		-102,865.74						239,897,134.26	
Subtotal		240,000,000.00		-102,865.74						239,897,134.26	
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	1,638,383,596.00	240,000,000.00		331,090,333.07						2,209,473,929.07	11,000,000.00

- Note: 1. As Jiangxi Kelon Combine Electrical Appliances Co., Ltd., a subsidiary of the Company, has been declared in liquidation, it has not been included in the consolidated financial statements and impairment has been fully provided for the investment cost.
2. Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. was hereinafter referred to as "Hisense Hitachi".
3. The Company invested for the establishment of Hisense Financial Holdings Co., Ltd. ("Hisense Financial Holdings") during the Reporting Period, with an actual investment of RMB240,000,000.00 and shareholding of 24% by the Company.
4. 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 — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**10. Long-term equity investment — Continued**

Whereas:

Item	Closing balance	Opening balance
Non-listed investment:		
Equity method	2,198,473,929.07	1,627,383,596.00
Joint venture	1,958,576,794.81	1,627,383,596.00
Associate	239,897,134.26	
Total	2,198,473,929.07	1,627,383,596.00

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 period	292,832.20			292,832.20
3. Decrease for the period				
4. Closing balance	68,982,611.22			68,982,611.22
II. Accumulated depreciation and accumulated amortisation				
1. Opening balance	42,232,941.29			42,232,941.29
2. Increase for the period	1,255,596.87			1,255,596.87
(1) Provision made or amortisation	1,255,596.87			1,255,596.87
3. Decrease for the period				
4. Closing balance	43,488,538.16			43,488,538.16
III. Provision for impairment				
1. Opening balance				
2. Increase for the period				
3. Decrease for the period				
4. Closing balance				
IV. Carrying amount				
1. Carrying amount as at the end of the period	25,494,073.06			25,494,073.06
2. Carrying amount as at the beginning of the period	26,456,837.73			26,456,837.73

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

11. Investment properties — *Continued*

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

Item	Carrying amount	Reason for failure to obtain ownership certificates
Mee King Building	4,099,105.36	Due to historical reasons; in the process of application

(3) Depreciation expenses for the half year of 2017 amounted to RMB1,255,596.87, and depreciation expenses for the half year of 2016 amounted to RMB1,250,644.67.

(4) As at 30 June 2017, 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 — Continued

Half year of 2017

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
A. Cost						
1. Opening 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
2. Additions in the period	24,971,973.86	68,789,457.32	18,572,855.12	797,703.82	111,719,995.30	224,851,985.42
(1) Purchase	21,314,239.91	13,697,056.26	13,826,525.85	544,712.37	54,377,051.05	103,759,585.44
(2) Transferred from construction in progress	3,657,733.95	55,092,401.06	4,746,329.27	252,991.45	57,342,944.25	121,092,399.98
3. Reductions in the period	6,209,824.03	188,033,533.07	10,867,030.15	406,940.43	49,046,486.61	254,563,814.29
(1) Disposal or retirement	6,209,824.03	188,033,533.07	10,867,030.15	406,940.43	49,046,486.61	254,563,814.29
4. Closing balance	2,507,367,580.09	3,226,940,652.73	425,033,449.25	35,070,194.23	1,666,271,684.24	7,860,683,560.54
B. Accumulated depreciation						
1. Opening 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
2. Additions in the period	49,574,149.92	118,188,154.30	17,106,819.27	2,099,827.69	152,232,424.37	339,201,375.55
(1) Provision	49,574,149.92	118,188,154.30	17,106,819.27	2,099,827.69	152,232,424.37	339,201,375.55
3. Reductions in the period	1,969,985.38	162,993,531.20	8,352,514.41	398,151.35	48,796,605.63	222,510,787.97
(1) Disposal or retirement	1,969,985.38	162,993,531.20	8,352,514.41	398,151.35	48,796,605.63	222,510,787.97
4. Closing balance	1,124,028,386.54	1,658,362,181.63	302,467,051.69	21,491,305.46	1,254,944,739.36	4,361,293,664.68
C. Impairment provision						
1. Opening balance	13,177,187.35	135,674,663.61	2,608,957.93	318,608.61	12,287,242.53	164,066,660.03
2. Additions in the period	274,883.00	639,121.98	82,841.20	0.00	0.00	996,846.18
(1) Provision	274,883.00	639,121.98	82,841.20	0.00	0.00	996,846.18
3. Reductions in the period	0.00	10,741,531.45	416,955.48	0.00	26,233.98	11,184,720.91
(1) Disposal or retirement	0.00	10,741,531.45	416,955.48	0.00	26,233.98	11,184,720.91
4. Closing balance	13,452,070.35	125,572,254.14	2,274,843.65	318,608.61	12,261,008.55	153,878,785.30
D. Carrying amount						
1. Closing carrying amount	1,369,887,123.20	1,443,006,216.96	120,291,553.91	13,260,280.16	399,065,936.33	3,345,511,110.56
2. Opening carrying amount	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

In the first half of 2017, the fixed assets transferred from construction in progress amounted to RMB121,092,399.98 (the previous period: RMB104,660,937.17).

(2) Depreciation expense for the first half of 2017 amounted to RMB339,201,375.55 and amounted to RMB321,805,859.66 for the first half of 2016.

(3) As at the end of the period, no fixed asset was idle transitorily.

(4) As at the end of the period, no fixed asset was held under finance lease.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

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	47,042,465.91
Total	47,042,465.91

Note: Part of the above buildings and structures were rent out, which does not fulfill the definition of investment properties.

(6) As at the end of the period, no fixed asset was held for sale.

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

Item	Carrying amount	Reasons of not obtaining the ownership certificate
Buildings and structures	276,002,993.00	Achieved scheduled availability and were reclassified as fixed assets, the issuance of ownership certificate is in progress

(8) As at the end of the period, no building or structure was pledged.

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
Upgrade and transformation of Shunde Freezer	27,409,563.41		27,409,563.41			
Hisense Mould CNC machining center	2,447,160.53		2,447,160.53	14,449,245.30		14,449,245.30
MES system of refrigerator companies	277,008.55		277,008.55	1,464,230.79		1,464,230.79
Technology transformation of washing machine line of Shandong Refrigerator	665,692.36		665,692.36	141,777.77		141,777.77
New laboratory of Shandong Air-conditioning				2,779,709.64		2,779,709.64
Production line of Shangqiu Kelon	7,770,917.67	7,770,917.67		7,770,917.67	7,770,917.67	
Others	90,610,979.56		90,610,979.56	54,107,494.77		54,107,494.77
Total	129,181,322.08	7,770,917.67	121,410,404.41	80,713,375.94	7,770,917.67	72,942,458.27

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

13. Constructions in progress — Continued

(2) Movements in major projects of construction in progress

Name of project	Budget	Opening balance	Increase for the year	Transferred to fixed assets	Other reductions	% Contribution in budget	Progress	Source of funding	Closing balance
Upgrade and transformation of Shunde Freezer	50,152,200.00		27,409,563.41			54.65	completed	Self-funding	27,409,563.41
Hisense Mould CNC machining center	21,060,151.00	14,449,245.30	194,715.23	12,196,800.00		69.53	completed	Self-funding	2,447,160.53
MES system of refrigerator companies	14,096,000.00	1,464,230.79	101,538.46	1,288,760.70		11.11	completed	Self-funding	277,008.55
Technology transformation of washing machine line of Shandong Refrigerator	1,750,000.00	141,777.77	889,025.69	365,111.10		58.9	completed	Self-funding	665,692.36
New laboratory of Shandong Air-conditioning	3,791,975.06	2,779,709.64		2,779,709.64			Completed	Self-funding	
Production line of Shangqiu Kelon		7,770,917.67					Not completed	Self-funding	7,770,917.67
Others	358,379,545.64	54,107,494.77	142,630,077.36	104,462,018.54	1,664,574.03		completed	Self-funding	90,610,979.56
Total	449,229,871.70	80,713,375.94	171,224,920.15	121,092,399.98	1,664,574.03				129,181,322.08

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 period, the Company had made no provision for constructions in progress.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

14 Intangible assets

(1) Particulars of intangible assets

Item	Land use rights	Trademarks	Know-how	Others	Total
A. Cost					
1. Opening balance	894,831,107.10	524,409,198.95	73,100,447.88	101,867,333.07	1,594,208,087.00
2. Additions in the period	1,660,008.30			7,229,141.69	8,889,149.99
(1) Purchase	1,660,008.30			7,229,141.69	8,889,149.99
3. Reductions in the period					
(1) Disposal or retirement					
4. Closing balance	896,491,115.40	524,409,198.95	73,100,447.88	109,096,474.76	1,603,097,236.99
B. Accumulated amortization					
1. Opening balance	260,115,835.29	134,130,255.55	67,688,219.70	57,241,428.44	519,175,738.98
2. Additions in the period	5,224,261.04		2,213,830.13	10,247,387.30	17,685,478.47
(1) Provision	5,224,261.04		2,213,830.13	10,247,387.30	17,685,478.47
3. Reductions in the period					
(1) Disposal or retirement					
4. Closing balance	265,340,096.33	134,130,255.55	69,902,049.83	67,488,815.74	536,861,217.45
C. Impairment provision					
1. Opening balance	50,012,843.19	286,061,116.40		1,616,452.75	337,690,412.34
2. Additions in the period					
(1) Provision					
3. Reductions in the period					
(1) Disposal or retirement					
4. Closing balance	50,012,843.19	286,061,116.40		1,616,452.75	337,690,412.34
D. Carrying amount					
1. Closing carrying amount	581,138,175.88	104,217,827.00	3,198,398.05	39,991,206.27	728,545,607.20
2. Opening carrying amount	584,702,428.62	104,217,827.00	5,412,228.18	43,009,451.88	737,341,935.68

(2) Notes to intangible assets:

- ① Amortization of intangible assets amounted to RMB17,685,478.47 for the first half of 2017, compared to that of RMB15,044,373.46 in the first half of 2016.
- ② As at the end of the period, no land use rights were pledged.
- ③ Trademarks were not amortized due to indefinite useful lives, and no provision was made for impairment of trademarks after tested for impairment at the end of the period.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

15. Long-term prepaid expenses

Item	Opening balance	Additions in the period	Amortization in the period	Other deductions	Closing balance	Reasons for Other deductions
Long-term prepaid expenses	5,158,532.22	1,239,428.61	2,751,060.09		3,646,900.74	
Total	5,158,532.22	1,239,428.61	2,751,060.09		3,646,900.74	

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	99,759,745.44	23,737,767.82	105,636,306.58	25,008,846.91
Financial assets/liabilities held-for-trading	325,603.40	48,840.51		
Accrued expenses	454,433,593.06	68,783,661.20	426,660,559.68	65,800,330.12
Others	28,613,792.19	6,833,370.42	28,200,966.23	6,453,543.49
Total	583,132,734.09	99,403,639.95	560,497,832.49	97,262,720.52

(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	5,613,564.55	842,034.68	4,370,599.07	655,589.86
Financial assets held-for-trading			342,700.09	51,405.01
Total	5,613,564.55	842,034.68	4,713,299.16	706,994.87

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

17. Financial liabilities at fair value through profit or loss

Item	Closing balance	Opening balance
Financial liabilities held-for-trading	5,071,196.80	
Including: Derivative financial liabilities	5,071,196.80	
Total	5,071,196.80	

Notes to financial liabilities held-for-trading:

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

18. Notes payable

Category	Closing balance	Opening balance
Bank acceptance notes	3,994,056,979.47	2,874,368,029.91
Commercial acceptance notes	1,637,488,312.63	2,353,486,711.16
Total	5,631,545,292.10	5,227,854,741.07

Note: There were no outstanding notes payable due as at the end of the period.

19. Accounts payable

(1) Ageing analysis of accounts payable

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

Age	Closing balance	Opening balance
Within one year	5,087,589,288.18	4,228,675,470.71
Over one year	155,789,857.32	138,592,927.38
Total	5,243,379,145.50	4,367,268,398.09

(2) As at 30 June 2017, accounts payable with ageing of over one year amounted to RMB155,789,857.32 (31 December 2016: RMB138,592,927.38), which represented mainly raw material payable and was not settled yet.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**20. Advances from customers***(1) Aging analysis of advances from customers*

Age	Closing balance	Opening balance
Within one year	700,475,551.65	761,276,548.71
Over one year	78,177,259.15	70,502,243.74
Total	778,652,810.80	831,778,792.45

(2) As at 30 June 2017, advances from customers with ageing of over one year amounted to RMB78,177,259.15 (31 December 2016: RMB70,502,243.74), which represented advances from customers for sale of goods and were not recognised as revenue yet as at the end of the period as the relevant products had not been sold.

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

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
1. Short-term compensations	331,528,641.94	1,327,173,839.23	1,403,315,221.09	255,387,260.08
2. Post-employment benefit-defined contribution plans	2,675,794.64	104,975,516.17	105,785,291.46	1,866,019.35
3. Termination benefits		1,559,463.86	1,559,463.86	
Total	334,204,436.58	1,433,708,819.26	1,510,659,976.41	257,253,279.43

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**21. Compensations payable to employee — Continued****(2) Short-term compensations are as follows:**

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
1. Wages and salaries, bonuses, allowances and subsidies	323,225,964.01	1,155,356,091.51	1,232,898,151.35	245,683,904.17
2. Staff welfare	3,263,494.92	68,266,615.76	67,424,159.96	4,105,950.72
3. Social insurance	1,058,257.96	56,084,818.81	56,032,040.29	1,111,036.48
Including: Medical insurance	796,869.48	48,295,293.88	48,261,463.20	830,700.16
Work-related injury insurance	163,609.71	4,239,820.24	4,203,708.90	199,721.05
Maternity insurance	97,778.77	3,549,704.69	3,566,868.19	80,615.27
4. Housing provident funds	1,587,583.11	39,212,165.68	39,527,721.23	1,272,027.56
5. Labor union funds and employee education funds	2,393,341.94	8,254,147.47	7,433,148.26	3,214,341.15
Total	331,528,641.94	1,327,173,839.23	1,403,315,221.09	255,387,260.08

(3) Defined contribution plans are as follows:

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
1. Basic pension insurance	2,176,630.16	100,377,386.62	101,444,068.84	1,109,947.94
2. Unemployment insurance	499,164.48	4,598,129.55	4,341,222.62	756,071.41
Total	2,675,794.64	104,975,516.17	105,785,291.46	1,866,019.35

Notes to compensations payable to employee:

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**22. Taxes payable**

Item	Closing balance	Opening balance
Value-added tax	85,676,671.94	82,246,757.61
Enterprise income tax	94,573,823.88	68,621,231.37
Others	75,461,416.00	72,051,932.89
Total	255,711,911.82	222,919,921.87

23. Dividends payable

Name	Closing balance	Opening balance
Shareholders of listed companies	408,817,611.00	
Other minority interests		
Total	408,817,611.00	

24. Other payables**(1) Other payables by nature**

Item	Closing balance	Opening balance
Current account	1,219,422,330.30	1,150,735,199.84
Deposit and margin	571,727,979.45	366,895,575.76
Payment for project and equipment	94,890,540.00	113,307,159.32
Amount payable to Greencool Companies and specific third party	30,766,425.03	30,766,425.03
Total	1,916,807,274.78	1,661,704,359.95

(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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**25. Other current liabilities**

Item	Closing balance	Opening balance	Reasons for the balance
Installation fees	487,685,474.42	295,026,292.70	Installation fee provided for but not yet paid in
Sales discounts	224,503,221.59	157,511,860.42	Incurred but not yet settled
Others	205,001,458.52	263,302,542.45	Incurred but not yet settled
Total	917,190,154.53	715,840,695.57	

26. Provisions

Item	Closing balance	Opening balance
Pending litigation	5,293,496.83	5,377,637.34
Provision for warranties*	301,698,810.80	285,465,078.07
Others	23,790,000.00	23,790,000.00
Total	330,782,307.63	314,632,715.41

* 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.

27. Deferred income

Item	Closing balance	Opening balance
Deferred income	65,751,397.28	54,687,498.01
Total	65,751,397.28	54,687,498.01

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance	Reason for occurrence
Government grants	54,687,498.01	13,987,684.43	2,923,785.16	65,751,397.28	Amortization of government grants
Total	54,687,498.01	13,987,684.43	2,923,785.16	65,751,397.28	-

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

27. Deferred income — Continued

Of which, Items relating to government grants:

Liabilities	Opening balance	New grants received during the period	Amount included in non-operating income during the period	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	1,586,666.67		140,000.00		1,446,666.67	Related to assets
Production technology reform project for energy-saving household SBS large-size refrigerator	562,500.00		225,000.00		337,500.00	Related to assets
Others	31,088,331.34	13,987,684.43	2,558,785.16		42,517,230.61	Related to assets
Total	54,687,498.01	13,987,684.43	2,923,785.16		65,751,397.28	

28. Share capital

Categories of shares	Opening balance	Change for the period (+,-)				Subtotal	Closing balance
		Issue of new shares	Bonus issue	Conversion from reserve	Others		
Restricted floating shares subject to lock-up							
Including: Other domestic shares	1,111,635.00				-11,138.00	-11,138.00	1,100,497.00
Including: Shares held by domestic natural persons	1,111,635.00				-11,138.00	-11,138.00	1,100,497.00
Unrestricted floating shares not subject to lock-up	1,361,613,735.00				11,138.00	11,138.00	1,361,624,873.00
Including: RMB ordinary shares	902,023,927.00				11,138.00	11,138.00	902,035,065.00
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 — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

29. Capital reserve

(1) Changes in capital reserve

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
Share premium	1,974,063,685.98			1,974,063,685.98
Other capital reserve	118,798,257.91			118,798,257.91
Total	2,092,861,943.89			2,092,861,943.89

30. Other comprehensive income

Item	Amount incurred in the period						Closing balance
	Opening balance	Amount before income tax for the period	Less: Amount included in other comprehensive income in previous period and transferred to profit or loss in current period	Less: income tax expense	Attributable to parent after tax	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 not to be reclassified into profit or loss under equity method							
2. Other comprehensive income that would be reclassified subsequently to profit or loss Including: Share of other comprehensive income of investee that would be reclassified into profit or loss under equity method Difference arising from translation of financial statements presented in foreign currency	14,274,706.17	-1,378,647.48			-1,378,647.48		12,896,058.69
Total other comprehensive income	14,274,706.17	-1,378,647.48			-1,378,647.48		12,896,058.69

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

31. Surplus reserve

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
Statutory surplus reserve	313,689,564.15			313,689,564.15
Total	313,689,564.15			313,689,564.15

32. Undistributed profits

Item	Amount for the period	Amount for previous period
Undistributed profits at the end of the previous year before adjustment	1,083,914,592.96	273,658,518.74
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	1,083,914,592.96	273,658,518.74
Add: Net profits attributable to the shareholders of the parent in current period	672,098,859.30	1,087,732,130.38
Less: Appropriation of statutory surplus reserve		73,067,250.66
Dividends payable on ordinary shares	408,817,611.00	204,408,805.50
Undistributed profits at the end of the year	1,347,195,841.26	1,083,914,592.96

33. Operating revenue and operating costs

(1) *Operating revenue and operating costs*

Item	Amount for the period	Amount for previous period
Revenue from principal operations	15,988,986,946.73	12,160,903,726.53
Revenue from other operations	1,617,370,474.68	962,047,804.98
Total operating revenue	17,606,357,421.41	13,122,951,531.51
Costs of principal operations	12,796,472,032.26	9,175,148,808.22
Costs of other operations	1,551,228,731.04	869,109,423.41
Total operating costs	14,347,700,763.30	10,044,258,231.63

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**33. Operating revenue and operating costs — Continued****(2) Principal operations (by products)**

Products	Amount for the period		Amount for previous period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
1. Refrigerators and washing machines	6,668,625,568.41	5,374,279,321.90	6,041,357,800.87	4,483,624,314.27
2. Air-conditioners	8,524,894,129.91	6,814,028,367.21	5,416,889,955.83	4,186,656,955.15
3. Others	795,467,248.41	608,164,343.15	702,655,969.83	504,867,538.80
Total	15,988,986,946.73	12,796,472,032.26	12,160,903,726.53	9,175,148,808.22

(3) Principal operations (by region)

Region	Amount for the period		Amount for previous period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Domestic	9,956,646,420.24	7,184,100,335.59	7,532,607,084.66	5,291,560,808.05
Overseas	6,032,340,526.49	5,612,371,696.67	4,628,296,641.87	3,883,588,000.17
Total	15,988,986,946.73	12,796,472,032.26	12,160,903,726.53	9,175,148,808.22

(4) Operating revenue from the top five customers

The total proportion of the top five customers of the Company to the selling income of the Company was 39.83% during the reporting period, of which, the proportion of the top 1 customer to the selling income was 16.08%.

34. Tax and surcharges

Item	Amount for the period	Amount for previous period
City maintenance and construction tax	28610291.96	32,000,827.91
Education surcharges	17,624,367.76	21,453,474.76
Others	88,840,006.30	501,404.78
Total	135,074,666.02	53,955,707.45

For details of the standard charge rate of various taxes and surcharges, please see note 5 "Taxation".

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**35. Financial expenses**

Item	Amount for the period	Amount for previous period
Interest expenses*		6,579,120.82
Less: Interest income	10,404,401.67	4,109,203.50
Exchange gain or loss	17,584,638.25	-37,017,657.72
Others	-2,511,138.33	1,153,053.66
Total	4,669,098.25	-33,394,686.74

* Interest expenses for the half year of 2017 and for the half year of 2016 were the interests on bank borrowings of the last instalment of repayment within five years.

36. Impairment losses on assets

Item	Amount for the period	Amount for previous period
1. Bad debt loss	-5,592,934.55	-3,322,277.15
2. Loss on decline in value of inventories	3,705,229.39	-12,613,426.63
3. Impairment loss on fixed assets	996,846.18	1,898,221.00
Total	-890,858.98	-14,037,482.78

37. Gain arising from changes in fair value

Sources of gain arising from changes in fair value	Amount for the period	Amount for previous period
Financial assets at fair value through profit or loss	-9,695,070.04	
Including: Gain from changes in fair value of derivative financial instruments	-9,695,070.04	
Financial liabilities at fair value through profit or loss	-5,071,196.80	9,050,884.77
Including: Gain from changes in fair value of derivative financial instruments	-5,071,196.80	9,050,884.77
Total	-14,766,266.84	9,050,884.77

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**38. Investment gain**

Item	Amount for the period	Amount for previous period
Gain from available-for-sale financial assets during holding period	13,227,800.00	6,004,000.00
Gain from long-term equity investment under the equity method	331,090,333.07	189,978,021.58
Gain from disposal of financial assets at fair value through profit or loss	3,701,448.14	-6,164,321.06
Gain from wealth management products	18,232,134.06	701,369.86
Total	366,251,715.27	190,519,070.38

Gain from available-for-sale financial assets during holding period

Investee	Amount for the period	Amount for previous period
Hisense International Marketing	13,227,800.00	6,004,000.00
Total	13,227,800.00	6,004,000.00

Gain from long-term equity investment under the equity method:

Investee	Amount for the period	Amount for previous period
Zhejiang Hisense Electric Appliance Co., Ltd. ("Zhejiang Hisense")		-27,362,398.33
Attend		-83,804.31
Hisense Hitachi	331,193,198.81	217,424,224.22
Hisense Financial Holdings	-102,865.74	
Total	331,090,333.07	189,978,021.58

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**39. Other income**

Item	Amount for the period	Amount for previous period
Software tax refund	35,231,407.16	
Total	35,231,407.16	

40. Non-operating income

Item	Amount for the period	Amount for previous period
Total gain from disposal of non-current assets	9,181,467.94	785,867.64
Including: Gain from disposal of fixed assets	9,181,467.94	785,867.64
Government grants	64,983,381.34	49,131,191.63
Other	27,264,956.94	7,014,727.82
Total	101,429,806.22	56,931,787.09

Of which, government grants included in current profit or loss:

Grant item	Amount for the period	Amount for previous period	Related to assets/revenue
Others of government grants	62,059,596.18	45,634,315.31	Related to revenue
Others of government grants	2,923,785.16	3,496,876.32	Related to assets
Total	64,983,381.34	49,131,191.63	

41. Non-operating expenses

Item	Amount for the period	Amount for previous period
Total loss on disposal of non-current assets	7,893,283.68	760,157.38
Including: Loss on disposal of fixed assets	7,893,283.68	760,157.38
Others	1,019,843.99	890,889.37
Total	8,913,127.67	1,651,046.75

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**42. Income tax expenses****(1) Income tax expenses**

Item	Amount for the period	Amount for previous period
Current income tax	119,998,424.44	97,227,104.23
Deferred tax expenses	-2,005,879.62	8,705,195.20
Total	117,992,544.82	105,932,299.43

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

Item	Amount for the period
Total profits	823,360,301.17
Income tax expense calculated at statutory (or applicable) tax rates	327,355,423.16
Effect of application of different tax rate to certain subsidiaries	-49,666,426.88
Adjustment to income tax in previous period	2,587,052.15
Effect of non-taxable income	-98,853,931.11
Effect of non-deductible cost, expense and loss	671,999.20
Effect of utilization of deductible losses unrecognized as deferred tax assets in previous period	-65,786,179.74
Effect of deductible temporary difference or deductible loss unrecognized as deferred tax assets in current period	14,969,335.78
Changes in opening balance of deferred tax assets/liabilities arising from changes in tax rate	
Effect of super deduction of research and development expense	-13,284,727.74
Others	
Income tax expense	117,992,544.82

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

43. Calculation of basic and diluted earnings per share

Item		Amount for the period	Amount for previous period
Net profits attributable to ordinary shareholders of the Company of the reporting period	P1	672,098,859.30	559,279,481.31
Non-recurring item attributable to ordinary shareholders of the Company of the reporting period	F	67,586,659.67	40,118,251.42
Net profits after non-recurring item attributable to ordinary shareholders of the Company of the reporting period	P2=P1-F	604,512,199.63	519,161,229.89
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 item attributable to ordinary shareholders of the Company	P4		
Weighted average number of ordinary shares	S	1,362,725,370.00	1,362,725,370.00
Add: Additional weighted average number of ordinary shares assuming conversion of all dilutive potential ordinary shares to ordinary shares	X1		
Weighted average number of ordinary shares in the calculation of diluted earnings per share	X2=S+X1	1,362,725,370.00	1,362,725,370.00
Basic earnings per share attributable to ordinary shareholders of the Company	Y1=P1/S	0.49	0.41
Basic earnings per share attributable to ordinary shareholders of the Company after nonrecurring items	Y2=P2/S	0.44	0.38
Diluted earnings per share attributable to ordinary shareholders of the Company	Y3=(P1+P3)/X2	0.49	0.41
Diluted earnings per share attributable to ordinary shareholders of the Company after non-recurring items	Y4=(P2+P4)/X2	0.44	0.38

44. Other comprehensive incomes

Please see note 6(30) for details.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

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

Item	Amount for the period	Amount for previous period
Interest incomes	10,404,401.67	4,109,203.50
Government grants	76,047,280.61	30,537,415.05
Other	196,382,643.53	187,723,981.64
Total	282,834,325.81	222,370,600.19

(2) Other cash payment related to operating activities

Item	Amount for the period	Amount for previous period
Cash payments	1,701,772,027.47	1,701,116,270.26
Other	467,362,436.73	356,954,892.85
Total	2,169,134,464.20	2,058,071,163.11

(3) Other cash receipt related to investing activities

Item	Amount for the period	Amount for previous period
Disposal of wealth management products upon maturity	2,800,000,000.00	200,000,000.00
Total	2,800,000,000.00	200,000,000.00

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**45. Notes to cash flows statement — Continued****(4) Other cash payment related to investing activities**

Item	Amount for the period	Amount for previous period
Acquisition of assets management products	1,500,000,000.00	361,000,000.00
Total	1,500,000,000.00	361,000,000.00

(5) Other cash payments related to financing activities

Item	Amount for the period	Amount for previous period
Security deposit	1,016,209,836.70	1,190,281.40
Total	1,016,209,836.70	1,190,281.40

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**46. Supplementary information on cash flows statement****(1) Supplementary information on cash flows statement**

Supplementary information	Amount for the period	Amount for previous period
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	705,367,756.35	590,627,757.42
Add: Provision for assets impairment	-890,858.98	-14,037,482.78
Depreciation of fixed assets , depletion of oil and gas assets and depreciation of productive biological assets	340,456,972.42	323,056,504.33
Amortization of intangible assets	17,685,478.47	14,790,701.67
Amortization of long-term prepaid expenses	2,751,060.09	3,496,050.78
Loss on disposals of fixed assets, intangible and other longterm assets (Gain denoted in "-")	-1,288,184.26	-25,710.26
Loss on scrapping of fixed assets (Gain denoted in "-")		
Loss on change in fair value (Gain denoted in "-")	14,766,266.84	-9,050,884.77
Financial expenses (Gain denoted in "-")		6,579,120.82
Investment loss (Gain denoted in "-")	-366,251,715.27	-190,519,070.38
Decrease in deferred tax assets (Increase denoted in "-")	-2,140,919.43	8,705,195.20
Increase in deferred tax liabilities (Decrease denoted in "-")	135,039.81	160,232.11
Decrease in inventory (Increase denoted in "-")	-176,930,020.09	165,068,845.76
Decrease in operating receivables (Increase denoted in "-")	-1,355,522,112.02	-2,304,150,923.57
Increase in operating payables (Decrease denoted in "-")	1,422,009,361.06	2,472,020,934.30
Others		
Net cash flows from operating activities	600,148,124.99	1,066,721,270.63
2. Significant investing and financing activities not involving cash receipts and payment:		
Liabilities converted into equity		
Convertible company debentures due within one year		
Fixed assets under finance leases		
3. Net movement in cash and cash equivalents:		
Cash at the end of the period	1,273,505,868.70	2,083,100,139.61
Less: Cash at the beginning of the period	794,984,893.88	1,012,159,146.17
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	478,520,974.82	1,070,940,993.44

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

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

Item	Amount for the period	Amount for previous period
1. Cash	2,083,100,139.61	1,012,159,146.17
Including: Cash on hand	100.00	28,228.78
Bank deposit that are readily available for payment	2,083,100,039.61	1,012,130,917.39
Other cash that are readily available for payment		
2. Cash equivalents		
Including: Bond investments due within three months		
3. Cash and cash equivalents as at the end of the period	2,083,100,139.61	1,012,159,146.17
Including: Cash and cash equivalents of the parent or subsidiaries subject to restrictions on use		

47. Assets with limited ownership or use rights

Item	Closing carrying amount	Reason for limitation
Monetary funds	3,441,281.40	As secured amount
Notes receivables	2,158,100,139.01	As collaterals for bank acceptance notes
Total	2,398,149,777.45	

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**48. Monetary items in foreign currencies***(1) Major 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	48,652,028.30	6.7744	329,588,300.52
EUR	1,478,500.96	7.7496	11,457,791.04
Accounts receivable			
Including: USD	76,769,854.88	6.7744	520,069,704.90
EUR	647,209.27	7.7496	5,015,612.96
Accounts payable			
Including: USD	2,512,293.46	6.7744	17,019,280.82
EUR	676,178.45	7.7496	5,240,112.52

(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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

49. Segment information

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

(1) Segment profit or loss and assets and liabilities

Amount for the period	Refrigerators and washing machines	Air-conditioners	Others	Inter-segment elimination	Total
1. Revenue from external sales	6,668,625,568.41	8,524,894,129.91	795,467,248.41		15,988,986,946.73
2. Revenue from Inter-segment			677,843,132.62	-677,843,132.62	
3. Gain from investment in associates and jointly controlled entities		331,193,198.81	-102,865.74		331,090,333.07
4. Depreciation and amortization	205,748,643.65	108,892,019.32	43,501,787.92		358,142,450.89
5. Gain from changes in fair value			-14,766,266.84		-14,766,266.84
6. Impairment losses on assets	-1,318,203.17	1,389,590.94	-962,246.75		-890,858.98
7. Total profit (Total loss)	33,336,260.70	691,360,632.42	130,510,839.19	-31,847,431.14	823,360,301.17
8. Total assets	14,903,068,963.20	12,904,568,348.40	4,059,752,756.52	-10,438,777,068.80	21,428,612,999.32
9. Total liabilities	9,839,070,015.12	10,217,433,790.94	2,305,089,198.55	-6,549,788,588.26	15,811,804,416.35
10. Additions to other non-current assets other than long-term equity investments	-98,841,500.30	-68,283,534.34	70,165,382.60		-96,959,652.04

Continued from above table

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

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

Region	Amount for the period	Amount for previous period
Revenue from domestic transactions	9,956,646,420.24	7,532,607,084.66
Revenues from overseas transactions	6,032,340,526.49	4,628,296,641.87
Total	15,988,986,946.73	12,160,903,726.53

Region	Closing balance	Opening balance
Non-current assets — Domestic	6,514,744,583.11	6,051,857,671.33
Non-current assets — Overseas	12,465,666.86	1,221,897.61
Total	6,527,210,249.97	6,053,079,568.94

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

7. CHANGE IN SCOPE OF CONSOLIDATION

- (1) The Company invested for the establishment of Hisense Mould (Deutschland) GmbH on 9 March 2017 with a registered capital of EUR2 million, of which the Company contributed by EUR1.96 million and accounted for 98.00% of the registered capital. The Company has a control over it and it was included in the scope of consolidation since 9 March 2017.
- (2) The Company deregistered Kelon (Japan) Ltd, a wholly-owned subsidiary of the Company, on 25 February 2017. It was no longer included in the scope of consolidation since 25 February 2017.

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 Airconditioner Co., Ltd. ⁽¹⁾	Guangdong Airconditioner	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
Guangdong Kelon Mould Co., Ltd.	Kelon Mould	Foshan	Foshan	Manufacturing		70.11	Establishment or investment
Guangdong Huao Electronics Co., Ltd. ⁽¹⁾	Huao Electronics	Foshan	Foshan	Manufacturing		70	Establishment or investment
Guangdong Foshan Shunde Kelon Property Service Co., Ltd.	Kelon Property	Foshan	Foshan	Provision of services	80	20	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. ⁽¹⁾	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
Zuhai Kelon Electrical Industrial Development Co., Ltd.	Zuhai Kelon	Zuhai	Zuhai	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 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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

8. INTERESTS IN OTHER ENTITIES — Continued

1. Interests in subsidiaries — Continued

(1) Composition of enterprise groups — Continued

Name of subsidiary	Abbreviation	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Method for acquisition
					Direct	Indirect	
Guangdong Hisense Refrigerator Marketing Co., Ltd.	Refrigerator Marketing Company	Foshan	Foshan	Trading		78.82	Establishment or investment
Qingdao Hisense Airconditioner Marketing Co., Ltd.	Airconditioner Marketing Company	Qingdao	Qingdao	Trading		75.57	Establishment or investment
Hisense (Guangdong) AirConditioner 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) AirConditioning Co. Ltd.	Shandong Airconditioning	Qingdao	Qingdao	Manufacturing	100		Business combination under common control
Hisense (Zhejiang) Airconditioning Co., Ltd.	Zhejiang Airconditioning	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. ⁽⁶⁾	Baohong Property	Foshan	Foshan	Provision of services, manufacturing	100		Establishment or investment
Hisense Mould (Deutschland) GmbH	Deutschland	Germany	Germany	Manufacturing	98	2	Establishment or investment

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

8. INTERESTS IN OTHER ENTITIES — Continued

1. Interests in subsidiariess — Continued

(1) Composition of enterprise groups — Continued

Notes:

- (i) The Company holds 60% equity interest in Guangdong Air-conditioner and 70% equity interest in Huaao 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;
- (iv) The Company entered into a related agreement with Ningbo Meishan Bonded Port Yingmei Investment Management Company Limited* (寧波梅山保稅港區盈美投資管理有限公司) on 5 April 2017 for the transfer of 20% of equity interest of Baohong Property for a consideration of RMB178,512,000. The relevant share transfer and registration procedures with the administration for industry and commerce are now being conducted.

(2) Principal non-wholly-owned subsidiaries

Name of subsidiary	Percentage of minority interest (%)	Gain or loss attributable to minority interests for the period	Dividends paid to minority interests for the period	RMB'0000
				Closing balance of minority interests
Refrigerator Marketing Company	21.18	-195.15	391.40	4,593.12
Air-conditioner Marketing Company	24.43	920.23	170.09	3,510.56

(3) Major financial information of principal non-wholly-owned subsidiaries

Name of subsidiary	Closing balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Refrigerator Marketing Company	483,113.95	2,033.09	485,147.04	463,460.91		463,460.91
Air-conditioner Marketing Company	427,845.39	1,326.50	429,171.89	414,802.00		414,802.00

(Continued)

Name of subsidiary	Opening 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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

8. INTERESTS IN OTHER ENTITIES — Continued

2. 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	
Hisense Financial Holdings	Qingdao	Qingdao	Provision of financial services	24.00		Equity method
Hisense Hitachi	Qingdao	Qingdao	Manufacturing	49.00		Equity method

(2) Major financial information of significant associates

Item	Closing balance/Amount for the period		Opening balance/Amount for previous period	
	Hisense Hitachi	Zhejiang Hisense	Hisense Hitachi	Zhejiang Hisense
	RMB'0000			
Current assets	803,076.73		634,886.85	
Including: Cash and cash equivalents	493,770.45		420,152.54	
Non-current assets	56,256.43		51,524.78	
Total assets	859,333.16		686,411.63	
Current liabilities	439,403.48		337,334.70	
Non-current liabilities	9,627.19		8,025.26	
Total liabilities	449,030.67		345,359.96	
Minority interest	14,980.31		13,635.23	
Equity attributable to shareholders of the parent company	395,322.18		327,416.44	
Share of net assets based on shareholding percentage	193,707.87		160,434.06	
Adjustments				
- Goodwill				
- Unrealized profit from intra-group transactions				
- Others	2,149.81		2,304.30	
Carrying amount of equity investments in joint ventures	195,857.68		162,738.36	
Fair value of investments in joint ventures with public quoted prices				
Operating revenue	441,781.49		281,540.16	19,270.18
Net profit	71,128.03		46,801.82	-5,472.48
Net profit from discontinued operations				
Other comprehensive income				
Total comprehensive income	71,128.03		46,801.82	-5,472.48
Dividend received from joint ventures during the year			16,023.00	

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

8. INTERESTS IN OTHER ENTITIES — *Continued*

2. Interests in joint ventures or associates — *Continued*

(3) *Aggregated financial information of insignificant joint ventures and associates*

Item	RMB'0000	
	Closing balance/ Amount for the period	Opening balance/ Amount for previous period
Associates:		
Total carrying amount of investments	23,989.71	
Amounts in aggregate in proportion to the shareholdings:		
- Net profit	-10.29	-8.38
- Other comprehensive income		
- Total comprehensive income	-10.29	-8.38

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.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

9. RISKS RELATING TO FINANCIAL INSTRUMENTS — Continued

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.

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:

30 June 2017

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets					
Cash at bank and on hand	3,900,614,157.25				3,900,614,157.25
Financial assets at fair value through profit or loss					
Notes receivable	2,408,697,765.69				2,408,697,765.69
Accounts receivable	4,858,931,278.10				4,858,931,278.10
Other receivables	539,632,070.65				539,632,070.65
Other current assets	384,256,493.04				384,256,493.04
Total	12,092,131,764.73				12,092,131,764.73
Financial liabilities					
Notes payable	5,631,545,292.10				5,631,545,292.10
Accounts payable	5,243,379,145.50				5,243,379,145.50
Other payables	1,916,807,274.78				1,916,807,274.78
Other current liabilities	917,190,154.53				917,190,154.53
Total	13,708,921,866.91				13,708,921,866.91

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

9. RISKS RELATING TO FINANCIAL INSTRUMENTS — *Continued*

2. Liquidity risk — *Continued*

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

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				

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

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 30 June 2017, 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	849,658,005.46	17,019,280.82	1,290,579,495.25	87,554,216.64
EUR	16,473,404.01	5,240,112.52	51,929,995.78	1,217,941.12

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

Sensitivity analysis of change in exchange rate:

Item	Amount for the period Increase/Decrease in profit after tax	Amount for previous period Increase/Decrease in profit after tax
USD to RMB		
Appreciates by 5%	31,223,952.17	28,436,738.27
Depreciates by 5%	-31,223,952.17	-28,436,738.27
EUR to RMB		
Appreciates by 5%	421,248.43	4,270,215.74
Depreciates by 5%	-421,248.43	-4,270,215.74

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

9. RISKS RELATING TO FINANCIAL INSTRUMENTS — Continued

4. Foreign currency risk — Continued

Sensitivity analysis of change in forward rate:

Item	Amount for the period Increase/Decrease in profit after tax	Amount for previous period Increase/Decrease in profit before tax
USD to RMB		
Appreciates by 5%	-562,500.00	-2,437,500.00
Depreciates by 5%	562,500.00	2,437,500.00
EUR to RMB		
Appreciates by 5%	-1,197,862.50	-1,060,500.00
Depreciates by 5%	1,197,862.50	1,060,500.00

10. DISCLOSURE OF FAIR VALUE

1. Fair value of assets and liabilities measured at fair value as at the end of the period

Item	Fair value as at the end of the period			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				
Total assets measured at fair value on a recurring basis				
(ii) Financial liabilities held-for-trading		5,071,196.80		5,071,196.80
Including: Derivative financial liabilities		5,071,196.80		5,071,196.80
Total liabilities measured at fair value on a recurring basis		5,071,196.80		5,071,196.80

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.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

11. RELATED PARTIES AND RELATED TRANSACTIONS

1. Particulars of the parent

(Unit: RMB'0000)

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

Continued from above table

Name of the Parent	Registered capital	Shareholding of the parent (%)	Voting rights of the parent (%)	Ultimate holding company	Creditability code
Qingdao Hisense Air-conditioning	67,479	37.92	37.92	State-owned Assets Supervision and Administration Commission of Qingdao Municipal	913702126143065147
Hisense Group	80,617			State-owned Assets Supervision and Administration Commission of Qingdao Municipal	913702001635787718

2. 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(2) "Interests in joint ventures or associates".

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

11. RELATED PARTIES AND RELATED TRANSACTIONS — *Continued*

4. Greencool Companies

Name of related parties of Greencool Companies	Relationship with the Company
Guangdong Greencool	Former controlling shareholder of the Company
Jiangxi Greencool Electrical Appliance Co., Ltd. ("Jiangxi Greencool")	Related party of Guangdong Greencool

5. Other related parties of the Company

Name of other related parties	Relationship of other related parties with the Company
Hisense Finance Co., Ltd. ("Hisense Finance")	Subsidiary of ultimate holding company
Hisense Electronics Co., Ltd. ("Hisense Electronics")	Subsidiary of ultimate holding company
Beijing Xuehua Group Company Limited ("Xuehua Group")	Minority shareholder of Beijing Refrigerator
Hisense (HK) Co., Ltd. ("Hisense Hong Kong")	Subsidiary of ultimate holding company

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

Name of related party	Relationship with the Company
Jinan San Ai Fu	Specific Third Party Company
Jianxi Keda	Specific Third Party Company
Zhuhai Longjia	Specific Third Party Company
Zhuhai Defa	Specific Third Party Company
Wuhan Changrong	Specific Third Party Company
DeHeng Law Offices	Specific Third Party Company
Shangqiu Bingxiong	Specific Third Party Company

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

11. RELATED PARTIES AND RELATED TRANSACTIONS — Continued

7. Related party transactions

(1) Purchase of goods/receipt of services

Related Party	Particulars of related parties transactions	Pricing and decision-making procedures of related parties transactions	Amount for the Period		Amount for previous Period	
			Amount	Percentage to similar transaction (%)	Amount	Percentage to similar transaction (%)
Hisense Group and its subsidiaries	Purchase of finished goods	Agreed Price	5,128.21			
Hisense Electronics and its subsidiaries	Purchase of finished goods	Agreed Price	22,735.04		114,222.21	
Zhejiang Hisense	Purchase of finished goods	Agreed Price			107,137,870.97	1.07
Subtotal of purchase of finished good			27,863.25		107,252,093.18	1.07
Hisense Group and its subsidiaries	Purchase of raw materials	Agreed Price	40,426,841.38	0.28	1,502,863.32	0.01
Hisense Electronics and its subsidiaries	Purchase of raw materials	Agreed Price	5,379,414.27	0.04	954,454.65	0.01
Zhejiang Hisense	Purchase of raw materials	Agreed Price			826,363.03	0.01
Hisense Hitachi	Purchase of raw materials	Agreed Price	5,655,062.33	0.04	3,888,124.88	0.04
Embraco	Purchase of raw materials	Agreed Price			16,699,929.56	0.17
Subtotal of purchase of raw materials			51,461,317.98	0.36	23,871,735.44	0.24
Hisense Group and its subsidiaries	Receipt of services	Agreed Price	195,488,933.87	1.36	238,557,046.00	2.38
Hisense Electronics and its subsidiaries	Receipt of services	Agreed Price	4,616,022.71	0.03	9,628,628.93	0.10
Xuehua Group	Receipt of services	Agreed Price			509,851.41	0.01
Subtotal of receipt of services			200,104,956.58	1.39	248,695,526.34	2.49
Hisense Hong Kong	Financing Agency	Agreed Price	190,614,932.27	1.33	104,033,923.30	1.04
Subtotal of financing purchase			190,614,932.27	1.33	104,033,923.30	1.04

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

11. RELATED PARTIES AND RELATED TRANSACTIONS — *Continued*

7. Related party transactions — *Continued*

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

- ① The Company and entered into a Business Cooperation Framework Agreement with Hisense Group and Hisense Electronics on 17 November 2016. During the effective term of the agreement, the transaction with the Company being the purchaser and recipient of service was subject to an aggregate cap (exclusive of tax) of RMB702,870,000.
- ② The Company and Hisense Hitachi entered into a Business Framework Agreement (I) on 17 November 2016. During the effective term of the agreement, the transaction with the Company being the purchaser was subject to an aggregate cap (exclusive of tax) of RMB15,190,000.
- ③ The Company and Hisense Hong Kong entered into a Factoring Purchase Framework Agreement on 17 November 2016. During the effective period of the agreement, the transaction in which Hisense Kelon engaged Hisense Hong Kong to perform factoring purchase as its agent was subject to an aggregate cap of USD65,000,000.

The above agreements were considered and approved at the sixth interim meeting of the Company's ninth session of the board of directors in 2016 convened on 17 November 2016 and the first extraordinary general meeting in 2017 convened on 9 January 2017 respectively.

- ④ The above transactions with Hisense Group and its subsidiaries, Hisense Electronics 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 2017 as disclosed in note 11 of the financial statements in the 2017 interim report do not constitute connected transactions under Chapter 14A of the Listing Rules.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

11. RELATED PARTIES AND RELATED TRANSACTIONS — Continued

7. Related party transactions — Continued

(2) Sale of goods/rendering of service

Name of related party	Particulars of related transactions	Pricing policies and procedures for decision-making	Amount for the year		Amount for r previous year	
			Amount	Percentage to similar transaction (%)	Amount	Percentage to similar transaction (%)
Hisense Group and its subsidiaries	Sale of finished goods	Agreed price	4,261,189,716.88	24.20	1,529,076,729.55	11.65
Hisense Electronics and its subsidiaries	Sale of finished goods	Agreed price	719,054.62		55,589.75	
Hisense Hitachi	Sale of finished goods	Agreed price	206,211,908.40	1.17	76,443,537.08	0.58
Subtotal of sales amount of finished product			4,468,120,679.90	25.37	1,605,575,856.38	12.23
Hisense Group and its subsidiaries	materials	Agreed price	22,820,750.25	0.13	16,741,059.15	0.13
Hisense Electronics and its subsidiaries	materials	Agreed price	10,695,423.66	0.06	10,101,454.80	0.08
Hisense Hitachi	materials	Agreed price	930,456.66	0.01	663,321.02	0.01
Subtotal of sales amount of raw materials			34,446,630.57	0.20	27,505,834.97	0.22
Hisense Group and its subsidiaries	Sale of mould and equipment	Market price	139,166,425.44	0.79	101,970,791.34	0.78
Hisense Electronics and its subsidiaries	Sale of mould	Market price	42,358,974.34	0.24	55,318,782.10	0.42
Zhejiang Hisense	Sale of mould and equipment	Market price			854,700.85	0.01
Hisense Hitachi	Sale of mould	Market price	1,835,897.44	0.01	3,452,991.45	0.03
Subtotal of sales amount of moulds			183,361,297.22	1.04	161,597,265.74	1.24
Hisense Group and its subsidiaries	Rendering of service	Agreed price	12,141,874.75	0.07	8,653,284.26	0.07
Hisense Hitachi	Rendering of service	Agreed price	4,548.42			
Zhejiang Hisense	Rendering of service	Agreed price			630,725.44	
Subtotal of rendering of service			12,146,423.17	0.07	9,284,009.70	0.07

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

11. RELATED PARTIES AND RELATED TRANSACTIONS — *Continued*

7. Related party transactions — *Continued*

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

- ① The Company entered into a Business Cooperation Framework Agreement with Hisense Group and Hisense Electronics on 17 November 2017. During the effective period of the agreement, the transaction with the Company being the supplier and service provider was subject to an aggregate cap (exclusive of tax) of RMB10,860,800,000.
- ② The Company and Hisense Hitachi entered into a Business Framework Agreement (I) on 17 November 2017. During the effective period of the agreement, the transaction with the Company being the supplier and service provider was subject to an aggregate cap (exclusive of tax) of RMB427,740,000.

The above agreements were considered and approved at the sixth interim meeting of the Company's ninth session of the board of directors in 2016 convened on 17 November 2016 and the first extraordinary general meeting in 2017 convened on 9 January 2017 respectively.

- ③ The above transactions with Hisense Group and its subsidiaries, Hisense Electronics 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 2017 as disclosed in note 11 of the financial statements in the 2017 interim report do not constitute connected transactions under Chapter 14A of the Listing Rules.

(3) *Particulars of related party guarantees*

Guarantor	Guaranteed Party	Amount (RMB'0000)	Effective Date of Guarantee	Expiry Date of Guarantee	Nature of Guarantee	Guarantee Completed
Hisense Group	Shandong Refrigerator	54.19	2016-3-4	2018-2-28	Import letter of credit	No
Total		54.19	—	—		

Particulars of related party guarantee:

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.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

11. RELATED PARTIES AND RELATED TRANSACTIONS — Continued

7. Related party transactions — Continued

(4) Other connected transactions

As at 30 June 2017, the Company and its subsidiaries had balances of deposit of RMB3,321,204,100 with Hisense Finance, including balance of restricted bank deposit of RMB2,622,299,700, balance of bank loan of RMB0.00, balance of notes payable of RMB4,000,041,200, balance of pledged notes receivable of RMB1,260,591,400. For the year, loan interests paid to Hisense Finance amounted to RMB0.00, interests paid in respect of discounted notes amounted to RMB1,645,400, handling fees paid for electronic bank acceptance amounted to RMB2,150,200 and settlement service fees paid for receipt and payment of funds amounted to RMB156,200. Interest income received from Hisense Finance for the deposits amounted to RMB9,738,100. Provision of exchange settlement and sales services by Hisense Finance amounted to RMB73,694,600 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 Electronics and its subsidiaries	16,090,168.83		9,757,198.10	
Notes Receivable	Hisense Group and its subsidiaries	106,700,497.95		5,897,256.62	
Notes Receivable	Hisense Hitachi	2,237,543.16		100,000.00	
Subtotal		125,028,209.94		15,754,454.72	
Accounts Receivable	Hisense Electronics and its subsidiaries	38,420,813.14		26,886,474.22	
Accounts Receivable	Hisense Group and its subsidiaries	1,896,166,866.89	199,023.98	788,750,643.07	539,160.91
Accounts Receivable	Hisense Hitachi	60,385,924.48		25,933,799.59	
Subtotal		1,994,973,604.51	199,023.98	841,570,916.88	539,160.91
Other Receivables	Hisense Electronics and its subsidiaries	27,700.00		10,000.00	
Other Receivables	Hisense Group and its subsidiaries	141,475.28		249,037.12	
Subtotal		169,175.28		259,037.12	
Prepayments	Hisense Group and its subsidiaries			550,955.34	
Subtotal				550,955.34	

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

11. RELATED PARTIES AND RELATED TRANSACTIONS — Continued**8. Receivables from and payables to related parties — Continued****(2) Amount due to Related Parties from Listed Companies**

Item	Related Parties	Closing Balance	Opening Balance
Note payable	Hisense Electronics and its subsidiaries		3,281,866.38
Subtotal			3,281,866.38
Accounts Payable	Hisense Electronics and its subsidiaries	1,232,657.31	33,433.77
Accounts Payable	Hisense Group and its subsidiaries	57,114,933.94	55,770,650.47
Accounts Payable	Hisense Hitachi	1,708,796.30	305,322.35
Subtotal		60,056,387.55	56,109,406.59
Other Payables	Hisense Group and its subsidiaries	18,915,207.32	22,333,006.67
Other Payables	Hisense Electronics and its subsidiaries	37,469.84	
Other Payables	Hisense Hitachi	50,000.00	1,710.00
Subtotal		19,002,677.16	22,334,716.67
Advances from Customers	Hisense Group and its subsidiaries	1,440,161.80	2,182,418.55
Subtotal		1,440,161.80	2,182,418.55

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

11. RELATED PARTIES AND RELATED TRANSACTIONS — Continued**9. Transactions with “specific third party companies”**

Item	Related Parties	Closing Balance Carrying Amount	Opening Balance Carrying Amount
	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
Other Receivables	Zhuhai Defa	21,400,000.00	21,400,000.00
	Wuhan Changrong	20,000,000.00	20,000,000.00
	DeHeng Law Offices	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

10. Transactions with Greencool Companies

Item	Related parties	Closing Balance Book Value	Opening Balance 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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

12. SHARE-BASED PAYMENT

Nil

13. COMMITMENTS AND CONTINGENCIES

1. Significant commitments

(1) Capital commitments

Item	Unit: RMB'0000	
	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	1,410.08	3,047.41
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(4) for details.

2. Contingencies

(1) Contingent liabilities arising from pending litigations and arbitration and their financial impacts

As at 30 June 2017, the Company was involved, as defendant, in litigations with amount of RMB16,779,093.21, and provision of RMB5,293,496.83 had been made.

14. SUBSEQUENT EVENTS

The Board of the Company considered and approved the "Resolution in respect of the Company's disposal of equity interest in Foshan City Shunde District Baohong Property Management Company Limited (佛山市順德區寶弘物業公司管理有限公司) by the Company" at the meeting on 2 August 2017. Upon the agreement of the Board of the Company, the Company entered into the Equity Transfer Agreement with Ningbo Meishan Bonded Port Yingmei Investment Management Company Limited (寧波梅山保稅港區盈美投資管理有限公司). The Company transferred 80% of the equity interest of Baohong Property Management Company to Yingmei Investment Management Company for a consideration of RMB684,048,000, and agreed to propose this resolution at the general meeting for consideration and approval.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

15. OTHER SIGNIFICANT EVENTS

1. Assets and liabilities measured at fair value

Item	Opening Balance	Amount of Financial Assets/liabilities	Gain/(loss) from change in fair Value	Impairment provision for the period	Closing Balance
Financial Assets					
Derivative financial assets	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			-5,071,196.80		5,071,196.80
Subtotal of financial liabilities			-5,071,196.80		-5,071,196.80

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 Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the periods ended 30 June 2017 and 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

15. OTHER SIGNIFICANT EVENTS — *Continued*

2. Capital Management — *Continued*

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

Item	Closing Balance	Opening Balance
Total Debt	15,811,804,416.35	13,731,598,553.87
Including: Short-term borrowings		
Accounts payable	5,243,379,145.50	4,367,268,398.09
Notes Payables	5,631,545,292.10	5,227,854,741.07
Other Payables	1,916,807,274.78	1,661,704,359.95
Less: Cash and Cash equivalents	1,273,505,868.70	794,984,893.88
Net Debt	14,538,298,547.65	12,936,613,659.99
Equity attributable to shareholders of the Parent	5,129,368,777.99	4,867,466,177.17
Capital and net debt	19,667,667,325.64	17,804,079,837.16
Gearing Ratio	73.92%	72.66%

3. Retirement Benefit Scheme

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

4. Leases

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

Categories of leased assets under operating leases	Closing	Unit: RMB'0000
	Carrying Amount	Opening Carrying Amount
Buildings and structures	7,253.65	6,804.39
Total	7,253.65	6,804.39

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

15. OTHER SIGNIFICANT EVENTS — Continued**4. Leases — Continued****(2) The Company as lessor under operating lease**

The Company's investment properties are also leased to a number of tenants for different terms. The rental income for the half year of 2017 amounted to RMB22,646,400 (half year of 2016: RMB12,963,300). The minimum rent receivables under non-cancellable operating leases at the end of reporting period are follows:

Item	<i>Unit: RMB'0000</i>	
	Amount for the Period	Amount for previous Period
Within one year	486.08	647.96
Over one year but within five years, inclusive	1,066.49	1,623.43
Total	1,552.57	2,271.39

(3) The Company as lessee under operating lease

The Company leases certain leasehold land and buildings and plant and machinery under operating leases with lease terms from one to five years. The operating lease payments for the period ended 30 June 2017 was as follows:

Operating lease payments	<i>Unit: RMB'0000</i>	
	Amount for the Period	Amount for previous period
Leasehold land and buildings	1,890.44	1,810.55
Plant and machinery	69.33	114.54
Total	1,959.77	1,925.09

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

Item	<i>Unit: RMB'0000</i>	
	Amount for the period	Amount for previous period
Within one year	1,525.25	1,629.22
Over one year but within five years	1,755.81	1,114.69
Total	3,281.06	2,743.91

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

1. Accounts Receivable

(1) *Disclosure of accounts receivable by categories*

Category	Closing Balance				Carrying Amount
	Carrying Amount		Provision for bad debts		
	Amount	% of total balance	Amount	% of total balance	
Individually significant and subject to separate provision					
Accounts receivable subject to collective provision for bad debts based on credit risk features:					
Ageing analysis	160,290,121.30	100	111,726,755.76	69.70	48,563,365.54
Greencool Companies					
Subtotal	160,290,121.30	100	111,726,755.76	69.70	48,563,365.54
Individually insignificant but subject to separate provision					
Total	160,290,121.30	100	111,726,755.76	69.70	48,563,365.54

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT — Continued**1. Accounts Receivable — Continued****(1) Disclosure of accounts receivable by categories — Continued**

Continued

Category	Closing Balance				Carrying Amount
	Carrying Amount		Provision for bad debts		
	Amount	% of total balance	Amount	% of total balance	
Individually significant and subject to separate provision					
Accounts receivable subject to collective provision for bad debts based on credit risk features:					
Ageing analysis	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					
Total	185,780,146.77	100.00	116,313,094.86	62.61	69,467,051.91

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2017

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

1. Accounts Receivable — *Continued*

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

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

Age	Closing Balance		
	Accounts receivable	Provision for bad debts	% of total Balance
Within three months	48,563,365.54		
Over three months but within six months			
Over six months but within one year			
Over one year	111,726,755.76	111,726,755.76	100.00
Total	160,290,121.30	111,726,755.76	69.70

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

No provision for bad debts was made during the period; Provision for bad debts recovered or reversed during the period amounted to RMB4,586,339.10.

(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 RMB105,263,354.74, accounting for 65.67% of the closing balance of accounts receivable. A provision for bad debts of RMB41,211,459.56 in total was made as at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

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*

Item	Closing Balance				Carrying Amount
	Book value		Provision for bad debts		
	Amount	Percentage (%)	Amount	Percentage (%)	
Individually significant and subject to separate provision					
Other receivables subject to collective provision for bad debts based on credit risk features					
Ageing Analysis Greencool Companies	1,016,825,521.39	100	22,038,792.62	2.17	994,786,728.77
Subtotal	1,016,825,521.39	100	22,038,792.62	2.17	994,786,728.77
Individually insignificant but subject to separate provision					
Total	1,016,825,521.39	100	22,038,792.62	2.17	994,786,728.77

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

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*

Continued

Category	Book value		Opening Balance		Carrying Amount
	Amount	Percentage (%)	Provision for bad debts		
			Amount	Percentage (%)	
Individually significant and subject to separate provision					
Other receivables subject to collective provision for bad debts based on credit risk features					
Ageing Analysis	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					
Total	1,307,592,083.47	100.00	21,078,675.59	1.61	1,286,513,407.88

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

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 category provided bad debts by using ageing analysis:

Age	Closing Balance		Provision for bad debts
	Other receivables	% of total Balance	
Within three months	993,727,359.42		
Over three months but within six months	1,177,077.06	117,707.71	10.00
Over six months but within one year			
Over one year	21,921,084.91	21,921,084.91	100.00
Total	1,016,825,521.39	22,038,792.62	2.17

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

Provision for bad debts during the period amounted to RMB960,117.03; there was no provision for bad debts recovered or reversed during the period.

(3) Other receivables by nature

Nature	Book value as at the end of the period	Book value as at the beginning of the period
Security deposit	2,082,866.55	4,243,043.14
Other current account	1,014,742,654.84	1,303,349,040.33
Total	1,016,825,521.39	1,307,592,083.47

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

The total top five other receivables of the Company by closing balance of debtors amounted to RMB963,462,761.79, accounting for 94.76% of the closing balance of other receivables. A provision for bad debts of RMB0 in total was made as at the end of the period.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

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	2,808,597,536.55	59,381,641.00	2,749,215,895.55	2,576,543,954.49	59,381,641.00	2,517,162,313.49
Investments in associates and joint ventures	2,198,473,929.07		2,198,473,929.07	1,627,383,596.00		1,627,383,596.00
Total	5,007,071,465.62	59,381,641.00	4,947,689,824.62	4,203,927,550.49	59,381,641.00	4,144,545,909.49

(2) Investments in subsidiaries

Investee	Opening balance	Increase for the period	Decrease for the period	Closing balance	Provision for impairment made during the period	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		
Kelon Property		4,441,400.00		4,441,400.00		
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			
Baohong Property		295,206,300.00		295,206,300.00		
Total	2,576,543,954.49	299,647,700.00	67,594,117.94	2,808,597,536.55		59,381,641.00

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

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 period		
				Gains or losses from investment recognised using equity method	Adjustment for other comprehensive income	Other change in equity
I. Joint ventures						
Hisense Hitachi	1,627,383,596.00			331,193,198.81		
Subtotal	1,627,383,596.00			331,193,198.81		
II. Associates						
Hisense Financial Holdings		240,000,000.00		-102,865.74		
Subtotal		240,000,000.00		-102,865.74		
Total	1,627,383,596.00	240,000,000.00		331,090,333.07		

(Continued)

Investee	Change for the period			Closing balance	Closing balance of provision for impairment
	Declaration of cash dividend or profit	Provision for impairment made	Other decreases		
I. Joint ventures					
Hisense Hitachi				1,958,576,794.81	
Subtotal				1,958,576,794.81	
II. Associates					
Hisense Financial Holdings				239,897,134.26	
Subtotal				239,897,134.26	
Total				2,198,473,929.07	

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT — Continued**4. Operating revenue and operating costs**

Item	Amount for the period	Amount for previous period
Revenue from principal operations	-4,215,077.15	-308,029.72
Revenue from other operations	38,494,057.62	10,650,004.92
Total operating revenue	34,278,980.47	10,341,975.20
Costs of principal operations	-421,933.47	559,599.45
Costs of other operations	34,515,685.41	5,722,658.55
Total operating costs	34,093,751.94	6,282,258.00

5. Investment income**(1) Breakdowns of investment income**

Item	Amount for the period	Amount for previous period
Income from long-term equity investment — the cost method	39,100,612.37	44,490,678.00
Investment income from financial assets held-for-trading	13,227,800.00	6,004,000.00
Income from long-term equity investment — the equity method	331,193,198.81	189,978,021.58
Income from disposal of long-term equity investment	30,628,882.06	
Total	414,150,493.24	240,472,699.58

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT — Continued**5. Investment income — Continued****(2) Income from long-term equity investments — the cost method**

Investee	Amount for the period	Amount for previous period
Hisense Home Appliances	15,795,569.40	8,387,028.00
Hisense Mould	23,305,042.97	17,403,650.00
Beijing Refrigerator		18,700,000.00
Total	39,100,612.37	44,490,678.00

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

Investee	Amount for the period	Amount for previous period
Hisense International Marketing	13,227,800.00	6,004,000.00
Total	13,227,800.00	6,004,000.00

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

Investee	Amount for the period	Amount for previous period
Zhejiang Hisense		-27,362,398.33
Attend		-83,804.31
Hisense Hitachi	331,193,198.81	217,424,224.22
Hisense Financial Holdings	-102,865.74	
Total	331,090,333.07	189,978,021.58

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2017

17. SUPPLEMENTARY INFORMATION**1. Breakdown of non-recurring profit or loss**

Item	Amount	Explanation
Profit or loss from disposal of non-current assets	1,288,184.26	
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)	64,983,381.34	
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	26,245,112.95	
Other profit or loss items within the meaning of nonrecurring profit or loss		
Subtotal	92,516,678.55	
Effect of income tax	17,269,535.16	
Effect of minority interests (after tax)	7,660,483.72	
Total	67,586,659.67	

NOTES TO THE FINANCIAL STATEMENTS — Continued*Half year of 2017***17. SUPPLEMENTARY INFORMATION — Continued****2. Return on net asset and earnings per share****Half year of 2017**

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	13.09	0.49	0.49
Net profit attributable to ordinary shareholders of the Company after non-recurring profit or loss	11.77	0.44	0.44

Half year of 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	13.04	0.41	0.41
Net profit attributable to ordinary shareholders of the Company after deducting nonrecurring gain or loss	12.01	0.38	0.38

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017. No interim dividend was paid for the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

I. SUMMARY

(I) INDUSTRY OVERVIEW

During the Reporting Period, the performance of domestic white goods markets was diverse: the refrigerator market had insufficient rigid demand and weak growth. According to the inferential statistics of China Market Monitor Company Limited (CMM), as at June 2017, the cumulative retail volume of the refrigerator industry grew by 1.7% and its cumulative retail amount grew by 4.8% year-on-year. Benefited from the de-stocking of the inventory in 2016 which released the space for supplement, scorching weather and the recovery of third and fourth tier markets, the performance of the air-conditioner market was impressive. According to the inferential statistics of CMM, as at June 2017, the cumulative retail volume of the air-conditioner market grew by 26.3% and its cumulative retail amount improved by 31.9% year-on-year. In relation to the export market, the markets of the overseas major economies continued to pick up and the export demand increased. According to the statistics of the Customs, the export volume of refrigeration products grew by 17.1% and the export amount grew by 18.1% year-on-year in the first half of 2017 while the export volume of air-conditioning products grew by 12.3% and the export amount grew by 4.6% year-on-year.

Under the “intelligent” and “high-end” background of the new normal, the user needs are constantly updated and diversified, followed by constant upgrades and improvements in product technology, features, appearance, layout, etc., and the product structure of white goods market has been changing continuously.

(II) ANALYSIS OF COMPANY'S OPERATION

1. Overall situation of Company's operation.

During the Reporting Period, the Company insisted on the operating directions of “strengthening the high-end strategy, expanding the high-quality network, enhancing system efficiency, accelerating the industrial expansion, expanding into international markets, ensuring the economies of scale” to implement various tasks in order to achieve steady increase of the Company's scale and efficiency. However, as affected by unfavourable factors, such as the appreciation of RMB and the continuously rising prices of raw materials, the gross profit margin of enterprises was under pressure and the Company's gross profit margin recorded a decline year-on-year. The Company achieved operating revenue of RMB17,606 million, representing a year-on-year increase of 34.16%, and principal operating revenue of RMB15,989 million, representing a year-on-year increase of 31.48%, among which, revenue from the refrigerator and washing machine business accounted for 41.71% of the principal operating revenue, representing a year-on-year increase of 10.38%; revenue from the air-conditioner business accounted for 53.32% of the principal operating revenue, representing a year-on-year increase of 57.38%; the domestic sales business recorded a principal operating revenue of RMB9,957 million, representing a year-on-year increase of 32.18%, whereas the export sales business recorded a principal operating revenue of RMB6,032 million, representing a year-on-year increase of 30.34%. The Company achieved net profits attributable to shareholders of the listed company of RMB672 million, representing a year-on-year increase of 20.17%, in which the net profits after non-recurring gains or losses were RMB605 million, representing a year-on-year increase of 16.44%, and the earnings per share were RMB0.49.

During the Reporting Period, the Company continued to enhance the optimization of internal workflow as well as largely reducing its inventory level and accelerating the turnover of inventories. The turnover of inventories was reduced by 4.8 days year-on-year.

I. SUMMARY — Continued**(II) ANALYSIS OF COMPANY'S OPERATION — Continued****2. Air-conditioner business**

As for household air-conditioners, during the Reporting Period, the Company adhered to its policy of introducing high-end products. By the implementation of foundation work such as the upgrades, efficiency enhancement and quality improvement of intelligent product and technology, the competitiveness of our products was further enhanced. With its advanced intelligent technologies and outstanding appearance design, the Hisense "Male Idol" series air conditioner (海信“男神”系列空調) introduced by the Company was awarded "2017 Appliance Innovation Award" ("2017艾普蘭創新獎") at the 2017 China Appliance & Electronics World Expo (2017年中國家電及消費電子博覽會). As for the foundation work, in face of increasing market demand, the Company accelerated the turnover of capital for the supply chain, continuously deepened the process optimization, automation upgrade and accelerated the application of information, so as to promote the continuous improvement of production efficiency and achieved a year-on-year increase of 28% in per capita efficiency and a year-on-year increase of 2.13 percentage points in the saving of production costs. The Company strengthened the quality control mechanism to lower the quality loss. The core quality index of the Company was improved continuously as the NPS index of the product quality aspect of "Hisense" and "Kelon" brands improved by 25.6% and 26.1% year-on-year, respectively. As for the sales channel, the Company developed more outlets and focused on developing the third and fourth tier markets. The sales revenue in third and fourth tier markets increased significantly year-on-year. The Company vigorously expanded the network of high-quality customers so that the number of high-quality customers increased significantly, which laid a solid foundation for the subsequent growth of scale. As for the export business, the Company increased overseas marketing efforts for its products. According to the Customs export statistics, the export volume of the Company's air-conditioning products in the first half of 2017 increased by 70.8% year-on-year, which was much higher than the industry average of 12.3%.

As for commercial air-conditioners, Hisense Hitachi, a company in which the Company has equity interest, had advanced international production equipment and quality assurance facilities. By adhering to the philosophy of using technology to promote technical innovation, Hisense Hitachi kept introducing new air-conditioning products to support the rapid increase in scale and profitability as it has fully mastered the world's advanced core production technologies. During the Reporting Period, the orders secured and the receivables collected of Hisense Hitachi achieved huge breakthrough, recording a year-on-year increase of 56.92% in operating revenue, further enhancing the Company's operating efficiency.

During the Reporting Period, as affected by unfavourable factors such as the continuously rising prices of raw materials, the gross profit margin of the air-conditioner business of the Company dropped by 2.64 percentage points as compared to the corresponding period. Facing pressure from squeezing gross profit margin, the Company promoted the enhancement of the operation quality of its air-conditioner business through increasing the product competitiveness, continuously optimizing the structures of products and customers, continuously improving the internal basic management and accelerating the turnover of inventories.

I. SUMMARY — Continued**(II) ANALYSIS OF COMPANY'S OPERATION — Continued****3. Refrigerator and washing machine business**

During the Reporting Period, the Company adhered to the "spirit of craftsmanship" and insisted on the creation of "professional brand, differentiated products" so as to enhance its product competitiveness. Technologically, certified by the safety and anti-bacteria certification organization, CQC, the "full ecological antibacterial fresh-keeping technology" introduced by the Company can achieve a whole-refrigerator antibacterial performance rate of 99.8%. Leveraging on the leading advancement of products in the aspect of healthy and antibacterial technology development, at the 2017 Chinese Refrigerator Industry Summit, "Ronshen" was awarded "The Healthy and Antibacterial Leading Brand in the Refrigerator Industry 2016-2017". As for the products, the "Ronshen refrigerator" launched a series of new "zero degree • purity" products, which are equipped with the full ecological antibacterial fresh-keeping technology. "Hisense refrigerator" launched the new intelligent 5.0 refrigerator which further enriched its line of intelligent high-end refrigerators. As for the export business, the Company insisted on optimizing the structure of overseas customers and strengthening the relationship and cooperation with major strategic customers. According to the statistics of GFK, the sales market share of Hisense's refrigerators in South Africa in the first half of 2017 increased by 3.3 percentage points year-on-year, ranking second in the industry.

However, as affected by multiple factors, such as the continuously weak demand of the domestic sales market, weak growth in the scale, cost pressure resulted from the continuously rising prices of raw materials etc., the declined profitability of the Company's refrigerator and washing machine business and the gross profit margin decreased as compared to the corresponding period last year. Facing the operational pressure, the Company further quantified and deepened "value engineering" and "benchmark management" by establishing the TCP (total cost efficiency) team through combining with the DFMA (Design for Manufacturing and Assembly) platform in order to enhance the cost efficiency and market competitiveness of the products, curb the impact of continuously rising prices of raw materials on the operation, and pave way for the recovery of profitability in the second half of the year.

4. Risks faced by the Company and contingency measures

Looking forward to the second half of 2017, the market competition will be more intense. The demand of the domestic sales market of the refrigerator industry will remain low while the operational pressure will still be grim. As the rapid development of the real estate market may not sustain, the air-conditioner market will gradually show a trend of steady growth, coupled with the high prices of raw materials, fluctuations of exchange rates and other factors, these will bring great pressure to the operation and development of enterprises. The major risks we face are as follows:

- (1) The slowdown of the macroeconomic growth will lead to a decline in consumption demand such that the demand of the white household appliance market in which the Company's principal products of "refrigerators" and "air-conditioners" are located will also be affected, thus affecting the Company's sales scale.
- (2) The continued cost pressure escalated prices of raw materials, and the continuously increasing human resources and labour costs, logistics and transportation costs, installation services costs, etc. will all have a negative impact on the Company's profitability.
- (3) Risks from the fluctuations of exchange rates: as overseas revenue accounted for more than 30% of the Company's overall operating income, the fluctuation of exchange rate of RMB will directly affect the competitiveness of the Company's exported products, which will affect the operation of exports by the Company.

I. **SUMMARY** — *Continued*

(II) **ANALYSIS OF COMPANY'S OPERATION** — *Continued*

4. **Risks faced by the Company and contingency measures** — *Continued*

For the second half of 2017, the product structure upgrades of the white goods will be in continuous steady progress with "intelligent", "high-end", "green" and "healthy" being set as the main tones. The Company will seize the favourable opportunities in the industry and the market to complete the following tasks committedly so as to ensure the steady enhancement of scale and efficiency:

- (1) Continue to strengthen the high-end strategy and promote high-end products; improve the product structure, optimize the customer structure and increase the gross profit margin of products; strengthen the promotional effort for products online.
- (2) Vigorously develop the e-commerce market, and enhance the scale of e-commerce and market share; develop key areas to promote the enhancement of overall scale; deepen the development of the third and fourth tier markets and build its core sales channels; expand into international markets and enhance the scale of export.
- (3) Fully implement the efficiency enhancement and cost reduction tasks from the research and development, manufacturing, marketing to other aspects.
- (4) Accelerate the industrial development, improve the product layout, highlight the differentiating functions of products, enhance the core competitiveness of products, and achieve rapid growth in business scale and economic efficiency of "washing machine", "commercial air-conditioner", "commercial cold chain", "environmental appliances" and "kitchen appliances".
- (5) Strengthen the management of receivables, continue to improve inventory management, accelerate the turnover of inventories and trade receivables, firmly enforce the settlement of overdue receivables and old inventories and improve the efficiency of capital utilization.

MANAGEMENT DISCUSSION AND ANALYSIS — *Continued*

II. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD

(I) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

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

Yes No

Items	Reporting Period	Corresponding period last year	Increase or decrease as compared to corresponding period last year (%)
Operating revenue (RMB)	17,606,357,421.41	13,122,951,531.51	34.16
Net profits attributable to shareholders of listed company (RMB)	672,098,859.30	559,279,481.31	20.17
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	604,512,199.63	519,161,229.89	16.44
Net cash flow from operating activities (RMB)	600,148,124.99	1,066,721,270.63	-43.74
Basic earnings per share (RMB/share)	0.49	0.41	19.51
Diluted earnings per share (RMB/share)	0.49	0.41	19.51
Weighted average rate of return on net assets (%)	13.09	13.04	0.05

Items	End of the Reporting Period	End of last year	Increase or decrease as compared to end of last year (%)
Total assets (RMB)	21,428,612,999.32	19,055,058,608.32	12.46
Net assets attributable to shareholders of listed company (RMB)	5,129,368,777.99	4,867,466,177.17	5.38

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

Item	Amount	<i>Unit: RMB</i> Description
Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)	1,288,184.26	
Government grants recognized in the profits or losses (excluding government grants closely related to the Company's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	64,983,381.34	
Other non-operating income and expenses other than the aforementioned items	26,245,112.95	
Less: Effect of income tax	17,269,535.16	
Effect of minority interests (after tax)	7,660,483.72	
Total	67,586,659.67	

MANAGEMENT DISCUSSION AND ANALYSIS — Continued

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

(III) ANALYSIS OF PRINCIPAL BUSINESS

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

Unit: RMB

Items	Closing balance (current period)	Opening balance (end of last year)	Change (%)	Reasons of change
Cash and cash equivalents	3,900,614,157.25	2,227,421,330.74	75.12	Mainly due to an increase in net operating cash flow of the Company during the Reporting Period and the redemption of wealth management products upon maturity as at the end of the Reporting Period
Accounts receivable	4,732,996,618.97	2,725,129,183.33	73.68	Mainly because the end of the Reporting Period was the peak season for sales, thus increased sales resulted in a corresponding increase in accounts receivable
Other receivables	441,822,972.75	245,420,469.20	80.03	Mainly due to an increase in refund of tax for exports receivable as at the end of the Reporting Period
Other current assets	384,256,493.04	1,678,765,851.25	-77.11	Mainly due to the redemption of wealth management products upon maturity as at the end of the Reporting Period
Long-term equity investments	2,198,473,929.07	1,627,383,596.00	35.09	Mainly due to the recognition of gain from investment in Hisense Hitachi and the additional investment in Hisense Financial Holdings
Construction in progress	121,410,404.41	72,942,458.27	66.45	Mainly due to an increase in the investment in technology transformation as at the end of the Reporting Period
Operating revenue	17,606,357,421.41	13,122,951,531.51	34.16	Mainly due to a substantial growth of the sales of the air-conditioner business
Operating costs	14,347,700,763.30	10,044,258,231.63	42.84	Mainly due to a corresponding increase in costs following an increase in revenue from sales
Taxes and surcharges	135,074,666.02	53,955,707.45	150.34	Mainly due to a year-on-year increase resulted from the inclusion of taxes such as waste electronic fund into taxes and surcharges in accordance with the requirement of the standards during the Reporting Period
Investment income	366,251,715.27	190,519,070.38	92.24	Mainly due to an increase in gain from investment in Hisense Hitachi
Non-operating income	101,429,806.22	56,931,787.09	78.16	Mainly due to an increase in the government grants received
Cash received from sales of goods and rendering of services	12,156,017,540.22	9,029,697,663.46	34.62	Mainly due to a corresponding increase in receipts following an increase in sales
Tax rebates received	591,629,782.01	434,364,375.99	36.21	Mainly due to an increase in refund of tax for exports received following a growth of the scale of export

MANAGEMENT DISCUSSION AND ANALYSIS — *Continued*

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

(III) ANALYSIS OF PRINCIPAL BUSINESS — *Continued*

Items	Closing balance (current period)	Opening balance (end of last year)	Change (%)	Reasons of change
Cash paid for purchases of commodities and receipt of services	8,187,278,779.82	4,727,872,044.53	73.17	Mainly due to an increase in the payment to purchase following an increase in sales
Cash received relating to other investing activities	2,800,000,000.00	200,000,000.00	1,300.00	Mainly due to an increase in redemption of wealth management products
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	197,559,248.87	129,400,021.03	52.67	Mainly due to an increase in the investment in technology transformation of fixed assets
Cash paid for investments	240,000,000.00		N/A	Due to the new investment in Hisense Financial Holdings during the Reporting Period
Cash paid relating to other investing activities	1,500,000,000.00	361,000,000.00	315.51	Due to an increase in the purchase of wealth management products
Cash received from borrowings		699,918,728.63	N/A	Due to the accounts receivable factoring and borrowing business in the corresponding period which did not occur in the Reporting Period
Cash paid for repayment of borrowings		542,305,035.90	N/A	Due to the accounts receivable factoring and borrowing business in the corresponding period which did not occur in the Reporting Period
Cash paid for distribution of dividends, profit or payment of interest expenses	13,043,592.32	28,395,158.78	-54.06	Mainly due to the payment of interest of factoring loans in the corresponding period which did not occur in the Reporting Period
Cash paid relating to other financing activities	1,016,209,836.70	1,190,281.40	85,275.60	Mainly due to an increase in security deposit during the Reporting Period

MANAGEMENT DISCUSSION AND ANALYSIS — Continued

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

(IV) DESCRIPTION OF PRINCIPAL BUSINESS SEGMENTS

Unit: RMB

Item	Revenue from 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	15,988,986,946.73	12,796,472,032.26	19.97	31.48	39.47	-4.59
By product						
Refrigerators and washing machines	6,668,625,568.41	5,374,279,321.90	19.41	10.38	19.86	-6.38
Air-conditioners	8,524,894,129.91	6,814,028,367.21	20.07	57.38	62.76	-2.64
Others	795,467,248.41	608,164,343.15	23.55	13.21	20.46	-4.60
By region						
Mainland	9,956,646,420.24	7,184,100,335.59	27.85	32.18	35.77	-1.91
Overseas	6,032,340,526.49	5,612,371,696.67	6.96	30.34	44.52	-9.13

III. CORE COMPETITIVENESS ANALYSIS

1. Technological advantages

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

MANAGEMENT DISCUSSION AND ANALYSIS — *Continued*

III. CORE COMPETITIVENESS ANALYSIS — *Continued*

2. Brand advantages

The three brand names used in refrigerator and air-conditioner products of the Company, namely “Hisense”, “Ronshen” and “Kelon”, have good brand reputation and market base. Among these brands, the market share of “Hisense” inverter air-conditioners had ranked first in China for thirteen consecutive years, while the market share of “Ronshen” refrigerators had ranked first in China for eleven years. “High technology and high quality” reflects the Company’s core brand value. At the same time, the Company benefited from the favorable opportunity of sports marketing development by Hisense Group and accelerated the process of internationalization so as to continuously promote the strategy of internationalization of its own brands.

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

Major subsidiaries and companies in which the Company has equity interest and accounting for over 10% of the net profit of the Company

Name of company	Company type	Industry	Major product or service	Registered capital	Total assets (RMB ten thousand)	Net assets (RMB ten thousand)	Operating revenue (RMB ten thousand)	Operating profit (RMB ten thousand)	Net profits (RMB ten thousand)
Hisense Hitachi	A company in which the Company has equity interest	Manufacturing industry	Production and sale of commercial airconditioners	US\$46 million	859,333.16	410,302.48	441,781.49	85,516.74	71,128.03

Acquisition and disposal of subsidiaries during the Reporting Period

Name of company	Means of acquisition and disposal of subsidiaries during the Reporting Period	Effect on the overall production, operation and results
Hisense Mould (Deutschland) GmbH	Newly established	To satisfy the Company’s operation needs.
Kelon (Japan) Limited	Cancellation of registration	The cancellation of registration of this company will not have any significant impact on the Company’s overall production operation and performance.

LIQUIDITY AND SOURCES OF CAPITAL

Net cash generated from operating activities of the Group was approximately RMB600 million for the six months ended 30 June 2017 (for the six months ended 30 June 2016: RMB 1,066 million).

As at 30 June 2017, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB 3,901 million (as at 30 June 2016: RMB 2,086 million) and bank loans amounting to approximately RMB 0 million (as at 30 June 2016: RMB248 million).

Total capital expenditures of the Group for the six months ended 30 June 2017 amounted to approximately RMB197 million (for the six months ended 30 June 2016: RMB129 million).

GEARING RATIO

As at 30 June 2017, the Group's gearing ratio (calculated according to the formula: total liabilities divided by total assets) was 74% (as at 30 June 2016: 73%).

TRUST DEPOSITS

As at 30 June 2017, the Group did not have any trust deposits with any financial institutions in the PRC. All of the Group's deposits have been deposited in commercial banks and other financial institutions in the PRC and Hong Kong.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 June 2017, the Group had approximately 33,274 employees, mainly comprising 4,539 technical staff, 14,261 sales representatives, 199 financial staff, 682 administrative staff and 13,593 production staff. The Group had 11 employees with a doctorate degree, 492 with a master's degree and 3,851 with a bachelor's degree. There were 551 employees who occupied mid-level positions or above in the Group according to the national standards. For the six months ended 30 June 2017, the Group's staff payroll amounted to RMB1,551 million (corresponding period in 2016 amounted to RMB1,338 million).

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

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2017, the Group did not have (31 December 2016: nil) property, plant and equipment (including leasehold land held for own use), investment properties and trade receivables pledged as security for the Group's borrowings.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

SHARE CAPITAL STRUCTURE

As at 30 June 2017, the share capital structure of the Company was as follows:

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

TOP TEN SHAREHOLDERS

As at 30 June 2017, there were 29,414 shareholders of the Company (the "Shareholders") in total, of which the top ten Shareholders were as follows:

Name of Shareholder	Nature of Shareholder	No. of shares held	Percentage to the total issued shares of the Company	Percentage to the relevant class of issued shares of the Company	No. of shares held subject to trading moratorium
Hisense Air-conditioning	State-owned legal person	516,758,670	37.92%	57.22%	0
HKSCC Nominees Limited ^{Note 1}	Foreign legal person	458,155,069	33.62%	99.69%	0
Cental Huijin Investment Ltd.	Domestic non-state-owned legal person	26,588,700	1.95%	2.94%	0
China Construction Bank Limited – China Universal Consumer Industries Mixed Security Investment Fund	Others	10,401,823	0.76%	1.15%	0
China Construction Bank Corporation–Great Wall Brand Prime Choice Mixed Securities Investment Fund	Others	8,145,953	0.60%	0.90%	0
Zhang Shao Wu	Domestic natural person	7,200,000	0.53%	0.80%	0
National Social Security Fund Combination 114	Others	6,260,382	0.46%	0.69%	0
Bank of Communications-Huaxia Blue-chip Core Mixed Securities Investment Fund (LOF)	Others	5,559,119	0.41%	0.62%	0
Industrial and Commercial Bank of China Limited-China Universal Asset Management Emerging Consumption Equity Securities Investment Fund	Others	5,019,668	0.37%	0.56%	0
China Citic Bank Corporation Limited – Bank Of Communications Schroder Strategic Return and Flexible Allocation Mixed Securities Investment Fund	Others	4,691,787	0.34%	0.52%	0

Notes:

- The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, among which, Hisense Hong Kong, a party acting in concert with the controlling shareholder of the Company, is the holder of 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.

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of tradable shares held	Class of shares
Hisense Air-conditioning	516,758,670	RMB ordinary shares
HKSCC Nominees Limited	458,155,069	Overseas listed foreign shares
Cental Huijin Investment Ltd.	26,588,700	RMB ordinary shares
China Construction Bank Limited – China Universal Consumer Industries Mixed Security Investment Fund	10,401,823	RMB ordinary shares
China Construction Bank Corporation – Great Wall Brand Prime Choice Mixed Securities Investment Fund	8,145,953	RMB ordinary shares
Zhang Shao Wu	7,200,000	RMB ordinary shares
National Social Security Fund Combination 114	6,260,382	RMB ordinary shares
Bank of Communications-Huaxia Blue-chip Core Mixed Securities Investment Fund (LOF)	5,559,119	RMB ordinary shares
Industrial and Commercial Bank of China Limited-China Universal Asset Management Emerging Consumption Equity Securities Investment Fund	5,019,668	RMB ordinary shares
China Citic Bank Corporation Limited – Bank Of Communications Schroder Strategic Return and Flexible Allocation Mixed Securities Investment Fund	4,691,787	RMB ordinary shares

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES

So far as is known to any Directors, supervisors and the chief executive of the Company, as at 30 June 2017, the following persons (other than the Directors, supervisors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited:

LONG POSITION OR SHORT POSITION IN THE SHARES OF THE COMPANY

Name of shareholder	Capacity	Type of shares	Number of shares held	Percentage of the respective type of shares	Percentage of the total number of shares in issue
Qingdao Hisense Air-conditioning Company Limited ^{Note 1}	Beneficial owner	A shares	516,758,670 (L)	57.22%	37.92%
Qingdao Hisense Electronics Industry Holding Company Limited ^{Note 1}	Interest of controlled corporation	A shares	516,758,670 (L)	57.22%	37.92%
Hisense Group ^{Note 1}	Interest of controlled corporation	A shares	516,758,670 (L)	57.22%	37.92%
Hisense Hong Kong ^{Note 1}	Beneficial owner	H shares	97,202,000 (L)	21.15%	7.13%
Qingdao Hisense Electronics Industry Holding Company Limited ^{Note 1}	Interest of controlled corporation	H shares	97,202,000 (L)	21.15%	7.13%
Hisense Group ^{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.

Notes:

- Hisense Air-conditioning is a company directly owned as to 93.33% by Qingdao Hisense Electronics Industry Holding Company Limited, whereas Hisense Hong Kong is a company directly owned as to 100% by Qingdao Hisense Electronics Industry Holding Company Limited. Qingdao Hisense Electronics Industry Holding Company Limited is in turn owned as to 32.36% by Hisense Group and is accustomed or obliged to act in accordance with the directions or instructions of Hisense Group. By virtue of the SFO, Qingdao Hisense Electronics Industry Holding Company Limited and Hisense Group were deemed to be interested in the same parcel of A shares of which Hisense Air-conditioning was interested and in the same parcel of H shares of which Hisense Hong Kong was interested.

Save as disclosed above, as at 30 June 2017, in so far as the Directors, supervisors and chief executive of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

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

As at 30 June 2017, save as disclosed below, none of the members of the Board, supervisors and the chief executive of the Company and their respective associates held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be maintained by the Group pursuant to section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code.

LONG POSITION IN THE SHARES OF THE COMPANY

Name of Director	Nature of interest	Number of shares	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%

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the interim results announcement for the period ended 30 June 2017.

CORPORATE GOVERNANCE CODE

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

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

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

Connected parties	Type of connected transaction	Particulars of connected transaction	Pricing principle of connected transaction	Connected transaction amount (RMB ten thousand)	Percentage of total amount of similar transaction (%)
Hisense Group	Purchase	Finished goods	Agreed price	0.51	0.00
Hisense Electronics	Purchase	Finished goods	Agreed price	2.27	0.00
Hisense Group	Purchase	Materials	Agreed price	4,042.68	0.28
Hisense Electronics	Purchase	Materials	Agreed price	537.94	0.04
Hisense Hitachi	Purchase	Materials	Agreed price	565.51	0.04
Hisense Group	Receipt of services	Receipt of services	Agreed price	19,548.89	1.36
Hisense Electronics	Receipt of services	Receipt of services	Agreed price	461.60	0.03
Hisense Hong Kong	Receipt of purchase financing agency services	Receipt of purchase financing agency services	Agreed price	19,061.49	1.33
Hisense Group	Sale	Finished goods	Agreed price	426,118.97	24.20
Hisense Electronics	Sale	Finished goods	Agreed price	71.79	0.00
Hisense Hitachi	Sale	Finished goods	Agreed price	20,621.19	1.17
Hisense Group	Sale	Materials	Agreed price	2,282.08	0.13
Hisense Electronics	Sale	Materials	Agreed price	1,069.54	0.06
Hisense Hitachi	Sale	Materials	Agreed price	93.05	0.01
Hisense Group	Sale	Moulds	Market price	13,916.64	0.79
Hisense Electronics	Sale	Moulds	Market price	4,235.90	0.24
Hisense Hitachi	Sale	Moulds	Market price	183.59	0.01
Hisense Group	Provision of services	Provision of services	Agreed price	1,214.19	0.07
Hisense Hitachi	Provision of services	Provision of services	Agreed price	0.45	0.00

As at the end of the Reporting Period, the Company and its subsidiaries had the balance of deposit of approximately RMB3.321 billion and interest income received of approximately RMB9.7381 million, the actual balance of loan of RMB0, balance of electronic bank acceptance bill of approximately RMB4 billion, and the handling fee for opening accounts for electronic bank acceptance bill of approximately RMB2.1502 million with Hisense Finance. The actual amount of discounted interest for the provision of draft discount services was approximately RMB1.6454 million the actual amount involved for the provision of settlement and sale of foreign exchange services was approximately RMB73.6946 million and the actual service fee paid for the provision of agency services such as settlement services for receipt and payment of funds was approximately RMB0.1562 million.

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

II. CONNECTED TRANSACTION IN RELATION TO JOINT EXTERNAL INVESTMENT

Joint venture parties	Connected relationship	Name of the joint venture company	Major business of the joint venture company	Registered capital of the joint venture company	Total assets of the joint venture company (RMB ten thousand)	Net asset of the joint venture company (RMB ten thousand)	Net profit of the joint venture company (RMB ten thousand)
Hisense Financial Investment Co., Ltd., Hisense International Co., Ltd., Qingdao Hisense Intelligent Commercial System Co., Ltd., Qingdao Hisense Electronic Equipment Co., Ltd.	Controlled by the same beneficial controller	Hisense Financial Holdings Co., Ltd.	Engaged in asset management, investment management, equity investment, equity investment management, venture capital investment, and venture capital investment management with its own capital, security business investment management, entrusted management of equity investment fund, technology investment and technology consultation in financial software, business management and consultation, business information consultation, commencement of creditors' investment, short-term financial investment, investment planning and consultation which targeted on the entity's economic project within the approved regions.	RMB1 billion	92,453.4	92,407.1	-42.86
Progress of significant projects in progress of the joint venture company (if any)		Not applicable.					

III. ENTRUSTED WEALTH MANAGEMENT

Applicable Not applicable

Unit: RMB (in ten thousand)

Name of trustee	Connection	Whether it is a connected transaction	Product type	Amount of entrusted wealth management	Commencement 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
Bank	No	No	Bank's wealth management product	150,000	1 January, 2017	31 December 2017	Agreement	280,000.00			1,823.21
Total				150,000				280,000.00			1,823.21
Source of funding for entrusted wealth management									Internal funding of the Company		
Total amount of overdue principal and revenue which was not yet recovered									0		
Legal disputes involved (if applicable)									Not applicable		
Date of publishing the announcement in respect of the Board meeting held to approve the entrusted wealth management (if applicable)									18 November 2016		
Date of publishing the announcement in respect of the Shareholders' meeting held to approve the entrusted wealth management (if applicable)									10 January 2017		

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

V. DERIVATIVES INVESTMENT — *Continued*

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

The assessment of the fair value of the derivatives carried out by the Company mainly represents the outstanding foreign exchange forward contracts entered into by the Company and banks, which are recognized as transactional financial assets or liabilities based on the difference between the quotation of the outstanding foreign exchange forward contracts and the forward exchange rate as at the end of the period. During the Reporting Period, the Company recognized a gain on change in fair value of the derivatives of RMB-14.7663 million. Investment gain amounted to RMB 3.7015 million, resulting in a total profits or losses of RMB-11.0648 million.

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

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

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

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

This announcement 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 announcement, 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 Co., Ltd.
"Hisense Electronics"	Qingdao Hisense Electronics Co., Ltd.
"Hisense Group"	Hisense Co., Ltd.
"Hisense Hitachi"	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.
"Hisense Finance"	Hisense Finance Co., Ltd.
"Hisense Hong Kong"	Hisense (Hong Kong) Co., Ltd.
"Hisense Financial Holdings"	Hisense Financial Holdings Co., Ltd.
"RMB"	Renminbi
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited