

Hisense 海信家電

海信家電集團股份有限公司

Hisense Home Appliances Group Co., Ltd.

Stock Code: 00921

Hisense |  **UEFA EURO2020**

2020歐洲杯全球官方合作伙伴



2019 Annual Report

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Company Profile

Hisense Home Appliances Group Co., Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) is a major manufacturer of household electrical appliances in the People’s Republic of China (the “**PRC**” or “**China**”) under the brand names “Hisense”, “Kelon” and “Ronshen”, all of which have been recognised as “Well-known Trademarks in China”. Founded in 1984 and headquartered in Shunde District, Guangdong Province, the PRC, the Company is principally engaged in research and development, production and marketing of electrical appliances such as refrigerators, residential air-conditioners, central air-conditioners, freezers, washing machines and kitchen electrical appliances, as well as commercial cold chain and environmental electrical appliances. Its manufacturing bases are located in cities across the country, including Qingdao (Shandong Province), Shunde (Guangdong Province), Jiangmen (Guangdong Province), Yangzhou (Jiangsu Province), Huzhou (Zhejiang Province), and Chengdu (Sichuan Province) and the products are exported to many countries and regions domestically and internationally, which fulfil consumer demand across the world. In 1996 and 1999 respectively, the Company’s shares were listed on the main boards of The Stock Exchange of Hong Kong Limited and the Shenzhen Stock Exchange.

Central air-conditioning business: Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd., a subsidiary of the Company, was established in 2003, and has strong competitiveness in the central air-conditioner market. According to the statistics from www.aicon.com.cn, the total domestic market share of multi-split central air-conditioners products under the three brands of Hisense Hitachi, including “Hitachi”, “Hisense” and “York”, ranked first in the industry in 2019.

Refrigerators and washing machines business: Refrigerators and washing machines comprise one of the Company’s principal businesses. In this sector, the Company’s “Hisense” and “Ronshen” refrigerators are among the most well-known brands. According to the statistics from China Market Monitor Co., Ltd. (CMM), the total domestic market share of online and offline cumulative retail sales volume of the two brands ranked second in the industry in 2019.

Residential Air-conditioning business: Under its well-known Hisense and Kelon air-conditioner brands, the Company was the first to commit to the research and development, production and promotion of inverter air-conditioners in China. Having years of experience, the Company has maintained a consistent focus on developing technological innovations for inverter air-conditioners, improving product quality, and upgrading its industrial capabilities. This has enabled it to lead the development of national standards for inverter air-conditioners, and has earned a reputation as the industry’s “inverter expert”. According to the statistics from China Market Monitor Co., Ltd. (CMM), the total domestic market share in the industry under the two brands ranked fourth in terms of the offline cumulative retail sales volume in 2019, and ranked fifth in terms of the online cumulative retail sales volume in 2019.

The Company will continue to follow its core business philosophy, that is “the essence of home appliances is home”, keep offering high quality products and continue to realise healthy and stable development through optimising the industrial structure and sustainable innovation.

Major Events Calendar

MARCH

Hisense's "Comfort Home X610 air-purifying filter air-conditioner" received the AWE Best Design Award.

Hisense's "God of Cooking" refrigerator received the AWE Award.

JUNE

The "Black Technology, Enjoy the Future" integrated marketing case of Hisense Air-Conditioning received the 2019 ADMEN International Award-Digital Marketing Effectiveness Award and Creative Communication Practical Gold Case Award.

SEPTEMBER

The "Technical Specification for Evaluation of Comfort-based Directional Air-conditioning" independently developed by Hisense Air-Conditioning won the Innovation Achievement of the Year in Enterprise Standards as elected at the 15th Chinese Home Appliance Innovation Evaluation.

The financial statements of Hisense Hitachi was consolidated into that of the Company, which further enhanced the size and quality of the Company's assets, enterprise value and overall strength.

The refrigerators, residential air-conditioners and washing machines of the Company shone at the 2019 Berlin IFA, which again demonstrated the strong innovation capability and brand power of the Company's home appliances.

OCTOBER

The working meeting of the national preparation team for the "Multi-split Air Conditioning System Design and Application Technical Regulations" was held at Hisense Hitachi, a forerunner in actively pushing forward the formulation of industrial standard to promote the healthy development of the industry.

DECEMBER

The first batch of production lines of the Phase III factory of Hisense Hitachi was successfully commissioned, representing a further expansion of the production capacity for central air-conditioning.

Hisense Hitachi was named "National Professional Workers Ethics Advanced Unit" jointly awarded by six authorities including the National Federation of Trade Unions and the Propaganda Department of the Central Committee of the CPC, etc.

Chairman's Statement

Dear Shareholders of Hisense Home Appliances:

In 2019, China's home appliance industry faced the challenge of global economic instability. The Company responded to the difficulties, standing tall with a positive, courageous and proactive attitude in the unpredictable market tide.

With the support of all shareholders, the Company maintained its strategy of offering high-quality products notwithstanding the challenges faced in both the domestic and international markets. During 2019, it launched a series of differentiated, technologically innovative products and upgrades to its existing lines which were well-received by consumers around the world. As a result, the Company achieved an operating revenue of RMB37.453 billion, representing a year-on-year increase of 3.98%. Net profits attributable to shareholders of the listed company reached RMB1.794 billion, representing a year-on-year increase of 30.22%. The steady increase of both revenue and profit brought good returns to the shareholders.

In 2019, Hisense Hitachi's financial results were consolidated into those of the Group, further enhancing the Company's value and overall strength. Statistics from www.aicon.com.cn show that market share for multi-split type air-conditioners under the Hitachi, Hisense and York brands jumped to the first place in the industry in 2019. Following on from the high operating revenue achieved in 2018, the refrigerator and washing machine sector set a new record of operating revenue in 2019. Profit was also at its highest level in the last five years. To ensure continual increase in scale and profit, the Company continued to drive innovation, brand-building and service quality improvements which received good evaluation from the society, while winning several industry awards, setting industry standards and obtaining many important technical patents along the way.

Looking ahead, China's home appliance industry is currently experiencing technological change, innovative business models, changing population structure and consumption patterns, all of which will bring new opportunities and challenges to the home appliance industry. Adding to the prevailing uncertainty are factors such as the overall economic situation, the emergence of new competitors, and the immediate and lasting effects of the COVID-19 epidemic, have brought unprecedented difficulties and challenges to the home appliance industry in China.

In response to this complicated market environment, the Company will face 2020 with clear goals and a continued commitment to high-quality product offerings. The Company will exploit consumption upgrade and market segment opportunities with innovative products, and by securing the market and steadily increasing its scale and profit. Specifically, the Company will continue to consolidate its industry position in the central air-conditioner business and maintain its leading advantages in technology and quality. For the refrigerator business, the Company will strengthen brand-building, promote the Ronshen refrigerator series' preservation technology of "keep it in the refrigerator for another seven days", and continue to reinforce its standard-setting position in the sector. Hisense will also focus on vacuum preservation technologies to penetrate into segment markets. For the washing machine business, the Company will focus on "steaming, ironing and washing" as the core technical value in terms of product upgrade and will strive to achieve a breakthrough in business scale. For residential air-conditioning, the Company will focus on the "Fresh Air" market, promote the concept of "delivering fresh air to the house in three minutes", reinforce its leading position in the "Fresh Air" product sector, and continue to increase business scale by virtue of the rapid expansion of the "Fresh Air" market.

The Company will join hands with the shareholders in an ambitious yet pragmatic effort to create a bright future for Hisense Home Appliances.

Tang Ye Guo
Chairman

Management Discussion and Analysis

I. INDUSTRY OVERVIEW

Central air-conditioner market: According to China's Central Air-conditioner Market Research Report 2019 released by www.aicon.com.cn, the four years of growth in the domestic central air-conditioner market's overall capacity has terminated in 2019, with a year-on-year decrease of 2.9%. From the perspective of sales pipelines, the overall capacity of the home furnishing retail market declined for the first time in 2019 due to the impact of real estate regulation policies and the diversion of potential customers as a result of property fitting-out policies. There was less fluctuation in the engineering project market, and market segments such as medical, education, rail transit and data centres continued to grow. With the continued implementation of property fitting-out policies, the property fitting-out furnishing market became the highlight segment in terms of growth for the central air-conditioner market in 2019. From a product perspective, the market share of the multi-connected type of central air-conditioners remained the largest category. However, due to the decline of home furnishing retail market, sales of multi-connected central air-conditioners experienced a year-on-year decrease of 3.9% in 2019, and accounted for 48% of the total central air-conditioner market. The market share of multi-connected central air-conditioners also decreased slightly compared to the same period of the previous year. In terms of technological development of product, the Group focused on user needs, and regarded high-end, 5G, intelligence, energy saving and health as main targets.

Refrigerator market: According to inferential statistics from China Market Monitor Co., Ltd. (CMM), the cumulative retail volume of domestic refrigerator sector in 2019 increased by 6.7% year-on-year, and the cumulative retail sales grew by 1.0% year-on-year, indicating continued weak market demand. In terms of sales pipelines, growth in scale was mainly contributed by the online channel, where the retail online sales volume and sales amount recorded year-on-year growth of 21.4% and 12.3% respectively, while offline sales volume and sales amount recorded year-on-year decreases of 6.3% and 2.6% respectively. From a product portfolio perspective, sales of multi-door and side-by-side combination refrigerators performed steadily on an upward trend, with a retail market share of 61.8% and year-on-year growth of 2.7%. In terms of technological development of products, with increasing customer awareness of healthy living concepts, refrigerator products are centring on clean and healthy food preservation as a basis of their intelligent and high-end development.

Residential air-conditioner market: During the year ended 31 December 2019 (the "Reporting Period"), the domestic residential air-conditioner market experienced a harsh market environment with severe price competition. The average prices of some products in the market dropped sharply, which compressed the profit margin for enterprises in the industry. With regard to industrial scale, CMM statistics show that the cumulative retail sales volume of domestic residential air-conditioner market in 2019 increased by 4.3% year-on-year, while the cumulative retail sales amount decreased by 3.6% year-on-year. In terms of technological development of products, with health continuing to be a major consumer requirement, residential air conditioning products continued to develop with "air quality improvement" and "Fresh Air" function as a direction. The market share of products with "family life scenario marketing" as a selling point also continued to expand.

Management Discussion and Analysis

II. ANALYSIS OF THE COMPANY'S OPERATION

During the Reporting Period, the financial results of Hisense Hitachi are consolidated into those of the Group, which significantly increased the revenue scale and assets scale of the Company and further enhanced the value and overall strength of the Company.

During the Reporting Period, the Company achieved operating revenue of RMB37.45 billion, representing a year-on-year increase of 3.98%. From a product perspective, operating revenue of air-conditioner business amounted to RMB16.37 billion, representing a year-on-year increase of 9.92%; while the operating revenue from the refrigerator and washing machine business amounted to RMB16.13 billion, representing a year-on-year increase of 0.34%. Meanwhile, the Group's domestic sales business recorded operating revenue of RMB22.71 billion, representing a year-on-year increase of 3.05%, and the export sales business recorded operating revenue of RMB11.49 billion, representing a year-on-year increase of 6.81%. At the end of the Reporting Period, the Company's total assets amounted to RMB33.99 billion, representing a year-on-year increase of 55.72%; and net cash flows from operating activities amounted to RMB2.01 billion, representing a year-on-year increase of 91.10%.

Responding to pressures on scale, the Company pursued a strategy of creating high-quality products, ensuring steady improvement of profitability through technical and product innovation, efficiency enhancement and refinement of the product sales structure. Net profits attributable to shareholders of listed company reached RMB1.79 billion, representing a year-on-year increase of 30.22%, of which the net profit after deducting non-recurring profit and loss was RMB1.226 billion. Earnings per share were RMB1.32. In addition, the Company continued to strengthen its capital management, and accelerate capital turnover, and the gearing ratio has continuously improved.

The major performance of each business is as follows:

1. Central air-conditioning

During the Reporting Period, amid a year-on-year decline in the overall scale of central air-conditioner industry, the Company's central air-conditioning business steadily grew in terms of scale, profit and market share and established a stronger market base with its multi-brand strategy. Its major work was as follows:

- (1) Cultivating technical capacity and continually maintaining technological leadership.** The Company further improved its research and development capacity of products and accelerated its research in core technology. With the launch of new technology products and applications such as "Intense Heating and Underfloor Heating (強熱地暖)" and "Narrowband Internet of Things (NB-IOT)", the research and development efficiency improved continuously. At the 2019 China Heating, Ventilation and Air Conditioning Industry Summit and the "Cooling, Heating and Intelligent Manufacturing" awards ceremony (2019中國暖通空調產業峰會暨“冷暖智造”頒獎盛典), Hisense Hitachi won the Golden Intelligent Award (金智獎), which is the highest award for cooling, heating and intelligent manufacturing in China, for its outstanding market performance in the field of central air-conditioners.
- (2) Reinforcing quality management and maintaining quality leadership.** By holding consistently true to the philosophy of "management from source, prevention and control" throughout the whole process of product management, the Company continued to invest in product quality while launching experimental resource projects such as the "User Simulation Experience Centre" (用戶模擬體驗中心), "Long-running Laboratory" (長期運行試驗室) and "Software Accreditation Laboratory" (軟件認定試驗室). The Company continued to reinforce its quality management and maintain its quality leadership advantage.
- (3) Improving product competitiveness and further increasing market share.** The launch of key products such as Hitachi's indoor purification air conditioner and intelligent voice controller, Hisense's 5G Internet of Things home central air conditioner, and York's YES-RM split multiple heat pump, injected new energy into each market segment. With different brand positioning, product and marketing strategy, under the three-brand operating system, all these three brands maintained a rapid year-on-year growth. According to the statistics from www.aicon.com.cn, the market share of multi-split type air-conditioners under the Hitachi, Hisense and York brands ranked first in the industry.

Management Discussion and Analysis

- (4) **Enhancing supply chain delivery capacity and securing market supply.** The Company regards a secure supply as its first principle for an effective supply chain system. It accordingly continued to refine the organisational structure and management process of the planning system, improving the information flow and performing precision management inputs. In addition, the first batch of production lines for Hisense Hitachi's Phase III factory, integrating advanced process equipment and intelligent information systems, was successfully commissioned and has commenced operation, which further expands its central air-conditioner production capacity.

2. Refrigerators and washing machines

During the Reporting Period, the refrigerator company followed its philosophy of “the essence of home appliances is home” while reinforcing collaborative activities, introducing technically innovative products, refining its management philosophy, enhancing efficiency, following stringent execution standards, so as to achieve a substantial improvement in operating results. Its major work was as follows:

- (1) **Accurately gauging user needs and continuing to improve product competitiveness.** The Company deeply explored user needs and focused on research and development of high-end differentiated technologies. Technological pre-research in key areas was completed, and technological breakthroughs have been achieved in core areas. The Company successively launched the “VACUUM” series by Hisense refrigerator, integrating technologies of vacuum preservation and DBD+ ion degerming and odor cleaning, and the “WILL” series by Ronshen Refrigerator, turning the refrigerators into “fresh cabins” for fruits and vegetables through the ingenious utilisation of water, light and ion, which both highly enhanced the Group's product competitiveness. During the Reporting Period, the Company's refrigerator products received honours including the AWE Award, “Stars in All Fields of Sterilisation” (全領域殺菌之星), and “Leading Product” for Keeping Food Fresh (養鮮標桿產品). In terms of washing machine products, the high-end “Warm Idol S” series by Hisense Washing Machine were launched as planned, which won the “Annual Technological Innovation Award” (年度技術創新成果) and “Star of washing machine industry” (洗衣機行業洗護科技之星) by virtue of its outstanding performance. In addition, focusing on “steaming, ironing and washing” as the core technical direction, “Warm Idol S9” washing machine was launched at the first quarter of 2020. With the unique features of fast steaming in 15 minutes, and anti-bacteria and clothing care function without ironing, the washing machine creates a safe and comfortable “cocooning” environment and builds a health protective barrier.
- (2) **Strengthening fundamental management and implementing efficiency improvements.** The Company adhered to its philosophy of focusing on outstanding products and motivating efficiency, and continued to improve its fundamental management. Starting with project management and following with efficiency improvement projects in respect of processes and automation, a year-on-year decrease in the allocation of overheads was achieved as well as a substantial gross profit growth of 3.02%.
- (3) **Promoting diverse channel development and actively seeking increase in market sales volume.** The Company has deeply integrated its online and offline channels on the basis of its strategic cooperative relationships with major household appliance chain customers, e-commerce platforms and traditional channels. The Company is committed to expanding domestic market coverage through channel diversification.
- (4) **Innovative promotion and marketing, and raising brand and product popularity.** The Company upgraded its promotion model and through interacting with its consumers, rapidly increased brand and product awareness. For example, the “Ice-cream for this summer will be provided by Ronshen” (今夏雪糕，容聲全包) promotional activity was honoured with the “2019 China Household Appliances Innovation and Retail Outstanding Case Award” (中國家電創新零售優秀案例獎) while the micro movie “Chilling Love” (冷冷的愛) won the second prize in the third national micro-movie theme of socialist core values (全國第三屆社會主義核心價值觀主題微電影二等獎).

Management Discussion and Analysis

3. Residential air-conditioning

During the Reporting Period, the Company responded to intense industry competition by quickly adjusting its business concept, imposing strict controls on inventory structure, and improving operation through technological and product innovation, enhancing product competitiveness, and increasing export efforts so as to improve its operations. The major work was as follows:

- (1) **Focusing on user pain points, continuing innovation in key and core technologies, and maintaining technical leadership and products competitiveness.** A focus on user pain points such as health was the starting point of the Company's technology implementation and product research and development. The Company took the lead by launching the "Fresh Air" and "Comfort Home" series home air-conditioning products, equipped with industry-first micro-positive pressure fresh air ventilation and oxygen enrichment system and AI somatosensory tracking technology. Relying on technical reserves and innovation in the field of health, a series of Hisense air-conditioners with fresh air ventilation function that enable delivering of fresh air to a 18 m² area in 3 minutes was launched to satisfy the rigid consumer demand in the market of health home appliances after the outbreak of coronavirus epidemic in 2020. The air-conditioners have passed the authoritative evaluation of China Household Electric Appliances Research Institute, which can effectively improve the oxygen concentration in the room. Furthermore, a number of Hisense air-conditioners have passed the professional test of virus (H1N1/EV71) removal rate, becoming the first batch of products with the advantage of anti-virus and air purification in 2020, and Hisense is also the only air-conditioner brand that passed the test in the appliance industry. The introduction of mid-and high-end products propelled a rise in the Company's brand price index. According to the statistics from CMM, the brand price index for home air-conditioner products under the Hisense brand increased by three points year-on-year.
- (2) **Expansion of export markets.** Facing an unfavorable domestic market, the Company explored on its export business and increased its export scale. Through measures such as improving the competitiveness and optimising the structure of export products, the Company achieved a substantial increase in export scale and profits.

Environmental policies and performance

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

The Group continued to carry out technological improvement and efficiency enhancement projects to enhance efficiency, conserve energy and reduce consumption. The Group also formulated an environmental protection and resources conservation system and established a sound ISO14001 environmental management system and continuously maintained the effective operation of those systems. The ISO14001 environmental management system of the Group has passed surveillance audit by the China Academy of Safety Science and Technology in November 2019, which assured the certification remained valid. The Group has established a sound occupational health and safety management system. A number of production safety management systems are formulated at the headquarter level in accordance with relevant national laws and regulations, including "Standards for Evaluation of Occupational Health and Safety and Environmental Responsibility Targets", "Standards for Rewards and Penalties Management for Occupational Health and Safety and Environmental Governance", "Standards for Identification and Evaluation of Sources of Hazards and Environmental Factors", "Standards for Management under Laws, Regulations and Other Requirements" and "Standards for Environmental Safety Training". In addition, all of the equipment and facilities of its subordinate factories have their corresponding safe operation rules in place. The occupational health and safety management system of the Company has successfully passed the surveillance audit of the certification authority, China Academy of Safety Science and Technology, in November 2019, which assured the certification of the Company remained valid.

Management Discussion and Analysis

According to the requirements of the relevant document issued by the State Administration of Work Safety, the Group has vigorously facilitated the establishment of A Grade Safe Production Standardisation Enterprise, constantly intensifying the basic management of production safety and increasing the intrinsic safety of equipment and facilities, so as to create a safe, healthy and comfortable working environment for staff. During the Reporting Period, three controlled subsidiaries of the Company obtained the national certificates for A grade enterprises on safe production standardisation and two subsidiaries of the Company maintained their certifications as B grade enterprises on safe production standardisation.

Compliance with laws and regulations

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

Relationships with staff, customers, suppliers and other persons

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

The Group has established and implemented a strict quality control and inspection system over its products. In order to enhance the standard of products and services proactively, the Group has implemented a "30 days guaranteed return and replacement" return policy for all its household electrical appliances. The Group conducted site inspections on its suppliers to ensure that the terms of agreements have been complied with. The Group has established close and stable relationships with a number of major suppliers, and past records of the Group showed that no significant shortages or delays were experienced when receiving supplies or services from the suppliers. During the Reporting Period, there was no major or significant dispute between the Group and its suppliers.

The Group adhered to the principle of "operating with integrity". The Code of Integrity applies to all staff of the Group and they should observe the rules of integrity while interacting with various stakeholders including the shareholders, customers, partners, government and society.

Further discussion on the Group's environmental policies and performance, compliance with laws and regulations, and relationships with key stakeholders are also contained in the 2019 Environmental, Social and Governance Report of the Company published on 14 April 2020.

Management Discussion and Analysis

III. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD

(I) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

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

Yes No

Unit: RMB

Item	2019	2018	Increase or decrease as compared to last year (%)	2017
Operating revenue (RMB)	37,453,043,968.74	36,019,598,304.79	3.98	33,487,590,387.45
Net profits attributable to shareholders of listed company (RMB)	1,793,669,013.19	1,377,457,177.70	30.22	2,018,112,935.64
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	1,226,400,481.95	1,161,082,586.93	5.63	1,033,389,817.12
Net cash flow from operating activities (RMB)	2,005,337,052.56	1,049,366,564.25	91.10	455,048,576.31
Basic earnings per share (RMB/share)	1.32	1.01	30.69	1.48
Diluted earnings per share (RMB/share)	1.32	1.01	30.69	1.48
Weighted average rate of return on net assets (%)	22.21	19.79	2.42	34.71

Item	At the end of 2019	At the end of 2018	Increase or decrease as compared to last year (%)	At the end of 2017
Total assets (RMB)	33,990,663,543.85	21,827,905,038.40	55.72	21,607,452,386.34
Net assets attributable to shareholders of listed company (RMB)	8,721,593,732.62	7,351,824,364.87	18.63	6,579,089,237.49

Note: Since 30 September 2019, the financial results of Hisense Hitachi are consolidated into those of the Company in accordance with China Accounting Standards for Business Enterprises (“China Accounting Standards”). The balance sheet data of Hisense Hitachi has been included in the consolidated balance sheet of the Company at the end of the Reporting Period, while the related financial statement data of Hisense Hitachi from October 2019 to December 2019 has been included in the detailed items of the consolidated income statement and cash flow statement during the Reporting Period. From January 2019 to September 2019, Hisense Hitachi’s profit has been recognised by the equity method and listed in the item of Investment gain of the Company.

Management Discussion and Analysis

QUARTERLY MAJOR FINANCIAL INDICATORS

Unit: RMB

Item	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenue	8,686,763,509.65	10,263,511,800.28	8,059,800,454.42	10,442,968,204.39
Net profits attributable to shareholders of listed company	421,644,890.03	538,101,578.32	389,209,151.43	444,713,393.41
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company	390,578,128.46	488,268,180.10	219,142,087.51	128,412,085.88
Net cash flow from operating activities	219,895,563.30	1,749,200,427.69	514,651,196.59	-478,410,135.02

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

Applicable Not applicable

Unit: RMB

Item	Amount of 2019	Amount of 2018	Amount of 2017
Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)	161,553,026.75	-613,768.58	787,734,808.88
Government grants recognised 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)	207,585,345.39	213,299,858.04	151,239,597.39
Profit and losses from assets which entrust others to invest or manage	55,224,136.96	48,100,716.69	
Other non-operating income and expenses other than the aforementioned items	13,629,718.63	13,866,327.84	113,236,402.15
Other profit and loss items that satisfy the definition of non-recurring profit and loss	50,909,442.00		
Less: Effect of income tax	2,786,974.99	42,991,932.03	48,767,136.54
Effect of minority interests (after tax)	-81,153,836.50	15,286,611.19	18,720,553.36
Total	567,268,531.24	216,374,590.77	984,723,118.52

Management Discussion and Analysis

(III) ANALYSIS OF PRINCIPAL BUSINESS

1. Income

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

Yes No

Industry category	Item	Unit	2019	2018	Increase or decrease as compared to corresponding period last year (%)
Home appliances manufacturing industry	Sales volume	Ten thousand units	2,388	2,237	6.75
	Production volume	Ten thousand units	2,419	2,240	7.99
	Inventory volume	Ten thousand units	169	138	22.46

Note: The corresponding data of Hisense Hitachi has been included in the data in 2019

2. Composition of operating revenue

Unit: RMB

Item	2019		2018		Increase or decrease as compared to corresponding period last year (%)
	Amount	Weighting to operating revenue (%)	Amount	Weighting to operating revenue (%)	
Total of operating revenue	37,453,043,968.74		36,019,598,304.79		3.98
By industry					
Home appliances manufacturing industry	34,196,927,100.83	91.31	32,791,068,580.61	91.04	4.29
By product					
Refrigerators and washing machines	16,127,991,501.27	43.06	16,072,977,215.28	44.62	0.34
Air-conditioners	16,368,984,335.90	43.71	14,891,475,954.73	41.34	9.92
Others	1,699,951,263.66	4.54	1,826,615,410.60	5.08	-6.93
By region					
Domestic	22,712,402,936.91	60.64	22,039,246,655.83	61.19	3.05
Overseas	11,484,524,163.92	30.67	10,751,821,924.78	29.85	6.81

Management Discussion and Analysis

3. Composition of operating costs

Unit: RMB'0000

Industry category	Item	2019		2018		Increase or decrease as compared to corresponding period last year (%)
		Amount	Weighting to operating costs (%)	Increase or decrease as compared to last year (%)	Weighting to operating costs (%)	
Home appliances manufacturing industry	Raw materials	2,432,561.96	92.25	2,414,360.96	92.56	0.75
	Direct expense	104,284.61	3.95	96,804.77	3.71	7.73
	Others	99,966.71	3.80	97,317.27	3.73	2.72

4. Expenses

Unit: RMB

Expense item	2019		2018		Reason for the significant changes
	Amount	Amount	Amount	Increase or decrease as compared to corresponding period last year (%)	
Sales expense	5,670,186,916.63	5,005,944,320.73		13.27	No significant changes
Management expense	515,205,417.61	425,693,468.96		21.03	No significant changes
Research and development expenses	934,412,243.42	686,772,325.33		36.06	Mainly due to the increase in research and development investment
Finance expense	-8,012,313.27	34,610,575.42		Not applicable	Mainly due to the increase in interest income caused by improvement in the Company's operation and activation of idle funds

Management Discussion and Analysis

5. Cash Flow

Unit: RMB

Item	2019	2018	Increase or decrease as compared to corresponding period last year (%)
Sub-total of cash inflows from operating activities	30,781,842,654.92	28,157,226,836.14	9.32
Sub-total of cash outflows from operating activities	28,776,505,602.36	27,107,860,271.89	6.16
Net cash flows from operating activities	2,005,337,052.56	1,049,366,564.25	91.10
Sub-total of cash inflows from investing activities	8,535,674,820.63	2,876,183,272.24	196.77
Sub-total of cash outflows from investing activities	8,615,903,834.47	2,647,770,326.20	225.4
Net cash flows from investing activities	-80,229,013.84	228,412,946.04	Not applicable
Sub-total of cash inflows from financing activities	136,830,668.56	200,000,000.00	-31.58
Sub-total of cash outflows from financing activities	1,059,280,977.16	1,361,175,775.74	-22.18
Net cash flows from financing activities	-922,450,308.60	-1,161,175,775.74	Not applicable
Net increase in cash and cash equivalents	1,003,742,533.45	109,045,092.16	820.48

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

Applicable Not applicable

The increase in net cash flows from operating activities was mainly due to the continuous improvement in the Company's operation and the consolidation of the financial results of Hisense Hitachi;

The increase in cash inflows from investing activities was mainly due to the year-on-year increase in wealth management products recovered after maturity and the consolidation of the financial results of Hisense Hitachi;

The increase in cash outflows from investing activities was mainly due to the year-on-year increase in the purchase of wealth management products and the consolidation of the financial results of Hisense Hitachi;

The decrease in net cash flows from investing activities was mainly due to the year-on-year increase in the undue wealth management products;

Management Discussion and Analysis

The decrease in cash inflows from financing activities was mainly due to the decrease of borrowing in short-term borrowings;

The increase in net increase in cash and cash equivalents was mainly due to the continuous improvement in the Company's operation and the consolidation of the financial results of Hisense Hitachi.

6. Research and development inputs

For details of research and development inputs of the Company during the Reporting Period, please refer to relevant content of "II. ANALYSIS OF THE COMPANY'S OPERATION" under the "Management Discussion and Analysis" section.

Description of research and development inputs of the Company

Item	2019	2018	Change in proportion (%)
Number of research and development staff	1,689	1,309	29.03
Proportion of number of research and development staff (%)	4.90	3.98	0.92 percentage point
Amount of research and development inputs (RMB)	1,134,754,777.20	1,007,917,568.01	12.58
Proportion of research and development inputs to operating revenue (%)	3.03	2.80	0.23 percentage point
Amount of capitalised research and development inputs (RMB)	0	0	0
Proportion of capitalised research and development inputs to research and development inputs	0	0	0

Management Discussion and Analysis

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

Unit: RMB

Item	Revenue from major operating businesses	Costs of major operating businesses	Gross profit margin (%)	Increase or decrease in revenue from major operating businesses as compared to corresponding period last year (%)	Increase or decrease in costs of major operating businesses as compared to corresponding period last year (%)	Increase or decrease in gross profit margin as compared to corresponding period last year (percentage point)
By industry						
Home appliances manufacturing industry	34,196,927,100.83	26,368,132,763.52	22.89	4.29	1.09	2.44
By product						
Refrigerators and washing machines	16,127,991,501.27	12,299,844,328.41	23.74	0.34	-3.47	3.02
Air-conditioners	16,368,984,335.90	12,685,726,877.38	22.50	9.92	7.03	2.09
Others	1,699,951,263.66	1,382,561,557.73	18.67	-6.93	-7.18	0.21
By region						
Domestic	22,712,402,936.91	15,927,441,278.91	29.87	3.05	-0.86	2.76
Overseas	11,484,524,163.92	10,440,691,484.61	9.09	6.81	4.20	2.28

Note: During the Reporting Period, the financial results of Hisense Hitachi have been consolidated into those of the Company. The revenue from operating business of the Company in 2019 on comparable basis is RMB31.456 billion, representing a year-on-year decrease of 4.07%.

Management Discussion and Analysis

(V) ASSETS AND LIABILITIES POSITION

Significant changes in asset items

Unit: RMB

Item	At the end of 2019		At the end of 2018		Change in proportion (percentage point)	Explanation of significant changes
	Amount	Percentage to total assets (%)	Amount	Percentage to total assets (%)		
Cash at bank and on hand	6,120,563,237.47	18.01	3,648,463,609.61	16.71	1.30	Mainly due to the improvement in the Company's operation, activation of idle funds and the consolidation of the financial results of Hisense Hitachi
Transactional financial assets	2,120,000,000.00	6.24	540,207,350.00	2.47	3.77	Mainly due to the year-on-year increase in the undue wealth management products
Accounts receivable	3,967,576,310.11	11.67	2,962,019,185.36	13.57	-1.90	Mainly due to the consolidation of the financial results of Hisense Hitachi
Factoring of accounts receivable	4,099,608,704.80	12.06	2,194,836,489.29	10.06	2.00	Mainly due to the consolidation of the financial results of Hisense Hitachi
Inventories	3,498,945,347.28	10.29	2,955,752,775.71	13.54	-3.25	Mainly due to the consolidation of Hisense Hitachi
Other current assets	3,127,969,954.11	9.20	541,370,278.81	2.48	6.72	Mainly due to the consolidation of Hisense Hitachi
Long-term equity investment	468,080,722.63	1.38	3,326,783,023.78	15.24	-13.86	Mainly due to the offset of long-term equity investment as a result of the consolidation of Hisense Hitachi during the Reporting Period, leading to a year-on-year decrease
Investment properties	20,240,850.71	0.06	22,511,361.05	0.10	-0.04	No significant changes
Fixed assets	3,813,541,683.85	11.22	3,263,931,920.41	14.95	-3.73	No significant changes
Construction in progress	216,943,108.59	0.64	84,296,518.04	0.39	0.25	Mainly due to the consolidation of the financial results of Hisense Hitachi and the increase of investment in technical upgrading of fixed assets during the Reporting Period
Intangible assets	1,918,063,341.32	5.64	714,706,893.47	3.27	2.37	Mainly due to the consolidation of the financial results of Hisense Hitachi
Deferred tax assets	634,774,585.10	1.87	93,477,911.35	0.43	1.44	Mainly due to the consolidation of the financial results of Hisense Hitachi

Management Discussion and Analysis

(VI) ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Unit: RMB

Item	Amount at the beginning of the period	Gain or loss from change in fair value during the period	Accumulated changes in fair value accounted in equity	Impairment provided during the period	Amount purchased during the period	Amount sold during the period	Other changes	Amount at the end of the period
Financial assets								
1. Financial assets held for trading (excluding derivative financial assets)	207,350.00	-207,350.00			-207,350.00			0
2. Derivative financial assets								
3. Other investments in debt								
4. Other investments in equity instruments								
Sub-total of financial assets	207,350.00	-207,350.00			-207,350.00			0
Investment properties								
Productive biological assets								
Others								
Total	207,350.00	-207,350.00			-207,350.00			0
Financial liabilities	-2,765,900.00	2,765,900.00			2,765,900.00			0

(VII) CORE COMPETITIVENESS ANALYSIS

1. Technological advantages

The Company's operating philosophy can be expressed as "technologically orientated" towards the concepts of "benefitting family life", "intelligence", "energy saving", "healthy" and "green". Continuous technological innovation is the means by which it builds its core competitiveness. The Company has excellent R&D facilities, including a State-level enterprise technology centre, an enterprise post-doctoral scientific research station, a State-recognised laboratory, the Guangdong Provincial Key Research and Development Centre of Engineering Science, a simulated user laboratory, and an industry-leading R&D team with thousands of personnel. The Company keeps abreast of the latest development in home appliance technology, cultivates a culture of innovation, and always strives to enhance its customers' quality of life, in which, technologies such as vacuum preservation, light preservation, ion degerming, healthy fresh air and inversion are maintained at industry-leading level.

Central air-conditioning technology

To meet the users' demand for energy-efficient, healthy and effective central air-conditioning, Hisense Hitachi has achieved a breakthrough in the key technologies of refrigerant distribution control and high-efficiency integrated driving. This has resulted in products that offer independent control of temperature and humidity, and the ability to dehumidify in both cooling and warming modes. The products' comprehensive energy efficiency has also been greatly improved.

Refrigerators and washing machines technology

In respect to refrigerators products, the Company enhances its competitiveness with a keen sense of value to the user and demand for key features. Thus, the current focus is on technological breakthroughs in vacuum preservation and non-water mist humidification which meet user demand for high-quality food storage. The theory of vacuum preservation technology adopts an independent vacuum storage space which maintains that a reduced-oxygen vacuum will delay the oxidation and deterioration of food. This principle is put to work in the Hisense "VACUUM" series of high-end products. "VACUUM" extends the preservation period of fruits and vegetables by approximately four days and meats by six days inhibiting the loss of colour, flavour and nutrients that typically occurs in conventional storage systems. Vacuum storage also inhibits changes in colour, pH level, fat oxidation and the formation of bacterial colonies of meat products. Non-water mist humidification technology uses the bionic qualities of plant fibre to transport water to material surfaces prior to evaporation, resulting in greatly improved humidity and moisture, and fresher fruits and vegetables in the refrigerated space. In Ronshen's high-end 'WILL' product series, non-water mist humidification is combined with unique negative ion sterilisation and photosynthetic preservation technologies to recreate the natural growth space of fruits and vegetables inside the refrigerator. The system also achieves a sterilisation rate of 99%. Fruits and vegetables remain fresh even after seven days of storage. For washing machines, the Company focuses on "no-ironing" steam sterilisation technology to meet user demands for high-quality washing performance. Steam technology means clothing is wrinkle-free right out of the machine – and more than 99.9% sterilised. This exciting new technology first appeared in the Hisense "Warm Idol S9" washing machine as a key component of the "fast steaming in minutes, and anti-bacteria and clothing care function without ironing" concept.

Residential air-conditioning technology

To fulfil the user need for fresh and oxygenated air, Hisense developed the "Fresh Air" product series featuring a range of new technologies. Together with the latest air duct and soft wind mute technology, the series features industry-leading intelligent constant temperature fresh air technology. This enables fresh air volume to be adjusted automatically according to indoor carbon dioxide concentrations, keeping indoor air fresh and at a constant comfortable temperature. With its strong technical strength, the "Fresh Air" series makes the leap from temperature control to air quality management, and becomes the leader in the air-conditioner field.

Management Discussion and Analysis

2. Brand advantages

The Hisense, Ronshen and Kelon brands used for the Company's products all enjoy a good reputation and market base. As Hisense has gradually accelerated its internationalisation, its overseas brand awareness and influence have increased. The "BrandZ China Top 50 Brands" report in 2019 ranked Hisense sixth among all brands, and first in the home appliance industry. Ronshen boasts a long history and a brand image centred on "Ronshen, Ronshen, Quality Assurance". Kelon has focused on air-conditioning for over a decade, and is accurately positioned as a professional and practical brand. Kelon was named as an excellent brand of quality consumption in the air-conditioning industry for 2019-2020.

3. Culture of integrity

"No person can find a place in society without integrity; and no business can flourish without credit". Integrity is the Company's core value, is a crucial element of its corporate culture, and as such is regarded as essential to the Company's continuing operation. To ensure that all staff act in accordance with the values of "honesty, integrity, practicability and progressiveness" and that interactions between the Company and its stakeholders are in the same spirit as well as in compliance with laws and regulations, the Company formulated a Code of Integrity which makes integrity a rule, a code and a normality pervading all its activities.

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

Name of company	Company type	Major business	Registered capital	Total assets (RMB ten thousand)	Net assets (RMB ten thousand)	Unit: RMB' 0000		
						Operating revenue (RMB ten thousand)	Operating profit (RMB ten thousand)	Net profits (RMB ten thousand)
Hisense Hitachi	Subsidiary	Production and sale of central air-conditioners	USD150 million	1,277,159.33	589,206.38	1,203,833.87	234,064.25	191,917.13

Acquisition and disposal of subsidiaries during the Reporting Period

Applicable Not applicable

Name of company	Ways of acquisition or disposal of the subsidiaries during the Reporting Period	Impact on overall production, operation and performance
Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. and its subsidiaries, Qingdao Hisense Hitachi Air Conditioning Marketing Co., Ltd., Qingdao Johnson Controls Air-Conditioning Co., Ltd. and Qingdao Hisense HVAC Equipment Co., Ltd.	Acquisition ^(Note)	The acquisition was conducive to enhance the size and quality of the Company's assets, enterprise value and overall strength
Hisense (Nanjing) Electric Company Limited	Disposal	The disposal was beneficial to the Company in taking the full advantage of the existing resources to improve the economic benefit of the Company, and improve the asset utilisation of the Company

Management Discussion and Analysis

Note: On 5 March 2019, the Company as purchaser and Unitecs Corporation (株式會社聯合貿易) (the “Transferor”) as transferor entered into the sale and purchase agreement, pursuant to which the Transferor agreed to sell, and the Company agreed to buy, 0.2% equity interest of Hisense Hitachi at a consideration of RMB25,000,000. The acquisition was approved by the shareholders of the Company on 29 August 2019 at the 2019 second extraordinary general meeting of the Company. Completion of the acquisition took place in September 2019. Hisense Hitachi has become a subsidiary of the Company and the financial results of Hisense Hitachi are consolidated into those of the Group. Further details of the acquisition are set out in the announcement of the Company dated 5 March 2019 and the circular of the Company dated 14 August 2019.

(IX) Material changes of major assets

Major assets	Description of material changes
Equity assets	Mainly due to the offset of long-term equity investment as a result of the consolidation of Hisense Hitachi during the Reporting Period
Fixed assets	No significant changes
Intangible assets	Mainly due to the consolidation of the financial results of Hisense Hitachi into that of the Company during the Reporting Period
Projects in progress	Mainly due to the consolidation of financial results of Hisense Hitachi into that of the Company during the Reporting Period and the increase of investment in technological improvement

(X) Particulars of disposal of major equity during the Reporting Period

Applicable Not applicable

IV. OUTLOOK

(I) The Company’s development strategy

With the mission of “committing to technological innovation, raising people’s living standard and making hundreds of millions of families happy”, the Company firmly implements its “smart ecological strategy” in the production of high quality smart household electrical appliances, with an aim to becoming an international branded smart household electrical appliance manufacturing enterprise.

(II) Business highlights for 2020

In 2020, the COVID-19 epidemic caused a serious impact on consumer market and even worsened the already ultra-competitive home appliance market, which means that the operating pressure on home appliance companies in 2020 is considerable. Responding to these challenges, the Company will deeply explore potential inward and guard against risks outward, while fully implement the management policy of “maintaining scale”, “adjusting structure”, “improving value” and “enhancing efficiency”. To ensure the improvement in business quality, the Company will focus on the following major tasks:

1. Maintaining sales scale with structural adjustment: The Group will focus on targeted markets and expanding markets domestically and abroad, continue to work out the Group’s high-end sales strategy with emphasis on promotion and improvement in sales structure, and achieve steady growth in terms of both the business scale and profit.
2. Producing high quality products to strengthen competitiveness: The Group will continue with the building of a sound quality system and advancement in key technologies, and create differentiated products to enhance product competitiveness.

Management Discussion and Analysis

3. Increasing efficiency of production system: The Group will firmly implement its smart manufacturing strategy, forge ahead with smart production and in-depth reformation, increase the delivery capability of the supply chain and raise the level of informatisation and popularisation for the purpose of system enhancement.
4. Enhancing brand value: The Group will plan for multi-brand operation with clear brand positioning and differentiation, strengthen the brand labelling effect and increase brand value.
5. Exercising strict control of fund risks: The Group will strengthen management of accounting periods, reduce the appropriation of invalid funds, accelerate turnover, and improve the function of capital operation.

(III) Risks faced by the Group include:

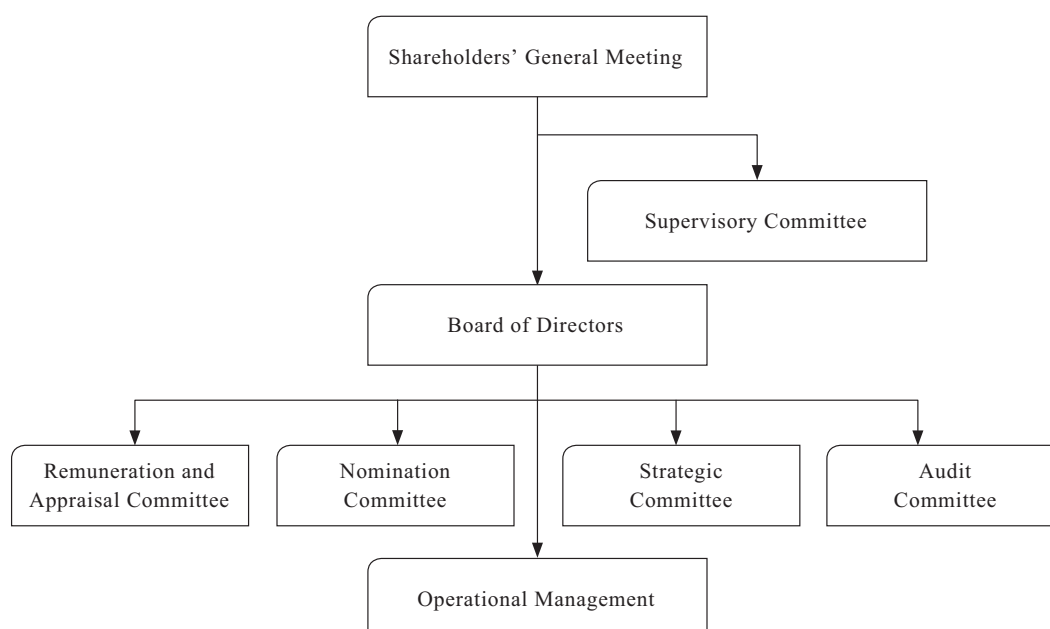
1. Macroeconomic cyclical fluctuations: Under the macro economy's downward pressure that worsened by the COVID-19 epidemic, consumer demand for household appliances will decline and consumption power will be insufficient, affecting the Company's scale of sales.
2. Continued cost pressure: A significant increase in the price of raw materials will adversely affect the Company's profitability. Escalations of the cost of manpower and labour, installation and service could have a similar adverse impact.
3. Prevailing protectionism and downward pressure on exports.
4. Exchange rate fluctuations: Significant fluctuations in the RMB exchange rate will directly affect the competitiveness of the Company's export products, thus influencing the export business operation.

Corporate Governance Report

Sound corporate governance is the basic assurance to the long-term healthy and stable development of a corporation, whereas continued enhancement of the governance level is a necessary measure to maintain the healthy development of the Company. During the Reporting Period, the board of directors of the Company (the “**Board**”) and the supervisory committee were successfully re-elected, and the Company had further revised the Articles of Association, the Rules of Procedures of Supervisory Committee and the Rules of Procedures of Shareholders’ General Meeting of the Company to continuously enhance the corporate governance system. The shareholders’ general meetings, meetings of the Board and its various specialised committees and the supervisory committee of the Company performed their functions, coordinated with each other and maintained effective check and balance in accordance with the laws, regulations and the relevant systems, which continuously enhanced the level of corporate governance of the Company.

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the “**Corporate Governance Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “**Hong Kong Listing Rules**”) as its own code to govern its corporate governance practices.

(I) Corporate governance structure:



(a) Shareholders’ General Meeting

As the highest authority of the Company, the shareholders, at general meetings, exercise their functions and powers in accordance with the laws to make decisions on significant matters of the Company. The Company has established and maintained different communication channels with its shareholders through publication of announcements on the websites of the Company, the Hong Kong Stock Exchange and the Shenzhen Stock Exchange, as well as by e-mail, telephone and facsimile.

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

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

Corporate Governance Report

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

In 2019, one annual general meeting (“AGM”) was held by the Company and three extraordinary general meetings (“EGMs”) were held by the Company on 23 January 2019, 29 August 2019 and 13 December 2019, respectively. The shareholding held by the shareholders attending the AGM and each of the three EGMs represented 45.05%, 47.86%, 53.31% and 44.33% of the then total issued shares of the Company, respectively. The attendance records of the directors of the Company (the “Directors”) are set out in the following table:

Attendance of the general meetings of the Company in 2019 by the Directors

Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Tang Ye Guo	4	3	0	75%
Mr. Jia Shao Qian	4	0	0	0%
Mr. Lin Lan	4	0	0	0%
Mr. Dai Hui Zhong	4	0	0	0%
Mr. Fei Li Cheng ^(Note 1)	3	0	0	0%
Mr. Wang Yun Li ^(Note 2)	4	1	0	25%
Mr. Ma Jin Quan	4	2	0	50%
Mr. Zhong Geng Shen	4	3	0	75%
Mr. Cheung Sai Kit	4	1	0	25%
Mr. Liu Hong Xin ^(Note 3)	1	0	0	0%

Notes:

1. Mr. Fei Li Cheng was appointed as an executive Director with effect from 26 June 2019.
2. Mr. Wang Yun Li ceased to be an executive Director and the vice-president of the Company with effect from 5 March 2020.
3. Mr. Liu Hong Xin ceased to be an executive Director with effect from 1 February 2019.
4. All Directors who were unable to attend the general meetings in person had applied for leave in writing before the commencement of the general meetings.

Corporate Governance Report

Rights of Shareholders

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

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

- (1) Shareholders holding individually or in aggregate 10% or more of the shares of the Company are entitled to propose to convene a shareholders' extraordinary general meeting or a class meeting to the Board in writing. The Board shall, pursuant to laws and regulations, administrative rules and the Articles of Association of the Company, provide written feedback on whether it agrees or disagrees to convene the extraordinary general meeting within 10 days after receipt of the written requisition.
- (2) If the Board agrees to convene the extraordinary general meeting or class meeting, it shall issue a notice to convene such shareholders' general meeting or class meeting within five (5) days of its decision, and any changes to the original request in the notice shall be made only with the consent of the relevant shareholder(s). If the Board decides against convening the extraordinary general meeting or the class meeting, or if it has failed to provide its feedback within ten (10) days after receiving the request, shareholders individually or jointly holding more than 10% of the shares of the Company are entitled to propose to convene an extraordinary general meeting or a class meeting to the Supervisory Committee in writing.
- (3) If the Supervisory Committee agrees to convene the extraordinary general meeting or class meeting, it shall issue a notice to convene such shareholders' general meeting or class meeting within five (5) days of receipt of the written request, and any changes to the original request in the notice shall be made only with the consent of the relevant shareholder(s). If the Supervisory Committee fails to issue a notice of shareholders' general meeting or class meeting within the prescribed period, the Supervisory Committee shall be deemed not convening or chairing a shareholders' general meeting or class meeting. Shareholders individually or jointly holding more than 10% of the shares of the Company for ninety (90) consecutive days may themselves convene and chair such meeting.

Procedures by which enquiries may be made by shareholders

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

The Securities Department, Hisense Home Appliances Group Co., Ltd.
No. 8 Ronggang Road, Ronggui Street,
Shunde District, Foshan City, Guangdong Province,
the People's Republic of China
Postal code: 528303
Fax number: 86-757-28361055
E-mail address: hxjzqb@hisense.com

Corporate Governance Report

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

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

Procedures for putting forward proposals at shareholders' general meeting

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

As regard the procedures for proposing a person for election as a Director, please refer to the procedures available on the website of the Company at <http://hxjd.hisense.cn>.

(b) The Board of Directors

The Nomination Committee has been established under the Board. The Nomination Committee will select and make suggestions on the candidates for the positions of Directors and the selection criteria and procedures and the same will be submitted to the Board for consideration and approval, and Directors will be elected at the shareholders' general meetings. The tenth session of the Board was elected and established at the annual general meeting of the Company held on 26 June 2018 with a term of office of 3 years. As at 1 January 2019, the Board comprised the executive Directors, namely Mr. Tang Ye Guo, Mr. Liu Hong Xin, Mr. Lin Lan, Mr. Dai Hui Zhong, Mr. Jia Shao Qian and Mr. Wang Yun Li and the independent non-executive Directors, namely Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr Cheung Sai Kit.

On 26 June 2019, Mr. Fei Li Cheng was elected at the 2018 annual general meeting of the Company as an executive Director of the tenth session of the Board. As at the date of this report, the Board comprised nine Directors, including five executive Directors, namely, Mr. Tang Ye Guo (Chairman), Mr. Jia Shao Qian, Mr. Lin Lan, Mr. Dai Hui Zhong and Mr. Fei Li Cheng, and three independent non-executive Directors, namely, Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit. The following changes in the composition of the Board and important executive functions took place during the Reporting Period and up to the date of this report:

- (i) Mr. Liu Hong Xin ceased to be an executive Director with effect from 1 February 2019;
- (ii) Mr. Fei Li Cheng was elected as an executive Director of the tenth session of the Board at the 2018 annual general meeting of the Company held on 26 June 2019;
- (iii) Mr. Tang Ye Guo, the chairman of the Company and the President, ceased to be the President of the Company with effect from 5 March 2020;
- (iv) Mr. Wang Yun Li ceased to be an executive Director and the vice-president of the Company with effect from 5 March 2020; and
- (v) Mr. Duan Yue Bin has been appointed as the President of the Company with effect from 5 March 2020, and Mr. Duan Yue Bin has been nominated as an executive Director of the tenth session of the Board and his appointment is subject to approval by the shareholders at the forthcoming 2019 annual general meeting to be held by the Company.

Members of the Board do not have any relationship in financial, business, family or other significant aspects.

Corporate Governance Report

Board Diversity Policy

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

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

Members of the Board have different backgrounds with extensive experience in various fields such as science and technology, corporate management and finance and accounting. The biographies and roles of the Directors are set out on pages 40 to 41 of this annual report.

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

The Board is also responsible for overseeing the preparation of the accounts for each fiscal period to ensure that such accounts truly and fairly reflect the Company's business operation, results and cash flow performance during that period. The Operational Management of the Company provides proper explanation and sufficient information to the Board so as to enable it to make an informed assessment on the financial information and other information submitted to it for approval. In preparing the accounts for the year ended 31 December 2019, the Directors:

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

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

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

Corporate Governance Report

In 2019, the Board of the Company held 14 meetings to discuss the Company's important operating matters. The Directors attended the meetings in person, and their attendance records are set out in the following table:

Attendance of the meetings of the Board in 2019 by the Directors				
Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Tang Ye Guo	14	14	0	100%
Mr. Jia Shao Qian	14	14	0	100%
Mr. Lin Lan	14	14	0	100%
Mr. Dai Hui Zhong	14	14	0	100%
Mr. Fei Li Cheng ^(Note 1)	7	7	0	100%
Mr. Wang Yun Li ^(Note 2)	14	14	0	100%
Mr. Ma Jin Quan	14	14	0	100%
Mr. Zhong Geng Shen	14	14	0	100%
Mr. Cheung Sai Kit	14	14	0	100%
Mr. Liu Hong Xin ^(Note 3)	2	2	0	100%

Notes:

1. Mr. Fei Li Cheng was appointed as an executive Director with effect from 26 June 2019.
2. Mr. Wang Yun Li ceased to be an executive Director and the vice-president of the Company with effect from 5 March 2020.
3. Mr. Liu Hong Xin ceased to be an executive Director with effect from 1 February 2019.

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

Corporate Governance Report

The Board is responsible for corporate governance, supervision of the management in establishment of a compliant organisation structure and system, compliance with the Corporate Governance Code and other laws and regulations in the ordinary course of management and other functions set out in code provision D.3.1 in the Corporate Governance Code. During the Reporting Period, the Board and the specialised committees have reviewed the compliance of the Company's policies and practices on corporate governance, the training and continuous professional development of the Directors and senior management and the Company's internal control and risk management systems.

Independent Non-Executive Directors

The Board comprises three independent non-executive Directors, accounting for not less than one-third of the total number of Directors. The independent non-executive Directors appointed by the Company have complied with Rules 3.10(1) and 3.10(2), Rule 3.10A and Rule 3.13 of the Hong Kong Listing Rules and all of them are independent of and are not connected with the Company and any of the connected persons (as defined in the Hong Kong Listing Rules) of the Company. The Company has received a confirmation of independence from each of the independent non-executive Directors. The term of office of Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit are up to 25 June 2021.

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

Specialised Committees of the Board

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

Remuneration and Appraisal Committee

The Board has established the Remuneration and Appraisal Committee with specific written terms of reference. During the Reporting Period and up to the date of this report, the Remuneration and Appraisal Committee consisted of two executive Directors, namely, Mr. Jia Shao Qian (since 26 June 2019), Mr. Lin Lan and three independent non-executive Directors, namely, Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit. Mr. Liu Hong Xin ceased to be an executive Director and a member of the Remuneration and Appraisal Committee with effect from 1 February 2019. Mr. Ma Jin Quan acted as the chairman of the committee.

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

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

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- (E) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- (F) to make recommendations to the Board for the remuneration of independent non-executive Directors;
- (G) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- (H) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management (adopted the approach under code provision B.1.2(c)(ii) of the Corporate Governance Code). This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- (I) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions of other positions in the Group;
- (J) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and
- (K) other duties provided under applicable regulatory rules and other matters authorised by the Board.

The Remuneration and Appraisal Committee may seek professional advice when necessary. No Director or any member of the senior management shall be involved in deciding his or her own remuneration. The main purpose of the remuneration policies formulated by the Remuneration and Appraisal Committee is to attract and retain Directors and senior management who faithfully and diligently discharge their duties, and who help the Company in its successful operation and the remuneration policies are therefore important to the Company. Details of the remuneration policies of the Company are set out on page 46 of this annual report.

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

Attendance of the meeting of the Remuneration and Appraisal Committee of the Board in 2019 by the committee members

Name	Number of meeting which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Ma Jin Quan	1	1	0	100%
Mr. Jia Shao Qian (<i>Note 1</i>)	0	0	0	–
Mr. Lin Lan	1	1	0	100%
Mr. Zhong Geng Shen	1	1	0	100%
Mr. Cheung Sai Kit	1	1	0	100%
Mr. Liu Hong Xin (<i>Note 2</i>)	0	0	0	–

Notes:

1. Mr. Jia Shao Qian was appointed as a member of the Remuneration and Appraisal Committee with effect from 26 June 2019.
2. Mr. Liu Hong Xin ceased to be a member of the Remuneration and Appraisal Committee with effect from 1 February 2019.

In 2019, the Remuneration and Appraisal Committee had mainly reviewed the particulars of the remuneration of directors, supervisors and senior management of the Company as disclosed in the 2018 annual report.

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Members of the Remuneration and Appraisal Committee confirmed that the remuneration of the Directors, supervisors and senior management during the Reporting Period are in line with the remuneration appraisal system set up by the Company and the remuneration policies have been strictly implemented. Details of the remuneration of the Directors, the supervisors and the senior management of the Company for the year ended 31 December 2019 are set out on pages 67 to 68 of this annual report.

Nomination Committee

The Board has established the Nomination Committee with specific written terms of reference. During the Reporting Period and up to the date of this report, the Nomination Committee comprised executive Directors, namely, Mr. Tang Ye Guo, Mr. Jia Shao Qian and three independent non-executive Directors, namely, Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit. Mr. Zhong Geng Shen acted as the chairman of the committee.

The major duties and authority of the Nomination Committee are:

- (A) to analyse the standard and process for selection of candidates for the positions of Director and senior management and make recommendations to the Board;
- (B) to select the qualified Director candidates and senior management candidates and integrate the Company's business model and its specific needs, taking comprehensive consideration of factors such as age, gender, educational background, skills, professional knowledge, experience, etc. and to develop measurable goals to ensure the diversity of the Board members;
- (C) to examine the candidates for the positions of Director and senior management and make recommendations to the Board;
- (D) to review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategies;
- (E) to assess the independence of the independent non-executive Directors;
- (F) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the President; and
- (G) other matters authorised by the Board.

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

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

**Attendance of the meetings of the
Nomination Committee of the Board in 2019 by the committee members**

Name	Number of meeting which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance Rate for the year
Mr. Zhong Geng Shen	2	2	0	100%
Mr. Tang Ye Guo	2	2	0	100%
Mr. Jia Shao Qian	2	2	0	100%
Mr. Ma Jin Quan	2	2	0	100%
Mr. Cheung Sai Kit	2	2	0	100%

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

- (i) the resolution in respect of the nomination of Mr. Fei Li Cheng as candidate of an executive Director of the tenth session of the Board; and
- (ii) the resolution in respect of the nomination of Mr. Chen Xiao Lu as the chief financial officer of the Company.

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The Nomination Committee conducts extensive searches for candidates of Directors or senior management within the Company and in the open market, etc. after considering the Company's requirements for new Directors or senior management. With the consent to nomination from the candidates, the Nomination Committee will convene the Nomination Committee meeting in accordance with relevant laws and regulations, the Articles of Association of the Company and the Terms of Reference for Nomination Committee taking into account the Company's actual situation, examine the qualifications of the initial nominees according to the requirements for the position of Directors or senior management and form a resolution which would be recorded and submitted to the Board for its consideration. In respect of the nomination of senior management, the Nomination Committee shall provide the Board with candidates for the position of its recommendation together with relevant materials one (1) month before the nomination. During the Reporting Period, the Nomination Committee strictly implemented the nomination procedures and recommendation criteria in accordance with the nomination policy enacted.

Strategic Committee

The Board has established the Strategic Committee with specific written terms of reference. During the Reporting Period and up to the date of this report, the Strategic Committee of the tenth session of the Board comprised the executive Directors, namely, Mr. Tang Ye Guo, Mr. Jia Shao Qian, Mr. Lin Lan, Mr. Dai Hui Zhong and Mr. Fei Li Cheng (with effect from 26 June 2019). Mr. Liu Hong Xin ceased to be an executive Director and a member of the Strategic Committee with effect from 1 February 2019. Mr. Tang Ye Guo acted as the chairman of the committee.

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

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

Audit Committee

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

The major duties and authority of the Audit Committee are:

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

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

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

All members of the Audit Committee are independent non-executive Directors. During the Reporting Period and up to the date of this report, the Audit Committee consisted of Mr. Cheung Sai Kit, Mr. Ma Jin Quan and Mr. Zhong Geng Shen. Mr. Cheung Sai Kit acted as the chairman of the committee.

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

**Attendance of the meetings of the
Audit Committee of the Board in 2019 by the committee members**

Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Cheung Sai Kit	4	4	0	100%
Mr. Ma Jin Quan	4	4	0	100%
Mr. Zhong Geng Shen	4	4	0	100%

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In 2019, the Audit Committee accomplished the following major tasks:

1. having reviewed the annual, interim and quarterly financial results and reports of the Company;
2. having considered and approved the report on internal control for the year of 2018 and the final report for the audit work conducted by the auditing body for the year of 2018;
3. having considered and approved the resolution on the re-appointment of Ruihua Certified Public Accountants LLP as the auditor of the Company for the year of 2019;
4. having considered and approved the resolution on the change of auditor from Ruihua Certified Public Accountants LLP to ShineWing Certified Public Accountants LLP;
5. having reviewed the connected transactions of the Company to ensure that the connected transactions were in compliance with the principles of fairness, impartiality and transparency with sufficient protection of the medium and minority shareholders' interests;
6. having reviewed the effectiveness of the Company's risk management and internal control systems; and
7. having made suggestions regarding significant matters of the Company and reminded the management of the relevant risks.

(c) Supervisory Committee

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

On 1 January 2019, the Supervisory Committee comprised two shareholders representative supervisors, namely Mr. Liu Zhen Shun and Mr. Yang Qing ^{Note (i)} and one employee representative supervisor, Ms. Fan Wei, with Mr. Liu Zhen Shun acting as the chairman of the Supervisory Committee.

On 26 June 2019, Ms. Gao Yu Ling was elected as a shareholder representative supervisor of the tenth session of the Supervisory Committee at the 2018 annual general meeting of the Company. As at the date of this report, the Supervisory Committee comprised two shareholders supervisors, namely Mr. Liu Zhen Shun and Ms. Gao Yu Ling ^{Note (ii)} and one employee representative supervisor, Ms. Fan Wei, with Mr. Liu Zhen Shun acting as the chairman of the Supervisory Committee. The following changes in the composition of the Supervisory Committee took place during the Reporting Period and up to the date of this report:

- (i) Mr. Yang Qing ceased to be a shareholder representative supervisor with effect from 26 June 2019; and
- (ii) Ms. Gao Yu Ling was elected as a shareholder representative supervisor of the tenth session of the Supervisory Committee at the 2018 annual general meeting of the Company held on 26 June 2019.

Details of the above-mentioned supervisors' biographies are set out on page 41 of this annual report.

Please also refer to the Report of the Supervisory Committee set out on pages 74 to 75 of this annual report.

(II) Compliance with the CG Code

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

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Training of the Directors

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

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

Name	Type of training (Note)
Mr. Tang Ye Guo	b
Mr. Jia Shao Qian	b
Mr. Lin Lan	b
Mr. Dai Hui Zhong	b
Mr. Fei Li Cheng	b
Mr. Ma Jin Quan	b
Mr. Zhong Geng Shen	b
Mr. Cheung Sai Kit	b

Notes:

- attending seminar(s) or training session(s)
- reading newspapers, journals and updates relating to the Company's business or directors' duties and responsibilities etc.

Chairman and President

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

Position	Chairman	Former President	President
Name	Mr. Tang Ye Guo	Mr. Tang Ye Guo	Mr. Duan Yue Bin
Term of office	26 June 2006 to present	23 January 2019 to 5 March 2020	5 March 2020 to present

The Chairman shall be responsible for presiding over the general meetings, convening and presiding over the Board meetings, ensuring that the Board is in effective proper operation to review and discuss all the significant issues in a timely and effective manner, reviewing the implementation of the Board's resolutions as well as discharging his duties as the legal representative of the Company. The President shall be in charge of the management of the production and operation of the Company, and is responsible for organising the implementation of the Board's resolutions and the Company's annual operational and investment plans and making decisions on other issues within the scope of the delegation by the Board. During the Reporting Period, the Chairman held at least one meeting with the independent non-executive Directors without the presence of the executive Directors.

On 5 March 2020, Mr. Tang Ye Guo ceased to serve as the President of the Company. As of the date of this report, the position of the President is held by Mr. Duan Yue Bin.

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Internal Control and Risk Management

During the Reporting Period, pursuant to the provisions and requirements of the “Basic Norms for Enterprise Internal Control” and its ancillary guidelines, with the objectives of enhancing the level of corporate operation and management and risk prevention ability, as well as reasonably ensuring the compliance of the Company’s operation with laws and regulations, the safety of assets, the truthfulness and completeness of the financial reports and relevant information, optimising the efficiency and efficacy of operation and promoting the implementation of strategies for sustainable development by the Company, and taking into account the Company’s internal control and risk management systems and assessment method and on the basis of daily supervision and specific supervision of internal control and risk management, the Company has determined the scope of assessment in internal control and risk management that put emphasis on the areas of organisational structure, development strategies, human resources, social responsibility, corporate culture, funding activities, procurement business, asset management, sales business, research and development, engineering project, outsourcing of business, financial reporting, comprehensive budgeting, contract management, internal information transmission and information system, and other compliance and risk management matters and has carried out assessment on the effectiveness of the Company’s internal control and risk management systems in 2019. Conclusions were drawn in respect of the effectiveness of the internal control and risk management systems: during the Reporting Period, the Company has established internal control and risk management mechanisms for all businesses and matters included in the scope of assessment, and the internal control and risk management systems have been effectively executed to achieve the objectives of the Company’s internal control and risk management systems without significant defect.

During the Reporting Period, the internal audit department of the Group has conducted an assessment on the effectiveness of the risk management and internal control systems of the Group and the assessment result was positive.

The Board has conducted an annual review of the effectiveness of the internal control and risk management systems of the Company during the Reporting Period. During the course of the review, the Board considered that the Company had established an appropriate internal control and risk management systems for the Company based on the actual situation and was not aware of any significant defect in the internal control and risk management systems of the Company. In addition, the Company has engaged ShineWing Certified Public Accountants LLP to perform independent audit on the effectiveness of the Company’s internal control and risk management systems and an audit report has been issued. The auditor is of the view that as at 31 December 2019, the Company has maintained effective internal control and risk management systems related to financial reporting in accordance with the “Basic Norms for Enterprise Internal Control” and the relevant requirements in all material respects.

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

The Board is responsible for the internal control and risk management systems of the Group, including reviewing their effectiveness. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group’s internal control and risk management systems have been developed by the Board with the following features and processes:

1. the management, with the assistance of the Group’s front-line personnel, identifies risks that may affect the Group’s business and operations;
2. the management assesses the risks identified by considering their impacts on the business and the likelihood of occurrence of the adverse events associated with the risks;
3. the management prioritises the risks based on their probability and the severity of impact on the business;

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4. the management reports regularly to the Board for the Board's formulation of the risk management strategies and internal control processes to prevent, avoid and mitigate the risks;
5. the management performs ongoing and periodic monitoring of the risks to ensure that appropriate internal control processes are in place and material internal control defects can be resolved and reports its findings and results to the Board regularly; and
6. the Board, with the assistance of the Audit Committee and the management, reviews the risk management strategies and internal control processes on a regularly basis.

Inside Information

The Company has formulated a policy on disclosure of inside information to ensure that inside information is handled and disseminated properly and in accordance with the applicable laws and regulations. The business departments and the department heads within the Group are responsible for monitoring any changes and developments and reporting any potential or suspected inside information events to the Board. Based on the information reported and obtained, the Board assesses whether any of the information constitutes inside information which needs to be released to the public with the advice of the internal legal team of the Group. Should public disclosure be required, the Board will determine the scope of information to be disclosed and the timing of disclosure. If and when appropriate, the Board may seek independent professional advice to ensure that the Company complies with the disclosure requirements. The Company discloses information to the public through channels including websites of its own and the Hong Kong Stock Exchange, with an aim to achieve fair and timely disclosure of information.

(III) Securities Transactions by Directors

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

(IV) Auditor

On 26 June 2019, as considered and approved at the shareholders' general meeting, the Company re-appointed Ruihua Certified Public Accountants LLP as the auditor of the Company for the year of 2019, and the Board was authorised to fix their remuneration.

In consideration of the future business development and audit needs, on 13 December 2019, as considered and approved at the shareholders' general meeting, the Company terminated the appointment of Ruihua Certified Public Accountants LLP as the auditor of the Company, and appointed ShineWing Certified Public Accountants LLP as the auditor of the Company, and the Board was authorised to fix their remuneration. The Company has agreed to pay a remuneration of approximately RMB1,800,000 and RMB700,000 to the auditors for the provision of audit services for financial reporting and internal control respectively for the year ended 31 December 2019 and bear the corresponding travel expenses. During the Reporting Period, no non-audit service was provided by the auditors to the Group.

The Directors acknowledged their responsibility for preparing the accounts that give a true and fair view on the Group's financial position on a going-concern basis and other financial disclosures. A statement by the auditor of the Company in respect of their reporting responsibilities is set out in the Auditor's Report section contained in this annual report.

Corporate Governance Report

(V) Company secretary

On 26 June 2019, the Board considered and approved the re-appointment of Ms. Wong Tak Fong as the company secretary of the Company to assist the Company in dealing with the Hong Kong Listing Rules compliance matters. Ms Wong Tak Fong is the Company's external personnel. She can contact and communicate with the secretary of the Board of the Company, Ms. Huang Qian Mei, in her day-to-day work.

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

(VI) Amendments to the Constitutional Documents of the Company

On 28 March 2019, according to the “Decision on amendments to the Company Law of the People’s Republic of China” (「關於修改《中華人民共和國公司法》的決定」) dated 26 October 2018 decided in the 6th meeting of the 13th Session of the Standing Committee of the National People’s Congress of the PRC, the “Company Law of the People’s Republic of China” (《中華人民共和國公司法》) (the “**Company Law of the PRC**”), the “Guidelines for the Governance of Listed Companies” (《上市公司治理准則》) and the relevant provisions of the Hong Kong Listing Rules, and taking into account the actual situation of the Company, the Board proposed certain amendments to the provisions of its Articles of Association and the Rules of Procedures of Shareholders’ General Meeting. The Supervisory Committee of the Company also proposed to amend certain rules of the Rules of Procedures of Supervisory Committee of the Company in view of the changes in the actual situation of the Company. The proposed amendments were approved by the shareholders of the Company at the 2018 annual general meeting of the Company held on 26 June 2019. Further details of the amendments are set out in the announcement of the Company dated 28 March 2019 and the circular of the Company dated 10 May 2019.

On 26 November 2019, the Board has received a written request (subsequently revised) from Hisense Air-conditioning, the controlling shareholder of the Company, requesting that the resolutions in respect of the amendments to the Articles of Association and the Rules of Procedures of Shareholders’ General Meeting of the Company to be proposed at the 2019 third extraordinary general meeting of the Company to be held on 13 December 2019 for consideration and approval by the shareholders of the Company. Taking into account the Reply of the State Council on the Adjustment of the Notice Period of the General Meeting and Other Matters Applicable to the Overseas Listed Companies (Guo Han [2019] No. 97) (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批復》(國函 [2019]97 號)) and the actual situation of the Company, the Board proposed certain amendments to the provisions of its Articles of Association and the Rules of Procedures of Shareholders’ General Meeting of the Company. The proposed amendments were approved by the shareholders of the Company at the 2019 third extraordinary general meeting of the Company held on 13 December 2019. Further details of the amendments are set out in the announcements of the Company dated 26 November 2019 and 28 November 2019, and the circular of the Company dated 26 November 2019.

Profiles of Directors, Supervisors and Members of the Senior Management

Incumbent Directors

Mr. Tang Ye Guo, aged 57, holds a doctorate degree in management, has successively held the positions of the chief accountant, the deputy general manager, the general manager and director of Hisense Visual Technology. From August 2003 to September 2005, Mr. Tang served as an assistant to the president and the vice president of Hisense Group, and the general manager and chairman of Hisense Air-Conditioning. From September 2005 to June 2006, Mr. Tang was the chairman of Hisense Air-Conditioning, a director of Hisense Visual Technology and the Company's president. From June 2006 to April 2010, Mr. Tang has acted as the vice president of Hisense Group, the chairman of Hisense Air-Conditioning and the Company's chairman. From April 2010 to January 2019, Mr. Tang has been the vice president and a director of Hisense Group, the chairman of Hisense Air-Conditioning and the Company's chairman. From January 2019 to March 2020, Mr. Tang has been a director of Hisense Group, the chairman of Hisense Air-Conditioning and the Company's chairman and president. Since March 2020, Mr. Tang has been a director of Hisense Group, the chairman of Hisense Air-Conditioning and the Company's Chairman.

Mr. Jia Shao Qian, aged 47, holds a master degree in management, has served as a manager of the president office of Hisense Group and the chief supervisor of Hisense Visual Technology. From January 2007 to June 2015, Mr. Jia has served as the vice president of the Company. From June 2015 to February 2017, Mr. Jia has served as a director and vice president of the Company. From March 2017 to January 2019, Mr. Jia has been a director and president of the Company. From January 2019 to July 2019, Mr. Jia serves as a director and executive vice president of Hisense Group, a director of Hisense Air-Conditioning and the Company's director. Since July 2019, Mr. Jia serves as a director and president of Hisense Group, a director of Hisense Air-Conditioning and the Company's director.

Mr. Lin Lan, aged 62, holder of a doctorate degree in mechanical engineering. From June 2006 to July 2006, Mr. Lin served as a director of the Company. From July 2006 to May 2007, Mr. Lin has served as the vice president of Hisense Group and a director of the Company. From May 2007 to December 2009, Mr. Lin has been the vice-president of Hisense Group, a director of Hisense Visual Technology and a director of the Company. Since December 2009, Mr. Lin has been a director and vice-president of Hisense Group, a director of Hisense Visual Technology and a director of the Company.

Mr. Dai Hui Zhong, aged 54, holds a bachelor degree, has served successively as the deputy general manager of Hisense Visual Technology. From November 2014 to June 2015, Mr. Dai has served as the general manager of Hisense Visual Technology. From June 2015 to October 2015, Mr. Dai has served as a director and general manager of Hisense Visual Technology. From October 2015 to January 2016, Mr. Dai has served as a director of Hisense Group, a director and general manager of Hisense Visual Technology. From January 2016 to June 2016, Mr. Dai has served as a director of Hisense Group, a director of Hisense Visual Technology and the president of the Company. From June 2016 to February 2017, Mr. Dai has served as a director of Hisense Group, a director of Hisense Visual Technology and a director and president of the Company. Since March 2017, Mr. Dai has been a director of Hisense Group, Hisense Visual Technology and the Company.

Mr. Fei Li Cheng, aged 56, holds a bachelor degree. He has been in the positions of the manager of a branch of Qingdao Television Factory* (青島電視機廠), the general manager of Qingdao Micro-electromechanical Factory* (青島微電機廠), the deputy general manager of Qingdao Hisense Digital, Audio and Video Co., Ltd.* (青島海信數字音像有限公司) and the general manager of Qingdao Hisense Mould Co., Ltd.* (青島海信模具有限公司). From January 2003 to June 2019, Mr. Fei has been the general manager of Hisense Hitachi. Since June 2019, Mr. Fei serves as a director of the Company and the general manager of Hisense Hitachi.

Mr. Ma Jin Quan, aged 77, holds a bachelor degree and is a senior engineer. He was the executive deputy factory manager of Shanxi Color Picture Tube Plant* (陝西彩色顯像管總廠), the executive deputy general manager of IRICO Group Corporation* (彩虹集團公司), the factory manager of Huanghe Machinery Plant* (黃河機器製造廠), the chairman and general manager of Huanghe Mechanical and Electrical Joint Stock Company Limited* (黃河機電股份有限公司), and the director and general manager of IRICO Group Corporation* (彩虹集團公司). From November 2006 to June 2012, he was the external director of Panzhihua Iron & Steel (Group) Corporation* (攀枝花鋼鐵(集團)公司). From April 2008 to April 2014, he acted as the independent director of China XD Electric Co., Ltd.* (中國西電電氣股份有限公司) (listed on the Shanghai Stock Exchange). From May 2009 to May 2015, he acted as the independent director of Hisense Visual Technology. From November 2013 to the present, he has been an independent director of Xi'an Future International Information Co., Ltd.* (西安未來國際信息股份有限公司) (listed on the New Third Board (新三板)). He has been an independent non-executive director of the Company since January 2017.

Profiles of Directors, Supervisors and Members of the Senior Management

Mr. Zhong Geng Shen, aged 59, holds a doctorate degree in management of Nankai University, served as an associate professor at the School of Economics and the School of Management of Shandong University. He engaged in postdoctoral work at Inspur Group from March 2003 to July 2005. He currently serves as a professor at the School of Management and the department head of Business Administration of Shandong University, an executive director of Chinese Enterprise Management Research Association, a member of Shandong enterprises credit rating experts committee of the People's Bank of China* (中國人民銀行山東企業資信評級專家委員會) and secretary general of Shandong Provincial Comparative Management Research Association* (山東省比較管理研究會). He serves as an independent director of Shandong Publishing & Media Co., Ltd. (a company listed on the Shanghai Stock Exchange) since July 2018 and an independent director of Shandong Yishui Rural Commercial Co., Ltd.* (山東沂水農商行股份有限公司) since February 2019. He serves as an independent non-executive director of the Company since June 2018.

Mr. Cheung Sai Kit, aged 48, holds a bachelor degree and is a practising certified public accountant in Hong Kong, member of CPA Australia. He had served as the senior audit manager at BDO Limited and KPMG successively. From 2011 to September 2014, he served as the executive director of BDO Limited. He served as a counsellor of Moore Stephens CPA Limited from October 2014 to June 2016. He has been an executive director of Moore Stephens CPA Limited since July 2016. He serves as an independent non-executive director of the Company since August 2018.

Former Directors during the Reporting Period

Mr. Liu Hong Xin, aged 53, holds a bachelor degree in management, has successively served as the general manager and the director of Hisense Group, the general manager and the chairman of Hisense Visual Technology. He has been a director of the Company from June 2015 to February 2019.

Mr. Wang Yun Li, aged 47, holds a bachelor degree, was the the deputy general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. and the general manager of Hisense (Shandong) Air Conditioning Co., Ltd.. He has served as the vice president of the Company from May 2016 to June 2016. He had been a director and vice president of the Company from June 2016 to March 2020.

Incumbent Supervisors

Mr. Liu Zhen Shun, aged 50, holds a bachelor degree. He has served as the head of the legal department and the legal director of Hisense Group. He was the deputy head of the legal affairs department, the deputy secretary of the discipline inspection committee of Hisense Group from March 2005 to June 2012. He has been the head of the legal affairs department, the deputy secretary of the discipline inspection committee of Hisense Group from July 2012 to July 2018. He has served as the general manager of legal and intellectual properties department and the deputy secretary of the discipline inspection committee of Hisense Group since July 2018. He has served as the chairman of the Supervisory Committee of the Company since January 2014.

Ms. Gao Yu Ling, aged 38, holds a master's degree in management. She has successively served as the deputy director of the finance centre of Hisense Visual Technology. She was the deputy department head of the finance and operation management department of Hisense Group from March 2013 to February 2015. She was a supervisor of the Company from January 2014 to December 2015. She has been the person in charge of finance of the Company from December 2015 to January 2019. From January 2019 to June 2019, she has served as the general manager of finance and operation management department of Hisense Group and the supervisor of the Hisense Air-Conditioning. Since June 2019, she has served as the general manager of the finance and operation management department of Hisense Group, the supervisor of Hisense Air-Conditioning and the Company's supervisor.

Ms. Fan Wei, aged 53, holds a bachelor degree, has served as the deputy head of the research and development centre and deputy head of the technical quality department of the Company. From December 2008 to June 2015, she has served as the head of the president office of the Company. From June 2015 to February 2020, she has served as the supervisor of the Company and the head of the president office of the Company. Since February 2020, she has served as a supervisor and the deputy party secretary of the Company.

Profiles of Directors, Supervisors and Members of the Senior Management

Former Directors during the Reporting Period

Mr. Yang Qing, aged 46, holder of a bachelor degree, has successively served as the deputy head and the general manager of the operation and financial management department of Hisense Group. He had served as a supervisor of the Company from December 2015 to June 2019.

Incumbent Senior Management Members

Mr. Duan Yue Bin, aged 39, holds a bachelor of engineering degree. Mr. Duan has been the assistant to the general manager of Hisense (Beijing) Electric Co., Ltd.* (海信(北京)電器有限公司), and the assistant to the general manager and then the deputy general manager of Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.* (海信容聲(揚州)冰箱有限公司). From July 2014 to January 2016, Mr. Duan was the deputy general manager of the manufacturing center of Hisense (Shandong) Refrigerator Ltd.* (海信(山東)冰箱有限公司) (“Hisense Shandong Refrigerator”). From January 2016 to January 2017, Mr. Duan was the assistant to the general manager of Hisense Shangdong Refrigerator. From January 2017 to June 2018, Mr. Duan was promoted as the deputy general manager of Hisense Shangdong Refrigerator. From July 2018 to January 2019, Mr. Duan was further promoted as the executive deputy general manager of Hisense Shangdong Refrigerator. Since January 2019, Mr. Duan has become the general manager of Hisense Shangdong Refrigerator. Since 5 March 2020, Mr. Duan serves as the President of the Company.

Mr. Chen Xiao Lu, aged 43, holds a Master’s Degree in management. He was the project manager of the finance and operation management centre of Hisense Group. From February 2013 to January 2019, he served as the deputy general manager of operation and finance management department of Hisense Group. He serves as the Chief Financial Officer and the chief accountant of the Company from January 2019 to March 2019. He serves as the director of Hisense Air-Conditioning, the chief financial officer and the chief accountant of the Company since March 2019.

Ms. Huang Qian Mei, aged 36, holds a double bachelor’s degree with economics and management. She was the head of investor relations of the Company from August 2010 to October 2011. She was the securities affairs representative from October 2011 to March 2017. She has been the secretary of the board of the Company since March 2017.

Ms. Wong Tak Fong, aged 52, holds a master degree in Business Administration from the University of Bradford, the United Kingdom, and is a fellow member of the Institute of Chartered Secretaries and Administrators in the United Kingdom and the Hong Kong Institute of Chartered Secretaries and a certified tax adviser and a fellow member of the Taxation Institute of Hong Kong. She acted as the managing director of General Bright Consultants Ltd. from November 1994 to May 2014. She had been the chief financial controller of Diamond Dragon Fashion Ltd (鑽龍時裝有限公司) from December 2010 to March 2019. She acted as a joint company secretary of the Company from April 2011 to June 2012 and has been the company secretary of the Company since June 2012.

Former Senior Management Members during the Reporting Period

Mr. Wang Zhi Gang, aged 50, holds a doctorate degree in refrigeration and cryogenic engineering, has successively served as the chief designer of the technical centre of Hisense Group, the deputy department head of the commercial machines business department of Hisense Air-Conditioning, the department head of the product development department of Hisense Hitachi. Mr. Wang has been the deputy general manager of Guangdong Kelon Air-conditioner Co., Ltd from December 2008 to July 2014 and the deputy general manager of Hisense (Shandong) Air Conditioning Co., Ltd. from July 2014 to November 2015. He has served as the vice president of the Company from November 2015 to December 2015. He has served as a director and vice president of the Company from December 2015 to May 2016. He has served as a vice president of the company from May 2016 to January 2019.

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

Mr. Tang Ye Guo, Mr. Jia Shao Qian, Mr. Lin Lan and Mr. Dai Hui Zhong are directors of Hisense Group. Hisense Group was deemed to have an interest in the shares of the Company as at the date of this report, which would fall to be disclosed 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) (the “SFO”).

Mr. Chen Xiao Lu is a director of Hisense Air-Conditioning and Ms. Gao Yu Ling is a supervisor of Hisense Air-Conditioning. Hisense Air-Conditioning is a company which was interested in the shares of the Company as at the date of this report, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Report of the Directors

PRINCIPAL BUSINESSES

The Group's main businesses cover the research and development, manufacture and marketing of refrigerators, residential air-conditioners, central air-conditioners, freezers, washing machines, kitchen appliances and other electrical products, as well as commercial cold chain and environmental electrical appliances.

BUSINESS REVIEW

A fair review of the business of the Company and further discussion and analysis of the Group's activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a discussion of the risks faced by the Group, important events affecting the Group that have occurred since the end of the Reporting Period, and an indication of the likely future developments of the Group's business, can be found in the Chairman's Statement, the Management Discussion and Analysis and the Corporate Governance Report in this annual report.

In addition, the Group's environmental, employee, customer and supplier matters and compliance with the relevant laws and regulations that have a significant impact on the Company can be found in the Management Discussion and Analysis and the Corporate Governance Report in this annual report, and the Environmental, Social and Governance Report of the Company published on 14 April 2020, respectively.

These discussions form part of this Report of the Directors.

PROFIT DISTRIBUTION POLICIES

According to the Articles of Association of the Company, the profit distribution policy of the Company is as follows:

1. The profit distribution of the Company shall focus on giving reasonable investment return to its investors. The profit distribution policies shall maintain continuity and stability, and shall not be adjusted at will to lower the level of return to shareholders once such policies have been confirmed.
2. Form, condition and proportion of profit distribution of the Company:
 - (1) The Company may distribute dividends in cash, in shares or in a combination of both cash and shares.
 - (2) In distributing dividends in cash, the Company shall also meet the following conditions:
 - (i) the distributable profits of the Company for the year (i.e. the profits after tax of the Company after making up for losses and making allocations to the statutory common reserve fund) shall be a positive figure;
 - (ii) the auditor shall issue a standard unqualified audit report on the financial report of the Company for the year;
 - (iii) the cash flows of the Company shall meet the normal operation and long-term development of the Company.
 - (3) In principle, the dividends distributed by the Company in cash in the year shall not be less than 10% of the distributable profits realised in the year, and the accumulated profits distributed by the Company in cash in the last three years shall not be less than thirty (30) percent of the average annual distributable profits realised in the last three years. The remaining distributable profits shall be used to support the sustainable development of the Company.

Report of the Directors

- (4) Conditions for distributing dividends in shares: Under the pre-requisite of ensuring reasonable share capital size and shareholding structure, the Company may distribute dividends in shares when the valuation of its shares is within a reasonable range, in order to provide return to its shareholders and share its corporate value.
 - (5) The profits distributed by the Company shall not exceed the accumulated distributable profits.
3. In the event that the Company realises distributable profits, the Company may distribute interim cash dividends or distribute dividends in shares based on its profitability and capital requirements.
 4. Adjustment process of profit distribution policies:
 - (1) If the Company needs to adjust its profit distribution policies due to significant changes in external operating environment or its own operation, it shall consider from the perspective of the protection of shareholders' interests, discuss in details and explain the reasons therefor. The Board shall put forward a proposal for adjusting the profit distribution policies based on actual situation, and the independent non-executive Directors and the Supervisory Committee shall issue examination opinions in this regard. The proposal shall be submitted to the shareholders' general meeting for the passing by the shareholders (including proxies) with voting rights representing two-thirds or more of the voting rights present at the meeting.
 - (2) The opinions of the independent non-executive Directors and the shareholders shall be given due consideration in the course of discussion, formulation and amendment to the profit distribution policies of the Company. The Company shall hear the opinions of the shareholders on its profit distribution policies through investor telephone consultation, on-site survey and investor interactive platform, etc.

The Company strictly executes the profit distribution policies and establishes the profit distribution proposal in accordance with its Articles of Association. The cash dividend policy of the Company is established and executed in accordance with relevant requirements under the Articles of Association of the Company and the requirements at the shareholder's general meeting. The distribution standards and proportions are clearly stated and the relevant decision making procedures systems of the profit distribution policies are complete, and the independent non-executive Directors have issued independent opinion in respect of the proposed profit distribution policy of the Company for the year, and diligently served their obligations and properly exercised their role.

Please refer to the circular of the Company dated 10 May 2019 for further details on the Shareholders' Return Plan for the Next Three Years (2019-2021) of the Company, which has been approved by the shareholders of the Company at the 2018 annual general meeting held by the Company on 26 June 2019.

FINAL DIVIDEND

As audited by ShineWing Certified Public Accountants LLP, the net profit attributable to the shareholders of the Company (recognized in parent company) for the year ended 31 December 2019 is RMB759,629,604.23. Pursuant to the relevant requirements of the Articles of Association of the Company, RMB75,962,960.42 is allocated to the statutory common reserve fund; undistributed profits at the beginning of the year 2019 of RMB2,124,252,001.41 is added; and the distributed profits of RMB412,905,787.11 is deducted. The actual distributable profits is RMB2,395,012,858.11.

The Board proposed to pay all shareholders a cash dividend of RMB3.95 (tax inclusive) per 10 shares held by the shareholders (the "**Proposed Dividend**") on the basis of the total number of 1,362,725,370 shares of the Company as at 31 December 2019, without bonus issue and not to issue shares by way of conversion of capital reserve (For the year ended 31 December 2018, the Company paid to all shareholders a cash dividend of RMB3.03 (tax inclusive) per 10 shares held by the shareholders on the basis of the total number of 1,362,725,370 shares of the Company as of 31 December 2018).

The Proposed Dividend is subject to approval by the shareholders at the 2019 annual general meeting (the "**Annual General Meeting**"). Subject to the approval of the Proposed Dividend by the shareholders, the Proposed Dividend is expected to be paid on or about 15 August 2020. The total amount of profits to be so distributed is expected to be RMB538,276,521.15. Details of the payment of the Proposed Dividend will be announced after the conclusion of the Annual General Meeting.

Report of the Directors

RESERVES

Movements in the reserves of the Group during the Reporting Period are set out in note 6 (34-37) to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2019 are set out in note 6 (37) and note 14 to the financial statements.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

For the year ended 31 December 2019, net cash generated from operating activities of the Group amounted to approximately RMB2,005 million (2018: net cash generated from operating activities amounted to approximately RMB1,049 million).

As at 31 December 2019, the Group had cash and cash equivalents (including bank deposits, cash and pledged bank balances) amounting to approximately RMB6,121 million (2018: RMB3,648 million), of which more than RMB5,955 million are denominated in Renminbi. As at 31 December 2019, the Group did not have any long-term bank borrowings and the Group had short-term bank loans amounted to approximately RMB100 million which were repayable within one year (2018: no bank loans). Out of these loans, bank loans in the amount of RMB100 million were at fixed interest rates.

Total capital expenditures of the Group for the year ended 31 December 2019 amounted to approximately RMB364 million (2018: RMB330 million).

As at 31 December 2019, the Group's current liabilities amounted to RMB20,838 million, non-current liabilities amounted to RMB671 million, and shareholders' equity attributable to the shareholders of the Company amounted to RMB8,722 million.

Details of the Group's capital structure are set out in note 9(2) to the financial statements.

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 31 December 2019, the Group had approximately 34,500 employees, mainly comprising 4,195 technical staff, 14,534 sales representatives, 277 financial staff, 779 administrative staff and 14,715 production staff. The Group had 31 employees with a doctorate degree, 988 with a master's degree and 33,481 with a bachelor's degree or below. For the year ended 31 December 2019, the Group's staff payroll amounted to RMB3,598 million (2018: RMB3,169 million).

EMPLOYEES' TRAINING AND REMUNERATION POLICY

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

The Company has provided a total of 54,000 course hours to a total of 1.024 million participants during the Reporting Period. The courses mainly include areas such as corporate management, quality craftsmanship, corporate culture, production and manufacturing as well as technological research and development and they are provided for employees at different levels, ranging from base level staff who are responsible for works such as front-line production and marketing to senior management.

Report of the Directors

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

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2019, the Group did not have any property, plant and equipment (including leasehold land held for own use), investment properties and trade receivables (31 December 2018: nil) which were pledged as security for the Group's borrowings.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Reporting Period are set out in note 6 (11-12) to the financial statements.

PENSION SCHEMES

Details of the Group's pension schemes for the Reporting Period are set out in note 15 to the financial statements.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

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

PUBLIC FLOAT

The Directors confirm that as at 14 April 2020, based on publicly available information and to the best of their knowledge, 25% or above of the total issued share capital of the Company were held by the public. Therefore, the public float of the Company satisfies the requirement stipulated under the Hong Kong Listing Rules.

AUDIT COMMITTEE

The tenth session of the audit committee of the Company has reviewed the final results of the Group for the year ended 31 December 2019.

CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2020 will be approximately RMB550 million. The Group has sufficient funds to meet the funding requirement for purposes such as capital expenditure plans and daily operations.

TRUST DEPOSITS

As of 31 December 2019, 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.

GEARING RATIO

As of 31 December 2019, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 63.28% (2018: 63.86%).

Report of the Directors

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Reporting Period, none of the Directors or their respective close associates (as defined in the Hong Kong Listing Rules) had any interest in a business that competed or might compete with the businesses of the Company and its subsidiaries.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACTS OF SIGNIFICANCE

The Directors of the tenth session of the Board and the supervisors of the Company do not and did not directly or indirectly hold any material interests in any transaction, arrangement or contract of significance of the Company or its subsidiaries subsisting during or at the end of the Reporting Period.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save for the transactions contemplated under the agreements mentioned in the section headed "Particulars of material connected transactions of the Company during the Reporting Period" below, no contract of significance or contract of significance for the provision of services (as defined under note 15.2 of Appendix 16 to the Hong Kong Listing Rules) to which the Company, nor any of its subsidiaries was a party and in which a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Reporting Period or at any time during the Reporting Period.

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Report of the Directors

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY THE AUDITOR

After auditing the continuing connected transactions of the Group, the auditor of the Company confirmed that nothing has come to its attention that causes it to believe that (i) the relevant continuing connected transactions of the Group have not been approved by the Board; (ii) the transactions involving the provision of goods or services by the Group were not, in all material respects, carried out in accordance with the pricing policies of the Company; (iii) the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) the aggregate amount of each of the disclosed continuing connected transactions has exceeded the maximum aggregate annual caps disclosed in the previous announcements made by the Company in respect of each of the disclosed continuing connected transactions.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

SHARE CAPITAL STRUCTURE

As at 31 December 2019, the share capital structure of the Company was as follows:

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

Report of the Directors

TOP TEN SHAREHOLDERS

As at 31 December 2019, there were 28,938 (A shares: 28,886) shareholders of the Company (the “Shareholders”) in total, of which the top ten Shareholders were as follows:

Name of Shareholder	Nature of Shareholder	Number of shares held	Percentage to the total issued shares of the Company	Percentage to the relevant class of issued shares of the Company	Number of shares held subject to trading moratorium
Qingdao Hisense Air-conditioning Company Limited	State-owned legal person	516,758,670	37.92%	57.22%	0
HKSCC Nominees Limited ^{Note 1}	Foreign legal person	457,193,069	33.55%	99.48%	0
Shanghai Gaoyi Asset Management Partnership – Gaoyi Linshan No. 1 Long-range Fund* (上海高毅資產管理合夥企業(有限合夥) – 高毅鄰山1號遠望基金)	Other	60,000,000	4.40%	6.64%	0
The Hong Kong Securities Clearing Company Limited (“HKSCC”) ^{Note 2}	Foreign legal person	47,159,885	3.46%	5.22%	0
Cental Huijin Investment Ltd.	State-owned legal person	26,588,700	1.95%	2.94%	0
Bank of Communications – HSBC Jintrust Fund Management Stock Securities Investment Fund* (交通銀行股份有限公司 – 滙豐晉信大盤股票型證券投資基金)	Other	8,042,001	0.59%	0.89%	0
Guotai Junan Securities Capital Management-China Everbright Bank-Guotai Junan Jundeming Mixed Collective Asset Management Plan* (國泰君安證券資管 – 光大銀行 – 國泰君安君得明混合型集合資產管理計畫)	Other	7,240,000	0.53%	0.80%	0
Zhang Shao Wu	Domestic natural shareholders	7,200,000	0.53%	0.80%	0
Northeast Securities Co., Ltd.	State-owned legal person	6,133,243	0.45%	0.68%	0
Zhou Bing Ji	Domestic natural shareholders	6,116,603	0.45%	0.68%	0

* For identification purposes only

Report of the Directors

Notes:

1. HKSCC Nominees Limited is the nominee holder of the shares held by non-registered H shareholders of the Company. The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, including Hisense (Hong Kong) Company Limited, a party acting in concert with the controlling shareholder of the Company, which held a total number of 124,452,000 H shares of the Company as of the end of the Reporting Period, representing 9.13% of the total number of the shares of the Company.
2. HKSCC is the nominee holder of the shares held by non-registered A shareholders of the Company through Shenzhen-Hong Kong Stock Connect. The shares held by HKSCC are held on behalf of a number of its account participants.
3. As at 31 March 2020, being the end of the last month preceding the date of this report, the total number of shareholders holding ordinary shares of the Company was 39,507.

Save as disclosed above, the Company is not aware of any shareholders being connected with each other or any of them being a party acting in concert with any of the other within the meaning of 《上市公司收購管理辦法》 (Administrative Measures for the Takeover of Listed Companies).

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of tradable shares held	Class of shares
Qingdao Hisense Air-conditioning Company Limited	516,758,670	RMB ordinary shares
HKSCC Nominees Limited <i>Note 1</i>	457,193,069	Overseas listed foreign shares
Shanghai Gaoyi Asset Management Partnership – Gaoyi Linshan No. 1 Long-range Fund* (上海高毅資產管理合夥企業(有限合夥) – 高毅鄰山1號遠望基金)	60,000,000	RMB ordinary shares
The Hong Kong Securities Clearing Company Limited (“HKSCC”) <i>Note 2</i>	47,159,885	RMB ordinary shares
Cental Huijin Investment Ltd.	26,588,700	RMB ordinary shares
Bank of Communications – HSBC Jintrust Fund Management Stock Securities Investment Fund* (交通銀行股份有限公司 – 滙豐晉信大盤股票型證券投資基金)	8,042,001	RMB ordinary shares
Guotai Junan Securities Capital Management – China Everbright Bank-Guotai Junan Jundeming Mixed Collective Asset Management Plan* (國泰君安證券資管 – 光大銀行 – 國泰君安君得明混合型集合資產管理計畫)	7,240,000	RMB ordinary shares
Zhang Shao Wu	7,200,000	RMB ordinary shares
Northeast Securities Co., Ltd.	6,133,243	RMB ordinary shares
Zhou Bing Ji	6,116,603	RMB ordinary shares

* For identification purposes only

Report of the Directors

Notes:

1. HKSCC Nominees Limited is the nominee holder of the shares held by non-registered H shareholders of the Company. The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, including Hisense (Hong Kong) Company Limited, a party acting in concert with the controlling shareholder of the Company, which held a total number of 124,452,000 H shares of the Company as of the end of the Reporting Period, representing 9.13% of the total number of the shares of the Company.
2. HKSCC is the nominee holder of the shares held by non-registered A shareholders of the Company through Shenzhen-Hong Kong Stock Connect. The shares held by HKSCC are held on behalf of a number of its account participants.
3. As at 31 March 2020, being the end of the last month preceding the date of this report, the total number of shareholders holding ordinary shares of the Company was 39,507.

Save as disclosed above, the Company is not aware of any shareholders being connected with each other or any of them being a party acting in concert with any of the other within the meaning of 《上市公司收購管理辦法》(Administrative Measures for the Takeover of Listed Companies).

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

So far as is known to the Directors, supervisors and the chief executives of the Company, as at 31 December 2019, the following persons (other than the Directors, supervisors and the chief executives 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 Hong Kong Stock Exchange:

Interests or short position in the shares of the Company

Name of Shareholder	Capacity	Type of shares	Number of shares held	Percentage of the respective types of shares	Percentage of the total number of shares in issue
Qingdao Hisense Air-conditioning Company Limited ^{Note}	Beneficial owner	A shares	516,758,670 (L)	37.92%	57.22%
Qingdao Hisense Electric Holdings Company Limited ^{Note}	Interest of controlled corporation	A shares	516,758,670 (L)	37.92%	57.22%
Hisense Company Limited ^{Note}	Interest of controlled corporation	A shares	516,758,670 (L)	37.92%	57.22%
Hisense (Hong Kong) Company Limited ^{Note}	Beneficial owner	H shares	124,452,000 (L)	9.13%	27.08%
Qingdao Hisense Electric Holdings Company Limited ^{Note}	Interest of controlled corporation	H shares	124,452,000 (L)	9.13%	27.08%
Hisense Company Limited ^{Note}	Interest of controlled corporation	H shares	124,452,000 (L)	9.13%	27.08%

Report of the Directors

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

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

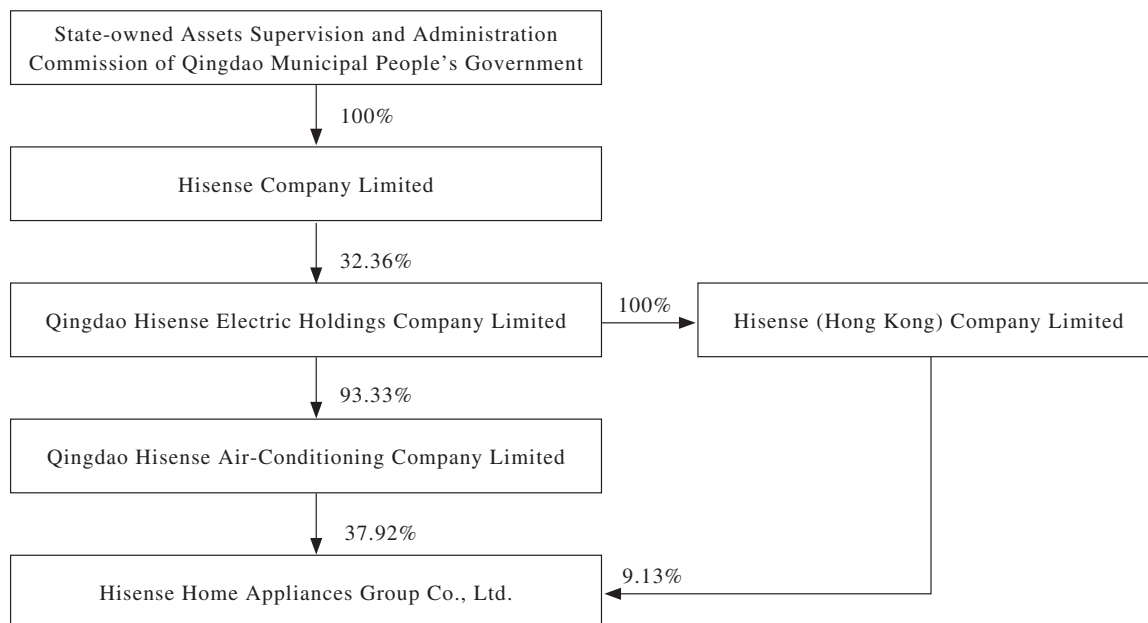
Save as disclosed above, as at 31 December 2019, in so far as the Directors, supervisors and the chief executives of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

PARTICULARS OF THE CONTROLLING SHAREHOLDERS OF THE COMPANY

1. Qingdao Hisense Air-Conditioning Company Limited, the controlling shareholder of the Company, was incorporated on 17 November 1995. Its registered address is at Changsha Road, Hi-tech Industrial Zone, Qingdao, the PRC, its legal representative is Mr. Tang Ye Guo and its registered capital is RMB674.79 million. Its business scope includes the development and manufacture of air-conditioning products and injection moulds and the provision of after-sale repairing services for its products (Permit/licence shall be obtained for the operation of the businesses above if they fall into the requirements of licensure).
2. Hisense Company Limited, the beneficial controller of the Company, is a wholly state-owned enterprise incorporated in August 1979 and has a registered capital of RMB806,170,000. Its legal representative is Mr. Zhou Houjian and its registered address is at No. 17 Donghai West Road, Shinan District, Qingdao City. The scope of business of Hisense Company Limited includes: the entrusted operation of state-owned assets; the engagement in foreign investment with its own capital; the manufacture and sale of, and provision of service related to, television sets, refrigerators, freezers, washing machines, small household appliances, disc players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products; the development of software and the provision of internet services; technology development and provision of consultation services; self-operated import and export business (with its operation subject to the list of projects as approved by the Ministry of Foreign Trade and Economic Co-operation(對外貿易經濟合作部), now known as the Ministry of Commerce of the RPC(中華人民共和國商務部) (“MOFTEC”)); foreign economic and technical cooperation (with its operation subject to the list of projects as approved by MOFTEC); operation of property rights transaction and provision of brokerage and information services; provision of industrial travel agency services; provision of relevant business trainings; property management; leasing of tangible property, leasing of immovable property; catering management services; catering services; conference services and parking services; medical services (For projects which require approval by law, commencement of business operations shall be subject to the obtaining of the approval from the relevant departments).
3. The ultimate beneficial controller of the Company is the State-owned Assets Supervision and Administration Commission of Qingdao Municipal People’s Government.

Report of the Directors

4. Relationships between the Company and its beneficial controllers are set out below:



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

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

As at 31 December 2019, save as disclosed below, none of the members of the Board, supervisors and the chief executives of the Company held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be maintained by the Group pursuant to section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Long position in the shares of the Company

Name of Director	Nature of interest	Number of A shares	Percentage to the issued A shares of the Company	Percentage to the total issued shares of the Company
Mr. Tang Ye Guo	Beneficial owner	831,600	0.092%	0.061%
Mr. Jia Shao Qian	Beneficial owner	404,360	0.045%	0.030%
Mr. Wang Yun Li ^(Note)	Beneficial owner	52,120	0.006%	0.004%

Note: Mr. Wang Yun Li ceased to be an executive Director and the vice-president of the Company with effect from 5 March 2020.

Report of the Directors

SALES TO MAJOR CUSTOMERS AND MAJOR SUPPLIERS

Sales to major customers of the Company

Total sales to top 5 customers (RMB)	15,912,232,830.91
Total sales to top 5 customers as a percentage of the total sales for the year (%)	46.53
Total sales to top 5 customers which are related parties as a percentage of the total sales for the year (%)	25.38

Information on top 5 customers of the Company

No.	Name of customer	Sales (RMB)	As a percentage of the total sales for the year (%)
1	The first	6,946,339,950.13	20.31
2	The second	3,156,910,993.43	9.23
3	The third	2,738,658,409.17	8.01
4	The fourth	1,732,546,936.78	5.07
5	The fifth	1,337,776,541.40	3.91
Total		15,912,232,830.91	46.53

Explanation on the other situation of major customers

Applicable Not applicable

Among the top 5 customers, the first and fourth customers are controlled by Hisense Group and have connected relationship with the Company. Except for this, other customers have no connected relationship with the Company. None of the directors, supervisors, senior management, core technician, shareholders with shareholding of more than 5%, beneficial controller and other connected parties of the Company was directly or indirectly interested in the major customers.

Major suppliers of the Company

Total purchases from top 5 suppliers (RMB)	3,989,631,025.94
Total purchases from top 5 suppliers as a percentage of the total purchases for the year (%)	15.13
Total purchases from top 5 suppliers which are related parties as a percentage of the total purchases for the year (%)	0

Information on top 5 suppliers of the Company

No.	Name of suppliers	Purchases (RMB)	As a percentage of the total purchases for the year (%)
1	The first	1,579,250,434.90	5.99
2	The second	748,033,262.87	2.84
3	The third	664,195,673.07	2.52
4	The fourth	570,100,333.63	2.16
5	The fifth	428,051,321.48	1.62
Total		3,989,631,025.95	15.13

Explanation on the other situation of major suppliers

Applicable Not applicable

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDITOR

In consideration of the future business development and audit needs of the Company, on 13 December 2019, as considered and approved at the shareholders' general meeting, the Company terminated the appointment of Ruihua Certified Public Accountants LLP as the auditor of the Company, and appointed ShineWing Certified Public Accountants LLP as the auditor of the Company, and the Board was authorised to fix their remuneration.

A resolution will be proposed at the forthcoming Annual General Meeting to re-appoint ShineWing Certified Public Accounts LLP as the auditor of the Company.

PRE-EMPTIVE RIGHTS

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

TAXATION

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

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities.

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

Connected transactions during the Reporting Period

- (I) On 26 November 2018, the Company entered into (i) a business co-operation framework agreement (as supplemented by a supplemental agreement on 21 June 2019), (ii) a business framework agreement, (iii) a purchase financing agency framework agreement, (iv) a financial services agreement (as supplemented by a supplemental agreement on 21 June 2019), and (v) a supplemental agreement to the financial business framework agreement with Hisense Group (and its subsidiaries), Hisense Hitachi, Hisense Hong Kong, Hisense Finance, and Hisense Financial Holdings respectively. On 11 September 2019, the Company entered into a business co-operation agreement with Johnson Hitachi.**

Report of the Directors

Hisense Air-conditioning is a connected person of the Company by virtue of it being a substantial shareholder of the Company, holding approximately 37.92% of the issued shares of the Company. Hisense Hong Kong holds approximately 9.13% of the issued shares of the Company. Hisense Visual Technology is 46.52% owned by Hisense Group. Hisense Group and its subsidiaries (including but not limited to Hisense Visual Technology, Hisense International and Hisense Marketing Management) are connected persons of the Company pursuant to the Hong Kong Listing Rules. Hisense Finance and Hisense Financial Holdings are subsidiaries of Hisense Group. Hisense Finance and Hisense Financial Holdings therefore are connected persons of the Company pursuant to the Hong Kong Listing Rules. Before Hisense Hitachi is consolidated into the Group, as certain Directors are also directors of Hisense Hitachi, Hisense Hitachi is a connected person of the Company pursuant to the Shenzhen Listing Rules. Since 30 September 2019, the financial results of Hisense Hitachi are consolidated into that of the Group. As such, the statistical period of the connected transactions between the Group and Hisense Hitachi was from January 2019 to September 2019. From October 2019 onwards, transactions between the Group (excluding Hisense Hitachi) and Hisense Hitachi are no longer connected transactions of the Group. As a result of the consolidation of the financial results of Hisense Hitachi into that of the Group, pursuant to the Hong Kong Listing Rules, Johnson Hitachi, being the holding company of two substantial shareholders of Hisense Hitachi (namely Johnson Controls – Hitachi Air Conditioning Trading (Hong Kong) Limited and Johnson Controls – Hitachi Air Conditioning Taiwan Co., Ltd), becomes a connected person of the Company at subsidiary level.

Details of the business co-operation framework agreement with Hisense Group and its subsidiaries, the business framework agreement with Hisense Hitachi, the financial services agreement with Hisense Finance, and the supplemental agreement to the financial business framework agreement with Hisense Financial Holdings can be found in the announcements and the circular published on the website of the Hong Kong Stock Exchange on 26 November 2018, 7 December 2018 and 7 January 2019 respectively. Details of the supplemental agreement to the business co-operation framework agreement with Hisense Group and its subsidiaries and the supplemental agreement to the financial services agreement with Hisense Finance can be found in the announcement and the circular published on the website of the Hong Kong Stock Exchange on 21 June 2019 and 14 August 2019 respectively. Details of the business co-operation agreement with Johnson Hitachi can be found in the announcement published on the website of the Hong Kong Stock Exchange on 11 September 2019.

As Hisense Group is the beneficial controller of both Hisense Hong Kong and the Company, Hisense Hong Kong is a connected person of the Company under the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange. Hisense Hong Kong is also a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. Since the financial assistance arrangement under the purchase financing agency framework agreement would be for the benefit of the Company on normal commercial terms where no security over the assets of the Company was to be granted in respect of the financial assistance, such arrangement was exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules. Details of the purchase financing agency framework agreement can be found in the announcement published on the website of the Hong Kong Stock Exchange on 26 November 2018.

The above transactions constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. The Company confirmed that it had complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules for the relevant connected transactions (other than the purchase financing agency framework agreement which is exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules).

Report of the Directors

The particulars of the business co-operation framework agreement, the financial services agreement and the financial business framework agreement are as follows:

1. Business co-operation framework agreement with Hisense Group and its subsidiaries

On one hand, the supply of home electrical appliances, raw materials and parts and components, equipment and moulds by the Group to Hisense Group and its subsidiaries can help lower the production costs of the Group as a result of the increase in production level, which, in turn, enhances the market competitiveness of the Group's products. At the same time, the Group can continue to develop overseas market and enhance brand competitiveness and awareness. The Group can also increase market share by selling products through the online platform of Hisense Group and its subsidiaries which reduces the product circulation links. Provision of services to Hisense Group and its subsidiaries will increase the income of the Group. On the other hand, taking into account the product quality, prices and services provided by Hisense Group and its subsidiaries, purchases of home electrical appliances, equipment, raw materials and parts and components from Hisense Group and its subsidiaries and engagement of their services can meet the manufacture needs of the Company and the development of related business, and can also help reduce costs. As such, the Company entered into the business co-operation framework agreement and the supplemental agreement to the business co-operation framework agreement with Hisense Group and its subsidiaries on 26 November 2018 and 21 June 2019 respectively, the principal terms of which are as follows:

- (1) The business co-operation framework agreement shall commence from 23 January 2019, being the date on which the agreement was approved by the independent shareholders of the Company at the first 2019 extraordinary general meeting of the Company, until 31 December 2019, which can be terminated before its expiration by mutual agreement of the parties.
- (2) Pricing for the mutual purchase of home electrical appliances between the Group on the one hand and Hisense Group and its subsidiaries on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances. Pricing for the mutual purchase of raw materials and parts and components between the Group on the one hand and Hisense Group and its subsidiaries on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of similar raw materials, parts and components. Pricing for the sales of equipment by the Group to Hisense Group and its subsidiaries is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of similar equipment. Pricing for the sales of moulds by the Group to Hisense Group and its subsidiaries is determined by the open bidding process. Pricing for the mutual provision of services between the Group on the one hand and Hisense Group and its subsidiaries on the other hand is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services in the industry.

Report of the Directors

- (3) The annual caps under the business co-operation framework agreement are shown in the table below:

Unit: RMB'0000
(exclusive of value-added tax)

Types of connected transactions	Division by products or services	Connected person	Annual cap	
Sale of products and materials	Sale of home electrical appliances products by the Group	Hisense Group	37,832	
		Hisense International	1,404,962	
		Hisense Marketing Management	67,064	
		Hisense Visual Technology	316	
		Sale of equipment by the Group	Hisense International	1,250
		Sale of moulds by the Group	Hisense Group	900
			Hisense Visual Technology	15,800
			Hisense International	6,132
		Sale of raw materials, parts and components by the Group	Hisense Group	8,748
			Hisense Visual Technology	4,937
	Hisense International		8,690	
Provision of services	Provision of design, property, processing and installation services by the Group	Hisense Group	2,921	
	Provision of property, processing and installation services by the Group	Hisense Visual Technology	400	
	Provision of property services by the Group	Hisense International	1,470	

Report of the Directors

Types of connected transactions	Division by products or services	Connected person	Annual cap
Purchase of products and materials	Purchase of home electrical appliances products by the Group	Hisense Group	111
		Hisense Visual Technology	41
		Hisense International	27,765
	Purchase of raw materials, parts and components by the Group	Hisense Group	30,481
		Hisense Visual Technology	4,954
		Hisense International	70
Receipt of services	Receipt of material processing, property, medical, leasing, design, property construction, management consultancy, technical support and information system maintenance services by the Group	Hisense Group	65,048
		Hisense Visual Technology	2,161
		Hisense Marketing Management	16,725
		Hisense International	2,900

2. Financial services agreement and the supplemental agreement to the financial services agreement with Hisense Finance and the financial business framework agreements with Hisense Financial Holdings

The Group is expected to benefit from the rates on loans and deposits offered by Hisense Finance to the Group, which will be equal to or more favourable than those offered by the PRC commercial banks, and, at the same time, Hisense Finance's better understanding of the operations of the Group should allow the provision of more expedient and efficient services than those offered by the PRC commercial banks. On the other hand, Hisense Finance is regulated by 中國銀行業監管管理委員會 (China Banking Regulatory Commission) and complies with the regulations and operation requirements issued by the relevant regulatory authorities in its provision of financial services. The primary customers of Hisense Finance are the companies within the Hisense Group. In general, as the risks exposed to Hisense Finance are less than those exposed to the financial institutions with a broad and unrestricted customer base, Hisense Finance is able to safeguard the customers' funds more effectively. As such, the Company entered into the financial services agreement and the supplemental agreement to the financial services agreement with Hisense Finance on 26 November 2018 and 21 June 2019 respectively, the principal terms of which are as follows:

- (1) The term of the financial services agreement shall commence from 23 January 2019, being the date on which the agreement was approved by the independent shareholders of the Company at the first 2019 extraordinary general meeting of the Company, until 31 December 2019, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.
- (2) The services to be provided by Hisense Finance to the Group include deposit services, loan and electronic bank acceptance bill (電子銀行承兌匯票) services, draft discount services (票據貼現服務), settlement and sale of foreign exchange services (結售匯服務) and agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務).
- (3) The maximum daily balance of the deposits placed by the Group with Hisense Finance at any time during the term of the financial services agreement shall not exceed the cap of RMB16,000,000,000 (inclusive of interest) on any given day. The maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the financial services agreement shall not exceed the cap of RMB11,500,000,000 (inclusive of interest and service fees). The annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services during the term of the financial services agreement shall not exceed the cap of RMB50,000,000. The annual amount settled or sold by Hisense Finance for the Group during the term of the financial services agreement shall not exceed the cap of US\$500,000,000. The annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務) during the term of the financial services agreement shall not exceed the cap of RMB3,000,000.

Report of the Directors

In order to further revitalise the company's reserve assets, obtain capital operation income, and improve the efficiency of capital operation, the Company entered into a financial business framework agreement with Hisense Financial Holdings on 28 November 2017, as supplemented by a supplemental financial business framework agreement dated 26 November 2018. The main terms are as follows:

- (1) The term of the financial business framework agreement shall commence from 23 January 2019, being the date on which the agreement was approved by the independent shareholders of the Company at the first 2019 extraordinary general meeting of the Company, until 31 December 2019, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.
- (2) The daily closing balance of the recourse factoring services provided by Hisense Financial Holdings to the Company under the financial business framework agreement shall not exceed RMB800,000,000 (inclusive of interest). The aggregated annual value of the transactions conducted for the non-recourse factoring services provided by Hisense Financial Holdings to the Company under the financial business framework agreement during the term of the financial business framework agreement shall not exceed RMB400,000,000 (inclusive of interest). The daily closing balance of the financial leasing services provided by Hisense Financial Holdings to the Company under the financial business framework agreement shall not exceed RMB300,000,000 (inclusive of interest).

(II) During the Reporting Period, connected transactions were conducted by the Group in the ordinary and usual course of operation pursuant to the agreements mentioned above, details of which are as follows:

Connected party	Type of connected transaction	Particulars of connected transaction	Pricing principle of connected transaction	Connected transaction amount (RMB ten thousand)	Percentage of total amount of similar transactions (%)
Hisense Group	Purchase	Finished goods	Agreed price	76.40	0.00
Hisense International	Purchase	Finished goods	Agreed price	2,282.99	0.08
Johnson Hitachi	Purchase	Finished goods	Agreed price	324.34	0.01
Hisense Visual Technology	Purchase	Materials	Agreed price	840.74	0.03
Hisense Group	Purchase	Materials	Agreed price	19,183.13	0.65
Hisense International	Purchase	Materials	Agreed price	0.24	0.00
Hisense Hitachi	Purchase	Materials	Agreed price	1,000.29	0.03
Johnson Hitachi	Purchase	Materials	Agreed price	11,771.72	0.40
Hisense Visual Technology	Receipt of services	Receipt of services	Agreed price	1,665.52	0.06
Hisense Group	Receipt of services	Receipt of services	Agreed price	54,120.86	1.84
Hisense International	Receipt of services	Receipt of services	Agreed price	513.48	0.02
Hisense Marketing Management	Receipt of services	Receipt of services	Agreed price	7,328.85	0.25
Johnson Hitachi	Receipt of services	Receipt of services	Agreed price	35.26	0.00
Hisense Hong Kong	Receipt of purchase financing agency services	Receipt of purchase financing agency services	Agreed price	25,156.70	0.85
Hisense Visual Technology	Sale	Finished goods	Agreed price	48.86	0.00
Hisense Group	Sale	Finished goods	Agreed price	18,145.99	0.48
Hisense International	Sale	Finished goods	Agreed price	1,010,374.62	26.98
Hisense Marketing Management	Sale	Finished goods	Agreed price	31,956.84	0.85

Report of the Directors

Connected party	Type of connected transaction	Particulars of connected transaction	Pricing principle of connected transaction	Connected transaction amount (RMB ten thousand)	Percentage of total amount of similar transactions (%)
Hisense Hitachi	Sale	Finished goods	Agreed price	37,367.55	1.00
Johnson Hitachi	Sale	Finished goods	Agreed price	3,072.77	0.08
Hisense Visual Technology	Sale	Materials	Agreed price	1,074.06	0.03
Hisense Group	Sale	Materials	Agreed price	4,911.36	0.13
Hisense International	Sale	Materials	Agreed price	6,526.42	0.17
Hisense Hitachi	Sale	Materials	Agreed price	273.29	0.01
Johnson Hitachi	Sale	Materials	Agreed price	261.87	0.01
Hisense Visual Technology	Sale	Moulds	Agreed price	6,220.26	0.17
Hisense Group	Sale	Moulds	Agreed price	496.18	0.01
Hisense International	Sale	Moulds	Agreed price	4,447.44	0.12
Hisense Hitachi	Sale	Moulds	Agreed price	455.28	0.01
Hisense Visual Technology	Provision of services	Provision of services	Agreed price	249.24	0.01
Hisense Group	Provision of services	Provision of services	Agreed price	1,392.00	0.04
Hisense International	Provision of services	Provision of services	Agreed price	548.05	0.01
Hisense Hitachi	Provision of services	Provision of services	Agreed price	9.35	0.00
Johnson Hitachi	Provision of services	Provision of services	Agreed price	6.41	0.00

As of the end of the Reporting Period, the Group had the balance of deposit of RMB10.417 billion, recognised interest income of RMB89 million, the actual balance of loan of RMB100 million, the balance of electronic bank acceptance bill of RMB5.651 billion, the handling fee for opening accounts for electronic bank acceptance bill of RMB4.7691 million and the recognised interest on loans of RMB83,400 with Hisense Finance. For the Reporting Period, the actual amount of discounted interest for the provision of draft discount services was RMB0.6 million, the actual amount involved in the provision of settlement and sale of foreign exchange services was RMB0.238 billion and the actual service fee paid for the provision of agency services such as settlement services for receipt and payment of funds was RMB0.3579 million.

As at the end of the Reporting Period, the Group had the actual balance of the recourse factoring services of RMB nil with Hisense Financial Holdings and the actual value of the transaction conducted for the non-recourse factoring services is RMB nil with Hisense Financial Holdings.

Report of the Directors

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

No.	Agreement	Connected persons	Type of connected transactions	Annual cap (exclusive of value-added tax)
1	Business co-operation framework agreement	Hisense Group, Hisense International, Hisense Marketing Management and Hisense Visual Technology and/or their respective subsidiaries	Sale of products and commodities to connected persons	RMB16,473.94 million
		Hisense Group, Hisense International and Hisense Visual Technology and/or their respective subsidiaries	Sale of raw materials, parts and components to connected persons	RMB385.22 million
		Hisense Group, Hisense International and Hisense Visual Technology and/or their respective subsidiaries	Sale of moulds to connected persons	RMB263.14 million
		Hisense International and/or its subsidiaries	Sale of equipment to connected persons	RMB6 million
		Hisense Group, Hisense International and Hisense Visual Technology and/or their respective subsidiaries	Provision of services by the Group	RMB48.66 million
		Hisense Group, Hisense International and Hisense Visual Technology and/or their respective subsidiaries	Purchase of products and commodities from connected persons	RMB33.36 million
		Hisense Group, Hisense International and Hisense Visual Technology and/or their respective subsidiaries	Purchase of raw materials, parts and components from connected persons	RMB659.58 million
		Hisense Group, Hisense International, Hisense Marketing Management and Hisense Visual Technology and/or their respective subsidiaries	Receipt of the services provided by connected persons	RMB1,017.96 million
2	Purchase financing agency framework agreement	Hisense Hong Kong	Receipt of financing agency services by the Group to purchase imported raw materials, components and equipment	USD100,000,000

Report of the Directors

No.	Agreement	Connected persons	Type of connected transactions	Annual cap (exclusive of value-added tax)
3	Financial services agreement	Hisense Finance	The services to be provided by Hisense Finance to the Group include deposit services, loan and electronic bank acceptance bill (電子銀行承兌匯票) services, draft discount services (票據貼現服務), settlement and sale of foreign exchange services (結售匯服務) and agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務).	<ol style="list-style-type: none"> 1. The maximum daily closing balance of the deposits placed by the Company with Hisense Finance at any time shall not exceed the cap of RMB16,800,000,000 (inclusive of interest) on any given day. 2. The maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group shall not exceed the cap of RMB11,500,000,000 (inclusive of interest and service fees) on any given day. 3. The annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services shall not exceed the cap of RMB50,000,000. 4. The annual amount settled or sold by Hisense Finance for the Group shall not exceed the cap of US\$300,000,000. 5. The annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務) shall not exceed the cap of RMB3,000,000.

Report of the Directors

No.	Agreement	Connected persons	Type of connected transactions	Annual cap (exclusive of value-added tax)
4	Financial business framework agreement	Hisense Financial Holdings	The Group accepts factoring services and finance leasing services	<ol style="list-style-type: none"> 1. The daily closing balance of the recourse factoring services provided by Hisense Financial Holdings to the Group shall not exceed RMB800,000,000 (inclusive of interest). 2. The aggregated annual value of the transactions conducted for the non-recourse factoring services provided by Hisense Financial Holdings to the Group shall not exceed RMB400,000,000 (inclusive of interest). 3. The daily closing balance of the finance leasing services provided by Hisense Financial Holdings to the Group shall not exceed RMB300,000,000 (including interest).

The date of the above agreements is 5 November 2019. The terms of the business co-operation framework agreement, purchase financing agency framework agreement, financial services agreement, and the financial business framework agreement commence from the date of which such agreements were approved by the independent shareholders (that is, 17 January 2020) until 31 December 2020 or, for the financial business framework agreement, 31 December 2021. The relationships between the Group and Hisense Group and its subsidiaries, Hisense Hong Kong, Hisense Finance and Hisense Financial Holdings have been disclosed above.

Details of the above agreements can be found in the announcements and the circular published on the website of the Hong Kong Stock Exchange on 6 November 2019 and 20 December 2019 respectively.

Report of the Directors

CONNECTED TRANSACTIONS IN ACQUISITION AND SALE OF ASSETS OR EQUITY RIGHTS

During the Reporting Period, there were no connected transactions involving the acquisition or sale of assets or equity.

CONNECTED TRANSACTIONS IN RELATION TO JOINT EXTERNAL INVESTMENT

During the Reporting Period, there were no connected transactions in relation to joint external investment.

CONNECTED CREDITOR'S RIGHTS AND LIABILITIES

During the Reporting Period, the Company did not have any non-operational connected creditor's rights and liabilities.

OTHER MAJOR CONNECTED TRANSACTIONS

During the Reporting Period, no other major connected transactions had been conducted by the Company.

RELATED PARTY TRANSACTIONS

Details of significant related party transactions undertaken by the Group during the Reporting Period in the ordinary course of business are set out in note 11.7 to the financial statements. Save for (i) the transactions contemplated under the agreements mentioned in section headed "Particulars of material connected transactions of the Company during the Reporting Period" above (other than the purchase financing agency framework agreements), which constitute continuing connected transactions of the Company under the Hong Kong Listing Rules; and (ii) the transactions contemplated under the purchase financing agency framework agreements mentioned in section headed "Particulars of material connected transactions of the Company during the Reporting Period" above, which constitute fully exempt continuing connected transactions for the Company under the Hong Kong Listing Rules, part of the related party transactions set out in note 11.7.(4) to the financial statements can not fall under the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Hong Kong Listing Rules during the Reporting Period. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules.

CORPORATE GOVERNANCE CODE

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

PUBLICATION OF ANNUAL REPORT ON THE WEBSITES OF THE HONG KONG STOCK EXCHANGE AND THE COMPANY

This annual report, containing all information as required by Appendix 16 to the Hong Kong Listing Rules, has been published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) and the website of the Company (<http://hxjd.hisense.cn>).

Report of the Directors

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

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

Unit: RMB ten thousand

Name	Position	Gender	Age	Status	Total amount of remuneration before tax received from the Company	Whether remuneration was received from connected party of the Company
Tang Ye Guo	Chairman	Male	57	Current	269.77	No
Jia Shao Qian	Director, Former President	Male	47	Current	11.17 <i>(Note 1)</i>	Yes
Lin Lan	Director	Male	62	Current	0	Yes
Dai Hui Zhong	Director	Male	54	Current	0	Yes
Fei Li Cheng	Director	Male	56	Current	88.84 <i>(Note 2)</i>	No
Ma Jin Quan	Independent non-executive Director	Male	77	Current	14	No
Zhong Geng Shen	Independent non-executive Director	Male	59	Current	14	No
Cheung Sai Kit	Independent non-executive Director	Male	48	Current	24	No
Liu Zhen Shun	Chairman of Supervisory Committee	Male	50	Current	0	Yes
Gao Yu Ling	Supervisor and Former Chief Financial Officer	Female	38	Current	8.06 <i>(Note 3)</i>	Yes
Fan Wei	Supervisor	Female	53	Current	79.29	No
Duan Yue Bin	President	Male	39	Current	199.53 <i>(Note 4)</i>	No
Chen Xiao Lu	Chief Financial Officer	Male	43	Current	55.05	No
Huang Qian Mei	Secretary to the Board	Female	36	Current	23.42	No
Wong Tak Fong	Company Secretary	Female	52	Current	17.64	No
Liu Hong Xin	Former Director	Male	53	Resigned	0	Yes
Wang Yun Li	Former Director and Former Vice President	Male	47	Resigned	64.34	No
Wang Zhi Gang	Former Vice President	Male	50	Resigned	0	Yes
Yang Qing	Former Supervisor	Male	46	Resigned	0	Yes
Total	–	–	–	–	869.11	–

Report of the Directors

Notes:

1. The Directors of the Company do not receive remuneration in their capacities as directors. The above remuneration was received by Mr. Jia Shao Qian in his capacity as the President of the Company during the Reporting Period. Due to work adjustment, Mr. Jia Shao Qian has ceased to be the President of the Company with effect from 23 January 2019.
2. The Directors of the Company do not receive remuneration in their capacities as directors. The above remuneration was received by Mr. Fei Li Cheng in his capacity as the general manager of Hisense Hitachi after Hisense Hitachi is consolidated into the Company.
3. The supervisors of the Company do not receive remuneration in their capacities as supervisors. The above remuneration was received by Ms. Gao Yu Ling in her capacity as the Chief Financial Officer of the Company during the Reporting Period. Due to work adjustment, Ms. Gao Yu Ling has ceased to be the Chief Financial Officer of the Company with effect from 23 January 2019.
4. Mr. Duan Yue Bin has been appointed as the President of the Company with effect from 5 March 2020. The above remuneration was received by Mr. Duan Yue Bin in his capacity as the executive deputy general manager of Hisense (Shandong) Refrigerator Co., Ltd., the subsidiary of the Company, during the Reporting Period.

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

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

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

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

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

III. MATERIAL LITIGATION OR ARBITRATION OF THE COMPANY

There was no progress in the material litigation of the Company during the Reporting Period. Please refer to the 2015 annual report of the Company for details.

IV. GUARANTEE ITEMS

There were no guarantees provided by the Company during the Reporting Period.

Report of the Directors

V. PARTICULARS OF ENTRUSTED WEALTH MANAGEMENT

Unit: RMB ten thousand

Product Type	Source of funding for entrusted wealth management	Subscription amount of entrusted wealth management	Amount of undue principal and revenue	Overdue balance
Wealth management products of banks	Self-owned funds	263,000.00	212,000.00	0
Total		263,000.00	212,000.00	0

During the Reporting Period, the Company did not have high-risk entrusted wealth management the individual amount of which was significant, and the Company was not aware of any circumstances indicating the possibility that the principal of the entrusted wealth management could not be recovered or other circumstances that might lead to impairment of the Group's entrusted wealth management.

VI. DERIVATIVES INVESTMENT

Unit: RMB ten thousand

Name of operator of derivatives investment	Whether it is a connected transaction or not	Type of derivatives investment	Initial investment of derivatives investment	Effective Date	Expiry Date	Investment at the beginning of the Reporting Period	Amount of purchase during the Reporting Period	Amount of disposal during the Reporting Period	Amount of provision for impairment (if any)	Investment at the end of the Reporting Period	Proportion of investment to the net asset of the Company at the end of the Reporting Period (%)	Actual amount of profit and loss during the Reporting Period
Bank	No	No	Forward foreign exchange contracts	7,109.23	1 January 2019	31 December 2019	7,109.23	18,153.91	25,263.14		0	129.51
Total				7,109.23	-	-	7,109.23	18,153.91	25,263.14		0	129.51
Source of derivatives investment funding											Export trade receipts	
Litigation involved (if applicable)											Not applicable	
Date of the announcement disclosing the approval of derivatives investment by the Board (if any)											29 March 2019	
Date of the announcement disclosing the approval of derivatives investment at shareholders' meetings (if any)											Not applicable	

Report of the Directors

Risk analysis of positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)	The derivatives business of the Company mainly represents the forward foreign exchange contracts used to avoid the risk of foreign exchange fluctuations related to the overseas sales receivables. The Company locks in the foreign exchange rates within a reasonable range to achieve the hedging purpose. The Company has formulated the “Management Measures for the Foreign Exchange Capital Business” and the “Internal Control System for Forward Foreign Exchange Capital Transactions”. The measures specifically regulate the basic principles, operation rules, risk control measures and internal controls that shall be followed when engaging in the derivatives business. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.
Changes in market price or product fair value of invested derivatives during the Reporting Period, where specific methods and relevant assumptions and parameters are used, they 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 during the Reporting Period, which are recognised 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 Reporting Period. During the Reporting Period, the Company recognised a gain on change in fair value of the derivatives of RMB2.5586 million. Investment gain amounted to RMB-1.2635 million, resulting in a total profits or losses of RMB1.2951 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 the last reporting period.
Specific opinions of independent non-executive Directors on the derivatives investment and risk control of the Company	Opinion of independent non-executive 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.

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

New subsidiary:

During the Reporting Period, the Company has completed the approval procedures in relation to the business registration of the transfer of 0.2% equity interest of Hisense Hitachi, the amendments of the articles of association of Hisense Hitachi, the adjustment of board composition of Hisense Hitach and other matters. The Company has included Hisense Hitachi and its subsidiaries into its scope of consolidation. Therefore, the financial results of Hisense Hitachi and its subsidiaries are newly consolidated into that of the Group during the Reporting Period.

Former subsidiary:

During the Reporting Period, the Company has transferred the equity of Hisense (Nanjing) Electric Company Limited, a former subsidiary of the Company, which means that it is no longer included in the Company’s scope of consolidation.

Report of the Directors

VIII. REASON FOR CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ACCOUNTING TREATMENT AS COMPARED TO THE FINANCIAL REPORT FOR THE PRIOR YEAR

✓ Applicable □ Not applicable

Set out below the changes in accounting policies of the Company during the Reporting Period:

On 9 May 2019, the Ministry of Finance (“MOF”) issued the Accounting Standards for Business Enterprises No.7 – Swap of Non-monetary Assets (2019 amendment) (Cai Kuai [2019] No.8) requiring application by relevant businesses from 1 January 2019. On 16 May 2019, the MOF issued the Accounting Standards for Business Enterprises No.12 – Debt Restructuring (2019 amendment) (Cai Kuai [2019] No.9) requiring application by relevant businesses from 1 January 2019. The Company has applied the above standards since the date specified by the MOF and it has no impact on the financial statements of the Company.

On 30 April 2019, the MOF issued the Notice on Revising and Circulating General Corporate Financial Statement Formats 2019 (Cai Kuai [2019] No. 6) which amended the formats of general corporate financial statements and requires application in the preparation of financial statements for the interim period of 2019 and the periods thereafter. On 19 September 2019, the MOF issued the Notice on the Revision and Circulating of the Consolidated Financial Statement Formats (2019 Version) (Cai Kuai [2019] No.16) (hereinafter referred to as “Cai Kuai [2019] No. 16”). The notice amended the format of consolidated financial statements and requires application in the preparation of consolidated financial statements for the year of 2019 and the periods thereafter. The Company has applied the above standards in accordance with the time required by the MOF. Certain comparative figures in these financial statements were arranged to conform with the current year’s format of presentation. The application of the above notices only affects the presentation of the financial statements and has no impact on profit and loss, total assets or net assets of the Company. Impacts on the presentation format are as follows:

(1) Consolidated Balance Sheet

<i>Unit : RMB</i>			
Item	31 December 2018	Adjustment Amount	31 December 2018 (After rearrangement)
Current assets:			
Transactional financial assets	207,350.00	540,000,000.00	540,207,350.00
Account receivable and Notes receivable	6,068,203,234.09	-6,068,203,234.09	
Note receivable		911,347,559.44	911,347,559.44
Account receivable		2,962,019,185.36	2,962,019,185.36
Factoring of accounts receivable		2,194,836,489.29	2,194,836,489.29
Other receivable	318,926,986.30	-197,325.00	318,729,661.30
Including: Interest receivable	197,325.00	-197,325.00	
Other current assets	1,081,172,953.81	-539,802,675.00	541,370,278.81
Current liabilities:			
Notes payable and Accounts payable	9,815,704,300.63	-9,815,704,300.63	
Notes payable		5,442,369,087.15	5,442,369,087.15
Accounts payable		4,373,335,213.48	4,373,335,213.48

Report of the Directors

(2) Balance Sheet of the Company

Unit : RMB

Item	31 December 2018	Adjustment Amount	31 December 2018 (After rearrangement)
Current assets:			
Transactional financial assets		160,000,000.00	160,000,000.00
Account receivable and Notes receivable	8,028,474.24	-8,028,474.24	
Account receivable		8,028,474.24	8,028,474.24
Other current assets	171,456,671.63	-160,000,000.00	11,456,671.63
Current liabilities:			
Notes payable and Accounts payable	287,857,101.70	-287,857,101.70	
Accounts payable		287,857,101.70	287,857,101.70

The MOF issued the Accounting Standards for Business Enterprises No. 21 – Leases (2018 Amendments) (Cai Hui [2018] No.35) on 7 December 2018, which requires companies that are listed both domestically and overseas, and companies that are listed overseas and adopt the International Financial Reporting Standards or the Accounting Standards for Business Enterprises in the preparation of financial reports to implement the New Lease Standard with effect from 1 January 2019. The Company has implemented the New Lease Standard from the time as the MOF requires.

Report of the Directors

Explanation on the adjustment to the consolidated balance sheet: under the New Lease Standard, for contracts already existed before the date of the initial adoption of the New Lease Standard (the “**Initial Adoption**”), the Company elected not to reassess whether the contracts are or contain a lease at the date of the Initial Adoption. For lease contracts with the Company as the lessee, the Company elected to adjust only the cumulative impact of the lease contracts which remained outstanding on 1 January 2019. The opening balances of the retained earnings and other relevant items in the financial statements at the beginning of the Initial Adoption period (i.e. 1 January 2019) were adjusted to reflect the cumulative effect of the Initial Adoption, but no adjustment was made to the amounts of the comparable period. In particular, for operating leases at the date of the Initial Adoption, the Company measured lease liability based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of the Initial Adoption; and the unpaid rent payables provided based on the accrual basis under the original lease standard were included in the remaining lease payments. The weighted average incremental borrowing rate of the lessee used for the Initial Adoption in recording lease liabilities in the balance sheet is 4.75%. Impacts of adopting the New Lease Standard on the Company are as follows:

Consolidated Balance Sheet

Unit: RMB

Item	31 December 2018 (Before Adjustment)	1 January 2019 (After Adjustment)	Re-measurement
Current assets:			
Other current assets	541,370,278.81	536,156,271.70	-5,214,007.11
Non-current assets:			
Right-of-use assets		46,360,081.84	46,360,081.84
Current liabilities:			
Non-current liabilities:			
Lease liabilities		41,146,074.73	41,146,074.73

Report of the Supervisory Committee

Dear Shareholders:

During the Reporting Period, the Supervisory Committee of Hisense Home Appliances Group Co., Ltd. has faithfully discharged its duties to protect the lawful interests of the Company, its staff and shareholders in compliance with the relevant requirements of the Company Law of the PRC, the Listing Rules of the Shenzhen Stock Exchange, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Articles of Association of the Company. We would like to report to you the work of the Supervisory Committee during 2019 in accordance with the Articles of Association of the Company:

I. WORK OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

During the Reporting Period, the Supervisory Committee held a total of 5 meetings, details of which are summarised as follows:

- (1) the first meeting of the tenth session of the Supervisory Committee in 2019 was held on 1 February 2019, at which the resolution in respect of the proposed appointment of Ms. Gao Yu Ling as the shareholders' representative supervisor of the tenth session of the Supervisory Committee was considered and approved, and the announcement on the relevant resolutions of the meeting was published on media designated by the Company for information disclosure on 2 February 2019.
- (2) the second meeting of the tenth session of the Supervisory Committee in 2019 was held on 28 March 2019, at which the 2018 annual report of the Company and related matters were considered and approved, and the announcement on the relevant resolutions of the meeting was published on media designated by the Company for information disclosure on 29 March 2019.
- (3) the third meeting of the tenth session of the Supervisory Committee in 2019 was held on 25 April 2019, at which the 2019 first quarterly report of the Company was considered and approved, and the 2019 first quarterly report of the Company was published on media designated by the Company for information disclosure on 26 April 2019.
- (4) the fourth meeting of the tenth session of the Supervisory Committee in 2019 was held on 22 August 2019, at which the 2019 interim report of the Company were considered and approved, and the 2019 interim report of the Company was published on media designated by the Company for information disclosure on 23 August 2019.
- (5) the fifth meeting of the tenth session of the Supervisory Committee in 2019 was held on 28 October 2019, at which the 2019 third quarterly report of the Company was considered and approved, and the 2019 third quarterly report of the Company was published on media designated by the Company for information disclosure on 29 October 2019.

II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2019

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

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

Report of the Supervisory Committee

(2) Examination of the Company's financial situation

ShineWing Certified Public Accountants LLP has audited the Company's financial statements for the year ended 31 December 2019 and issued an auditor's report with standard unqualified opinion. The Supervisory Committee is of the view that the opinion expressed in the auditor's report was fair and objective and the current financial statements have truthfully and fairly reflected the financial condition and operating results of the Company.

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

(4) During the Reporting Period, the Company had not made any significant disposal of assets.

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

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

After reviewing the Company's 2019 Internal Control Assessment Report, the Company's Supervisory Committee is of the view that:

With reference to the relevant requirements of the Basic Norms for Enterprise Internal Control and the Guidelines of the Shenzhen Stock Exchange for the Standardized Operation of Companies Listed on the Main Board, the Company's existing internal control and risk management systems are basically sound and cover all levels and segments of the Company's operation, are in compliance with the requirements of the relevant laws and regulations, and suit the actual needs of the Company's operating activities. Each of the internal control and risk management systems is able to exert relatively effective control of the different segments in the Company's operation, and is capable of preventing, timely discovering and rectifying possible errors in the Company's operation process, controlling the relevant risks, protecting the safety and completeness of the Company's assets, ensuring the truthfulness, accuracy and timeliness of the accounting records and accounting information. The Company's 2019 Internal Control Assessment Report has fully, objectively and truly reflected the actual internal control and risk management situation of the Company, and we agree to the issue of the 2019 Internal Control Assessment Report by the Board.

Definitions

This report is published in both English and Chinese. If there is any inconsistency between the English and the Chinese versions, the Chinese version shall prevail.

In this report, unless the context requires otherwise, the following terms or expressions shall have the following meanings:

“Company”	Hisense Home Appliances Group Co., Ltd., (海信家電集團股份有限公司), a company incorporated in the PRC with limited liability, whose shares are listed on the main board of the Hong Kong Stock Exchange and the Shenzhen Stock Exchange
“Hisense Air-Conditioning”	Qingdao Hisense Air-Conditioning Company Limited* (青島海信空調有限公司), a company incorporated in the PRC with limited liability and indirectly controlled by Hisense Group, which holds approximately 37.92% of the issued shares of the Company
“Hisense Finance”	Hisense Finance Co., Ltd.* (海信集團財務有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group
“Hisense Financial Holdings”	Qingdao Hisense Financial Holdings Co., Ltd. (青島海信金融控股有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group
“Hisense Group”	Hisense Company Limited (海信集團有限公司), a company incorporated in the PRC with limited liability
“Hisense Hitachi”	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. (青島海信日立空調系統有限公司), a company incorporated in the PRC with limited liability and a subsidiary of the Company
“Hisense Hong Kong”	Hisense (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of Hisense Group, which holds approximately 9.13% of the issued shares of the Company
“Hisense International”	Hisense International Co., Ltd* (青島海信國際營銷股份有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group
“Hisense Marketing Management”	Hisense Marketing Management Co., Ltd.* (海信營銷管理有限公司), a company incorporated in the PRC with limited liability and 50% owned by the Company
“Hisense Visual Technology”	Hisense Visual Technology Co., Ltd. (海信視像科技股份有限公司) (formerly known as Hisense Electric Co., Ltd. (青島海信電器股份有限公司)), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group, whose shares are listed on the main board of Shanghai Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Johnson Hitachi”	Johnson Controls-Hitachi Air Conditioning Holding (UK) Ltd.
“RMB”	Renminbi, the lawful currency of the PRC

* For identification purposes only

Corporate Information

REGISTERED OFFICE IN CHINA

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

PLACE OF BUSINESS IN HONG KONG

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

SECRETARY FOR THE BOARD OF DIRECTORS & COMPANY SECRETARY

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

AUTHORIZED REPRESENTATIVES

Tang Ye Guo
Jia Shao Qian

INVESTOR COMMUNICATION CENTRE

Computershare Hong Kong Investor Services Limited
17Mth Floor, Hopewell Center,
183 Queen's Road East, Wanchai, Hong Kong

TELEPHONE

(852) 2593 5622
(86-757) 2836 2570

FAX

(852) 2802 8085
(86-757) 2836 1055

EMAIL ADDRESS

hxjdzqb@hisense.com

INTERNET WEBSITE

<http://hxjd.hisense.cn>

AUDITORS

ShineWing Certified Public Accountants
9/F, Block A, Fu Hua Mansion, No.8, Chaoyangmen
Beidajie, Dongcheng District, Beijing,
the People's Republic of China

Auditor's Report



信永中和會計師事務所

ShineWing

certified public accountants

北京市東城區朝陽門北大街
8號富華大廈A座9層

9/F, Block A, Fu Hua Mansion,
No. 8, Chaoyangmen Beidajie,
Dongcheng District, Beijing,
100027, P. R. China

聯繫電話： +86(010)6554 2288
telephone: +86(010)6554 2288

傳真： +86(010)6554 7190
facsimile: +86(010)6554 7190

XYZH/2020QDA40099

To the shareholders of Hisense Home Appliances Group Co., Ltd.

I. AUDIT OPINION

We have audited the financial statements of Hisense Home Appliances Group Co., Ltd. (the “Company” or “Hisense Appliances”), which comprise the consolidated and the Parent Company’s balance sheets as at 31 December 2019, and the Parent Company’s and consolidated income statements, the Parent Company’s and consolidated cash flow statements, the Parent Company’s and consolidated statements of changes in equity for 2019 and the notes to the financial statements.

In our opinion, the accompanying financial statements of Hisense Appliances present fairly, in all material aspects, Hisense Appliances’s and the Parent Company’s consolidated financial position as at 31 December 2019 and its and the Parent Company’s consolidated results of operations and cash flows for the year 2019 in accordance with the Accounting Standards for Business Enterprises.

II. BASIS OF AUDIT OPINION

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

Auditor's Report

III. KEY AUDIT MATTERS

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

1. Provision for declines in value of finished goods

Key audit matters	Audit response
As stated in note 4(13) "Inventories" of the financial statement, the finished goods of Hisense Appliances are measured at the lower of cost and net realizable value. As stated in note 6(8) "Inventories", as at 31 December 2019, the balance of finished goods was RMB2,857,067,872.96; the provision for declines in value of finished goods was RMB27,586,810.08; and the carrying amount of finished goods was RMB2,829,481,062.88. The sufficiency of provision for declines in value of finished goods has a material impact on the financial statements.	(1) Evaluated and tested key internal controls relating to the provision for declines in value of finished goods;
Hisense Appliances determines the net realisable value of finished goods based on the estimated selling price of finished goods less the estimated sales expenses and related taxes.	(2) Carried out stock counting procedures for the finished goods of Hisense Appliances, checked the quantity and condition of finished goods;
The management estimates the expected selling price of finished goods based on their conditions, and the management is required to make significant judgments in the estimation process.	(3) Obtained the calculation table of provision for declines in value of finished goods of Hisense Appliances, selected certain product models on a sampling basis and compared their records and ageing in the table against the results of our stock counting;
In view of the large amount involved in the matter and the need for management to make significant judgments, we treat the provision for declines in value of finished goods as a key audit matter.	(4) By comparing historical selling prices of similar products and reviewing the trend in future selling prices of products based on seasonal and cyclical characteristics, we assessed the selling prices estimated by the management and checked the same against the actual selling prices subsequent to the balance sheet date;
	(5) By comparing historical selling expenses and relevant taxation and fees of similar products, we assessed the selling expenses and relevant taxation and fees estimated by the management and checked the same against the actual amount incurred subsequent to the balance sheet date;
	(6) Selected certain finished goods and re-calculated their recoverable amount and the balance of provision for declines in value of finished goods as at the end of the period.

Auditor's Report

2. Impairment for goodwill

Key audit matters	Audit response
As mentioned in “Note 7 (1) Business combinations not under common control”, on 2 September 2019, Hisense Appliances acquired control of Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. through business combinations not under common control, thus arising goodwill of RMB132,571,746.36; as mentioned in “Note 4 (24) Impairment of long-term assets”, the management of Hisense Appliances conducts impairment test on goodwill at the end of each year. The test result of impairment of goodwill significantly relies on the management’s estimates and assumptions applied, therefore, we have identified goodwill impairment as a key audit matter.	<ol style="list-style-type: none">(1) Check the effective conditions of the agreements and the payment of the combined prices, etc.;(2) Evaluate the competence, professional quality and objectivity of external valuation experts introduced by management;(3) Review the rationality of the fair value recognition of the acquired party’s identifiable assets and liabilities on the date of purchase;(4) Review the calculation of goodwill;(5) Confirm whether the valuation result on the purchase date is still valid and check whether there is any impairment of goodwill as at 31 December 2019.

IV. OTHER INFORMATION

The management of Hisense Appliances (the management) is responsible for the other information. The other information comprises the information included in the 2019 annual report of Hisense Appliances, but does not include the financial statements and our auditor’s report thereon.

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

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

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

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

The management is responsible for preparing the financial statements in accordance with Accounting Standards for Business Enterprises, to guarantee the fair of financial statements, and designing, implementing and maintaining the necessary internal control to avoid the material misstatement of financial statements which is due to fraud or error.

In preparing the financial statements, the management is responsible for assessing Hisense Appliances’s sustainable business capacity, disclosing matters (if applicable) in relation to the going concern, and using the going concern assumption unless the management either intend to liquidate Hisense Appliances or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Hisense Appliances’s financial reporting process.

Auditor's Report

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

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

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

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

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

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

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

Consolidated Balance Sheets

31 December 2019

Prepared by: Hisense Home Appliances Group Co., Ltd.

Unit: RMB

Item	As at 31 December 2019	As at 31 December 2018
Current assets:		
Cash at bank and on hand	6,120,563,237.47	3,648,463,609.61
Balances with clearing companies		
Lending capital		
Transactional financial assets	2,120,000,000.00	540,207,350.00
Derivative financial assets		
Notes receivable	1,095,849,666.16	911,347,559.44
Account receivable	3,967,576,310.11	2,962,019,185.36
Factoring of accounts receivables	4,099,608,704.80	2,194,836,489.29
Prepayments	192,798,549.08	224,120,738.37
Insurance premium receivable		
Receivables from reinsurers		
Reserves for reinsurance contract receivable		
Other receivables	297,145,507.98	318,729,661.30
Including: Interests receivable		
Dividends receivable		
Financial assets purchased under agreements to resell		
Inventories	3,498,945,347.28	2,955,752,775.71
Contract assets		
Assets held for sale		
Non-current assets due within one year		
Other current assets	3,127,969,954.11	541,370,278.81
Total current assets	24,520,457,276.99	14,296,847,647.89
Non-current assets:		
Disbursement of loans and advances		
Investments in debt		
Other investments in debt		
Long-term receivables		
Long-term equity investments	468,080,722.63	3,326,783,023.78
Other equity investment		
Other non-current financial assets		
Investment properties	20,240,850.71	22,511,361.05
Fixed assets	3,813,541,683.85	3,263,931,920.41
Construction in progress	216,943,108.59	84,296,518.04
Productive biological assets		
Oil and gas assets		
Right-of-use assets	74,162,585.09	
Intangible assets	1,918,063,341.32	714,706,893.47
Development costs		
Goodwill	132,571,746.36	
Long-term prepaid expenses	43,497,841.56	25,349,762.41
Deferred tax assets	634,774,585.10	93,477,911.35
Other non-current assets	2,148,329,801.65	
Total non-current assets	9,470,206,266.86	7,531,057,390.51
Total assets	33,990,663,543.85	21,827,905,038.40

Consolidated Balance Sheets

31 December 2019

Item	As at 31 December 2019	As at 31 December 2018
Current liabilities:		
Short-term borrowings	100,083,424.66	
Borrowings from central bank		
Loans from other banks		
Transactional financial liabilities		2,765,900.00
Derivative financial liabilities		
Notes payable	7,560,312,550.23	5,442,369,087.15
Accounts payable	5,317,357,636.81	4,373,335,213.48
Advances from customers		
Contract liability	1,013,239,070.20	716,041,073.75
Proceeds from disposal of financial assets under agreements to repurchase		
Receipt of deposits and deposits from other banks		
Customer brokerage deposits		
Securities underwriting brokerage deposits		
Employee remunerations payable	620,495,237.41	328,800,107.19
Taxes payable	510,978,731.47	230,675,886.53
Other payables	1,920,036,363.71	1,766,319,446.79
Including: Interests payable		
Dividends payable		
Handling fees and commission payable		
Reinsured accounts payable		
Liabilities held for sale		
Non-current liabilities due within one year	40,736,624.70	
Other current liabilities	3,755,169,074.60	646,178,914.93
Total current liabilities	20,838,408,713.79	13,506,485,629.82

Consolidated Balance Sheets

31 December 2019

Item	As at 31 December 2019	As at 31 December 2018
Non-current liabilities:		
Reserves for reinsurance contract		
Long-term borrowings		
Bonds payable		
Including: Preference shares		
Perpetual debts		
Lease liabilities	24,822,981.21	
Long-term payables		
Long-term employee remunerations payable		
Provisions	475,055,256.42	329,557,537.00
Deferred income	113,146,567.49	98,410,309.53
Deferred tax liabilities	58,367,004.14	4,044,585.32
Other non-current liabilities		
Total non-current liabilities	671,391,809.26	432,012,431.85
Total liabilities	21,509,800,523.05	13,938,498,061.67
Shareholders' equity:		
Share capital	1,362,725,370.00	1,362,725,370.00
Other equity instruments		
Including: Preference shares		
Perpetual debts		
Capital reserve	2,056,057,145.37	2,076,473,214.56
Less: treasury shares		
Other comprehensive income	26,318,501.35	16,896,290.49
Special reserves		
Surplus reserves	632,235,869.58	556,272,909.16
General risk provisions		
Undistributed profit	4,644,256,846.32	3,339,456,580.66
Total equity attributable to shareholders of the parent	8,721,593,732.62	7,351,824,364.87
Minority interests	3,759,269,288.18	537,582,611.86
Total shareholders' equity	12,480,863,020.80	7,889,406,976.73
Total liabilities and shareholders' equity	33,990,663,543.85	21,827,905,038.40

Legal representative: **Tang Ye Guo** Chief financial officer: **Chen Xiao Lu** Accounting supervisor: **Liang Hong Tao**

Balance Sheets of Parent Company

Unit: RMB

Item	As at 31 December 2019	As at 31 December 2018
Current assets:		
Cash at bank and on hand	161,499,554.78	66,002,462.15
Transactional financial assets	720,000,000.00	160,000,000.00
Derivative financial assets		
Notes receivable		
Account receivable	2,018,568.76	8,028,474.24
Factoring of accounts receivables		
Prepayment	26,047,484.79	21,794,567.90
Other receivables	1,245,063,266.08	1,230,184,848.21
Including: Interests receivable		
Dividends receivable		
Inventories	309.22	2,985.38
Contract assets		
Assets held for sale		
Non-current assets due within one year		
Other current assets	9,574,769.13	11,456,671.63
Total current assets	2,164,203,952.76	1,497,470,009.51
Non-current assets:		
Investments in debt		
Other investments in debt		
Long-term receivables		
Long-term equity investments	5,488,332,898.86	5,780,792,619.33
Other equity investment		
Other non-current financial assets		
Investment properties	5,528,516.00	6,912,776.00
Fixed assets	14,980,260.63	22,898,140.15
Construction in progress	8,059,220.76	563,292.29
Productive biological assets		
Oil and gas assets		
Right-of-use assets		
Intangible assets	177,629,620.00	180,382,891.00
Development costs		
Goodwill		
Long-term prepaid expenses	145,513.24	224,869.24
Deferred tax assets		
Other non-current assets		
Total non-current assets	5,694,676,029.49	5,991,774,588.01
Total assets	7,858,879,982.25	7,489,244,597.52

Balance Sheets of Parent Company

Item	As at 31 December 2019	As at 31 December 2018
Current liabilities:		
Short-term borrowings		
Transactional financial liabilities		
Derivative financial liabilities		
Notes payable		
Accounts payable	285,348,910.71	287,857,101.70
Advances from customers		
Contract liability	8,386,159.74	8,449,546.81
Employee remunerations payable	5,031,973.56	4,469,560.66
Taxes payable	1,032,229.96	725,132.44
Other payables	694,055,119.98	692,710,246.35
Including: Interests payable		
Dividends payable		
Liabilities held for sale		
Non-current liabilities due within one year		
Other current liabilities	17,113,603.96	19,154,070.26
Total Current Liabilities	1,010,967,997.91	1,013,365,658.22
Non-Current Liabilities:		
Long-term borrowings		
Bonds payable		
Including: Preference shares		
Perpetual debts		
Lease liabilities		
Long-term payables		
Long-term employee remunerations payable		
Provisions	180,902,210.36	168,134,924.14
Deferred income	27,046,870.69	28,000,372.60
Deferred tax liabilities		
Other non-current liabilities		
Total non-current liabilities	207,949,081.05	196,135,296.74
Total liabilities	1,218,917,078.96	1,209,500,954.96
Shareholders' equity:		
Share capital	1,362,725,370.00	1,362,725,370.00
Other equity instruments		
Including: Preference shares		
Perpetual debts		
Capital reserve	2,266,000,437.11	2,261,470,878.87
Less: Treasury shares		
Other comprehensive income	14,596,993.48	5,631,108.11
Special reserves		
Surplus reserves	601,627,244.59	525,664,284.17
Undistributed profit	2,395,012,858.11	2,124,252,001.41
Total shareholders' equity	6,639,962,903.29	6,279,743,642.56
Total liabilities and shareholders' equity	7,858,879,982.25	7,489,244,597.52

Consolidated Income Statement

	<i>Unit: RMB</i>	
Item	2019	2018
I. Total operating revenue	37,453,043,968.74	36,019,598,304.79
Including: Operating revenue	37,453,043,968.74	36,019,598,304.79
Interest income		
Insurance premium earned		
Income from handling fees and commission		
II. Total operating costs	36,863,313,263.94	35,636,182,841.31
Including: Operating costs	29,424,809,268.66	29,171,524,760.00
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	326,711,730.88	311,637,390.87
Sales expenses	5,670,186,916.64	5,005,944,320.73
Management expenses	515,205,417.61	425,693,468.96
Research and development expenses	934,412,243.42	686,772,325.33
Financial expenses	-8,012,313.27	34,610,575.42
Including: Interest expense	3,000,971.48	3,987,499.99
Interest income	90,453,444.36	36,481,903.61
Add: Other income	278,436,805.32	302,603,027.45
Investment gain (loss expressed with “-”)	1,122,348,640.53	828,685,091.63
Including: Share of profit of associates and joint ventures	724,081,435.92	783,792,628.40
Income from derecognition of financial assets at amortised cost		
Foreign exchange gains (loss expressed with “-“)		
Net open hedge income (loss expressed with “-“)		
Gain from changes in fair values (loss expressed with “-“)	2,558,550.00	-2,267,497.17
Impairment losses on assets (loss expressed with “-“)	-44,094,598.92	-2,367,107.23
Impairment losses on credit (loss expressed with “-“)	-15,861,861.29	-2,550,168.03
Gains on disposal of asset (loss expressed with “-“)	121,585,370.54	1,210,083.22
III. Operating profits (loss denoted by “-“)	2,054,703,610.98	1,508,728,893.35
Add: Non-operating incomes	126,227,060.64	74,020,079.75
Less: Non-operating expenses	28,680,356.96	17,843,104.64
IV. Total profit (total loss denoted by “-“)	2,152,250,314.66	1,564,905,868.46
Less: Income tax expenses	201,801,162.14	141,831,492.77
V. Net profits (net loss denoted by “-“)	1,950,449,152.52	1,423,074,375.69
(1) Classified on a going concern basis		
1. Net profit from continuing operations (net loss denoted by “-“)	1,950,449,152.52	1,423,074,375.69
2. Net profit from discontinued operations (net loss denoted by “-“)		
(2) Classified by ownership of equity		
1. Net profit attributable to shareholders of the parent	1,793,669,013.19	1,377,457,177.70
2. Profit and loss of minority interests	156,780,139.33	45,617,197.99

Consolidated Income Statement

Item	2019	2018
VI. Other comprehensive income after tax, net	9,415,682.64	3,618,965.46
Other comprehensive income after tax attributable to owners of the parent, net	9,422,210.86	3,605,594.90
(1) Items not to be reclassified into profit or loss		
1. Changes arising from remeasurement of defined benefit plan		
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method		
3. Changes in fair value of other equity instruments investment		
4. Changes in the fair value of the company's own credit risk		
5. Others		
(2) Items to be reclassified into profit or loss	9,422,210.86	3,605,594.90
1. Other comprehensive income that is convertible into gains and losses under the equity method	8,965,885.37	-289,459.62
2. Changes in fair value of other investments in debt		
3. The amount of financial assets reclassified into other comprehensive income		
4. Credit impairment provisions for other debt investment	1,095,858.39	
5. Cash flow hedge reserve		
6. Differences on translation of foreign currency financial statements	-639,532.90	3,895,054.52
7. Others		
Other comprehensive income after tax attributable to minority interests, net	-6,528.22	13,370.56
VII. Total comprehensive income	1,959,864,835.16	1,426,693,341.15
Total comprehensive income attributable to shareholders of the parent	1,803,091,224.05	1,381,062,772.60
Total comprehensive income attributable to minority interests	156,773,611.11	45,630,568.55
VIII. Earnings per share:		
(1) Basic earnings per share	1.32	1.01
(2) Diluted earnings per share	1.32	1.01

Legal representative: **Tang Ye Guo** Chief financial officer: **Chen Xiao Lu** Accounting supervisor: **Liang Hong Tao**

Income Statement of Parent Company

Unit: RMB

Item	2019	2018
I. Total operating revenue	80,767,319.32	73,837,941.71
Less: Operating costs	67,664,702.34	60,992,608.85
Taxes and surcharges	6,087,816.27	6,018,581.95
Sales expenses	13,761,022.97	60,923,538.74
Management expenses	26,531,979.12	27,109,234.24
Research and development expenses		
Financial expenses	-9,813,363.56	-15,433,489.02
Including: Interest expense		
Interest income	1,646,169.34	2,504,478.78
Add: Other income	2,287,537.95	2,169,413.94
Investment gain (loss expressed with “-”)	787,163,521.04	840,443,395.85
Including: Share of profit of associates and joint ventures	724,081,435.92	782,822,386.92
Income from derecognition of financial assets at amortised cost (loss expressed with “-”)		
Net open hedge income (loss expressed with “-”)		
Gain from changes in fair values (loss expressed with “-”)		
Impairment losses on credit (loss expressed with “-”)	3,096,654.45	461,798.54
Impairment losses on assets (loss expressed with “-”)		
Gains on disposal of asset (loss expressed with “-”)		-529.00
II. Operating profits (loss denoted by “-”)	769,082,875.62	777,301,546.28
Add: Non-operating incomes	131,256.54	1,078,312.34
Less: Non-operating expenses	9,584,527.93	1,864,791.16
III. Total profit (total loss denoted by “-”)	759,629,604.23	776,515,067.46
Less: Income tax expenses		
IV. Net profits (net loss denoted by “-”)	759,629,604.23	776,515,067.46
(1) Net profit from continuing operations (net loss denoted by “-”)	759,629,604.23	776,515,067.46
(2) Net profit from discontinued operations (net loss denoted by “-”)		
V. Other comprehensive income after tax, net	8,965,885.37	-289,459.62
(1) Items not to be reclassified into profit or loss		
1. Changes arising from remeasurement of defined benefit plan		
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method		
3. Changes in fair value of other equity instruments investment		
4. Changes in the fair value of the company’s own credit risk		
5. Others		
(2) Items to be reclassified into profit or loss	8,965,885.37	-289,459.62
1. Other comprehensive income that is convertible into gains and losses under the equity method	8,965,885.37	-289,459.62
2. Changes in fair value of other investments in debt		
3. The amount of financial assets reclassified into other comprehensive income		
4. Credit impairment provisions for other debt investment		
5. Cash flow hedge reserve		
6. Differences on translation of foreign currency financial statements		
7. Others		
VI. Total comprehensive income	768,595,489.60	776,225,607.84
VII. Earnings per share:		
(1) Basic earnings per share		
(2) Diluted earnings per share		

Consolidated Cash Flow Statement

Unit: RMB

Item	2019	2018
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	28,713,504,917.28	26,105,882,573.53
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		
Cash received from interests, fees and commissions		
Net increase in placements from banks and other financial institutions		
Net increase in repurchase business capital		
Net income from trading securities as broker		
Tax rebates received	1,281,794,426.91	1,267,772,435.41
Other cash received concerning operating activities	786,543,310.73	783,571,827.20
Subtotal of cash inflows from operating activities	30,781,842,654.92	28,157,226,836.14
Cash paid for purchases of commodities and receipt of services	19,385,438,485.52	18,570,325,803.56
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		
Net increase in placements from banks and other financial institutions		
Cash paid for interests, fees and commissions		
Cash paid for policyholders' dividend		
Cash paid to and for employees	3,597,833,162.98	3,169,188,048.40
Cash paid for taxes and surcharges	1,418,998,389.42	1,223,056,073.41
Cash paid for other operating activities	4,374,235,564.44	4,145,290,346.52
Subtotal of cash outflows from operating activities	28,776,505,602.36	27,107,860,271.89
Net cash flows from operating activities	2,005,337,052.56	1,049,366,564.25
II. Cash flows from investing activities:		
Cash received from recovery of investments	1,055,036,600.00	12,542,200.00
Cash received from investment income	55,224,136.96	48,100,716.69
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	138,789,640.34	5,540,355.55
Net cash received from disposal of subsidiaries and other operation units	54,499,792.13	
Cash received relating to other investing activities	7,232,124,651.20	2,810,000,000.00
Subtotal of cash inflows from investing activities	8,535,674,820.63	2,876,183,272.24
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	363,526,840.96	330,020,326.20
Cash paid for investments		47,750,000.00
Net increase in pledged loans		
Cash paid for acquiring subsidiaries and other operation units		
Cash paid relating to other investing activities	8,252,376,993.51	2,270,000,000.00
Subtotal of cash outflows from investing activities	8,615,903,834.47	2,647,770,326.20
Net cash flows from investing activities	-80,229,013.84	228,412,946.04

Consolidated Cash Flow Statement

Item	2019	2018
III. Cash flows from financing activities:		
Cash received from capital contribution	36,830,668.56	
Including: Cash contribution to subsidiaries from minority shareholders' investment	36,830,668.56	
Cash received from borrowings	100,000,000.00	200,000,000.00
Cash received relating to other financing activities		
Subtotal of cash inflows from financing activities	136,830,668.56	200,000,000.00
Cash paid for repayment of borrowings		200,000,000.00
Cash paid for distribution of dividends, profit or payment of interest expenses	737,156,543.40	619,102,646.78
Including: Dividend and profit paid to minority shareholders by subsidiaries	324,250,756.29	15,515,983.99
Cash paid relating to other financing activities	322,124,433.76	542,073,128.96
Subtotal of cash outflows from financing activities	1,059,280,977.16	1,361,175,775.74
Net cash flows from financing activities	-922,450,308.60	-1,161,175,775.74
IV. Effects of foreign exchange rate changes on cash and cash equivalents	1,084,803.33	-7,558,642.39
V. Net increase in cash and cash equivalents	1,003,742,533.45	109,045,092.16
Add: Balance of cash and cash equivalents at the beginning of the period	1,061,364,062.82	952,318,970.66
VI. Balance of cash and cash equivalents at the end of the period	2,065,106,596.27	1,061,364,062.82

Cash Flow Statement of Parent Company

Unit: RMB

Item	2019	2018
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	83,833,340.13	60,146,612.21
Tax rebates received		
Cash received concerning other operating activities	152,332,522.22	594,391,985.46
Subtotal of cash inflows from operating activities	236,165,862.35	654,538,597.67
Cash paid for purchases of commodities and receipt of labor services		
Cash paid to and for employees	74,526,649.29	57,071,024.64
Cash paid for taxes and surcharges	6,310,672.96	24,456,758.27
Cash paid for other operating activities	171,763,616.37	599,724,793.07
Subtotal of cash outflow from operating activities	252,600,938.62	681,252,575.98
Net cash flows from operating activities	-16,435,076.27	-26,713,978.31
II. Cash flow from investing activities:		
Cash received from recovery of investments	1,055,036,600.00	12,542,200.00
Cash received from investment income	63,082,085.12	57,621,008.93
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		14,869.00
Net cash received from disposals of subsidiaries and other operation units		
Cash received relating to other investing activities	1,260,000,000.00	1,850,000,000.00
Subtotal of cash inflows from investing activities	2,378,118,685.12	1,920,178,077.93
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	8,190,729.11	759,231.85
Cash paid for investments	25,000,000.00	50,000,000.00
Net cash paid for acquisition of subsidiaries and other operation units		
Cash paid relating to other investing activities	1,820,000,000.00	1,210,000,000.00
Subtotal of cash outflows from investing activities	1,853,190,729.11	1,260,759,231.85
Net cash flows from investing activities	524,927,956.01	659,418,846.08
III. Cash flows from financing activities:		
Cash received from capital contribution		
Cash received from borrowings		
Cash received relating to other financing activities		
Subtotal of cash inflows from financing activities		
Cash paid for repayment of borrowings		
Cash paid for distribution of dividends, profit or payment of interest expenses	412,905,787.11	599,599,162.80
Cash paid relating to other financing activities		
Subtotal of cash outflows from financing activities	412,905,787.11	599,599,162.80
Net cash flows from financing activities	-412,905,787.11	-599,599,162.80
IV. Effects of foreign exchange rate changes on cash and cash equivalents		-9,234,945.16
V. Net increase in cash and cash equivalents	95,587,092.63	23,870,759.81
Add: Balance of cash and cash equivalents at the beginning of the period	65,912,462.15	42,041,702.34
VI. Balance of cash and cash equivalents at the end of the period	161,499,554.78	65,912,462.15

Consolidated Statement of Changes in Owners' Equity

Amount for current period

Unit: RMB

Item	2019											Minority interests	Total owners' equity		
	Attributable to the owners of the parent										Subtotal				
	Share capital	Other equity instruments		Others	Capital reserve	Treasury shares	Less:	comprehensive income	Special reserves	Surplus reserves				General risk provisions	Undistributed profits
Preference shares	Perpetual debts														
I. Closing balance of previous year	1,362,725,370.00			2,076,473,214.56			16,896,290.49		556,272,909.16		3,339,456,580.66		7,351,824,364.87	537,582,611.86	7,889,406,976.73
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			2,076,473,214.56			16,896,290.49		556,272,909.16		3,339,456,580.66		7,351,824,364.87	537,582,611.86	7,889,406,976.73
III. Movements in the current period															
(Decreases denoted in "-")				-20,416,069.19			9,422,210.86		75,962,960.42		1,304,800,265.66		1,369,769,367.73	3,221,686,676.32	4,591,456,044.07
(1) Total comprehensive income							9,422,210.86				1,793,669,013.19		1,803,091,224.05	156,773,611.11	1,959,864,835.16
(2) Owners' contributions and capital reductions				-24,945,627.43									-24,945,627.43	3,087,568,821.50	3,062,623,194.07
1. Ordinary shares contributed by shareholders														10,370,000.00	10,370,000.00
2. Capital contributions by holders of other equity instruments															
3. Amount of share-based payment included in shareholders' equity															
4. Other				-24,945,627.43									-24,945,627.43	3,077,198,821.50	3,052,253,194.07
(3) Profit Distribution									75,962,960.42		-488,868,747.53		-412,905,787.11	-22,655,756.29	-435,561,543.40
1. Appropriations to surplus reserve									75,962,960.42		-75,962,960.42				
2. Appropriations to general risk provisions															
3. Distribution to shareholders													-412,905,787.11	-22,655,756.29	-435,561,543.40
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. Changing amount of defined benefit plan carried forward to retained earnings															
5. Other comprehensive income carried forward to retained earnings															
6. Others															
(5) Special reserves															
1. Provided during the period															
2. Used during the period															
(6) Other				4,529,558.24									4,529,558.24		4,529,558.24
IV. Closing balance for the period	1,362,725,370.00			2,056,057,145.37			26,318,501.35		632,235,869.58		4,644,256,846.32		8,721,593,732.62	3,759,269,288.18	12,480,863,020.80

Consolidated Statement of Changes in Owners' Equity

Amount for previous period

Unit: RMB

Item	2018											Minority interests	Total owners' equity	
	Attributable to the owners of the parent										Subtotal			
	Share capital	Other equity instruments		Others	Capital reserve	Less: Other comprehensive income			General risk provisions	Undistributed profits				Others
Preference shares	Perpetual debts	Treasury shares	Special reserves			Surplus reserves								
I. Closing balance for previous year	1,362,725,370.00			2,088,891,556.36		7,370,127.86		460,339,686.31		2,525,976,933.34		6,445,303,673.87	508,066,348.05	6,953,370,021.92
Add: Changes in accounting policies								-100,000.00		-28,312.50		-6,953,544.78	-7,081,857.28	-7,455,368.84
Correction for error in previous period				-10,771,716.66		6,020,567.73		18,310,028.60		120,226,683.95		133,785,563.62		133,785,563.62
Business combination involving entities under common control														
Other														
II. Opening balance for the year	1,362,725,370.00			2,078,119,839.70		13,290,695.39		478,621,402.41		2,639,250,072.51		6,572,007,380.21	507,692,836.49	7,079,700,216.70
III. Movements in the current period														
(Decreases denoted in "-")				-1,646,625.14		3,605,594.90		77,651,506.75		700,206,508.15		779,816,984.66	29,889,775.37	809,706,760.03
(1) Total comprehensive income						3,605,594.90				1,377,457,177.70		1,381,062,772.60	45,630,568.55	1,426,693,341.15
(2) Owners' contributions and capital reduction				-81,250.81								-81,250.81	-224,809.19	-306,060.00
1. Ordinary shares contributed by owners													-202,818.82	-202,818.82
2. Capital contributions by holders of other equity instruments														
3. Amount of share-based payment included in shareholders' equity														
4. Other				-81,250.81								-81,250.81	-21,990.37	-103,241.18
(3) Profit Distribution								77,651,506.75		-677,250,669.55		-599,599,162.80	-15,515,983.99	-615,115,146.79
1. Appropriations to surplus reserve								77,651,506.75		-77,651,506.75				
2. Appropriations to general risk provisions														
3. Distribution to shareholders										-599,599,162.80		-599,599,162.80	-15,515,983.99	-615,115,146.79
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. Changing amount of defined benefit plan carried forward to retained earnings														
5. Other comprehensive income carried forward to retained earnings														
6. Others														
(5) Special reserves														
1. Provided during the period														
2. Used during the period														
(6) Other				-1,565,374.33								-1,565,374.33		-1,565,374.33
IV. Closing balance for the period	1,362,725,370.00			2,076,473,214.56		16,896,290.49		556,272,909.16		3,339,456,580.66		7,351,824,364.87	537,582,611.86	7,889,406,976.73

Statement of Changes in Owners' Equity of the Parent Company

Amount for current period

Unit: RMB

Item	Share capital	Other equity instruments			2019			Undistributed profits	Total owners' equity
		Preference shares	Perpetual debts	Others	Less: Treasury shares	Other comprehensive income	Special reserves		
I. Closing balance in previous year	1,362,725,370.00			2,261,470,878.87		5,631,108.11	525,664,284.17	2,124,252,001.41	6,279,743,642.56
Add: Changes in accounting policies									
Correction for error in previous period									
Other									
II. Opening balance for the year	1,362,725,370.00			2,261,470,878.87		5,631,108.11	525,664,284.17	2,124,252,001.41	6,279,743,642.56
III. Movements in the current period									
(Decreases denoted in "-")				4,529,558.24		8,965,885.37	75,962,960.42	270,760,856.70	360,219,260.73
(1) Total comprehensive income						8,965,885.37		759,629,604.23	768,595,489.60
(2) Owners' contributions and capital reductions									
1. Ordinary shares contributed by owners									
2. Capital contributions by holders of other equity instruments									
3. Amount of share-based payment included in shareholders' equity									
4. Other									
(3) Profit Distribution							75,962,960.42	-488,868,747.53	-412,905,787.11
1. Appropriations to surplus reserve							75,962,960.42	-75,962,960.42	
2. Distribution to shareholders								-412,905,787.11	-412,905,787.11
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. Changing amount of defined benefit plan carried forward to retained earnings									
5. Other comprehensive income carried forward to retained earnings									
6. Others									
(5) Special reserves									
1. Provided during the period									
2. Used during the period									
(6) Other				4,529,558.24					4,529,558.24
IV. Closing balance for the period	1,362,725,370.00			2,266,000,437.11		14,596,993.48	601,627,244.59	2,395,012,858.11	6,639,962,903.29

Statement of Changes in Owners' Equity of the Parent Company

Amount for previous period

Unit: RMB

Item	Share capital	Other equity instruments			2018			Undistributed profits	Total owners' equity
		Preference shares	Perpetual debts	Others	Less: Treasury shares	Other comprehensive income	Special reserves		
I. Closing balance in previous year	1,362,725,370.00			2,273,807,969.86			429,731,061.32	1,905,015,732.02	5,971,280,133.20
Add: Changes in accounting policies							-100,000.00	-28,312.50	-383,124.97
Correction for error in previous period				-10,771,716.66			6,020,567.73	18,310,028.60	133,785,563.62
Other									
II. Opening balance for the year	1,362,725,370.00			2,263,036,253.20			5,920,567.73	448,012,777.42	6,104,682,571.85
III. Movements in the current period									
(Decreases denoted in "-")				-1,565,374.33			-289,459.62	77,651,506.75	175,061,070.71
(1) Total comprehensive income							-289,459.62	776,515,067.46	776,225,607.84
(2) Owners' contributions and capital reductions									
1. Ordinary shares contributed by owners									
2. Capital contributions by holders of other equity instruments									
3. Amount of share-based payment included in shareholders' equity									
4. Other									
(3) Profit Distribution								77,651,506.75	-599,599,162.80
1. Appropriations to surplus reserve								77,651,506.75	
2. Distribution to shareholders								-599,599,162.80	-599,599,162.80
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. Changing amount of defined benefit plan carried forward to retained earnings									
5. Other comprehensive income carried forward to retained earnings									
6. Others									
(5) Special reserves									
1. Provided during the period									
2. Used during the period									
(6) Other				-1,565,374.33					-1,565,374.33
IV. Closing balance for the period	1,362,725,370.00			2,261,470,878.87			5,631,108.11	525,664,284.17	6,279,743,642.56

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

1. COMPANY PROFILE

Hisense Home Appliances Group Co., Ltd. (hereinafter referred to as the “Company”, the “Group” when including subsidiaries), 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 party), to fund the acquisition of 100% equity interests in Hisense (Shandong) Air-Conditioner Co., Ltd., 51% equity interests in Hisense (Zhejiang) Air-Conditioner Co., Ltd., 49% equity interests in Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. (“Hisense Hitachi”), 55% equity interests in Hisense (Beijing) Electrical Co., Ltd., 78.70% equity interests in Qingdao Hisense Mould Co., Ltd. and the white goods marketing businesses and assets including refrigerators and airconditioners of Qingdao Hisense Marketing Co., Ltd. (“Hisense Marketing”).

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

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

1. COMPANY PROFILE (continued)

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.

On 10 October 2018, the name of the Company changed from Hisense Kelon Electrical Holdings Company Limited to Hisense Home Appliances Group Co., Ltd..

As at 31 December 2019, 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 Group is principally engaged in development and manufacture of household appliances such as refrigerators and air-conditioners, domestic and overseas sales of product, provision of after-sale services and transportation of products.

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

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

2. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

The scope of consolidated financial statements of the Group includes 40 subsidiaries, including Hisense (Ronshen) Refrigerator Co., Ltd. (海信(容聲)冰箱有限公司). As compared to previous year, due to business combinations not under common control, four companies, including Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd., were added, while Hisense (Nanjing) Electric Co., Ltd. (海信(南京)電器有限公司) was excluded due to disposal of equity.

For details, please refer to “7. Change in scope of consolidation” and “8. Interests in Other Entities” to this note.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of preparation

The financial statements of the Group are prepared based on going-concern and actual transactions and events according to the Accounting Standards for Business Enterprises and relevant regulations, and the relevant disclosure required by the “Companies Ordinance” of Hong Kong and the “Listing Rules” of The Stock Exchange of Hong Kong, and prepared based on with the accounting policies and accounting assumptions set out in “4. Major Accounting Policies and Accounting Estimates” in this note.

(2) Going-concern

The Group has the going-concern ability, and there is no significant event that has impact on such ability within at least 12 months since the end of the reporting period.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

4. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Specific accounting policies and accounting estimates: The accounting policies and accounting estimates developed by the Group according to characteristics of actual production and operation include business cycle, impairment of financial asset, the measurement of inventory dispatched, fixed assets classification and depreciation methods, amortization of intangible assets, conditions for capitalizing R&D expenses, recognition and measurement of incomes, etc.

1. Declaration on Compliance with the Accounting Standards for Business

The Company have prepared the financial statements in accordance with the Accounting Standards for Business Enterprises (the “ASBEs”), which gives a true and complete view of the financial position, trading results, cash flows and other information of the Company and of the Group.

2. Accounting period

The Group adopts a calendar year, being the period from 1 January to 31 December, as its accounting period.

3. Business cycle

The Group adopts a 12-month period as its business cycle and the basis for liquidity classification between assets and liabilities.

4. 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 or Euro 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.

5. Accounting treatment for business combinations involving entities under common and not under common control

The assets and liabilities obtained by the Group as the merging party in a business combination are measured at the combination-date carrying amount of the merged party in the consolidated statement of ultimate controller. The difference between the carrying amount of net assets obtained and the carrying amount of the combination consideration paid shall adjust capital reserve; if the capital reserve is not sufficient for offsetting, the retained earnings shall be adjusted.

The acquiree’s identifiable assets, liabilities and contingent liabilities obtained in a business combination not under common control shall be measured at fair value at the acquisition date. The cost of combination is the sum of the fair value of cash and non-cash assets paid, liabilities incurred or assumed and equity securities issued by the Group for obtaining control of the acquiree at the acquisition date and all expenses incurred directly in the business combination (for the business combination is achieved in stages through multiple transactions, its cost of combination is the sum of costs of each single transaction). Where the cost of combination exceeds the acquirer’s share of the fair value of the acquiree’s identifiable net assets, the difference is recognized as goodwill; where the cost of combination is less than the acquirer’s share of the fair value of the acquiree’s identifiable net assets, the measurement of the fair values of all the identifiable assets, liabilities and contingent liabilities obtained in the business combination and the fair values of non-cash assets or equity securities issued as the consideration for combination are firstly reviewed. If, after that review, the cost of combination is still less than the acquirer’s share of the fair value of the acquiree’s identifiable net assets in the business combination, the difference shall be included in the consolidated non-operating revenue for the period.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

6. Preparation of consolidated financial statements

The Group includes all of its subsidiaries under its control in the scope of consolidated financial statements.

When preparing the consolidated financial statements, when the accounting policy and the accounting period that subsidiaries adopted are inconsistent with the Company, necessary adjustments are made to the financial statements of those subsidiaries according to the accounting policies or accounting period of the Company.

When preparing consolidated financial statements, all significant internal transactions, balances and unrealized profits within the scope of combination shall be offset. Proportion of shareholder's equity of the subsidiaries which do not belong to the Company, and proportion of profit or loss for current period, other comprehensive income and total comprehensive income which belong to the equity of minority shareholders, which shall be listed under "equity of minority shareholders, gain or loss attributable to minority interests, other comprehensive income attributable to minor shareholders and total comprehensive income attributable to the minority shareholders" in the consolidated financial statements.

For subsidiaries acquired through business combination under common control, the operating results and cash flows of the acquiree shall be consolidated into the consolidated financial statements since the beginning of the period of combination. When preparing comparative consolidated financial statements, adjustment shall be made to the related items in the financial statements for the last year, regarding as the reporting subject which was formed after combination has existed since the ultimate controller started control.

Shareholding acquired through different transactions in stages and obtained shareholding of the investee under common control and finally become business combination, when preparing consolidated financial statements, the acquiree shall be regarded as the ultimate controller started the control and adjustment was made under current status. When preparing comparative financial statements, time limit is the time which not earlier than the Group and the acquiree are both under the control of ultimate controller, related assets and liabilities of the acquiree shall be included into the comparative statements of the consolidated financial statements of the Group, and net assets increased due to combination adjusted related items under shareholder's equity in the comparative statements. In order to prevent double calculation of the value of net assets of the acquiree, for long-term equity investment held by the Group before combination, from the date of obtaining original shareholding and the date on which the Group and the acquiree are under the same control, whichever is earlier, to the date of combination, the related profit or loss recognised, other comprehensive income and other change in assets, shall be written off retained earnings at the beginning of the comparative period and profit or loss for current period.

For subsidiaries acquired through business combination not under common control, its operating results and cash flows shall be included in the consolidated financial statements since the Group obtained its control. When preparing consolidated financial statements, adjustment shall be made to financial statements of the subsidiaries using the fair values of each identifiable assets, liabilities and contingent liabilities as basis, which were determined on date of acquisition.

Shareholding acquired through different transactions in stages and obtained shareholding of the investee under common control and finally become business combination, when preparing consolidated financial statements, for shareholding of the acquiree which was holding before the date of acquisition, have to be re-measured according to the fair value of such shareholding on the date of acquisition, difference between the fair value and the carrying value shall be included as the investment income for current period. Other comprehensive income involving equity calculated under equity method which it holds before the related date of acquisition, and change in equity of other shareholders, besides net profit or loss, other comprehensive income and profit distribution, and change to investment profit or loss during the period which date of acquisition belong, except other comprehensive income incurred by the change in net liabilities or net assets from the newly measured defined benefit plan.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

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

Proceeds from disposal of part of the equity investment in the subsidiaries without losing control and the disposal of long-term equity investment should enjoy the difference between the proportion of net assets calculated from the date of acquisition or date of combination in the consolidated financial statements, and adjust the share premium. In case the capital reserve is insufficient for offset, retained earnings will be adjusted.

When the Group loss control in the acquiree due to reasons such as disposal of part of the equity investment, remaining shareholding will be re-measured based on the fair value on the date of loss of control when preparing the consolidated financial statements. The sum of proceeds obtained from the disposal of equity and fair value of the remaining shareholding, and less the difference of the proportion of net assets of the subsidiary calculated from the date of acquisition or combination according to the original shareholding proportion, and included into the investment profit or loss of loss of control for current period, and also goodwill will be written off. Other comprehensive income related to the original equity investment in the subsidiary, will be changed to investment profit or loss for current period upon loss of control.

For loss of control by the Group through different transactions and disposed shareholding in subsidiaries in stages, in case when each transaction that the Group loss control through disposal of shareholding in subsidiaries belongs to a series of transactions, accounting treatment for each transaction shall be treated as one transaction which involves disposal of subsidiary with loss of control. However, the difference between the proceeds for each disposal before loss of control and the proportion of net assets corresponding to the disposal of such subsidiary shall be recognised as other comprehensive income in the consolidated financial statements, and transfer to investment profit or loss of loss of control for current period upon loss of control.

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

Joint arrangement of the Group includes joint operation and joint venture. As for joint operation projects, the Group, as the joint venture party in the joint operation, recognises assets and liabilities that it holds and assumes individually, and the assets and liabilities that it holds or assume in proportion, and related income and fees will be recognised according to the related agreed individual or in proportion assets and liabilities. For assets transactions that are purchased or sale under joint operation that do not constitute business, only when profit or loss incurred from that transaction attributable to the other parties under the joint operation.

8. Cash and cash equivalents

Cash in the cash flow statement of the Group represents the cash on hand and the deposit in bank available for payment at any time. Cash equivalents cash flow statement are terms which are less than three months, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of value change.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

9. Foreign currency transactions and translation of financial statements in foreign currency

(1) Foreign currency transactions

For foreign currency transactions of the Group, the amount in foreign currency shall be translated into RMB at the approximate exchange rate of the spot exchange rate at the date when the transactions take place. As at the balance sheet date, foreign currency monetary items are translated into RMB using the spot exchange rate at the balance sheet date. Translation differences arising thereon are directly included in the profit or loss for the period, except that exchange differences arising from specific borrowings in foreign currency attributable to the construction or production of a qualifying asset for capitalization are dealt with based on the capitalization principle.

(2) Translation of financial statements in foreign currency

Asset and liability items in the balance sheet denominated in foreign currency are translated at the spot rate prevailing at the balance sheet date. The owners' equity items, except for the "undistributed profits", are translated at the approximate exchange rate of the spot exchange rate when a business takes place. Income and expense items in the income statement are translated at the spot exchange rate at the date when the transaction takes place. The translation differences arising from the above translation of statements denominated in foreign currency are presented in other comprehensive income item. Cash flows dominated in foreign currency are translated using the approximate exchange rate of the spot rate at the date when the cash flow occurs. Effects on cash arising from the changes in exchange rate are presented separately in the cash flow statement.

10. Financial assets and financial liabilities

The Group recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of a financial instrument.

(1) Financial assets

1) Classification, recognition and measurement of financial assets

The Group classifies financial assets into financial assets at amortized cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss based on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Group will classify financial assets that meet the following conditions into financial assets measured at amortized cost: ① the financial assets are managed within a business model whose objective is achieved by collecting contractual cash flow; and ② the contractual terms of the financial assets give rise on specific dates to cash flows that are solely the payments of principal and interest on the principal amount outstanding. Such financial assets are initially measured at fair value with related transaction costs to be included in the initial recognition amount, and are subsequently measured at amortized cost. Except for those designated as hedged items, the difference between the initial amount and the maturity amount is amortized using the effective interest method, and the amortization, impairment, exchange gains or losses and gains or losses arising upon derecognition are included in the profit or loss for the period.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

10. Financial assets and financial liabilities *(continued)*

(1) Financial assets (continued)

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

The Group will classify financial assets that meet the following conditions into financial assets at fair value through other comprehensive income: ① the financial assets are managed within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets; and ② the contractual terms of the financial assets give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Such financial assets are initially measured at fair value with related transaction costs to be included in the initial recognition amount. Except for those designated as hedged items, other gains or losses arising from such financial assets, other than credit impairment losses or gains, exchange gains or losses and interest on such financial assets calculated using the effective interest method, are recognized in other comprehensive income. Upon derecognition of the financial assets, the cumulative gains or losses previously included in other comprehensive income shall be transferred out and be included in the profit or loss for the period.

The Group recognizes interest income using the effective interest method. Interest income is calculated and determined by applying the effective interest rate to the carrying balance of the financial asset, except: ① for the purchased or internally generated credit-impaired financial assets, their interest income is calculated and determined based on amortized cost and credit-adjusted effective interest rate of such financial assets since the initial recognition; ② for the purchased or internally generated financial assets without credit-impairment but subsequently becoming credit-impaired, their interest income is calculated and determined based on amortized costs and effective interest rate of such financial assets in subsequent periods.

Other than the above financial assets measured at amortized cost, the Group classifies its financial assets as financial assets at fair value through profit or loss. Such financial assets are initially measured at fair value with related transaction costs to be directly included in profit or loss for the period. Gains or losses on such financial assets are included in profit or loss for the period.

2) Recognition and measurement of transfer of financial assets

The Group derecognizes financial assets if one of the following conditions is satisfied: ① the contractual rights to collect the cash flows from the financial asset expire; ② the financial asset has been transferred, and the Group has transferred substantially all the risks and rewards of ownership of the financial asset; and ③ the financial asset has been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, and it has not retained control over such financial asset.

If the transfer of an entire financial asset satisfies the conditions for derecognition, the difference between the carrying amount of the transferred financial assets and the sum of the consideration received from the transfer and the accumulative amount of the changes of the fair value originally included in other comprehensive income which shall be apportioned to the derecognized portion (where the contractual terms of the financial assets transferred give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding), are included into current profit or loss.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

10. Financial assets and financial liabilities *(continued)*

(1) Financial assets (continued)

2) Recognition and measurement of transfer of financial assets *(continued)*

If the transfer of financial asset partially satisfies the conditions of derecognition, the entire carrying amount of the transferred financial asset is, between the portion which is derecognized and the portion which is not, apportioned according to their respective relative fair value, and the difference between the sum of the consideration received from the transfer and the accumulative amount of the changes of the fair value originally included in other comprehensive income which shall be apportioned to the derecognized portion (where the contractual terms of the financial assets transferred give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding the financial assets transferred are available-for sale financial assets), and the apportioned entire carrying amount of the said financial assets are included into current profit or loss.

(2) Financial liabilities

1) Classification, recognition and measurement of financial liabilities

On initial recognition, financial liabilities are classified as financial liabilities at fair value through profit or loss and other financial liabilities.

Financial liabilities at fair value through profit or loss include held-for-trading financial liabilities and financial liabilities designated as measured at fair value through profit or loss at initial recognition. They are subsequently measured at fair value. Gains or losses arising from changes in fair value, as well as dividends and interest expenditure related to such financial liabilities are recorded in profit or loss for the period.

Except for the following items, the Group classifies its financial liabilities as those measured at amortized cost: ① financial liabilities at fair value through profit or loss, including held-for-trading financial liabilities (inclusive of derivatives of such financial liabilities) and financial liabilities designated as measured at fair value through profit or loss. ② financial liabilities arising from financial assets of which the transfer does not meet the conditions for derecognition or continuing involvements in the transferred financial assets. ③ financial guarantee contracts that do not fall within the range of ① or ②, and loan commitments that do not fall within the range of above ① and are at a rate less than the market interest rate.

2) Conditions for derecognition of financial liabilities

When the present obligations of financial liabilities are released in whole or in part, such financial liabilities are derecognized to the extent of the obligations released. Where the Group enters into an agreement with its creditor to replace existing financial liabilities by assuming new financial liabilities with contractual terms substantively differ from those of the existing financial liabilities, the existing financial liabilities are derecognized while the new financial liabilities are recognized. Where the Group substantively revises, in whole or in part, the contractual terms of existing financial liabilities, such existing financial liabilities are derecognized in whole or in part, while those financial liabilities with their terms revised are recognized as new financial liabilities. The difference between the carrying amount of the derecognised part and the consideration paid is included in the profit or loss for the current period.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

10. Financial assets and financial liabilities *(continued)*

(3) Method for determination of fair values of financial assets and financial liabilities

Fair values of financial assets and financial liabilities of the Group are measured at the prices in principal market. In case there is no principal market, fair values of financial assets and financial liabilities are calculated using the price which is the most beneficial to the market, and using valuation technology which is the most appropriate at that time and with sufficient available data and other information. The inputs which are used to measure the fair value have been divided into 3 levels by the Group: Level 1-inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities. Level 2-inputs are quoted prices for the asset or liability (other than those included in Level 1) that are either directly or indirectly observable. Level 3-inputs are unobservable inputs to the related assets or liabilities. The Level 1 inputs are the first priority to use by the Group, and level 3 inputs will be the last one to use. The level of fair value measurement is determined by the lowest level of inputs which are significant to the measurement of fair value as a whole.

The Group measures investments in equity instruments at fair value. However, in limited circumstances, if recent information on determining fair value is insufficient, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range, the cost may be an appropriate estimate of fair value with that range.

(4) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities of the Group shall be presented separately in the balance sheet and shall not be offset. However, when all of the following conditions are met, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet: (1) the Group has a legal right that is currently enforceable to set off the recognized amount, and (2) the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(5) Classification and treatment of financial liabilities and equity instruments

The Group classifies financial liabilities and equity instruments on the following principles: (1) Where the Group is unable to unconditionally avoid delivering cash or another financial asset to fulfil a contractual obligation, the contractual obligation meets the definition of a financial liability. Although some financial instruments do not explicitly include the terms and conditions imposing the contractual obligation to deliver cash or another financial asset, they may indirectly give rise to the contractual obligation through other terms and conditions. (2) Where a financial instrument will or may be settled in the Group's own equity instrument, consideration shall be given to whether the Group's own equity instrument as used to settle the instrument is a substitute of cash or another financial asset or the residual interest in the assets of an entity after deducting all of its liabilities. In the former case, the instrument shall be the issuer's financial liability; in the latter case, the instrument shall be the equity instrument of the issuer. Under certain circumstances whereby a financial instrument contract stipulates that the Group will or may use its own equity instrument to settle the financial instrument, and the amount of the contractual right or obligation equal to the number of its own equity instruments to be received or delivered multiplied by their fair value at the time of settlement, the contract shall be classified as a financial liability, regardless of whether the amount of the contractual right or obligation is fixed, or fluctuates in full or in partly in response to changes in a variable other than the market price of the Group's own equity instruments (for example an interest rate, a commodity price or a financial instrument price).

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

10. Financial assets and financial liabilities *(continued)*

(5) Classification and treatment of financial liabilities and equity instruments (continued)

When classifying a financial instrument (or a component thereof) in consolidated financial statements, the Group shall consider all terms and conditions agreed between members of the Group and the holders of the financial instrument. If the Group as a whole has an obligation in respect of the instrument to settle it by delivering cash or another financial asset or in such a way that it would be a financial liability, such instrument shall be classified as a financial liability.

If the financial instrument or its component is attributable to the financial liability, the relevant interests, dividends, gains or losses, and gains or losses arising from redemption or refinancing, shall be recorded in the profit or loss of the current period.

If the financial instrument or its component is attributable to equity instrument, the Group shall treat it as change in equity when it is issued (including refinanced), repurchased, sold or cancelled, and shall not recognize changes in fair value of equity instrument.

11. Impairment of financial assets

Financial assets with their impairment loss to be recognised by the Group are financial assets at amortised cost and lease receivable, which include notes receivable, accounts receivable and other receivables, etc.. In addition, the Company shall also make provision for impairment of contract assets and part of the financial guarantee contracts and recognise their credit impairment loss in accordance with the accounting policies as stated in this section.

(1) Recognition method of impairment provision

Based on the expected credit loss, the Group makes impairment provisions for each of the above items with the measurement methods (being general approach or simplified approach) of expected credit loss applicable to them, and recognises their credit impairment loss.

Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls. In particular, the credit-impaired financial assets purchased or originated by the Group shall discount based on the credit-adjusted effective interest rate of such financial assets.

General approach for measuring expected credit loss means that the Group assesses whether credit risk of financial assets (including other applicable items such as contract assets) has increased significantly since the initial recognition on each balance sheet date. If the credit risk has increased significantly since the initial recognition, the Group measures loss provision based on the amount of expected credit losses for the entire duration of the life; if the credit risk has not increased significantly since the initial recognition, the Group measures the loss provision based on the amount of expected credit loss over the next 12 months. The Company considers all reasonable and evidenced information, including forward-looking information, when assessing expected credit loss.

For financial instruments with lower credit risk on balance sheet date, the Company assumes that their credit risk has not increased significantly since the initial recognition and chooses to measure loss provision based on the expected credit loss within the next 12 months.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

11. Impairment of financial assets *(continued)*

(2) Criteria for judging significant increases in credit risk after initial recognition

If a financial asset's probability of default within the expected duration of the life as determined on balance sheet date is significantly higher than its probability of default within the expected duration of the life as determined on initial recognition, this shows that the credit risk of such financial asset is significantly increased. Except for special circumstances, the Group adopts the changes in default risks within the next 12 months as reasonable estimates for changes in default risks within the entire duration of the life, so as to determine whether credit risk is significantly increase or not after initial recognition.

(3) Assessment method of expected credit loss on a group basis

The Group conducts individual assessment on the credit risk of financial assets with obviously different credit risks. For examples, assessment will be conducted on the receivables for which there are disputes, lawsuit or arbitration; the receivables for which there are obvious evidences showing that the debtor is not likely able to perform the repayment obligation, etc.

In addition to financial assets with individually assessed credit risks, the Company divides financial assets into different groups based on common risk characteristics, and assess their credit risks on a group basis.

(4) Accounting treatment method of impairment of financial assets

As at the end of the period, the Group calculated the expected credit losses of various types of financial assets. If the expected credit loss is higher than the carrying amount of its current impairment provision, the difference is recognised as the impairment loss; if it is less than the carrying amount of the current impairment provision, the difference is recognised as the impairment gain.

(5) Determination of credit losses of various types of financial assets

1 Notes receivable

The Group calculates loss provision of notes receivable based on the amount equivalent to the expected credit loss within the entire duration of the life. Based on the credit risk characteristics of notes receivable, the Company divides them into different groups:

Item	Basis for determination of groups
Bank acceptance notes	Acceptor being a bank with less credit risk
Commercial acceptance notes	Based on the credit risk of the acceptor (same as accounts receivable)

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

11. Impairment of financial assets *(continued)*

(5) Determination of credit losses of various types of financial assets (continued)

2 Accounts receivable and contract assets

For accounts receivable and contract assets which do not contain significant financing components, the Company measures the loss provision based on the amount of expected credit losses equivalent to the entire duration of the life.

For receivables, contract assets and lease receivable which contain significant financing components, the Company always chooses to measure the loss provision based on the amount of expected credit losses equivalent to the entire duration of the life.

In addition to accounts receivable and contract assets with individually assessed credit risks, based on their credit risk characteristics, the Company divides them into different groups:

Item	Basis for determination of groups
Ageing analysis	This group is based on the using of ageing of receivables as the credit risk characteristics.
Receivables from related parties	This group is based on receivables from related parties
Other receivables	This group is based on accounts receivable from special business

3 Other receivables

Based on whether the credit risk of other receivables is significantly increased or not after initial recognition, the Group measures impairment loss by using the amount of expected credit losses equivalent to the entire duration of the life or within the next 12 months. In addition to other receivables with individually assessed credit risks, based on their credit risk characteristics, the Company divides them into different groups:

Item	Basis for determination of groups
Ageing analysis	This group is based on the using of ageing of other receivables as the credit risk characteristics.
Receivables from related parties	This group is based on other receivables from related parties
Other receivables	This group is based on other receivable from special business

12. Financing receivables

As for notes receivable and Accounts receivable that classified as measured at fair value through other comprehensive income, the portion within one year (inclusive) from the date of acquisition is presented as financing receivables; while the portion over one year is presented as other investments in debt. For relevant accounting policies, please refer to Note 10 Financial assets and financial liabilities and Note 11 Impairment of financial assets as stated above.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

13. Inventories

The Group's inventories mainly includes raw materials, work in progress, finished goods and etc.

The Group maintains a perpetual inventory system. Inventories are recorded at cost of purchase when received. Actual cost is calculated using weighted average method when the inventories are acquired. Low-value consumables and packaged goods are amortised using one-time resale method.

The Group carries out a comprehensive inventory on the balance sheet date. The net realisable value of finished goods, work in process and materials for sale, is determined by estimated price deducting estimated selling costs and related taxes. The net realisable value of production materials is determined by estimated price deducting estimated completion cost, sale expenses and related sales taxes.

14. Contract Assets

(1) Method and standards for recognition of contract assets

A contract asset represents the Group's right, which depends on factors other than the passage of time, to receive consideration in exchange for goods that the Group has transferred to a customer. If the Group sells two clearly distinguishable goods to customers, it is entitled to receive payment for one of the goods that has been delivered, but the payment is also dependent on the delivery of the other of the goods, the Group regards the right to receive payment as a contract asset.

(2) Method of determination and accounting treatment of expected credit loss of contract assets

For method of determination of expected credit loss of contract assets, please refer to the description in "11. Impairment of financial assets" above.

About the accounting treatment method, the Group calculates the expected credit loss of contract assets on the balance sheet date. If the expected credit loss is greater than the carrying amount of the current provision for contract assets, the Group recognises the difference as impairment losses, and it will debit "credit impairment loss" and credit "provision for impairment of contract assets". Otherwise, the Group recognises the difference as an impairment gain and makes the opposite accounting record.

If the Group incurs credit loss and determines that the relevant contract assets are unrecoverable, subject to the approval for writing off, it will debit "provision for impairment of contract assets" and credit "contract assets" based on the approved amount written-off. If the written-off amount is greater than the loss allowance made, the "credit impairment loss" is debited for the difference.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

15. Contract costs

(1) Method of determination of amount of assets relating to contract costs

The Group's assets relating to contract costs include contract performance cost and contract acquisition cost.

Contract performance cost refers to the cost incurred by the Group to perform a contract which does not fall under the scope of the Accounting Standards for Business Enterprises and meets all of the following conditions, which is recognised as an asset as contract performance cost: the costs relate directly to an existing contract or to a specifically identifiable anticipated contract, including direct labour, direct materials, allocations of overheads (or similar costs), costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract; the costs generate resources of the Group that will be used in satisfying performance obligations in the future; the costs are expected to be recovered.

Contract acquisition cost refers to the incremental cost for the Group to obtain a contract which is expected to be recoverable which is recognised as an asset as contract acquisition cost. If the amortisation period is no more than one year, the contract acquisition cost is included in profit or loss as incurred. Incremental cost refers to the cost which will not be incurred by the Group had no contract been acquired (such as commission etc.). Other expenses incurred by the Group to obtain contracts (other than the incremental cost which is expected to be recoverable) (such as travelling expenses which will be incurred regardless of whether the contract will be obtained) are included in profit or loss as incurred, save for those expressly to be borne by customers.

(2) Amortisation of assets relating to contract costs

The Group's assets relating to contract costs are amortised using the same basis as that for recognition of the revenue from goods relating to the assets, which are included in profit or loss.

(3) Impairment of assets relating to contract costs

In determining the loss on impairment of assets relating to contract costs, the Group first determines the impairment loss for other assets relating to contract costs recognised in accordance with the relevant Accounting Standards for Business Enterprises and then makes provision for impairment based on the excess of its carrying value over the sum of the remaining consideration expected to be received from transfer of the goods relating to the asset and the cost expected to be incurred for transfer of the relevant goods, which is recognised as loss on impairment of assets.

If there is any change in the factors causing impairment in the previous periods, resulting in the said difference higher than the carrying value of the asset, the provision for impairment of assets previously made is reversed and is included in profit or loss. However, the carrying value of the asset following reversal shall not exceed the carrying value of the asset as at the date of reversal had no provision for impairment been made.

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

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

16. Long-term equity investments

Long-term equity investments of the Group are the investments in subsidiaries and investment in associates and investment in joint ventures.

Basis for determination in respect of common control is that all participated parties or a group of participated parties control such arrangement, and that policies of such related business of such arrangement have to obtain unanimous agreement by all parties that are control such arrangement.

When the Group directly or indirectly throughout its subsidiary owns 20% (inclusive) or more but less than 50% shares with voting rights in the investee, it is generally considered that the Group has significant influence on the investee. For voting rights less than 20% in the investee, the board or representative in similar authority in the investee or the implementation processes of financial or operation policies of investee have also been taken into account, or significant transaction with the investee, or management personnel send to the investee, or significant technology information provided to the investee which have significant influence to the investee.

If the Group has control over an investee, it is a subsidiary of the Group. For long-term equity investments obtained through business combination under common control, proportion of carrying value of net assets obtained on the date of combination in the consolidated financial statements of the ultimate controller shall be accounted as the initial investment cost of the long-term investment. For carrying value of net assets of the acquiree which is negative on the date of combination, investment cost of long-term equity investment is calculated as zero.

For equity interests in investees under common control acquired in a series of transaction which constitute business combination, supplementary disclosure on the accounting of long-term equity investments in the financial statements of the Company for the reporting period in which the control is acquired. For example, for equity interests in investees under common control acquired in a series of transactions which constitute business combination and a package of transactions, the Group accounts for each transaction as a transaction in which the control has been obtained. If it does not fall under a series of transactions, according to proportion of fair value of net assets of acquiree after the combination in the consolidated financial statements of the ultimate controller, and accounted as the initial investment cost of long-term equity investment on the date of combination. Difference between initial investment cost and the carrying value of long-term equity investment before combination and the sum of carrying value of newly paid consideration for additional shares acquired on the date of combination is to adjust capital reserve. If the balance of share premium is insufficient, any excess is adjusted to retained earnings.

For long-term equity investment acquired through business combination not under common control, cost of combination will be treated as the initial investment cost.

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

16. Long-term equity investments *(continued)*

For equity interests in investees not under common control acquired in a series of transaction which constitute business combination, supplementary disclosure on the accounting of cost of long-term equity investments in the financial statements of the Company for the reporting period in which the control is acquired. For example, for equity interests in investees not under common control acquired in a series of transactions which constitute business combination and a package of transactions, the Group accounts for each transaction as a transaction in which the control has been obtained. If it does not belong to a series of transaction, initial investment cost will be the sum of the carrying value of the equity investment which it originally holds, and initial investment cost will change to cost method. For shareholding which it holds before the date of acquisition which uses equity method, other related comprehensive income which use equity method for accounting shall not be adjusted, such investment shall use the same accounting basis as the investee when it directly disposes of related assets or liabilities upon disposal. For shareholding which it holds before acquisition and accounted for under fair value method in the available-for-sale financial assets, the accumulated change in fair value which is originally included in other comprehensive income shall be change to profit or loss for current period on the date of combination.

Apart from the long-term equity investments acquired through business combination mentioned above, the long-term equity investments acquired by cash payment is expensed as the cost of investment based on the actual amount of cash paid for the purchase. For long-term equity investments acquired by issuing equity securities, the cost of investment is the fair value of the equity securities issued. For long-term equity investments invested in the Group by the investor, the investment cost is the agreed consideration as specified in the contract or agreement.

Investments in subsidiaries are accounted for the Group using cost method, while investments in the associates and joint ventures are accounted for under equity method.

For long-term equity investments for which the subsequent measure is accounted for using cost method, when making additional investment, carrying value of the long-term equity investments will be increased according to the fair value of cost of additional investment and the related expenses incurred by related transactions. For cash dividend or profit paid by the investee, it shall be recognised as investment income for current period using the amount which it entitles.

For long-term equity investment for which the subsequent measurement is accounted for under equity method, carrying value of long-term equity investment shall be increased or decreased accordingly according to the change in the shareholders' equity of the investee. When determining the amount of proportion of net profit or loss in the investee which it entitles, fair value of each identifiable assets of the investee at the time when the investment is obtained shall be used as basis, and according to the accounting policies and accounting period of the Group, and after offsetting profit or loss incurred in internal transaction between associates and joint ventures, and calculate the proportion which is attributable to the investing company according to the shareholding, and recognised after adjustment is made to the net profit of the investee.

On disposal of a long-term equity investment, the difference between the carrying value and the consideration actually received is recognised as investment income for the period. For long-term equity investments accounted for under equity method, the movements of shareholder's equity, other than the net profit or loss, of the investee company, previously recorded in the shareholder's equity of the Company are recycled to investment income for the period on disposal.

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

16. Long-term equity investments *(continued)*

When the Group loses control in the investee due to reasons such as disposal of part of the equity investment, remaining shareholding after disposal of will be accounted for under available-for-sale financial assets, difference between fair value and the carry value on the date of loss of common control or significant influence will be included in the profit or loss for current period. Other comprehensive income recognised in the original equity investment which is accounted for using equity method, upon it will no longer be accounted for under equity method, it shall be using the same accounting basis as the investee directly disposing related assets or liabilities.

For loss of control in the investee due to partly disposed long-term equity investment, for remaining shareholding which can apply common control or impose significant influence to the investee after disposal, shall be accounted for under equity method. Difference between the carrying value of equity disposal and the disposal consideration shall be included as investment income. Such remaining shareholding shall be treated as accounting for under equity method since the shareholding is obtained and make adjustment. For remaining shareholding which cannot apply common control or impose significant influence after disposal, it can be accounted as under available-for-sale financial assets, and difference between carrying value of equity disposal and the disposal consideration shall be included as investment income, difference between fair value and the carrying value of remaining shareholding on the date loss of control shall be included in the investment profit or loss for such period.

If the transactions from the step-by-step disposal of equity to the loss of controlling equity do not fall under a series of transactions, the Group shall separately carry out accounting treatment for each transaction. If the transaction falls under a series of transactions, each transaction is accounted for as a disposal of subsidiary with control lost. However, the difference between the consideration for each transaction before losing control and the carrying value of the long-term equity investments corresponding to the equity disposed of is recognised as other comprehensive income and transferred to profit or loss upon loss of control.

17. 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 Group 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.

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.

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From 1 January 2019 to 31 December 2019

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

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

18. Fixed assets

Fixed assets of the Group are tangible assets that held for production of goods or provision of services, leasing to others, or for administrative purposes; have useful life over one accounting year.

Fixed assets are recognised when it is probable that the related economic benefits will flow to the Group and the costs can be reliably measured. Fixed assets of the Group comprise buildings and structures, machinery equipment, electronic equipment, appliances and furniture, transportation equipment, moulds, etc.

Apart from fixed assets which are provided in full and continue to be in use and lands that are accounted separately, the Group made provision for all the fixed assets. The Group made provision for depreciation using straight-line method. The useful life, estimated residual value ratio and depreciation rate of fixed assets of the Group are classified as below:

No.	Category	Useful life (year)	Rate of residual value (%)	Annual depreciation rates (%)
1	Buildings	20-50	0-10	1.8-5
2	Machinery and equipment	5-20	5-10	4.5-19
3	Electronic equipment, appliances and furniture	5-10	5-10	9-19
4	Motor vehicles	5-10	5-10	9-19
5	Moulds	3	0	33.33

The Group makes the assessment on the estimated useful life, estimated rate of salvage value and the depreciation method of fixed assets at each financial year-end. If any changes occur, they will be regarded as changes on accounting estimates.

19. Construction in progress

The Group's constructions in progress are measured at actual cost and are accounted for by individual projects.

Construction in progress is transferred to the fixed assets when the assets are ready for their intended use at an estimated amount based on the project budget or actual cost of construction. Depreciation is calculated from the next month of the transfer. The cost of the asset is adjusted when the construction finalization procedures are completed.

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

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

20. Borrowing costs

Borrowing cost incurred from fixed assets, investment properties and inventories which require construction or production activities for a relatively long time, and can reached usable or sale condition after that. Borrowing costs start capitalization when the assets expense and borrowing costs were incurred and the construction or production activities, in order to make assets to reach the expected usable or sale condition have started; When construction or assets that fulfil the capitalization conditions reached the expected usable or sale condition, the capitalization have to be terminated. Borrowing costs incurred afterward are included into the profit or loss for current period. If assets that fulfil capitalization conditions interrupted abnormally during construction or production progress, and such interruption occurred for more than three consecutive months, capitalization of borrowing costs have to terminate, until construction of assets or production activities resumed.

The amount of interest, accrued from the funds borrowed under a specific-purpose, to be capitalised is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. The Group determines the amount of interest, accrued from the funds borrowed under general-purpose, to be capitalised by applying a capitalisation rate to the weighted average of the excess of cumulative expenditures on the asset over the amounts of specific-purpose borrowings. The capitalisation rate shall be calculated and determined according to the weighted average interest rate of the general borrowing.

21. Right-of-use assets

The right-of-use asset is defined as the right of underlying assets in the lease term for the Group as a lessee. °

(1) Initial measurement

At the commencement date, the Group shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise: ① the amount of the initial measurement of the lease liability; ② any lease payments made at or before the commencement date, less any lease incentives received; ③ any initial direct costs incurred by the lessee, which is defined as incremental costs arising due to the obtaining lease; and ④ an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, while costs of production of inventory are excluded.

(2) Subsequent measurement

At the commencement date, the Group shall measure the right-of-use asset at cost, which is the measurement of right-of-use assets at cost less accumulated depreciation and accumulated impairment losses

If the Group re-measures lease liability in accordance with the relevant provisions of the lease standards, the book value of the right-of-use assets shall be adjusted accordingly.

Notes to the Financial Statements for 2019

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

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

21. Right-of-use assets *(continued)*

(3) Depreciation of right-of-use asset

At the commencement date, the Group depreciates the right-of-use asset. Right-of-use assets are usually depreciated starting from the month of the lease term. The depreciation amount accrued is included in the cost of the relevant asset or current profit or loss based on the use of the right-of-use asset.

When determining the depreciation method of the right-of-use assets, the Group makes decision based on the expected consumption method of the economic benefits related to such right-of-use assets, and depreciates the right-of-use assets by the straight-line method.

When determining the depreciation period of the right-of-use assets, the Group follows the following principles: If there is reasonable certainty that the Group will obtain ownership of the underlying asset by the end of the lease term, the asset is depreciated over its remaining useful life; otherwise the asset is depreciated over the shorter of the lease term and its remaining useful life.

If the right-of-use asset is impaired, the Group performs subsequent depreciation based on the book value of the right-of-use assets after deducting the impairment loss.

22. Intangible asset

The Group's intangible assets mainly include land use right, trademark right, patented technology, etc. Intangible assets are measured at the actual costs at acquisition. For purchased intangible assets, actual paid cost and other relevant expenses are used as the actual cost. For intangible assets invested by investors, the actual cost is determined according to the values specified in the investment contract or agreement, while for the unfair agreed value in contract or agreement, the actual cost is determined at the fair value.

The Group amortizes land use right on the basis of its useful life by straight line method since it is acquired. Other intangible assets are amortized evenly on the basis of shorter of estimated useful life, stipulated beneficial year by contract, and legal available year. The amortization amount is accounted into profit and loss in the current period according to the beneficiary object of intangible assets. The Group makes the assessment on the estimated useful life and amortization method of intangible assets with limited useful life at the end of each year. Any changes will be dealt with as changes on accounting estimates.

The Group will review the useful lives on those intangible assets with indefinite useful lives at each of the accounting period. 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.

Notes to the Financial Statements for 2019

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

23. Expenditure on research and development

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

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

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

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

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

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

24. Impairment of long-term assets

The Group would assess intangible assets such as long-term equity investment, investment properties measured by the cost model, fixed assets, construction in progress, right-to-use assets and intangible assets and operating lease assets with limited useful lives at each of the balance sheet date. When there is indication that there is impairment, the Group would perform impairment test. Impairment test should be made for goodwill and intangible assets with uncertain useful life, at the period end regardless of whether there is indication of impairment loss.

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

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

25. Long-term prepaid expenses

Long-term prepaid expenses are expenditures of the Group 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. Pre-operating expenses during the establishment period should be recognized directly in profit or loss in the month as incurred.

26. Contract liability

A contract liability reflects the Group's obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If the customer has paid the contract consideration or the Group has obtained the unconditional rights to consideration before the Group transfers goods to the customer, the Group will present the amount received or receivable as a contract liability at the time of actual payment by the customer or the due date of the amount to be paid by the customer, which is the earlier.

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

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

27. Employee compensation

Staff remuneration of the Group mainly includes short-term remuneration, post-employment benefits and termination benefits.

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 is recognised as a liability, and included in profit or loss for the current period or as related asset cost in accordance with beneficiaries.

Post-employment benefits mainly include pension insurance premium and unemployment insurance premium. According to the Company's risks and obligations, they are classified as defined contribution plans. As for the defined contribution plans, the contributions which are made for individual subjects in exchange for the staff's services rendered in the accounting period shall be recognized as liabilities on the balance sheet date and included in profits or losses in the current period or relevant asset costs according to the beneficiaries.

Where the Group 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 Group may not revoke unilaterally the termination benefit provided due to the termination of employment relationship plans or employee redundancy proposals or when the Group 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.

28. Lease Liabilities

(1) Initial measurement

The lease liability is initially measured at the present value of the outstanding lease payments on the commencement date of the lease term.

1) Lease payment

The lease payment refers to the amount paid by the Group to the lessor in relation to the right to use the leased asset during the lease term, including: ①The fixed payment and the substantial fixed payment, net of the lease incentive amount when there is a lease incentive; ②The variable lease payments depending on the index or ratio, which are determined at the time of initial measurement based on the index or ratio on the commencement date of the lease term ; ③The exercise price of the call option, provided that the Group reasonably determines that it will exercise the option; ④ The amount payable to exercise the option to terminate a lease, provided that the lease term reflects that the Group will exercise the option to terminate the lease; ⑤The amount payable based on the residual value of the security provided by the Group.

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

28. Lease Liabilities *(continued)*

(1) *Initial measurement (continued)*

2) Discount rate

In calculating the present value of the lease payment, if it is impossible to determine the interest rate implicit in lease, the incremental borrowing rate of the Group shall be adopted as the discount rate. The incremental borrowing rate is defined as the rate of interest that the Group would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment. Such rate is related to ① The Group's conditions, including its solvency and credit status; ② the term of "borrowing", being the lease term; ③ the amount of "borrowing", being the amount of the lease liabilities; ⑤ the economic environment, including the jurisdiction where the lessee is located, the denominated currency, and the timing when contract was signed, etc. The Group takes the bank loan interest rate as the basis and adjusts the above factors to achieve the incremental borrowing interest rate.

(2) *Subsequent measurement*

After the commencement date, the Group conducts subsequent measurement of the lease liabilities according to the following principles: ① When confirming the interest of the lease liabilities, increase the carrying amount of the lease liabilities; ② When paying the lease payment, reduce the carrying amount of the lease liabilities; ③ When the lease payment changes due to revaluation or lease changes, the book value of the lease liability is remeasured.

The lessee shall calculate the interest expenses of the lease liabilities for each period of the lease term at a cyclically fixed interest rate and include them in profit or loss for the current period, except for those subject to capitalization. The cyclical interest rate refers to the discount rate used by the Group in the initial measurement of lease liabilities, or the amended discount rate used by the Group when lease liabilities need to be remeasured at the revised discount rate due to changes in lease payment or change of lease.

(3) *Remeasurement*

After the commencement date, the Group remeasures the lease liability based on the present value of the lease payment after the change and the revised discount rate, if the following situation arises. If the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the remeasurement in profit or loss. ① a modification in the in-substance fixed lease payments; ② a change in the amounts expected to be paid under residual value guarantees; ③ a change in future lease payments arising from change in an index or rate; ④ a change in assessment of the purchase option; ⑤ changes in the evaluation result or actual exercise of the option to renew or terminate the lease.

29. Provisions

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

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

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

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

30. 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.

Cash-settled share-based payments are measured at the fair value of liabilities determined on the basis of Shares or other equity instruments assumed by the Group. For those vested immediately upon the grant, the fair value of the liabilities assumed as at the date of grant are charged to relevant costs or expenses and the liabilities are increased accordingly. For those vested upon completion of services for the vesting period or fulfilment of performance conditions, the Group charges the services obtained in the current period to costs or expenses at each balance date during the vesting period based on the best estimate of vesting conditions and according to the fair value of the liability assumed by the Group and adjusts the liabilities accordingly.

At each balance sheet date or settlement date before the settlement of relevant liabilities, the fair value of liabilities are remeasured with respective changes included in the profit or loss for the current period.

If the Group cancelled the granted equity instrument during the vesting period (other than cancellations due to non-fulfilment of the vesting conditions), it is deemed as accelerated vesting, as if all vesting conditions of the equity-based payment scheme during the remaining vesting period have been fulfilled, all expenses of the remaining vesting period are recognised during the period of cancellation of such equity instrument granted.

31. Recognition and measurement of revenue

The revenue of the Group mainly included revenue from sale of goods.

The Group recognizes revenue when a performance obligation in the contract is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customers.

When the contract contains two or more performance obligations, on the inception of the contract, the transaction price is allocated to each separate performance obligation in proportion to the stand-alone price of the promised goods or services, and the revenue is recognized according to the transaction price allocated to each performance obligation.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The transaction price confirmed by the Group does not exceed the amount that is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. An entity shall recognize a refund liability if the entity expects to refund some or all of the consideration to the customer which is not included in the transaction price. Where there is significant financing component in the contract, the Group shall determine the transaction price on the basis of the amount payable in cash when the customer assumes control of the goods or services. The difference between the transaction price and the contract consideration shall be amortized by the effective interest rate method during the contract period. The Group shall not take into account the existence of a significant financing component in the contract if the Group expects, at contract inception, that the period between when the customer acquires the control of a promised good or service and when the customer pays for that good or service will be one year or less.

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

31. Recognition and measurement of revenue *(continued)*

The Group satisfies a performance obligation over time, if one of the following criteria is met; otherwise, it satisfies a performance obligation at a point in time:

1. The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
2. The customer can control the asset which is created by the Group's performance.
3. The Group's performance does not create an asset with an alternative use and the Group has an enforceable right to receive payment in respect of performance completed to date during the whole contract period.

For a performance obligation satisfied over time, the Group shall recognize revenue over time by measuring the process towards complete satisfaction of the performance obligation. If the Group unable to reasonably measure the progress towards complete satisfaction of a performance obligation and the costs incurred by the Group can be expected to be compensated, the revenue shall be recognized according to the costs incurred until such time that it can reasonably measure the process towards complete satisfaction of the performance obligation.

For a performance obligation satisfied at a point in time, the Group shall recognize revenue when the customer obtains control of relevant goods or services. In judging whether customers obtain control of promised goods or services, the Group considers the following indications:

1. The Group has a present right to receive the payment in respect of the goods or services.
2. The Group has transferred the legal title of the goods to customers.
3. The Group has transferred physical possession of the goods to customers.
4. The group has transferred the significant risks and rewards of the ownership of the goods to the customers.
5. Customers have accepted the goods or services.

The Group's right to consideration in exchange for goods or services that it has transferred to a customer is stated as contract asset. The Group recognises allowances for impairment loss for expected credit loss on contract assets. Receivable is the Group's unconditional right to consideration to be received from a customer. A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

32. Government grants

Government grants are monetary assets or non-monetary assets transferred from the government to the Group at no consideration, excluding capital considerations from the government as an owner of the Group. 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 long-term asset formation are classified as related to assets. Other government grants are classified as related to revenue. If related government documents do not specify the objective of the grants, the grants are classified as related to assets or income as follows: (1) In case a project for which the grants are granted is specified in such documents, the grants are classified as related to assets and income based on the budgeted ratio of the expenditure on asset formation and the expenditure recorded as expenses, where such ratio should be reviewed and, if necessary, changed on each balance sheet date; and (2) in case of general description without specifying any project in such documents, the grants are classified as related to income.

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

Government grants are generally recognized when received and measured at the amount actually received, but are measured at the amount likely to be received when there is conclusive evidence at the end of the period that the Group 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 has been 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 have been 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 has been 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 Group 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 included in profit or loss over the useful life of the asset based on reasonable and systemic methods. 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 or losses 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.

At the same time, if the government grants contain both assets related and income related, the accounting treatment will depend on the different parts of government grants; if it is difficult to distinguish, the whole government grants are classified as the income-related government grants.

The government grants related to daily activities of the Group, depending on the essence of economic business, are recognized in other income or used to offset relevant cost and expenses, otherwise, recognized in non-operating income or non-operating expenses.

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 other circumstance, the repayment shall be recognized immediately in profit or loss for the period.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

33. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are recognized based on the temporary differences between the tax bases and the carrying amount of assets and liabilities. A deferred tax asset shall be recognized for deductible losses to the extent that it is probable that tax profit will be available against which the deductible losses can be utilized in accordance with tax law. Deferred tax liabilities for temporary taxable differences relating to goodwill are not recognized to the extent they arise from the initial recognition of goodwill. Deferred tax assets and liabilities are not recognized if the temporary differences arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. As at balance sheet date, deferred tax assets and deferred tax liabilities are determined using the applicable tax rates that are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Except for abovementioned circumstances, the Group recognises deferred income tax assets that it is probable that future taxable income will be available against which the deductible temporary differences, deductible losses and tax credits can be utilised.

34. Segment statements

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

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

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

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

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From 1 January 2019 to 31 December 2019

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

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

35. Lease

(1) Identification of lease

Lease refers to a contract under which the lessor transfers the right of use of assets to the lessee for consideration within a certain period of time. At the commencement date of the contract, the Group assesses whether the contract is a lease or contains a lease. If a party to the contract transfers the right of use of an identified asset or several identified assets for consideration within a certain period of time, such contract is regarded as leasing or includes leasing. In order to determine whether the right to control the use of the identified assets within a certain period of time has been transferred in the contract, the Group assesses whether the customers in the contract are entitled to substantially all economic benefits arising from the use of the identified assets and have the right to dominate the use of identified assets during the period of use.

Where a contract concurrently contains multiple separate leases, the Group splits the contract and conduct accounting treatment respectively for all separate leases. Where a contract concurrently includes both leased and non-leased parts, the Group shall split the leased and non-leased parts and conduct accounting treatment.

(2) The Group as lessee

The Group recognises a right-of-use asset and a lease liability of the lease at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The Group, as lessee, recognises a right-of-use asset and a lease liability of the lease.

1) Changes in leases

Changes in leases refer to the changes in the lease scope, lease consideration, and lease term other than the original contract terms, including the addition or termination of the rights of use of one or more leased assets, and the extension or shortening of the lease period stipulated in the contract. The effective date of the lease change refers to the date both parties agreed on the lease change.

If modification of lease happens and meets the following conditions, the Group will conduct accounting treatment for the modification of lease as a separate lease: ① the modification of lease expands the scope of lease by increasing the rights use of one or more leased assets; ② the increased consideration and the individual price of the expanded part of lease are equivalent after adjustment is made in accordance with situation of the contract.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

35. Lease *(continued)*

(2) The Group as lessee (continued)

1) Changes in leases *(continued)*

If accounting treatment for the modification of lease as a separate lease is not conducted, on the effective date, the Group shall apportion the consideration of the changed contract in accordance with the relevant provisions of the lease standards, and re-determine the lease period after the change; and discount the modified lease payments using the revised discount rate, in order to remeasure the lease liabilities. When calculating the present value of the lease payments after modification, the Group adopts the interest rate implicit in the lease for the remaining lease periods as the discount rate; if the lease interest rate implicit in the lease for the remaining lease period cannot be readily determined, the lessee's incremental borrowing rate shall then be used by the Group as the discount rate on the effective date of modification of lease. In view of the consequences of the above adjustment of the lease liabilities, the Group conducts accounting treatment in each of the following cases accordingly: ① if the modification of lease results in a narrower scope of lease or a shorter lease term, the lessee shall reduce the book value of the right-of-use assets, and recognise the gain or loss relevant to the partial or complete termination of the leases in the current profit or loss; ② for other modification of lease that may lead to remeasurement of lease liabilities, the lessee adjusts the book value of the right-of-use assets accordingly.

2) Short-term leases and low-value asset leases

For short-term leases with a lease period of not more than 12 months and low-value asset leases which are brand-new assets, the Group does not recognise the right-of-use assets and lease liabilities. During different periods in the lease term, lease payments on short-term leases and leases of low-value assets are recognised as relevant asset costs or current profit or loss on a straight-line basis or other systematic and reasonable methods over the lease term.

(3) The Group as a lessor

Based on assessment as stated in (1), if the contract is lease or includes lease, such lease for which the Group is a lessor are classified as finance or operating on the lease commencement date.

The lessor classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Other leases other than finance lease shall be classified as operating leases.

A lease is usually classified as a finance lease when one or more of the following conditions are satisfied: ① At the expiration of the lease term, the ownership of the leased asset is transferred to the lessee. ② The lessee has the option to purchase the leased asset. The purchase price entered into is sufficiently low compared to the fair value of the leased asset when the option is exercised. Therefore, it can be reasonably determined at the commencement date of the lease that the lessee will exercise the option. ③ Although the ownership of the asset is not transferred, the lease term accounts for the majority of the useful life of the leased assets (not lower than 75% of the useful life of the leased assets). ④ On the commencement date of the lease, the present value of the lease receivable amount is basically equivalent to the fair value of the leased asset (not lower than 90% of the fair value of the leased assets). ⑤ The leased assets are of a special nature. If no major modifications are made to them, only the lessee can use them. If one or more of the following conditions exist in a lease, the Company may also be classified as a financial lease: ① If the lessee stops the lease, the lessee shall bear the losses caused by the termination of the lease to the lessor; ② The profits or losses caused by the fluctuation of the fair value of the balance of assets belong to the lessee; ③ The lessee can continue to lease far below the market level for the next period.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

35. Lease *(continued)*

(3) The Group as a lessor (continued)

1) Accounting treatment for financial lease

Initial measurement

At the beginning of the lease term, the Company confirms the financial lease receivable on the financial lease and terminates the recognition of the financial lease assets. When the initial measurement of the financial lease receivable is made by the Group, the Group uses the net lease investment as the entry value of the finance lease receivables.

The net lease investment is the sum of the unsecured residual value and the present value of rental receipts that has not been received on the start date of the lease term, which is discounted according to the interest rate implicit in lease. The amount of the lease receivable refers to the amount that the Group should collect from the lessee for the purpose of transferring the leased assets during the lease term, including: ①The fixed payment amount and the substantial fixed payment amount to be paid by the lessee, if there is a lease incentive, the amount related to the lease incentive is deducted; ②Variable lease payments depending on the index or ratio, and such amounts, are determined at the initial measurement based on the index or proportion at the beginning of the lease period; ③The exercise price of the purchase option, provided that it is reasonably determined that the lessee will exercise the option; ④The lessee exercises the amount to be paid for the termination of the lease option, provided that the lease period reflects the lessee's exercise of the option to terminate the lease; ⑤The residual value of the guarantee provided by the lessee, the party concerned with the lessee and the independent third party with the financial ability to perform the guarantee obligation.

Subsequent measurement

The Group calculates and recognises interest income for each period of the lease term based on a fixed periodic interest rate. Such periodic interest rate refers to the embedded discount rate used to determine the net lease investment. In the case of intermediate lease, if it is impossible to determine the embedded discount rate under such intermediate lease, discount rate of the original lease shall be adopted and adjustments shall be made based on initial direct costs of such intermediate lease. For a financial lease modification that is not accounted for as a separate lease, if the lease is classified as a financial lease when the change becomes effective on the lease start date, its discount rate shall be revised according to relevant regulations.

Accounting treatment for lease modification

If the finance lease changes and meets the following conditions, the Group will account for the change as a separate case for accounting treatment: ①The modification expands the scope of the lease by increasing the right to use one or more leased assets; ②The increased consideration is equal to the individual price of the expanded portion of the lease, as adjusted by the contractual situation.

For a financial lease modification that is not accounted for as a separate lease, if the lease is classified as an operating lease when the change becomes effective on the lease start date, the Group begins accounting as a new lease from the effective date of the lease change and uses the net lease investment before the effective date of the lease change as the book value of the leased asset.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

35. Lease *(continued)*

(3) The Group as a lessor (continued)

2) Accounting treatment for operating lease

Treatment of lease payment

Rental receipts under an operating lease are recognised as rental income on a straight-line basis over the period of the lease.

Incentive measures provided

Total rental is recognised on a straight-line basis over the period of the lease, without excluding the rent-free period, rental fee are recognised during the rent-free period. If the Group has undertaken certain expenses of the lessee, the expenses will be deducted from total rental income, and the rental income will be allocated according to the balance of the rental income after deduction.

Initial direct costs

The initial direct costs incurred by the Group in relation to the operating leases shall be capitalized as the costs of the subject leased asset and apportioned on the same basis as the rental income recognition during the lease term, and included in current profit or loss.

Depreciation

For fixed assets in operating lease, the Group measures the depreciation in accordance with depreciation policies for similar assets; for other operating lease assets, the Group adopts a systematic and reasonable method on amortization.

Variable lease payments

The variable lease payments received by the Group that are not included in the lease receivables related to the operating leases are recognised in profit or loss in the period in which they are actually incurred.

Operating lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any received or receivable rental receipts relating to the original lease as part of the lease receipts for the new lease.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

36. Critical accounting judgements and estimates

The Group 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 Group'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 Group's management, which may cause critical adjustment to the carrying amount of assets or liabilities which may be affected in the future.

The Group 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 current and future periods if it affects both current and future periods.

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

(1) Revenue recognition

As stated in note (31) revenue recognition principles and measurement methods above, the Group makes the following significant accounting judgements and estimates in terms of revenue recognition: identifying customer contracts; estimating the recoverability of the considerations that are entitled to be obtained by transferring goods to customers; identifying the performance obligation in the contract; estimating the variable consideration in the contract and cumulative revenue recognised where it is highly probable that a significant reversal therein will not occur when the relevant uncertainty is resolved; assessing whether there is a significant financing component in the contract; estimating the individual selling price of the individual performance obligation in the contract; determining whether the performance obligation is performed in a certain period of time or at a certain point in time; the determination of the progress of the contract, etc.

The Group makes judgements primarily based on historical experiences and works. Changes in these significant judgements and estimates can have impacts on the operating revenues, operating costs, and profit or loss of the current or subsequent periods and could have significant impacts.

(2) Impairment of financial assets

The Group uses the expected credit loss model to assess the impairment of financial assets. The application of the expected credit loss model requires significant judgements and estimations, and all reasonable and evidenced information, including forward-looking information, should be considered. In making such judgements and estimations, the Group infers the expected changes in the debtor's credit risk based on the historical data in combination with economic policies, macroeconomic indicators, industry risks, external market environment, technical environment and customers' situation.

(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 Group makes allowance for inventories which have costs higher than net realisable value or become obsolete and slow-moving. Write-down of inventories to their net realisable values is based on the valuation of marketability and net realisable values of inventories. Determination of impairment of inventories requires the management to make judgments and estimates on the basis of definite evidence and taking into account the purpose of holding inventories and impacts of events after balance sheet date. The difference between the actual outcome and original estimates shall affect the carrying amount of inventories and provision for and reversal of the provision for the impairment of inventories during the period in which the estimates are revised.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

36. Critical accounting judgements and estimates *(continued)*

(4) Provision for impairment of long term assets

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

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

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

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

(5) Depreciation and amortisation

The Group 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 Group 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 Group 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 Group'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 Group 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 Group estimates the relevant expenses in accordance with the terms of the sales agreement and advance the sales discounts to customers and deduct the sales revenue of the goods.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

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

36. Critical accounting judgements and estimates *(continued)*

(9) Provisions

Provision for matters including product quality guarantee shall be recognised in terms of contract, current knowledge and historical experience. If the contingent event has formed a practical obligation which probably results in outflow of economic benefits from the Group, a projected liability shall be recognised on the basis of the best estimate of the expenditures to settle relevant practical obligation. Recognition and measurement of the projected liability significantly rely on the management's judgments in consideration of the assessment of factors including relevant risks and uncertainties related to the contingent events.

In particular, the Group makes provisions for after-sales quality maintenance commitments to the customers in respect of sold and repaired goods. In making provisions, the Group considers recent repair experience and data, but recent repair experience may not be able to reflect the future repair situation. Any increase or decrease in such provisions may affect the profit or loss in the future years.

37. Changes in critical accounting policies and estimates

(1) Changes in critical accounting policies

The Ministry of Finance ("MOF") issued the Accounting Standards for Business Enterprises No. 21-Leases (2018 Amendments) (Cai Kuai [2018] No.35) on 7 December 2018, which requires companies that are listed both domestically and overseas, and companies that are listed overseas and adopt the International Financial Reporting Standards or the Accounting Standards for Business Enterprises in the preparation of financial reports to implement the New Lease Standard with effect from 1 January 2019. The Group has implemented the New Lease Standard from the time as the MOF requires, impacts of which are set out in (3) Adjustments on items in the financial statements at the beginning of the year of the adoption of the New Lease Standard in 2019 (the first time).

On 9 May 2019, the MOF issued the Accounting Standards for Business Enterprises No.7 – Swap of Non-monetary Assets (2019 amendment) (Cai Kuai [2019] No.8) requiring application by relevant businesses from 1 January 2019. On 16 May 2019, the MOF issued the Accounting Standards for Business Enterprises No.12 – Debt Restructuring (2019 amendment) (Cai Kuai [2019] No.9) requiring application by relevant businesses from 1 January 2019. The Group has applied the above standards since the date specified by the MOF and it has no impact on the financial statements of the Group.

On 30 April 2019, the MOF issued the Notice on Revising and Circulating General Corporate Financial Statement Formats 2019 (Cai Kuai [2019] No. 6) which amended the formats of general corporate financial statements and requires application in the preparation of financial statements for the interim period of 2019 and the periods thereafter. On 19 September 2019, the MOF issued the Notice on the Revision and Circulating of the Consolidated Financial Statement Formats (2019 Version) (Cai Kuai [2019] No.16) (hereinafter referred to as "Cai Kuai [2019] No. 16"). The notice amended the format of consolidated financial statements and requires application in the preparation of consolidated financial statements for the year of 2019 and the periods thereafter. The Group has applied the above standards in accordance with the time required by the MOF. Certain comparative figures in these financial statements were arranged to conform with the current year's format of presentation. The application of the above notices only affects the presentation of the financial statements and has no impact on profit and loss, total assets or net assets of the Group.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

37. Changes in critical accounting policies and estimates (continued)

(1) Changes in critical accounting policies (continued)

1) Consolidated Balance Sheet

Item	31 December 2018	Adjustment Amount	31 December 2018 (After rearrangement)
Current assets:			
Transactional financial assets	207,350.00	540,000,000.00	540,207,350.00
Account receivable and Notes receivable	6,068,203,234.09	-6,068,203,234.09	
Note receivable		911,347,559.44	911,347,559.44
Account receivable		2,962,019,185.36	2,962,019,185.36
Factoring of accounts receivable		2,194,836,489.29	2,194,836,489.29
Other receivable	318,926,986.30	-197,325.00	318,729,661.30
Including : Interest receivable	197,325.00	-197,325.00	
Other current assets	1,081,172,953.81	-539,802,675.00	541,370,278.81
Current liabilities:			
Notes payable and Accounts payable	9,815,704,300.63	-9,815,704,300.63	
Notes payable		5,442,369,087.15	5,442,369,087.15
Accounts payable		4,373,335,213.48	4,373,335,213.48

2) Balance Sheet of the Parent Company

Item	31 December 2018	Adjustment Amount	31 December 2018 (After rearrangement)
Current assets:			
Transactional financial assets		160,000,000.00	160,000,000.00
Account receivable and Notes receivable	8,028,474.24	-8,028,474.24	
Account receivable		8,028,474.24	8,028,474.24
Other current assets	171,456,671.63	-160,000,000.00	11,456,671.63
Current liabilities:			
Notes payable and Accounts payable	287,857,101.70	-287,857,101.70	
Accounts payable		287,857,101.70	287,857,101.70

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

37. Changes in critical accounting policies and estimates (continued)

(2) Changes in critical accounting estimates

There are no changes in the critical accounting estimates of the Company in the year.

Adjustments on items in the financial statements at the beginning of the year of the adoption of the New Lease Standard in 2019 (the first time)

1) Consolidated Balance Sheet

Item	31 December 2018	1 January 2019	Re-measurement at the beginning of the year
Current assets:			
Other current assets	541,370,278.81	536,156,271.70	-5,214,007.11
Non-current assets:			
Right-of-use assets		46,360,081.84	46,360,081.84
Current liabilities:			
Non-current liabilities:			
Lease liabilities		41,146,074.73	41,146,074.73

Explanation on the adjustment to the consolidated balance sheet: under the New Lease Standard, for contracts already existed before the date of the initial adoption of the New Lease Standard (the "Initial Adoption"), the Group elected not to reassess whether the contracts are or contain a lease at the date of the Initial Adoption. For lease contracts with the Group as the lessee, the Group elected to adjust only the cumulative impact of the lease contracts which remained outstanding on 1 January 2019. The opening balances of the retained earnings and other relevant items in the financial statements at the beginning of the Initial Adoption period (i.e. 1 January 2019) were adjusted to reflect the cumulative effect of the Initial Adoption, but no adjustment was made to the amounts of the comparable period. In particular, for operating leases at the date of the Initial Adoption, the Group measured lease liability based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of the Initial Adoption; and the unpaid rent payables provided based on the accrual basis under the original lease standard were included in the remaining lease payments. The weighted average incremental borrowing rate of the lessee used for the Initial Adoption in recording lease liabilities in the balance sheet is 4.75%.

2) Balance Sheet of the Parent Company

There are no changes in the consolidated balance sheet of the Company.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

5. TAXATION

(1) The main types and rates of taxes

Type of taxes	Tax basis	Tax rate
Value-added tax	Output value-added tax is computed at 13%, 9%, 6%, 5% and 3% of taxable income. Value-added tax is computed on the difference after deduction of input value-added tax. Input value-added tax is not deductible for value-added tax to which simple collection method is applicable.	13%、9%、6%、5%、3%
City maintenance and construction tax	Turnover tax payable	5%, 7%
Education surcharges	Turnover tax payable	3%
Enterprise income tax	Taxable income	25%/for details, please see the table below

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

The rates of value-added tax for the taxable sales or imports of goods of the Company were 16% and 10% respectively. Pursuant to the “Announcement on Relevant Policies for Deepening Value-Added Tax Reform” promulgated by the Ministry of Finance, State Taxation Administration and General Administration of Customs (Announcement No. 39 of 2019 of the Ministry of Finance, State Taxation Administration and General Administration of Customs), the applicable rates are adjusted to 13% and 9% respectively since 1 April 2019.

Notes on taxpayers subject to different enterprise income tax rates:

Name of tax payer	Income tax rate
Hisense (Guangdong) Kitchen and Bath System Co., Ltd.	15%
Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.	15%
Hisense (Ronshen) Guangdong Refrigerator Co., Ltd.	15%
Hisense (Ronshen) Guangdong Freezer Co., Ltd.	15%
Hisense (Guangdong) Mould Plastic Company Limited	20%
Guangdong Foshan Shunde Kelon Property Service Co., Ltd.	20%
Guangdong Kelon Mould Co., Ltd.	15%
Hisense (Shandong) Air-Conditioning Co., Ltd.	15%
Qingdao Hisense Mould Co., Ltd.	15%
Hisense (Shandong) Refrigerator Co., Ltd.	15%
Hisense (Chengdu) Refrigerator Co., Ltd.	15%
Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.	15%
Kelon International Incorporation (KII)	8.25%/16.5%
Pearl River Electric Refrigerator Co., Ltd.	16.5%
Kelon Development Co., Ltd.	16.5%
Hisense Mould (Deutschland) GmbH	15%

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

5. TAXATION (continued)

(2) Tax preferences

According to the “Administrative Measures for the Recognition of High-tech Enterprises” (CTP No. [2016] 32) and the “Guidelines for the Recognition Management Work of High-tech Enterprises” (CTP No. [2016] 195), the Leading Group Office of National High-tech Enterprises Recognition and Management publicly issued the 2019 first batch of proposed high-tech enterprises of Guangdong Province on 2 December 2019. Hisense (Guangdong) Kitchen and Bath System Co., Ltd, a subsidiary of the Company, was assessed as a high-tech enterprise, with an effective period of three years (2019, 2020 and 2021). According to the relevant tax preference regulation on Hightech Enterprises, the applicable enterprise income tax rate for this subsidiary is 15% in 2019, 2020 and 2021.

Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201932003825) dated 22 November 2019 which was jointly issued by the Jiangsu Science and Technology Department, Jiangsu Finance Department and Jiangsu Provincial Taxation Bureau of State Administration of Taxation, with an effective period of three years (2019, 2020 and 2021). According to the relevant tax preference regulation on Hightech Enterprises, the applicable enterprise income tax rate for this subsidiary is 15% in 2019, 2020 and 2021.

Hisense Ronshen (Guangdong) Refrigerator Co., Ltd., a subsidiary of the Company, received the Hightech Enterprise Certificate (certificate number: GR201744004409) dated 9 November 2017 which was jointly issued by the Guangdong Provincial Science and Technology Department, Guangdong Provincial Department of Finance, Guangdong State Administration of Taxation and the Guangdong Local Taxation Bureau with an effective period of 2017, 2018 and 2019. Pursuant to the tax preference regulation on High-tech Enterprise, this subsidiary is entitled to the preferential enterprise income tax rate of 15% in 2017, 2018 and 2019.

Hisense Ronshen (Guangdong) Freezer Co., Ltd., a subsidiary of the Company, received the Hightech Enterprise Certificate (certificate number: GR201844002303) dated 28 November 2018 which was jointly issued by the Guangdong Provincial Science and Technology Department, Guangdong Provincial Department of Finance, Guangdong State Administration of Taxation and the Guangdong Local Taxation Bureau, with an effective period of three years (2018, 2019 and 2020). Pursuant to the tax preference regulation on High-tech Enterprise, this subsidiary is entitled to the preferential enterprise income tax rate of 15% in 2018, 2019 and 2020.

Hisense (Guangdong) Mould Plastic Company Limited, a subsidiary of the Company, meets the identification standards for small and micro-sized enterprises stipulated in Cai Shui [2019] No. 13: engaging in industries not restricted or prohibited by the state and meeting the annual taxable income of no more than RMB3 million, the number of employees of no more than 300, and total assets of not exceeding RMB50 million; according to the relevant tax preferences for small and micro-sized enterprises, in 2019, the portion of the annual taxable income of no more than RMB1 million shall be deducted into the taxable income by 25%, and the enterprise income tax shall be prepaid at the rate of 20%; the annual taxable income between RMB1 million and RMB3 million shall be deducted into the taxable income by 50%, and the enterprise income tax shall be prepaid at the rate of 20%.

Guangdong Foshan Shunde Kelon Property Service Co., Ltd., a subsidiary of the Company, meets the identification standards for small and micro-sized enterprises stipulated in Cai Shui [2019] No. 13: engaging in industries not restricted or prohibited by the state and meeting the annual taxable income of no more than RMB3 million, the number of employees of no more than 300, and total assets of not exceeding RMB50 million; according to the relevant tax preferences for small and micro-sized enterprises, in 2019, the portion of the annual taxable income of no more than RMB1 million shall be deducted into the taxable income by 25%, and the enterprise income tax shall be prepaid at the rate of 20%; the annual taxable income between RMB1 million and RMB3 million shall be deducted into the taxable income by 50%, and the enterprise income tax shall be prepaid at the rate of 20%.

Guangdong Kelon Mould Co., Ltd., a subsidiary of the Company, received the Certificate of Hightech Enterprise (Number: GR201744002498) dated 9 November 2017 which was jointly issued by Guangdong Science and Technology Department, Guangdong Provincial Finance Bureau, Guangdong Provincial Office State Administration of Taxation and Guangdong Provincial Local Taxation Bureau, with an effective period of three years (2017, 2018 and 2019). Pursuant to the tax preference regulation on High-tech Enterprise, this subsidiary is entitled to the preferential enterprise income tax rate of 15% in 2017, 2018 and 2019.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

5. TAXATION (continued)

(2) Tax preferences (continued)

Hisense (Shandong) Air-conditioning Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201737100982) dated 4 December 2017 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 (2017, 2018 and 2019). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2017, 2018 and 2019.

Qingdao Hisense Mould Co., Ltd., a subsidiary of the Company, received the Certificate of Hightech Enterprise (Number: GR201737100218) dated 19 September 2017 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 (2017, 2018 and 2019). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2017, 2018 and 2019.

Hisense (Shandong) Refrigerator Co., Ltd., a subsidiary of the Company, received the Certificate of Hightech Enterprise (Number: GR201737100767) dated 4 December 2017 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 (2017, 2018 and 2019). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2017, 2018 and 2019.

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

Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd., a subsidiary of the Company, received the Certificate of Hightech Enterprise (Number: GR201837100177) dated 12 November 2018 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 (2018, 2019 and 2020). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2018, 2019 and 2020.

The subsidiaries of the Company which were incorporated in Hong Kong are subject to an enterprise income tax on the estimated assessable profits derived from or arising in Hong Kong at the following rates: (1) for KII: a rate of 8.25% is applied to the part which is not exceeded HK\$2,000,000, while a rate of 16.5% is applied to the part which is exceeded HK\$2,000,000; (2) for other Hong Kong subsidiaries: a rate of 16.5% is applied to all of them (the rates of profit tax for each company in 2018 were 16.5%).

Hisense Mould (Deutschland) GmbH, a subsidiary of the Company in Germany, is entitled to enterprise income tax rate of 15% (the income tax rate in 2018 was 15%) in respect of its taxable profits as stipulated in German law.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

For the following disclosed financial statement data, unless otherwise noted, “Beginning Balance” refers to the balance as at 1 January 2019; and “Ending Balance” refers to the balance as at 31 December 2019. “Current Year” refers to the period from 1 January to 31 December 2019; “Last Year” refers to the period from 1 January to 31 December 2018. For details of items with significant changes, please refer to Note 18, 4. Significant changes in key items in the Company’s accounting statement and explanation of such changes.

1. Cash at bank and on hand

Item	Closing balance	Opening balance
Cash on hand	1,827.03	3,847.53
Bank deposits	2,012,263,900.63	1,061,360,215.29
Other cash at bank and on hand	4,108,297,509.81	2,587,099,546.79
Total	6,120,563,237.47	3,648,463,609.61
Including: Total amount deposited overseas	19,596,783.37	26,661,008.13

Notes to cash at bank and on hand:

Other cash at bank and on hand at the end of the period represented mainly security deposit for setting up bank acceptance notes (at the end of the year: RMB 4,038,695,311.13, at the beginning of the year: RMB2,579,480,179.33).

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

Item	Closing balance	Opening balance
Security deposit	4,055,456,641.20	2,587,099,546.79
Total	4,055,456,641.20	2,587,099,546.79

2. Transactional financial assets

Item	Closing balance	Opening balance
Financial assets at fair value through profit or loss	2,120,000,000.00	540,207,350.00
Including: Derivative financial assets		207,350.00
Wealth management products	2,120,000,000.00	540,000,000.00
Total	2,120,000,000.00	540,207,350.00

Notes to transactional financial assets

The Group did not have high-risk entrusted wealth management of which the individual amount was significant, and no any circumstances indicating the possibility that the principal of the entrusted wealth management could not be recovered or other circumstances that might lead to impairment of the Group’s entrusted wealth management. For details of fair value, please refer to Note 10, 1. Assets and liabilities measured at fair value.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Notes receivable

(1) As shown by classification of notes receivable

Category	Closing balance	Opening balance
Bank acceptance notes	884,612,587.51	911,347,559.44
Commercial acceptance notes	211,237,078.65	
Total	1,095,849,666.16	911,347,559.44

Notes to bills receivable: bills receivable for collecting contractual cash flows (for collection) were presented as bills receivable by the Group, and bills receivable for collecting contractual cash flows (for collection) and selling of these bills (endorsed or discounted) were presented as receivable financing by the Group

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

Item	Pledged amounts as at the end of the year
Bank acceptance notes	884,612,587.51
Total	884,612,587.51

Note: For details on pledge, please refer to Note 6(55) Assets with limited ownership or use rights.

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

(4) As shown by provision for bad debts

Category	Book value		Closing balance		Carrying amount
	Amount	%	Amount	%	
Separate provision for bad debts					
Provision for bad debts on					
a group basis	1,102,527,326.72	100.00	6,677,660.56	0.61	1,095,849,666.16
Including:					
Bank acceptance notes	884,612,587.51	80.23			884,612,587.51
Commercial acceptance notes	217,914,739.21	19.77	6,677,660.56	3.06	211,237,078.65
Total	1,102,527,326.72	100.00	6,677,660.56	0.61	1,095,849,666.16

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Notes receivable (continued)

(4) As shown by provision for bad debts (continued)

Category	Opening balance				Carrying amount
	Book value		Provision for bad debts		
	Amount	%	Amount	%	
Separate provision for bad debt receivables for notes receivable					
Provision for bad debts for notes receivable on a group basis	911,347,559.44	100.00			911,347,559.44
Including:					
Bank acceptance notes	911,347,559.44	100.00			911,347,559.44
Total	911,347,559.44	100.00			911,347,559.44

1) Among the group, provision for bad debts for Notes receivable by Bank acceptance notes

Item	Closing balance		
	Book value	Provision for bad debts	%
Acceptor being the bank with less credit risk	884,612,587.51		
Total	884,612,587.51		–

2) Among the group, provision for bad debts for Notes receivable by Commercial acceptance notes

Item	Closing balance		
	Book value	Provision for bad debts	%
Acceptor being a third party	217,914,739.21	6,677,660.56	3.06
Total	217,914,739.21	6,677,660.56	–

3) Provision for bad debts of notes receivable that are accrued, collected or transferred back in the current year

Item	Beginning balance	Changes during the year			Closing balance
		Provision	Recoveries or reversal	Write-off	
Commercial acceptance notes		6,677,660.56			6,677,660.56
Total		6,677,660.56			6,677,660.56

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Notes receivable (continued)

(4) As shown by provision for bad debts (continued)

4) Notes receivable written-off during the year

There was no notes receivable written-off for the year.

4. Accounts receivable

(1) Accounts receivable as shown by provision for bad debts

Category	Closing balance				Carrying amount
	Book value		Provision for bad debts		
	Amount	%	Amount	%	
Separate provision for bad debts for accounts receivable					
Provision for bad debts for accounts receivable on a group basis	4,161,940,502.44	100.00	194,364,192.33	4.67	3,967,576,310.11
Including:					
Aging analysis method	1,305,254,035.39	31.36	123,555,540.61	9.47	1,181,698,494.78
Receivables from related parties	1,881,273,430.13	45.20	603,299.99	0.03	1,880,670,130.14
Other amount	975,413,036.92	23.44	70,205,351.73	7.20	905,207,685.19
Total	4,161,940,502.44	100.00	194,364,192.33	4.67	3,967,576,310.11

(continued)

Category	Opening balance				Carrying amount
	Book value		Provision for bad debts		
	Amount	%	Amount	%	
Separate provision for bad debts for accounts receivable					
Provision for bad debts for accounts receivable on a group basis	3,115,428,594.65	100.00	153,409,409.29	4.92	2,962,019,185.36
Including:					
Aging analysis method	1,063,443,448.45	34.14	120,987,402.35	11.38	942,456,046.10
Receivables from related parties	1,562,827,594.94	50.16			1,562,827,594.94
Other amount	489,157,551.26	15.70	32,422,006.94	6.63	456,735,544.32
Total	3,115,428,594.65	100.00	153,409,409.29	4.92	2,962,019,185.36

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivable (continued)

(1) Accounts receivable as shown by provision for bad debts (continued)

- 1) Among the group, provision for bad debts for Accounts receivable by aging analysis method:

Ageing	Closing balance		
	Book value	Provision for bad debts	%
Within three months	1,165,915,954.07	2,331,831.90	0.20
Over three months but within six months	15,077,526.64	1,507,752.67	10.00
Over six months but within one year	9,089,197.30	4,544,598.66	50.00
Over one year	115,171,357.38	115,171,357.38	100.00
Total	1,305,254,035.39	123,555,540.61	9.47

Note: This group is based on the aging of Accounts receivable as credit risk characteristic and the provision for bad debts is made based on the expected credit loss of each aging section.

- 2) Among the group, provision for bad debts for Accounts receivable by receivables from related parties:

Ageing	Closing balance		
	Book value	Provision for bad debts	%
Within one year	1,880,670,130.14		
Over one year	603,299.99	603,299.99	100.00
Total	1,881,273,430.13	603,299.99	0.03

- 3) Among the group, provision for bad debts for Accounts receivable by other amount:

Category	Closing balance		
	Book value	Provision for bad debts	%
Other amount	975,413,036.92	70,205,351.73	7.20
Total	975,413,036.92	70,205,351.73	7.20

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivable (continued)

(2) Accounts receivable presented by ageing as follows

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

Ageing	Closing balance	Opening balance
Within three months	3,576,878,056.75	2,632,815,879.70
Over three months but within six months	174,766,391.40	140,696,639.35
Over six months but within one year	92,713,978.80	41,130,044.01
Over one year	317,582,075.49	300,786,031.59
Total	4,161,940,502.44	3,115,428,594.65

(3) Provision for bad debts for Accounts receivable during the year

Category	Opening balance	Changes during the year			Closing balance
		Provision	Recoveries or reversals	Write-off	
Aging analysis method	120,987,402.35	2,750,644.22		182,505.96	123,555,540.61
Receivables from related parties		603,299.99			603,299.99
Other amount	32,422,006.94	37,783,344.79			70,205,351.73
Total	153,409,409.29	41,137,289.00		182,505.96	194,364,192.33

(4) Accounts receivable written-off during the year

Item	Written-off amount
Accounts receivable written-off	182,505.96

(5) Top five accounts receivable by closing balance of debtors.

The total top five accounts receivable by closing balance of debtors amounted to RMB2,246,599,532.54, accounting for 53.98% of the closing balance of account receivable. A provision for bad debts of RMB57,364,947.32 in total was made as at the end of the year.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Factoring of accounts receivable

(1) By category

Item	Closing balance	Opening balance
Bank acceptance notes	3,734,924,583.10	1,923,205,023.20
Commercial acceptance notes	174,067,764.75	137,196,026.11
Account receivable	190,616,356.95	134,435,439.98
Total	4,099,608,704.80	2,194,836,489.29

Note: For details on the fair value, please refer to Note 10(1) Assets and liabilities measured at fair value.

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

Item	Amount derecognized as at the end of the year	Amount not derecognized as at the end of the year
Bank acceptance notes	3,050,219,363.50	
Commercial acceptance notes	25,395,684.52	
Total	3,075,615,048.02	

(3) Accounts receivable derecognised due to transfer of financial assets

The Group transferred accounts receivable of RMB3,051,523,553.90 without recourse rights and relevant costs were RMB68,142,544.84.

6. Prepayments

(1) Prepayments presented by ageing as follows

Ageing	Closing balance		Opening balance	
	Amount	%	Amount	%
Within one year	191,900,124.61	99.53	218,757,240.97	97.61
Over one year	898,424.47	0.47	5,363,497.40	2.39
Total	192,798,549.08	100.00	224,120,738.37	100.00

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

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

The total top five prepayments by supplier based on closing balance amounted to RMB140,686,653.30, accounting for 72.97% of total closing balance of prepayments.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Other receivables

Item	Closing balance	Opening balance
Other receivables	297,145,507.98	318,729,661.30
Total	297,145,507.98	318,729,661.30

(1) Classification of other receivables by nature of the amount

Nature of the amount	Book value as at the end of the year	Book value as at the beginning of the year
Security deposit	57,221,064.23	37,719,922.09
Refund of tax for exports	73,999,200.25	89,444,742.96
Balance with Greencool Companies and specific third parties	224,630,200.00	224,630,200.00
Other current account	47,097,572.84	77,722,727.24
Total	402,948,037.32	429,517,592.29

Including: Current account with Greencool Companies and specific third parties

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

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".

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Other receivables (continued)

(2) Provision for bad debts for other receivables

Provision for bad debts	First stage	Second stage	Third stage	Total
	Expected credit loss in the next 12 months	Expected credit loss in the lifetime (without credit impairment)	Expected credit loss in the lifetime (with credit impairment)	
Balance as at 1 January 2019	15,400,556.89	18,483,057.42	76,904,316.68	110,787,930.99
During the year, the balance of other receivables as at 1 January 2019:	-	-	-	-
- transferred to second stage	-4,375,569.20	4,375,569.20		
- transferred to third stage				
- reversed to second stage				
- reversed to first stage				
Provision for the year	571,362.58	2,043,850.07		2,615,212.65
Reversal for the year	7,431,421.68			7,431,421.68
Written-off for the year				
Charge off for the year		169,192.62		169,192.62
Other changes				
Balance as at 31 December 2019	8,540,497.79	20,357,714.87	76,904,316.68	105,802,529.34

Note: Except for separate assessment, the Company assessed whether the credit risk of financial instruments since its initial recognition was significantly increased based on the aging, and estimated the expected credit loss of other receivables with ageing of over one year in the lifetime.

(3) Other receivables presented by ageing as follows

Ageing	Book value as at the end of the year
Within three months	97,137,764.86
Over three months but within six months	6,817,806.28
Over six months but within one year	5,954,700.29
Over one year	293,037,765.89
Total	402,948,037.32

(4) Provision for bad debts for other receivables

Category	Opening balance	Changes during the year			Closing balance
		Provision	Recoveries or reversals	Write-off	
Individual provision	60,030,000.00				60,030,000.00
Aging analysis method	36,201,325.26	1,667,480.65		169,192.62	37,699,613.29
Receivables from related parties		947,732.00			947,732.00
Other amount	14,556,605.73		7,431,421.68		7,125,184.05
Total	110,787,930.99	2,615,212.65	7,431,421.68	169,192.62	105,802,529.34

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Other receivables (continued)

(5) Other receivables written-off during the year

Item	Amount
Other receivables written-off	169,192.62

(6) Top five other receivables by debtor as at the end of the year

No.	Nature of the amount	Closing balance	Ageing	Percentage of total other receivables (%)	Provision for bad debts Closing balance
Top 1	Current account with Greencool Companies and specific third party	81,600,000.00	Over three years	20.25	
Top 2	Current account with Greencool Companies and specific third party	58,030,000.00	Over three years	14.40	58,030,000.00
Top 3	Refund of tax for exports	36,061,304.75	Within three months	8.95	
Top 4	Refund of tax for exports	33,108,625.79	Within three months	8.22	
Top 5	Current account with Greencool Companies and specific third party	28,600,000.00	Over three years	7.10	
Total	-	237,399,930.54	-	58.92	58,030,000.00

8. Inventories

(1) Classification of inventories

Item	Closing balance		
	Book value	Provision for declines in value	Carrying amount
Raw materials	459,555,057.59	3,983,961.36	455,571,096.23
Works in progress	215,602,838.03	1,709,649.86	213,893,188.17
Finished goods	2,857,067,872.96	27,586,810.08	2,829,481,062.88
Total	3,532,225,768.58	33,280,421.30	3,498,945,347.28
Item	Opening balance		
	Book value	Provision for declines in value	Carrying amount
Raw materials	340,991,232.79	31,589,211.92	309,402,020.87
Works in progress	193,523,003.64	9,409,103.34	184,113,900.30
Finished goods	2,496,876,656.27	34,639,801.73	2,462,236,854.54
Total	3,031,390,892.70	75,638,116.99	2,955,752,775.71

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From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Inventories (continued)

(2) Provision for declines in value of inventories

Item	Opening balance	Increase for the year		Decrease for the year		Closing balance
		Provision for the year	Others	Recovered or written-off	Others	
Raw materials	31,589,211.92	9,787,488.80		37,392,739.36		3,983,961.36
Works in progress	9,409,103.34	1,756,362.30		9,455,815.78		1,709,649.86
Finished goods	34,639,801.73	7,283,184.16		14,336,175.81		27,586,810.08
Total	75,638,116.99	18,827,035.26		61,184,730.95		33,280,421.30

(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		
Works in progress	The lower of the cost and net realizable value	Removal due to sales and consumption for production
Finished goods		

9. Other current assets

Item	Closing balance	Opening balance
Time deposits and interest	2,515,406,233.00	197,325.00
Prepaid tax and tax deductible	524,083,898.44	478,614,757.60
Prepaid expenses	88,479,822.67	57,344,189.10
Total	3,127,969,954.11	536,156,271.70

Note:

- (1) Term deposit maturing within one year held by the Group for investment is presented under other current assets, but not recognised as cash and cash equivalents.
- (2) Current assets were adjusted according to the New Lease Standard at the beginning of the year, please refer to Note 4(37) Changes in critical accounting policies and estimates.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Long-term equity investments

Investee	Opening balance	Increase in investment	Decrease in investment	Change for the year						Closing balance	Closing balance of provision for impairment
				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	Others		
I. Joint ventures											
Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.	2,876,748,851.06	25,000,000.00		700,598,729.62			-1,036,105,000.00		-2,366,242,580.68		
Hisense Marketing Management Co., Ltd.	48,027,481.74			-2,412,256.61						45,615,225.13	
II. Associates											
Qingdao Hisense Financial Holdings Co., Ltd.	259,265,889.17			24,927,624.46	1,304,246.87					285,497,760.50	
Qingdao Hisense International Co., Ltd.	142,740,801.81			967,338.45	7,661,638.50	4,529,558.24	-18,931,600.00			136,967,737.00	
III. Others											
Jiangxi Kelon Combine Electrical Appliances Co., Ltd.	11,000,000.00									11,000,000.00	
Total	3,337,783,023.78	25,000,000.00		724,081,435.92	8,965,885.37	4,529,558.24	-1,055,036,600.00		-2,566,242,580.68	479,080,722.63	

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. is hereinafter referred to as "Hisense Hitachi". It was included in the consolidation scope of the year and has become a subsidiary from a joint venture.

3. Qingdao Hisense Financial Holdings Co., Ltd is hereinafter referred to as "Hisense Financial Holdings".

4. Hisense Marketing Management Co., Ltd. (formerly known as Qingdao Hisense Commercial Trading Development Co., Ltd.) is hereinafter referred to as "Hisense Marketing Management".

5. Qingdao Hisense International Co., Ltd is hereinafter referred to as "Hisense International".

6. As at the end of the Reporting Period, all the joint ventures and associates of the Company were unlisted companies.

Including:

Item	Closing balance	Opening balance
Unlisted investments:		
Equity method	468,080,722.63	3,326,783,023.78
Joint ventures	45,615,225.13	2,924,776,332.80
Associates	422,465,497.50	402,006,690.98
Total	468,080,722.63	3,326,783,023.78

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Investment properties

(1) Investment properties measured at cost

Item	Buildings and structures	Total
I. Original carrying amount		
1. Opening balance	69,891,689.84	69,891,689.84
2. Increase for the year	346,686.43	346,686.43
(1) Transferred from construction in progress	346,686.43	346,686.43
3. Decrease for the year		
4. Closing balance	70,238,376.27	70,238,376.27
II. Accumulated depreciation and accumulated amortisation		
1. Opening balance	47,380,328.79	47,380,328.79
2. Increase for the year	2,617,196.77	2,617,196.77
(1) Provision made or amortisation	2,617,196.77	2,617,196.77
3. Decrease for the year		
4. Closing balance	49,997,525.56	49,997,525.56
III. Provision for impairment		
1. Opening balance		
2. Increase for the year		
3. Decrease for the year		
4. Closing balance		
IV. Carrying amount		
1. Carrying amount as at the end of the year	20,240,850.71	20,240,850.71
2. Carrying amount as at the beginning of the year	22,511,361.05	22,511,361.05

(2) Investment properties without ownership certificates

Item	Carrying amount	Reason for failure to obtain ownership certificates
Mee King Building	2,395,267.90	Due to historical reasons; in the process of application

(3) Depreciation expenses for 2019 amounted to RMB2,617,196.77, and depreciation expenses for 2018 amounted to RMB2,615,002.11.

(4) As at 31 December 2019, 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.

12. Fixed assets

Item	Closing balance	Opening balance
Fixed assets	3,813,270,924.50	3,263,102,695.51
Disposal of fixed assets	270,759.35	829,224.90
Total	3,813,541,683.85	3,263,931,920.41

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Fixed assets (continued)

(1) Fixed assets

1) Particulars of fixed assets

Item	Buildings and structures	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Moulds	Total
I. Original carrying amount						
1. Opening balance	2,327,360,838.23	3,469,894,614.65	486,576,027.64	38,672,585.20	1,909,419,005.72	8,231,923,071.44
2. Increase for the year	471,449,970.83	360,587,595.38	208,572,489.10	2,099,619.84	306,955,969.07	1,349,665,644.22
(1) Additions	15,120,209.68	67,279,691.74	86,974,031.01	1,186,103.62	128,414,767.64	298,974,803.69
(2) Transfer from construction in progress	296,289,161.15	105,819,759.64	17,254,018.09	592,306.22	126,878,804.43	546,834,049.53
(3) Increase in business combination	160,040,600.00	187,488,144.00	104,344,440.00	321,210.00	51,662,397.00	503,856,791.00
3. Decrease for the year	105,316,343.93	234,399,886.20	51,940,866.54	6,021,610.51	209,534,595.39	607,213,302.57
(1) Disposal or retirement	105,316,343.93	234,399,886.20	51,940,866.54	6,021,610.51	209,534,595.39	607,213,302.57
4. Closing balance	2,693,494,465.13	3,596,082,323.83	643,207,650.20	34,750,594.53	2,006,840,379.40	8,974,375,413.09
II. Accumulated depreciation						
1. Opening balance	1,043,734,458.05	1,890,935,875.46	350,466,349.52	26,747,533.86	1,514,629,422.19	4,826,513,639.08
2. Increase for the year	90,134,683.13	227,810,405.43	98,437,047.22	4,026,782.22	267,292,528.64	687,701,446.64
(1) Provision made	90,134,683.13	227,810,405.43	98,437,047.22	4,026,782.22	267,292,528.64	687,701,446.64
3. Decrease for the year	61,890,208.75	143,880,776.81	48,051,391.62	2,147,745.47	197,291,936.22	453,262,058.87
(1) Disposal or retirement	61,890,208.75	143,880,776.81	48,051,391.62	2,147,745.47	197,291,936.22	453,262,058.87
4. Closing balance	1,071,978,932.43	1,974,865,504.08	400,852,005.12	28,626,570.61	1,584,630,014.61	5,060,953,026.85
III. Provision for impairment						
1. Opening balance	13,177,187.35	117,357,485.20	1,565,582.61	318,608.61	9,887,873.08	142,306,736.85
2. Increase for the year		4,855,603.37			222,923.61	5,078,526.98
(1) Provision made		4,855,603.37			222,923.61	5,078,526.98
3. Decrease for the year	5,299,605.43	31,764,803.92	1,374,727.17	315,685.98	8,478,979.59	47,233,802.09
(1) Disposal or retirement	5,299,605.43	31,764,803.92	1,374,727.17	315,685.98	8,478,979.59	47,233,802.09
4. Closing balance	7,877,581.92	90,448,284.65	190,855.44	2,922.63	1,631,817.10	100,151,461.74
IV. Carrying amount						
1. Carrying amount as at the end of the year	1,613,637,950.78	1,530,768,535.10	242,164,789.64	6,121,101.29	420,578,547.69	3,813,270,924.50
2. Carrying amount as at the beginning of the year	1,270,449,192.83	1,461,601,253.99	134,544,095.51	11,606,442.73	384,901,710.45	3,263,102,695.51

For 2019, the fixed assets transferred from construction in progress amounted to RMB546,834,049.53; for 2018, the fixed assets transferred from construction in progress amounted to RMB309,143,697.87.

The increase of business combination is added by the matter described in note 7(1). Business combination under non common control.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Fixed assets (continued)

(1) Fixed assets (continued)

- 2) Depreciation expenses for 2019 amounted to RMB687,701,446.64, and depreciation expenses for 2018 amounted to RMB635,024,627.44.
- 3) As at the end of the year, no fixed asset was idle transitorily.
- 4) As at the end of the year, no fixed asset was held under finance lease.
- 5) The rent out fixed asset under operating lease

Item	Closing carrying amount
Buildings and structures	45,756,356.62
Machinery and equipments, etc.	19,719,688.76
Total	65,476,045.38

- 6) Fixed asset which has not obtained the ownership certificate

Item	Carrying amount	Reason for failure to obtain ownership certificates
Buildings and structures	1,051,632,593.16	Achieved scheduled availability and were reclassified as fixed assets, the issuance of ownership certificate is in progress

(2) Disposal of fixed assets

Item	Closing balance	Opening balance
Disposal of fixed assets	270,759.35	829,224.90
Total	270,759.35	829,224.90

13. Constructions in progress

Item	Closing balance	Opening balance
Construction in progress	216,943,108.59	84,296,518.04
Total	216,943,108.59	84,296,518.04

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Construction in progress (continued)

(1) Breakdown of constructions in progress

Item	Closing balance			Opening balance		
	Book value	Impairment provision	Net carrying amount	Book value	Impairment provision	Net carrying amount
MES system	11,290,643.84		11,290,643.84	4,518,221.10		4,518,221.10
Transformation of equipment of Shandong Refrigerator	489,100.00		489,100.00	6,724,827.56		6,724,827.56
Transformation of warehouse	9,173,899.66		9,173,899.66	1,654,671.61		1,654,671.61
Technology transformation project of Jiangmen				8,794,068.32		8,794,068.32
Air conditioning infrastructure project	31,006,557.56		31,006,557.56			
Production line of Shangqiu Kelon				7,770,917.67	7,770,917.67	
Others	165,116,307.53	133,400.00	164,982,907.53	62,604,729.45		62,604,729.45
Total	217,076,508.59	133,400.00	216,943,108.59	92,067,435.71	7,770,917.67	84,296,518.04

(2) Movements in key constructions in progress during the year

Name of construction	Opening balance	Increase for the year	Decrease for the year		Closing balance	Budget	Accumulative contribution in budget (%)	Progress	Source of funding
			Transferred to fixed assets	Other decrease					
MES system	4,518,221.10	7,814,299.42	513,574.80	528,301.88	11,290,643.84	36,210,070.72	87.58	Not completed	Self funding
Transformation of equipment of Shandong Refrigerator	6,724,827.56	4,165,048.13	10,400,775.69		489,100.00	30,054,162.87	98.00	Not completed	Self funding
Transformation of warehouse	1,654,671.61	13,073,044.16	5,553,816.11		9,173,899.66	24,431,034.48	60.28	Not completed	Self funding
Technology transformation project of Jiangmen	8,794,068.32		8,794,068.32			12,863,277.75	100.00	Completed	Self funding
Air-conditioning infrastructure project		322,917,428.82	291,910,871.26		31,006,557.56	433,753,816.31	74.45	Not completed	Self funding
Production line of Shanqiu Kelon	7,770,917.67			7,770,917.67				Retired	Self funding
Others	62,604,729.45	352,641,084.00	229,660,943.35	20,468,562.57	165,116,307.53				
Total	92,067,435.71	700,610,904.53	546,834,049.53	28,767,782.12	217,076,508.59	537,312,362.13	-	-	-

Note: All constructions in progress of the Company were self-financed, without capitalisation of borrowing cost and interest.

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From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Constructions in progress (continued)

(3) Provision for construction in progress during the year

Item	Provision for the year	Reason for provision
Other items	133,400.00	Recoverable amount is lower than the book value
Total	133,400.00	–

14. Right of use assets

Item	Buildings and structures	Total
I. Original carrying amount		
1. Opening balance	46,360,081.84	46,360,081.84
2. Increase for the year	59,178,271.89	59,178,271.89
(1) Rental	22,577,704.47	22,577,704.47
(2) Increase of business combination	36,600,567.42	36,600,567.42
3. Decrease for the year		
4. Closing balance	105,538,353.73	105,538,353.73
II. Accumulated depreciation		
1. Opening balance		
2. Increase for the year	31,375,768.64	31,375,768.64
(1) Provision	31,375,768.64	31,375,768.64
3. Decrease for the year		
4. Closing balance	31,375,768.64	31,375,768.64
III. Provision for impairment		
1. Opening balance		
2. Increase for the year		
3. Decrease for the year		
4. Closing balance		
IV. Carrying amount		
1. Carrying amount as at the end of the year	74,162,585.09	74,162,585.09
2. Carrying amount as at the beginning of the year	46,360,081.84	46,360,081.84

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Intangible assets

(1) Particulars of intangible assets

Item	Land use rights	Trademarks	Know-how	Sales channels	Others	Total
I. Original carrying amount						
1. Opening balance	857,629,398.42	524,409,198.95	73,100,447.88		143,457,687.17	1,598,596,732.42
2. Increase for the year	220,350,000.00	125,786,163.52		780,759,590.69	197,955,108.33	1,324,850,862.54
(1) Additions					39,364,120.61	39,364,120.61
(2) Increase of business combination	220,350,000.00	125,786,163.52		780,759,590.69	158,590,987.72	1,285,486,741.93
3. Decrease for the year	49,870,890.64				7,247,515.41	57,118,406.05
(1) Disposal	49,870,890.64				7,247,515.41	57,118,406.05
4. Closing balance	1,028,108,507.78	650,195,362.47	73,100,447.88	780,759,590.69	334,165,280.09	2,866,329,188.91
II. Accumulated amortisation						
1. Opening balance	254,599,110.87	134,130,255.55	71,343,438.70		87,048,832.54	547,121,637.66
2. Increase for the year	18,248,500.79	9,433,962.27	47,299.00	23,660,141.49	34,052,210.60	85,442,114.15
(1) Provision made	18,248,500.79	9,433,962.27	47,299.00	23,660,141.49	34,052,210.60	85,442,114.15
3. Decrease for the year	15,062,185.10				5,829,125.92	20,891,311.02
(1) Disposal	15,062,185.10				5,829,125.92	20,891,311.02
4. Closing balance	257,785,426.56	143,564,217.82	71,390,737.70	23,660,141.49	115,271,917.22	611,672,440.79
III. Provision for impairment						
1. Opening balance	50,012,843.19	286,061,116.40			694,241.70	336,768,201.29
2. Increase for the year						
3. Decrease for the year					174,794.49	174,794.49
(1) Disposal					174,794.49	174,794.49
4. Closing balance	50,012,843.19	286,061,116.40			519,447.21	336,593,406.80
IV. Carrying amount						
1. Carrying amount as at the end of the year	720,310,238.03	220,570,028.25	1,709,710.18	757,099,449.20	218,373,915.66	1,918,063,341.32
2. Carrying amount as at the beginning of the year	553,017,444.36	104,217,827.00	1,757,009.18		55,714,612.93	714,706,893.47

(2) Land use rights which certificates of ownership are pending

Item	Carrying amount	Reason for not completing certificate of ownership
Land use rights	7,200,000.00	Due to the transfer to intangible assets as a result of reaching the scheduled completion, the certificate of ownership is pending

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Intangible assets (continued)

(3) Notes to intangible assets:

- 1) Amortization of intangible assets amounted to RMB85,442,114.15 for 2019, compared to that of RMB35,209,243.96 for 2018.
- 2) As at the end of the year, no land use rights were pledged.
- 3) The trademark of the Group includes own trademark of RMB104,217,827.00. The Group did not amortize the trademarks due to indefinite useful lives, and no provision was made for impairment of trademarks after tested for impairment as at the end of the year. The trademark license increased by RMB125,786,163.52 due to the merger of Hisense Hitachi during the year. It is amortized in accordance with the license period and there was no impairment after the assessment on the purchase date.
- 4) Additional intangible assets-others for the year mainly represent the increase of non-patent technology of RMB143,584,433.49 due to the consolidation of Hisense Hitachi, which was amortised over the licensing term. As assessed at the acquisition date, there was no impairment.
- 5) The increase of business combination was mainly due to the increase in matters stated in Note 7(1) Business combination involving entities not under common control.

16. Goodwill

(1) The original value of goodwill

Name of investee	Opening balance	Increase for the year: arising from business combination	Decrease for the year	Closing balance
Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.		132,571,746.36		132,571,746.36
Total		132,571,746.36		132,571,746.36

For details on the formation of goodwill, please refer to Note 7(1) Business combination involving entities not under common control.

(2) Impairment provision for goodwill

Since the period from the balance sheet date to the combination date is relatively short and the actual revenue of Hisense Hitachi from the combination date to the balance sheet date is more than the predicted revenue at the combination date, the Company believes that the evaluation result at the combination date is still valid and there is no impairment for goodwill.

For details on the evaluation, please refer to Note 7(1) Business combination involving entities not under common control.

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6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Goodwill (continued)

(3) Relevant information on the asset group which goodwill belongs to or group of assets

The goodwill formed by the Company's acquisition of Hisense Hitachi is reflected in the operation of business asset group of Hisense Hitachi at the acquisition date. Since it can generate cash flow independently, the Company regards Hisense Hitachi as an individual asset group.

17. Long-term prepaid expenses

Item	Opening balance	Increase for the year	Amortization for the year	Other deductions	Closing balance
Long-term prepaid expenses	25,349,762.41	38,791,062.44	20,642,983.29		43,497,841.56
Total	25,349,762.41	38,791,062.44	20,642,983.29		43,497,841.56

18. Deferred tax assets and deferred tax liabilities

(1) Undeducted deferred income tax assets

Item	Closing balance		Opening balance	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Provision for impairment of assets	159,461,582.80	30,606,152.68	111,484,310.22	26,510,952.43
Accrued expenses	2,825,314,753.72	553,755,453.03	340,564,327.95	53,064,892.60
Others	236,940,904.99	50,412,979.39	57,330,654.64	13,902,066.32
Total	3,221,717,241.51	634,774,585.10	509,379,292.81	93,477,911.35

(2) Undeducted deferred tax liabilities

Item	Closing balance		Opening balance	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Accelerated depreciation	200,238,661.80	31,800,409.61	26,815,802.13	4,022,370.32
Transactional financial assets			148,100.00	22,215.00
Asset appraisal appreciation due to business combination involving entities not under common control	177,110,630.20	26,566,594.53		
Total	377,349,292.00	58,367,004.14	26,963,902.13	4,044,585.32

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Deferred tax assets and deferred tax liabilities (continued)

(3) Breakdown of unrecognized deferred tax assets

Item	Closing balance	Opening balance
Deductible temporary difference	1,648,654,499.82	1,617,489,258.61
Deductible tax loss	827,704,062.92	724,387,742.31
Total	2,476,358,562.74	2,341,877,000.92

(4) The deductible tax losses for unrecognized deferred tax assets will expire in following timeframe

Year	Closing balance	Opening balance	Remark
2019		8,953,494.74	
2020	26,369,946.08	43,870,384.16	
2021	148,334,368.46	162,073,127.94	
2022	9,709,245.00	14,596,962.86	
2023	123,298,573.11	119,404,426.86	
2024	11,208,267.39		
2025			
2026			
2027	45,178,809.35	135,746,143.11	
2028	159,038,662.92	194,034,068.02	
2029	257,892,975.07		
Infinite	46,673,215.54	45,709,134.62	
Total	827,704,062.92	724,387,742.31	

19. Other non-current assets

Item	Closing balance	Opening balance
Term deposit and interest	2,093,188,666.66	
Others	55,141,134.99	
Total	2,148,329,801.65	

Note: Term deposit with maturity over one year held by the Group for investment is presented under other non-current assets, but not recognised as cash and cash equivalents.

20. Short-term borrowings

(1) Categories of short-term borrowings

Categories of borrowings	Closing balance	Opening balance
Credit borrowings	100,083,424.66	
Total	100,083,424.66	

(2) There are no outstanding short-borrowing due as at the end of the year.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. Transactional financial liabilities

Item	Closing balance	Opening balance
Transactional financial liabilities		2,765,900.00
Including: Derivative financial liabilities		2,765,900.00
Total		2,765,900.00

Note to transactional financial liabilities:

It represented mainly the outstanding forward exchange settlement and sale contracts entered into by the Group and banks, which were recognized as the fair value of transactional financial liabilities based on the difference between the quoted price of the outstanding forward contracts and the forward rates as at the end of the year.

22. Notes payable

Categories of notes	Closing balance	Opening balance
Bank acceptance notes	5,498,626,969.29	3,348,110,396.41
Commercial acceptance notes	2,061,685,580.94	2,094,258,690.74
Total	7,560,312,550.23	5,442,369,087.15

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

23. Accounts payable

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

Ageing	Closing balance	Opening balance
Within one year	5,189,464,190.07	4,259,455,773.64
Over one year	127,893,446.74	113,879,439.84
Total	5,317,357,636.81	4,373,335,213.48

Note: As at 31 December 2019, accounts payable with ageing of over one year amounted to RMB127,893,446.74 (31 December 2018: RMB113,879,439.84), which represented mainly raw material payable and was not settled yet.

24. Contract liability

Item	Closing balance	Opening balance
Advance payments	1,013,239,070.20	716,041,073.75
Total	1,013,239,070.20	716,041,073.75

Note: As at 31 December 2019, the contract liability was advance payments and were not recognized as revenue as the relevant products had not been sold. The contract liability with ageing of over one year amounted to RMB60,676,109.86 (as at 31 December 2018: RMB59,027,314.88).

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. Compensations payable to employee

(1) Categories of compensations payable to employee

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Short-term compensations	326,684,642.16	3,646,473,108.80	3,355,363,644.28	617,794,106.68
2. Post-employment benefits – defined contribution plans	2,115,465.03	227,278,487.76	227,264,851.36	2,129,101.43
3. Termination benefits		15,776,696.64	15,204,667.34	572,029.30
Total	328,800,107.19	3,889,528,293.20	3,597,833,162.98	620,495,237.41

(2) Short-term compensations

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Wages and salaries, bonuses, allowances and subsidies	319,174,072.68	3,225,251,001.72	2,939,871,583.10	604,553,491.30
2. Staff welfare	3,865,865.39	160,847,485.97	156,465,229.44	8,248,121.92
3. Social insurance	735,019.03	134,285,337.96	133,643,461.14	1,376,895.85
Including: Medical insurance	486,199.73	111,952,910.20	111,726,313.51	712,796.42
Work-related injury insurance	163,142.97	6,122,577.15	5,711,868.54	573,851.58
Maternity insurance	85,676.33	16,209,850.61	16,205,279.09	90,247.85
4. Housing provident funds	777,778.53	102,377,732.62	101,459,273.20	1,696,237.95
5. Labour union funds and employee education funds	2,131,906.53	23,711,550.53	23,924,097.40	1,919,359.66
Total	326,684,642.16	3,646,473,108.80	3,355,363,644.28	617,794,106.68

(3) Defined contribution plans

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Basic pension insurance	1,384,275.36	218,597,653.67	218,337,450.14	1,644,478.89
2. Unemployment insurance	731,189.67	8,680,834.09	8,927,401.22	484,622.54
Total	2,115,465.03	227,278,487.76	227,264,851.36	2,129,101.43

Note to compensations payable to employee:

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

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. Taxes payable

Item	Closing balance	Opening balance
Value-added tax	132,630,877.63	101,309,697.64
Enterprise income tax	279,683,763.34	60,061,568.67
Individual Income Tax	5,156,002.80	2,538,157.23
City maintenance and construction tax	12,276,675.79	7,371,309.05
Real estate tax	9,006,357.52	7,113,980.39
Land use tax	9,907,607.63	6,593,369.74
Educational surcharges	8,747,447.20	5,280,889.58
Others	53,569,999.56	40,406,914.23
Total	510,978,731.47	230,675,886.53

27. Other payables

Item	Closing balance	Opening balance
Other payable	1,920,036,363.71	1,766,319,446.79
Total	1,920,036,363.71	1,766,319,446.79

(1) Other payables by nature

Item	Closing balance	Opening balance
Current account	1,080,984,217.47	1,255,876,333.80
Deposit and margin	550,115,496.00	355,959,708.60
Payment for project and equipment	258,170,225.21	123,716,979.36
Amount payable to Greencool Companies and specific third party	30,766,425.03	30,766,425.03
Total	1,920,036,363.71	1,766,319,446.79

(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 for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. Non-current liabilities due within one year

Item	Closing balance	Opening balance
Lease liabilities due within one year	40,736,624.70	
Total	40,736,624.70	

29. Other current liabilities

Item	Closing balance	Opening balance	Reasons for the balance
Installation fees	473,825,016.35	337,119,912.36	Installation fee provided for but not yet paid in respect of goods sold
Sales discounts	2,782,929,327.14	142,382,652.93	Incurred but not yet settled
Others	498,414,731.11	166,676,349.64	Incurred but not yet settled
Total	3,755,169,074.60	646,178,914.93	

30. Lease liabilities

Item	Closing balance	Opening balance
Lease liabilities	24,822,981.21	41,146,074.73
Total	24,822,981.21	41,146,074.73

31. Provisions

Item	Closing balance	Opening balance	Reason for occurrence
Pending litigation	16,267,827.84	7,503,856.34	Estimated litigation compensation
Provision for warranties	434,997,428.58	298,263,680.66	Estimated quality guarantee of products
Others	23,790,000.00	23,790,000.00	Estimated other expenditures
Total	475,055,256.42	329,557,537.00	-

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. Deferred income

(1) Classification of deferred Income

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance	Reason for occurrence
Government grants	98,410,309.53	57,444,874.72	42,708,616.76	113,146,567.49	Amortization of government grants
Total	98,410,309.53	57,444,874.72	42,708,616.76	113,146,567.49	-

(2) Government grants

Government grants	Opening balance	New grants received during the year	Amount included in other income during the year	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	1,026,666.67		280,000.00	746,666.67	Related to assets
Transformation project on system integration technology of green supply chain of freezers	11,520,000.00			11,520,000.00	Related to assets
The invested guidance fund within the budget of central government for development of national service industry for 2018	5,035,000.00		530,000.00	4,505,000.00	Related to assets
Transformation projects		31,714,270.00	21,594,375.88	10,119,894.12	Related to assets
Other related to assets	59,378,642.86	24,643,576.85	20,040,297.31	63,981,922.40	Related to assets
Other related to income		1,087,027.87	263,943.57	823,084.30	Related to revenue
Total	98,410,309.53	57,444,874.72	42,708,616.76	113,146,567.49	

33. Share capital

Categories of shares	Opening balance	Change for the year (+,-)				Subtotal	Closing balance
		Issue of new shares	Bonus issue	Conversion from reserve	Others		
Total number of shares	1,362,725,370.00					1,362,725,370.00	

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. Capital reserve

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Share premium	1,973,979,930.12		24,945,627.43	1,949,034,302.69
Other capital reserve	102,493,284.44	4,529,558.24		107,022,842.68
Total	2,076,473,214.56	4,529,558.24	24,945,627.43	2,056,057,145.37

35. Other comprehensive income

Item	Opening balance	Amount incurred in the year					Less: income tax expense	Attributable to parent after tax	Attributable to minority interest after tax	Closing balance
		Amount before income tax for the year	Amount previous period transferred to profit or loss in current period	Less: Amount included in other comprehensive income in previous period and transferred in retained earnings in current period	Less: Included in other comprehensive income in the previous period					
1. Other comprehensive income that would not be reclassified to profit or loss	-100,000.00								-100,000.00	
Including: Changes in the fair value of other equity instruments investment	-100,000.00								-100,000.00	
2. Other comprehensive income that would be reclassified to profit or loss	16,996,290.49	9,415,682.64					9,422,210.86	-6,528.22	26,418,501.35	
Including: other comprehensive income that would be reclassified into profit or loss under equity method	5,731,108.11	8,965,885.37					8,965,885.37		14,696,993.48	
Credit impairment provisions for other debt investment		1,095,858.39					1,095,858.39		1,095,858.39	
Difference arising from translation of financial statements presented in foreign currency	11,265,182.38	-646,061.12					-639,532.90	-6,528.22	10,625,649.48	
Total other comprehensive income	16,896,290.49	9,415,682.64					9,422,210.86	-6,528.22	26,318,501.35	

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. Surplus reserve

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Statutory surplus reserve	556,272,909.16	75,962,960.42		632,235,869.58
Total	556,272,909.16	75,962,960.42		632,235,869.58

Note: The increase in statutory surplus reserves for the year represents the amount of the provision made by the Company for 10% of net profit of the year.

37. Undistributed profits

Item	Amount for the year	Amount for previous year
Balance at the end of the previous year	3,339,456,580.66	2,525,976,933.34
Add: Adjustment of undistributed profits as at the beginning of the year		113,273,139.17
Including: Retroactive adjustment of new regulations of “Business Accounting Standards” (Changes in accounting policies)		-6,953,544.78
Correcting key errors made in early stage		120,226,683.95
Balance at the beginning of the year	3,339,456,580.66	2,639,250,072.51
Add: Net profits attributable to the owners of the parent in current year	1,793,669,013.19	1,377,457,177.70
Less: Appropriation of statutory surplus reserve	75,962,960.42	77,651,506.75
Dividends payable on ordinary shares	412,905,787.11	599,599,162.80
Balance at the end of the year	4,644,256,846.32	3,339,456,580.66

38. Operating revenue and costs

(1) Particulars operating revenue and operating costs

Item	Amount for the year		Amount for previous year	
	Revenue	Costs	Revenue	Costs
Principal operations	34,196,927,100.83	26,368,132,763.52	32,791,068,580.61	26,084,829,925.12
Other operations	3,256,116,867.91	3,056,676,505.14	3,228,529,724.18	3,086,694,834.88
Total	37,453,043,968.74	29,424,809,268.66	36,019,598,304.79	29,171,524,760.00

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. Operating revenue and costs (continued)

(2) Principal operation revenue generated from contracts

Categories of contract	Amount for the year		Amount for previous year	
	Revenue	Costs	Revenue	Costs
Categories of product:				
Refrigerators and washing machines	16,127,991,501.27	12,299,844,328.41	16,072,977,215.28	12,742,548,502.69
Air-conditioners	16,368,984,335.90	12,685,726,877.38	14,891,475,954.73	11,852,793,724.90
Others	1,699,951,263.66	1,382,561,557.73	1,826,615,410.60	1,489,487,697.53
By operating regions:				
Domestic	22,712,402,936.91	15,927,441,278.91	22,039,246,655.83	16,065,246,541.47
Overseas	11,484,524,163.92	10,440,691,484.61	10,751,821,924.78	10,019,583,383.65
Total	34,196,927,100.83	26,368,132,763.52	32,791,068,580.61	26,084,829,925.12

39. Tax and surcharges

Item	Amount for the year	Amount for previous year
City maintenance and construction tax	83,478,661.19	74,154,235.89
Education surcharges	60,930,269.69	53,828,463.75
Others	182,302,800.00	183,654,691.23
Total	326,711,730.88	311,637,390.87

40. Sales expenses

Item	Amount for the year	Amount for previous year
Sales expenses	5,670,186,916.64	5,005,944,320.73
Total	5,670,186,916.64	5,005,944,320.73

Note: In 2019, sales expenses mainly include installation and maintenance, publicity and promotion, warehousing and logistics, and employee compensation, with the percentage to the total sales expenses over 70% (2018: over 70%).

41. Management expenses

Item	Amount for the year	Amount for previous year
Management expenses	515,205,417.61	425,693,468.96
Total	515,205,417.61	425,693,468.96

Note: In 2019, management expenses mainly include employee compensation, depreciation and amortization, and executive office fee, with the percentage to the total management expenses over 80% (2018: over 80%).

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

42. Research and development expenses

Item	Amount for the year	Amount for previous year
Research and development expenses	934,412,243.42	686,772,325.33
Total	934,412,243.42	686,772,325.33

Note: In 2019, research and development expenses mainly include employee compensation, depreciation and amortization, and direct expenses, with the percentage to the total research and development expenses over 80% (2018: over 80%).

43. Financial expenses

Item	Amount for the year	Amount for previous year
Interest expenses	3,000,971.48	3,987,499.99
Less: Interest incomes	90,453,444.36	36,481,903.61
Add: Exchange gain or loss	3,432,744.04	1,324,681.18
Other expenses	76,007,415.57	65,780,297.86
Total	-8,012,313.27	34,610,575.42

Note: Interest expenses for 2019 include interest expenses of lease liabilities of RMB2,917,546.82. Other interest expenses for 2019 and 2018 were wholly interests on bank borrowings, of which the last term of repayment is within five years.

44. Other gain

Sources arising other gain	Amount for the year	Amount for previous year
Immediate refund of value-added tax	162,563,922.60	133,437,668.48
Others	115,872,882.72	169,165,358.97
Total	278,436,805.32	302,603,027.45

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

45. Investment gain

Item	Amount for the year	Amount for previous year
Gain from long-term equity investment by the equity method	724,081,435.92	783,792,628.40
Gain from disposal of long-term equity investment	47,763,133.83	
Gain from disposal of transactional financial assets	53,960,651.46	44,892,463.23
Investment income from remeasurement of the shares previously held at fair value after acquisition of control	296,543,419.32	
Total	1,122,348,640.53	828,685,091.63

Gain from long-term equity investments by the equity method

Item	Amount for the year	Amount for previous year
Hisense Hitachi	700,598,729.62	750,896,755.51
Hisense Financial Holdings	24,927,624.46	16,491,283.61
Hisense Marketing Management	-2,412,256.61	-1,008,517.92
Hisense International	967,338.45	17,413,107.20
Total	724,081,435.92	783,792,628.40

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

46. Profit and loss arising from changes in fair value

Sources of gain arising from changes in fair value	Amount for the year	Amount for previous year
Transactional financial assets	-207,350.00	124,679.48
Including: Gain from changes in fair value of derivative financial instruments	-207,350.00	124,679.48
Transactional financial liabilities	2,765,900.00	-2,392,176.65
Including: Gain from changes in fair value of derivative financial instruments	2,765,900.00	-2,392,176.65
Total	2,558,550.00	-2,267,497.17

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

47. Impairment loss on credit

Item	Amount for the year	Amount for previous year
Loss of bad debts of Accounts receivable	-6,677,660.56	
Loss of bad debts of Notes receivable	-41,137,289.00	-2,018,158.14
Credit impairment loss of debt investment	4,816,209.03	-348,949.09
Loss of bad debts of other receivables	-1,095,858.39	
Total	-44,094,598.92	-2,367,107.23

48. Impairment losses on assets

Item	Amount for the year	Amount for previous year
Decline in value of inventories	-10,649,934.31	-2,550,168.03
Impairment loss on fixed assets	-5,078,526.98	
Impairment loss on construction in progress	-133,400.00	
Total	-15,861,861.29	-2,550,168.03

49. Gains on disposal of assets (loss expressed with “-”)

Item	Amount for the year	Amount for previous year	Amount included in non-recurring profit or loss of the current year
Gains on disposal of non-current assets	121,585,370.54	1,210,083.22	121,585,370.54
Including: Gains on disposal of non current assets which are not classified as held for sale	121,585,370.54	1,210,083.22	121,585,370.54
Including: Gains on disposal of fixed assets	12,949,849.30	1,210,083.22	12,949,849.30
Gains on disposal of intangible assets	108,635,521.24		108,635,521.24
Total	121,585,370.54	1,210,083.22	121,585,370.54

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

50. Non-operating income

(1) Non operating income

Item	Amount for the year	Amount for previous year	Amount included in non-recurring profit or loss of the current year
Gain from scrapping of non-current assets	6,088,392.79	2,688,023.83	6,088,392.79
Government grants	91,712,462.67	44,134,499.07	91,712,462.67
Others	28,426,205.18	27,197,556.85	28,426,205.18
Total	126,227,060.64	74,020,079.75	126,227,060.64

(2) Government grants recognized in the profits or losses for the year:

Item	Amount for the year		Amount for previous year		Related to assets/revenue
	Included in non-operating income	Included in other income	Included in non-operating income	Included in other income	
Immediate refund of value-added tax		162,563,922.60		133,437,668.48	Related to revenue
Financial support funds jointly built by the Pearl River Delta and the Guangdong-Northwest Industry				100,000,000.00	Related to revenue
Design, manufacturing and technical transformation project of highprecision intelligent mold		280,000.00		280,000.00	Related to assets
Energy-saving household SBS large refrigerator production technology transformation project				112,500.00	Related to assets
The invested guidance fund within the budget of central government for development of national service industry for 2018		530,000.00		265,000.00	Related to assets
Transformation projects		21,594,375.88			Related to assets
Other government grants related to assets		20,040,297.31		19,747,596.98	Related to assets
Other government grants related to daily operation		73,428,209.53		48,760,261.99	Related to revenue
Government grants not related to daily operation	91,712,462.67		44,134,499.07		Related to revenue
Total	91,712,462.67	278,436,805.32	44,134,499.07	302,603,027.45	

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51. Non-operating expenses

Item	Amount for the year	Amount for previous year	Amount included in non-recurring profit or loss of the current year
Loss on scrapping of non-current assets	13,883,870.41	4,511,875.63	13,883,870.41
Others	14,796,486.55	13,331,229.01	14,796,486.55
Total	28,680,356.96	17,843,104.64	28,680,356.96

52. Income tax expense

(1) Income tax expense

Item	Amount for the year	Amount for previous year
Current income tax expenses	250,453,742.56	127,562,534.28
Including: PRC Enterprise income tax	250,453,742.56	127,528,410.13
Hong Kong profit tax		34,124.15
Deferred income tax expenses	-48,652,580.42	14,268,958.49
Total	201,801,162.14	141,831,492.77

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

Item	Amount for the year
Total profits	2,152,250,314.66
Income tax expense calculated at statutory (or applicable) tax rates	538,062,578.67
Effect of application of different tax rate to certain subsidiaries	-59,768,727.66
Adjustment to income tax in previous year	2,587,988.61
Effect of non-taxable income	-237,432,070.67
Effect of non-deductible cost, expense and loss	25,619,124.94
Effect of utilization of deductible losses unrecognized as deferred tax assets in previous period	-52,729,026.70
Effect of deductible temporary difference or deductible loss unrecognized as deferred tax assets in current period	52,919,479.75
Changes in opening balance of deferred tax assets/liabilities arising from changes in tax rate	9,715,983.39
Effect of super deduction of research and development expense	-72,988,268.90
Others	-4,185,899.29
Income tax expense	201,801,162.14

53. Other comprehensive income

Please see note 6(35) Other comprehensive income for details.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

54. Cash flows statement

(1) Other cash receipt/paid related to operating/investing/financing activities

1) Other cash receipt related to operating activities

Item	Amount for the year	Amount for previous year
Interest incomes	29,753,468.28	36,708,927.30
Government grants	224,426,273.13	211,550,000.52
Others	532,363,569.32	535,312,899.38
Total	786,543,310.73	783,571,827.20

2) Other cash payment related to operating activities

Item	Amount for the year	Amount for previous year
Cash payments for management expenses	446,273,592.28	368,248,903.85
Cash payments for sales expenses	3,082,312,014.12	2,756,533,952.54
Bank charges	35,411,453.97	25,411,344.36
Others	810,238,504.07	995,096,145.77
Total	4,374,235,564.44	4,145,290,346.52

3) Other cash receipt related to investing activities

Item	Amount for the year	Amount for previous year
Disposal of wealth management products and time deposits upon maturity	6,121,490,941.53	2,810,000,000.00
Cash paid for acquiring subsidiaries and other operation units	1,110,633,709.67	
Total	7,232,124,651.20	2,810,000,000.00

4) Other cash payment related to investing activities

Item	Amount for the year	Amount for previous year
Acquisition of wealth management products and time deposits	8,252,376,993.51	2,270,000,000.00
Total	8,252,376,993.51	2,270,000,000.00

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

54. Cash flows statement (continued)

(1) Other cash receipt/paid related to operating/investing/financing activities (continued)

5) Other cash payments related to financing activities

Item	Amount for the year	Amount for previous year
Security deposit	289,215,131.80	542,073,128.96
Payment of the principal and interest on lease liabilities	32,909,301.96	
Total	322,124,433.76	542,073,128.96

(2) Supplementary information to consolidated cash flows statement

Item	Amount for the year	Amount for previous year
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	1,950,449,152.52	1,423,074,375.69
Add: Provision for assets impairment	15,861,861.29	2,550,168.03
Impairment loss on credit	44,094,598.92	2,367,107.23
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets	690,318,643.41	637,639,629.55
Depreciation of right-of-use assets	31,375,768.64	
Amortization of intangible assets	85,442,114.15	35,209,243.96
Amortization of long-term prepaid expenses	20,642,983.29	4,327,436.54
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain denoted in "-")	-121,585,370.54	-1,210,083.22
Loss on retirement of fixed assets (Gain denoted in "-")	7,795,477.62	1,823,851.80
Loss on change in fair value (Gain denoted in "-")	-2,558,550.00	2,267,497.17
Financial expenses (Gain denoted in "-")	-86,663,662.23	13,222,445.15
Investment loss (Gain denoted in "-")	-1,122,348,640.53	-828,685,091.63
Decrease in deferred tax assets (Increase denoted in "-")	-12,601,757.76	11,361,552.39
Increase in deferred tax liabilities (Decrease denoted in "-")	-36,050,822.66	2,907,406.10
Decrease in inventories (Increase denoted in "-")	513,746,710.20	447,892,822.47
Decrease in operating receivables (Increase denoted in "-")	51,338,299.65	202,271,801.86
Increase in operating payables (Decrease denoted in "-")	-23,919,753.41	-907,653,598.84
Others		
Net cash flows from operating activities	2,005,337,052.56	1,049,366,564.25
2. Significant investment and financing activities not involving cash receipts and payments:		
Liabilities converted into equity		
Convertible company debentures due within one year		
Fixed assets under finance leases		
3. Net movement in cash and cash equivalents:		
Cash at the end of the year	2,065,106,596.27	1,061,364,062.82
Less: Cash at the beginning of the year	1,061,364,062.82	952,318,970.66
Add: Cash equivalents at the end of the year		
Less: Cash equivalents at the beginning of the year		
Net increase in cash and cash equivalents	1,003,742,533.45	109,045,092.16

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

54. Cash flows statement (continued)

(3) Net cash payment for acquisition of subsidiaries during the year

Item	Amount for the year
Cash or cash equivalents paid during the year for business combinations occurred during the year	25,000,000.00
Including: Hisense Hitachi	25,000,000.00
Less: Cash or cash equivalents held by subsidiaries on the acquisition date	1,135,633,709.67
Including: Hisense Hitachi	1,135,633,709.67
Add: Cash or cash equivalents paid during the year for business combinations occurred during past periods	
Net cash paid for acquiring subsidiaries	<u>-1,110,633,709.67</u>

(4) Net cash received for disposal of subsidiaries during the year

Item	Amount for the year
Cash or cash equivalents received during the year for disposal of subsidiaries occurred during the year	119,050,000.00
Including: Hisense (Nanjing) Refrigerator Co., Ltd.	119,050,000.00
Less: Cash or cash equivalents held by subsidiaries on the date of loss of control	64,550,207.87
Including: Hisense (Nanjing) Refrigerator Co., Ltd.	64,550,207.87
Add: Cash or cash equivalents received during the year for disposal of subsidiaries occurred during past periods	
Net cash received for disposal of subsidiaries	<u>54,499,792.13</u>

(5) Cash and cash equivalents

Item	Amount for the year	Amount for previous year
1. Cash	2,065,106,596.27	1,061,364,062.82
Including: Cash on hand	1,827.03	3,847.53
Bank deposits that are readily available for payment	2,012,263,900.63	1,061,360,215.29
Other cash at bank and on hand that are readily available for payment	52,840,868.61	
2. Cash equivalents		
Including: Bond investments due within three months		
3. Cash and cash equivalents as at the end of the year	2,065,106,596.27	1,061,364,062.82
Including: Cash and cash equivalents of the parent or subsidiaries subject to restrictions on use		

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

55. Assets with limited ownership or use rights

Item	Closing carrying amount	Reason for limitation
Cash at bank and on hand	4,055,456,641.20	Collateral for bank acceptance bills and other secured amount
Notes receivable	884,612,587.51	As collaterals for bank acceptance notes
Other non-current assets	700,000,000.00	As collaterals for bank acceptance notes
Total	5,640,069,228.71	-

56. Monetary items in foreign currencies

(1) Monetary items in foreign currencies

Item	Closing balance of foreign currency	Translation rate	Closing balance denominated in RMB
Cash at bank and on hand	-	-	-
Including: USD	21,368,685.07	6.9762	149,072,220.79
EUR	1,996,711.57	7.8155	15,605,299.28
Others	626,419.05	1.0225	640,538.49
Accounts receivable	-	-	-
Including: USD	57,991,926.57	6.9762	404,563,278.14
EUR	20,747,077.35	7.8155	162,148,783.03
Others	6,724,643.90	0.2300	1,546,668.10
Other receivables:	-	-	-
Including: EUR	39,177.63	7.8155	306,192.77
Short-term borrowings	-	-	-
Accounts payable	-	-	-
Including: USD	5,472,886.42	6.9762	38,179,950.24
EUR	13,214.73	7.8155	103,279.72
Japanese Yen	295,239,171.00	0.0641	18,924,830.86
Other payables:	-	-	-
Including: USD	78,036.16	6.9762	544,395.86
EUR	106,775.06	7.8155	834,500.48

(2) Overseas operating entities

Name	Principal place of business	Functional currency	Whether there is change of functional currency
Kelon International Incorporation Pearl River Electric Refrigerator Co., Ltd.	Hong Kong	HKD	No
Kelon Development Co., Ltd.	Hong Kong	HKD	No
Hisense Mould (Deutschland) GmbH	Germany	EUR	No

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

57. Government grants

(1) Basic information of government grants

Category	Amount	Item	Amount included in the profit or loss of the year
Related to assets	56,357,846.85	Deferred income	42,444,673.19
Related to revenue	1,087,027.87	Deferred income	263,943.57
Related to revenue	235,728,188.56	Other gain	235,728,188.56
Related to revenue	91,712,462.67	Non-operating income	91,712,462.67

(2) There was no refund of government grants for the year.

58. Segment information

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

(1) Segment profit or loss and assets and liabilities

Amount for current period	Refrigerators and washing machines	Air-conditioners	Others	Inter-segment elimination	Total
1. Revenue from external sales	16,127,991,501.27	16,368,984,335.90	1,699,951,263.66		34,196,927,100.83
2. Revenue from inter-segment transactions			1,747,760,131.33	-1,747,760,131.33	
3. Gain from investment in associates and joint ventures	-1,206,128.31	699,392,601.32	25,894,962.91		724,081,435.92
4. Depreciation and amortization	385,340,938.93	335,690,969.73	91,729,246.98		812,761,155.64
5. Gain arising from changes in fair value			2,558,550.00		2,558,550.00
6. Impairment losses on credits and assets	345,271.79	-49,033,480.53	-11,268,251.47		-59,956,460.21
7. Total profit (losses)	688,842,975.00	1,332,259,069.05	173,906,691.82	-42,758,421.21	2,152,250,314.66
8. Total assets	20,507,026,368.03	24,245,312,188.57	3,383,863,079.47	-14,145,538,092.22	33,990,663,543.85
9. Total liabilities	14,314,818,316.76	13,603,351,559.71	1,793,926,935.48	-8,202,296,288.90	21,509,800,523.05
10. Additions to other non-current assets other than long-term equity investments	-165,347,853.52	5,024,291,418.27	-61,092,387.25		4,797,851,177.50

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

58. Segment information (continued)

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

Continued from above table

Amount for previous year	Refrigerators and washing machines	Air-conditioners	Others	Inter-segment elimination	Total
1. Revenue from external sales	16,072,977,215.28	14,891,475,954.73	1,826,615,410.60		32,791,068,580.61
2. Revenue from inter-segment transactions			1,679,689,240.87	-1,679,689,240.87	
3. Gain from investment in associates and joint ventures	-504,258.96	750,392,496.55	33,904,390.81		783,792,628.40
4. Depreciation and amortization	378,205,070.55	200,061,104.69	94,582,698.27		672,848,873.51
5. Gain arising from changes in fair value			-2,267,497.17		-2,267,497.17
6. Impairment losses on credits and assets	8,592,868.32	-11,078,664.23	-2,431,479.35		-4,917,275.26
7. Total profit (losses)	328,778,851.86	1,061,850,269.85	216,333,643.07	-42,056,896.32	1,564,905,868.46
8. Total assets	17,745,245,158.47	10,289,848,161.85	3,035,032,607.60	-9,242,220,889.52	21,827,905,038.40
9. Total liabilities	12,223,207,963.39	5,624,142,112.77	1,687,647,022.55	-5,596,499,037.04	13,938,498,061.67
10. Additions to other non-current assets other than long-term equity investments	-160,593,587.31	57,442,506.42	56,874,509.54		-46,276,571.35

(2) Geographic Information

Region	Amount for the year/closing balance	Amount of previous year/opening balance
Revenue from domestic transactions	22,712,402,936.91	22,039,246,655.83
Revenues from overseas transactions	11,484,524,163.92	10,751,821,924.78
Total	34,196,927,100.83	32,791,068,580.61
Non-current assets – Domestic	9,460,087,833.58	7,519,372,027.42
Non-current assets – Overseas	10,118,433.28	11,685,363.09
Total	9,470,206,266.86	7,531,057,390.51

The Company operates mainly in Mainland China. Most of the Company's non-current assets are in Mainland China. Therefore it is not necessary to present further details of the regional information.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

7. CHANGE IN SCOPE OF CONSOLIDATION

1. Business combination involving entities not under common control

(1) Business combination involving entities not under common control occurred this year

Name of acquiree	Date of acquisition of equity interest	Cost of acquisition of equity interest	Percentage of equity interest acquired (%)	Method for acquisition of equity interest	Date of acquisition	Basis for determination of date of acquisition	Revenue of acquiree for the period from the date of acquisition to the end of the year	Net profit of acquiree for the period from the date of acquisition to the end of the year
Hisense Hitachi	1 August 2010	332,821,597.45	49.00	Purchased in private placement	2 September 2019	Completion of the change of business registration, acquisition of control	3,156,417,970.31	183,608,346.22
	2 September 2019	25,000,000.00	0.20	Purchased in cash				

Note: Hisense Hitachi was originally a joint venture of the Company. The third interim meeting of the Company's tenth session of the Board in 2019 was convened on 5 March 2019 to consider and approve the resolution on transfer of equity interests of Qingdao Hisense Hitachi Air-Conditioning System Co., Ltd. (青島海信日立空調系統有限公司) and amendments to articles of association of Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.: ① The Company entered into an equity transfer agreement with Unitecs Corporation to transfer the 0.2% equity interest of Hisense Hitachi Air-Conditioning System Co., Ltd. held by Unitecs Corporation in RMB25 million, upon the completion of the equity transfer, the Company will hold 49.2% equity interest of Hisense Hitachi while Unitecs Corporation will hold 1.8% equity interest of Hisense Hitachi. ② Certain terms listed in the Articles of Association of Hisense Hitachi was amended, and the board composition of Hisense Hitachi and the agreement of each directors appointed by shareholders was adjusted. Upon the amendment, the number of board members of Hisense Hitachi will be increased from seven to nine. In particular, the number of board members to be designated by the Company will be increased from three to five. The Company also consolidates Hisense Hitachi into its account. On one hand, the scale of the Company's assets, income and cash flow will be greatly improved. On the other hand, the overall competitiveness of the Company will be improved through exerting synergies.

The above resolution was considered and approved at the 2019 second extraordinary general meeting of the Company on 29 August 2019.

On 2 September 2019, Hisense Hitachi completed the change of business registration. The Company holds 49.2% equity interest of Hisense Hitachi. The Company obtained more than half of voting rights of the board of directors of Hisense Hitachi, thereby the control of Hisense Hitachi was obtained.

For specific details of this matter, please refer to the announcement of the Company dated 6 March 2019 regarding the transfer of part of equity interest of Qingdao Hisense Hitachi Air-Conditioning System Co., Ltd. and the consolidation of Hisense Hitachi into the scope of consolidation statements, and relevant contents of the 2019 second extraordinary general meeting on 15 August 2019.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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7. CHANGE IN SCOPE OF CONSOLIDATION (continued)

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

(2) Cost of combination and goodwill

Item	Hisense Hitachi
Cash	25,000,000.00
Adjustment on fair value of purchased equity interest	-13,417,200.00
Fair value as at the date of acquisition of equity interest held before the date of acquisition	2,837,786,000.00
Total cost of combination	2,849,368,800.00
Less: Share of fair value of identifiable net assets acquired	2,716,797,053.64
Goodwill/excess of share of fair value of identifiable net assets acquired over cost of combination	132,571,746.36

The Company adopted the valuation of all equity interest in Hisense Hitachi as at 30 September 2019 carried out by Wanlong (Shanghai) Assets Appraisal Co., Ltd. as the fair value of the equity interest as at the date of acquisition.

The Company adopted the valuation of net assets based on consolidated consideration in Hisense Hitachi as at 30 September 2019 carried out by Wanlong (Shanghai) Assets Appraisal Co., Ltd. as the fair value of the identifiable net assets obtained.

(3) Identifiable assets and liabilities of the acquiree at the date of acquisition

	Fair value at the date of acquisition	Carrying amount at the date of acquisition
Assets:	13,056,971,748.46	12,612,718,019.89
Cash at bank and on hand	4,964,389,197.39	4,964,389,197.39
Accounts receivable	3,374,116,395.71	3,374,116,395.71
Inventories	1,007,614,281.63	761,980,304.31
Fixed assets	503,856,791.00	399,225,828.04
Intangible assets	1,285,486,741.93	1,191,497,953.64
Other non-current assets	1,206,193,122.00	1,206,193,122.00
Other assets	715,315,218.80	715,315,218.80
Liabilities:	7,257,319,356.64	7,186,619,461.79
Accounts payable	6,502,248,327.98	6,502,248,327.98
Deferred tax liabilities	90,373,241.48	19,673,346.63
Other liabilities	664,697,787.18	664,697,787.18
Net assets	5,799,652,391.82	5,426,098,558.10
Less: Minority interest	277,707,160.84	270,485,825.41
Net assets acquired	5,521,945,230.98	5,155,612,732.69

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

7. CHANGE IN SCOPE OF CONSOLIDATION (continued)

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

(4) Gain or loss on re-measurement of equity interest held before the date of acquisition at fair value

Name of acquiree	Carrying amount as at the date of acquisition of equity interest held before the date of acquisition	Fair value as at the date of acquisition of equity interest held before the date of acquisition	Gain or loss on re-measurement of equity interest held before the date of acquisition at fair value	Method for determination of fair value as at the date of acquisition of equity interest held before the date of acquisition and major assumptions	Amount of other comprehensive income relating to equity interest held before the date of acquisition transferred to investment income
Hisense Hitachi	2,541,242,580.68	2,837,786,000.00	296,543,419.32	Valuation	

2. Disposal of subsidiaries

Name of the company	Consideration for disposal of equity interests	Percentage of disposal of equity interests (%)	Method for disposal of equity interests	Time of losing control	Basis for determination of timing of losing control	Difference between consideration for disposal and net assets of the subsidiary attributable to the Company under consolidated financial statements	Proportion of remaining equity interest at the date of loss of control	Book value of remaining equity interest at the date of loss of control	Fair value of remaining equity interest at the date of loss of control	Gain or loss arising from the remaining equity interest re-measured at fair value	Recognition of other comprehensive income which is related to equity investment of former subsidiary	Profit or loss arising from transformation of other comprehensive income which is related to equity investment of former subsidiary
Hisense (Nanjing) Electric Company Limited	120,050,000.00	100.00	Transfer	4 September 2019	Date of changes with the administration for industry and commerce	47,763,133.83						

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8. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Composition of enterprise group

Name of subsidiary	Abbreviation	Registered Capital	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Method for acquisition
						Direct	Indirect	
Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.	Guangdong Refrigerator	USD26.80 million	Foshan	Foshan	Manufacturing	70	30	Establishment or investment
Guangdong Kelon Air-conditioner Co., Ltd. (i)	Guangdong Air-conditioner	USD36.15 million	Foshan	Foshan	Manufacturing	60		Establishment or investment
Hisense Ronshen (Guangdong) Freezer Co., Ltd.	Guangdong Freezer	RMB237 million	Foshan	Foshan	Manufacturing	44	56	Establishment or investment
Hisense (Guangdong) Kitchen and Bath System Co., Ltd.	Hisense K&B	RMB57.41 million	Foshan	Foshan	Manufacturing	81.17		Establishment or investment
Foshan Shunde Rongsheng Plastic Co., Ltd.	Rongsheng Plastic	USD15.83 million	Foshan	Foshan	Manufacturing	44.92	25.13	Establishment or investment
Guangdong Kelon Mould Co., Ltd.	Kelon Mould	USD15.06 million	Foshan	Foshan	Manufacturing		70.11	Establishment or investment
Guangdong Huaao Electronics Co., Ltd. (ii)	Huaao Electronics	RMB10 million	Foshan	Foshan	Manufacturing		70	Establishment or investment
Guangdong Foshan Shunde Kelon Property Service Co., Ltd.	Kelon Property	RMB5 million	Foshan	Foshan	Provision of services	80	20	Establishment or investment
Foshan Shunde Wangao Import & Export Co., Ltd.	Wangao I&E	RMB3 million	Foshan	Foshan	Trading	20	80	Establishment or investment
Guangdong Kelon Jiake Electronics Co., Ltd.	Kelon Jiake	RMB60 million	Foshan	Foshan	Manufacturing	70	30	Establishment or investment
Guangdong Kelon Weili Electrical Appliances Co., Ltd.	Kelon Weili	RMB200 million	Zhongshan	Zhongshan	Manufacturing	55	25	Establishment or investment
Hisense Ronshen (Yingkou) Refrigerator Co., Ltd.	Yingkou Refrigerator	RMB200 million	Yingkou	Yingkou	Manufacturing	42	36.79	Establishment or investment
Jiangxi Kelon Industrial Development Co., Ltd.	Jiangxi Kelon	USD29.80 million	Nanchang	Nanchang	Manufacturing	60	40	Establishment or investment
Jiangxi Kelon Combine Electrical Appliances Co., Ltd. (iii)	Combine	RMB20 million	Nanchang	Nanchang	Manufacturing		55	Establishment or investment
Hangzhou Kelon Electrical Co., Ltd.	Hangzhou Kelon	USD24.10 million	Hangzhou	Hangzhou	Manufacturing	100		Establishment or investment
Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.	Yangzhou Refrigerator	USD44.45 million	Yangzhou	Yangzhou	Manufacturing	74.33	25.67	Establishment or investment
Shangqiu Kelon Electrical Co., Ltd.	Shangqiu Kelon	RMB150 million	Shangqiu	Shangqiu	Manufacturing		100	Establishment or investment
Zhuhai Kelon Electrical Industrial Development Co., Ltd.	Zhuhai Kelon	USD29.98 million	Zhuhai	Zhuhai	Manufacturing	75	25	Establishment or investment
Shenzhen Kelon Purchase Co., Ltd.	Shenzhen Kelon	RMB200 million	Shenzhen	Shenzhen	Trading	95	5	Establishment or investment
Pearl River Electric Refrigerator Co., Ltd.	Pearl River Refrigerator	HKD0.4 million	Hong Kong	Hong Kong	Trading		100	Establishment or investment

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8. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

(1) Composition of enterprise group (continued)

Name of subsidiary	Abbreviation	Registered Capital	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Method for acquisition
						Direct	Indirect	
Kelon Development Co., Ltd.	Kelon Development	HKD5 million	Hong Kong	Hong Kong	Investment	100		Establishment or investment
Kelon International Incorporation	KII	USD0.05 million	Hong Kong	British Virgin Islands	Trading		100	Establishment or investment
Hisense (Chengdu) Refrigerator Co., Ltd.	Chengdu Refrigerator	RMB50 million	Chengdu	Chengdu	Manufacturing	100		Establishment or investment
Hisense (Shandong) Refrigerator Ltd.	Shandong Refrigerator	RMB275 million	Qingdao	Qingdao	Manufacturing	100		Establishment or investment
Guangdong Hisense Refrigerator Marketing Co., Ltd.	Refrigerator Marketing Company	RMB200.82 million	Foshan	Foshan	Trading		78.82	Establishment or investment
Qingdao Hisense Air-conditioner Marketing Co., Ltd.	Airconditioner Marketing Company	RMB100.91 million	Qingdao	Qingdao	Trading		75.57	Establishment or investment
Hisense (Guangdong) Air-Conditioner Company Limited	Hisense Guangdong Air-Conditioner	RMB200 million	Jiangmen	Jiangmen	Manufacturing		100	Establishment or investment
Hisense (Guangdong) Mould Plastic Company Limited	Hisense Guangdong Mould Plastic	RMB10 million	Jiangmen	Jiangmen	Manufacturing		100	Establishment or investment
Jiangmen Hisense Electrical Appliances Co., Ltd.	Jiangmen Hisense Electrical Appliances	RMB10 million	Jiangmen	Jiangmen	Manufacturing		100	Establishment or investment
Hisense (Beijing) Electric Co., Ltd.	Beijing Refrigerator	RMB85.71 million	Beijing	Beijing	Manufacturing	55		Business combination under common control
Hisense (Shandong) Air-Conditioning Co. Ltd.	Shandong Air-conditioning	RMB500 million	Qingdao	Qingdao	Manufacturing	100		Business combination under common control
Hisense (Zhejiang) Air-conditioning Co., Ltd.	Zhejiang Air-conditioning	RMB110 million	Huzhou	Huzhou	Manufacturing		100	Business combination under common control
Qingdao Hisense Mould Co., Ltd.	Hisense Mould	RMB27.64 million	Qingdao	Qingdao	Manufacturing	78.70		Business combination under common control
Hisense (Zhejiang) Washing Machine Co., Ltd.	Zhejiang Washing Machine	RMB450 million	Huzhou	Huzhou	Manufacturing		100	Business combination not under common control
Qingdao Hisense Commercial Cold Chain Co., Ltd.	Commercial Cold Chain	RMB50 million	Qingdao	Qingdao	Manufacturing		70	Establishment or investment
Hisense Changsha Electronic Commerce Co., Ltd.	Changsha Electronic	RMB10 million	Changsha	Changsha	Trading		100	Establishment or investment
Hisense Mould (Deutschland) GmbH	German Hisense Mould	EUR200	Germany	Germany	Manufacturing		100	Establishment or investment
Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.	Hisense Hitachi	USD150 million	Qingdao	Qingdao	Manufacturing	49.2		Business combination not under common control

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From 1 January 2019 to 31 December 2019

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

8. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

(1) Composition of enterprise group (continued)

Name of subsidiary	Abbreviation	Registered Capital	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Method for acquisition
						Direct	Indirect	
Qingdao Hisense Air-conditioner Marketing Co., Ltd.	Hitachi Marketing	RMB223.70 million	Qingdao	Qingdao	Trading		71.52	Business combination not under common control
Qingdao Johnson Controls Air-Conditioning Co., Ltd.	Johnson Controls	RMB400 million	Qingdao	Qingdao	Trading		100	Business combination not under common control
Qingdao Hisense Hvac Equipment Co., Ltd.	Hisense Hvac	RMB600 million	Qingdao	Qingdao	Manufacturing		100	Business combination not under common control

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 held 49.2% of equity interests of Hisense Hitachi, and according to the articles of association of Hisense Hitachi, the Company held five-ninth voting rights of the board of directors, the highest authority of Hisense Hitachi.

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From 1 January 2019 to 31 December 2019

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

8. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

(2) Principal non-wholly-owned subsidiaries

Name of subsidiary	Percentage of minority interest (%)	Gain or loss attributable to minority interests for the year	Dividends paid to minority interests for the year	Closing balance of minority interests
Refrigerator Marketing Company	21.18	9,412,579.74	4,807,359.00	57,769,310.74
Air-conditioner Marketing Company	24.43	1,130,703.16	2,884,050.00	44,363,716.18

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

Unit: RMB'0000

Name of subsidiary	Closing balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Refrigerator Marketing Company	784,785.77	2,720.16	787,505.93	760,236.63		760,236.63
Air-conditioner Marketing Company	245,161.16	1,624.43	246,785.59	228,624.36		228,624.36

(continued)

Name of subsidiary	Opening balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Refrigerator Marketing Company	685,273.14	2,149.34	687,422.48	662,327.03		662,327.03
Air-conditioner Marketing Company	255,120.84	1,513.95	256,634.79	237,755.80		237,755.80

Name of subsidiary	Amount for the year				Amount for previous year			
	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Refrigerator Marketing Company	1,072,256.10	4,443.09	4,443.09	134,123.64	1,073,235.45	2,556.93	2,556.93	64,443.46
Air-conditioner Marketing Company	747,770.34	462.88	462.88	-28,352.33	922,180.56	3,271.41	3,271.41	-3,959.94

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

8. INTERESTS IN OTHER ENTITIES *(continued)*

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

(1) Note to change in the ownership interest in subsidiary

On 16 December 2019, Minority shareholders of Hitachi Marketing increased the capital. Upon the completion of capital increase, the indirect shareholding of the Company in Hitachi Marketing changed from 75.00% to 71.52% and the Company still controlled the company.

(2) Impacts of changes in ownership interest in subsidiaries on equity

Item	Hitachi Marketing
Cash	41,376,300.00
Total cost of purchase/consideration for disposal	41,376,300.00
Less: Share of net assets of subsidiary based on the shareholding percentage acquired/disposed of	52,904,727.43
Difference	-11,528,427.43
Including: Adjustment to capital reserves	-11,528,427.43

3. Interests in joint ventures or associates

(1) 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 Hitachi	Qingdao	Qingdao	Manufacturing	49.00		Equity method
Hisense Financial Holdings	Qingdao	Qingdao	Financial services industry	24.00		Equity method
Hisense Commercial Trading	Qingdao	Qingdao	Trading	50.00		Equity method
Hisense International	Overseas	Qingdao	Trading	12.67		Equity method

The board of directors of Hisense International comprises 9 directors, 2 of which were appointed by the Company. Therefore, the Company had significant influence on it. In September 2019, the Company included Hisense Hitachi in the scope of its consolidated financial statements and its shareholdings changed from 49% to 49.2%. For details, please refer to Note 7(1) Change in scope of consolidation.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

8. INTERESTS IN OTHER ENTITIES *(continued)*

3. Interests in joint ventures or associates *(continued)*

(2) Major financial information of significant joint venture

Unit: RMB'0000

Item	Closing balance/ Amount for the year	Opening balance/ Amount for previous year
	Hisense Hitachi	Hisense Hitachi
Current assets	913,123.81	904,574.76
Including: Cash and cash equivalents	44,289.77	186,878.62
Non-current assets	348,147.99	287,593.41
Total assets	1,261,271.80	1,192,168.17
Current liabilities	702,226.52	569,789.92
Non-current liabilities	16,435.43	15,456.78
Total liabilities	718,661.95	585,246.70
Minority interest	27,048.58	23,362.11
Equity attributable to shareholders of the parent company	515,561.27	583,559.37
Share of net assets based on shareholding percentage	252,625.02	285,944.09
Adjustments		
– Goodwill		
– Unrealized profit from intra-group transactions		
– Others	1,499.24	1,730.80
Carrying amount of equity investments in joint ventures	254,124.26	287,674.89
Fair value of investments in joint ventures with public quoted prices		
Operating revenue	888,192.07	1,098,666.68
Financial expenses	-10,306.71	-12,704.52
Income tax expenses	31,346.50	34,647.46
Net profit	149,458.24	160,321.77
Net profit from discontinued operations		
Other comprehensive income		
Total comprehensive income	149,458.24	160,321.77
Dividend received from joint ventures during the year	103,610.50	

Closing balance of Hisense Hitachi represents balance as at 30 September 2019, and amount for the period represents the amount from January 2019 to September 2019.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

8. INTERESTS IN OTHER ENTITIES *(continued)*

3. Interests in joint ventures or associates *(continued)*

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

Unit: RMB'0000

Item	Closing balance/ Amount for the year	Opening balance/ Amount for previous year
Joint ventures:	–	–
Total carrying amount of investments	4,561.52	4,802.75
Amounts in aggregate in proportion to the shareholdings:	–	–
– Net profit	-241.23	-100.85
– Other comprehensive income	–	–
– Total comprehensive income	-241.23	-100.85
Associates:	–	–
Total carrying amount of investments	42,246.55	40,200.67
Amounts in aggregate in proportion to the shareholdings:	–	–
– Net profit	2,589.50	3,390.44
– Other comprehensive income	896.59	-28.95
– Total comprehensive income	3,486.09	3,361.49

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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9. RISKS RELATING TO FINANCIAL INSTRUMENTS

The Group's major financial instruments include: cash at bank and on hand, transactional financial assets, 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 Group 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 Group maintains substantially all of its bank balances in domestic financial institutions with higher credit rating. The Board believes these assets are not exposed to significant credit risk that would cause financial losses.

The Group 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 Group to make cash payment in order to minimise credit risk. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk. In addition, all receivable balances are monitored on an ongoing basis and overdue balances are followed up by senior management.

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

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

(2) Liquidity risk

In respect of the management of liquidity risk, the Group monitors and maintains cash and cash equivalents at a level which is adequate, in the management's point of views, to finance the Group's operations and mitigate the effects of short-term fluctuations in cash flows. The Group'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 Group's liquidity requirements.

In order to mitigate the liquidity risk, the directors have carried out a detailed review of the liquidity of the Group, 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 Group has adequate funding to fulfill its short-term obligations and capital expenditure requirements.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

9. RISKS RELATING TO FINANCIAL INSTRUMENTS *(continued)*

(2) Liquidity risk *(continued)*

As at the balance sheet date, the undiscounted contractual cash flows of financial assets and financial liabilities of the Group based on maturity date were as follows:

31 December 2019

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets					
Cash at bank and on hand	6,120,563,237.47			6,120,563,237.47	
Transactional financial assets	2,120,000,000.00			2,120,000,000.00	
Notes receivable	1,102,527,326.72			1,102,527,326.72	
Accounts receivable	4,161,940,502.44			4,161,940,502.44	
Financing receivable	4,099,608,704.80			4,099,608,704.80	
Other receivables	402,948,037.32			402,948,037.32	
Other current assets	2,515,406,233.00			2,515,406,233.00	
Other non-current assets			2,093,188,666.66		2,093,188,666.66
Total	20,522,994,041.75		2,093,188,666.66		22,616,182,708.41
Financial liabilities					
Short-term borrowings	100,083,424.66			100,083,424.66	
Notes payable	7,560,312,550.23			7,560,312,550.23	
Accounts payable	5,317,357,636.81			5,317,357,636.81	
Other payables	1,920,036,363.71			1,920,036,363.71	
Other current liabilities	3,755,169,074.60			3,755,169,074.60	
Lease liabilities	40,736,624.70	19,802,063.02	5,020,918.19		65,559,605.91
Total	18,693,695,674.71	19,802,063.02	5,020,918.19		18,718,518,655.92

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

9. RISKS RELATING TO FINANCIAL INSTRUMENTS (continued)

(2) Liquidity risk (continued)

31 December 2018

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets					
Cash at bank and on hand	3,648,463,609.61			3,648,463,609.61	
Transactional financial assets	540,207,350.00				540,207,350.00
Notes receivable	911,347,559.44				911,347,559.44
Accounts receivable	3,115,428,594.65				3,115,428,594.65
Financing receivable	2,194,836,489.29				2,194,836,489.29
Other receivables	429,517,592.29				429,517,592.29
Other current assets	197,325.00				197,325.00
Total	10,839,998,520.28				10,839,998,520.28
Financial liabilities					
Transactional financial assets	2,765,900.00				2,765,900.00
Notes payable	5,442,369,087.15				5,442,369,087.15
Accounts payable	4,373,335,213.48				4,373,335,213.48
Other payables	1,766,319,446.79				1,766,319,446.79
Other current liabilities	646,178,914.93				646,178,914.93
Total	12,230,968,562.35				12,230,968,562.35

The maturity of bank and other borrowings were analyzed as follows:

The bank borrowings as at 31 December 2019 will expire on 24 June 2020. The Group had no bank and other borrowings as at 31 December 2018.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

9. RISKS RELATING TO FINANCIAL INSTRUMENTS (continued)

(3) Interest rate risk

The Group 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, of which the variable interest rates are mostly short-term in nature whereas interest-bearing financial liabilities are primarily short-term bank borrowings. As at 31 December 2019, the Group's bank borrowings are fixed rate. As such, any change in the interest rate is not considered to have significant impact on the Group'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 Group'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	553,635,498.93	38,724,346.10	314,992,582.61	90,538,470.80
EUR	178,060,275.08	937,780.20	85,829,707.99	3,607,026.51

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	Current year Increase/Decrease in profit after tax	Previous year Increase/Decrease in profit after tax
USD to RMB		
Appreciates by 5%	19,309,168.23	8,417,029.19
Depreciates by 5%	-19,309,168.23	-8,417,029.19
EUR to RMB		
Appreciates by 5%	6,642,093.56	3,083,350.55
Depreciates by 5%	-6,642,093.56	-3,083,350.55

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

10. DISCLOSURE OF FAIR VALUE

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

Item	Fair value as at the end of the year			Total
	Level 1 Fair value measurement	Level 2 Fair value measurement	Level 3 Fair value measurement	
I. Fair value measurement on a recurring basis	-	-	-	-
(i) Transactional financial assets			2,120,000,000.00	2,120,000,000.00
1. Financial assets at fair value through profit or loss			2,120,000,000.00	2,120,000,000.00
(1) Others			2,120,000,000.00	2,120,000,000.00
(ii) Other debt investments			4,099,608,704.80	4,099,608,704.80
1. Notes receivable			3,908,992,347.85	3,908,992,347.85
2. Account receivable			190,616,356.95	190,616,356.95
Total assets measured at fair value on a recurring basis			6,219,608,704.80	6,219,608,704.80

2. Valuation techniques and qualitative and quantitative information for level 3 items measured on and not on a recurring basis

Transactional financial assets are bank financial products with relatively short maturity and their carrying amount appropriate to fair value, and adopt carrying amount as their fair value.

Receivables financing have relatively short remaining maturity with their carrying amount appropriate to fair value, and adopt carrying amount as their fair value.

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11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Particulars of the controlling shareholders and the ultimate holding company

(1) Particulars of the controlling shareholders and the ultimate holding company

(Amount Unit: RMB'0000)

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

Continued from above table

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

(2) Controlling shareholder's registered capital and its changes

(Amount Unit: RMB'0000)

Controlling shareholder	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Qingdao Hisense Air-Conditioning	67,479			67,479

(3) Shareholding of controlling shareholder and its changes

Controlling shareholder	Ending balance	Shareholding amount		Percentage of shareholding (%)	
		Beginning balance	Ending balance	Percentage at the end of the year	Percentage at the beginning of the year
Qingdao Hisense Air-Conditioning	516,758,670.00	516,758,670.00		37.92	37.92

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11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

2. Subsidiaries

For details of subsidiaries, please see note 8(1) “(1) Composition of enterprise group”.

3. Joint ventures and associates

For details of the joint ventures or associates of the Company, please see note 8(3)(1) “Joint ventures or associates”.

4. Greencool Companies

Name of related parties of Greencool Companies

Relationship with the Company

Guangdong Greencool	Former controlling shareholder of the Company
Jiangxi Greencool Electrical Appliance Co., Ltd. (“Jiangxi Greencool”)	Related party of Guangdong Greencool

5. Other related parties of the Company

Name of other related parties

Relationship with the Company

Hisense Finance Co., Ltd. (“Hisense Finance”)	Subsidiary of ultimate holding company
Hisense Visual Technology Co.,Ltd. (formerly known as Hisense Electric Co., Ltd. hereinafter referred to as “Hisense Visual”.)	Subsidiary of ultimate holding company
Beijing Xuehua Group Company Limited (“Xuehua Group”)	Minority shareholder of Beijing Refrigerator
Hisense (Hong Kong) Company Limited (“Hisense Hong Kong”)	Subsidiary of ultimate holding company
Johnson Controls-Hitachi Air Conditioning Holding (UK) Ltd. (hereinafter referred to as “Johnson Hitachi”)	Controlling shareholder of the minority shareholder of Hisense Hitachi

6. The Greencool Companies had a series of transactions or unusual cash inflows and outflows through the following “Specific Third Party Companies”

Name of related party

Relationship with the Company

Jinan San Ai Fu	Specific Third Party Company
Jiangxi Keda	Specific Third Party Company
Zhuhai Longjia	Specific Third Party Company
Zhuhai Defa	Specific Third Party Company
Wuhan Changrong	Specific Third Party Company
Deheng Solicitors	Specific Third Party Company
Shangqiu Bingxiong	Specific Third Party Company

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11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

7. Related party transactions

(1) Purchase of goods/receipt of services

Related party	Particulars of related party transactions	Pricing and decision-making procedures of related party transactions	Amount for the year		Amount for previous year	
			Amount	Percentage of the amount for similar transactions (%)	Amount	Percentage of the amount for similar transactions (%)
Hisense Visual and its subsidiaries					70,818.11	
Hisense Group and its subsidiaries	Finished goods	Agreed price	23,593,928.15	0.08	257,571.30	
Hisense Hitachi	Finished goods	Agreed price			32,191.45	
Johnson Hitachi and its subsidiaries	Finished goods	Agreed price	3,243,355.83	0.01		
Subtotal of purchase of finished goods			26,837,283.98	0.09	360,580.86	
Hisense Visual and its subsidiaries	Raw materials	Agreed price	8,407,360.35	0.03	12,598,359.90	0.04
Hisense Group and its subsidiaries	Raw materials	Agreed price	191,833,672.11	0.65	181,244,374.83	0.62
Hisense Hitachi	Raw materials	Agreed price	10,002,909.68	0.03	11,436,716.47	0.04
Johnson Hitachi and its subsidiaries	Raw materials	Agreed price	117,717,188.45	0.40		
Subtotal of purchase of raw materials			327,961,130.59	1.11	205,279,451.20	0.70
Hisense Visual and its subsidiaries	Equipment	Agreed price	901,038.17	0.07		
Hisense Group and its subsidiaries	Equipment	Agreed price	3,676,048.63	0.27		
Subtotal of purchase of equipment			4,577,086.80	0.34		
Hisense Visual and its subsidiaries	Receipt of services	Agreed price	16,655,180.62	0.06	12,299,624.76	0.04
Hisense Group and its subsidiaries	Receipt of services	Agreed price	619,631,869.84	2.11	382,493,229.52	1.31
Hisense Hitachi	Receipt of services	Agreed price	1,769.91			
Xuehua Group	Receipt of services	Agreed price	462,716.00		568,563.75	
Johnson Hitachi and its subsidiaries	Receipt of services	Agreed price	352,635.59			
Subtotal of receipt of services			637,104,171.96	2.17	395,361,418.03	1.35
Hisense Hong Kong	Financing purchase		251,567,012.25	0.85	239,001,035.63	0.82
Subtotal of financing purchase			251,567,012.25	0.85	239,001,035.63	0.82

(1) The Company and Hisense Group and Hisense Visual and Hisense Marketing Management entered into a Business Cooperation Framework Agreement on 26 November 2018. During the effective period of the agreement, the transaction with the Group as the purchaser and recipient of services was subject to an aggregate cap (exclusive of value-added tax) of RMB1,384,430,000.

(2) The Company and Hisense Hitachi entered into a Business Framework Agreement on 26 November 2018. During the effective period of the agreement, the transaction with the Group as the purchaser was subject to an aggregate cap (exclusive of value-added tax) of RMB12,720,000.

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11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

7. Related party transactions *(continued)*

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

- (3) The Company and Hisense Hong Kong entered into a Financing Purchase Framework Agreement on 26 November 2018. During the effective period of the agreement, the transaction in which the Group engaged Hisense Hong Kong to perform financing purchase as its agent was subject to an aggregate cap of US\$100,000,000.

The above agreements were considered and approved at the fourth interim meeting of the Company's tenth session of the board of directors in 2018 convened on 26 November 2018 and the first extraordinary general meeting in 2019 convened on 23 January 2019 respectively.

- (4) The Company, Hisense Group and Hisense Visual entered into the Supplemental Agreement to the Business Framework Agreement on 21 June 2019. During the effective period of the agreement, the transaction with the Group as the purchaser and recipient of services was subject to an aggregate cap (exclusive value-added tax) of RMB1,502,560,000.

The above agreements were considered and approved at the fifth interim meeting of the Company's tenth session of the board of directors in 2019 convened on 21 June 2019 and the second extraordinary general meeting in 2019 convened on 29 August 2019 respectively.

- (5) On 11 September 2019, the Company and Johnson Hitachi entered into a Business Cooperation Agreement. During the effective period of the agreement, the transaction with the Group as the purchaser and recipient of services was subject to an aggregate cap (exclusive value-added tax) of RMB499,430,000.

The above agreement was considered and approved at the eighth interim meeting of the tenth session of the board of directors in 2019 convened on 11 September 2019.

- (6) The above transactions with Hisense Group and its subsidiaries, Hisense Visual and its subsidiaries, Hisense Hong Kong, Johnson Hitachi and its subsidiaries constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules, and the Company confirmed such connected transactions have complied with the disclosure and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules (provided since the financial assistance arrangements under the Purchase Financing Agency Framework Agreement entered into between the Company and Hisense Hong Kong was for the benefit of the Company on normal commercial terms where no security over the assets of the Group was granted in respect of the financial assistance, such connected transaction with Hisense Hong Kong were exempt from the reporting, announcement and shareholders' approval requirements pursuant to Rule 14A.65(4) and Rule 14A.76(1)(b) of the Hong Kong Listing Rules; The Company and Johnson Hitachi entered into a Business Cooperation Agreement, and the Board has approved the transactions and the Directors (including the Independent Non-executive Directors) have also confirmed that the terms of the transactions are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole. Therefore, the connected transactions with Johnson Hitachi are exempt from the circular, independent financial advice and Shareholders' approval requirements according to of Rule 14A.101 of the Hong Kong Listing Rules).

Other than the above transactions, the transactions with related parties conducted in 2019 as disclosed in note 11 of the financial statements in the 2019 annual report do not constitute connected transactions under Chapter 14A of the Listing Rules.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

7. Related party transactions (continued)

(2) Sale of goods/rendering of service

Related party	Particulars of related party transactions	Pricing and decision-making procedures of related party transactions	Amount for the year		Amount for previous year	
			Amount	Percentage of the amount for similar transactions (%)	Amount	Percentage of the amount for similar transactions (%)
Hisense Visual and its subsidiaries	Finished goods	Agreed price	488,625.82		713,423.93	
Hisense Group and its subsidiaries	Finished goods	Agreed price	10,604,774,468.75	28.31	9,827,839,380.01	27.28
Hisense Hitachi	Finished goods	Agreed price	373,675,519.30	1.00	488,465,628.95	1.36
Johnson Hitachi and its subsidiaries	Finished goods	Agreed price	30,727,721.08	0.08		
Subtotal of sale of finished goods			11,009,666,334.95	29.39	10,317,018,432.89	28.64
Hisense Visual and its subsidiaries	Raw materials	Agreed price	10,740,619.29	0.03	24,435,391.01	0.07
Hisense Group and its subsidiaries	Raw materials	Agreed price	114,377,805.58	0.31	76,808,996.15	0.21
Hisense Hitachi	Raw materials	Agreed price	2,732,946.37	0.01	2,656,194.08	0.01
Johnson Hitachi and its subsidiaries	Raw materials	Agreed price	2,618,693.81	0.01		
Subtotal of sale of raw materials			130,470,065.05	0.36	103,900,581.24	0.29
Hisense Visual and its subsidiaries	Moulds	Market price	62,202,571.62	0.17	111,470,607.06	0.31
Hisense Group and its subsidiaries	Moulds	Market price	49,436,204.17	0.13	69,533,265.03	0.19
Hisense Hitachi	Moulds	Market price	4,552,833.26	0.01	14,901,757.52	0.04
Subtotal of sale of moulds			116,191,609.05	0.31	195,905,629.61	0.54
Hisense Group and its subsidiaries	Equipment	Agreed price	98,058.25		4,602,574.89	0.01
Subtotal of purchase of equipment			98,058.25		4,602,574.89	0.01
Hisense Visual and its subsidiaries	Provision of services	Agreed price	2,492,383.26	0.01	897,957.20	
Hisense Group and its subsidiaries	Provision of services	Agreed price	19,400,422.35	0.05	23,677,417.72	0.07
Hisense Hitachi	Provision of services	Agreed price	93,489.00		83,003.90	
Xue hua Guoup	Provision of services	Agreed price	1,383,763.29		458,450.45	
Johnson Hitachi and its subsidiaries	Provision of services	Agreed price	64,053.45			
Subtotal of rendering of services			23,434,111.35	0.06	25,116,829.27	0.07

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

7. Related party transactions *(continued)*

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

- (1) The Company and Hisense Group and Hisense Visual and Hisense Marketing Management entered into a Business Cooperation Framework Agreement on 26 November 2018. During the effective period of the agreement, the transaction with the Group as the supplier and service provider was subject to an aggregate cap (exclusive of value-added tax) of RMB15,522,330,000.
- (2) The Company and Hisense Hitachi entered into a Business Framework Agreement on 26 November 2018. During the effective period of the agreement, the transaction with the Group as the supplier and service provider was subject to an aggregate cap (exclusive of value-added tax) of RMB748,230,000.

The above agreements were considered and approved at the fourth interim meeting of the Company's tenth session of the board of directors in 2018 convened on 26 November 2018 and the first extraordinary general meeting in 2019 convened on 23 January 2019 respectively.

- (3) On 21 June 2019, the Company entered into the Supplemental Agreement to the Business Framework Agreement with Hisense Group and Hisense Visual, during the term of which the Company recorded a total cap transaction amount of RMB15,614,220,000 (exclusive value-add tax) from the supplier and the service provider.

The above agreements were considered and approved at the fifth interim meeting of the tenth session of the Board in 2019 held on 21 June 2019 and the 2019 second extraordinary general meeting held on 29 August 2019, respectively.

- (4) The Company and Johnson Hitachi entered into the Business Cooperation Agreement on 11 September 2019. During the effective period of the agreement, the transaction with the Group as the supplier and service provider was subject to an aggregate cap (exclusive of value-added tax) RMB98,130,000.

The above agreement was considered and approved at the 2019 eighth interim meeting of the tenth session of the board of directors of the Company convened on 11 September 2019.

- (5) The above transactions with Hisense Group and its subsidiaries, Hisense Visual and its subsidiaries, Johnson Hitachi and its subsidiaries constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules, and the Company confirmed such connected transactions have complied with the disclosure and shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules (provided that the Company and Johnson Hitachi entered into a Business Cooperation Agreement, and the Board has approved the transactions and the Directors (including the Independent Non-executive Directors) have also confirmed that the terms of the transactions are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole. Therefore, the connected transactions with Johnson Hitachi are exempt from the circular, independent financial advice and shareholders' approval requirements under 14A.101 of the Listing Rules).

Other than the above transactions, the transactions with related parties conducted in 2019 as disclosed in note 11 of the financial statements in the 2019 annual report do not constitute connected transactions under Chapter 14A of the Listing Rules.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

7. Related party transactions *(continued)*

(3) Key management personnel emoluments

Please see note 15(3) Key management personnel emoluments for details.

(4) Other connected transactions

As at 31 December 2019, the Group had the balance of deposit of RMB10,417,146,100 (listed in bank deposits, other current assets and other non-current assets according to holding intention and liquidity), and balance of electronic bank acceptance note of RMB5,651,232,600 with Hisense Finance. The balance of loan was RMB100,000,000. The amount of loan interest for Hisense Finance of RMB83,400 was recognized. The amount of discounted interest, handling fee for opening accounts for electronic bank acceptance note, settlement service for receipt and payment of funds paid by the Company to Hisense Finance amounted to RMB600,000, RMB4,769,100 and RMB357,900. Interest income from bank deposits of RMB88,594,000 was recognized. The actual amount involved for the provision of settlement and sale of foreign exchange services provided by Hisense Finance to the Group was RMB238,117,300 and the amount for provision of discounted notes was RMB48,043,000.

Pursuant to the Trademark Licensing Agreement entered into between the Company and Hisense Group, the Group is entitled to use the trademark of “海信” and “Hisense” within the scope of permission and during the licensing period in the agreement at nil consideration.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

8. Receivables from and payables to related parties

(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 Visual and its subsidiaries	73,662,349.59		85,311,108.33	
Notes receivable	Hisense Group and its subsidiaries	155,386,729.87		67,929,615.51	
Notes receivable	Hisense Hitachi			47,813,870.45	
Subtotal		229,049,079.46		201,054,594.29	
Interest receivable	Hisense Finance	113,594,899.67		197,325.00	
Subtotal		113,594,899.67		197,325.00	
Accounts receivable	Hisense Visual and its subsidiaries	32,245,206.20	603,299.99	31,764,053.34	
Accounts receivable	Hisense Group and its subsidiaries	1,819,052,137.68		1,505,686,585.24	
Accounts receivable	Johnson Hitachi and its subsidiaries	29,976,086.25			
Accounts receivable	Hisense Hitachi			25,376,956.36	
Subtotal		1,881,273,430.13	603,299.99	1,562,827,594.94	
Other receivables	Hisense Visual and its subsidiaries	910,500.00	900,000.00	910,200.00	
Other receivables	Hisense Group and its subsidiaries	1,925,012.97	47,732.00	1,500,538.73	
Subtotal		2,835,512.97	947,732.00	2,410,738.73	
Prepayments	Hisense Group and its subsidiaries	9,415,301.89		4,133,893.99	
Subtotal		9,415,301.89		4,133,893.99	

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

8. Receivables from and payables to related parties *(continued)*

(2) Payables to related parties

Item	Related party	Closing balance	Opening balance
Note payable	Hisense Group and its subsidiaries	15,551,614.76	4,675,971.69
Note payable	Johnson Hitachi and its subsidiaries	168,071,845.85	
Subtotal		183,623,460.61	4,675,971.69
Accounts payable	Hisense Visual and its subsidiaries	16,294.75	660,817.88
Accounts payable	Hisense Group and its subsidiaries	258,472,693.54	202,607,355.00
Accounts payable	Hisense Hitachi		4,123,205.14
Accounts payable	Johnson Hitachi and its subsidiaries	54,108,096.37	
Subtotal		312,597,084.66	207,391,378.02
Other payables	Hisense Visual and its subsidiaries	21,662.98	9,054.98
Other payables	Hisense Group and its subsidiaries	80,822,684.91	21,380,056.82
Other payables	Xuehua Group	100,859.00	226,531.15
Subtotal		80,945,206.89	21,615,642.95
Advances	Hisense Group and its subsidiaries	9,523,930.44	222,644.93
Subtotal		9,523,930.44	222,644.93

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

8. Receivables from and payables to related parties *(continued)*

(3) Transactions with “specific third party companies”

Item	Related party	At the end of the year Book value	At the beginning of the year Book value
Other receivables	Jinan San Ai Fu	81,600,000.00	81,600,000.00
	Jiangxi Keda	13,000,200.00	13,000,200.00
	Zhuhai Longjia	28,600,000.00	28,600,000.00
	Zhuhai Defa	21,400,000.00	21,400,000.00
	Wuhan Changrong	20,000,000.00	20,000,000.00
	Deheng Solicitors	2,000,000.00	2,000,000.00
	Shangqiu Bingxiong	58,030,000.00	58,030,000.00
Subtotal of other receivables		224,630,200.00	224,630,200.00
Other payables	Zhuhai Longjia	17,766,425.03	17,766,425.03
Other payablesSubtotal		17,766,425.03	17,766,425.03

(4) Transactions with Greencool Companies

Item	Related party	At the end of the year Book value	At the beginning of the year Book value
Other payables	Jiangxi Greencool	13,000,000.00	13,000,000.00
Subtotal of other payables		13,000,000.00	13,000,000.00

12. CONTINGENCIES

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

As at 31 December 2019, the Group was involved, as defendant, in litigations with amount of RMB57,723,753.00, and provision of RMB16,267,827.84 had been made.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

13. COMMITMENTS

1. Capital commitments

Unit: RMB'0000

Item	Closing balance	Opening balance
Commitments in respect of investment in subsidiaries and jointly controlled entity (commitment to purchase long-term assets):		
– Authorized but not contracted	409.84	
– Contracted but not paid	15,478.63	6,068.16
Commitments in respect of acquisition of the property, plant and equipment of subsidiaries (commitment for external investment):		
– Contracted but not paid		

2. Operating lease commitment

Please see note 15(5) lease for details.

14. SUBSEQUENT EVENTS

1. Significant non-adjusted matters

Assessment on the impact of the novel coronavirus pneumonia epidemic (the “New Coronavirus Epidemic”):

Since the outbreak of the New Coronavirus Epidemic began in January 2020, the Group has actively responded to and strictly implemented various regulations and requirements of all levels of government for epidemic prevention and controls, and gradually resumed work since February 2020.

The Group expects that the New Coronavirus Epidemic situation and prevention and control measures will have certain temporary impacts on the Group’s production and operation, and the degree of impact depends on the progress and duration of epidemic prevention and control and the implementation of local prevention and control policies.

The Group will continue to pay close attention to the development of the New Coronavirus Epidemic, and evaluate and actively respond to its impact on the financial position and operating results of the group. As of the reporting date of this report, no significant adverse impact on the annual financial statements for 2019 has been found, and the impact on the overall results of operation for 2020 is still under assessment.

2. Profit distribution

On 14 April 2020, the Proposed Profit Distribution Plan for 2019 was considered and approved at the first meeting of 2019 of the tenth session of the Board of the Company: Based on the total share capital of 1,362,725,370 shares of the Company as at 31 December 2019, a cash dividend of RMB3.95 (tax inclusive) was to be paid to all shareholders for every 10 shares held, amounting to a total distribution of profit of RMB538,276,521.15. The undistributed profit would be rolled over for distribution in subsequent years. There will be no issue of bonus share and no transfer of capital reserve to share capital during the year. Such resolution is subject to the approval at 2019 annual general meeting of the Company.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

15. OTHER SIGNIFICANT EVENTS

1. Capital management

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

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

Item	End of the year	Beginning of the year
Total debt	21,509,800,523.05	13,938,498,061.67
Including: Short-term borrowings	100,083,424.66	
Accounts payable	5,317,357,636.81	4,373,335,213.48
Notes payable	7,560,312,550.23	5,442,369,087.15
Other payables	1,920,036,363.71	1,766,319,446.79
Less: Cash and cash equivalents	2,065,106,596.27	1,061,364,062.82
Net debt	19,444,693,926.78	12,877,133,998.85
Equity attributable to shareholders of parent	8,721,593,732.62	7,351,824,364.87
Capital and net debt	28,166,287,659.40	20,228,958,363.72
Gearing ratio	69.04%	63.66%

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

15. OTHER SIGNIFICANT EVENTS (continued)

2. Directors and supervisors' emoluments

The emoluments paid or payable to the directors and supervisors of the Company are as follows:

(1) As at 31 December 2019

Unit: RMB'0000

Name	Position	Emoluments of independent director	Salaries and allowances	Pension scheme contributions	Total
Executive directors					
Tang Ye Guo	Chairman		260.59	9.18	269.77
Jia Shao Qian	Director and former president		10.50	0.67	11.17
Lin Lan	Director				
Dai Hui Zhong	Director				
Fei Li Cheng	Director		86.82	2.02	88.84
Wang Yun Li	Former director and vice president		61.03	3.31	64.34
Liu Hong Xin	Former Director				
Independent non-executive director					
Ma Jin Quan	Independent non-executive director	14.00			14.00
Zhong Geng Shen	Independent non-executive director	14.00			14.00
Cheung Sai Kit	Independent non-executive director	24.00			24.00
Supervisors					
Liu Zhen Shun	Chairman of the Supervisory Committee				
Gao Yu Ling	Supervisor and former person in charge of finance		7.38	0.68	8.06
Fan Wei	Supervisor		74.50	4.79	79.29
Yang Qing	Former supervisor				
Total		52.00	500.82	20.65	573.47

- (i) Note: During the year, no emoluments were paid by the Company to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived or agreed to waive any emoluments during the year.
- (ii) Mr. Fei Li Cheng was appointed as the director of the Company in June 2019; Ms. Gao Yu Ling was appointed as the supervisor of the Company in June 2019.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

15. OTHER SIGNIFICANT EVENTS (continued)

2. Directors and supervisors' emoluments (continued)

(2) As at 31 December 2018

Unit: RMB'0000

Name	Position	Emoluments of independent director	Salaries and allowances	Pension scheme contributions	Total
Executive director					
Tang Ye Guo	Chairman		317.84	9.50	327.34
Liu Hong Xin	Director				
Lin Lan	Director				
Dai Hui Zhong	Director				
Jia Shao Qian	Director and president		245.83	8.16	253.99
Wang Yun Li	Director and vice-president		185.32	8.16	193.48
Wang Zhi Gang	Former director and vice-president		140.99	8.16	149.15
Independent non-executive director					
Ma Jin Quan	Independent non-executive director	14.00			14.00
Xu Xiang Yi	Former Independent non-executive director	7.00			7.00
Liu Xiao Feng	Former Independent non-executive director	14.00			14.00
Zhong Geng Shen	Independent non-executive director	7.00			7.00
Cheng Sai Kit	Independent non-executive director	10.00			10.00
Supervisor					
Liu Zhen Shun	Chairman of Supervisory Committee				
Yang Qing	Supervisor				
Fan Wei	Supervisor		54.65	3.75	58.40
Total		52.00	944.63	37.73	1,034.36

- (i) During the year, no emoluments were paid by the Company to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived or agreed to waive any emoluments during the year.
- (ii) Mr. Zhong Geng Shen was appointed as the independent director of the Company in June 2018. Mr. Cheung Sai Kit was appointed as the independent director of the Company in August 2018.

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From 1 January 2019 to 31 December 2019

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

15. OTHER SIGNIFICANT EVENTS (continued)

2. Directors and supervisors' emoluments (continued)

(3) Five highest paid individuals

In 2019, one (2018: four) of the five highest paid individuals of the Company was a director. The aggregate of the emoluments in respect of the other four individuals (2018: one) are as follows (in respect of the range of emoluments for 2019, emoluments of one individual exceeded RMB2,500,000 and below RMB3,000,000, that of two individuals exceeded RMB1,500,000 and below RMB2,000,000, and those of two individuals exceeded RMB1,000,000 and below RMB1,500,000; in respect of the range of emoluments for 2018, those of one individual exceeded RMB3,000,000 and below RMB3,500,000, those of one individual exceeded RMB2,000,000 and below RMB2,500,000, those of two individuals exceeded RMB1,500,000 and below RMB2,000,000 and those of one individual exceeded RMB1,000,000 and below RMB1,500,000):

Unit: RMB'0000

Item	Amount for current period	Amount for previous period
Salaries, allowance and pension scheme contributions	928.72	166.30

3. Key management personnel emoluments

Unit: RMB'0000

Item	Amount for current period	Amount for previous period
Directors and supervisors		
Emoluments, salaries and allowances of independent directors	545.44	996.63
Pension scheme contributions	19.97	37.73
Emoluments of other key management personnel		
Salaries and allowances	273.00	169.88
Pension scheme contributions	22.64	10.47
Total	861.05	1,214.71

Note: Key management personnel refers to the senior management who has the authority and responsibility for planning, directing and controlling the corporate activities.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

15. OTHER SIGNIFICANT EVENTS (continued)

4. Pension scheme

In accordance with the relevant PRC laws and regulations, the Group contributes mainly to a defined contribution pension scheme, which is administered by the provincial government, in respect of employees of the Group. According to such scheme, the Group shall make contributions to the pension fund at certain percentage of the total salaries and wages of its employees.

5. Leases

Different categories of leased assets of the Group are as follows:

Unit: RMB'0000

Categories of leased assets under operating leases	Closing carrying amount	Opening carrying amount
Buildings and structures	6,599.72	6,611.81
Machinery and equipment, etc	1,971.97	
Total	8,571.69	6,611.81

(2) The Group as lessor under operating lease

The Group's investment properties are also leased to a number of tenants for different terms. The rental income for 2019 amounted to RMB29,019,000 (2018: RMB27,757,100). The minimum lease payments receivable under non-cancellable operating leases at the end of reporting period are as follows:

Unit: RMB'0000

Item	Amount for the year	Amount for previous year
Within one year	1,177.91	1,872.38
Over one year but within five years	136.17	1,673.92
Over five years	8.80	
Total	1,322.88	3,546.30

The amount of undiscounted lease receipts to be received each year for five consecutive accounting years after the balance sheet date: RMB11.7791 million within 1 year, RMB1.1448 million in 1-2 years, RMB172,900 in 2-3 years, RMB22,000 in 3-4 years, RMB22,000 in 4-5 years and RMB88,000 over 5 years.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

15. OTHER SIGNIFICANT EVENTS (continued)

5. Leases (continued)

(3) The Group as lessee under operating lease

The Group leases certain leasehold building or structure and others under operating leases with lease terms ranging from one to five years. The operating lease payments for the year ended 31 December 2019 were as follows:

Unit: RMB'0000

Operating lease payments	Amount for the year	Amount for previous year
Building or structure	5,797.03	4,306.02
Others	220.35	60.46
Total	6,017.38	4,366.48

The Group adopts simplified treatment for short-term leases and leases of low-value assets with a lease period of not more than 12 months. Due to the small amount of related lease payments, the adoption of simplified treatment has relatively small impact on the financial statements.

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

Unit: RMB'0000

Item	Amount for the year	Amount for previous year
Within one year	5,565.06	2,515.75
Over one year but within five years	3,009.44	2,704.35
Total	8,574.50	5,220.10

6. Auditors' remuneration

In 2019, as considered and approved at the shareholders' general meeting, the Company agreed to reappoint Shine Wing Certified Public Accountants as the auditor of the Company for the year of 2019, and the Board was authorized to fix their remuneration. The Company agreed to pay a remuneration of approximately RMB2,100,000 and RMB900,000 to the auditors for the provision of audit services for financial reporting and internal control respectively for the year ended 31 December 2019 and bear the corresponding travel expenses.

Notes to the Financial Statements for 2019

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Accounts receivable

(1) Accounts receivable as shown by provision for bad debts

Category	Book value		Closing balance		Book value
	Amount	%	Provision for bad debts		
			Amount	%	
Separate provision for bad debt receivables and Accounts receivable					
Provision for bad debts for Accounts receivable on a group basis	110,023,336.92	100.00	108,004,768.16	98.17	2,018,568.76
Including:					
Aging analysis method	107,291,968.16	97.52	107,291,968.16	100.00	
Receivables from related parties	2,018,568.76	1.83			2,018,568.76
Other amount	712,800.00	0.65	712,800.00	100.00	
Total	110,023,336.92	100.00	108,004,768.16	98.17	2,018,568.76

(continued)

Category	Book value		Opening balance		Book value
	Amount	%	Book value		
			Amount	%	
Separate provision for bad debt receivables and Accounts receivable					
Provision for bad debts for Accounts receivable on a group basis	118,430,896.85	100.00	110,402,422.61	93.22	8,028,474.24
Including:					
Aging analysis method	108,775,442.62	91.85	108,531,910.33	99.78	243,532.29
Receivables from related parties	2,021,540.98	1.71			2,021,540.98
Other amount	7,633,913.25	6.44	1,870,512.28	24.50	5,763,400.97
Total	118,430,896.85	100.00	110,402,422.61	93.22	8,028,474.24

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Accounts receivable (continued)

(1) Accounts receivable as shown by provision for bad debts (continued)

- 1) Among the group, provision for bad debts for Accounts receivable by aging analysis method:

Ageing	Closing balance		
	Book value	Provision for bad debts	(%)
Within three months			
Over three months but within six months			
Over six months but within one year			
Over one year	107,291,968.16	107,291,968.16	100.00
Total	107,291,968.16	107,291,968.16	100.00

Note: This group is based on the aging of Accounts receivable as credit risk characteristic and made provision for bad debts based on the expected credit loss of each aging section.

- 2) Among the group, provision for bad debts for Accounts receivable by receivables from related parties:

Ageing	Closing balance		
	Book value	Provision for bad debts	(%)
Within one year	2,018,568.76		
Total	2,018,568.76		

- 3) Among the group, provision for bad debts for Accounts receivable by other amount:

Ageing	Closing balance		
	Book value	Provision for bad debts	(%)
Other amount	712,800.00	712,800.00	100.00
Total	712,800.00	712,800.00	100.00

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Accounts receivable (continued)

(2) Accounts receivable shown by ageing analysis

Ageing analysis of accounts receivable based on invoice day is as follows:

Ageing	Closing balance	Opening balance
Within three months	2,018,568.76	2,265,561.31
Over three months but within six months		
Over six months but within one year		7,633,913.25
Over one year	108,004,768.16	108,531,422.29
Total	110,023,336.92	118,430,896.85

(3) Provision for bad debts for Accounts receivable for the year

Category	Opening balance	Changes during the year			Closing balance
		Provision	Recoveries or reversals	Write-off	
Aging analysis method	108,531,910.33		1,239,942.17		107,291,968.16
Other amount	1,870,512.28		1,157,712.28		712,800.00
Total	110,402,422.61		2,397,654.45		108,004,768.16

(4) Top five accounts receivable by debtor as at the end of the year

The total top five accounts receivable by debtor as at the end of the year amounted to RMB34,711,527.68, accounting for 31.55% of the closing balance of account receivable. A provision for bad debts of RMB34,711,527.68 in total was made as at the end of the year.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables

Item	Closing balance	Opening balance
Other receivables	1,245,063,266.08	1,230,184,848.21
Total	1,245,063,266.08	1,230,184,848.21

(1) Classification of other receivables by nature of the amount

Nature of the amount	Book value as at the end of the year	Book value as at the beginning of the year
Security deposit	199,275.00	1,368,000.00
Other current account	1,265,165,466.93	1,249,817,324.06
Total	1,265,364,741.93	1,251,185,324.06

(2) Provision for bad debts of other receivables

Provision for bad debts	First stage	Second stage	Third stage	Total
	Expected credit loss in the next 12 months	Expected credit loss in the lifetime (without credit impairment)	Expected credit loss in the lifetime (with credit impairment)	
Balance as at 1 January 2019	699,000.00	3,427,159.17	16,874,316.68	21,000,475.85
During the year, the balance of other receivables as at 1 January 2019	-	-	-	-
- transferred to second stage				
- transferred to third stage				
- reversed to second stage				
- reversed to first stage				
Provision for the year				
Reversal for the year	699,000.00			699,000.00
Written-off for the year				
Charge off for the year				
Other changes				
Balance as at 31 December 2019		3,427,159.17	16,874,316.68	20,301,475.85

Note: Except for separate assessment, the Company assessed whether the credit risk of financial instruments since its initial recognition was significantly increased based on the aging, and estimated the expected credit loss of other receivables with ageing of over one year in the lifetime.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables (continued)

(3) Other receivables presented by ageing as follows

Ageing	Closing balance
Within three months	1,245,063,266.08
Over three months but within six months	
Over six months but within one year	
Over one year	20,301,475.85
Total	1,265,364,741.93

(4) Provision for bad debts of other receivables

Category	Opening balance	Changes during the year			Closing balance
		Provision	Recoveries or reversals	Write-off	
Aging analysis method	20,316,475.85		15,000.00		20,301,475.85
Other amount	684,000.00		684,000.00		
Total	21,000,475.85		699,000.00		20,301,475.85

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

No.	Nature of the amount	Amount	Ageing	Percentage of total other receivables (%)	Provision for bad debts Closing balance
Top 1	Inter-group current account payments	192,096,801.07	Within three months	15.18	
Top 2	Inter-group current account payments	187,838,363.35	Within three months	14.84	
Top 3	Inter-group current account payments	182,281,173.16	Within three months	14.41	
Top 4	Inter-group current account payments	118,836,177.50	Within three months	9.39	
Top 5	Inter-group current account payments	95,571,752.88	Within three months	7.55	
Total		- 776,624,267.96	-	61.37	

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

3. Long-term equity investments

(1) Breakdown of long-term equity investments

Item	Closing balance			Opening balance		
	Book value	Impairment provision	Carrying amount	Book value	Impairment provision	Carrying amount
Investments in subsidiaries	5,079,633,817.23	59,381,641.00	5,020,252,176.23	2,513,391,236.55	59,381,641.00	2,454,009,595.55
Investments in associates and joint ventures	468,080,722.63		468,080,722.63	3,326,783,023.78		3,326,783,023.78
Total	5,547,714,539.86	59,381,641.00	5,488,332,898.86	5,840,174,260.33	59,381,641.00	5,780,792,619.33

(2) Investments in subsidiaries

Investee	Opening balance	Increase for the year	Decrease for the year	Closing balance	Provision for impairment made during the year	Closing balance of provision for impairment
Guangdong Refrigerator	155,552,425.85			155,552,425.85		
Guangdong Air-conditioner	281,000,000.00			281,000,000.00		59,381,641.00
Guangdong Freezer	15,668,880.00			15,668,880.00		
Hisense K&B	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		
Kelon Jiake	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		
Hisense Mould	121,628,013.09			121,628,013.09		
Shandong Refrigerator	275,000,000.00			275,000,000.00		
Kelon Property	4,441,400.00			4,441,400.00		
Hisense Hitachi		2,566,242,580.68		2,566,242,580.68		
Total	2,513,391,236.55	2,566,242,580.68		5,079,633,817.23		59,381,641.00

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

3. Long-term equity investments (continued)

(3) Investments in associates and joint ventures

Investee	Opening balance	Change for the year							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		
I. Joint ventures										
Hisense Hitachi	2,876,748,851.06	25,000,000.00		700,598,729.62				-1,036,105,000.00		-2,566,242,580.68
Hisense Marketing Management	48,027,481.74			-2,412,256.61						45,615,225.13
II. Associates										
Hisense Financial Holdings	259,265,889.17			24,927,624.46	1,304,246.87					285,497,760.50
Hisense International	142,740,801.81			967,338.45	7,661,638.50	4,529,558.24	-18,931,600.00			136,967,737.00
Total	3,326,783,023.78	25,000,000.00		724,081,435.92	8,965,885.37	4,529,558.24	-1,055,036,600.00		-2,566,242,580.68	468,080,722.63

4. Operating revenue and operating costs

Item	Amount for the year		Amount for previous year	
	Revenue	Cost	Revenue	Cost
Principal operations	-311,245.93	-18,134.69	995,014.63	
Other operations	81,078,565.25	67,682,837.03	72,842,927.08	60,992,608.85
Total	80,767,319.32	67,664,702.34	73,837,941.71	60,992,608.85

5. Investment gain

Item	Amount for the year	Amount for previous year
Gain from long-term equity investment under the cost method	44,462,400.20	30,410,182.64
Gain from long-term equity investment under the equity method	724,081,435.92	782,822,386.92
Gain from disposal of transactional financial assets	18,619,684.92	27,210,826.29
Total	787,163,521.04	840,443,395.85

17. APPROVAL OF FINANCIAL REPORT

This financial report was approved by the Board of the Company on 14 April 2020.

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

18. SUPPLEMENTARY INFORMATION OF FINANCIAL REPORT

1. Breakdown of non-recurring profit or loss for the year

Item	Amount for the year	Notes
Profit or loss from disposal of non-current assets	161,553,026.75	
Return, reduction and exemption of taxes surpassing approval or without official approval document		
Government grants included in the gain or loss (excluding those government grants that are closely related to the enterprise's business and are received with fixed amounts or with fixed percentage in compliance with national unified policies)	207,585,345.39	
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	55,224,136.96	
Asset impairment provided due to forced majeure (e.g. natural disasters)		
Impairment provision		
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 transactional financial assets, derivative financial assets, transactional financial liabilities and gain or loss from changes in fair values of derivative financial liabilities and investment gain from disposal of transactional financial assets, derivative financial assets, transactional financial liabilities and derivative financial liabilities and other investment in debt		
Reversal of impairment provision for accounts receivable and impairment provision for contract liabilities 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	13,629,718.63	
Other profit or loss items within the meaning of non-recurring profit or loss	50,909,442.00	
Subtotal	488,901,669.73	
Less: Effect of income tax	2,786,974.99	
Effect of minority interests (after tax)	-81,153,836.50	
Total	567,268,531.24	-

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

18. SUPPLEMENTARY INFORMATION OF FINANCIAL REPORT (continued)

1. Breakdown of non-recurring profit or loss for the year

(1) Notes to “Other profit or loss items within the meaning of non-recurring profit or loss” and the non-recurring gain or loss items designated by the Company as recurring items based on the natures and characteristics of its operations

Item	Amount	Reason
Gain or loss arising from remeasurement of equity held at the acquisition date at fair value	296,543,419.32	Note 1
Amortisation of added value of inventory	-245,633,977.32	Note 2

Note 1: In September 2019, the Company obtained the control of Hisense Hitachi and included it into the scope of the consolidated financial statement, and recorded gain or loss of RMB296,543,419.32 arising from remeasurement of equity interest originally held at the acquisition date at fair value. For details, please refer to Note 7(1) Business combination involving entities not under common control.

Note 2: As stated in Note 1, upon obtaining the control, the added value of inventory of Hisense Hitachi was RMB245,633,977.32 and was amortised into the cost of principal business for the year. Due to its special and non-recurring nature, the Company recognised it into the non-recurring profit or loss according to the Explanatory Announcement No. 1 on Information Disclosure by Public Issuers — Non-recurring Profit or Loss Items (2008).

2. Return on net asset and earnings per share

Profit for the reporting period	Weighted Average of return on net assets (%)	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Parent	22.21	1.32	1.32
Net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit or loss	15.18	0.90	0.90

3. Five-year financial summary

Unit: RMB'0000

Statement item	2019	2018	2017	2016	2015
Total operating revenue	3,745,304.40	3,601,959.83	3,348,759.04	2,673,021.95	2,347,160.29
Total profits	215,225.03	156,490.59	225,287.43	129,916.82	63,736.92
Income tax	20,180.12	14,183.15	18,106.71	12,874.77	7,937.78
Net profit	195,044.91	142,307.44	207,180.72	117,042.05	55,799.14
Net profit attributable to equity holders of the parent	179,366.90	137,745.72	201,811.30	111,655.88	59,405.01
Minority interests	15,678.01	4,561.72	5,369.42	5,386.17	-3,605.87

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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18. SUPPLEMENTARY INFORMATION OF FINANCIAL REPORT (continued)

3. Five-year financial summary (continued)

Unit: RMB'0000

Statement item	31 December 2019	31 December 2018	31 December 2017	31 December 2016	31 December 2015
Total assets	3,399,066.35	2,182,790.50	2,160,745.24	1,917,316.08	1,437,477.65
Total liabilities	2,150,980.05	1,393,849.81	1,452,029.68	1,373,159.85	981,900.77
Net assets	1,248,086.30	788,940.70	708,715.56	544,156.23	455,576.89
Total equity attributable to shareholders of the parent	872,159.37	735,182.44	657,908.93	498,556.84	412,597.72
Minority interests	375,926.93	53,758.26	50,806.63	45,599.39	42,979.17
Total shareholders' equity	1,248,086.30	788,940.70	708,715.56	544,156.23	455,576.89

4. Significant changes in key items in the Company's accounting statement and explanation of such changes

Statement item	Closing balance or amount for the year	Opening balance or amount for previous year	Change ratio	Reason for change
Cash at bank and on hand	6,120,563,237.47	3,648,463,609.61	67.76%	Mainly due to the precipitation of the Group's operation improvement funds and the merger of Hisense Hitachi, of which cash at bank and on hand increased RMB1,954.2731 million at the end of the year due to the merger of Hisense Hitachi;
Transactional financial assets	2,120,000,000.00	540,207,350.00	292.44%	Mainly due to the year-on-year increase of unexpired wealth management products at the end of the period;
Accounts receivable	3,967,576,310.11	2,962,019,185.36	33.95%	Mainly due to the merger of Hisense Hitachi during the year, the balance of accounts receivable increased RMB689.0529 million at the end of the year due to the merger of Hisense Hitachi;
Financing receivable	4,099,608,704.80	2,194,836,489.29	86.78%	Mainly due to the merger of Hisense Hitachi during the year, the balance of financing receivable increased RMB2,225.0973 million at the end of the year due to the merger of Hisense Hitachi;
Other current assets	3,127,969,954.11	541,370,278.81	477.79%	Mainly due to the merger of Hisense Hitachi during the year, the balance of other current assets increased RMB2,396.9477 million at the end of the year due to the merger of Hisense Hitachi;
Long-term equity investments	468,080,722.63	3,326,783,023.78	-85.93%	Mainly due to the merger of Hisense Hitachi during the year, the long-term equity investments decreased year-on-year after the merger offset
Construction in progress	216,943,108.59	84,296,518.04	157.36%	Mainly due to the merger of Hisense Hitachi during the year and the increase of transformation projects, of which the balance of construction in progress increased RMB51.6298 million at the end of the year due to the merger of Hisense Hitachi
Deferred tax assets	634,774,585.10	93,477,911.35	579.06%	Mainly due to the merger of Hisense Hitachi during the year, the balance of deferred tax assets increased RMB547.2749 million at the end of the year due to the merger of Hisense Hitachi
Other non-current assets	2,148,329,801.65			Mainly due to the merger of Hisense Hitachi during the year, mainly time deposits and interest due over one year
Notes payable	7,560,312,550.23	5,442,369,087.15	38.92%	Mainly due to the merger of Hisense Hitachi during the year, the balance of notes payable increased RMB2,065.0355 million at the end of the year due to the merger of Hisense Hitachi
Contract liability	1,013,239,070.20	716,041,073.75	41.51%	Mainly due to the merger of Hisense Hitachi during the year, the balance of contract liability increased RMB303.0935 million at the end of the year due to the merger of Hisense Hitachi
Employee remunerations payable	620,495,237.41	328,800,107.19	88.72%	Mainly due to the merger of Hisense Hitachi during the year and the increase of employee remunerations during the year, of which the balance of employee remunerations payable increased RMB236.3817 million at the end of the year due to the merger of Hisense Hitachi

Notes to the Financial Statements for 2019

From 1 January 2019 to 31 December 2019

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

18. SUPPLEMENTARY INFORMATION OF FINANCIAL REPORT (continued)

4. Significant changes in key items in the Company's accounting statement and explanation of such changes (continued)

Statement item	Closing balance or amount for the year	Opening balance or amount for previous year	Change ratio	Reason for change
Taxes payable	510,978,731.47	230,675,886.53	121.51%	Mainly due to the merger of Hisense Hitachi during the year, the balance of taxes payable increased RMB323.7175 million at the end of the year due to the merger of Hisense Hitachi
Other current liabilities	3,755,169,074.60	646,178,914.93	481.13%	Mainly due to the merger of Hisense Hitachi during the year, the balance of other current liabilities increased RMB1,907.2455 million at the end of the year due to the merger of Hisense Hitachi
Provisions	475,055,256.42	329,557,537.00	44.15%	Mainly due to the merger of Hisense Hitachi during the year, the balance of provisions increased RMB178.8373 million at the end of the year due to the merger of Hisense Hitachi
Research and development expenses	934,412,243.42	686,772,325.33	36.06%	Mainly due to increases in employee remuneration and research and development inputs
Investment gain	1,122,348,640.53	828,685,091.63	35.44%	Mainly due to the consolidation of the financial results of Hisense Hitachi during the year and the recognition of investment income of RMB296.5434 million on the acquisition date
Non-operating incomes	126,227,060.64	74,020,079.75	70.53%	Mainly due to the increase in government grants received during the year
Income tax expenses	201,801,162.14	141,831,492.77	42.28%	Mainly due to the increase in consolidation of the financial results of Hisense Hitachi during the year
Profit and loss of minority interests	156,780,139.33	45,617,197.99	243.69%	Mainly due to the increase in the merger of Hisense Hitachi during the year
Cash received from recovery of investments	1,055,036,600.00	12,542,200.00	8311.89%	Mainly due to the increase in the dividend received before the the merger of Hisense Hitachi during the year, dividend of RMB1,036.105 million was received during the year
Cash received relating to other investing activities	7,232,124,651.20	2,810,000,000.00	157.37%	Mainly due to the increases in wealth management and fixed deposit recovered during the year
Cash paid relating to other investing activities	8,252,376,993.51	2,270,000,000.00	263.54%	Mainly due to the increase in wealth management and fixed deposit purchased during the year
Including: Dividend and profit paid to minority shareholders by subsidiaries	324,250,756.29	15,515,983.99	1989.79%	Mainly due to the dividend paid to minority shareholders of RMB301.595 million by Hisense Hitachi during the year

Hisense Home Appliances Group Co., Ltd.
14 April 2020