

**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**



2020欧洲杯全球官方合作伙伴



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## Company Profile

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Hisense Home Appliances Group Co., Ltd. (the “**Company**” or “**Hisense**”, together with its subsidiaries, the “**Group**”) was founded in 1984 and headquartered in Shunde District, Guangdong Province, the PRC. The Company is principally engaged in the research and development, manufacturing and marketing business of electrical appliance products such as refrigerators, residential air-conditioners, central air-conditioners, freezers, washing machines, commercial cold chain and kitchen appliances. Its manufacturing bases are located in Guangdong, Shandong, Jiangsu, Zhejiang, Sichuan and other provinces in China and the products are widely sold in more than 130 countries. In 1996 and 1999 respectively, the Company’s shares were listed on the main boards of the Hong Kong Stock Exchange and the Shenzhen Stock Exchange respectively.

**Refrigerator business:** According to the statistics from China Market Monitor Co., Ltd.(CMM), the total respectively market share of “Hisense refrigerator” and “Ronshen refrigerator” under the Company ranked second in the industry in terms of online and offline cumulative retail sales in China in 2020.

**Air-conditioning business:** The Company’s subsidiary Hisense Hitachi has strong competitiveness in the central air-conditioner market, and its “Hitachi”, “Hisense” and “York” brand multi-split central air-conditioners products with leading technology level and excellent product quality are well-known in the market are the domestic multi-split central air-conditioners market leader. 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. The Company has maintained a consistent focus on developing technological innovations, product quality improvement, and industrial capabilities upgrading, and achieved rapid conversion and deep plowing of niche markets.

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

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### MARCH

Hisense “Magic Mirror” Washing Machine and Hisense “Precise Control” Washing Machine won the 2020 Germany iF Design Award.

The first-ever group standard for “Room Air Conditioners with Fresh Air Ventilation Function” developed by Hisense was issued, outlining the definition, production classification and technical requirements for “air-conditioners with fresh air ventilation function”.

### APRIL

Ronshen “WILL Refrigerator” ranked as TOP 1 of refrigerator products above RMB10,000.

Hisense Air-conditioning “Healthy Home X9” Cabinet Air Conditioners won the AWE2020 Outstanding Products Award.

### JUNE

Hisense’s washing machines become the first benchmarking and drafting group leader unit for the industry’s “steaming, ironing and washing” group standard.

### AUGUST

Hisense Air-conditioning was awarded the “2020-2021 Leading Brand of ‘Fresh Air’ in Chinese Air-conditioning Industry”, Hisense Healthy Home X8 Fresh Air Aeration Air Conditioner was awarded the “2020-2021 Innovation Star of ‘Fresh Air’ in Chinese Air-conditioning Industry” award.

### SEPTEMBER

The “Sterilisation Standards for Freezers of Household Refrigerators” and the “White Paper for Cooked Food Storage” jointly authored by Ronshen and China Household Electric Appliance Research Institute were released, setting a new direction for the transformation and upgrading of the entire sterile refrigerator industry.

### NOVEMBER

Hisense central air-conditioners won the Nanshan Award (南山獎), personally presented by Academician Zhong Nanshan in person. The award is the highest honour in China’s air purification sector.

### DECEMBER

Hisense completed its “Deepening Implementation Plan for the Reform of Mixed Ownership by Hisense Group”. Under the plan, Hisense Group has ceased to be an indirect controlling shareholder of the Company. The Company is changed from being controlled by Qingdao SASAC to a status of having no actual controller.

## Chairman's Statement

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Dear Shareholders,

The COVID-19 pandemic made 2020 a year of unprecedented changes and challenges. Regional lockdowns caused by the pandemic severely dampened global consumption and investment, leading to economic stagnation and significant losses for many enterprises. Hisense responded to the threat by coordinating extensive safety measures for its staff. This has enabled production to gradually resume and business to recover since the second quarter.

During 2020, Hisense continued to act on its strategy of developing high-quality products that fulfil real consumer needs, focusing on high-end differentiated technology, and optimising its mid-to high-end product mix. The Company launched new high-end products whose 'healthy and comfortable' nature addressed consumer pain points amid the pandemic. The Company also devoted more effort to expanding its export business and achieving a breakthrough in overseas markets. For the Reporting Period, the Company realised an operating revenue of RMB48.393 billion. Net profits attributable to shareholders of the listed company reached RMB1.579 billion. Earnings per share were RMB1.16.

Leveraging on its cumulative technological advantages, the Company stayed true to its philosophy of "technology orientation" as it pursued technological standardisation and interactive upgrading. In this way, the Company cemented its status as a technological leader. In 2020, the Company hosted and participated in the preparation and amendment of various international and national standards. Notably, the "Sterilisation Standards for Freezers of Household Refrigerators" and the "White Paper for Cooked Food Storage", both jointly formulated by Ronshen and the China Household Electric Appliances Research Institute, have set a new direction for the transformation and upgrading of the entire sterilised refrigeration sector. Hisense's food identification management refrigerators obtained 5A certification in terms of intelligence level. As for washing machines, Hisense was the first in the industry to set the group standard for steaming, ironing and washing technologies. Additionally, Hisense's "Fresh Air" air-conditioners were the first to obtain JQA (Japan Quality Assurance Organisation) certification. Hisense's central air-conditioners also received the Nanshan Award (南山獎) – the central air-conditioner industry's highest honours – presented in person by Academician Zhong Nanshan.

During the Reporting Period, the Company continued its user-oriented approach as the basis for sales value, further enriching its high-end product mix while expanding its market share across a variety of segments. According to statistics from CMM, Ronshen's "WILL" refrigerator ranked TOP 1 in the "Over RMB10,000 Refrigerator Bestseller List in 2020". The contribution of retail sales of mid- to high-end refrigerators registered a year-on-year increase of 2.9 percentage points in 2020. For freezers, the Company achieved a breakthrough in the form of its industry leading deep-freezing technology, which has enabled the Company to provide comprehensive cold chain solutions for a wide range of scenarios. With its innovative "healthy sterilisation and water-flow" technology, the Company significantly enhanced the value of its "steaming, ironing and washing" series washing machines. For central air-conditioning, the Company followed up the unveiling of the first-ever 5G central air-conditioner by pioneering the use of PLC technology in central air-conditioning. PLC technology enables the seamless integration of real-time temperature control into intelligent household systems. The Company has addressed consumer demand for greener, healthier living by promoting its 'Fresh Air' air-conditioners with a theme of "switch on the air conditioner for three minutes and the house is filled with fresh air", expanding the series' market share. According to retail sales data from All View Cloud Data Technology Co, Ltd, in 2020, the online and offline retail market shares of Hisense "Fresh Air" air-conditioners ranked second and third in the industry respectively.

With the 14th Five-Year Plan commencing in 2021, China is embarking on a new voyage of socialist modernisation, creating both opportunities and challenges for the household appliance industry. Accordingly, Hisense will ride on emerging development opportunities and leverage its technological strength to swiftly transform and upgrade, establish a strategic presence for its high-end brands, and use high-quality products to consolidate its leadership of the refrigerator, central air-conditioner and residential air-conditioner sectors. The Company will strengthen its R&D efforts in washing machines, commercial cold chain and kitchen and bathroom products to expedite a comprehensive market presence. Hisense will also grasp the opportunities arising from its acquisition of Sanden Holdings Corporation to expand its business reach and lay a solid foundation for its mid- to long-term development.

Hisense has ventured into a new journey. By remaining faithful to its core principles, Hisense will endeavour to achieve win-win solutions for its shareholders, with the aim of creating a bright future together.

**Tang Ye Guo**  
*Chairman*



# Management Discussion and Analysis

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## I. INDUSTRY OVERVIEW

**Refrigerator market:** the refrigerator market turned positive after an unfavourable start in 2020. Impacted by the COVID-19 pandemic, the market scale decreased dramatically in the first quarter of 2020 as compared with the same period of last year, and recovered gradually subsequently. According to inferential statistics from (CMM), the retail sales of domestic refrigerator market in 2020 decreased by 3.3% year-on-year. From a product breakdown perspective, both online and offline sales leaned towards high volume refrigerators, and the growth in sales of multi-temperature products such as multi-door and side-by-side combination refrigerators were remarkable. According to CMM's data, the offline retail market share of multi-door refrigerators increased by 6.7 percentage points year-on-year, while in online domestic market, the retail market share of multi-door refrigerators increased by 4.1 percentage points year-on-year. In terms of technological development of product, with increasing pursuit of customer of healthy, intelligent and high quality living concepts, refrigerator products are centring on preservation, degerming, odour cleaning, healthy and intelligent food management and home living internet as the basis of technology development.

**Air-conditioner market:** According to China's Central Air-conditioner Market Research Report 2020 released by [www.aicon.com.cn](http://www.aicon.com.cn), the domestic central air-conditioner market maintained at an overall scale of over RMB100 billion in 2020, with a year-on-year decrease of 1.0%. From the perspective of sales channels, the home furnishing retail market scale declined for the second consecutive year in 2020, which was one of the reasons for the decline in the domestic central air-conditioner market's overall capacity in 2020. The engineering project market recorded growth against market segments such as medical, rail transit, data centres continued to grow, and the property fitting-out furnishing market contributed the most in terms of growth of the engineering project market in 2020. As for product types, the multi-connected central air-conditioner was the most popular category and captured the largest market share. Benefited from the growth of engineering project market, the market scale of the multi-connected central air-conditioner increased by 2% year-on-year, and accounted for a stable 49.5% of the total central air-conditioner market. From the perspective of technological development trend, the central air-conditioner market will continue to have technological development such as energy saving and environmental friendly, comfortable and healthy and intelligent technologies. The domestic residential air-conditioner market was still experiencing a harsh market environment, and the market scale has contracted as compared with the same period of last year. According to CMM inferential statistics, the retail sales volume of domestic residential air-conditioner market in 2020 decreased by 22.0% year-on-year. With regard to product structure, products with new power efficiency standards promoted industry upgrades, low power efficiency products became obsolete, air-conditioner products beneficial to health has become popular, and the sales of "Fresh Air" air-conditioners maintained its growth. In terms of technological development of product, along with the official implementation of the new power consumption standards and the increasing consumer demand for comfortable, healthy, green and intelligent products, the Company's residential air-conditioner products will be developed in the direction of satisfying user demand such as "improving air quality", "Fresh Air" and "Degerming".

## Management Discussion and Analysis

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### II. ANALYSIS OF THE COMPANY'S OPERATION

Faced with the impact brought by the coronavirus pandemic outbreak and the decline in needs for household appliances, the Company actively responded to upholding the philosophy of to be user-oriented, precisely satisfied user needs, and ensured stable operations through approaches such as innovation of technologies and products as well as strengthening the promotion of mid- to high-end products. During the Reporting Period, the Company achieved operating revenue of RMB48.393 billion, representing a year-on-year increase of 29.21%. As for product types, operating revenue of the refrigerator and washing machine business amounted to RMB18.709 billion, representing a year-on-year increase of 16.00% while the operating revenue of the air-conditioner business amounted to RMB23.386 billion, representing a year-on-year increase of 42.87%. Meanwhile, the Group's domestic sales business recorded operating revenue of RMB29.205 billion, representing a year-on-year increase of 28.59%, and the export sales business recorded operating revenue of RMB14.639 billion, representing a year-on-year increase of 27.47%. Net profits attributable to shareholders of the Company reached RMB1.579 billion, representing a year-on-year decrease of 11.97%. The decrease was mainly caused by the operating loss of residential air-conditioning business. Earnings per share were RMB1.16. The Company continued to strengthen its capital management with net cash flows from operating activities amounting to RMB5.963 billion, representing a year-on-year increase of 197.34%.

The major performance of each business is as follows:

#### 1. Refrigerators and washing machines

During the Reporting Period, coupled with the increased costs of raw-materials and the continuous increase in production costs, the market scale decreased and refrigerator manufacturers faced serious operating pressure. Faced with adverse environment, the Company actively adjusted sales strategy, focusing on enhancing the sales capabilities, striving to improve the sales structure, achieving breakthroughs in sales of high-end products, ensuring the growth of both scale and effectiveness. The major work was as follows:

- (1) Continuously launching high quality products and maintaining the competitiveness of products:** the Company thoroughly considered user needs, with a user-oriented approach, and increased the input in pre-research and funding of high-end differentiated technologies. With rapid application of technologies, the Company released vacuum product series equipped with “vacuum preservation technology + ion degerming and odour cleaning” functions and whole refrigerator food identification management product series equipped with RFID (Radio Frequency Identification) technology, providing preservation technology in terms of “freshness, temperature, humidity, speed and purity”, thus enhancing product competitiveness and differentiation. During the Reporting Period, the Company's refrigerator products were awarded with the “2020 Chinese Refrigerator and Vacuum Preservation Innovation Product (2020中國冰箱行業真空保鮮創新產品)” award, and the “Product Innovation of the Year”, etc. According to the statistics from CMM, in 2020, the retail market share of the Company's mid- to high-end products represented a year-on-year increase of 2.9 percentage points. As for washing machine products, being the first manufacturer in the industry in setting the group standard for “steaming, ironing and washing” technologies, the Company continued to focus on “steaming, ironing and washing” as its focus for technology research, released high-end product of the “streaming, ironing and washing” series, aimed to provide anti-bacteria and clothing care function without ironing. The Company's washing machine products were awarded with honours such as “2020 iF Product Design Award” as recognition of the outstanding performance of the products.
- (2) Strengthening the development of export business:** the Company actively responded to the needs of export markets, swiftly enhancing production effectiveness, improving the export delivery process and ensuring in time delivery for overseas orders to achieve significant growth in export scale.

- (3) **Strengthening the brand promotion and enhancing the influence of the brands:** the Company adopted the promotion strategy of “focus on product branding, focus resources on major products”, actively innovated new transmission mode, rapidly enhancing the brand influence through cooperation with well-known celebrities and popular variety platform, etc. Hisense VACUUM Refrigerator was the exclusive title sponsor of CCTV’s “Yue Zhan Yue Yong (越戰越勇)”, and featured on CCTV at “Brand Action (品牌行動)”, and sponsored the “Season 6 of Go Fridge (拜託了冰箱第六季)”. The Company cooperated with Hunan Satellite TV’s “Chinese Restaurant (中餐廳)”, and the Ronshen WILL Refrigerator was assigned as the official refrigerator to be used in the show.

### 2. Air-conditioning

During the Reporting Period, the overall market scale of central air-conditioning sector declined as compared with the same period of last year. However, through measures such as focusing on technology upgrade, upholding good and high quality product strategy and enhancing sales capabilities, the Company’s central air-conditioning business achieved growth in sale and steadily increased its scale, profit and market share. The major work was as follows:

- (1) **Leading the market with technology and upholding the good and high quality product strategy:** after releasing the first 5G central air-conditioner in the industry, the Company led the technology upgrade again and released Hisense Ai Household series (海信Ai家系列), the first central air-conditioner applying PLC technology. Hisense Ai Household series integrates IOT and PLC technology, enabling the effective and steady integrated real-time control in intelligent household scenario, which is available when connected with power without extra cable connections between devices, achieving the limitless expansion in intelligent household scenario. In order to satisfy the trend for green and healthy consumption patterns, the Company relied on pre-research storage, achieving the rapid application of new technologies, first releasing products equipped with purification and degerming functions. In the “11.28 Air-conditioner Purification Festival (11.28全民空淨節)” in 2020, the Hisense 5G version of the Honorary Home (榮耀家) series was awarded with “Nanshan Award (南山獎)”, the highest honour in the air purification industry, being the first and the only product awarded with such honour in the central air-conditioner industry.
- (2) **Actively planning for market channels, focusing on the sales opportunities brought by the new trend:** in 2020, faced with the adverse environment in the industry and the impact of the coronavirus pandemic, the Company thoroughly considered user needs under the pandemic, precisely established sales promotion plans and service plans to enhance product sales and steady growth of market scale and market share. The Company’s residential air-conditioning business upheld the high-end sales strategy, focused on value marketing, and continued to be user-oriented during the year such as upholding “open the air-conditioner for three minutes, the house is filled with fresh air” and the promotion theme of “Fresh Air” air conditioner products, which effectively occupies market segments, increasing market share of the “Fresh Air” sector. According to the retail sales data of All View Cloud Data Technology Co., Ltd., in 2020, the online retail market share of Hisense “Fresh Air” conditioner series ranked second in the industry, the offline retail market share of Hisense “Fresh Air” conditioner series ranked third in the industry and the Hisense “Fresh Air” conditioner series passed strict tests with great performance, becoming the first “Fresh Air” conditioner product that obtains the JQA (Japan Quality Assurance Organization) certification.
- (3) **Developing export business vigorously:** Faced with adverse environment in domestic market, the Company actively explored and expanded the export business by multiple approaches, adjusted the export strategy, focused on major markets and planned for differentiated products, and thus continuously increasing the export scale.



## Management Discussion and Analysis

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### Environmental policies and performance

The Group is committed to achieving 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. Furthermore, 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 2020, 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 headquarters 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”, “Standards for Environmental Safety Training”, “Standards for Management of Performance Evaluation and Monitoring” and “Standards for Management of Occupational Health and Safety Contingency Preparation and Response”. 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 2020, which assured the certification of the Company remained valid.

According to the relevant requirements of 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 maintained the national certificates for A grade enterprises on safe production standardisation and three controlled subsidiaries of the Company obtained their certifications as B grade enterprises on safe production standardisation.

## Management Discussion and Analysis

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### **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 clinics for its 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 “guaranteed return and replacement for quality issues within 30 days” promise 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 the Group received 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 discussions on the Group's environmental policies and performance, compliance with laws and regulations, and relationships with key stakeholders are also contained in the 2020 Environmental, Social and Governance Report of the Company published on 30 March 2021.

## 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   | 2020              | 2019              | Increase or decrease as compared to last year (%) | 2018              |
|--|-------------------|-------------------|---|-------------------|
| Operating revenue (RMB)  | 48,392,870,703.11 | 37,453,043,968.74 | 29.21   | 36,019,598,304.79 |
| Net profits attributable to shareholders of listed company (RMB)   | 1,578,882,732.14  | 1,793,669,013.19  | -11.97  | 1,377,457,177.70  |
| Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB) | 1,096,068,604.60  | 1,226,400,481.95  | -10.63  | 1,161,082,586.93  |
| Net cash flow from operating activities (RMB)  | 5,962,707,809.84  | 2,005,337,052.56  | 197.34  | 1,049,366,564.25  |
| Basic earnings per share (RMB/share)   | 1.16              | 1.32              | -12.12  | 1.01              |
| Diluted earnings per share (RMB/share)   | 1.16              | 1.32              | -12.12  | 1.01              |
| Weighted average rate of return on net assets (%)  | 16.99             | 22.21             | -5.22 percentage points                           | 19.79             |

| Item  | At the end of 2020 | At the end of 2019 | Increase or decrease as compared to last year (%) | At the end of 2018 |
|---|--------------------|--------------------|---|--------------------|
| Total assets (RMB)  | 41,811,635,813.53  | 33,990,663,543.85  | 23.01   | 21,827,905,038.40  |
| Net assets attributable to shareholders of listed company (RMB) | 9,779,115,580.43   | 8,721,593,732.62   | 12.13   | 7,351,824,364.87   |

Note: Since 30 September 2019, Hisense Hitachi has become a subsidiary of the Company and the financial results of Hisense Hitachi are consolidated into that of the Group. The items in 2019 income statement and 2019 cash flow statement include only the financial data from 1 October to 31 December 2019 for Hisense Hitachi. From 1 January to 30 September 2019, the profit from Hisense Hitachi was recognised by the equity method and was shown in "Investment gain". On a comparable basis, the Company's operating revenue increased by 5.33% and net cash flows from operating activities increased by 61.70% in 2020 compared to the same period last year.

## Management Discussion and Analysis

### QUARTERLY MAJOR FINANCIAL INDICATORS

*Unit: RMB*

| Item   | First Quarter    | Second Quarter    | Third Quarter     | Fourth Quarter    |
|--|------------------|-------------------|-------------------|-------------------|
| Operating revenue  | 7,585,620,733.19 | 13,501,079,076.08 | 13,779,290,339.14 | 13,526,880,554.70 |
| Net profits attributable to shareholders of listed company   | 43,550,392.57    | 459,757,122.84    | 498,939,918.50    | 576,635,298.23    |
| Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company | -37,404,936.92   | 368,666,303.62    | 432,463,165.96    | 332,344,071.94    |
| Net cash flow from operating activities  | 51,278,516.92    | 2,489,538,426.42  | 1,567,368,742.71  | 1,854,522,123.79  |

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

Applicable    Not Applicable

*Unit: RMB*

| Item  | 2020                  | 2019                  | 2018                  | Description |
|---|-----------------------|-----------------------|-----------------------|-------------|
| Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)   | 23,149,183.27         | 161,553,026.75        | -613,768.58           |             |
| 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)   | 236,769,593.38        | 207,585,345.39        | 213,299,858.04        |             |
| Profit and losses from assets which entrust others to invest or manage  | 103,945,862.69        | 55,224,136.96         | 48,100,716.69         |             |
| Except for effective hedging operations related to the Company's normal business operations, gain or loss from changes in fair values of transactional financial assets, derivative financial assets, transactional financial liabilities and derivative financial liabilities, and investment gain from the disposal of transactional financial assets, derivative financial assets, transactional financial liabilities, derivative financial liabilities and other investments in debt | 10,010,794.53         |                       |                       |             |
| Other non-operating income and expenses other than the aforementioned items   | 204,984,818.62        | 13,629,718.63         | 13,866,327.84         |             |
| Other profit and loss items that satisfy the definition of non-recurring profit and loss  | 10,012,040.17         | 50,909,442.00         |                       |             |
| Less: Effect of income tax  | 61,586,354.09         | 2,786,974.99          | 42,991,932.03         |             |
| Effect of minority interests (after tax)  | 44,471,811.03         | -81,153,836.50        | 15,286,611.19         |             |
| <b>Total</b>  | <b>482,814,127.54</b> | <b>567,268,531.24</b> | <b>216,374,590.77</b> |             |

## 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               | 2020  | 2019  | Increase or decrease as compared to corresponding period last year (%) |
|--|-------------------|--------------------|-------|-------|--|
| Home appliances manufacturing industry | Sales volume      | Ten thousand units | 3,072 | 2,388 | 28.64  |
|  | Production volume | Ten thousand units | 3,080 | 2,419 | 27.33  |
|  | Inventory volume  | Ten thousand units | 177   | 169   | 4.73   |

#### 2. Composition of operating revenue

*Unit: RMB*

| Item                                   | 2020              |                                    | 2019              |                                    | Increase or decrease as compared to corresponding period last year (%) |
|--|-------------------|------------------------------------|-------------------|------------------------------------|--|
|  | Amount            | Weighting to operating revenue (%) | Amount            | Weighting to operating revenue (%) |  |
| Total of operating revenue             | 48,392,870,703.11 |                                    | 37,453,043,968.74 |                                    | 29.21  |
| <b>By industry</b>                     |                   |                                    |                   |                                    |  |
| Home appliances manufacturing industry | 43,844,644,902.95 | 90.60                              | 34,196,927,100.83 | 91.31                              | 28.21  |
| <b>By product</b>                      |                   |                                    |                   |                                    |  |
| Refrigerators and washing machines     | 18,709,002,118.33 | 38.66                              | 16,127,991,501.27 | 43.06                              | 16.00  |
| Air-conditioners                       | 23,386,192,179.17 | 48.33                              | 16,368,984,335.90 | 43.71                              | 42.87  |
| Others                                 | 1,749,450,605.45  | 3.61                               | 1,699,951,263.66  | 4.54                               | 2.91   |
| <b>By region</b>                       |                   |                                    |                   |                                    |  |
| Domestic                               | 29,205,488,972.24 | 60.35                              | 22,712,402,936.91 | 60.64                              | 28.59  |
| Overseas                               | 14,639,155,930.71 | 30.25                              | 11,484,524,163.92 | 30.67                              | 27.47  |



## Management Discussion and Analysis

### 3. Composition of operating costs

Unit: RMB'0000

| Industry category                      | Item           | 2020         |                                  | 2019         |                                  | Increase or decrease as compared to corresponding period last year (%) |
|--|----------------|--------------|----------------------------------|--------------|----------------------------------|--|
|  |                | Amount       | Weighting to operating costs (%) | Amount       | Weighting to operating costs (%) |  |
| Home appliances manufacturing industry | Raw materials  | 2,982,892.93 | 91.92                            | 2,432,561.96 | 92.25                            | 22.62  |
|  | Direct expense | 139,530.55   | 4.30                             | 104,284.61   | 3.95                             | 33.80  |
|  | Others         | 122,763.60   | 3.78                             | 99,966.71    | 3.80                             | 22.80  |

### 4. Expenses

Unit: RMB

| Expense Item                      | 2020             | 2019             | Increase or decrease as compared to corresponding period last year (%) | Reason for the significant changes  |
|-----------------------------------|------------------|------------------|--|---|
| Sales expense                     | 6,891,389,066.25 | 5,670,186,916.64 | 21.54  | No significant changes  |
| Management expense                | 619,163,555.38   | 515,205,417.61   | 20.18  | No significant changes  |
| Research and development expenses | 1,284,848,949.46 | 934,412,243.42   | 37.50  | Mainly due to the increase of investment in research and development  |
| Finance expense                   | -109,880,006.83  | -8,012,313.27    | 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   | 2020              | 2019              | Increase or decrease as compared to corresponding period last year (%) |
|--|-------------------|-------------------|--|
| Sub-total of cash inflows from operating activities  | 41,196,926,173.02 | 30,781,842,654.92 | 33.84  |
| Sub-total of cash outflows from operating activities | 35,234,218,363.18 | 28,776,505,602.36 | 22.44  |
| Net cash flows from operating activities             | 5,962,707,809.84  | 2,005,337,052.56  | 197.34   |
| Sub-total of cash inflows from investing activities  | 12,102,168,856.45 | 8,535,674,820.63  | 41.78  |
| Sub-total of cash outflows from investing activities | 16,002,723,454.97 | 8,615,903,834.47  | 85.73  |
| Net cash flows from investing activities             | -3,900,554,598.52 | -80,229,013.84    | N/A  |
| Sub-total of cash inflows from financing activities  | 411,836,500.00    | 136,830,668.56    | 200.98   |
| Sub-total of cash outflows from financing activities | 2,924,294,190.93  | 1,059,280,977.16  | 176.06   |
| Net cash flows from financing activities             | -2,512,457,690.93 | -922,450,308.60   | N/A  |
| Net increase in cash and cash equivalents            | -447,904,024.01   | 1,003,742,533.45  | N/A  |

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

Applicable     Not applicable

The increase in cash inflows from operating activities was mainly due to the continuous improvement in the Group's operation and the consolidation of Hisense Hitachi's full year financial data into that of the Group.

The increase in net cash flows from operating activities was mainly due to the continuous improvement in the Group's operation and the consolidation of Hisense Hitachi's full year financial data into that of the Group.

The year-on-year increase in cash inflows from investing activities was mainly due to the increase in wealth management products recovered after maturity.

The year-on-year increase in cash outflows from investing activities was mainly due to the increase in the purchase of wealth management products.

## Management Discussion and Analysis

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

The increase in cash inflows from financing activities was mainly due to the increase in short-term borrowings received by the Company.

The increase in cash outflows from financing activities was mainly due to the repayment of short-term borrowings and the year-on-year change in the note margin.

### 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   | 2020             | 2019             | Change in proportion (%) |
|--|------------------|------------------|--------------------------|
| Number of research and development staff   | 1,691            | 1,689            | 0.12                     |
| Proportion of number of research and development staff (%)                                   | 4.28             | 4.90             | -0.62 percentage points  |
| Amount of research and development inputs (RMB)  | 1,532,348,263.57 | 1,134,754,777.20 | 35.04                    |
| Proportion of research and development inputs to operating revenue (%)                       | 3.17             | 3.03             | 0.14 percentage points   |
| 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) |
|--|---|-------------------------------------|-------------------------|---|---|--|
| <b>By industry</b>                     |   |                                     |                         |   |   |  |
| Home appliances manufacturing industry | 43,844,644,902.95                       | 32,451,870,805.44                   | 25.98                   | 28.21   | 23.07   | 3.09   |
| <b>By products</b>                     |   |                                     |                         |   |   |  |
| Refrigerators and washing machines     | 18,709,002,118.33                       | 14,685,528,054.98                   | 21.51                   | 16.00   | 19.40   | -2.23  |
| Air-conditioners                       | 23,386,192,179.17                       | 16,382,597,669.13                   | 29.95                   | 42.87   | 29.14   | 7.45   |
| Others                                 | 1,749,450,605.45                        | 1,383,745,081.33                    | 20.90                   | 2.91  | 0.09  | 2.23   |
| <b>By region</b>                       |   |                                     |                         |   |   |  |
| Domestic                               | 29,205,488,972.24                       | 19,170,426,142.76                   | 34.36                   | 28.59   | 20.36   | 4.49   |
| Overseas                               | 14,639,155,930.71                       | 13,281,444,662.68                   | 9.27                    | 27.47   | 27.21   | 0.18   |

## Management Discussion and Analysis

### (V) ASSETS AND LIABILITIES POSITION

#### Significant changes in asset items

Unit: RMB

| Item                         | At the end of 2020 |                                | At the end of 2019 |                                | 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     | 7,110,772,454.16   | 17.01                          | 6,120,563,237.47   | 18.01                          | -1.00                                   | No significant changes  |
| Notes receivable             | 548,498,540.36     | 1.31                           | 1,095,849,666.16   | 3.22                           | -1.91                                   | Mainly due to the reduction of notes pledges  |
| Accounts receivable          | 6,594,103,859.23   | 15.77                          | 3,967,576,310.11   | 11.67                          | 4.10                                    | Mainly due to the growth of the Company's scale in the reporting period   |
| Others receivables           | 398,205,694.16     | 0.95                           | 297,145,507.98     | 0.87                           | 0.08                                    | Mainly due to the increase in export tax refund receivable at the end of the reporting period   |
| Inventories                  | 4,295,262,485.11   | 10.27                          | 3,498,945,347.28   | 10.29                          | -0.02                                   | No significant changes  |
| Other current assets         | 4,198,014,186.53   | 10.04                          | 3,127,969,954.11   | 9.20                           | 0.84                                    | Mainly due to the increase in time deposits at the end of the reporting period  |
| Long-term equity investments | 523,754,399.78     | 1.25                           | 468,080,722.63     | 1.38                           | -0.13                                   | No significant changes  |
| Investment properties        | 36,648,535.29      | 0.09                           | 20,240,850.71      | 0.06                           | 0.03                                    | Mainly due to the addition of new leased assets during the reporting period   |
| Fixed assets                 | 3,879,403,505.69   | 9.28                           | 3,813,541,683.85   | 11.22                          | -1.94                                   | No significant changes  |
| Construction in progress     | 228,887,385.20     | 0.55                           | 216,943,108.59     | 0.64                           | -0.09                                   | No significant changes  |
| Other non-current assets     | 4,228,456,393.79   | 10.11                          | 2,148,329,801.65   | 6.32                           | 3.79                                    | Mainly due to the increase in time deposits at the end of the reporting period  |
| Short-term borrowings        | 22,026,317.50      | 0.05                           | 100,083,424.66     | 0.29                           | -0.24                                   | Mainly due to the maturity of short-term borrowings of subsidiaries at the end of the reporting period                                      |
| Notes payable                | 10,775,376,397.87  | 25.77                          | 7,560,312,550.23   | 22.24                          | 3.53                                    | Mainly due to the increase in new notes issued during the reporting period  |
| Accounts payable             | 7,291,829,266.10   | 17.44                          | 5,317,357,636.81   | 15.64                          | 1.80                                    | Mainly due to the growth of the Company's scale during the reporting period and the increase in purchases corresponding to the scale growth |
| Long-term borrowings         | -                  | -                              | -                  | -                              | -                                       | -   |



## 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 |
|--|---------------------------------------|--|---|---------------------------------------|------------------------------------|-------------------------------|---------------|---------------------------------|
| <b>Financial assets</b>  |                                       |  |   |                                       |                                    |                               |               |                                 |
| 1. Financial assets held for trading (excluding derivative financial assets) | 2,120,000,000.00                      | 10,010,794.53  |   |                                       | 9,250,000,000.00                   | 8,770,000,000.00              |               | 2,610,010,794.53                |
| 2. Derivative financial assets   |                                       | 10,887,680.20  |   |                                       | 10,887,680.20                      |                               |               | 10,887,680.20                   |
| 3. Other investments in debt   | 4,099,608,704.80                      |  |   |                                       | 141,631,921.21                     |                               |               | 4,241,240,626.01                |
| 4. Other investments in equity instruments                                   |                                       |  |   |                                       |                                    |                               |               |                                 |
| Sub-total of financial assets  | 6,219,608,704.80                      | 20,898,474.73  |   |                                       | 9,402,519,601.41                   | 8,770,000,000.00              |               | 6,862,139,100.74                |
| Investment properties  |                                       |  |   |                                       |                                    |                               |               |                                 |
| Productive biological assets   |                                       |  |   |                                       |                                    |                               |               |                                 |
| Others   |                                       |  |   |                                       |                                    |                               |               |                                 |
| <b>Total</b>   | <b>6,219,608,704.80</b>               | <b>20,898,474.73</b>                                     |   |                                       | <b>9,402,519,601.41</b>            | <b>8,770,000,000.00</b>       |               | <b>6,862,139,100.74</b>         |
| <b>Financial liabilities</b>   |                                       |  |   |                                       |                                    |                               |               |                                 |
|  |                                       | <b>201,236.00</b>  |   |                                       | <b>201,236.00</b>                  |                               |               | <b>201,236.00</b>               |

### (VII) CORE COMPETITIVENESS ANALYSIS

#### 1. Technological advantages

The Company's operating philosophy can be expressed as "technologically oriented", and it builds its core competitiveness through continuous technological innovation and the introduction of high-quality products. The Company operates several innovation facilities at national level, including a State-level enterprise technology centre, an enterprise post-doctoral scientific research station, a State-recognised laboratory, and the Guangdong Provincial Key Research and Development Centre of Engineering Science. To satisfy the demands of different markets worldwide as well as understand trends in household appliance technology and core technology resources, the Company has established R&D institutions domestically and abroad and recruited approximately 1,700 high-level researchers and technical experts to its global R&D and innovation team. In recent years, the Company has improved its pre-feasibility study system, gradually establishing an R&D system comprising "pre-feasibility study, project pipeline and development".

**Refrigerator and washing machine technology:** Advances such as natural and vacuum preservation, the second-generation ice maker and food management were developed by the Company. They came in response to increasing home-bound consumers' demand for 'intelligent' appliances that would keep food fresh and healthy for an extended period of time. What makes this possible is a combination of non-water mist ion moisturising technology, photosynthetic preservation technology and ion sterilisation technology, which recreates a natural growing environment for fruits and vegetables, allowing them to "remain fresh even after seven days of storage". Vacuum preservation technology has also been applied in freezers for the very first time in China, paving the way for further applications in new preservation usage. Based on proprietary intellectual property rights, the second generation ice maker is able to break through the blockade caused by overseas patents. The Company was also the first to unveil a whole refrigerator food identification management product with RFID, and the first manufacturer in the industry to set the group standard for refrigerators with food identification management function. In terms of washing machines, the Company has increased its efforts to identify and understand user pain points and application scenarios, and has subsequently focused on the iterative upgrading of ion steaming, ironing and washing. The Company's washing machines demonstrate its leadership in laundry service, healthy sterilisation, water-flow innovation, inversion and efficient drying, which in turn comprehensively boosts its brand value.

**Air-conditioning technology:** In response to the requirements of different applications for central air-conditioning systems and a growing demand for healthy products amid the pandemic, the Company strengthened its investment in pre-feasibility study to ensure its central air-conditioning products and technologies remain at the cutting edge. The commercial multi-split central air-conditioner series were the first in the industry to use a large volume dual-rotor compressor, giving excellent performance whilst significantly lowering operational costs. An industry pioneer in non-balanced ion waterfall purification technology, the Company uses a new and unique positive and negative ion discharge technology to offer better sterilisation and deodorisation performance. To fulfil users' demand for comfortable heating solutions like floor heating, the Company's multi-split central air-conditioners can be connected with a water module. This has helped to consolidate the Company's leadership in the "fluorine system goes above while the water system goes below" market segment. Meanwhile, the Company is the only industry player to offer an integrated multi-connected floor heating product series that does not require the installation of water module, and connects directly with floor heating

## Management Discussion and Analysis

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hydraulic pipe. User demand for comfort and health also prompted the Company to launch the industry's first micro-positive pressure fresh air system. This technology enables indoor carbon dioxide concentrations to be automatically adjusted, keeping indoor air fresh and at a constant temperature. The Company has become a leader in the fresh air sector by extending its temperature regulation capabilities to air quality management. Convenient control and seasonal identification technology enables the automatic matching of desirable operating models, and enhances the user experience around the dimensions of temperature, humidity, airflow, fresh air and purification. The Company has also stepped up its efforts in offline voice technology development to enable natural speech recognition control. The use of QSD rapid frequency upscaling and compressor control technology allows fast cooling and heating and launch in one second. The self-developed dual direct current variable frequency drive algorithm has reached an industry leading level.

### 2. Brand advantages

The brands under the Company, namely Hisense, Ronshen, Kelon, Hitachi and York, all enjoy an excellent reputation and solid customer base. Overseas awareness and influence of the Hisense brand are both rising in accordance with the Company's ongoing international expansion strategy. The "BrandZ China Top 50 Brands" report has ranked Hisense in the top 10 for four consecutive years up to 2020. Ronshen boasts a long history and a brand image centred on "Ronshen, Ronshen, Quality Assurance". Kelon has focused on air-conditioning for decades and positioned itself as a professional and practical brand that caters to the precise needs of users. Leveraging on the strengths of the Hitachi, Hisense and York brands, the Company has been able to retain its leadership in the multi-split central air-conditioner sector.

### 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 | Net assets | Operating revenue | Operating profit | Net profits |
|-----------------|--------------|--|--------------------|--------------|------------|-------------------|------------------|-------------|
| Hisense Hitachi | Subsidiary   | Production and sale of commercial air-conditioners | USD150 million     | 1,588,503.50 | 708,698.31 | 1,333,118.46      | 276,273.15       | 213,238.56  |

## Management Discussion and Analysis

### 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 Gorenje Electrical Co., Ltd.*                   | Invest and establish  | Beneficial to the expansion of the domestic sales scale of the Company's high-end products  |
| Hisense (Shandong) Kitchen and Bath Co., Ltd.           | Invest and establish  | Beneficial to the expansion of the scale of the Company's kitchen appliances products   |
| Hisense (Hong Kong) America Manufacturing Co., Ltd.     | Equity transfer   | To satisfy the Company's overseas factory construction needs  |
| Hisense Monterrey Manufacturing, S.de R.L. de C.V.      | Equity transfer   | To satisfy the Company's overseas factory construction needs  |
| Hisense Monterrey Property Management S.de R.L. de C.V. | Equity transfer   | To satisfy the Company's overseas factory construction needs  |
| Guangdong Huaao Electronics Co., Ltd.                   | Cancellation of registration  | The cancellation of registration of this company will not have any significant impact on the Company's overall production and performance |

### (IX) Material changes of major assets

| Major assets         | Description of material changes |
|----------------------|---------------------------------|
| Equity assets        | No significant changes          |
| Fixed assets         | No significant changes          |
| Intangible assets    | No significant changes          |
| Projects in progress | No significant changes          |

### (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 "intelligent ecological strategy" in the production of high quality intelligent household electrical appliances, with an aim to becoming the world's high-end home appliances intelligent manufacturing enterprise.

## Management Discussion and Analysis

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### (II) Business highlights for 2021

In 2021, the Company will continuously adhere to its high quality product strategy, focusing on its competitive edges, creating product strength and market strength, activating organisational vitality, developing continuous growing capacity. Major tasks of the Company are as follows:

1. Upholding its philosophy of making good and high quality products: Continuing to be user-oriented, upholding the high quality product strategy, capturing value marketing, refining product sales structure, and steadily promoting the increase of sale scale and market share of high-end products.
2. Increasing inputs in research and development, maintaining our technological advantages: Focusing on core technology and intelligent scenario, increasing the inputs in research and development, improving pre-research system and management process, promoting the application of pre-research outcomes, and enhancing the level of intelligent household electrical appliances.
3. Focusing on advantageous resources, achieving forward-leaping brand developments: Focusing on advantageous resources, enhancing brand influence, adopting measures such as “continuous enhancing product competitiveness”, “increasing efforts in rejuvenating brands”, “securing cooperation with terminal clients” and “penetrating major markers” to achieve the rapid growth in brand scale.
4. Reinforcing collaboration and enhancing production efficiency: Strengthening production collaboration and supply chain planning, and enhancing production efficiency in order to achieve high quality order delivery.
5. Accelerating capital turnover and improving utilisation of fund: Strengthening the management and control of the capital risks, improving the management of the payment terms, and reducing extraordinary use of funds to enhance the effectiveness of capital turnover.
6. Optimising planning and achieving breakthrough in business scale: For washing machine business, continuously optimising the planning for mid- to high-end products with differentiated functions such as steaming, ironing and washing to enlarge business scale; as for commercial cold chain business, continuously thoroughly cultivating deep freezing technology, continuously investing in technologies such as deep freezing preservation, vacuum preservation and differentiated storage to achieve renovation; as for kitchen and bath business, further optimising product planning, enhancing revenue in each store; enhancing the planning for high-end products to continuously achieve breakthrough in business scale.

### (III) Risks faced by the Group include:

1. Macroeconomic fluctuation risk: If the macroeconomic growth trend continuously slows down, domestic consumption may be insufficient to support the industry, which will affect the consumer demand for household appliances.
2. Increasing costs risk: If the price of raw materials increases continuously, it will adversely affect the Company’s product cost. In addition, the rising cost of manpower and labour, installation and repairing services may adversely affect the Company’s profitability.
3. Market risks brought about by protectionism and trade barriers: In order to protect their own economic interests, some countries and regions have imposed higher tariffs and compulsory certification, resulting in increased operating costs, indirectly influencing the export business’s competitiveness and profitability.
4. Exchange rate fluctuation risks: Significant fluctuations in the RMB exchange rate will directly affect the cost competitiveness of the Company’s export products, thus affecting the export business’s profitability.



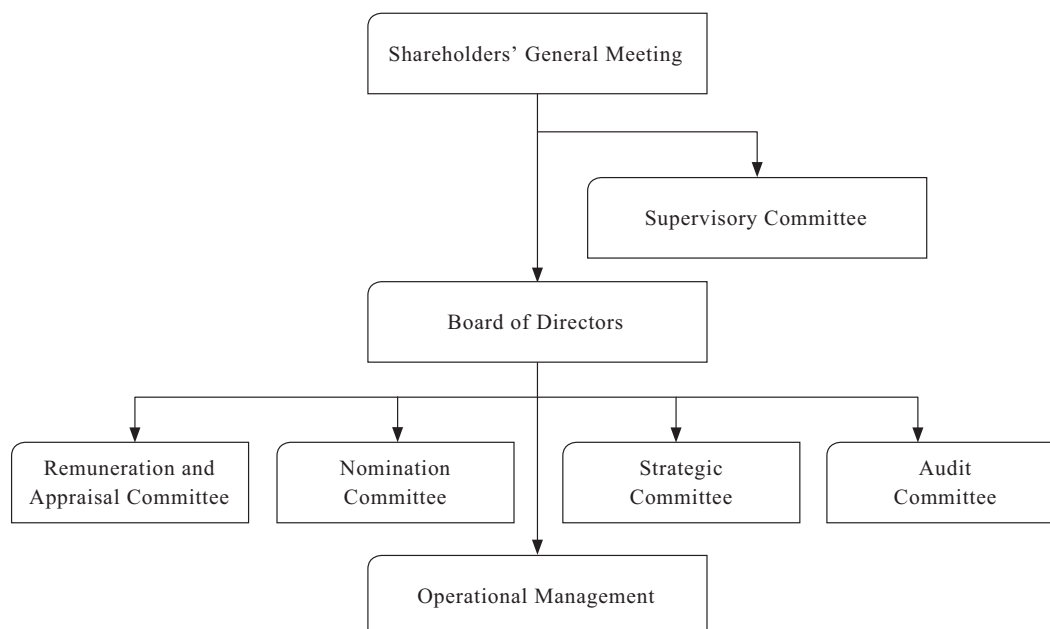
# Corporate Governance Report

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Sound corporate governance is the basic assurance to the long-term healthy and stable development of a corporation, whereas continued enhancement of the governance level is a necessary measure to maintain the healthy development of the Company. During the Reporting Period, the Company had further revised the “Entrusted Wealth Management System”, “Internal Control System for Forward Foreign Exchange Fund Transactions” and other institutional documents to continuously enhance the corporate governance system. The shareholders’ general meetings, meetings of the board of directors of the Company (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

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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 2020, one annual general meeting (“AGM”) was held by the Company and two extraordinary general meetings (“EGMs”) were held by the Company on 17 January 2020 and 25 September 2020, respectively. The shareholding held by the shareholders attending the AGM and each of the two EGMs represented 46.19%, 13.25% and 14.06% of the then total issued shares of the Company, respectively. The attendance records of the directors of the Company are set out in the following table:

### Attendance of the general meetings of the Company in 2020 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                      | 3  | 3                              | 0                             | 100.00%                      |
| Mr. Jia Shao Qian                    | 3  | 0                              | 0                             | 0%                           |
| Mr. Lin Lan                          | 3  | 0                              | 0                             | 0%                           |
| Mr. Dai Hui Zhong                    | 3  | 0                              | 0                             | 0%                           |
| Mr. Duan Yue Bin <sup>(Note 1)</sup> | 2  | 1                              | 0                             | 50.00%                       |
| Mr. Fei Li Cheng                     | 3  | 0                              | 0                             | 0%                           |
| Mr. Ma Jin Quan                      | 3  | 2                              | 0                             | 66.67%                       |
| Mr. Zhong Geng Shen                  | 3  | 2                              | 0                             | 66.67%                       |
| Mr. Cheung Sai Kit                   | 3  | 2                              | 0                             | 66.67%                       |
| Mr. Wang Yun Li <sup>(Note 2)</sup>  | 1  | 0                              | 0                             | 0%                           |

#### Notes:

1. Mr. Duan Yue Bin has been appointed as an executive Director with effect from 23 June 2020;
2. Mr. Wang Yun Li has ceased to be an executive Director and the vice-president of the Company with effect from 5 March 2020; and
3. 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

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## 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 more than 10% 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, administrative regulations 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 request.
- (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 extraordinary 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 extraordinary general meeting or class meeting within the prescribed period, the Supervisory Committee shall be deemed not convening or chairing an extraordinary 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 extraordinary 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: hxjdzqb@hisense.com

## Corporate Governance Report

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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 2020, the Board comprised the executive Directors, namely Mr. Tang Ye Guo, Mr. Jia Shao Qian, Mr. Lin Lan, Mr. Dai Hui Zhong, Mr. Fei Li Cheng 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 23 June 2020, Mr. Duan Yue Bin was elected at the 2019 AGM as an executive Director of the tenth session of the Board. As at the date of this report, the Board comprised nine Directors, including six executive Directors, namely Mr. Duan Yue Bin (President), 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. Tang Ye Guo, the chairman of the Company, has ceased to be the President of the Company with effect from 5 March 2020;
- (ii) Mr. Wang Yun Li has ceased to be an executive Director and the vice-president of the Company with effect from 5 March 2020; and
- (iii) Mr. Duan Yue Bin has been the President of the Company with effect from 5 March 2020, and an executive Director of the Company with effect from 23 June 2020.

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

## Corporate Governance Report

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### 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 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 2020, 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 2020, the Board of the Company held 15 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:

| 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                  | 15   | 15                             | 0                             | 100%                         |
| Mr. Jia Shao Qian                | 15   | 15                             | 0                             | 100%                         |
| Mr. Lin Lan                      | 15   | 15                             | 0                             | 100%                         |
| Mr. Dai Hui Zhong                | 15   | 15                             | 0                             | 100%                         |
| Mr. Duan Yue Bin <i>(Note 1)</i> | 9  | 9                              | 0                             | 100%                         |
| Mr. Fei Li Cheng                 | 15   | 15                             | 0                             | 100%                         |
| Mr. Ma Jin Quan                  | 15   | 15                             | 0                             | 100%                         |
| Mr. Zhong Geng Shen              | 15   | 15                             | 0                             | 100%                         |
| Mr. Cheung Sai Kit               | 15   | 15                             | 0                             | 100%                         |
| Mr. Wang Yun Li <i>(Note 2)</i>  | 1  | 1                              | 0                             | 100%                         |

*Notes:*

1. Mr. Duan Yue Bin has been appointed as an executive Director with effect from 23 June 2020; and
2. Mr. Wang Yun Li has ceased to be an executive Director and the vice-president of the Company with effect from 5 March 2020.

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 or personal service 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

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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, Mr. Lin Lan and three independent non-executive Directors, namely, Mr. Ma Jin Quan, Mr. Zhong Geng Shen and Mr. Cheung Sai Kit. 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;

## Corporate Governance Report

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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 44 of this annual report.

The Remuneration and Appraisal Committee of the Board held two meetings 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 2020 by the committee members**

| Name                | Number of<br>meeting<br>which should<br>be attended<br>for the year | Number of<br>attendance<br>in person | Number of<br>attendance<br>by proxy | Attendance<br>rate for<br>the year |
|---------------------|---|--------------------------------------|-------------------------------------|------------------------------------|
| Mr. Ma Jin Quan     | 2   | 2                                    | 0                                   | 100%                               |
| Mr. Jia Shao Qian   | 2   | 2                                    | 0                                   | 100%                               |
| Mr. Lin Lan         | 2   | 2                                    | 0                                   | 100%                               |
| Mr. Zhong Geng Shen | 2   | 2                                    | 0                                   | 100%                               |
| Mr. Cheung Sai Kit  | 2   | 2                                    | 0                                   | 100%                               |

In 2020, 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 2019 annual report.

Members of the Remuneration and Appraisal Committee confirmed that the remuneration of the Directors, supervisors and senior management during the Reporting Period is 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 2020 are set out on pages 63 to 64 of this annual report.



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### 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 according to 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 set up 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 2020 by the committee members**

| <b>Name</b>         | <b>Number of<br/>meeting<br/>which should<br/>be attended<br/>for the year</b> | <b>Number of<br/>attendance<br/>in person</b> | <b>Number of<br/>attendance<br/>by proxy</b> | <b>Attendance<br/>rate for<br/>the year</b> |
|---------------------|--|---|--|---|
| 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. Duan Yue Bin as candidate of the President of the Company;
- (ii) the resolution in respect of the nomination of Mr. Duan Yue Bin as candidate of an executive Director of the tenth session of the Board; and
- (iii) the resolution in respect of the nomination of Ms. Liang Hong Tao 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. 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 supervise and assess the external audit function and make recommendations on the appointment or change the external audit agency. To be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditing body, and to approve the remuneration and terms of engagement of the external auditing body, and any questions of its resignation or dismissal;
- (B) to review and monitor the independence and objectivity of the external auditing body and the effectiveness of the audit process in accordance with applicable standards; the Audit Committee should discuss with the auditing body the nature and scope of the audit and reporting obligations before the audit commences;

## Corporate Governance Report

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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 examine 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 supervise and assess 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 consider 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 supervise and assess the internal audit function, to be responsible for 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 examine 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 recommendations 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 three meetings during the Reporting Period, and the attendance record of the members of the Audit Committee is set out below. All matters considered and approved at such meetings were recorded in accordance with the relevant requirements and filed for record after being reviewed and signed by all members of the Audit Committee.

### Attendance of the meetings of the Audit Committee of the Board in 2020 by the committee members

| Name                | Number of<br>meeting<br>which should<br>be attended<br>for the year | Number of<br>attendance<br>in person | Number of<br>attendance<br>by proxy | Attendance<br>rate for<br>the year |
|---------------------|---|--------------------------------------|-------------------------------------|------------------------------------|
| Mr. Cheung Sai Kit  | 3   | 3                                    | 0                                   | 100%                               |
| Mr. Ma Jin Quan     | 3   | 3                                    | 0                                   | 100%                               |
| Mr. Zhong Geng Shen | 3   | 3                                    | 0                                   | 100%                               |

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In 2020, 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 2019 and the final report for the audit work conducted by the auditing body for the year of 2019;
3. having considered and approved the resolution on the re-appointment of ShineWing Certified Public Accountants LLP as the auditor of the Company for the year of 2020;
4. 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;
5. having reviewed the effectiveness of the Company's risk management and internal control systems; and
6. 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 2020, the Supervisory Committee comprised two shareholders representative supervisors, namely Mr. Liu Zhen Shun and Ms. Gao Yu Ling and one employee representative supervisor, Ms. Fan Wei, with Mr. Liu Zhen Shun acting as the chairman of the Supervisory Committee.

During the Reporting Period and up to the date of this report there was no change in the composition of the Supervisory Committee.

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 68 to 69 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.

#### 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.

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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<br>(Note) |
|---------------------|----------------------------|
| Mr. Tang Ye Guo     | b                          |
| Mr. Jia Shao Qian   | b                          |
| Mr. Lin Lan         | b                          |
| Mr. Dai Hui Zhong   | b                          |
| Mr. Duan Yue Bin    | a, b                       |
| Mr. Fei Li Cheng    | b                          |
| Mr. Ma Jin Quan     | b                          |
| Mr. Zhong Geng Shen | b                          |
| Mr. Cheung Sai Kit  | b                          |

Notes:

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

### Chairman and President

The Chairman of the Board and the President of the Company are appointed by the Board. The persons who were appointed as the Chairman and the President of the Company during the Reporting Period 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<br>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.

Since 5 March 2020, Mr. Tang Ye Guo, the Chairman of the Company, has ceased to serve as the President of the Company and the position of the President has been held by Mr. Duan Yue Bin. As of the date of this report, there has been no change in the positions of Chairman and President.

# Corporate Governance Report

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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 puts 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 2020. 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 2020, 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;



## Corporate Governance Report

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3. the management prioritises the risks based on their probability and the severity of impact on the business;
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 (the “**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 23 June 2020, as considered and approved at the shareholders' general meeting, the Company re-appointed ShineWing Certified Public Accountants LLP as the auditor of the Company for the year of 2020, and the Board was authorised to fix their remuneration.

The Company has 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 2020 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 auditors of the Company in respect of their reporting responsibilities is set out in the Auditor's Report section contained in this annual report.

### (V) Company secretary

On 26 June 2018, 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.

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

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### Incumbent Directors

**Mr. Tang Ye Guo**, aged 58, Doctor of Management, served successively as the director and the general manager of Hisense Electric Co., Ltd. and the president of the Company. Mr. Tang has been the director of Hisense Holdings and the Company's Chairman.

**Mr. Jia Shao Qian**, aged 48, Master of Management, served successively as the vice president and the president of the Company. Mr. Jia serves as the director and the president of Hisense Holdings, the director of Hisense Air-Conditioning and the Company's director.

**Mr. Lin Lan**, aged 63, Doctor of mechanical engineering, served as the vice-president of the Company. Mr. Lin has been the director of Hisense Holdings, the director of Hisense Visual Technology and the director of the Company.

**Mr. Dai Hui Zhong**, aged 55, Bachelor degree, served successively as the general manager of Hisense Electric Co., Ltd. and the president of the Company. Mr. Dai has been the senior vice-president of Hisense Holdings, the director of Hisense Visual Technology and the director of the Company.

**Mr. Duan Yue Bin**, aged 40, Bachelor of Engineering, was the general manager of Hisense (Shandong) Refrigerator Ltd.\* (海信(山東)冰箱有限公司). Mr. Duan serves as the Chairman of Hisense Air Conditioning, the director and the president of the Company.

**Mr. Fei Li Cheng**, aged 57, served successively 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). Mr. Fei serves as the director of Hisense Air Conditioning, the director of the Company and the general manager of Hisense Hitachi.

**Mr. Ma Jin Quan**, aged 78, senior engineer, served successively the executive deputy factory director 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 director 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), the external director of Panzihua Iron & Steel (Group) Corporation\* (攀枝花鋼鐵(集團)公司), 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), the independent director of Hisense Electric Co., Ltd., and the 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)). Mr. Ma serves as the independent non-executive director of the Company.

**Mr. Zhong Geng Shen**, aged 60, Doctor of Management of Nankai University, served as an associate professor at the School of Economics and the School of Management of Shandong University, engaged in postdoctoral work at Inspur Group. 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) and an independent director of Shandong Yishui Rural Commercial Co., Ltd.\* (山東沂水農村商業銀行股份有限公司). Mr. Zhong serves as the independent non-executive director of the Company.

**Mr. Cheung Sai Kit**, aged 49, Certified Public Accountant in Hong Kong and a member of CPA Australia, He had served as the senior audit manager at BDO Limited and KPMG successively. He served as the executive director of BDO Limited and a counsellor of Moore Stephens CPA Limited. He has been an executive director of Moore Stephens CPA Limited. Mr. Cheung serves as the independent non-executive director of the Company.

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

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### Incumbent Supervisors

**Mr. Liu Zhen Shun**, aged 51, Bachelor degree, served successively as the head of the legal affairs department, the general manager of legal and intellectual properties department and the deputy secretary of Hisense Group. He serves as the general manager of legal and intellectual properties department and the Secretary of Committee for Discipline Inspection of Hisense Holdings. He serves as the chairman of the Supervisory Committee of the Company.

**Ms. Gao Yu Ling**, aged 39, Master of Management, served successively as the deputy director of the finance center of Hisense Electric Co., Ltd., the deputy head and the general manager of finance and operation management department of Hisense Group, and the chief financial officer of the Company. She has served as the financial director and the general manager of finance and operation management department of Hisense Holdings, the supervisor of the Hisense Air-Conditioning and the Company's supervisor.

**Ms. Fan Wei**, aged 54, Bachelor degree, served successively as the deputy head of the R&D center of the Company, the deputy head of the technical quality department and the head of the president office of the Company. She serves as the supervisor and the chairman of the labor union of the Company.

### Incumbent Senior Management Members

**Ms. Liang Hong Tao**, aged 40, Bachelor of Management, Certified Public Accountant and senior accountant, served successively as the financial executive, the deputy head of the finance department and the deputy general manager of the operation and finance management department of the Company. She serves as the chief financial officer of the Company.

**Ms. Huang Qian Mei**, aged 37, Bachelor of Economics and Management, served as the securities affairs representative of the Company. She serves as the secretary of the board of the Company.

**Ms. Wong Tak Fong**, aged 53, Master of Business Administration from the University of Bradford in the United Kingdom, 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 fellow member of the Taxation Institute of Hong Kong. She acted as the managing director of General Bright Consultants Ltd., had been the chief financial officer of Diamond Dragon Fashion Ltd (鑽龍時裝有限公司) and acted as a joint company secretary of the Company. She serves as the company secretary of the Company.

*Note:* Hisense Holdings 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 or senior management of Hisense Holdings as at the date of this report. Mr. Duan Yue Bin and Mr. Fei Li Cheng are the Chairman and director of Hisense Air Conditioning respectively. Hisense Holdings and Hisense Air Conditioning were deemed to have an interest in the shares of the Company, 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").

Ms. Gao Yu Ling is the 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

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## PRINCIPAL BUSINESSES

The Group is principally engaged in research and development, manufacturing and marketing of refrigerators, residential air-conditioners, central air-conditioners, freezers, washing machines, kitchen appliances and other 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 2020 Environmental, Social and Governance Report of the Company published on 30 March 2021, 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.
  - (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.

## Report of the Directors

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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 (recognised in parent company) for the year ended 31 December 2020 is RMB605,670,237.97. Pursuant to the relevant requirements of the Articles of Association of the Company, RMB60,567,023.80 is allocated to the statutory common reserve fund; undistributed profits at the beginning of the year 2020 of RMB2,395,012,858.11 is added; and the distributed profits of RMB538,276,521.15 is deducted. The actual distributable profits is RMB2,401,839,551.13.

The Board proposed to pay all shareholders a cash dividend of RMB3.47 (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 2020, without bonus issue and not to issue shares by way of conversion of capital reserve (For the year ended 31 December 2019, the Company paid to all shareholders a cash dividend of RMB3.95 (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 2019).

The Proposed Dividend is subject to approval by the shareholders at the 2020 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 13 August 2021. The total amount of profits to be so distributed is expected to be RMB472,865,703.39. Details of the payment of the Proposed Dividend will be announced after the conclusion of the Annual General Meeting.

### RESERVES

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

## Report of the Directors

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### DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2020 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 2020, net cash generated from operating activities of the Group amounted to approximately RMB5,963 million (2019: net cash generated from operating activities amounted to approximately RMB2,005 million).

As at 31 December 2020, the Group had cash and cash equivalents (including bank deposits, cash and collaterals for bank acceptance note) amounting to approximately RMB7,111 million (2019: RMB6,121 million), of which more than RMB6,856 million is denominated in Renminbi. As at 31 December 2020, the Group did not have any long-term bank borrowings and the Group had short-term bank loans amounting to approximately RMB22 million which were repayable within one year (2019: approximately RMB100 million). Out of these loans, bank loans in the amount of RMB22 million were at fixed interest rates.

Total capital expenditures of the Group for the year ended 31 December 2020 amounted to approximately RMB614 million (2019: RMB364 million).

As at 31 December 2020, the Group's current liabilities amounted to RMB26,719 million, non-current liabilities amounted to RMB686 million, and shareholders' equity attributable to the shareholders of the Company amounted to RMB9,779 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 2020, the Group had approximately 39,499 employees, mainly comprising 5,256 technical staff, 13,350 sales representatives, 224 financial staff, 515 administrative staff and 20,154 production staff. The Group had 35 employees with a doctorate degree, 1,073 with a master's degree and 38,981 with a bachelor's degree or below. For the year ended 31 December 2020, the Group's staff payroll amounted to RMB4,275 million (2019: RMB3,598 million).

### EMPLOYEES' TRAINING AND REMUNERATION POLICY

Employees and talents are the cornerstone and safeguard of corporate development. The Company has always implemented the employment approach of "selection → use → education → promotion → retention", committed to improving the quality of employees and the overall ability of the team, and creating a broad development platform for employees. The Company regards training as a driving force to improve employee quality and career development, and has established a three-level training system to implement employee training responsibilities level by level, and provide employees with opportunities for learning and development.

In 2020, the Company actively carried out various employee training campaigns. According to its annual business strategy requirements, the Company focused on themes such as "user value" and "product innovation", organised offline training with flipped classrooms and workshops while vigorously promoting online learning, so as to improve the vision and comprehensive quality of management and their reserve talents, and accelerate the growth of reserve forces. In respect of new employees, the Company implemented "orientation training", and conducted systematic training such as "rotation internship" and "fixed position internship" by means of instructors and apprentices, which helped new employees quickly understand corporate culture and master the necessary skills for their positions. For on-the-job employees, the Company arranged targeted training on the basis of departmental performance weaknesses and weak areas of employee abilities, and adopted training methods such as "internal and external training", "project research", "post rotation", etc. to implement courses such as corporate management, quality craftsmanship, corporate culture, manufacturing, technology research and development, etc. During the Reporting Period, the Company provided a total of over 380,000 course hours, covering employees of different types and levels from basic-level personnel such as front-line production and marketing to management personnel, which promoted continuous improvement of the quality and ability of employees.



## Report of the Directors

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In addition, the Company continues to optimise its employee development system. The Company adopts a dual-channel development mechanism of “professional promotion channels as the mainstay and management promotion channels as the supplement”. In 2020, the Company optimise qualification management standards and evaluation system for marketing employees, and continued to organise and carry out the annual job title evaluation of various employees, and provided multi-platform development opportunities for employees’ career planning. In order to meet the needs of its international development, the Company carries out international talent training programs and conducts selection and training of international talents.

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 2020, the Group did not have any property, plant and equipment (including leasehold land held for own use), investment properties and trade receivables which were pledged as security for the Group’s borrowings (31 December 2019: nil).

### 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 30 March 2021, 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 2020.

### CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2021 will be approximately RMB550.34 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 2020, the Group did not have any trust deposits with any financial institutions in the PRC. All of the Group’s deposits have been deposited in commercial banks and other financial institutions in the PRC and Hong Kong.

## Report of the Directors

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### GEARING RATIO

As of 31 December 2020, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 65.54% (2019: 63.28%).

### 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.

### THE COMPANY AND 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 and the controlling shareholders nor any of their 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 or better which were fair and reasonable and in the interests of the shareholders of the Company as a whole.



## Report of the Directors

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### 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 as its code for securities transaction by Directors. After having made specific enquiries to the Directors, all Directors confirmed that they had acted in full compliance with the Model Code during their term of office.

### SHARE CAPITAL STRUCTURE

As at 31 December 2020, the share capital structure of the Company was as follows:

| <b>Class of shares</b> | <b>Number of shares</b> | <b>Percentage to the total issued share capital</b> |
|------------------------|-------------------------|---|
| 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 2020, there were 25,960 (A shares: 25,911) 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   | Non-Domestic State-owned legal person | 516,758,670           | 37.92%   | 57.22%   | 0   |
| HKSCC (Nominees) Limited <sup>Note 1</sup>   | Foreign legal person                  | 457,662,069           | 33.58%   | 99.58%   | 0   |
| The Hong Kong Securities Clearing Company Limited (“HKSCC”) <sup>Note 2</sup>  | Foreign legal person                  | 70,298,761            | 5.16%  | 7.78%  | 0   |
| Shanghai Gaoyi Asset Management Partnership – Gaoyi Linshan No. 1 Long-range Fund*<br>(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                                 | 38,000,000            | 2.79%  | 4.21%  | 0   |
| Cental Huijin Investment Ltd.  | State-owned legal person              | 26,588,700            | 1.95%  | 2.94%  | 0   |
| Shanghai Pudong Development Bank Co., LTD. – Guangfa High-end Manufacturing Equity Initiative Securities Investment Fund*<br>(上海浦東發展銀行股份有限公司 – 廣發高端製造股票型發起式證券投資基金)                           | Other                                 | 11,583,241            | 0.85%  | 1.28%  | 0   |
| Zhang Shao Wu  | Domestic natural shareholders         | 7,200,000             | 0.53%  | 0.80%  | 0   |
| New China Life Insurance Company Ltd. – Dividends – Personal Dividends – 018L-FH002 Shenzhen (新華人壽保險股份有限公司 – 分紅 – 個人分紅 – 018L-FH002深)  | Other                                 | 6,558,433             | 0.48%  | 0.73%  | 0   |
| Industrial and Commercial Bank of China – Bosera Growth Preferred Two-year Closed-end Flexible Allocation of Mixed Securities Investment Fund*<br>(中國工商銀行股份有限公司 – 博時成長優選兩年封閉運作靈活配置混合型證券投資基金) | Other                                 | 6,218,850             | 0.46%  | 0.69%  | 0   |
| Norwegian Central Bank – self-owned funds  | Foreign legal person                  | 6,107,364             | 0.45%  | 0.68%  | 0   |

\* For identification purposes only

#### 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.

## Report of the Directors

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.

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  | 457,662,069                    | Overseas listed foreign shares |
| The Hong Kong Securities Clearing Company Limited (“HKSCC”)   | 70,298,761                     | RMB ordinary 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)  | 38,000,000                     | RMB ordinary shares            |
| Cental Huijin Investment Ltd.   | 26,588,700                     | RMB ordinary shares            |
| Shanghai Pudong Development Bank Co., LTD.<br>– Guangfa High-end Manufacturing Equity Initiative Securities Investment Fund* (上海浦東發展銀行股份有限公司 – 廣發高端製造股票型發起式證券投資基金)                        | 11,583,241                     | RMB ordinary shares            |
| Zhang Shao Wu   | 7,200,000                      | RMB ordinary shares            |
| New China Life Insurance Company Ltd. – Dividends<br>– Personal Dividends – 018L-FH002 Shenzhen (新華人壽保險股份有限公司 – 分紅 – 個人分紅 – 018L-FH002深)  | 6,558,433                      | RMB ordinary shares            |
| Industrial and Commercial Bank of China - Bosera Growth Preferred Two-year Closed-end Flexible Allocation of Mixed Securities Investment Fund* (中國工商銀行股份有限公司 – 博時成長優選兩年封閉運作靈活配置混合型證券投資基金) | 6,218,850                      | RMB ordinary shares            |
| Norwegian Central Bank – self-owned funds   | 6,107,364                      | RMB ordinary shares            |

\* For identification purposes only

## Report of the Directors

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

So far as is known to the Directors, supervisors and the chief executives of the Company, as at 31 December 2020, 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 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 total number of shares in issue | Percentage of the respective types of shares |
|--|------------------------------------|----------------|-----------------------|---|--|
| Qingdao Hisense Air-conditioning Company Limited <sup>Note 1</sup> | Beneficial owner                   | A shares       | 516,758,670 (L)       | 37.92%  | 57.22%                                       |
| Hisense Group Holdings Co., Ltd. <sup>Note 1</sup>                 | Interest of controlled corporation | A shares       | 516,758,670 (L)       | 37.92%  | 57.22%                                       |
| Hisense (Hong Kong) Company Limited <sup>Note 1</sup>              | Beneficial owner                   | H shares       | 124,452,000 (L)       | 9.13%   | 27.08%                                       |
| Hisense Group Holdings Co., Ltd. <sup>Note 1</sup>                 | Interest of controlled corporation | H shares       | 124,452,000 (L)       | 9.13%   | 27.08%                                       |

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

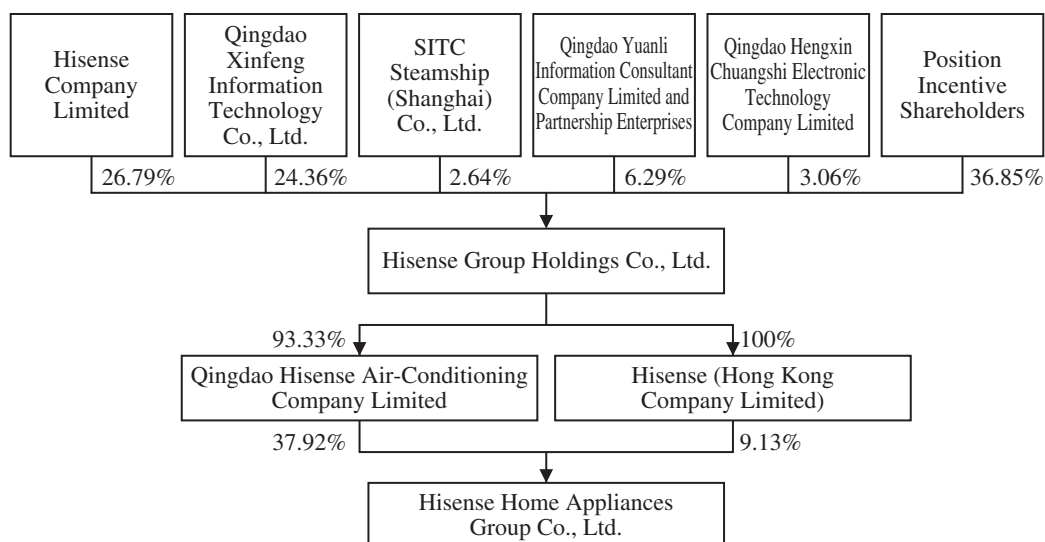
*Note 1:* Qingdao Hisense Air-conditioning Company Limited is a company 93.33% directly owned by Hisense Group Holdings Co., Ltd., whereas Hisense (Hong Kong) Company Limited is a company directly wholly-owned by Hisense Group Holdings Co., Ltd. By virtue of the SFO, Hisense Group Holdings Co., Ltd. was 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 2020, 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.

## Report of the Directors

### PARTICULARS OF THE CONTROLLING SHAREHOLDERS OF THE COMPANY

1. Qingdao Hisense Air-Conditioning Company Limited, the controlling shareholder of the Company, was incorporated on 17 November 1995. Its registered address is at Changsha Road, Hi-tech Industrial Zone, Qingdao, the PRC, its legal representative is Mr. Duan Yue Bin 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. The Company has no actual controller.
3. Diagram of property rights and control relationships of the Company;



*Note:* Due to rounding, there may be a rounding difference between the sum of the items and the totals in the above chart

4. 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 2020, 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   | 623,700            | 0.069%   | 0.046%   |
| Mr. Jia Shao Qian | Beneficial owner   | 404,360            | 0.045%   | 0.030%   |

## Report of the Directors

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### SALES TO MAJOR CUSTOMERS AND MAJOR SUPPLIERS

#### Sales to major customers of the Company

|  |                   |
|--|-------------------|
| Total sales to top 5 customers (RMB)   | 18,323,277,931.36 |
| Total sales to top 5 customers as a percentage of the total sales for the year (%)                           | 37.86             |
| Total sales to top 5 customers which are related parties as a percentage of the total sales for the year (%) | 22.80             |

#### 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        | 8,687,023,321.01  | 17.95   |
| 2     | The second       | 3,347,070,843.10  | 6.92  |
| 3     | The third        | 2,380,202,626.29  | 4.92  |
| 4     | The fourth       | 2,348,695,564.30  | 4.85  |
| 5     | The fifth        | 1,560,285,576.66  | 3.22  |
| Total |                  | 18,323,277,931.36 | 37.86   |

#### 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 Holdings 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%, controlling shareholder or their respective close associates 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)   | 4,060,918,571.31 |
| Total purchases from top 5 suppliers as a percentage of the total purchases for the year (%)                           | 11.05            |
| 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         | 1,460,253,165.32 | 3.97  |
| 2     | The second        | 860,285,275.44   | 2.34  |
| 3     | The third         | 652,772,787.72   | 1.78  |
| 4     | The fourth        | 547,258,873.75   | 1.49  |
| 5     | The fifth         | 540,348,469.08   | 1.47  |
| Total |                   | 4,060,918,571.31 | 11.05   |

#### Explanation on the other situation of major suppliers

Applicable    Not applicable

## Report of the Directors

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### PURCHASE, SALE OR REDEMPTION OF SHARES

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

### AUDITOR

On 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.

On 23 June 2020, as considered and approved at the shareholders' general meeting, the Company agreed to re-appoint ShineWing Certified Public Accountants LLP as the auditor of the Company for the year 2020, and the Board was authorised to fix their remuneration.

### PRE-EMPTIVE RIGHTS

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

### TAXATION

Pursuant to the relevant tax regulations, the Company is required to withhold and pay corporate income tax at the rate of 10% when distributing dividends to non-resident enterprise shareholders whose names appear on the 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 5 November 2019, the Company entered into (i) a business co-operation framework agreement, (ii) a purchase financing agency framework agreement, (iii) a financial services agreement, and (iv) a financial business framework agreement with Hisense Group (and its subsidiaries), Hisense Hong Kong, Hisense Finance, and Hisense Financial Holdings respectively. On 31 July 2020, the Company entered into a supplemental agreement to the business co-operation framework agreement with Hisense International. On 11 September 2019, the Company entered into a business co-operation agreement with Johnson Hitachi.

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. 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.

## Report of the Directors

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Details of the business co-operation framework agreement with Hisense Group and its subsidiaries, the financial services agreement with Hisense Finance, and the financial business framework agreement with Hisense Financial Holdings can be found in the announcement and the circular published on the website of the Hong Kong Stock Exchange on 6 November 2019 and 20 December 2019. Details of the supplemental agreement to the business co-operation framework agreement with Hisense Group Company and its subsidiaries can be found in the announcement and the circular published on the website of the Hong Kong Stock Exchange on 31 July 2020 and 3 September 2020 respectively. Details of the business co-operation agreement with Johnson Hitach can be found in the announcement published on the website of the Hong Kong Stock Exchange on 11 September 2019.

As Hisense Holdings is the controlling shareholder of both Hisense Hong Kong and the Company, Hisense Hong Kong is a connected person of the Company under the Shenzhen Listing Rules. 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 6 November 2019.

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).

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 5 November 2019 and 31 July 2020 respectively, the principal terms of which are as follows:

- (1) The business co-operation framework agreement shall commence from 17 January 2020, being the date on which the agreement was approved by the shareholders of the Company at the first 2020 extraordinary general meeting of the Company, until 31 December 2020, which can be terminated before its expiration by mutual agreement of the parties.



## Report of the Directors

- (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.
- (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)

| <b>Types of connected transactions</b> | <b>Division by products or services</b>                  | <b>Connected person</b>      | <b>Annual cap</b> |
|--|--|------------------------------|-------------------|
| Sale of products and materials         | Sale of home electrical appliances products by the Group | Hisense Group                | 41,000            |
|  |  | Hisense International        | 1,539,298         |
|  |  | Hisense Marketing Management | 67,000            |
|  |  | Hisense Visual Technology    | 96                |
|  | Sale of raw materials, parts and components by the Group | Hisense Group                | 23,503            |
|  |  | Hisense International        | 13,109            |
|  |  | Hisense Visual Technology    | 1,910             |
|  | Sale of moulds by the Group                              | Hisense Group                | 600               |
|  |  | Hisense International        | 8,714             |
|  |  | Hisense Visual Technology    | 17,000            |
|  | Sale of equipment  | Hisense International        | 600               |

## Report of the Directors

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| <b>Types of connected transactions</b> | <b>Division by products or services</b>  | <b>Connected person</b>      | <b>Annual cap</b> |
|--|--|------------------------------|-------------------|
| Provision of services                  | Provision of property, processing and installation services by the Group   | Hisense Group                | 1,769             |
|  | Provision of design and property services by the Group   | Hisense International        | 1,009             |
|  | Provision of property, processing and installation services by the Group   | Hisense Visual Technology    | 2,088             |
| Purchase of products and materials     | Purchase of home electrical appliances products by the Group   | Hisense Group                | 392               |
|  |  | Hisense International        | 8,895             |
|  |  | Hisense Visual Technology    | 49                |
|  | Purchase of raw materials, parts and components by the Group   | Hisense Group                | 58,422            |
|  |  | Hisense Visual Technology    | 7,536             |
| Receipt of services                    | Receipt of material processing, installation and maintenance, delivery, property, medical, leasing, design, inspection, agency, property construction, management consultancy, technical support, information and information system maintenance services by the Group | Hisense Group                | 78,260            |
|  |  | Hisense International        | 3,346             |
|  |  | Hisense Marketing Management | 16,700            |
|  |  | Hisense Visual Technology    | 3,490             |

### 2. 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 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 with Hisense Finance on 5 November 2019, the principal terms of which are as follows:

- (1) The term of the financial services agreement shall commence from 17 January 2020, being the date on which the agreement was approved by the independent shareholders of the Company at the first 2020 extraordinary general meeting of the Company, until 31 December 2020, 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 Company 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 closing balance of the deposits placed by the Group with Hisense Finance Company at any time during the term of the financial services agreement shall not exceed the cap of RMB16,800,000,000 (inclusive of interest) on any given day. The maximum closing 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\$300,000,000. 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.

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 5 November 2019. The main terms are as follows:

- (1) The term of the financial business framework agreement shall commence from 17 January 2020, being the date on which the agreement was approved by the shareholders of the Company at the first 2020 extraordinary general meeting of the Company, until 31 December 2021, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.

## Report of the Directors

- (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 Group 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) Connected transactions conducted in the ordinary course of operation during the Reporting Period, 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 Visual Technology    | Purchase                      | Finished goods                       | Agreed price                               | 23.60   | 0.00   |
| Hisense Group                | Purchase                      | Finished goods                       | Agreed price                               | 133.97  | 0.00   |
| Hisense International        | Purchase                      | Finished goods                       | Agreed price                               | 4,884.20  | 0.13   |
| Johnson Hitachi              | Purchase                      | Finished goods                       | Agreed price                               | 1,925.21  | 0.05   |
| Hisense Visual Technology    | Purchase                      | Materials                            | Agreed price                               | 2,630.67  | 0.07   |
| Hisense Group                | Purchase                      | Materials                            | Agreed price                               | 28,682.51                                       | 0.78   |
| Johnson Hitachi              | Purchase                      | Materials                            | Agreed price                               | 51,633.15                                       | 1.40   |
| Hisense Visual Technology    | Receipt of services           | Receipt of services                  | Agreed price                               | 2,837.21  | 0.08   |
| Hisense Group                | Receipt of services           | Receipt of services                  | Agreed price                               | 53,652.00                                       | 1.46   |
| Hisense International        | Receipt of services           | Receipt of services                  | Agreed price                               | 779.29  | 0.02   |
| Hisense Marketing Management | Receipt of services           | Receipt of services                  | Agreed price                               | 16,602.91                                       | 0.45   |
| Johnson Hitachi              | Receipt of services           | Receipt of services                  | Agreed price                               | 1,887.53  | 0.05   |
| Hisense Visual Technology    | Sale                          | Finished goods                       | Agreed price                               | 84.97   | 0.00   |
| Hisense Group                | Sale                          | Finished goods                       | Agreed price                               | 19,764.43                                       | 0.41   |
| Hisense International        | Sale                          | Finished goods                       | Agreed price                               | 1,287,012.19                                    | 26.60  |
| Hisense Marketing Management | Sale                          | Finished goods                       | Agreed price                               | 41,080.65                                       | 0.85   |
| Johnson Hitachi              | Sale                          | Finished goods                       | Agreed price                               | 21,751.26                                       | 0.45   |
| Hisense Visual Technology    | Sale                          | Materials                            | Agreed price                               | 70.21   | 0.00   |
| Hisense Group                | Sale                          | Materials                            | Agreed price                               | 12,266.33                                       | 0.25   |
| Hisense International        | Sale                          | Materials                            | Agreed price                               | 4,905.12  | 0.10   |
| Johnson Hitachi              | Sale                          | Materials                            | Agreed price                               | 906.37  | 0.02   |
| Hisense Visual Technology    | Sale                          | Moulds                               | Agreed price                               | 6,874.89  | 0.14   |
| Hisense International        | Sale                          | Moulds                               | Agreed price                               | 3,929.89  | 0.08   |
| Hisense Visual Technology    | Provision of services         | Provision of services                | Agreed price                               | 572.84  | 0.01   |
| Hisense Group                | Provision of services         | Provision of services                | Agreed price                               | 1,091.98  | 0.02   |
| Hisense International        | Provision of services         | Provision of services                | Agreed price                               | 405.41  | 0.01   |
| 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 RMB14.484 billion, recognised interest income of RMB210 million, the actual balance of loan of RMB22 million, the balance of electronic bank acceptance bill of RMB8.584 billion, the handling fee for opening accounts for electronic bank acceptance bill of RMB7.3390 million and the recognised interest on loans of RMB6.6893 million with Hisense Finance. For the Reporting Period, the actual amount of discounted interest for the provision of draft discount services was RMB4.3649 million, the actual amount involved in the provision of settlement and sale of foreign exchange services was RMB0.396 billion and the actual service fee paid for the provision of agency services such as settlement services for receipt and payment of funds was RMB0.8098 million.

## Report of the Directors

During the Reporting Period, the Group had the actual balance of the recourse factoring services of RMB nil with Hisense Financial Holdings, the actual value of the transaction conducted for the non-recourse factoring services was RMB nil with Hisense Financial Holdings and the actual performance of the financial leasing business was RMB nil.

(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 Holdings, Hisense International, Hisense Visual Technology and/or their respective subsidiaries   | Purchase of products and commodities from connected persons       | RMB327,370,000                            |
|     |   | Hisense Holdings, Hisense International and Hisense Visual Technology and/or their respective subsidiaries  | Purchase of raw materials from connected persons                  | RMB810,040,000                            |
|     |   | Hisense Group, Hisense Holdings, Hisense International, Hisense Marketing Management and Hisense Visual Technology and/or their respective subsidiaries | Provision of services by connected persons                        | RMB1,271,470,000                          |
|     |   | Hisense Holdings, Hisense International, Hisense Marketing Management and Hisense Visual Technology and/or their respective subsidiaries                | Sale of products and commodities to connected persons             | RMB19,552,610,000                         |
|     |   | Hisense Holdings, Hisense International and Hisense Visual Technology and/or their respective subsidiaries  | Sales of raw materials, parts and components to connected persons | RMB445,010,000                            |
|     |   | Hisense Holdings, Hisense International and Hisense Visual Technology and/or their respective subsidiaries  | Sale of moulds to connected persons                               | RMB151,500,000                            |
|     |   | Hisense Holdings, Hisense International and Hisense Visual Technology and/or their respective subsidiaries  | Provision of services to connected persons                        | RMB39,490,000                             |

## Report of the Directors

| No. | Agreement                    | Connected persons | Type of connected transactions  | Annual cap (exclusive of value-added tax)   |
|-----|------------------------------|-------------------|---|---|
| 2   | 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"> <li>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 RMB18,500,000,000 (inclusive of interest) on any given day.</li> <li>2. The daily closing 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.</li> <li>3. The annual discount interest payable by the Company to Hisense Finance for the provision of draft discount services shall not exceed the cap of RMB50,000,000.</li> <li>4. The annual amount settled or sold by Hisense Finance for the Company shall not exceed the cap of US\$300,000,000.</li> <li>5. The annual amount of the service fees payable by the Company 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.</li> </ol> |

## Report of the Directors

The date of the above agreements is 30 October 2020. The terms of the business co-operation framework agreement and financial services agreement commence from the date of which such agreements were approved by the independent shareholders (that is, 22 January 2021) until 31 December 2021. The relationships between the Group and Hisense Holdings and its subsidiaries and Hisense Finance have been disclosed above.

Details of the above agreements can be found in the announcement and the circular published on the website of the Hong Kong Stock Exchange on 30 October 2020 and 28 December 2020 respectively.

### 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

*Unit: RMB'0000*

| Joint investment parties   | Connected Relationship              | Name of investee                                      | Principal business of investee   | Registered capital of investee | Total assets of investee | Net assets of investee | Net profit of investee |
|--|-------------------------------------|---|--|--------------------------------|--------------------------|------------------------|------------------------|
| Qingdao Hisense Financial Investment Co., Ltd.,<br>Qingdao Hisense Electronic Equipment Co., Ltd.,<br>Qingdao Hisense International Co., Ltd.<br>and Qingdao Intelligent & Precise Electronics Co., Ltd.* (青島智動精工電子有限公司) | Controlled by the same legal person | Qingdao Hisense Financial Holdings Co., Ltd.          | Use self-owned funds for asset management, investment management, equity investment, equity investment management, venture capital, and venture capital management, securities business investment management entrusted equity investment funds management, technical investment and technical consulting in the field of financial software, corporate management and consultation, business consultation, conduct debt investment and short-term financial investment for real economy projects within the approved area, as well as investment planning and consultation.   | 141,800.00                     | 890,426.60               | 178,620.77             | 10,606.79              |
| Gorenje gospodinjski aparati, d.o.o.   | Controlled by the same legal person | Qingdao Gorenje Electrical Co., Ltd.* (青島古洛尼電器股份有限公司) | Refrigerators, freezers and other refrigeration electrical products and parts; ovens, stoves, range hoods, microwave ovens and other kitchen electrical appliances and parts; washing machines, dryers and other washing and drying equipment; purifiers, food processors, vacuum cleaners, toasters, electronic kitchen scales, weight scales, electric kettles, coffee machines and other small appliances. Design and development, production, sales, installation, after-sales service, import and export, and other related businesses of the above products; wholesale, import and export, commission agency (except auctions) and related supporting facilities of metal products (except rare and precious metals) services. | 2,100.00                       | 2,935.73                 | 2,375.31               | 265.61                 |

Progress of significant projects under construction of investee (if any)

Not applicable

## Report of the Directors

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### 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. 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.

### EVENT AFTER THE REPORTING PERIOD

On 1 March 2021, the Company entered into a share purchase agreement (the "Share Purchase Agreement") with Sanden, pursuant to which Sanden has conditionally agreed to issue and the Company has conditionally agreed to subscribe for 83,627,000 shares of common stock of Sanden, representing approximately 75% of the total voting rights of Sanden as enlarged by the issue of the subscription shares, at the subscription price of JPY256 (equivalent to approximately HK\$19) per subscription share for a total subscription amount of JPY21,408,512,000 (equivalent to approximately HK\$1,562,665,109). The Company will also be required to provide a guarantee in respect of the remaining ADR debts owed to the ADR creditors after the debt forgiveness under the turnaround plan. Upon closing, Sanden will become a non-wholly owned subsidiary of the Company. The Share Purchase Agreement is subject to the shareholder's approval. An extraordinary general meeting will be convened and held by the Company for the shareholders to consider and if thought fit, approve the Share Purchase Agreement and the transactions contemplated thereunder. Details of the Share Purchase Agreement are set out in the announcement of the Company dated 1 March 2021.

### 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   | 58  | Current  | 528.96  | No  |
| Jia Shao Qian   | Director                                  | Male   | 48  | Current  | 0.00  | Yes   |
| Lin Lan         | Director                                  | Male   | 63  | Current  | 0.00  | Yes   |
| Dai Hui Zhong   | Director                                  | Male   | 55  | Current  | 0.00  | Yes   |
| Duan Yue Bin    | Director, President                       | Male   | 40  | Current  | 429.99 <sup>(Note1)</sup>   | No  |
| Fei Li Cheng    | Director                                  | Male   | 57  | Current  | 619.76 <sup>(Note2)</sup>   | No  |
| Ma Jin Quan     | Independent non-executive Director        | Male   | 78  | Current  | 14.00   | No  |
| Zhong Geng Shen | Independent non-executive Director        | Male   | 60  | Current  | 14.00   | No  |
| Cheung Sai Kit  | Independent non-executive Director        | Male   | 49  | Current  | 24.00   | No  |
| Liu Zhen Shun   | Chairman of Supervisory Committee         | Male   | 51  | Current  | 0.00  | Yes   |
| Gao Yu Ling     | Supervisor                                | Female | 39  | Current  | 0.00  | Yes   |
| Fan Wei         | Supervisor                                | Female | 54  | Current  | 95.51   | No  |
| Liang Hong Tao  | Chief Financial Officer                   | Female | 40  | Current  | 37.77   | No  |
| Huang Qian Mei  | Secretary to the Board                    | Female | 37  | Current  | 27.47   | No  |
| Wong Tak Fong   | Company Secretary                         | Female | 53  | Current  | 16.80   | No  |
| Wang Yun Li     | Former Director and Former Vice President | Male   | 48  | Resigned | 0.00  | No  |
| Chen Xiao Lu    | Former Chief Financial Officer            | Male   | 44  | Resigned | 50.36   | No  |
| Total           | –   | –      | –   | –        | 1,858.62  | –   |

## Report of the Directors

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*Notes:*

1. The Directors do not receive remuneration in their capacities as directors. The above remuneration was received by Mr. Duan Yue Bin in his capacity as the President of the Company during the Reporting Period.
2. The Directors 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 the Company's subsidiary 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.

## Report of the Directors

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### III. MATERIAL LITIGATION OR ARBITRATION OF THE COMPANY

There was no progress in the material litigation and arbitration 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.

### V. PARTICULARS OF ENTRUSTED WEALTH MANAGEMENT

*Unit: RMB ten thousand*

| <b>Product Type</b>                 | <b>Source of funding for entrusted wealth management</b> | <b>Subscription amount of entrusted wealth management</b> | <b>Amount of undue principal and revenue</b> | <b>Overdue balance</b> |
|-------------------------------------|--|---|--|------------------------|
| Wealth management products of banks | Self-owned funds   | 348,000.00  | 260,000.00                                   | 0                      |
| Total                               |  | 348,000.00  | 260,000.00                                   | 0                      |

During the Reporting Period, the Company did not have high-risk entrusted wealth management, the individual amount of which was significant or low security, poor liquidity, and no capital protection, 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.

## Report of the Directors

### VI. DERIVATIVES INVESTMENT

Unit: RMB ten thousand

| Name of operator of derivatives investment   | Whether it is a connected relationship | 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   | 0  | 1 January 2020 | 31 December 2020 | 0   | 107,336.89                                     | 63,855.46                                      | 0   | 43,481.43                                     | 4.45  | 1,819.08   |
| Total  |  |                    |  | 0  | -              | -                | 0   | 107,336.89                                     | 63,855.46                                      | 0   | 43,481.43                                     | 4.45  | 1,819.08   |
| 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)   |  |                    |  |  |                |                  |   |  |  |   |   | 14 April 2020   |  |
| Date of the announcement disclosing the approval of derivatives investment at shareholders' meetings (if any)  |  |                    |  |  |                |                  |   |  |  |   |   | Not applicable  |  |
| 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 RMB10.6864 million. Investment gain amounted to RMB7.5044 million, resulting in a total profits or losses of RMB18.1908 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 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.  |  |                |                  |   |  |  |   |   |   |  |

## Report of the Directors

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

#### **Newly consolidated subsidiaries:**

Qingdao Gorenje Electrical Co., Ltd.\* (青島古洛尼電器股份有限公司), Hisense (Shandong) Kitchen and Bath Co., Ltd. (海信(山東)廚衛有限公司), Hisense (Hong Kong) America Manufacturing Co., Limited, Hisense Monterrey Manufacturing, S.de R.L. de C.V. (海信蒙特雷家電製造有限公司) and Hisense Monterrey Property Management S.de R.L. de C.V. (海信蒙特雷物業管理有限公司).

#### **Subsidiaries no longer included in the scope of consolidation:**

Guangdong Huao Electrical Electronics Co., Ltd.

### **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

## Report of the Supervisory Committee

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During the Reporting Period, the Supervisory Committee of the Company 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 Shenzhen Listing Rules and the Hong Kong Listing Rules and the Articles of Association of the Company. We would like to report to you the work of the Supervisory Committee during 2020 in accordance with the Articles of Association of the Company:

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

During the Reporting Period, the Supervisory Committee held a total of 4 meetings, details of which are summarised as follows:

- (1) the first meeting of the tenth session of the Supervisory Committee in 2020 was held on 14 April 2020, at which the 2019 annual report of the Company and related matters were considered and approved.
- (2) the second meeting of the tenth session of the Supervisory Committee in 2020 was held on 28 April 2020, at which the 2020 first quarterly report of the Company was considered and approved.
- (3) the third meeting of the tenth session of the Supervisory Committee in 2020 was held on 20 August 2020, at which the 2020 interim report of the Company were considered and approved.
- (4) the fourth meeting of the tenth session of the Supervisory Committee in 2020 was held on 28 October 2020, at which the 2020 third quarterly report of the Company was considered and approved.

### II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2020

- (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.

- (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 2020 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.

## Report of the Supervisory Committee

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- (6) Opinion of the Company's Supervisory Committee on the Company's 2020 internal control assessment Report.

After reviewing the Company's 2020 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 Standardised Operation of Listed Companies, 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 2020 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 2020 Internal Control Assessment Report by the Board.

## Definitions

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**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 joint stock limited 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 during the Reporting Period, 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 during the Reporting Period   |
| “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 during the Reporting Period   |
| “Hisense Group”                | Hisense Company Limited (海信集團有限公司), a company incorporated in the PRC with limited liability  |
| “Hisense Holdings”             | Hisense Group Holdings Co., Ltd. (海信集團控股股份有限公司), formerly known as Qingdao Hisense Electric Holdings Company Limited (青島海信電子產業控股股份有限公司), 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 during the Reporting Period, 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 during the Reporting Period  |
| “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 during the Reporting Period, 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

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### REGISTERED OFFICE IN CHINA

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

### TELEPHONE

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

### PLACE OF BUSINESS IN HONG KONG

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Connaught Road West, Hong Kong

### FAX

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

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

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

### EMAIL ADDRESS

[hxjdzqb@hisense.com](mailto:hxjdzqb@hisense.com)

### AUTHORISED REPRESENTATIVES

Tang Ye Guo  
Duan Yue Bin

### INTERNET WEBSITE

<http://hxjd.hisense.cn>

### INVESTOR COMMUNICATION CENTRE

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

### 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  
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XYZH/2021QDAA40060

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 2020, 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 2020 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 2020 and its and the Parent Company’s consolidated results of operations and cash flows for the year 2020 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 2020, the balance of finished goods was RMB3,255,049,351.22; the provision for declines in value of finished goods was RMB34,563,159.68; and the carrying amount of finished goods was RMB3,220,486,191.54. 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

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### 2. Related party transactions and receivables from related party

| Key audit matters   | Audit response   |
|---|--|
| As described in “Note 11 to the Financial Statements. 7. Related Party Transactions/8. Receivables from and payables to related parties”, Hisense Appliances has a relatively large amount of related transactions, and as of 31 December 2020, it had account receivables from related party of RMB3,648,456,622.81. In view of the large amount of related party transactions and receivables from related party, whether it actually occurred or existed has a material impact on financial statements, therefore, we take related party transactions and receivables from related party as the key audit matters. | <ol style="list-style-type: none"><li>(1) assessed and tested the effectiveness of management’s design and operation of internal controls relating to related party transactions and receivables from related party;</li><li>(2) obtained a list of related parties compiled by the management and checked it with information obtained from other public sources;</li><li>(3) Obtained the details of related transactions and receivables from related parties prepared by the management to understand the business reasons for the related transactions and verify the fairness of the related transactions;</li><li>(4) Inspected relevant information such as contracts or agreements, invoices, declarations and other related information of related transactions, and performed correspondence verification procedures for significant related transactions and accounts receivable from related parties;</li><li>(5) Checked repayment of receivable after the period;</li><li>(6) Obtained an understanding of the authorization and approval process of related transactions and reviewed the presentation and disclosure of the related contents in the financial statements.</li></ol> |

## 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 2020 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.

## Auditor's Report

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### 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.

### 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.

## Auditor's Report

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- (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.

ShineWing Certified Public Accountants

Chinese Certified Public Accountants: Hu Jia Qing  
(engagement partner)

Chinese Certified Public Accountants: Zhang Hong Tao

Beijing, PRC

30 March 2021

## Consolidated Balance Sheets

31 December 2020

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

Unit: RMB

| Item  | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
| <b>Current assets:</b>                                |                           |                           |
| Cash at bank and on hand                              | 7,110,772,454.16          | 6,120,563,237.47          |
| Balances with clearing companies                      |                           |                           |
| Lending capital                                       |                           |                           |
| Transactional financial assets                        | 2,620,898,474.73          | 2,120,000,000.00          |
| Derivative financial assets                           |                           |                           |
| Notes receivable                                      | 548,498,540.36            | 1,095,849,666.16          |
| Accounts receivable                                   | 6,594,103,859.23          | 3,967,576,310.11          |
| Factoring of accounts receivables                     | 4,241,240,626.01          | 4,099,608,704.80          |
| Prepayments   | 224,425,215.31            | 192,798,549.08            |
| Insurance premium receivable                          |                           |                           |
| Receivables from reinsurers                           |                           |                           |
| Reserves for reinsurance contract receivable          |                           |                           |
| Other receivables                                     | 398,205,694.16            | 297,145,507.98            |
| Including: Interests receivable                       |                           |                           |
| Dividends receivable                                  |                           |                           |
| Financial assets purchased under agreements to resell |                           |                           |
| Inventories   | 4,295,262,485.11          | 3,498,945,347.28          |
| Contract assets                                       |                           |                           |
| Assets held for sale                                  |                           |                           |
| Non-current assets due within one year                |                           |                           |
| Other current assets                                  | 4,198,014,186.53          | 3,127,969,954.11          |
| <b>Total current assets</b>                           | <b>30,231,421,535.60</b>  | <b>24,520,457,276.99</b>  |
| <b>Non-current assets:</b>                            |                           |                           |
| Disbursement of loans and advances                    |                           |                           |
| Investments in debt                                   |                           |                           |
| Other investments in debt                             |                           |                           |
| Long-term receivables                                 |                           |                           |
| Long-term equity investments                          | 523,754,399.78            | 468,080,722.63            |
| Other equity investment                               |                           |                           |
| Other non-current financial assets                    |                           |                           |
| Investment properties                                 | 36,648,535.29             | 20,240,850.71             |
| Fixed assets  | 3,879,403,505.69          | 3,813,541,683.85          |
| Construction in progress                              | 228,887,385.20            | 216,943,108.59            |
| Productive biological assets                          |                           |                           |
| Oil and gas assets                                    |                           |                           |
| Right-of-use assets                                   | 68,097,563.78             | 74,162,585.09             |
| Intangible assets                                     | 1,745,045,423.43          | 1,918,063,341.32          |
| Development costs                                     |                           |                           |
| Goodwill  | 132,571,746.36            | 132,571,746.36            |
| Long-term prepaid expenses                            | 33,335,296.27             | 43,497,841.56             |
| Deferred tax assets                                   | 704,014,028.34            | 634,774,585.10            |
| Other non-current assets                              | 4,228,456,393.79          | 2,148,329,801.65          |
| <b>Total non-current assets</b>                       | <b>11,580,214,277.93</b>  | <b>9,470,206,266.86</b>   |
| <b>Total assets</b>                                   | <b>41,811,635,813.53</b>  | <b>33,990,663,543.85</b>  |

## Consolidated Balance Sheets

31 December 2020

| Item   | As at<br>31 December 2020 | As at<br>31 December 2019 |
|--|---------------------------|---------------------------|
| <b>Current liabilities:</b>  |                           |                           |
| Short-term borrowings  | 22,026,317.50             | 100,083,424.66            |
| Borrowings from central bank   |                           |                           |
| Loans from other banks   |                           |                           |
| Transactional financial liabilities  | 201,236.00                |                           |
| Derivative financial liabilities   |                           |                           |
| Notes payable  | 10,775,376,397.87         | 7,560,312,550.23          |
| Accounts payable   | 7,291,829,266.10          | 5,317,357,636.81          |
| Advances from customers  |                           |                           |
| Contract liability   | 1,100,531,262.91          | 1,013,239,070.20          |
| Proceeds from disposal of financial assets under<br>agreements to repurchase |                           |                           |
| Receipt of deposits and deposits from other banks                            |                           |                           |
| Customer brokerage deposits  |                           |                           |
| Securities underwriting brokerage deposits                                   |                           |                           |
| Employee remunerations payable   | 649,954,046.76            | 620,495,237.41            |
| Taxes payable  | 498,918,207.73            | 510,978,731.47            |
| Other payables   | 2,011,559,493.31          | 1,920,036,363.71          |
| Including: Interests payable   |                           |                           |
| Dividends payable  |                           |                           |
| Handling fees and commission payable   |                           |                           |
| Reinsured accounts payable   |                           |                           |
| Liabilities held for sale  |                           |                           |
| Non-current liabilities due within one year                                  | 29,562,279.68             | 40,736,624.70             |
| Other current liabilities  | 4,339,380,802.73          | 3,755,169,074.60          |
| <b>Total current liabilities</b>   | <b>26,719,339,310.59</b>  | <b>20,838,408,713.79</b>  |



## Consolidated Balance Sheets

31 December 2020

| Item  | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
| <b>Non-current liabilities:</b>                         |                           |                           |
| Reserves for reinsurance contract                       |                           |                           |
| Long-term borrowings                                    |                           |                           |
| Bonds payable   |                           |                           |
| Including: Preference shares                            |                           |                           |
| Perpetual debts   |                           |                           |
| Lease liabilities                                       | 28,356,873.04             | 24,822,981.21             |
| Long-term payables                                      |                           |                           |
| Long-term employee remunerations payable                |                           |                           |
| Provisions  | 483,878,615.22            | 475,055,256.42            |
| Deferred income   | 99,076,794.22             | 113,146,567.49            |
| Deferred tax liabilities                                | 74,465,181.93             | 58,367,004.14             |
| Other non-current liabilities                           |                           |                           |
| <b>Total non-current liabilities</b>                    | <b>685,777,464.41</b>     | <b>671,391,809.26</b>     |
| <b>Total liabilities</b>                                | <b>27,405,116,775.00</b>  | <b>21,509,800,523.05</b>  |
| <b>Shareholders' equity:</b>                            |                           |                           |
| Share capital   | 1,362,725,370.00          | 1,362,725,370.00          |
| Other equity instruments                                |                           |                           |
| Including: Preference shares                            |                           |                           |
| Perpetual debts   |                           |                           |
| Capital reserve   | 2,061,712,990.12          | 2,056,057,145.37          |
| Less: treasury shares                                   |                           |                           |
| Other comprehensive income                              | 37,578,293.42             | 26,318,501.35             |
| Special reserves  |                           |                           |
| Surplus reserves  | 692,802,893.38            | 632,235,869.58            |
| General risk provisions                                 |                           |                           |
| Undistributed profit                                    | 5,624,296,033.51          | 4,644,256,846.32          |
| Total equity attributable to shareholders of the parent | 9,779,115,580.43          | 8,721,593,732.62          |
| Minority interests                                      | 4,627,403,458.10          | 3,759,269,288.18          |
| <b>Total shareholders' equity</b>                       | <b>14,406,519,038.53</b>  | <b>12,480,863,020.80</b>  |
| <b>Total liabilities and shareholders' equity</b>       | <b>41,811,635,813.53</b>  | <b>33,990,663,543.85</b>  |

Legal representative: **Tang Ye Guo** Chief financial officer: **Liang Hong Tao** Accounting supervisor: **Zhou Min**

## Balance Sheets of Parent Company

Unit: RMB

| Item                                    | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
| <b>Current assets:</b>                  |                           |                           |
| Cash at bank and on hand                | 157,802,638.95            | 161,499,554.78            |
| Transactional financial assets          | 622,057,041.10            | 720,000,000.00            |
| Derivative financial assets             |                           |                           |
| Notes receivable                        |                           |                           |
| Accounts receivable                     | 2,343,496.83              | 2,018,568.76              |
| Factoring of accounts receivables       |                           |                           |
| Prepayment                              | 21,098,279.96             | 26,047,484.79             |
| Other receivables                       | 1,279,228,418.26          | 1,245,063,266.08          |
| Including: Interests receivable         |                           |                           |
| Dividends receivable                    |                           |                           |
| Inventories                             | 309.22                    | 309.22                    |
| Contract assets                         |                           |                           |
| Assets held for sale                    |                           |                           |
| Non-current assets due within one year  |                           |                           |
| Other current assets                    | 3,731,742.43              | 9,574,769.13              |
| <b>Total current assets</b>             | <b>2,086,261,926.75</b>   | <b>2,164,203,952.76</b>   |
| <b>Non-current assets:</b>              |                           |                           |
| Investments in debt                     |                           |                           |
| Other investments in debt               |                           |                           |
| Long-term receivables                   |                           |                           |
| Long-term equity instrument investments | 5,558,706,576.01          | 5,488,332,898.86          |
| Other equity investment                 |                           |                           |
| Other non-current financial assets      |                           |                           |
| Investment properties                   | 4,126,682.00              | 5,528,516.00              |
| Fixed assets                            | 18,140,286.17             | 14,980,260.63             |
| Construction in progress                |                           | 8,059,220.76              |
| Productive biological assets            |                           |                           |
| Oil and gas assets                      |                           |                           |
| Right-of-use assets                     |                           |                           |
| Intangible assets                       | 169,272,118.00            | 177,629,620.00            |
| Development costs                       |                           |                           |
| Goodwill                                |                           |                           |
| Long-term prepaid expenses              | 66,157.24                 | 145,513.24                |
| Deferred tax assets                     |                           |                           |
| Other non-current assets                |                           |                           |
| <b>Total non-current assets</b>         | <b>5,750,311,819.42</b>   | <b>5,694,676,029.49</b>   |
| <b>Total assets</b>                     | <b>7,836,573,746.17</b>   | <b>7,858,879,982.25</b>   |

## Balance Sheets of Parent Company

| Item  | As at<br>31 December 2020 | As at<br>31 December 2019 |
|---|---------------------------|---------------------------|
| <b>Current liabilities:</b>                       |                           |                           |
| Short-term borrowings                             |                           |                           |
| Transactional financial liabilities               |                           |                           |
| Derivative financial liabilities                  |                           |                           |
| Notes payable                                     |                           |                           |
| Accounts payable                                  | 271,513,085.62            | 285,348,910.71            |
| Advances from customers                           |                           |                           |
| Contract liability                                | 12,924.56                 | 8,386,159.74              |
| Employee remunerations payable                    | 2,708,581.34              | 5,031,973.56              |
| Taxes payable                                     | 2,010,870.87              | 1,032,229.96              |
| Other payables                                    | 619,018,425.95            | 694,055,119.98            |
| Including: Interests payable                      |                           |                           |
| Dividends payable                                 |                           |                           |
| Liabilities held for sale                         |                           |                           |
| Non-current liabilities due within one year       |                           |                           |
| Other current liabilities                         | 3,663,888.65              | 17,113,603.96             |
| <b>Total Current Liabilities</b>                  | <b>898,927,776.99</b>     | <b>1,010,967,997.91</b>   |
| <b>Non-Current Liabilities:</b>                   |                           |                           |
| Long-term borrowings                              |                           |                           |
| Bonds payable                                     |                           |                           |
| Including: Preference shares                      |                           |                           |
| Perpetual debts                                   |                           |                           |
| Lease liabilities                                 |                           |                           |
| Long-term payables                                |                           |                           |
| Long-term employee remunerations payable          |                           |                           |
| Provisions  | 194,624,873.74            | 180,902,210.36            |
| Deferred income                                   | 26,115,774.53             | 27,046,870.69             |
| Deferred tax liabilities                          |                           |                           |
| Other non-current liabilities                     |                           |                           |
| <b>Total non-current liabilities</b>              | <b>220,740,648.27</b>     | <b>207,949,081.05</b>     |
| <b>Total liabilities</b>                          | <b>1,119,668,425.26</b>   | <b>1,218,917,078.96</b>   |
| <b>Shareholders' equity:</b>                      |                           |                           |
| Share capital                                     | 1,362,725,370.00          | 1,362,725,370.00          |
| Other equity instruments                          |                           |                           |
| Including: Preference shares                      |                           |                           |
| Perpetual debts                                   |                           |                           |
| Capital reserve                                   | 2,268,615,818.52          | 2,266,000,437.11          |
| Less: Treasury shares                             |                           |                           |
| Other comprehensive income                        | 21,530,312.87             | 14,596,993.48             |
| Special reserves                                  |                           |                           |
| Surplus reserves                                  | 662,194,268.39            | 601,627,244.59            |
| Undistributed profit                              | 2,401,839,551.13          | 2,395,012,858.11          |
| <b>Total shareholders' equity</b>                 | <b>6,716,905,320.91</b>   | <b>6,639,962,903.29</b>   |
| <b>Total liabilities and shareholders' equity</b> | <b>7,836,573,746.17</b>   | <b>7,858,879,982.25</b>   |

## Consolidated Income Statement

|  | <i>Unit: RMB</i>         |                          |
|--|--------------------------|--------------------------|
| Item   | 2020                     | 2019                     |
| <b>I. Total operating revenue</b>                                    | <b>48,392,870,703.11</b> | <b>37,453,043,968.74</b> |
| Including: Operating revenue   | 48,392,870,703.11        | 37,453,043,968.74        |
| Interest income  |                          |                          |
| Insurance premium earned   |                          |                          |
| Income from handling fees and commission                             |                          |                          |
| <b>II. Total operating costs</b>                                     | <b>45,768,715,855.51</b> | <b>36,863,313,263.94</b> |
| Including: Operating costs   | 36,756,301,476.78        | 29,424,809,268.66        |
| Interest expenses  |                          |                          |
| Handling fees and commission expenses                                |                          |                          |
| Refunded premiums  |                          |                          |
| Net amount of compensation payout                                    |                          |                          |
| Net amount of insurance contract reserves provided                   |                          |                          |
| Policyholder dividend expenses                                       |                          |                          |
| Reinsurance premium expenses   |                          |                          |
| Taxes and surcharges   | 326,892,814.47           | 326,711,730.88           |
| Sales expenses   | 6,891,389,066.25         | 5,670,186,916.64         |
| Management expenses  | 619,163,555.38           | 515,205,417.61           |
| Research and development expenses                                    | 1,284,848,949.46         | 934,412,243.42           |
| Financial expenses   | -109,880,006.83          | -8,012,313.27            |
| Including: Interest expense  | 11,232,002.12            | 3,000,971.48             |
| Interest income  | 211,191,601.67           | 90,453,444.36            |
| Add: Other income  | 370,236,822.37           | 278,436,805.32           |
| Investment gain (loss expressed with “-”)                            | 195,655,206.20           | 1,122,348,640.53         |
| Including: Share of profit of associates and joint ventures          | 84,204,976.35            | 724,081,435.92           |
| 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 “-”)           | 20,697,238.73            | 2,558,550.00             |
| Impairment losses on assets (loss expressed with “-”)                | -21,050,179.77           | -44,094,598.92           |
| Impairment losses on credit (loss expressed with “-”)                | -18,748,668.13           | -15,861,861.29           |
| Gains on disposal of asset (loss expressed with “-”)                 | 24,533,842.26            | 121,585,370.54           |
| <b>III. Operating profits (loss denoted by “-”)</b>                  | <b>3,195,479,109.26</b>  | <b>2,054,703,610.98</b>  |
| Add: Non-operating incomes   | 304,252,672.49           | 126,227,060.64           |
| Less: Non-operating expenses   | 14,601,798.35            | 28,680,356.96            |
| <b>IV. Total profit (total loss denoted by “-”)</b>                  | <b>3,485,129,983.40</b>  | <b>2,152,250,314.66</b>  |
| Less: Income tax expenses  | 639,095,340.17           | 201,801,162.14           |
| <b>V. Net profits (net loss denoted by “-”)</b>                      | <b>2,846,034,643.23</b>  | <b>1,950,449,152.52</b>  |
| (1) Classified on a going concern basis                              |                          |                          |
| 1. Net profit from continuing operations (net loss denoted by “-”)   | 2,846,034,643.23         | 1,950,449,152.52         |
| 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             | 1,578,882,732.14         | 1,793,669,013.19         |
| 2. Profit and loss of minority interests                             | 1,267,151,911.09         | 156,780,139.33           |

## Consolidated Income Statement

| Item   | 2020                    | 2019                    |
|--|-------------------------|-------------------------|
| <b>VI. Other comprehensive income after tax, net</b>   | <b>11,321,016.05</b>    | <b>9,415,682.64</b>     |
| Other comprehensive income after tax attributable to owners of the parent, net                     | 11,259,792.07           | 9,422,210.86            |
| (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   | 11,259,792.07           | 9,422,210.86            |
| 1. Other comprehensive income that is convertible into gains and losses under the equity method    | 6,933,319.39            | 8,965,885.37            |
| 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           | 1,095,858.39            |
| 5. Cash flow hedge reserve   |                         |                         |
| 6. Differences on translation of foreign currency financial statements                             | 5,422,331.07            | -639,532.90             |
| 7. Others  |                         |                         |
| Other comprehensive income after tax attributable to minority interests, net                       | 61,223.98               | -6,528.22               |
| <b>VII. Total comprehensive income</b>   | <b>2,857,355,659.28</b> | <b>1,959,864,835.16</b> |
| Total comprehensive income attributable to shareholders of the parent                              | 1,590,142,524.21        | 1,803,091,224.05        |
| Total comprehensive income attributable to minority interests                                      | 1,267,213,135.07        | 156,773,611.11          |
| <b>VIII. Earnings per share:</b>   |                         |                         |
| (1) Basic earnings per share   | 1.16                    | 1.32                    |
| (2) Diluted earnings per share   | 1.16                    | 1.32                    |

Legal representative: **Tang Ye Guo** Chief financial officer: **Liang Hong Tao** Accounting supervisor: **Zhou Min**

## Income Statement of Parent Company

Unit: RMB

| Item   | 2020                  | 2019                  |
|--|-----------------------|-----------------------|
| <b>I. Total operating revenue</b>  | <b>129,448,695.65</b> | <b>80,767,319.32</b>  |
| Less: Operating costs  | 68,966,099.04         | 67,664,702.34         |
| Taxes and surcharges   | 7,196,838.58          | 6,087,816.27          |
| Sales expenses   | 18,416,739.18         | 13,761,022.97         |
| Management expenses  | 12,105,454.87         | 26,531,979.12         |
| Research and development expenses  |                       |                       |
| Financial expenses   | 3,522,663.59          | -9,813,363.56         |
| Including: Interest expense  |                       |                       |
| Interest income  | 1,805,407.36          | 1,646,169.34          |
| Add: Other income  | 1,522,304.88          | 2,287,537.95          |
| Investment gain (loss expressed with “-”)  | 503,411,806.34        | 787,163,521.04        |
| Including: Share of profit of associates and joint ventures  | 84,204,976.35         | 724,081,435.92        |
| 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 “-”)   | 2,057,041.10          |                       |
| Impairment losses on credit (loss expressed with “-”)  | 704,815.55            | 3,096,654.45          |
| Impairment losses on assets (loss expressed with “-”)  |                       |                       |
| Gains on disposal of asset (loss expressed with “-”)   | 23,200,987.73         |                       |
| <b>II. Operating profits (loss denoted by “-”)</b>   | <b>550,137,855.99</b> | <b>769,082,875.62</b> |
| Add: Non-operating incomes   | 50,945,742.49         | 131,256.54            |
| Less: Non-operating expenses   | -4,586,639.49         | 9,584,527.93          |
| <b>III. Total profit (total loss denoted by “-”)</b>   | <b>605,670,237.97</b> | <b>759,629,604.23</b> |
| Less: Income tax expenses  |                       |                       |
| <b>IV. Net profits (net loss denoted by “-”)</b>   | <b>605,670,237.97</b> | <b>759,629,604.23</b> |
| (1) Net profit from continuing operations (net loss denoted by “-”)                                | 605,670,237.97        | 759,629,604.23        |
| (2) Net profit from discontinued operations (net loss denoted by “-”)                              |                       |                       |
| <b>V. Other comprehensive income after tax, net</b>  | <b>6,933,319.39</b>   | <b>8,965,885.37</b>   |
| (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   | 6,933,319.39          | 8,965,885.37          |
| 1. Other comprehensive income that is convertible into gains and losses under the equity method    | 6,933,319.39          | 8,965,885.37          |
| 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  |                       |                       |
| <b>VI. Total comprehensive income</b>  | <b>612,603,557.36</b> | <b>768,595,489.60</b> |
| <b>VII. Earnings per share:</b>  |                       |                       |
| (1) Basic earnings per share   |                       |                       |
| (2) Diluted earnings per share   |                       |                       |

## Consolidated Cash Flow Statement

Unit: RMB

| Item   | 2020                     | 2019                     |
|--|--------------------------|--------------------------|
| <b>I. Cash flows from operating activities:</b>  |                          |                          |
| Cash received from sales of goods and rendering of services                                    | 38,726,086,074.79        | 28,713,504,917.28        |
| 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   | 1,523,707,933.47         | 1,281,794,426.91         |
| Other cash received concerning operating activities  | 947,132,164.76           | 786,543,310.73           |
| <b>Subtotal of cash inflows from operating activities</b>                                      | <b>41,196,926,173.02</b> | <b>30,781,842,654.92</b> |
| Cash paid for purchases of commodities and receipt of services                                 | 23,239,156,243.48        | 19,385,438,485.52        |
| 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   | 4,275,387,571.71         | 3,597,833,162.98         |
| Cash paid for taxes and surcharges   | 2,146,561,290.00         | 1,418,998,389.42         |
| Cash paid for other operating activities   | 5,573,113,257.99         | 4,374,235,564.44         |
| <b>Subtotal of cash outflows from operating activities</b>                                     | <b>35,234,218,363.18</b> | <b>28,776,505,602.36</b> |
| <b>Net cash flows from operating activities</b>  | <b>5,962,707,809.84</b>  | <b>2,005,337,052.56</b>  |
| <b>II. Cash flows from investing activities:</b>   |                          |                          |
| Cash received from recovery of investments   | 112,480,000.00           | 1,055,036,600.00         |
| Cash received from investment income   | 103,945,862.69           | 55,224,136.96            |
| Net cash received from disposals of fixed assets, intangible assets and other long-term assets | 28,797,591.86            | 138,789,640.34           |
| Net cash received from disposal of subsidiaries and other operation units                      |                          | 54,499,792.13            |
| Cash received relating to other investing activities   | 11,856,945,401.90        | 7,232,124,651.20         |
| <b>Subtotal of cash inflows from investing activities</b>                                      | <b>12,102,168,856.45</b> | <b>8,535,674,820.63</b>  |
| Cash paid for acquisition of fixed assets, intangible assets and other long-term assets        | 613,684,254.97           | 363,526,840.96           |
| Cash paid for investments  | 74,400,000.00            |                          |
| Net increase in pledged loans  |                          |                          |
| Cash paid for acquiring subsidiaries and other operation units                                 |                          |                          |
| Cash paid relating to other investing activities   | 15,314,639,200.00        | 8,252,376,993.51         |
| <b>Subtotal of cash outflows from investing activities</b>                                     | <b>16,002,723,454.97</b> | <b>8,615,903,834.47</b>  |
| <b>Net cash flows from investing activities</b>  | <b>-3,900,554,598.52</b> | <b>-80,229,013.84</b>    |

## Consolidated Cash Flow Statement

| Item  | 2020                     | 2019                    |
|---|--------------------------|-------------------------|
| <b>III. Cash flows from financing activities:</b>                                   |                          |                         |
| Cash received from capital contribution   | 30,650,000.00            | 36,830,668.56           |
| Including: Cash contribution to subsidiaries from minority shareholders' investment | 30,650,000.00            | 36,830,668.56           |
| Cash received from borrowings   | 381,186,500.00           | 100,000,000.00          |
| Cash received relating to other financing activities                                |                          |                         |
| <b>Subtotal of cash inflows from financing activities</b>                           | <b>411,836,500.00</b>    | <b>136,830,668.56</b>   |
| Cash paid for repayment of borrowings   | 459,186,500.00           |                         |
| Cash paid for distribution of dividends, profit or payment of interest expenses     | 972,148,032.58           | 737,156,543.40          |
| Including: Dividend and profit paid to minority shareholders by subsidiaries        | 426,785,541.81           | 324,250,756.29          |
| Cash paid relating to other financing activities                                    | 1,492,959,658.35         | 322,124,433.76          |
| <b>Subtotal of cash outflows from financing activities</b>                          | <b>2,924,294,190.93</b>  | <b>1,059,280,977.16</b> |
| <b>Net cash flows from financing activities</b>                                     | <b>-2,512,457,690.93</b> | <b>-922,450,308.60</b>  |
| <b>IV. Effects of foreign exchange rate changes on cash and cash equivalents</b>    | <b>2,400,455.60</b>      | <b>1,084,803.33</b>     |
| <b>V. Net increase in cash and cash equivalents</b>                                 | <b>-447,904,024.01</b>   | <b>1,003,742,533.45</b> |
| Add: Balance of cash and cash equivalents at the beginning of the period            | 2,065,106,596.27         | 1,061,364,062.82        |
| <b>VI. Balance of cash and cash equivalents at the end of the period</b>            | <b>1,617,202,572.26</b>  | <b>2,065,106,596.27</b> |

Legal representative: **Tang Ye Guo** Chief financial officer: **Liang Hong Tao** Accounting supervisor: **Zhou Min**



## Cash Flow Statement of Parent Company

Unit: RMB

| Item  | 2020                    | 2019                    |
|---|-------------------------|-------------------------|
| <b>I. Cash flows from operating activities:</b>   |                         |                         |
| Cash received from sales of goods and rendering of services                                       | 92,208,214.98           | 83,833,340.13           |
| Tax rebates received  |                         |                         |
| Cash received concerning other operating activities   | 70,369,347.90           | 152,332,522.22          |
| <b>Subtotal of cash inflows from operating activities</b>   | <b>162,577,562.88</b>   | <b>236,165,862.35</b>   |
| Cash paid for purchases of commodities and receipt of labor services                              |                         |                         |
| Cash paid to and for employees  | 77,669,129.59           | 74,526,649.29           |
| Cash paid for taxes and surcharges  | 5,370,825.70            | 6,310,672.96            |
| Cash paid for other operating activities  | 113,249,332.07          | 171,763,616.37          |
| <b>Subtotal of cash outflow from operating activities</b>   | <b>196,289,287.36</b>   | <b>252,600,938.62</b>   |
| <b>Net cash flows from operating activities</b>   | <b>-33,711,724.48</b>   | <b>-16,435,076.27</b>   |
| <b>II. Cash flow from investing activities:</b>   |                         |                         |
| Cash received from recovery of investments  | 112,480,000.00          | 1,055,036,600.00        |
| Cash received from investment income  | 419,887,428.83          | 63,082,085.12           |
| Net cash received from disposals of fixed assets, intangible assets<br>and other long-term assets | 27,408,707.80           |                         |
| Net cash received from disposals of subsidiaries and other operation units                        |                         |                         |
| Cash received relating to other investing activities  | 2,910,000,000.00        | 1,260,000,000.00        |
| <b>Subtotal of cash inflows from investing activities</b>   | <b>3,469,776,136.63</b> | <b>2,378,118,685.12</b> |
| Cash paid for acquisition of fixed assets, intangible assets and<br>other long-term assets        | 2,384,806.83            | 8,190,729.11            |
| Cash paid for investments   | 89,100,000.00           | 25,000,000.00           |
| Net cash paid for acquisition of subsidiaries and other operation units                           |                         |                         |
| Cash paid relating to other investing activities  | 2,810,000,000.00        | 1,820,000,000.00        |
| <b>Subtotal of cash outflows from investing activities</b>  | <b>2,901,484,806.83</b> | <b>1,853,190,729.11</b> |
| <b>Net cash flows from investing activities</b>   | <b>568,291,329.80</b>   | <b>524,927,956.01</b>   |
| <b>III. Cash flows from financing activities:</b>   |                         |                         |
| Cash received from capital contribution   |                         |                         |
| Cash received from borrowings   |                         |                         |
| Cash received relating to other financing activities  |                         |                         |
| <b>Subtotal of cash inflows from financing activities</b>   |                         |                         |
| Cash paid for repayment of borrowings   |                         |                         |
| Cash paid for distribution of dividends, profit or payment of interest expenses                   | 538,276,521.15          | 412,905,787.11          |
| Cash paid relating to other financing activities  |                         |                         |
| <b>Subtotal of cash outflows from financing activities</b>  | <b>538,276,521.15</b>   | <b>412,905,787.11</b>   |
| <b>Net cash flows from financing activities</b>   | <b>-538,276,521.15</b>  | <b>-412,905,787.11</b>  |
| <b>IV. Effects of foreign exchange rate changes on cash and cash equivalents</b>                  |                         |                         |
| <b>V. Net increase in cash and cash equivalents</b>   | <b>-3,696,915.83</b>    | <b>95,587,092.63</b>    |
| Add: Balance of cash and cash equivalents at the beginning of the period                          | 161,499,554.78          | 65,912,462.15           |
| <b>VI. Balance of cash and cash equivalents at the end of the period</b>                          | <b>157,802,638.95</b>   | <b>161,499,554.78</b>   |

## Consolidated Statement of Changes in Owners' Equity

Amount for current period

Unit: RMB

| Item  | 2020                                     |                          |                  |                  |                 |                                  |  |                |                         |                       |                  | 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 |                  |                    |                      |
| Preference shares   | Perpetual debts                          | Treasury shares          | Special reserves |                  |                 | Surplus reserves                 |  |                |                         |                       |                  |                    |                      |
| <b>I. Closing balance of previous year</b>                                      | 1,362,725,370.00                         |                          |                  | 2,056,057,145.37 |                 | 26,318,501.35                    |  | 632,235,869.58 |                         | 4,644,256,046.32      | 8,721,593,732.62 | 3,759,269,288.18   | 12,480,863,020.80    |
| Add: Changes in accounting policies   |  |                          |                  |                  |                 |                                  |  |                |                         |                       |                  |                    |                      |
| Correction for error in previous period   |  |                          |                  |                  |                 |                                  |  |                |                         |                       |                  |                    |                      |
| Business combination involving entities under common control                    |  |                          |                  |                  |                 |                                  |  |                |                         |                       |                  |                    |                      |
| Other   |  |                          |                  |                  |                 |                                  |  |                |                         |                       |                  |                    |                      |
| <b>II. Opening balance for the year</b>   | 1,362,725,370.00                         |                          |                  | 2,056,057,145.37 |                 | 26,318,501.35                    |  | 632,235,869.58 |                         | 4,644,256,046.32      | 8,721,593,732.62 | 3,759,269,288.18   | 12,480,863,020.80    |
| <b>III. Movements in the current period</b>                                     |  |                          |                  |                  |                 |                                  |  |                |                         |                       |                  |                    |                      |
| (Decreases denoted in "-")  |  |                          |                  | 5,655,844.75     |                 | 11,259,792.07                    |  | 60,567,023.80  |                         | 980,039,187.19        | 1,057,521,847.81 | 868,134,169.92     | 1,925,656,017.73     |
| (1) Total comprehensive income  |  |                          |                  |                  |                 | 11,259,792.07                    |  |                |                         | 1,578,882,732.14      | 1,590,142,524.21 | 1,267,213,135.07   | 2,857,355,659.28     |
| (2) Owners' contributions and capital reductions                                |  |                          |                  | 3,040,463.34     |                 |                                  |  |                |                         |                       | 3,040,463.34     | 27,706,576.66      | 30,747,040.00        |
| 1. Ordinary shares contributed by shareholders                                  |  |                          |                  |                  |                 |                                  |  |                |                         |                       |                  | 30,650,000.00      | 30,650,000.00        |
| 2. Capital contributions by holders of other equity instruments                 |  |                          |                  |                  |                 |                                  |  |                |                         |                       |                  |                    |                      |
| 3. Amount of share-based payment included in shareholders' equity               |  |                          |                  |                  |                 |                                  |  |                |                         |                       |                  |                    |                      |
| 4. Other  |  |                          |                  | 3,040,463.34     |                 |                                  |  |                |                         |                       | 3,040,463.34     | -2,943,423.34      | 97,040.00            |
| (3) Profit Distribution   |  |                          |                  |                  |                 |                                  |  | 60,567,023.80  |                         | -598,843,544.95       | -538,276,521.15  | -426,785,541.81    | -965,062,062.96      |
| 1. Appropriations to surplus reserve  |  |                          |                  |                  |                 |                                  |  | 60,567,023.80  |                         | -60,567,023.80        |                  |                    |                      |
| 2. Appropriations to general risk provisions                                    |  |                          |                  |                  |                 |                                  |  |                |                         |                       |                  |                    |                      |
| 3. Distribution to owners (shareholders)  |  |                          |                  |                  |                 |                                  |  |                |                         | -538,276,521.15       | -538,276,521.15  | -426,785,541.81    | -965,062,062.96      |
| 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   |  |                          |                  | 2,615,381.41     |                 |                                  |  |                |                         |                       | 2,615,381.41     |                    | 2,615,381.41         |
| <b>IV. Closing balance for the period</b>                                       | 1,362,725,370.00                         |                          |                  | 2,061,712,990.12 |                 | 37,578,293.42                    |  | 692,802,893.38 |                         | 5,624,296,033.51      | 9,779,115,580.43 | 4,627,403,458.10   | 14,406,519,038.53    |

# Consolidated Statement of Changes in Owners' Equity

Amount for previous period

Unit: RMB

| Item  | 2019                                     |                          |                 |                       |  |  |                      |                  |                  |                         |                  | Minority interests | Total owners' equity |                       |
|---|--|--------------------------|-----------------|-----------------------|--|--|----------------------|------------------|------------------|-------------------------|------------------|--------------------|----------------------|-----------------------|
|   | Attributable to the owners of the parent |                          |                 |                       |  |  |                      |                  |                  |                         | Subtotal         |                    |                      |                       |
|   | Share capital                            | Other equity instruments |                 | Less: Treasury shares |  |  | comprehensive income | Special reserves | Surplus reserves | General risk provisions |                  |                    |                      | Undistributed profits |
| Preference shares   | Perpetual debts                          | Others                   | Capital reserve |                       |  |  |                      |                  |                  |                         |                  |                    |                      |                       |
| <b>I. Closing balance for previous year</b>                                     | 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   |  |                          |                 |                       |  |  |                      |                  |                  |                         |                  |                    |                      |                       |
| <b>II. Opening balance for the year</b>   | 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      |
| <b>III. Movements in the current period</b>                                     |  |                          |                 |                       |  |  |                      |                  |                  |                         |                  |                    |                      |                       |
| (Decreases denoted in "-")  |  |                          |                 | -20,416,069.19        |  |  | 9,422,210.86         |                  | 75,962,960.42    |                         | 1,304,800,265.66 | 1,369,769,367.75   | 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 reduction                                 |  |                          |                 | -24,945,627.43        |  |  |                      |                  |                  |                         |                  | -24,945,627.43     | 3,087,568,821.50     | 3,062,623,194.07      |
| 1. Ordinary shares contributed by owners  |  |                          |                 |                       |  |  |                      |                  |                  |                         |                  |                    | 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 owners (shareholders)  |  |                          |                 |                       |  |  |                      |                  |                  |                         | -412,905,787.11  | -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          |
| <b>IV. Closing balance for the period</b>                                       | 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   | 3,759,249,288.18     | 12,480,863,020.80     |

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

Amount for current period

Unit: RMB

| Item  | Share capital    | Other equity instruments |                 |                  | 2020                  |                      |                  |                  |                       | Total |                  |
|---|------------------|--------------------------|-----------------|------------------|-----------------------|----------------------|------------------|------------------|-----------------------|-------|------------------|
|   |                  | Preference shares        | Perpetual debts | Others           | Less: Treasury shares | comprehensive income | Special reserves | Surplus reserves | Undistributed profits | Other | owners' equity   |
| <b>I. Closing balance in previous year</b>                                      | 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 |
| Add: Changes in accounting policies   |                  |                          |                 |                  |                       |                      |                  |                  |                       |       |                  |
| Correction for error in previous period   |                  |                          |                 |                  |                       |                      |                  |                  |                       |       |                  |
| Other   |                  |                          |                 |                  |                       |                      |                  |                  |                       |       |                  |
| <b>II. Opening balance for the year</b>   | 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 |
| <b>III. Movements in the current period</b>                                     |                  |                          |                 |                  |                       |                      |                  |                  |                       |       |                  |
| (Decreases denoted in "-")  |                  |                          |                 | 2,615,381.41     |                       | 6,933,319.39         |                  | 60,567,023.80    | 6,826,693.02          |       | 76,942,417.62    |
| (1) Total comprehensive income  |                  |                          |                 |                  |                       | 6,933,319.39         |                  |                  | 605,670,237.97        |       | 612,603,557.36   |
| (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   |                  |                          |                 |                  |                       |                      |                  | 60,567,023.80    | -598,843,544.95       |       | -538,276,521.15  |
| 1. Appropriations to surplus reserve  |                  |                          |                 |                  |                       |                      |                  | 60,567,023.80    | -60,567,023.80        |       |                  |
| 2. Distribution to owners (shareholders)  |                  |                          |                 |                  |                       |                      |                  |                  | -538,276,521.15       |       | -538,276,521.15  |
| 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   |                  |                          |                 | 2,615,381.41     |                       |                      |                  |                  |                       |       | 2,615,381.41     |
| <b>IV. Closing balance for the period</b>                                       | 1,362,725,370.00 |                          |                 | 2,268,615,818.52 |                       | 21,530,312.87        |                  | 662,194,268.39   | 2,401,839,551.13      |       | 6,716,905,320.91 |

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

Amount for previous 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 |                       |                      |
| <b>I. Closing balance in previous year</b>                                      | 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   |                  |                          |                 |                  |                       |                            |                  |                       |                      |
| <b>II. Opening balance for the year</b>   | 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     |
| <b>III. Movements in the current period</b>                                     |                  |                          |                 |                  |                       |                            |                  |                       |                      |
| (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 owners (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         |
| <b>IV. Closing balance for the period</b>                                       | 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     |

## Notes to the Financial Statements for 2020

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

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### 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 2020

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

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### 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 2020, 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 44 subsidiaries, including Hisense (Ronshen) Refrigerator Co., Ltd. (海信(容聲)冰箱有限公司). As compared to previous year, and this year, 5 new companies were added, including Hisense (Hong Kong) America Manufacturing Co., Limited, and 1 subsidiary was removed due to the cancellation of registration of Guangdong Huao Electrical Electronics Co., Ltd..

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 2020

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

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### 4. MAJOR 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 or MXN 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 2020

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

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### 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 later, 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 2020

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

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### 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 2020

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

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### 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 2020

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

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### 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 2020

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

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### 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 2020

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

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### 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 2020

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

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### 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 2020

(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:

| <b>Item</b>                 | <b>Basis for determination of groups</b>                               |
|-----------------------------|--|
| 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 2020

(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:

| <b>Item</b>                      | <b>Basis for determination of groups</b>  |
|----------------------------------|---|
| 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:

| <b>Item</b>                      | <b>Basis for determination of groups</b>  |
|----------------------------------|---|
| 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 2020

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

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### 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 "assets 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 "assets impairment loss" is debited for the difference.

## Notes to the Financial Statements for 2020

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

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### 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.

## Notes to the Financial Statements for 2020

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

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### 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.

## Notes to the Financial Statements for 2020

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

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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. If the equity held before the purchase date were designated as financial assets at fair value through other comprehensive income, the cumulative gain or loss of the equity originally included in other comprehensive income should be transferred out of other comprehensive income and included in retained earnings; if they were financial assets at fair value through profit and loss, the gain or loss of the equity that was originally included in the profit and loss of the change in fair value does not need to be transferred to investment gain. If the equity held before the purchase date is an investment in other equity instruments, the changes in the fair value of the equity instrument investment accumulated in other comprehensive income before the purchase date shall be transferred to retained earnings.

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 relevant other comprehensive income accounted for by the original equity method shall be accounted for on the same basis as the investee's direct disposal of related assets or liabilities when the equity method is terminated. The owner's equity recognised by changes in other owner's equity other than profit and loss, other comprehensive income and profit distribution shall be all transferred to the current investment gain when the equity method is terminated.

## Notes to the Financial Statements for 2020

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

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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 will be accounted for under regulations related to recognition and measurement standards of financial instrument, 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, according to its proportion. The owner's equity recognised by changes in other owner's equity other than profit and loss, other comprehensive income and profit distribution shall be transferred to the current investment gain according to its proportion.

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 regulations related to recognition and measurement standards of financial instruments, 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.

## Notes to the Financial Statements for 2020

(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 | 3-10               | 0-10                       | 9-33.33                       |
| 4   | Motor vehicles                                 | 5-10               | 5-10                       | 9-19                          |

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.

## Notes to the Financial Statements for 2020

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

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### 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 reach 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 2020

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

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

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

##### (2) Subsequent measurement (continued)

###### 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.

###### Impairment of right-of-use assets

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 useful lives of the Group's intangible assets with limited useful lives are as follows:

| Items                  | useful lives (years) |
|------------------------|----------------------|
| Land use rights        | 20-70                |
| Trademark rights       | 5                    |
| Proprietary technology | 10                   |
| Sales channels         | 10                   |
| Others                 | 3-10                 |

Explanation: The useful life of land use right is recognized according to the term of the grant; the useful life of other intangible assets is recognized according to the shortest of the expected useful life, the beneficial period as specified in the contract or the useful life specified in the law.

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 2020

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

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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.

## Notes to the Financial Statements for 2020

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

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### 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.

## Notes to the Financial Statements for 2020

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

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### 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.

## Notes to the Financial Statements for 2020

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

### 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; ④ "mortgage condition", namely, the nature and quality of the underlying assets; 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 (In this case, discounted using the original discount rate); 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 (In this case, discounted using the revised discount rate); ④ a change in assessment of the purchase option (In this case, discounted using the revised discount rate); ⑤ changes in the evaluation result or actual exercise of the option to renew or terminate the lease (In this case, discounted using the revised discount rate).

#### 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.

## Notes to the Financial Statements for 2020

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

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

#### 29. Provisions *(continued)*

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.

#### 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.

## Notes to the Financial Statements for 2020

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

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

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

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.

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 2020

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

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### 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 2020

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

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### 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.

## Notes to the Financial Statements for 2020

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

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### 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*

###### 1) Initial measurement

On the beginning date of the lease term, the Company recognizes the right-of-use assets and lease liabilities of the lease. For the recognition and measurement of right-of-use assets and lease liabilities, see “21. Right-of-use assets” and “28. Lease liabilities”.

###### 2) 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 or extended the lease term 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 or extension of lease term are equivalent after adjustment is made in accordance with situation of the contract.

## Notes to the Financial Statements for 2020

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

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### 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 2020

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

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### 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 2020

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

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### 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 2020

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

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### 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 2020

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

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### 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 2020

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

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### 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*

There was no significant change in the Group's accounting policies during the year.

##### *(2) Changes in critical accounting estimates*

There was no significant change in the Group's accounting estimates during the year.



## Notes to the Financial Statements for 2020

(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.

Notes on taxpayers subject to different enterprise income tax rates:

| Name of tax payer  | Income tax rate |
|--|-----------------|
| Hisense (Shandong) Air-Conditioning Co., Ltd.              | 15%             |
| Hisense (Shandong) Refrigerator Co., Ltd.                  | 15%             |
| Qingdao Hisense Mould Co., Ltd.                            | 15%             |
| Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.         | 15%             |
| Guangdong Kelon Mould Co., Ltd.                            | 15%             |
| Hisense (Guangdong) Kitchen and Bath System Co., Ltd.      | 15%             |
| Foshan Shunde Rongsheng Plastic Co., Ltd.                  | 15%             |
| Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.          | 15%             |
| Hisense Ronshen (Guangdong) Freezer Co., Ltd.              | 15%             |
| Hisense (Guangdong) Mould Plastic Co., Ltd.                | 20%             |
| Foshan Hisense Property Service Co., Ltd.                  | 20%             |
| 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 (Hong Kong) America Manufacturing Co., Ltd.        | 16.5%           |
| Hisense Mould(Deutschland)GmbH                             | 15%             |
| Hisense Monterrey Manufacturing, S.de R.L. de C.V.         | 30%             |
| Hisense Monterrey Property Management, S.de R.L. de C.V.   | 30%             |

## Notes to the Financial Statements for 2020

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

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### 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 2020 second batch of proposed high-tech enterprises of Guangdong Province on 9 December 2020. Hisense Rongsheng (Guangdong) Refrigerator Co., Ltd., a subsidiary of the Company, was assessed as a high-tech enterprise, with an effective period of three years (2020, 2021 and 2022). According to the relevant tax preference regulation on Hightech Enterprises, the applicable enterprise income tax rate for this subsidiary is 15% in 2020, 2021 and 2022.

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 2020 first batch of proposed high-tech enterprises of Guangdong Province on 1 December 2020. Guangdong Kelon Mould Co., Ltd., a subsidiary of the Company, was assessed as a high-tech enterprise, with an effective period of three years (2020, 2021 and 2022). According to the relevant tax preference regulation on High-tech Enterprises, the applicable enterprise income tax rate for this subsidiary is 15% in 2020, 2021 and 2022.

Hisense (Shandong) Refrigerator Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR202037100323) dated 1 December 2020 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, State Taxation Administration and Qingdao Local Taxation Bureau, with an effective period of three years (2020, 2021 and 2022). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2020, 2021 and 2022.

Hisense (Shandong) Air-Conditioning Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR202037100677) dated 1 December 2020 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, State Taxation Administration and Qingdao Local Taxation Bureau, with an effective period of three years (2020, 2021 and 2022). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2020, 2021 and 2022.

Qingdao Hisense Mould Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR202037100274) dated 1 December 2020 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, State Taxation Administration and Qingdao Local Taxation Bureau, with an effective period of three years (2020, 2021 and 2022). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2020, 2021 and 2022.

Hisense (Guangdong) Kitchen and Bath System Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201944000086) dated 2 December 2019 which was jointly issued by the Guangdong Science and Technology Department, Guangdong Finance Department, State Taxation Administration and Guangdong Local Taxation Bureau, with an effective period of three years (2019, 2020 and 2021). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2019, 2020 and 2021.

Foshan Shunde Rongsheng Plastic Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201944000433) dated 2 December 2019 which was jointly issued by the Guangdong Science and Technology Department, Guangdong Finance Department, State Taxation Administration and Guangdong Local Taxation Bureau, with an effective period of three years (2019, 2020 and 2021). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2019, 2020 and 2021.

## Notes to the Financial Statements for 2020

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

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### 5. TAXATION (continued)

#### (2) Tax preferences (continued)

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 High-tech Enterprises, the applicable enterprise income tax rate for this subsidiary is 15% in 2019, 2020 and 2021.

Hisense Ronshen (Guangdong) Freezer Co., Ltd., a subsidiary of the Company, received the Hightech Enterprise 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 2020, 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 2020, 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%.

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 and 2019: 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 2019 were 16.5%).

## Notes to the Financial Statements for 2020

(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, “Opening Balance” refers to the balance as at 1 January 2020; and “Closing Balance” refers to the balance as at 31 December 2020. “Current Year” refers to the period from 1 January to 31 December 2020; “Last Year” refers to the period from 1 January to 31 December 2019. 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                               | 2,345.07                | 1,827.03                |
| Bank deposits                              | 1,612,278,959.21        | 2,012,263,900.63        |
| Other cash at bank and on hand             | 5,498,491,149.88        | 4,108,297,509.81        |
| <b>Total</b>                               | <b>7,110,772,454.16</b> | <b>6,120,563,237.47</b> |
| Including: Total amount deposited overseas | 65,469,538.20           | 19,596,783.37           |

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: RMB5,482,747,782.51, at the beginning of the year: RMB4,038,695,311.13).

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

| Item             | Closing balance         | Opening balance         |
|------------------|-------------------------|-------------------------|
| Security deposit | 5,493,569,881.90        | 4,055,456,641.20        |
| <b>Total</b>     | <b>5,493,569,881.90</b> | <b>4,055,456,641.20</b> |

#### 2. Transactional financial assets

| Item  | Closing balance         | Opening balance         |
|---|-------------------------|-------------------------|
| Financial assets at fair value through profit or loss | 2,620,898,474.73        | 2,120,000,000.00        |
| Including: Derivative financial assets                | 10,887,680.20           |                         |
| Wealth management products                            | 2,610,010,794.53        | 2,120,000,000.00        |
| <b>Total</b>  | <b>2,620,898,474.73</b> | <b>2,120,000,000.00</b> |

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

## Notes to the Financial Statements for 2020

(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

| Item                        | Closing balance       | Opening balance         |
|-----------------------------|-----------------------|-------------------------|
| Bank acceptance notes       | 391,571,690.85        | 884,612,587.51          |
| Commercial acceptance notes | 156,926,849.51        | 211,237,078.65          |
| <b>Total</b>                | <b>548,498,540.36</b> | <b>1,095,849,666.16</b> |

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<br>as at the end<br>of the year |
|-----------------------|---|
| Bank acceptance notes | 391,571,690.85                                  |
| <b>Total</b>          | <b>391,571,690.85</b>                           |

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<br>a group basis | 551,833,415.14        | 100.00        | 3,334,874.78        | 0.60        | 548,498,540.36        |
| Including:                                  |                       |               |                     |             |                       |
| Bank acceptance notes                       | 391,571,690.85        | 70.96         |                     |             | 391,571,690.85        |
| Commercial acceptance notes                 | 160,261,724.29        | 29.04         | 3,334,874.78        | 2.08        | 156,926,849.51        |
| <b>Total</b>                                | <b>551,833,415.14</b> | <b>100.00</b> | <b>3,334,874.78</b> | <b>0.60</b> | <b>548,498,540.36</b> |

## Notes to the Financial Statements for 2020

(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    | 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          |
| <b>Total</b>   | <b>1,102,527,326.72</b> | <b>100.00</b> | <b>6,677,660.56</b>     | <b>0.61</b> | <b>1,095,849,666.16</b> |

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 | 391,571,690.85        |                         |          |
| <b>Total</b>                                  | <b>391,571,690.85</b> |                         | <b>-</b> |

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 | 160,261,724.29        | 3,334,874.78            | 2.08     |
| <b>Total</b>                 | <b>160,261,724.29</b> | <b>3,334,874.78</b>     | <b>-</b> |

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

| Item                        | Opening balance     | Changes during the year |                        |           | Closing balance     |
|-----------------------------|---------------------|-------------------------|------------------------|-----------|---------------------|
|                             |                     | Provision               | Recoveries or reversal | Write-off |                     |
| Commercial acceptance notes | 6,677,660.56        |                         | 3,342,785.78           |           | 3,334,874.78        |
| <b>Total</b>                | <b>6,677,660.56</b> |                         | <b>3,342,785.78</b>    |           | <b>3,334,874.78</b> |

## Notes to the Financial Statements for 2020

(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 | 6,804,783,003.27        | 100.00        | 210,679,144.04          | 3.10        | 6,594,103,859.23        |
| Including:   |                         |               |                         |             |                         |
| Aging analysis method  | 2,043,309,877.16        | 30.03         | 129,986,589.09          | 6.36        | 1,913,323,288.07        |
| Receivables from related parties                                 | 3,648,456,622.81        | 53.62         | 3,648,456,622.81        |             |                         |
| Other amount   | 1,113,016,503.30        | 16.35         | 80,692,554.95           | 7.25        | 1,032,323,948.35        |
| <b>Total</b>   | <b>6,804,783,003.27</b> | <b>100.00</b> | <b>210,679,144.04</b>   | <b>3.10</b> | <b>6,594,103,859.23</b> |

(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 | 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          |
| <b>Total</b>   | <b>4,161,940,502.44</b> | <b>100.00</b> | <b>194,364,192.33</b>   | <b>4.67</b> | <b>3,967,576,310.11</b> |

## Notes to the Financial Statements for 2020

(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                     | 1,872,739,272.15        | 3,745,478.54            | 0.20        |
| Over three months but within six months | 47,571,449.90           | 4,757,144.99            | 10.00       |
| Over six months but within one year     | 3,030,379.11            | 1,515,189.56            | 50.00       |
| Over one year                           | 119,968,776.00          | 119,968,776.00          | 100.00      |
| <b>Total</b>                            | <b>2,043,309,877.16</b> | <b>129,986,589.09</b>   | <b>6.36</b> |

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 | 3,648,456,622.81        |                         |   |
| <b>Total</b>    | <b>3,648,456,622.81</b> |                         |   |

- 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 | 1,113,016,503.30        | 80,692,554.95           | 7.25        |
| <b>Total</b> | <b>1,113,016,503.30</b> | <b>80,692,554.95</b>    | <b>7.25</b> |



## Notes to the Financial Statements for 2020

(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                     | 5,914,907,293.47        | 3,576,878,056.75        |
| Over three months but within six months | 379,329,357.17          | 174,766,391.40          |
| Over six months but within one year     | 152,580,320.08          | 92,713,978.80           |
| Over one year                           | 357,966,032.55          | 317,582,075.49          |
| <b>Total</b>                            | <b>6,804,783,003.27</b> | <b>4,161,940,502.44</b> |

##### (3) Provision for bad debts for accounts receivable during the year

| Category                         | Opening balance       | Changes during the year |                            |                     | Closing balance       |
|----------------------------------|-----------------------|-------------------------|----------------------------|---------------------|-----------------------|
|                                  |                       | Provision               | Recoveries<br>or reversals | Write-off           |                       |
| Aging analysis method            | 123,555,540.61        | 7,879,140.97            |                            | 1,448,092.49        | 129,986,589.09        |
| Receivables from related parties | 603,299.99            |                         | 603,299.99                 |                     |                       |
| Other amount                     | 70,205,351.73         | 10,487,203.22           |                            |                     | 80,692,554.95         |
| <b>Total</b>                     | <b>194,364,192.33</b> | <b>18,366,344.19</b>    | <b>603,299.99</b>          | <b>1,448,092.49</b> | <b>210,679,144.04</b> |

##### (4) Accounts receivable written-off during the year

| Item                            | Written-off amount |
|---------------------------------|--------------------|
| Accounts receivable written-off | 1,448,092.49       |

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

The total top five accounts receivable by closing balance of debtors amounted to RMB4,644,472,372.41, accounting for 68.25% of the closing balance of accounts receivable. A provision for bad debts of RMB11,404,745.69 in total was made as at the end of the year.

## Notes to the Financial Statements for 2020

(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       | 4,154,368,274.34        | 3,734,924,583.10        |
| Commercial acceptance notes | 86,872,351.67           | 174,067,764.75          |
| Account receivable          |                         | 190,616,356.95          |
| <b>Total</b>                | <b>4,241,240,626.01</b> | <b>4,099,608,704.80</b> |

Note: For details on the fair value, please refer to Note 10(1) Fair value of assets and liabilities measured at fair value as at the end of the year.

##### (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       | 3,536,286,065.29                              |   |
| Commercial acceptance notes | 44,985,625.90                                 |   |
| <b>Total</b>                | <b>3,581,271,691.19</b>                       |   |

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

The Group transferred accounts receivable of RMB2,157,525,144.29 without recourse rights and relevant costs were RMB47,679,308.55.

#### 6. Prepayments

##### (1) Prepayments presented by ageing as follows

| Aging           | Closing balance       |               | Opening balance       |               |
|-----------------|-----------------------|---------------|-----------------------|---------------|
|                 | Amount                | %             | Amount                | %             |
| Within one year | 223,554,658.02        | 99.61         | 191,900,124.61        | 99.53         |
| Over one year   | 870,557.29            | 0.39          | 898,424.47            | 0.47          |
| <b>Total</b>    | <b>224,425,215.31</b> | <b>100.00</b> | <b>192,798,549.08</b> | <b>100.00</b> |

The Group 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 RMB142,137,714.75, accounting for 63.33% of total closing balance of prepayments.

## Notes to the Financial Statements for 2020

(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 | 398,205,694.16        | 297,145,507.98        |
| <b>Total</b>      | <b>398,205,694.16</b> | <b>297,145,507.98</b> |

#### (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  | 67,681,996.88                        | 57,221,064.23                              |
| Refund of tax for exports                                   | 159,103,278.81                       | 73,999,200.25                              |
| Balance with Greencool Companies and specific third parties | 224,630,200.00                       | 224,630,200.00                             |
| Other current account                                       | 60,250,918.54                        | 47,097,572.84                              |
| <b>Total</b>  | <b>511,666,394.23</b>                | <b>402,948,037.32</b>                      |

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           |
| <b>Total</b>  | <b>224,630,200.00</b> | <b>60,030,000.00</b>    | <b>224,630,200.00</b> | <b>60,030,000.00</b>    |

From October 2001 to July 2005, the Greencool Companies through the third Parties incurred a series of unusual cash inflows and outflows with the Company. The companies are collectively the "specific third party", please see note 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 2020

(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 2020  | 8,540,497.79                               | 20,357,714.87  | 76,904,316.68   | 105,802,529.34 |
| During the year, the balance of other receivables as at 1 January 2020: | -  | -  | -   | -              |
| - transferred to second stage   | -3,632,991.80                              | 3,632,991.80   |   |                |
| - transferred to third stage  |  |  |   |                |
| - reversed to second stage  |  |  |   |                |
| - reversed to first stage   |  |  |   |                |
| Provision for the year  | 9,092,566.03                               | 3,210,639.37   |   | 12,303,205.40  |
| Reversal for the year   | 4,573,071.31                               | 4,354.35   |   | 4,577,425.66   |
| Written-off for the year  |  |  |   |                |
| Charge off for the year   |  | 67,609.01  |   | 67,609.01      |
| Other changes   |  |  |   |                |
| Balance as at 31 December 2020  | 13,059,992.51                              | 23,496,390.88  | 76,904,316.68   | 113,460,700.07 |

Note: Except for separate assessment, the Group 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                     | 200,640,516.96                       |
| Over three months but within six months | 7,319,846.28                         |
| Over six months but within one year     | 5,810,672.65                         |
| Over one year                           | 297,895,358.34                       |
| <b>Total</b>                            | <b>511,666,394.23</b>                |

##### (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            | 37,699,613.29         | 9,263,443.00            | 4,298,002.22            | 67,609.01        | 42,597,445.06         |
| Receivables from related parties | 947,732.00            |                         | 279,423.44              |                  | 668,308.56            |
| Other amount                     | 7,125,184.05          | 3,039,762.40            |                         |                  | 10,164,946.45         |
| <b>Total</b>                     | <b>105,802,529.34</b> | <b>12,303,205.40</b>    | <b>4,577,425.66</b>     | <b>67,609.01</b> | <b>113,460,700.07</b> |

## Notes to the Financial Statements for 2020

(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 | 67,609.01 |

##### (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    | 15.95                                     |   |
| Top 2        | Refund of tax for exports   | 84,417,635.26         | Within three months | 16.50                                     |   |
| Top 3        | Refund of tax for exports   | 68,991,508.38         | Within three months | 13.48                                     |   |
| Top 4        | Current account with Greencool Companies and specific third party | 58,030,000.00         | Over three years    | 11.34                                     | 58,030,000.00                           |
| Top 5        | Current account with Greencool Companies and specific third party | 28,600,000.00         | Over three years    | 5.59                                      |   |
| <b>Total</b> | -   | <b>321,639,143.64</b> |                     | <b>62.86</b>                              | <b>58,030,000.00</b>                    |

#### 8. Inventories

##### (1) Classification of inventories

| Item              | Closing balance         |                                 |                         |
|-------------------|-------------------------|---------------------------------|-------------------------|
|                   | Book value              | Provision for declines in value | Carrying amount         |
| Raw materials     | 747,607,523.76          | 3,946,286.09                    | 743,661,237.67          |
| Works in progress | 332,045,889.42          | 930,833.52                      | 331,115,055.90          |
| Finished goods    | 3,255,049,351.22        | 34,563,159.68                   | 3,220,486,191.54        |
| <b>Total</b>      | <b>4,334,702,764.40</b> | <b>39,440,279.29</b>            | <b>4,295,262,485.11</b> |

(continued)

| Item              | Opening 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        |
| <b>Total</b>      | <b>3,532,225,768.58</b> | <b>33,280,421.30</b>            | <b>3,498,945,347.28</b> |

## Notes to the Financial Statements for 2020

(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     | 3,983,961.36         | 1,210,887.95           |        | 1,248,563.22             |        | 3,946,286.09         |
| Works in progress | 1,709,649.86         | 1,334,150.39           |        | 2,112,966.73             |        | 930,833.52           |
| Finished goods    | 27,586,810.08        | 43,082,313.37          |        | 36,105,963.77            |        | 34,563,159.68        |
| <b>Total</b>      | <b>33,280,421.30</b> | <b>45,627,351.71</b>   |        | <b>39,467,493.72</b>     |        | <b>39,440,279.29</b> |

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

| Item              | Basis of the provision for declines in value of inventories | Reasons for the write-off of provision for declines in value of inventories during the year |
|-------------------|---|---|
| Raw materials     |   |   |
| 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     | 3,714,208,987.32        | 2,515,406,233.00        |
| Prepaid tax and tax deductible | 437,151,132.72          | 524,083,898.44          |
| Prepaid expenses               | 46,654,066.49           | 88,479,822.67           |
| <b>Total</b>                   | <b>4,198,014,186.53</b> | <b>3,127,969,954.11</b> |

Note: 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.

## Notes to the Financial Statements for 2020

(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 |                 |   |
| <b>I. Joint ventures</b>                              |                       |                        |                        |  |   |                        |  |                               |        |                 |   |
| Hisense Marketing Management Co., Ltd.                | 45,615,225.13         |                        |                        | 2,009,377.22   |   |                        |  |                               |        |                 | 47,624,602.35                               |
| <b>II. Associates</b>                                 |                       |                        |                        |  |   |                        |  |                               |        |                 |   |
| Qingdao Hisense Financial Holdings Co., Ltd.          | 285,497,760.50        | 74,400,000.00          |                        | 24,899,650.46  | -2,168,500.81                             | 334,010.61             |  |                               |        |                 | 382,962,920.76                              |
| Qingdao Hisense International Co., Ltd.               | 136,967,737.00        |                        |                        | 57,295,948.67  | 9,101,820.20                              | 2,281,370.80           | -112,480,000.00                        |                               |        |                 | 93,166,876.67                               |
| <b>III. Others</b>                                    |                       |                        |                        |  |   |                        |  |                               |        |                 |   |
| Jiangxi Kelon Combine Electrical Appliances Co., Ltd. | 11,000,000.00         |                        |                        |  |   |                        |  |                               |        |                 | 11,000,000.00                               |
| <b>Total</b>  | <b>479,080,722.63</b> | <b>74,400,000.00</b>   |                        | <b>84,204,976.35</b>   | <b>6,933,319.39</b>                       | <b>2,615,381.41</b>    | <b>-112,480,000.00</b>                 |                               |        |                 | <b>534,754,399.78</b>                       |

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 Financial Holdings Co., Ltd is hereinafter referred to as "Hisense Financial Holdings".

3. Hisense Marketing Management Co., Ltd. is hereinafter referred to as "Hisense Marketing Management".

4. Qingdao Hisense International Co., Ltd is hereinafter referred to as "Hisense International".

5. 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         | 523,754,399.78        | 468,080,722.63        |
| Joint ventures        | 47,624,602.35         | 45,615,225.13         |
| Associates            | 476,129,797.43        | 422,465,497.50        |
| <b>Total</b>          | <b>523,754,399.78</b> | <b>468,080,722.63</b> |

## Notes to the Financial Statements for 2020

(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<br>and structures | Total         |
|--|-----------------------------|---------------|
| <b>I. Original carrying amount</b>                               |                             |               |
| 1. Opening balance   | 70,238,376.27               | 70,238,376.27 |
| 2. Increase for the year   | 19,321,331.52               | 19,321,331.52 |
| (1) Transferred from construction in progress                    | 19,321,331.52               | 19,321,331.52 |
| 3. Decrease for the year   | 196,651.04                  | 196,651.04    |
| (1) Disposal   | 196,651.04                  | 196,651.04    |
| 4. Closing balance   | 89,363,056.75               | 89,363,056.75 |
| <b>II. Accumulated depreciation and accumulated amortisation</b> |                             |               |
| 1. Opening balance   | 49,997,525.56               | 49,997,525.56 |
| 2. Increase for the year   | 2,896,072.94                | 2,896,072.94  |
| (1) Provision made or amortisation                               | 2,896,072.94                | 2,896,072.94  |
| 3. Decrease for the year   | 179,077.04                  | 179,077.04    |
| (1) Disposal   | 179,077.04                  | 179,077.04    |
| 4. Closing balance   | 52,714,521.46               | 52,714,521.46 |
| <b>III. Provision for impairment</b>                             |                             |               |
| 1. Opening balance   |                             |               |
| 2. Increase for the year   |                             |               |
| 3. Decrease for the year   |                             |               |
| 4. Closing balance   |                             |               |
| <b>IV. Carrying amount</b>                                       |                             |               |
| 1. Carrying amount as at the end of the year                     | 36,648,535.29               | 36,648,535.29 |
| 2. Carrying amount as at the beginning of the year               | 20,240,850.71               | 20,240,850.71 |

##### (2) Investment properties without ownership certificates

| Item              | Carrying amount | Reason for failure to obtain ownership certificates   |
|-------------------|-----------------|---|
| Mee King Building | 1,713,050.72    | Due to historical reasons; in the process of application  |
| Rental Warehouse  | 18,975,728.92   | The property has been transferred to investment property after it reached its intended use and is in the process of obtaining a certificate of ownership. |

(3) Depreciation expenses for 2020 amounted to RMB2,896,072.94, and depreciation expenses for 2019 amounted to RMB2,617,196.77.

(4) As at 31 December 2020, 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<br>balance      | Opening<br>balance      |
|--------------------------|-------------------------|-------------------------|
| Fixed assets             | 3,879,389,607.69        | 3,813,270,924.50        |
| Disposal of fixed assets | 13,898.00               | 270,759.35              |
| <b>Total</b>             | <b>3,879,403,505.69</b> | <b>3,813,541,683.85</b> |



## Notes to the Financial Statements for 2020

(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)

##### 12.1 Fixed assets

##### 1) Particulars of fixed assets

| Item   | Buildings and structures | Machinery and equipment | Furniture, fixtures and office equipment | Motor vehicles | Total            |
|--|--------------------------|-------------------------|--|----------------|------------------|
| <b>I. Original carrying amount</b>                 |                          |                         |  |                |                  |
| 1. Opening balance                                 | 2,693,494,465.13         | 3,596,082,323.83        | 2,650,048,029.60                         | 34,750,594.53  | 8,974,375,413.09 |
| 2. Increase for the year                           | 90,198,219.78            | 218,638,113.09          | 574,292,013.52                           | 4,156,737.89   | 887,285,084.28   |
| (1) Additions                                      | 47,786,834.56            | 85,864,231.17           | 285,594,220.05                           | 3,234,171.51   | 422,479,457.29   |
| (2) Transfer from construction in progress         | 42,411,385.22            | 132,773,881.92          | 288,697,793.47                           | 922,566.38     | 464,805,626.99   |
| 3. Decrease for the year                           | 2,770,970.10             | 117,520,277.98          | 188,058,094.33                           | 1,421,965.16   | 309,771,307.57   |
| (1) Disposal or retirement                         | 2,770,970.10             | 117,520,277.98          | 188,058,094.33                           | 1,421,965.16   | 309,771,307.57   |
| 4. Closing balance                                 | 2,780,921,714.81         | 3,697,200,158.94        | 3,036,281,948.79                         | 37,485,367.26  | 9,551,889,189.80 |
| <b>II. Accumulated depreciation</b>                |                          |                         |  |                |                  |
| 1. Opening balance                                 | 1,071,978,932.43         | 1,974,865,504.08        | 1,985,482,019.73                         | 28,626,570.61  | 5,060,953,026.85 |
| 2. Increase for the year                           | 112,551,822.67           | 279,493,953.39          | 363,011,274.34                           | 3,075,930.06   | 758,132,980.46   |
| (1) Provision made                                 | 112,551,822.67           | 279,493,953.39          | 363,011,274.34                           | 3,075,930.06   | 758,132,980.46   |
| 3. Decrease for the year                           | 2,211,433.87             | 82,396,605.83           | 157,410,585.78                           | 1,346,767.43   | 243,365,392.91   |
| (1) Disposal or retirement                         | 2,211,433.87             | 82,396,605.83           | 157,410,585.78                           | 1,346,767.43   | 243,365,392.91   |
| 4. Closing balance                                 | 1,182,319,321.23         | 2,171,962,851.64        | 2,191,082,708.29                         | 30,355,733.24  | 5,575,720,614.40 |
| <b>III. Provision for impairment</b>               |                          |                         |  |                |                  |
| 1. Opening balance                                 | 7,877,581.92             | 90,448,284.65           | 1,822,672.54                             | 2,922.63       | 100,151,461.74   |
| 2. Increase for the year                           |                          | 2,094,686.24            | 622,581.76                               |                | 2,717,268.00     |
| (1) Provision made                                 |                          | 2,094,686.24            | 622,581.76                               |                | 2,717,268.00     |
| 3. Decrease for the year                           |                          | 5,701,262.29            | 388,499.74                               |                | 6,089,762.03     |
| (1) Disposal or retirement                         |                          | 5,701,262.29            | 388,499.74                               |                | 6,089,762.03     |
| 4. Closing balance                                 | 7,877,581.92             | 86,841,708.60           | 2,056,754.56                             | 2,922.63       | 96,778,967.71    |
| <b>IV. Carrying amount</b>                         |                          |                         |  |                |                  |
| 1. Carrying amount as at the end of the year       | 1,590,724,811.66         | 1,438,395,598.70        | 843,142,485.94                           | 7,126,711.39   | 3,879,389,607.69 |
| 2. Carrying amount as at the beginning of the year | 1,613,637,950.78         | 1,530,768,535.10        | 662,743,337.33                           | 6,121,101.29   | 3,813,270,924.50 |

For 2020, the fixed assets transferred from construction in progress amounted to RMB464,805,626.95; for 2019, the fixed assets transferred from construction in progress amounted to RMB546,834,049.53.

## Notes to the Financial Statements for 2020

(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)

##### 12.1 Fixed assets (continued)

2) Depreciation expenses for 2020 amounted to RMB758,132,980.46, and depreciation expenses for 2019 amounted to RMB687,701,446.64.

3) As at the end of the year, no fixed asset was held under finance lease.

##### 4) *The rent out fixed asset under operating lease*

| Item                           | Closing carrying amount |
|--------------------------------|-------------------------|
| Buildings and structures       | 55,664,484.36           |
| Machinery and equipments, etc. | 14,477,876.00           |
| <b>Total</b>                   | <b>70,142,360.36</b>    |

##### 5) *Fixed asset which has not obtained the ownership certificate*

| Item                     | Carrying amount | Reason for failure to obtain ownership certificates   |
|--------------------------|-----------------|---|
| Buildings and structures | 718,072,100.97  | Achieved scheduled availability and were reclassified as fixed assets, the issuance of ownership certificate is in progress |

##### 12.2 Disposal of fixed assets

| Item                     | Closing balance  | Opening balance   |
|--------------------------|------------------|-------------------|
| Disposal of fixed assets | 13,898.00        | 270,759.35        |
| <b>Total</b>             | <b>13,898.00</b> | <b>270,759.35</b> |

#### 13. Constructions in progress

| Item                     | Closing balance       | Opening balance       |
|--------------------------|-----------------------|-----------------------|
| Construction in progress | 228,887,385.20        | 216,943,108.59        |
| <b>Total</b>             | <b>228,887,385.20</b> | <b>216,943,108.59</b> |

## Notes to the Financial Statements for 2020

(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

##### (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   | 2,082,306.12          |                      | 2,082,306.12          | 11,290,643.84         |                      | 11,290,643.84         |
| Transformation of equipment of Shandong Refrigerator |                       |                      |                       | 489,100.00            |                      | 489,100.00            |
| Transformation of warehouse                          | 1,663,596.26          |                      | 1,663,596.26          | 9,173,899.66          |                      | 9,173,899.66          |
| Air conditioning infrastructure project              | 18,194,731.54         |                      | 18,194,731.54         | 31,006,557.56         |                      | 31,006,557.56         |
| Refrigerator infrastructure project                  | 55,765,997.63         |                      | 55,765,997.63         |                       |                      |                       |
| Refrigerator production line project                 | 11,939,671.75         |                      | 11,939,671.75         |                       |                      |                       |
| Others   | 139,304,281.90        | 63,200.00            | 139,241,081.90        | 165,116,307.53        | 133,400.00           | 164,982,907.53        |
| <b>Total</b>   | <b>228,950,585.20</b> | <b>63,200.00</b>     | <b>228,887,385.20</b> | <b>217,076,508.59</b> | <b>133,400.00</b>    | <b>216,943,108.59</b> |

##### (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   | 11,290,643.84         | 1,677,158.87          | 8,278,403.88                | 2,607,092.71         | 2,082,306.12          | 37,681,552.98           | 86.94                                   | Not completed | Self funding      |
| Transformation of equipment of Shandong Refrigerator | 489,100.00            |                       | 489,100.00                  |                      |                       | 30,054,162.87           | 100.00                                  | Completed     | Self funding      |
| Transformation of warehouse                          | 9,173,899.66          | 3,754,726.35          | 11,265,029.75               |                      | 1,663,596.26          | 32,103,987.26           | 57.57                                   | Not completed | Self funding      |
| Air-conditioning infrastructure project              | 31,006,557.56         | 36,980,871.58         | 49,792,697.60               |                      | 18,194,731.54         | 433,753,816.31          | 82.97                                   | Not completed | Self funding      |
| Refrigerator infrastructure project                  |                       | 55,765,997.63         |                             |                      | 55,765,997.63         | 544,082,849.90          | 10.25                                   | Not completed | Self funding      |
| Refrigerator production line project                 |                       | 13,115,955.01         | 1,176,283.26                |                      | 11,939,671.75         | 28,076,080.00           | 46.72                                   | Not completed | Self funding      |
| Others   | 165,116,307.53        | 400,143,154.83        | 393,804,112.50              | 32,151,067.96        | 139,304,281.90        |                         |   | Not completed | Self funding      |
| <b>Total</b>   | <b>217,076,508.59</b> | <b>511,437,864.27</b> | <b>464,805,626.99</b>       | <b>34,758,160.67</b> | <b>228,950,585.20</b> | <b>1,105,752,449.32</b> | <b>-</b>                                | <b>-</b>      | <b>-</b>          |

Note: All constructions in progress of the Company were self-financed, without capitalisation of borrowing cost and interest.

## Notes to the Financial Statements for 2020

(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<br>for the year | Reason<br>for provision                               |
|--------------|---------------------------|---|
| Other items  | 63,200.00                 | Recoverable<br>amount is lower<br>than the book value |
| <b>Total</b> | <b>63,200.00</b>          | –   |

#### 14. Right of use assets

| Item   | Buildings and<br>structures | Total          |
|--|-----------------------------|----------------|
| <b>I. Original carrying amount</b>                 |                             |                |
| 1. Opening balance                                 | 105,538,353.73              | 105,538,353.73 |
| 2. Increase for the year                           | 46,923,436.03               | 46,923,436.03  |
| (1) Rental   | 46,923,436.03               | 46,923,436.03  |
| 3. Decrease for the year                           |                             |                |
| 4. Closing balance                                 | 152,461,789.76              | 152,461,789.76 |
| <b>II. Accumulated depreciation</b>                |                             |                |
| 1. Opening balance                                 | 31,375,768.64               | 31,375,768.64  |
| 2. Increase for the year                           | 52,988,457.34               | 52,988,457.34  |
| (1) Provision                                      | 52,988,457.34               | 52,988,457.34  |
| 3. Decrease for the year                           |                             |                |
| 4. Closing balance                                 | 84,364,225.98               | 84,364,225.98  |
| <b>III. Provision for impairment</b>               |                             |                |
| 1. Opening balance                                 |                             |                |
| 2. Increase for the year                           |                             |                |
| 3. Decrease for the year                           |                             |                |
| 4. Closing balance                                 |                             |                |
| <b>IV. Carrying amount</b>                         |                             |                |
| 1. Carrying amount as at the end of the year       | 68,097,563.78               | 68,097,563.78  |
| 2. Carrying amount as at the beginning of the year | 74,162,585.09               | 74,162,585.09  |

## Notes to the Financial Statements for 2020

(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            |
|--|------------------|----------------|---------------|----------------|----------------|------------------|
| <b>I. Original carrying amount</b>                 |                  |                |               |                |                |                  |
| 1. Opening 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 |
| 2. Increase for the year                           | 33,284,995.00    |                |               |                | 28,517,533.77  | 61,802,528.77    |
| (1) Additions                                      | 33,284,995.00    |                |               |                | 28,517,533.77  | 61,802,528.77    |
| 3. Decrease for the year                           | 10,792,892.60    |                | 30,265,263.30 |                | 4,816,631.86   | 45,874,787.76    |
| (1) Disposal                                       | 10,792,892.60    |                | 30,265,263.30 |                | 4,816,631.86   | 45,874,787.76    |
| 4. Closing balance                                 | 1,050,600,610.18 | 650,195,362.47 | 42,835,184.58 | 780,759,590.69 | 357,866,182.00 | 2,882,256,929.92 |
| <b>II. Accumulated amortisation</b>                |                  |                |               |                |                |                  |
| 1. Opening 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   |
| 2. Increase for the year                           | 21,466,126.99    | 37,735,849.05  | 11,825.00     | 94,640,565.96  | 75,306,860.66  | 229,161,227.66   |
| (1) Provision made                                 | 21,466,126.99    | 37,735,849.05  | 11,825.00     | 94,640,565.96  | 75,306,860.66  | 229,161,227.66   |
| 3. Decrease for the year                           | 5,133,673.60     |                | 30,265,263.30 |                | 4,816,631.86   | 40,215,568.76    |
| (1) Disposal                                       | 5,133,673.60     |                | 30,265,263.30 |                | 4,816,631.86   | 40,215,568.76    |
| 4. Closing balance                                 | 274,117,879.95   | 181,300,066.87 | 41,137,299.40 | 118,300,707.45 | 185,762,146.02 | 800,618,099.69   |
| <b>III. Provision for impairment</b>               |                  |                |               |                |                |                  |
| 1. Opening balance                                 | 50,012,843.19    | 286,061,116.40 |               |                | 519,447.21     | 336,593,406.80   |
| 2. Increase for the year                           |                  |                |               |                |                |                  |
| 3. Decrease for the year                           |                  |                |               |                |                |                  |
| 4. Closing balance                                 | 50,012,843.19    | 286,061,116.40 |               |                | 519,447.21     | 336,593,406.80   |
| <b>IV. Carrying amount</b>                         |                  |                |               |                |                |                  |
| 1. Carrying amount as at the end of the year       | 726,469,887.04   | 182,834,179.20 | 1,697,885.18  | 662,458,883.24 | 171,584,588.77 | 1,745,045,423.43 |
| 2. Carrying amount as at the beginning 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) Land use rights which certificates of ownership are pending

| Item            | Carrying amount | Reason for not completing certificate of ownership   |
|-----------------|-----------------|--|
| Land use rights | 40,096,407.08   | 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 2020

(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 RMB229,161,227.66 for 2020, compared to that of RMB85,442,114.15 for 2019.
- 2) As at the end of the year, no land use rights were pledged.
- 3) As of 31 December 2020, the useful life of the trademark rights with a carrying value of RMB104,217,827.00 is uncertain. The Group can apply for extension of the trademark rights at a lower fee upon the expiration of the protection period of the trademark rights, and the trademark rights will bring economic benefits to the Group during the operation period based on the comprehensive judgment of the product life cycle and market conditions.

The Company calculated the cash flows generated from the trademark rights using the relief from royalty method, and therefore the recoverable amount was estimated based on the trademark rights assets, which is determined based on the present value of expected future cash flows. The Company predicted revenue growth rate and prepared net profit and cash flow forecasts for the next 5 years based on historical actual operating data, long-term planning, signed contracts and other data, combined with market capacity growth rate, market share and external competition and other factors, and the pre-tax discount rate used in the cash flow forecast was 19.40% assuming that the cash flow remains unchanged after 5 years.

According to the results of the impairment test, there was no further impairment of these trademark rights at the end of the year and no provision for impairment was made.

#### 16. Goodwill

##### (1) The original value of goodwill

| Name of investee   | Opening balance       | Increase for the year | Decrease for the year | Closing balance       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. | 132,571,746.36        |                       |                       | 132,571,746.36        |
| <b>Total</b>   | <b>132,571,746.36</b> |                       |                       | <b>132,571,746.36</b> |

##### (2) Impairment provision for goodwill

After testing, the Company's management estimated that no impairment provision for goodwill was required during the Reporting Period.

##### (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 air conditioning business asset group of Hisense Hitachi at the acquisition date. Since it can generate cash flow independently, the Company regards development, design, manufacturing and sales of air-conditioning products of Hisense Hitachi as an individual asset group and allocated the goodwill of RMB132,571,746.36 to the asset group.

## Notes to the Financial Statements for 2020

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

### 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 16. Goodwill (continued)

##### (4) Specify test procedure, parameters of impairment of goodwill as well as recognition method for impairment loss

The recoverable amount of Hisense Hitachi's air conditioning business asset group is determined based on the present value of expected future cash flows. The Company predicted revenue growth rate and gross profit margin and prepared net profit and cash flow forecasts for the next 5 years based on historical actual operating data, long-term planning, signed contracts and other data, combined with market capacity growth rate, market share and external competition and other factors, and the pre-tax discount rate used in the cash flow forecast was 15% assuming that the cash flow remains unchanged after 5 years.

According to the results of the impairment test, there was no further impairment of the goodwill at the end of the year and no provision for impairment was made.

#### 17. Long-term prepaid expenses

| Item                       | Opening balance      | Increase for the year | Amortization for the year | Other deductions | Closing balance      |
|----------------------------|----------------------|-----------------------|---------------------------|------------------|----------------------|
| Long-term prepaid expenses | 43,497,841.56        | 23,853,113.36         | 34,015,658.65             |                  | 33,335,296.27        |
| <b>Total</b>               | <b>43,497,841.56</b> | <b>23,853,113.36</b>  | <b>34,015,658.65</b>      |                  | <b>33,335,296.27</b> |

#### 18. Deferred tax assets and deferred tax liabilities

##### (1) Undeducted deferred tax assets

| Item                               | Closing balance                 |                       | Opening balance                 |                       |
|------------------------------------|---------------------------------|-----------------------|---------------------------------|-----------------------|
|                                    | Deductible temporary difference | Deferred tax assets   | Deductible temporary difference | Deferred tax assets   |
| Provision for impairment of assets | 146,706,301.74                  | 27,205,798.69         | 159,461,582.80                  | 30,606,152.68         |
| Accrued expenses                   | 3,179,565,408.68                | 606,905,754.23        | 2,825,314,753.72                | 553,755,453.03        |
| Others                             | 329,979,786.69                  | 69,902,475.42         | 236,940,904.99                  | 50,412,979.39         |
| <b>Total</b>                       | <b>3,656,251,497.11</b>         | <b>704,014,028.34</b> | <b>3,221,717,241.51</b>         | <b>634,774,585.10</b> |

##### (2) Undeducted deferred tax liabilities

| Item   | Closing balance              |                          | Opening balance              |                          |
|--|------------------------------|--------------------------|------------------------------|--------------------------|
|  | Taxable temporary difference | Deferred tax liabilities | Taxable temporary difference | Deferred tax liabilities |
| Accelerated depreciation   | 280,324,115.34               | 47,859,223.04            | 200,238,661.80               | 31,800,409.61            |
| Transactional financial assets   | 13,754,598.65                | 3,621,590.39             |                              |                          |
| Asset appraisal appreciation due to business combination involving entities not under common control | 153,229,123.33               | 22,984,368.50            | 177,110,630.20               | 26,566,594.53            |
| <b>Total</b>   | <b>447,307,837.32</b>        | <b>74,465,181.93</b>     | <b>377,349,292.00</b>        | <b>58,367,004.14</b>     |

## Notes to the Financial Statements for 2020

(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 | 1,584,384,519.52        | 1,648,654,499.82        |
| Deductible tax loss             | 1,669,750,935.09        | 827,704,062.92          |
| <b>Total</b>                    | <b>3,254,135,454.61</b> | <b>2,476,358,562.74</b> |

##### (4) The deductible tax losses for unrecognized deferred tax assets will expire in following timeframe

| Year         | Closing balance         | Opening balance       | Remark |
|--------------|-------------------------|-----------------------|--------|
| 2020         |                         | 26,369,946.08         |        |
| 2021         | 218,788,161.02          | 148,334,368.46        |        |
| 2022         | 6,540,855.88            | 9,709,245.00          |        |
| 2023         | 122,090,554.80          | 123,298,573.11        |        |
| 2024         | 13,813,506.02           | 11,208,267.39         |        |
| 2025         | 192,740,013.83          |                       |        |
| 2026         |                         |                       |        |
| 2027         |                         | 45,178,809.35         |        |
| 2028         | 159,038,662.92          | 159,038,662.92        |        |
| 2029         | 251,912,993.31          | 257,892,975.07        |        |
| 2030         | 637,321,435.46          |                       |        |
| Infinite     | 67,504,751.85           | 46,673,215.54         |        |
| <b>Total</b> | <b>1,669,750,935.09</b> | <b>827,704,062.92</b> |        |

#### 19. Other non-current assets

| Item                      | Closing balance         | Opening balance         |
|---------------------------|-------------------------|-------------------------|
| Term deposit and interest | 4,033,348,000.00        | 2,093,188,666.66        |
| Others                    | 195,108,393.79          | 55,141,134.99           |
| <b>Total</b>              | <b>4,228,456,393.79</b> | <b>2,148,329,801.65</b> |

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        | 22,026,317.50        | 100,083,424.66        |
| <b>Total</b>             | <b>22,026,317.50</b> | <b>100,083,424.66</b> |

(2) There are no outstanding short-borrowing due as at the end of the year.



## Notes to the Financial Statements for 2020

(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         | 201,236.00        |                 |
| Including: Derivative financial liabilities | 201,236.00        |                 |
| <b>Total</b>                                | <b>201,236.00</b> |                 |

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       | 8,275,444,382.48         | 5,498,626,969.29        |
| Commercial acceptance notes | 2,499,932,015.39         | 2,061,685,580.94        |
| <b>Total</b>                | <b>10,775,376,397.87</b> | <b>7,560,312,550.23</b> |

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 | 7,214,872,681.32        | 5,189,464,190.07        |
| Over one year   | 76,956,584.78           | 127,893,446.74          |
| <b>Total</b>    | <b>7,291,829,266.10</b> | <b>5,317,357,636.81</b> |

Note: As at 31 December 2020, accounts payable with ageing of over one year amounted to RMB76,956,584.78 (31 December 2019: RMB127,893,446.74), which represented mainly raw material payable and was not settled yet.

#### 24. Contract liability

| Item             | Closing balance         | Opening balance         |
|------------------|-------------------------|-------------------------|
| Advance on sales | 1,100,531,262.91        | 1,013,239,070.20        |
| <b>Total</b>     | <b>1,100,531,262.91</b> | <b>1,013,239,070.20</b> |

Note: The balance of contract liability at the beginning of the year recognised as revenue during the year amounted to RMB810,310,739.25.

## Notes to the Financial Statements for 2020

(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       |
|---|-----------------------|-------------------------|-------------------------|-----------------------|
| Short-term compensations                              | 617,794,106.68        | 4,156,306,184.61        | 4,124,870,958.63        | 649,229,332.66        |
| Post-employment benefits – defined contribution plans | 2,129,101.43          | 123,107,180.39          | 124,511,567.72          | 724,714.10            |
| Termination benefits                                  | 572,029.30            | 25,405,716.06           | 25,977,745.36           |                       |
| <b>Total</b>  | <b>620,495,237.41</b> | <b>4,304,819,081.06</b> | <b>4,275,360,271.71</b> | <b>649,954,046.76</b> |

##### (2) Short-term compensations

| Item  | Opening balance       | Increase for the year   | Decrease for the year   | Closing balance       |
|---|-----------------------|-------------------------|-------------------------|-----------------------|
| Wages and salaries, bonuses, allowances and subsidies | 604,553,491.30        | 3,709,786,653.72        | 3,675,823,157.21        | 638,516,987.81        |
| Staff welfare   | 8,248,121.92          | 185,062,508.03          | 186,391,328.59          | 6,919,301.36          |
| Social insurance                                      | 1,376,895.85          | 110,099,841.31          | 110,897,761.70          | 578,975.46            |
| Including: Medical insurance                          | 712,796.42            | 100,008,157.46          | 100,174,812.55          | 546,141.33            |
| Work-related injury insurance                         | 573,851.58            | 2,135,002.32            | 2,686,412.95            | 22,440.95             |
| Maternity insurance                                   | 90,247.85             | 7,956,681.53            | 8,036,536.20            | 10,393.18             |
| Housing provident funds                               | 1,696,237.95          | 132,410,259.87          | 132,808,135.65          | 1,298,362.17          |
| Labour union funds and employee education funds       | 1,919,359.66          | 18,946,921.68           | 18,950,575.48           | 1,915,705.86          |
| <b>Total</b>  | <b>617,794,106.68</b> | <b>4,156,306,184.61</b> | <b>4,124,870,958.63</b> | <b>649,229,332.66</b> |

##### (3) Defined contribution plans

| Item                    | Opening balance     | Increase for the year | Decrease for the year | Closing balance   |
|-------------------------|---------------------|-----------------------|-----------------------|-------------------|
| Basic pension insurance | 1,644,478.89        | 118,373,176.20        | 119,333,284.75        | 684,370.34        |
| Unemployment insurance  | 484,622.54          | 4,734,004.19          | 5,178,282.97          | 40,343.76         |
| <b>Total</b>            | <b>2,129,101.43</b> | <b>123,107,180.39</b> | <b>124,511,567.72</b> | <b>724,714.10</b> |

## Notes to the Financial Statements for 2020

(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                       | 95,558,309.26         | 132,630,877.63        |
| Enterprise income tax                 | 304,708,176.82        | 279,683,763.34        |
| Individual Income Tax                 | 6,967,898.41          | 5,156,002.80          |
| City maintenance and construction tax | 7,382,700.59          | 12,276,675.79         |
| Real estate tax                       | 11,883,947.50         | 9,006,357.52          |
| Land use tax                          | 9,668,111.78          | 9,907,607.63          |
| Educational surcharges                | 5,280,102.71          | 8,747,447.20          |
| Others                                | 57,468,960.66         | 53,569,999.56         |
| <b>Total</b>                          | <b>498,918,207.73</b> | <b>510,978,731.47</b> |

#### 27. Other payables

| Item          | Closing balance         | Opening balance         |
|---------------|-------------------------|-------------------------|
| Other payable | 2,011,559,493.31        | 1,920,036,363.71        |
| <b>Total</b>  | <b>2,011,559,493.31</b> | <b>1,920,036,363.71</b> |

##### (1) Other payables by nature

| Item  | Closing balance         | Opening balance         |
|---|-------------------------|-------------------------|
| Current account   | 1,107,696,846.02        | 1,080,984,217.47        |
| Deposit and margin  | 577,407,875.94          | 550,115,496.00          |
| Payment for project and equipment                                 | 295,688,346.32          | 258,170,225.21          |
| Amount payable to Greencool Companies<br>and specific third party | 30,766,425.03           | 30,766,425.03           |
| <b>Total</b>  | <b>2,011,559,493.31</b> | <b>1,920,036,363.71</b> |

##### (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 2020

(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 | 29,562,279.68        | 40,736,624.70        |
| <b>Total</b>                          | <b>29,562,279.68</b> | <b>40,736,624.70</b> |

#### 29. Other current liabilities

| Item              | Closing balance         | Opening balance         | Reasons for the balance   |
|-------------------|-------------------------|-------------------------|---|
| Installation fees | 618,038,843.55          | 473,825,016.35          | Installation fee provided for but not yet paid in respect of goods sold |
| Sales discounts   | 2,977,945,886.44        | 2,782,929,327.14        | Incurred but not yet settled  |
| Others            | 743,396,072.74          | 498,414,731.11          | Incurred but not yet settled  |
| <b>Total</b>      | <b>4,339,380,802.73</b> | <b>3,755,169,074.60</b> |   |

#### 30. Lease liabilities

| Item              | Closing balance      | Opening balance      |
|-------------------|----------------------|----------------------|
| Lease liabilities | 28,356,873.04        | 24,822,981.21        |
| <b>Total</b>      | <b>28,356,873.04</b> | <b>24,822,981.21</b> |

#### 31. Provisions

| Item                     | Closing balance       | Opening balance       | Reason for occurrence                   |
|--------------------------|-----------------------|-----------------------|---|
| Pending litigation       | 13,767,373.25         | 16,267,827.84         | Estimated litigation compensation       |
| Provision for warranties | 446,321,241.97        | 434,997,428.58        | Estimated quality guarantee of products |
| Others                   | 23,790,000.00         | 23,790,000.00         | Estimated other expenditures            |
| <b>Total</b>             | <b>483,878,615.22</b> | <b>475,055,256.42</b> | -                                       |

## Notes to the Financial Statements for 2020

(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 | 113,146,567.49        | 11,747,688.00         | 25,817,461.27         | 99,076,794.22        | Amortization of government grants |
| <b>Total</b>      | <b>113,146,567.49</b> | <b>11,747,688.00</b>  | <b>25,817,461.27</b>  | <b>99,076,794.22</b> | <b>-</b>                          |

##### (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                                       | 746,666.67            |                                     | 280,000.00                                      | 466,666.67           | Related to assets         |
| Transformation project on system integration technology of green supply chain of freezers                                | 11,520,000.00         |                                     | 1,150,995.70                                    | 10,369,004.30        | Related to assets         |
| The invested guidance fund within the budget of central government for development of national service industry for 2018 | 4,505,000.00          |                                     | 530,000.00                                      | 3,975,000.00         | Related to assets         |
| Transformation projects  | 10,119,894.12         | 5,104,910.00                        | 5,704,791.09                                    | 9,520,013.03         | Related to assets         |
| Other related to assets  | 63,981,922.40         | 6,224,778.00                        | 17,025,505.36                                   | 53,181,195.04        | Related to assets         |
| Other related to revenue   | 823,084.30            | 418,000.00                          | 1,126,169.12                                    | 114,915.18           | Related to revenue        |
| <b>Total</b>   | <b>113,146,567.49</b> | <b>11,747,688.00</b>                | <b>25,817,461.27</b>                            | <b>99,076,794.22</b> |                           |

#### 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 2020

(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         | 1,949,034,302.69        | 3,040,463.34          |                       | 1,952,074,766.03        |
| Other capital reserve | 107,022,842.68          | 2,615,381.41          |                       | 109,638,224.09          |
| <b>Total</b>          | <b>2,056,057,145.37</b> | <b>5,655,844.75</b>   |                       | <b>2,061,712,990.12</b> |

#### 35. Other comprehensive income

| Item   | Opening balance      | Amount incurred in the year           |  |   |                          |                                  |   | Closing balance      |
|--|----------------------|---------------------------------------|--|---|--------------------------|----------------------------------|---|----------------------|
|  |                      | Amount before income tax for the year | Amount included in other comprehensive income in previous period and transferred to profit or loss in current period | Less: Amount included in other comprehensive income in the previous period and transferred in retained earnings in current period | Less: income tax expense | Attributable to parent after tax | Attributable to minority interest after tax |                      |
| 1. Other comprehensive income that would not be reclassified 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                               | 26,418,501.35        | 11,321,016.05                         |  |   |                          | 11,259,792.07                    | 61,223.98                                   | 37,678,293.42        |
| Including: other comprehensive income that would be reclassified into profit or loss under equity method | 14,696,993.48        | 6,933,319.39                          |  |   |                          | 6,933,319.39                     |   | 21,630,312.87        |
| 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                | 10,625,649.48        | 5,483,555.05                          |  |   |                          | 5,422,331.07                     | 61,223.98                                   | 16,047,980.55        |
| <b>Total other comprehensive income</b>  | <b>26,318,501.35</b> | <b>11,321,016.05</b>                  |  |   |                          | <b>11,259,792.07</b>             | <b>61,223.98</b>                            | <b>37,578,293.42</b> |

## Notes to the Financial Statements for 2020

(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 | 632,235,869.58        | 60,567,023.80         |                       | 692,802,893.38        |
| <b>Total</b>              | <b>632,235,869.58</b> | <b>60,567,023.80</b>  |                       | <b>692,802,893.38</b> |

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 |
|---|-------------------------|--------------------------|
| <b>Balance at the end of the previous year</b>                            | <b>4,644,256,846.32</b> | <b>3,339,456,580.66</b>  |
| Add: Adjustment of undistributed profits as at the beginning of the year  |                         |                          |
| <b>Balance at the beginning of the year</b>                               | <b>4,644,256,846.32</b> | <b>3,339,456,580.66</b>  |
| Add: Net profits attributable to the owners of the parent in current year | 1,578,882,732.14        | 1,793,669,013.19         |
| Less: Appropriation of statutory surplus reserve                          | 60,567,023.80           | 75,962,960.42            |
| Dividends payable on ordinary shares                                      | 538,276,521.15          | 412,905,787.11           |
| <b>Balance at the end of the year</b>                                     | <b>5,624,296,033.51</b> | <b>4,644,256,846.32</b>  |

#### 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 | 43,844,644,902.95        | 32,451,870,805.44        | 34,196,927,100.83        | 26,368,132,763.52        |
| Other operations     | 4,548,225,800.16         | 4,304,430,671.34         | 3,256,116,867.91         | 3,056,676,505.14         |
| <b>Total</b>         | <b>48,392,870,703.11</b> | <b>36,756,301,476.78</b> | <b>37,453,043,968.74</b> | <b>29,424,809,268.66</b> |

## Notes to the Financial Statements for 2020

(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 | 18,709,002,118.33        | 14,685,528,054.98        | 16,127,991,501.27        | 12,299,844,328.41        |
| Air-conditioners                   | 23,386,192,179.17        | 16,382,597,669.13        | 16,368,984,335.90        | 12,685,726,877.38        |
| Others                             | 1,749,450,605.45         | 1,383,745,081.33         | 1,699,951,263.66         | 1,382,561,557.73         |
| By operating regions:              |                          |                          |                          |                          |
| Domestic                           | 29,205,488,972.24        | 19,170,426,142.76        | 22,712,402,936.91        | 15,927,441,278.91        |
| Overseas                           | 14,639,155,930.71        | 13,281,444,662.68        | 11,484,524,163.92        | 10,440,691,484.61        |
| <b>Total</b>                       | <b>43,844,644,902.95</b> | <b>32,451,870,805.44</b> | <b>34,196,927,100.83</b> | <b>26,368,132,763.52</b> |

#### 39. Tax and surcharges

| Item                                  | Amount for the year   | Amount for previous year |
|---------------------------------------|-----------------------|--------------------------|
| City maintenance and construction tax | 89,238,091.74         | 83,478,661.19            |
| Education surcharges                  | 64,122,288.25         | 60,930,269.69            |
| Others                                | 173,532,434.48        | 182,302,800.00           |
| <b>Total</b>                          | <b>326,892,814.47</b> | <b>326,711,730.88</b>    |

#### 40. Sales expenses

| Item           | Amount for the year     | Amount for previous year |
|----------------|-------------------------|--------------------------|
| Sales expenses | 6,891,389,066.25        | 5,670,186,916.64         |
| <b>Total</b>   | <b>6,891,389,066.25</b> | <b>5,670,186,916.64</b>  |

Note: In 2020, 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% (2019: over 70%).

#### 41. Management expenses

| Item                | Amount for the year   | Amount for previous year |
|---------------------|-----------------------|--------------------------|
| Management expenses | 619,163,555.38        | 515,205,417.61           |
| <b>Total</b>        | <b>619,163,555.38</b> | <b>515,205,417.61</b>    |

Note: In 2020, management expenses mainly include employee compensation, depreciation and amortization, and executive office fee, with the percentage to the total management expenses over 80% (2019: over 80%).



## Notes to the Financial Statements for 2020

(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 | 1,284,848,949.46        | 934,412,243.42           |
| <b>Total</b>                      | <b>1,284,848,949.46</b> | <b>934,412,243.42</b>    |

Note: In 2020, 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% (2019: over 80%).

#### 43. Financial expenses

| Item                   | Amount for the year    | Amount for previous year |
|------------------------|------------------------|--------------------------|
| Interest expenses      | 11,232,002.12          | 3,000,971.48             |
| Less: Interest incomes | 211,191,601.67         | 90,453,444.36            |
| Add: Exchange loss     | 16,919,753.03          | 3,432,744.04             |
| Other expenses         | 73,159,839.69          | 76,007,415.57            |
| <b>Total</b>           | <b>-109,880,006.83</b> | <b>-8,012,313.27</b>     |

Note: Interest expenses for 2020 include interest expenses of lease liabilities of RMB4,203,139.66 (2019: RMB2,917,546.82). Other interest expenses for 2020 and 2019 were wholly interests on bank borrowings, of which the last term of repayment is within five years.

#### 44. Other income

| Sources arising other income                              | Amount for the year   | Amount for previous year |
|---|-----------------------|--------------------------|
| Immediate refund of value-added tax                       | 219,186,563.50        | 162,563,922.60           |
| Others government subsidies related to general activities | 150,718,878.87        | 115,872,882.72           |
| Others  | 331,380.00            |                          |
| <b>Total</b>  | <b>370,236,822.37</b> | <b>278,436,805.32</b>    |

## Notes to the Financial Statements for 2020

(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  | 84,204,976.35         | 724,081,435.92           |
| Gain from disposal of long-term equity investment   |                       | 47,763,133.83            |
| Gain from disposal of transactional financial assets  | 111,450,229.85        | 53,960,651.46            |
| Investment income from remeasurement of the shares previously held at fair value after acquisition of control |                       | 296,543,419.32           |
| <b>Total</b>  | <b>195,655,206.20</b> | <b>1,122,348,640.53</b>  |

Gain from long-term equity investments by the equity method

| Investee                     | Amount for the year  | Amount for previous year |
|------------------------------|----------------------|--------------------------|
| Hisense Hitachi              |                      | 700,598,729.62           |
| Hisense Financial Holdings   | 24,899,650.46        | 24,927,624.46            |
| Hisense Marketing Management | 2,009,377.22         | -2,412,256.61            |
| Hisense International        | 57,295,948.67        | 967,338.45               |
| <b>Total</b>                 | <b>84,204,976.35</b> | <b>724,081,435.92</b>    |

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

#### 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   | 20,898,474.73        | -207,350.00              |
| Including: Gain from changes in fair value of derivative financial instruments | 10,887,680.20        | -207,350.00              |
| Transactional financial liabilities  | -201,236.00          | 2,765,900.00             |
| Including: Gain from changes in fair value of derivative financial instruments | -201,236.00          | 2,765,900.00             |
| <b>Total</b>   | <b>20,697,238.73</b> | <b>2,558,550.00</b>      |

## Notes to the Financial Statements for 2020

(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 Notes receivable     | 3,342,785.78          | -6,677,660.56            |
| Loss of bad debts of Accounts receivable  | -17,763,044.20        | -41,137,289.00           |
| Loss of bad debts of other receivables    | -7,725,779.74         | 4,816,209.03             |
| Credit impairment loss of debt investment | 1,095,858.39          | -1,095,858.39            |
| <b>Total</b>                              | <b>-21,050,179.77</b> | <b>-44,094,598.92</b>    |

#### 48. Impairment losses on assets

| Item  | Amount for the year   | Amount for previous year |
|---|-----------------------|--------------------------|
| Decline in value of inventories             | -15,968,200.13        | -10,649,934.31           |
| Impairment loss on fixed assets             | -2,717,268.00         | -5,078,526.98            |
| Impairment loss on construction in progress | -63,200.00            | -133,400.00              |
| <b>Total</b>                                | <b>-18,748,668.13</b> | <b>-15,861,861.29</b>    |

#### 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  | 24,533,842.26        | 121,585,370.54           | 24,533,842.26   |
| Including: Gains on disposal of non current assets which are not classified as held for sale | 24,533,842.26        | 121,585,370.54           | 24,533,842.26   |
| Including: Gains on disposal of fixed assets   | 11,700,855.46        | 12,949,849.30            | 11,700,855.46   |
| Gains on disposal of intangible assets   | 12,832,986.80        | 108,635,521.24           | 12,832,986.80   |
| <b>Total</b>   | <b>24,533,842.26</b> | <b>121,585,370.54</b>    | <b>24,533,842.26</b>  |

## Notes to the Financial Statements for 2020

(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 | 4,861,371.40          | 6,088,392.79             | 4,861,371.40  |
| Government grants                         | 86,050,714.51         | 91,712,462.67            | 86,050,714.51   |
| Others                                    | 213,340,586.58        | 28,426,205.18            | 213,340,586.58  |
| <b>Total</b>                              | <b>304,252,672.49</b> | <b>126,227,060.64</b>    | <b>304,252,672.49</b>   |

##### (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  |                                  | 219,186,563.50           |                                  | 162,563,922.60           | Related to revenue        |
| Technology reform project for design and production of high-precision smart moulds                                       |                                  | 280,000.00               |                                  | 280,000.00               | Related to assets         |
| Transformation project on system integration technology of green supply chain of freezers                                |                                  | 1,150,995.70             |                                  |                          | Related to assets         |
| The invested guidance fund within the budget of central government for development of national service industry for 2018 |                                  | 530,000.00               |                                  | 530,000.00               | Related to assets         |
| Transformation projects  |                                  | 5,704,791.09             |                                  | 21,594,375.88            | Related to assets         |
| Other government grants related to assets  |                                  | 17,025,505.36            |                                  | 20,040,297.31            | Related to assets         |
| Other government grants related to daily operation   |                                  | 126,027,586.72           |                                  | 73,428,209.53            | Related to revenue        |
| Government grants not related to daily operation   | 86,050,714.51                    |                          | 91,712,462.67                    |                          | Related to revenue        |
| <b>Total</b>   | <b>86,050,714.51</b>             | <b>369,905,442.37</b>    | <b>91,712,462.67</b>             | <b>278,436,805.32</b>    |                           |

## Notes to the Financial Statements for 2020

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

### 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 51. Non-operating expenses

| Item                                    | Amount for<br>the year | Amount for<br>previous year | Amount<br>included in<br>non-recurring<br>profit or loss of<br>the current year |
|---|------------------------|-----------------------------|---|
| Loss on scrapping of non-current assets | 6,246,030.39           | 13,883,870.41               | 6,246,030.39  |
| Others                                  | 8,355,767.96           | 14,796,486.55               | 8,355,767.96  |
| <b>Total</b>                            | <b>14,601,798.35</b>   | <b>28,680,356.96</b>        | <b>14,601,798.35</b>  |

#### 52. Income tax expense

##### (1) Income tax expense

| Item                                 | Amount for<br>the year | Amount for<br>previous year |
|--------------------------------------|------------------------|-----------------------------|
| Current income tax expenses          | 692,236,605.62         | 250,453,742.56              |
| Including: PRC Enterprise income tax | 690,580,998.53         | 250,453,742.56              |
| Hong Kong profit tax                 | 1,655,607.09           |                             |
| Deferred income tax expenses         | -53,141,265.45         | -48,652,580.42              |
| <b>Total</b>                         | <b>639,095,340.17</b>  | <b>201,801,162.14</b>       |

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

| Item   | Amount for<br>the year |
|--|------------------------|
| Total profits  | 3,485,129,983.40       |
| Income tax expense calculated at statutory (or applicable) tax rates   | 871,282,495.85         |
| Effect of application of different tax rate to certain subsidiaries  | -241,293,864.69        |
| Adjustment to income tax in previous year  | 31,404,256.13          |
| Effect of non-taxable income   | -224,786,908.30        |
| Effect of non-deductible cost, expense and loss  | 54,054,076.63          |
| Effect of utilization of deductible losses unrecognized as deferred tax assets in previous period                  | -82,594,038.30         |
| Effect of deductible temporary difference or deductible loss unrecognized as deferred tax assets in current period | 336,437,167.85         |
| Changes in opening balance of deferred tax assets/liabilities arising from changes in tax rate                     | -873,551.09            |
| Effect of super deduction of research and development expense  | -104,030,752.23        |
| Others   | -503,541.68            |
| Income tax expense   | 639,095,340.17         |

#### 53. Other comprehensive income

Please see note 6(35) Other comprehensive income for details.

## Notes to the Financial Statements for 2020

(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  | 58,089,060.39         | 29,753,468.28            |
| Government grants | 221,314,316.12        | 224,426,273.13           |
| Others            | 667,728,788.25        | 532,363,569.32           |
| <b>Total</b>      | <b>947,132,164.76</b> | <b>786,543,310.73</b>    |

###### 2) Other cash payment related to operating activities

| Item                                  | Amount for the year     | Amount for previous year |
|---------------------------------------|-------------------------|--------------------------|
| Cash payments for management expenses | 837,113,974.75          | 446,273,592.28           |
| Cash payments for sales expenses      | 3,789,071,305.01        | 3,082,312,014.12         |
| Bank charges                          | 13,514,307.49           | 35,411,453.97            |
| Others                                | 933,413,670.74          | 810,238,504.07           |
| <b>Total</b>                          | <b>5,573,113,257.99</b> | <b>4,374,235,564.44</b>  |

###### 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 | 11,856,945,401.90        | 6,121,490,941.53         |
| Cash paid for acquiring subsidiaries and other operation units         |                          | 1,110,633,709.67         |
| <b>Total</b>   | <b>11,856,945,401.90</b> | <b>7,232,124,651.20</b>  |

###### 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 | 15,314,639,200.00        | 8,252,376,993.51         |
| <b>Total</b>  | <b>15,314,639,200.00</b> | <b>8,252,376,993.51</b>  |

## Notes to the Financial Statements for 2020

(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   | 1,444,058,771.72        | 289,215,131.80           |
| Payment of the principal and interest on lease liabilities | 48,900,886.63           | 32,909,301.96            |
| <b>Total</b>   | <b>1,492,959,658.35</b> | <b>322,124,433.76</b>    |

##### (2) Supplementary information to consolidated cash flows statement

| Item   | Amount for the year | Amount for previous year |
|--|---------------------|--------------------------|
| <b>1. Reconciliation of net profit to cash flows from operating activities:</b>                                |                     |                          |
| Net profit   | 2,846,034,643.23    | 1,950,449,152.52         |
| Add: Impairment loss on assets   | 18,748,668.13       | 15,861,861.29            |
| Impairment loss on credit  | 21,050,179.77       | 44,094,598.92            |
| Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets | 761,029,053.40      | 690,318,643.41           |
| Depreciation of right-of-use assets  | 52,988,457.34       | 31,375,768.64            |
| Amortization of intangible assets  | 229,161,227.66      | 85,442,114.15            |
| Amortization of long-term prepaid expenses   | 34,015,658.65       | 20,642,983.29            |
| Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain denoted in "-")           | -24,533,842.26      | -121,585,370.54          |
| Loss on retirement of fixed assets (Gain denoted in "-")   | 1,384,658.99        | 7,795,477.62             |
| Loss on change in fair value (Gain denoted in "-")   | -20,697,238.73      | -2,558,550.00            |
| Financial expenses (Gain denoted in "-")   | -118,404,867.53     | -86,663,662.23           |
| Investment loss (Gain denoted in "-")  | -195,655,206.20     | -1,122,348,640.53        |
| Decrease in deferred tax assets (Increase denoted in "-")  | -69,239,443.24      | -12,601,757.76           |
| Increase in deferred tax liabilities (Decrease denoted in "-")   | 16,098,177.79       | -36,050,822.66           |
| Decrease in inventories (Increase denoted in "-")  | -792,668,653.68     | 513,746,710.20           |
| Decrease in operating receivables (Increase denoted in "-")  | -2,240,232,721.01   | 51,338,299.65            |
| Increase in operating payables (Decrease denoted in "-")   | 5,443,629,057.53    | -23,919,753.41           |
| Others   |                     |                          |
| Net cash flows from operating activities   | 5,962,707,809.84    | 2,005,337,052.56         |
| <b>2. Significant investment and financing activities not involving cash receipts and payments:</b>            |                     |                          |
| Liabilities converted into equity  |                     |                          |
| Convertible company debentures due within one year   |                     |                          |
| Fixed assets under finance leases  |                     |                          |
| <b>3. Net movement in cash and cash equivalents:</b>   |                     |                          |
| Cash at the end of the year  | 1,617,202,572.26    | 2,065,106,596.27         |
| Less: Cash at the beginning of the year  | 2,065,106,596.27    | 1,061,364,062.82         |
| 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  | -447,904,024.01     | 1,003,742,533.45         |

## Notes to the Financial Statements for 2020

(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<br>the year |
|--|------------------------|
| Cash or cash equivalents paid during the year for business combinations<br>occurred during the year          | 45,115.00              |
| Including: Hong Kong Home Appliance Manufactory  | 45,115.00              |
| Less: Cash or cash equivalents held by subsidiaries on the acquisition date                                  | 45,115.00              |
| Including: Hong Kong Home Appliance Manufactory  | 45,115.00              |
| Add: Cash or cash equivalents paid during the year for business<br>combinations occurred during past periods |                        |
| Net cash paid for acquiring subsidiaries   |                        |

##### (4) Cash and cash equivalents

| Item  | Amount for<br>the year | Amount for<br>previous year |
|---|------------------------|-----------------------------|
| Cash  | 1,617,202,572.26       | 2,065,106,596.27            |
| Including: Cash on hand   | 2,345.07               | 1,827.03                    |
| Bank deposits that are readily available for<br>payment   | 1,612,278,959.21       | 2,012,263,900.63            |
| Other cash at bank and on hand that are<br>readily available for payment                                | 4,921,267.98           | 52,840,868.61               |
| Cash equivalents  |                        |                             |
| Including: Bond investments due within three<br>months  |                        |                             |
| Cash and cash equivalents as at the end of the year   | 1,617,202,572.26       | 2,065,106,596.27            |
| Including: Cash and cash equivalents of the parent<br>or subsidiaries subject to restrictions<br>on use |                        |                             |

#### 55. Assets with limited ownership or use rights

| Item                     | Closing<br>carrying amount | Reason<br>for limitation                    |
|--------------------------|----------------------------|---|
| Cash at bank and on hand | 5,493,569,881.90           | As security deposit                         |
| Notes receivable         | 391,571,690.85             | As collaterals for bank acceptance<br>notes |
| Other non-current assets | 1,300,000,000.00           | As collaterals for bank acceptance<br>notes |
| <b>Total</b>             | <b>7,185,141,572.75</b>    | –   |



## Notes to the Financial Statements for 2020

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

### 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 56. Monetary items in foreign currencies

##### (1) Monetary items in foreign currencies

| Item                     | Closing<br>balance of<br>foreign currency | Translation<br>rate | Closing balance<br>denominated<br>in RMB |
|--------------------------|---|---------------------|--|
| Cash at bank and on hand | –   | –                   | –  |
| Including: USD           | 32,862,023.35                             | 6.5249              | 214,421,416.16                           |
| EUR                      | 2,473,486.20                              | 8.0250              | 19,849,726.76                            |
| HKD                      | 1,561,621.57                              | 0.8416              | 1,314,260.71                             |
| Others                   | 852,021,887.85                            | 19,688,250.95       |  |
| Accounts receivable      | –   | –                   | –  |
| Including: USD           | 49,130,934.44                             | 6.5249              | 320,574,434.13                           |
| EUR                      | 5,328,808.90                              | 8.0250              | 42,763,691.42                            |
| HKD                      | 23,602,997.01                             | 0.8416              | 19,864,282.28                            |
| Others                   | 7,897,648.57                              | 1,724,955.69        |  |
| Other receivables        | –   | –                   | –  |
| Including: EUR           | 101,253.93                                | 8.0250              | 812,562.79                               |
| Accounts payable         | –   | –                   | –  |
| Including: USD           | 5,272,200.66                              | 6.5249              | 34,400,582.09                            |
| EUR                      | 512,731.96                                | 8.0250              | 4,114,673.98                             |
| Japanese Yen             | 296,376,493.00                            | 0.063236            | 18,741,663.91                            |
| Other payables           | –   | –                   | –  |
| Including: USD           | 21,851.90                                 | 6.5249              | 142,581.46                               |
| EUR                      | 18,571.93                                 | 8.0250              | 149,039.74                               |
| Japanese Yen             | 37,291,625.00                             | 0.063236            | 2,358,173.20                             |

##### (2) Overseas operating entities

| Name  | Principal place<br>of business | Functional<br>currency | Whether<br>there is change of<br>functional currency |
|---|--------------------------------|------------------------|--|
| Kelon International Incorporation                           | Hong Kong                      | HKD                    | No   |
| Pearl River Electric Refrigerator<br>Co., Ltd.              | Hong Kong                      | HKD                    | No   |
| Kelon Development Co., Ltd.                                 | Hong Kong                      | HKD                    | No   |
| Hisense Mould (Deutschland)<br>GmbH                         | Germany                        | EUR                    | No   |
| Hisense (Hong Kong) America<br>Manufacturing Co., Limited   | Hong Kong                      | HKD                    | No   |
| Hisense Monterrey<br>Manufacturing, S.de R.L. de<br>C.V.    | Mexico                         | Mexican Peso           | No   |
| Hisense Monterrey Property<br>Management, S.de R.L. de C.V. | Mexico                         | Mexican Peso           | No   |

## Notes to the Financial Statements for 2020

(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  | 11,329,688.00  | Deferred income      | 24,691,292.15                                     |
| Related to revenue | 418,000.00     | Deferred income      | 1,126,169.12                                      |
| Related to revenue | 344,087,981.10 | Other gain           | 344,087,981.10                                    |
| Related to revenue | 86,050,714.51  | Non-operating income | 86,050,714.51                                     |

##### (2) Refund of government grants for the year

none.

#### 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  | 18,709,002,118.33                  | 23,386,192,179.17 | 1,749,450,605.45 |                           | 43,844,644,902.95 |
| 2. Revenue from inter-segment transactions  | 924,293.66                         | 269,673.44        | 2,054,460,241.91 | -2,055,654,209.01         |                   |
| 3. Gain from investment in associates and joint ventures                          | 1,004,688.61                       | 1,004,688.61      | 82,195,599.13    |                           | 84,204,976.35     |
| 4. Depreciation and amortization  | 385,678,345.13                     | 608,903,122.66    | 82,612,929.26    |                           | 1,077,194,397.05  |
| 5. Gain arising from changes in fair value  | 7,953,753.43                       |                   | 12,743,485.30    |                           | 20,697,238.73     |
| 6. Impairment losses on credits and assets  | -7,974,328.58                      | -73,228,986.37    | 41,404,467.05    |                           | -39,798,847.90    |
| 7. Total profit (losses)  | 675,799,231.43                     | 2,334,901,054.06  | 474,429,697.91   |                           | 3,485,129,983.40  |
| 8. Total assets   | 23,343,204,319.44                  | 29,081,028,731.23 | 4,024,147,783.73 | -14,636,745,020.87        | 41,811,635,813.53 |
| 9. Total liabilities  | 16,840,812,935.31                  | 16,438,688,250.13 | 1,945,852,568.88 | -7,820,236,979.32         | 27,405,116,775.00 |
| 10. Additions to other non-current assets other than long-term equity investments | 240,366,866.48                     | 1,817,173,405.72  | -3,205,938.28    |                           | 2,054,334,333.92  |

## Notes to the Financial Statements for 2020

(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  | 16,127,991,501.27                  | 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  |

##### (2) Geographic Information

| Region                              | Amount for the year/closing balance | Amount of previous year/opening balance |
|-------------------------------------|-------------------------------------|---|
| Revenue from domestic transactions  | 29,205,488,972.24                   | 22,712,402,936.91                       |
| Revenues from overseas transactions | 14,639,155,930.71                   | 11,484,524,163.92                       |
| <b>Total</b>                        | <b>43,844,644,902.95</b>            | <b>34,196,927,100.83</b>                |
| Non-current assets – Domestic       | 11,464,768,117.14                   | 9,460,087,833.58                        |
| Non-current assets – Overseas       | 115,446,160.79                      | 10,118,433.28                           |
| <b>Total</b>                        | <b>11,580,214,277.93</b>            | <b>9,470,206,266.86</b>                 |

The Company operates mainly in Mainland China. Most of the Company's non-current assets are in Mainland China. Therefore it is not necessary to present further details of the regional information.

## Notes to the Financial Statements for 2020

(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 Monterrey Manufacturing, S.de R.L. de C.V. | 29 September 2020                      | 0.00                                   | 100.00%                                    | Equity transfer                           | 29 September 2020   | Completion of equity transfer procedures       |  |   |

On 29 September 2020, Hisense (Hong Kong) America Manufacturing Co., Limited, a subsidiary of the Group, acquired 100% equity interest in Hisense Monterrey Manufacturing, S.de R.L. de C.V. by way of equity transfer, and the identifiable net assets of Hisense Monterrey Manufacturing, S.de R.L. de C.V. at the date of acquisition was \$0.00.

#### 2. Business combination involving entities under common control

##### (1) Business combinations involving entities under common control during the year

| Name of the merged party                                 | Percentage of equity obtained in the business combination | Basis for the recognition as business combination under common control | Date of business combination | Basis for the determination of combination date | Income of the merged party from the beginning of the year of combination to combination date | Net profit of the merged party from the beginning of the year of combination to combination date | Income of the merged party during comparative period | Net profit of the merged party during comparative period |
|--|---|--|------------------------------|---|--|--|--|--|
| Hisense (Hong Kong) America Manufacturing Co., Limited.  | 100%  | under the control of Hisense Group                                     | 24 July 2020                 | Completion of change of business registration   |  |  |  |  |
| Hisense Monterrey Property Management, S.de R.L. de C.V. | 100%  | under the control of Hisense Group                                     | 24 July 2020                 | Completion of change of business registration   |  |  |  |  |

## Notes to the Financial Statements for 2020

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

### 7. CHANGE IN SCOPE OF CONSOLIDATION *(continued)*

#### 2. Business combination involving entities under common control *(continued)*

##### *(2) Business combinations costs*

| Items                      | America                        | Hisense Monterrey                            |
|----------------------------|--------------------------------|--|
|                            | Manufacturing<br>Co., Limited. | Property<br>Management,<br>S.de R.L. de C.V. |
| Cash                       | 45,115.00                      |  |
| Total cost of combinations | 45,115.00                      |  |

##### *(3) Carrying amount of assets and liabilities of the merged party at the date of combination*

| Items                    | America Manufacturing<br>Co., Limited. |                                | Hisense Monterrey<br>Property Management,<br>S.de R.L. de C.V. |                                |
|--------------------------|--|--------------------------------|--|--------------------------------|
|                          | Date of<br>business<br>combination     | End of<br>the previous<br>year | Date of<br>business<br>combination                             | End of<br>the previous<br>year |
| assets:                  |  |                                |  |                                |
| Cash at bank and on hand | 45,115.00                              |                                |  |                                |
| Net assets               | 45,115.00                              |                                |  |                                |
| Less: Minority interest  |  |                                |  |                                |
| Net assets acquired      | 45,115.00                              |                                |  |                                |

#### 3. Changes in consolidation scope for other reason

- (1) The Company invested in the establishment of Qingdao Gorenje Electrical Co., Ltd. on 30 July 2020 with a registered capital of RMB21.0 million, of which the Company actually contributed RMB14.7 million, accounting for 70% of the registered capital. The Company has control right and will include it in the scope of the consolidation from 30 July 2020.
- (2) Hisense K&B, a subsidiary of the Company, invested in the establishment of Hisense (Shandong) Kitchen and Bath Co., Ltd. on 16 November 2020 with a registered capital of RMB15 million, of which Hisense K&B actually contributed RMB15 million, accounting for 100% of the registered capital. As of the balance sheet date, no actual capital contribution has been made. The Company has control right and will include it in the scope of the consolidation from 16 November 2020.
- (3) The Company canceled the registration of its subsidiary, Guangdong Huaao Electronics Co., Ltd., on 14 December 2020, and will no longer include it in the scope of the consolidation from 14 December 2020.

## Notes to the Financial Statements for 2020

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

### 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         |                             | 100      | 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         |                             | 100      | 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 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. (ii) | 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         |                             | 100      | 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 |
| 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 |

## Notes to the Financial Statements for 2020

(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 |   |
| 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   | 78.7                        |          | 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                   | EUR2 million       | 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 |
| Qingdao Hisense Air-conditioner Marketing Co., Ltd.        | Hitachi Marketing                      | RMB223.70 million  | Qingdao                     | Qingdao               | Trading         |                             | 70       | 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 to the Financial Statements for 2020

(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 |   |
| Hisense (Hong Kong) America Manufacturing Co., Limited.  | Hong Kong Home Appliance Manufactory | HKS<br>188,126,500 | Hong Kong                   | Hong Kong             | Manufacturing   |                             | 100      | Business combination under common control     |
| Hisense Monterrey Manufacturing, S.de R.L. de C.V.       | Hisense Monterrey Manufacturing      | MXN<br>3,000       | Mexico                      | Mexico                | Manufacturing   |                             | 100      | Business combination not under common control |
| Hisense Monterrey Property Management, S.de R.L. de C.V. | Monterrey Property                   | MXN<br>197,747,200 | Mexico                      | Mexico                | Manufacturing   |                             | 100      | Business combination under common control     |
| Qingdao Gorenje Electrical Co., Ltd.                     | Qingdao Gorenje                      | RMB21<br>million   | Qingdao                     | Qingdao               | Trading         | 70                          |          | Establishment or investment                   |
| Hisense (Shandong) Kitchen and Bath Co., Ltd.            | Hisense (Shandong) K & B             | RMB15<br>million   | Qingdao                     | Qingdao               | Manufacturing   |                             | 100      | Establishment or investment                   |

#### Notes:

- (i) The Company holds 60% equity interest in Guangdong Air-conditioner. 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, Commercial Cold Chain, Hitachi Marketing and Qingdao Gorenje 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.



## Notes to the Financial Statements for 2020

(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 |
|--------------------|-------------------------------------|--|---|---------------------------------------|
| Hisense Hitachi    | 50.80%                              | 1,083,251,864.92   | 372,651,528.00                                    | 3,600,187,421.66                      |

##### (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 |
| Hisense Hitachi    | 929,208.23      | 659,295.27         | 1,588,503.50 | 806,301.03          | 25,292.52               | 831,593.55        |

(continued)

| Name of subsidiary | Opening balance |                    |              |                     |                         |                   |
|--------------------|-----------------|--------------------|--------------|---------------------|-------------------------|-------------------|
|                    | Current assets  | Non-current assets | Total assets | Current liabilities | Non-current liabilities | Total liabilities |
| Hisense Hitachi    | 821,536.65      | 473,333.74         | 1,294,870.39 | 667,962.10          | 22,647.51               | 690,609.61        |

| 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 |
| Hisense Hitachi    | 1,333,118.46        | 213,238.56 | 213,238.56                 | 322,005.79                           | 315,641.80               | 18,360.83  | 18,360.83                  | 43,920.11                            |

Note: Amount for previous year of Hisense Hitachi was the amount for October to December 2019.

## Notes to the Financial Statements for 2020

(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 14 December 2020, minority shareholders of Hitachi Marketing increased their capital contribution. Upon the completion of capital increase, the indirect shareholding of the Company in Hitachi Marketing changed from 71.52% to 70% and the Company still controlled the company.

##### (2) Impacts of changes in ownership interest in subsidiaries on equity

| Item  | Hitachi Marketing |
|---|-------------------|
| Cash  | 24,350,000.00     |
| Total cost of purchase/consideration for disposal   | 24,350,000.00     |
| Less: Share of net assets of subsidiary based on the shareholding percentage acquired/disposed of | 21,309,536.66     |
| Difference  | 3,040,463.34      |
| Including: Adjustment to capital reserves   | 3,040,463.34      |

#### 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 Financial Holdings         | Qingdao                     | Qingdao               | Financial services industry | 21.44                       |          | Equity method  |
| Hisense Commercial Trading         | Qingdao                     | Qingdao               | Trading                     | 50.00                       |          | Equity method  |
| Hisense International              | Overseas                    | Qingdao               | Trading                     | 12.67                       |          | Equity method  |

Note: 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.

##### (2) Aggregated financial information of insignificant joint ventures and associates

*Unit: RMB'0000*

| Item   | Closing balance/<br>Amount for<br>the year | Opening balance/<br>Amount for<br>previous year |
|--|--|---|
| <b>Joint ventures:</b>                                   | -  | -   |
| Total carrying amount of investments                     | 4,762.46                                   | 4,561.52  |
| Amounts in aggregate in proportion to the shareholdings: | -  | -   |
| – Net profit   | 200.94                                     | -241.23   |
| – Other comprehensive income                             | -  | -   |
| – Total comprehensive income                             | 200.94                                     | -241.23   |
| <b>Associates:</b>                                       | -  | -   |
| Total carrying amount of investments                     | 47,612.98                                  | 42,246.55                                       |
| Amounts in aggregate in proportion to the shareholdings: | -  | -   |
| – Net profit   | 8,219.56                                   | 2,589.50  |
| – Other comprehensive income                             | 693.33                                     | 896.59  |
| – Total comprehensive income                             | 8,912.89                                   | 3,486.09  |

## Notes to the Financial Statements for 2020

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

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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 2020

(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 2020

| Item                                | Within 1 year            | 1 to 2 years         | 2 to 5 years            | Over 5 years      | Total                    |
|-------------------------------------|--------------------------|----------------------|-------------------------|-------------------|--------------------------|
| <b>Financial assets</b>             |                          |                      |                         |                   |                          |
| Cash at bank and on hand            | 7,110,772,454.16         |                      |                         |                   | 7,110,772,454.16         |
| Transactional financial assets      | 2,620,898,474.73         |                      |                         |                   | 2,620,898,474.73         |
| Notes receivable                    | 551,833,415.14           |                      |                         |                   | 551,833,415.14           |
| Accounts receivable                 | 6,804,783,003.27         |                      |                         |                   | 6,804,783,003.27         |
| Accounts receivable financing       | 4,241,240,626.01         |                      |                         |                   | 4,241,240,626.01         |
| Other receivables                   | 511,666,394.23           |                      |                         |                   | 511,666,394.23           |
| Other current assets                | 3,714,208,987.32         |                      |                         |                   | 3,714,208,987.32         |
| Other non-current assets            |                          |                      | 4,033,348,000.00        |                   | 4,033,348,000.00         |
| <b>Total</b>                        | <b>25,555,403,354.86</b> |                      | <b>4,033,348,000.00</b> |                   | <b>29,588,751,354.86</b> |
| <b>Financial liabilities</b>        |                          |                      |                         |                   |                          |
| Short-term borrowings               | 22,026,317.50            |                      |                         |                   | 22,026,317.50            |
| Transactional financial liabilities | 201,236.00               |                      |                         |                   | 201,236.00               |
| Notes payable                       | 10,775,376,397.87        |                      |                         |                   | 10,775,376,397.87        |
| Accounts payable                    | 7,291,829,266.10         |                      |                         |                   | 7,291,829,266.10         |
| Other payables                      | 2,011,559,493.31         |                      |                         |                   | 2,011,559,493.31         |
| Other current liabilities           | 4,339,380,802.73         |                      |                         |                   | 4,339,380,802.73         |
| Lease liabilities                   | 31,621,786.60            | 15,479,701.84        | 13,376,599.23           | 365,037.26        | 60,843,124.93            |
| <b>Total</b>                        | <b>24,471,995,300.11</b> | <b>15,479,701.84</b> | <b>13,376,599.23</b>    | <b>365,037.26</b> | <b>24,501,216,638.44</b> |

## Notes to the Financial Statements for 2020

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

### 9. RISKS RELATING TO FINANCIAL INSTRUMENTS (continued)

#### (2) Liquidity risk (continued)

31 December 2019

| Item                           | Within 1 year            | 1 to 2 years         | 2 to 5 years            | Over 5 years     | Total                    |
|--------------------------------|--------------------------|----------------------|-------------------------|------------------|--------------------------|
| <b>Financial assets</b>        |                          |                      |                         |                  |                          |
| 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         |
| <b>Total</b>                   | <b>20,522,994,041.75</b> |                      | <b>2,093,188,666.66</b> |                  | <b>22,616,182,708.41</b> |
| <b>Financial liabilities</b>   |                          |                      |                         |                  |                          |
| 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              | 42,972,889.20            | 20,868,346.99        | 5,258,110.75            |                  | 69,099,346.94            |
| <b>Total</b>                   | <b>18,695,931,939.21</b> | <b>20,868,346.99</b> | <b>5,258,110.75</b>     |                  | <b>18,722,058,396.95</b> |

The maturity of bank and other borrowings were analyzed as follows:

The Group's bank borrowings as at 31 December 2020 and 31 December 2019 are due within one year after the balance sheet date.

#### (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 2020, 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.

## Notes to the Financial Statements for 2020

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

### 9. RISKS RELATING TO FINANCIAL INSTRUMENTS *(continued)*

#### (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      | 534,995,850.29  | 34,543,163.55 | 553,635,498.93  | 38,724,346.10 |
| EUR      | 63,425,980.97   | 4,263,713.72  | 178,060,275.08  | 937,780.20    |

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 forward exchange rate:

| Item              | Current year                          | Previous year                         |
|-------------------|---------------------------------------|---------------------------------------|
|                   | Increase/Decrease in profit after tax | Increase/Decrease in profit after tax |
| USD to RMB        |                                       |                                       |
| Appreciates by 5% | 18,766,975.75                         | 19,309,168.23                         |
| Depreciates by 5% | -18,766,975.75                        | -19,309,168.23                        |
| EUR to RMB        |                                       |                                       |
| Appreciates by 5% | 2,218,585.02                          | 6,642,093.56                          |
| Depreciates by 5% | -2,218,585.02                         | -6,642,093.56                         |

Sensitivity analysis of change in forward exchange rate:

| Item              | Current year                          | Previous year                         |
|-------------------|---------------------------------------|---------------------------------------|
|                   | Increase/Decrease in profit after tax | Increase/Decrease in profit after tax |
| USD to RMB        |                                       |                                       |
| Appreciates by 5% | -2,257,500.00                         |                                       |
| Depreciates by 5% | 2,257,500.00                          |                                       |
| EUR to RMB        |                                       |                                       |
| Appreciates by 5% | -300,000.00                           |                                       |
| Depreciates by 5% | 300,000.00                            |                                       |

## Notes to the Financial Statements for 2020

(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 |                         |
| <b>I. Fair value measurement on a recurring basis</b>           | –                                    | –                              | –                              | –                       |
| (i) Transactional financial assets                              |                                      | 10,887,680.20                  | 2,610,010,794.53               | 2,620,898,474.73        |
| 1. Financial assets at fair value through profit or loss        |                                      | 10,887,680.20                  | 2,610,010,794.53               | 2,620,898,474.73        |
| (1) Wealth management products                                  |                                      |                                | 2,610,010,794.53               | 2,610,010,794.53        |
| (2) Derivative financial assets                                 |                                      | 10,887,680.20                  |                                | 10,887,680.20           |
| (ii) Other debt investments                                     |                                      |                                | 4,241,240,626.01               | 4,241,240,626.01        |
| 1. Notes receivable   |                                      |                                | 4,241,240,626.01               | 4,241,240,626.01        |
| <b>Total assets measured at fair value on a recurring basis</b> |                                      | <b>10,887,680.20</b>           | <b>6,851,251,420.54</b>        | <b>6,862,139,100.74</b> |
| <b>(II) Transactional financial liabilities</b>                 |                                      | <b>201,236.00</b>              |                                | <b>201,236.00</b>       |
| 1. Financial liabilities at fair value through profit or loss   |                                      | <b>201,236.00</b>              |                                | <b>201,236.00</b>       |
| (1) Derivative financial liabilities                            |                                      | <b>201,236.00</b>              |                                | <b>201,236.00</b>       |
| <b>Total liabilities measured at fair value</b>                 |                                      | <b>201,236.00</b>              |                                | <b>201,236.00</b>       |

#### 2. Valuation techniques and qualitative and quantitative information for level 2 items measured on and not on a recurring basis

The Group's Level 2 items are a forward exchange contracts. As at the balance sheet date, the Group had obtained forward rate quotations from contracted banks, which were determined based on the remaining term to maturity. The fair values of forward exchange contracts were determined by multiplying the difference between the quotations and agreed exchange rate for forward exchange contracts by the amount for forward exchange settlement.

#### 3. Valuation techniques and qualitative and quantitative information for level 3 items measured on and not on a recurring basis

The Group's level 3 items are wealth management products and receivables financing. The wealth management products forecast future cash flows using the expected rate of return and the unobservable input value is the expected rate of return. The receivables financing are notes receivable held by the Group having relatively short remaining maturity with their carrying amount appropriate to fair value, and adopt carrying amount as their fair value.

Wealth management products recognized a gain or loss from change in fair value of RMB10,010,794.53 during the year. Changes in unobservable inputs (expected rates of return) do not result in significant changes in fair value. At the end of the year, the Group forecast future cash flows as the fair value using the expected rate of return, and the change in valuation techniques had a relatively small impact on the financial statements.

## Notes to the Financial Statements for 2020

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

### 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 controlling shareholders and the ultimate holding company | Registration address | Business nature  | Registered capital | Shareholding in the Company(%) | Voting rights in the Company (%) |
|---|----------------------|--|--------------------|--------------------------------|----------------------------------|
| Qingdao Hisense Air-conditioning                                      | Qingdao              | Manufacture of air conditioners, moulds and provision of after-sale services | 67,479             | 37.92                          | 37.92                            |

Note: Ultimate holding company of the Company is Hisense Group Holdings Co., Ltd..

On 30 December 2020, the “Implementation Plan of the Mixed Ownership Reform of Hisense Company” (《海信集團深化混合所有制改革實施方案》) was completed and Hisense Company Limited (“Hisense Group”) ceased to be the controlling shareholder of Hisense Group Holdings Co., Ltd. and ceased to be the indirect controlling shareholder of the Company. In 2020, the Company still regards Hisense Group as the indirect controlling shareholder, and presented the related party transactions.

##### (2) Controlling shareholder's registered capital and its changes

(Amount Unit: RMB'0000)

| Controlling shareholder          | Opening balance | Increase for the year | Decrease for the year | Closing balance |
|----------------------------------|-----------------|-----------------------|-----------------------|-----------------|
| Qingdao Hisense Air-Conditioning | 67,479          |                       |                       | 67,479          |

##### (3) Shareholding of controlling shareholder and its changes

| Controlling shareholder          | Shareholding amount |                 | Percentage of shareholding (%)    |   |
|----------------------------------|---------------------|-----------------|-----------------------------------|---|
|                                  | Closing balance     | Opening balance | Percentage at the end of the year | Percentage at the beginning of the year |
| Qingdao Hisense Air-Conditioning | 516,758,670         | 516,758,670     | 37.92                             | 37.92                                   |



## Notes to the Financial Statements for 2020

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

### 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.<br>(“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 indirect holding company                                 |
| Hisense Visual Technology Co.,Ltd.<br>(formerly known as Hisense Electric Co., Ltd.<br>hereinafter referred to as “Hisense Visual”.) | Subsidiary of indirect holding company                                 |
| Beijing Xuehua Group Company Limited (“Xuehua Group”)  | Minority shareholder of Beijing Refrigerator                           |
| Hisense (Hong Kong) Company Limited (“Hisense Hong Kong”)  | Subsidiary of indirect holding company                                 |
| Johnson Controls-Hitachi Air Conditioning Holding (UK) Ltd.<br>(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 |

## Notes to the Financial Statements for 2020

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

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

#### 7. Related party transactions

##### (1) Purchase of goods/receipt of services

| Related party                                 | Particulars of related party transactions | Pricing and decision-making procedures of related party transactions | Amount for the year   |   | Amount for previous year |   |
|---|---|--|-----------------------|---|--------------------------|---|
|   |   |  | Amount                | Percentage of the amount for similar transactions (%) | Amount                   | Percentage of the amount for similar transactions (%) |
| Hisense Visual and its subsidiaries           | Finished goods                            | Agreed price   | 236,025.45            |   |                          |   |
| Hisense Group and its subsidiaries            | Finished goods                            | Agreed price   | 49,781,681.92         | 0.14  | 23,593,928.15            | 0.08  |
| Johnson Hitachi and its subsidiaries          | Finished goods                            | Agreed price   | 19,252,051.70         | 0.05  | 3,243,355.83             | 0.01  |
| <b>Subtotal of purchase of finished goods</b> |   |  | <b>69,269,759.07</b>  | <b>0.19</b>   | <b>26,837,283.98</b>     | <b>0.09</b>   |
| Hisense Visual and its subsidiaries           | Raw materials                             | Agreed price   | 26,306,654.24         | 0.07  | 8,407,360.35             | 0.03  |
| Hisense Group and its subsidiaries            | Raw materials                             | Agreed price   | 286,825,122.81        | 0.78  | 191,833,672.11           | 0.65  |
| Hisense Hitachi                               | Raw materials                             | Agreed price   |                       |   | 10,002,909.68            | 0.03  |
| Johnson Hitachi and its subsidiaries          | Raw materials                             | Agreed price   | 516,331,483.39        | 1.40  | 117,717,188.45           | 0.40  |
| <b>Subtotal of purchase of raw materials</b>  |   |  | <b>829,463,260.44</b> | <b>2.25</b>   | <b>327,961,130.59</b>    | <b>1.11</b>   |
| Hisense Visual and its subsidiaries           | Equipment                                 | Agreed price   | 25,200.00             |   | 901,038.17               | 0.07  |
| Hisense Group and its subsidiaries            | Equipment                                 | Agreed price   | 7,861,104.11          | 0.89  | 3,676,048.63             | 0.27  |
| <b>Subtotal of purchase of equipment</b>      |   |  | <b>7,886,304.11</b>   | <b>0.89</b>   | <b>4,577,086.80</b>      | <b>0.34</b>   |
| Hisense Visual and its subsidiaries           | Receipt of services                       | Agreed price   | 28,372,096.95         | 0.08  | 16,655,180.62            | 0.06  |
| Hisense Group and its subsidiaries            | Receipt of services                       | Agreed price   | 710,342,036.62        | 1.93  | 619,631,869.84           | 2.11  |
| Hisense Hitachi                               | Receipt of services                       | Agreed price   |                       |   | 1,769.91                 |   |
| Xuehua Group                                  | Receipt of services                       | Agreed price   |                       |   | 462,716.00               |   |
| Johnson Hitachi and its subsidiaries          | Receipt of services                       | Agreed price   | 18,875,349.53         | 0.05  | 352,635.59               |   |
| <b>Subtotal of receipt of services</b>        |   |  | <b>757,589,483.10</b> | <b>2.06</b>   | <b>637,104,171.96</b>    | <b>2.17</b>   |
| Hisense Hong Kong                             | Financing purchase                        | Agreed price   | 253,735,839.93        | 0.69  | 251,567,012.25           | 0.85  |
| <b>Subtotal of financing purchase</b>         |   |  | <b>253,735,839.93</b> | <b>0.69</b>   | <b>251,567,012.25</b>    | <b>0.85</b>   |

## Notes to the Financial Statements for 2020

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

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

#### 7. Related party transactions *(continued)*

##### *(1) Purchase of goods/receipt of services (continued)*

- ① The Company and Hisense Group and Hisense Visual Technology and Hisense Marketing Management and Hisense International entered into a Business Cooperation Framework Agreement on 5 November 2019. During the effective period of the agreement, the transaction with the Group as the purchaser and recipient of services was capped at a total of RMB1.37074 billion (exclusive of value-added tax) with Hisense Group, a total of RMB110.75 million with Hisense Visual Technology, a total of RMB167 million (exclusive of value-added tax) with Hisense Marketing Management and a total of RMB62.41million (exclusive of value-added tax) with Hisense International.
- ② The Company and Johnson Hitachi entered into a Business Framework Agreement on 11 September 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 of value-added tax) of RMB1.09691 billion.
- ③ The Company and Hisense Hong Kong entered into a Financing Purchase Framework Agreement on 5 November 2019. 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 eighth interim meeting of the Company's tenth session of the board of directors in 2019 convened on 11 November 2019, the ninth interim meeting of the Company's tenth session of the board of directors in 2019 convene on 5 November 2019 and the first extraordinary general meeting in 2020 convened on 17 January 2020 respectively.

- ④ The Company and Hisense International entered into the Supplemental Agreement to the Business Framework Agreement on 31 July 2020. During the effective period of the agreement, the transaction cap between with the Company as the purchaser and Hisense International was adjusted to RMB88.95 million (exclusive of value-added tax).

The above agreements were considered and approved at the sixth interim meeting of the Company's tenth session of the board of directors in 2020 convened on 31 July 2020 and the second extraordinary general meeting in 2020 convened on 25 September 2020 respectively.

- ⑤ 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).

## Notes to the Financial Statements for 2020

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

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

#### 7. Related party transactions (continued)

##### (1) Purchase of goods/receipt of services (continued)

Other than the above transactions, the transactions with related parties conducted in 2020 as disclosed in note 11 of the financial statements in the 2020 annual report do not constitute connected transactions under Chapter 14A of the Listing Rules.

##### (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   | 849,713.94               |   | 488,625.82               |   |
| Hisense Group and its subsidiaries        | Finished goods                            | Agreed price   | 13,478,572,701.22        | 27.85   | 10,604,774,468.75        | 28.31   |
| Hisense Hitachi                           | Finished goods                            | Agreed price   |                          |   | 373,675,519.30           | 1.00  |
| Johnson Hitachi and its subsidiaries      | Finished goods                            | Agreed price   | 217,512,580.78           | 0.45  | 30,727,721.08            | 0.08  |
| <b>Subtotal of sale of finished goods</b> |   |  | <b>13,696,934,995.94</b> | <b>28.30</b>  | <b>11,009,666,334.95</b> | <b>29.39</b>  |
| Hisense Visual and its subsidiaries       | Raw materials                             | Agreed price   | 702,125.24               |   | 10,740,619.29            | 0.03  |
| Hisense Group and its subsidiaries        | Raw materials                             | Agreed price   | 171,714,468.37           | 0.35  | 114,377,805.58           | 0.31  |
| Hisense Hitachi                           | Raw materials                             | Agreed price   |                          |   | 2,732,946.37             | 0.01  |
| Johnson Hitachi and its subsidiaries      | Raw materials                             | Agreed price   | 9,063,700.12             | 0.02  | 2,618,693.81             | 0.01  |
| <b>Subtotal of sale of raw materials</b>  |   |  | <b>181,480,293.73</b>    | <b>0.37</b>   | <b>130,470,065.05</b>    | <b>0.36</b>   |
| Hisense Visual and its subsidiaries       | Moulds                                    | Market price   | 68,748,858.39            | 0.14  | 62,202,571.62            | 0.17  |
| Hisense Group and its subsidiaries        | Moulds                                    | Market price   | 39,298,898.00            | 0.08  | 49,436,204.17            | 0.13  |
| Hisense Hitachi                           | Moulds                                    | Market price   |                          |   | 4,552,833.26             | 0.01  |
| <b>Subtotal of sale of moulds</b>         |   |  | <b>108,047,756.39</b>    | <b>0.22</b>   | <b>116,191,609.05</b>    | <b>0.31</b>   |
| Hisense Group and its subsidiaries        | Equipment                                 | Agreed price   | 98,689.20                |   | 98,058.25                |   |
| <b>Subtotal of sale of equipment</b>      |   |  | <b>98,689.20</b>         |   | <b>98,058.25</b>         |   |
| Hisense Visual and its subsidiaries       | Provision of services                     | Agreed price   | 5,728,427.06             | 0.01  | 2,492,383.26             | 0.01  |
| Hisense Group and its subsidiaries        | Provision of services                     | Agreed price   | 14,973,867.79            | 0.03  | 19,400,422.35            | 0.05  |
| Hisense Hitachi                           | Provision of services                     | Agreed price   |                          |   | 93,489.00                |   |
| Xue hua Guoup                             | Provision of services                     | Agreed price   | 960,012.12               |   | 1,383,763.29             |   |
| Johnson Hitachi and its subsidiaries      | Provision of services                     | Agreed price   | 64,053.45                |   | 64,053.45                |   |
| <b>Subtotal of rendering of services</b>  |   |  | <b>21,726,360.42</b>     | <b>0.04</b>   | <b>23,434,111.35</b>     | <b>0.06</b>   |

## Notes to the Financial Statements for 2020

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

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### 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 Technology and Hisense Marketing Management and Hisense International entered into a Business Cooperation Framework Agreement on 5 November 2019. During the effective period of the agreement, the transaction with the Group as the supplier and provider of services was capped at a total of RMB668.72 million (exclusive of value-added tax) with Hisense Group, a total of RMB210.94 million with Hisense Visual Technology, a total of RMB670 million (exclusive of value-added tax) with Hisense Marketing Management and a total of RMB15.62730 billion (exclusive of value-added tax) with Hisense International.
- (2) The Company and Johnson Hitachi entered into a Business Framework Agreement on 11 September 2019. During the effective period of the agreement, the transaction with the Company as the supplier and service provider was subject to an aggregate cap (exclusive of value-added tax) of RMB305.53 million.

The above agreements were considered and approved at the eighth interim meeting of the Company's tenth session of the board of directors in 2019 convened on 11 September 2019, the ninth interim meeting of the Company's tenth session of the board of directors in 2019 convened on 5 November 2019 and the first extraordinary general meeting in 2020 convened on 17 January 2020 respectively.

- (3) 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 2020 as disclosed in note 11 of the financial statements in the 2020 annual report do not constitute connected transactions under Chapter 14A of the Listing Rules.

## Notes to the Financial Statements for 2020

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

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

#### 7. Related party transactions *(continued)*

##### *(3) Loans and borrowings of the related parties*

| Name of other related parties | Lending amount | Inception date | Expiration date | Notes   |
|-------------------------------|----------------|----------------|-----------------|---|
| <b>Borrowings</b>             |                |                |                 |   |
| HISENSE CKL (HK) CO., LIMITED | 61,744,500.00  | 2020-8-19      | 2020-12-16      | Repaid, an interest expense of RMB313,395.09 was paid during the year |
| HISENSE CKL (HK) CO., LIMITED | 27,442,000.00  | 2020-9-28      | 2020-10-20      | Repaid, an interest expense of RMB26,183.71 was paid during the year  |

##### *(4) Key management personnel emoluments*

Please see note 15(3) Key management personnel emoluments for details.

##### *(5) Other connected transactions*

As at 31 December 2020, the Group had the balance of deposit of RMB14.4842092 billion (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 RMB8.5836469 billion with Hisense Finance. The balance of loan was RMB22 million. The amount of loan interest for Hisense Finance of RMB6.6893 million 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 RMB4.3649 million, RMB7.339 million and RMB0.8098 million. Interest income from bank deposits of RMB209.8047 million 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 RMB395.7738 million and the amount for provision of discounted notes was RMB801.1294 million.

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 2020

(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  | 159,473,920.01          |                         | 73,662,349.59           |                         |
| Notes receivable    | Hisense Group and its subsidiaries   | 209,619,243.39          |                         | 155,386,729.87          |                         |
| <b>Subtotal</b>     |                                      | <b>369,093,163.40</b>   |                         | <b>229,049,079.46</b>   |                         |
| Interest receivable | Hisense Finance                      | 147,961,817.69          |                         | 113,594,899.67          |                         |
| <b>Subtotal</b>     |                                      | <b>147,961,817.69</b>   |                         | <b>113,594,899.67</b>   |                         |
| Accounts receivable | Hisense Visual and its subsidiaries  | 38,919,165.05           |                         | 32,245,206.20           | 603,299.99              |
| Accounts receivable | Hisense Group and its subsidiaries   | 3,578,584,281.44        |                         | 1,819,052,137.68        |                         |
| Accounts receivable | Johnson Hitachi and its subsidiaries | 30,953,176.32           |                         | 29,976,086.25           |                         |
| <b>Subtotal</b>     |                                      | <b>3,648,456,622.81</b> |                         | <b>1,881,273,430.13</b> | <b>603,299.99</b>       |
| Other receivables   | Hisense Visual and its subsidiaries  | 18,000.00               | 18,000.00               | 910,500.00              | 900,000.00              |
| Other receivables   | Hisense Group and its subsidiaries   | 3,012,739.33            | 650,308.56              | 1,925,012.97            | 47,732.00               |
| Other receivables   | Xuehua Group                         | 302,836.17              |                         |                         |                         |
| <b>Subtotal</b>     |                                      | <b>3,333,575.50</b>     | <b>668,308.56</b>       | <b>2,835,512.97</b>     | <b>947,732.00</b>       |
| Prepayments         | Hisense Group and its subsidiaries   | 12,573,238.47           |                         | 9,415,301.89            |                         |
| <b>Subtotal</b>     |                                      | <b>12,573,238.47</b>    |                         | <b>9,415,301.89</b>     |                         |

## Notes to the Financial Statements for 2020

(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   | 11,799,016.98         | 15,551,614.76         |
| Note payable     | Johnson Hitachi and its subsidiaries | 289,628,720.53        | 168,071,845.85        |
| <b>Subtotal</b>  |                                      | <b>301,427,737.51</b> | <b>183,623,460.61</b> |
| Accounts payable | Hisense Visual and its subsidiaries  | 613,087.29            | 16,294.75             |
| Accounts payable | Hisense Group and its subsidiaries   | 258,947,755.98        | 258,472,693.54        |
| Accounts payable | Johnson Hitachi and its subsidiaries | 96,062,483.78         | 54,108,096.37         |
| <b>Subtotal</b>  |                                      | <b>355,623,327.05</b> | <b>312,597,084.66</b> |
| Other payables   | Hisense Visual and its subsidiaries  | 9,482.98              | 21,662.98             |
| Other payables   | Hisense Group and its subsidiaries   | 147,576,572.26        | 80,822,684.91         |
| Other payables   | Johnson Hitachi and its subsidiaries | 200,000.00            |                       |
| Other payables   | Xuehua Group                         |                       | 100,859.00            |
| <b>Subtotal</b>  |                                      | <b>147,786,055.24</b> | <b>80,945,206.89</b>  |
| Advances         | Hisense Group and its subsidiaries   | 418,047.70            | 9,523,930.44          |
| Advances         | Johnson Hitachi and its subsidiaries | 84,056.49             |                       |
| Advances         | Xuehua Group                         | 242,894.63            |                       |
| <b>Subtotal</b>  |                                      | <b>744,998.82</b>     | <b>9,523,930.44</b>   |



## Notes to the Financial Statements for 2020

(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                           |
| <b>Subtotal of other receivables</b> |                    | <b>224,630,200.00</b>             | <b>224,630,200.00</b>                   |
| Other payables                       | Zhuhai Longjia     | 17,766,425.03                     | 17,766,425.03                           |
| <b>Subtotal of other payables</b>    |                    | <b>17,766,425.03</b>              | <b>17,766,425.03</b>                    |

*Note:* A series of related party transactions and unusual cash flows occurred between Guangdong Greencool Enterprise Development Limited, the former largest shareholder of the Company, and its related parties (hereinafter referred to as the “Greencool Companies”) and the Company during the period from October 2001 to July 2005. In addition, during the period, the Greencool Companies, through certain specified party companies such as Tianjin Lixin Commercial Trading Development Company Limited, involved in a series of unusual cash flows with the Company. The transactions and unusual cash flows as well as the suspected fund embezzlements have been investigated by the relevant authorities and one case has yet to receive an enforcement judgment. These matters are related to the Company’s amounts due from or to the Greencool Companies and the specified third party companies mentioned above. The Company defines the other receivables mentioned above as appropriation of funds for non-operating purpose of the former largest shareholder, the Company has received amount from execution of the cases and presented them as other payables except for the provision for bad debt of RMB60,030,000.00, which will be accounted for upon receipt of the enforcement judgment.

##### (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                           |
| <b>Subtotal of other payables</b> |                   | <b>13,000,000.00</b>              | <b>13,000,000.00</b>                    |

### 12. CONTINGENCIES

#### 1. Contingent liabilities arising from pending litigations and arbitration and their financial impacts

As at 31 December 2020, the Group was involved, as defendant, in litigations with amount of RMB25,869,140.58, and provision of RMB13,767,373.25 had been made.

## Notes to the Financial Statements for 2020

(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  | 55,034.42       | 15,478.63       |
| 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

On 1 March 2021, Hisense Home Appliances Group Co., Ltd.(hereinafter referred to as the “Company”) and Sanden Holdings Corporation(hereinafter referred to as “Sanden”) jointly entered into the “Share Purchase Agreement” (hereinafter referred to as the “Share Purchase Agreement”), the Company proposed to subscribe for the equity private placement of Sanden.

Pursuant to the Share Purchase Agreement entered into by both parties, the Company proposed to subscribe for 83,627,000 additional ordinary shares of Sanden at a price of JPY256 per share on the Settlement Date for a total subscription price of approximately JPY21,409 million (equivalent to approximately RMB1,302 million), subject to the approval of Sanden’s turnaround plan by the ADR Creditors’ Meeting, which includes, among other things, the waiver of ADR Debts. In addition, the Company will provide a joint and several guarantee for the remaining ADR debts of Sanden after deducting the above approved debt waiver.

Upon completion of the transaction, the Company will hold approximately 75% of the voting rights of Sanden and will become the controlling shareholder of Sanden.

#### 2. Profit distribution

On 30 March 2021, the Proposed Profit Distribution Plan for 2020 was considered and approved at the first meeting of 2021 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 2020, a cash dividend of RMB3.47 (tax inclusive) was to be paid to all shareholders for every 10 shares held, amounting to a total distribution of profit of RMB472,865,703.39. 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 2020 annual general meeting of the Company.

## Notes to the Financial Statements for 2020

(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 2020 and 31 December 2019.

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:

| <b>Item</b>  | <b>End of the year</b> | <b>Beginning of the year</b> |
|--|------------------------|------------------------------|
| <b>Total debt</b>                                    | 27,405,116,775.00      | 21,509,800,523.05            |
| Including: Short-term borrowings                     | 22,026,317.50          | 100,083,424.66               |
| Accounts payable                                     | 7,291,829,266.10       | 5,317,357,636.81             |
| Notes payable  | 10,775,376,397.87      | 7,560,312,550.23             |
| Other payables                                       | 2,011,559,493.31       | 1,920,036,363.71             |
| Less: Cash and cash equivalents                      | 1,617,202,572.26       | 2,065,106,596.27             |
| <b>Net debt</b>                                      | 25,787,914,202.74      | 19,444,693,926.78            |
| <b>Equity attributable to shareholders of parent</b> | 9,779,115,580.43       | 8,721,593,732.62             |
| <b>Capital and net debt</b>                          | 35,567,029,783.17      | 28,166,287,659.40            |
| <b>Gearing ratio</b>                                 | 72.51%                 | 69.04%                       |

## Notes to the Financial Statements for 2020

(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 2020

Unit: RMB'0000

| Name                                      | Position                              | Emoluments of independent director | Salaries and allowances | Pension scheme contributions | Total           |
|---|---------------------------------------|------------------------------------|-------------------------|------------------------------|-----------------|
| <b>Executive directors</b>                |                                       |                                    |                         |                              |                 |
| Tang Ye Guo                               | Chairman                              |                                    | 525.69                  | 3.27                         | 528.96          |
| Duan Yue Bin                              | Director, president                   |                                    | 423.70                  | 6.29                         | 429.99          |
| Jia Shao Qian                             | Director                              |                                    |                         |                              |                 |
| Lin Lan                                   | Director                              |                                    |                         |                              |                 |
| Dai Hui Zhong                             | Director                              |                                    |                         |                              |                 |
| Fei Li Cheng                              | Director                              |                                    | 619.21                  | 0.55                         | 619.76          |
| Wang Yun Li                               | Former director and vice president    |                                    |                         |                              |                 |
| <b>Independent non-executive director</b> |                                       |                                    |                         |                              |                 |
| 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           |
| <b>Supervisors</b>                        |                                       |                                    |                         |                              |                 |
| Liu Zhen Shun                             | Chairman of the Supervisory Committee |                                    |                         |                              |                 |
| Gao Yu Ling                               | Supervisor                            |                                    |                         |                              |                 |
| Fan Wei                                   | Supervisor                            |                                    | 92.97                   | 2.54                         | 95.51           |
| <b>Total</b>                              |                                       | <b>52.00</b>                       | <b>1,661.57</b>         | <b>12.65</b>                 | <b>1,726.22</b> |

(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. Duan Yue Bin was appointed as the president of the Company in March 2020, and was appointed as a director of the Company in June 2020.

## Notes to the Financial Statements for 2020

(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 2019

Unit: RMB'0000

| Name                                      | Position                           | Emoluments of independent director | Salaries and allowances | Pension scheme contributions | Total         |
|---|------------------------------------|------------------------------------|-------------------------|------------------------------|---------------|
| <b>Executive director</b>                 |                                    |                                    |                         |                              |               |
| Tang Ye Guo                               | Chairman                           |                                    | 260.59                  | 9.18                         | 269.77        |
| Jia Shao Qian                             | Director, 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                    |                                    |                         |                              |               |
| <b>Independent non-executive director</b> |                                    |                                    |                         |                              |               |
| 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         |
| <b>Supervisor</b>                         |                                    |                                    |                         |                              |               |
| Liu Zhen Shun                             | Chairman of Supervisory Committee  |                                    |                         |                              |               |
| Gao Yu Ling                               | Supervisor                         |                                    | 7.38                    | 0.68                         | 8.06          |
| Fan Wei                                   | Supervisor                         |                                    | 74.50                   | 4.79                         | 79.29         |
| <b>Total</b>                              |                                    | <b>52.00</b>                       | <b>500.82</b>           | <b>20.65</b>                 | <b>573.47</b> |

- (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. Fei Li Cheng was appointed as a director of the Company in June 2019; Ms. Gao Yu Ling was appointed as a supervisor of the Company in June 2019.

## Notes to the Financial Statements for 2020

(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 2020, three (2019: one) of the five highest paid individuals of the Company were the directors. The aggregate of the emoluments in respect of the other two individuals (2019: four) are as follows (in respect of the range of emoluments for 2020, emoluments of one individual exceeded RMB4,500,000 and below RMB5,000,000, that of one individual exceeded RMB4,000,000 and below RMB4,500,000; in respect of the range of emoluments for 2019, those of two individuals exceeded RMB1,500,000 and below RMB2,000,000, those of two individual exceeded RMB1,000,000 and below RMB1,500,000):

Unit: RMB'0000

| Item                         | Amount for current period | Amount for previous period |
|------------------------------|---------------------------|----------------------------|
| Salaries and allowance       | 907.21                    | 882.80                     |
| Pension scheme contributions | 1.10                      | 45.92                      |
| <b>Total</b>                 | <b>908.31</b>             | <b>928.72</b>              |

#### 3. Key management personnel emoluments

Unit: RMB'0000

| Item   | Amount for current period | Amount for previous period |
|--|---------------------------|----------------------------|
| <b>Directors and supervisors</b>                             |                           |                            |
| Emoluments, salaries and allowances of independent directors | 1,713.57                  | 552.82                     |
| Pension scheme contributions                                 | 12.65                     | 20.65                      |
| <b>Emoluments of other key management personnel</b>          |                           |                            |
| Salaries and allowances                                      | 126.60                    | 273.00                     |
| Pension scheme contributions                                 | 5.80                      | 22.64                      |
| <b>Total</b>   | <b>1,858.62</b>           | <b>869.11</b>              |

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 2020

(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

(1) *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                           | 9,231.30                | 6,599.72                |
| Machinery and equipment, etc                       | 1,447.79                | 1,971.97                |
| <b>Total</b>                                       | <b>10,679.09</b>        | <b>8,571.69</b>         |

(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 2020 amounted to RMB32.5008 million (2019: RMB29.019 million). 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                     | 998.69              | 1,177.91                 |
| Over one year but within five years | 402.10              | 136.17                   |
| Over five years                     | 8.80                | 8.80                     |
| <b>Total</b>                        | <b>1,409.59</b>     | <b>1,322.88</b>          |

The amount of undiscounted lease receipts to be received each year for five consecutive accounting years after the balance sheet date: RMB9.9869 million within 1 year, RMB3.2036 million in 1-2 years, RMB773,400 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 2020

(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 2020 were as follows:

Unit: RMB'0000

| Operating lease payments | Amount for the year | Amount for previous year |
|--------------------------|---------------------|--------------------------|
| Building or structure    | 10,031.29           | 5,797.03                 |
| Others                   | 223.46              | 220.35                   |
| <b>Total</b>             | <b>10,254.75</b>    | <b>6,017.38</b>          |

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                     | 4,260.70            | 5,565.06                 |
| Over one year but within five years | 3,222.64            | 3,009.44                 |
| Over five years                     | 129.83              |                          |
| <b>Total</b>                        | <b>7,613.17</b>     | <b>8,574.50</b>          |

#### 6. Auditors' remuneration

In 2020, 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 2020, 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 2020 and bear the corresponding travel expenses.



## Notes to the Financial Statements for 2020

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

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

#### 1. Accounts receivable

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

| Category  | Book value              |               | Closing balance       |              | Book value          |
|---|-------------------------|---------------|-----------------------|--------------|---------------------|
|   | Amount                  | %             | Amount                | %            |                     |
|   | Provision for bad debts |               |                       |              |                     |
| Separate provision for bad debt receivables and accounts receivable |                         |               |                       |              |                     |
| Provision for bad debts for accounts receivable on a group basis    | 109,451,046.62          | 100.00        | 107,107,549.79        | 97.86        | 2,343,496.83        |
| Including:  |                         |               |                       |              |                     |
| Aging analysis method   | 107,107,549.79          | 97.86         | 107,107,549.79        | 100.00       |                     |
| Receivables from related parties                                    | 2,343,496.83            | 2.14          |                       |              | 2,343,496.83        |
| <b>Total</b>  | <b>109,451,046.62</b>   | <b>100.00</b> | <b>107,107,549.79</b> | <b>97.86</b> | <b>2,343,496.83</b> |
| Category  | Book value              |               | Opening balance       |              | Book value          |
|   | Amount                  | %             | Amount                | %            |                     |
|   | Book value              |               |                       |              |                     |
| 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       |                     |
| <b>Total</b>  | <b>110,023,336.92</b>   | <b>100.00</b> | <b>108,004,768.16</b> | <b>98.17</b> | <b>2,018,568.76</b> |

## Notes to the Financial Statements for 2020

(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                           | 107,107,549.79        | 107,107,549.79          | 100.00        |
| <b>Total</b>                            | <b>107,107,549.79</b> | <b>107,107,549.79</b>   | <b>100.00</b> |

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 | 2,343,496.83        |                         |     |
| <b>Total</b>    | <b>2,343,496.83</b> |                         |     |

## Notes to the Financial Statements for 2020

(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                     | 2,343,496.83          | 2,018,568.76          |
| Over three months but within six months |                       |                       |
| Over six months but within one year     |                       |                       |
| Over one year                           | 107,107,549.79        | 108,004,768.16        |
| <b>Total</b>                            | <b>109,451,046.62</b> | <b>110,023,336.92</b> |

##### (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 | 107,291,968.16        |                         | 184,418.37              |           | 107,107,549.79        |
| Other amount          | 712,800.00            |                         | 712,800.00              |           |                       |
| <b>Total</b>          | <b>108,004,768.16</b> |                         | <b>897,218.37</b>       |           | <b>107,107,549.79</b> |

##### (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 31.71% of the closing balance of accounts 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 2020

(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 | 1,279,228,418.26        | 1,245,063,266.08        |
| <b>Total</b>      | <b>1,279,228,418.26</b> | <b>1,245,063,266.08</b> |

#### (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                                 |
| Other current account | 1,299,722,296.93                     | 1,265,165,466.93                           |
| <b>Total</b>          | <b>1,299,722,296.93</b>              | <b>1,265,364,741.93</b>                    |

#### (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 2020   |  | 3,427,159.17   | 16,874,316.68   | 20,301,475.85        |
| During the year, the balance of other receivables as at 1 January 2020 | -  | -  | -   | -                    |
| - transferred to second stage  |  |  |   |                      |
| - transferred to third stage   |  |  |   |                      |
| - reversed to second stage   |  |  |   |                      |
| - reversed to first stage  |  |  |   |                      |
| Provision for the year   | 192,402.82                                 |  |   | 192,402.82           |
| Reversal for the year  |  |  |   |                      |
| Written-off for the year   |  |  |   |                      |
| Charge off for the year  |  |  |   |                      |
| Other changes  |  |  |   |                      |
| <b>Balance as at 31 December 2020</b>                                  | <b>192,402.82</b>                          | <b>3,427,159.17</b>  | <b>16,874,316.68</b>  | <b>20,493,878.67</b> |

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 2020

(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                     | 1,279,228,418.26        |
| Over three months but within six months |                         |
| Over six months but within one year     |                         |
| Over one year                           | 20,493,878.67           |
| <b>Total</b>                            | <b>1,299,722,296.93</b> |

##### (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 | 20,301,475.85        | 192,402.82              |                         |           | 20,493,878.67        |
| <b>Total</b>          | <b>20,301,475.85</b> | <b>192,402.82</b>       |                         |           | <b>20,493,878.67</b> |

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

| No.          | Nature of the amount                 | Amount                  | Aging               | Percentage of total other receivables (%) | Provision for bad debts Closing balance |
|--------------|--------------------------------------|-------------------------|---------------------|---|---|
| Top 1        | Inter-group current account payments | 372,699,354.39          | Within three months | 28.68                                     |   |
| Top 2        | Inter-group current account payments | 197,858,752.75          | Within three months | 15.22                                     |   |
| Top 3        | Inter-group current account payments | 145,225,044.58          | Within three months | 11.17                                     |   |
| Top 4        | Inter-group current account payments | 142,540,293.11          | Within three months | 10.97                                     |   |
| Top 5        | Inter-group current account payments | 118,836,177.50          | Within three months | 9.14                                      |   |
| <b>Total</b> |                                      | <b>- 977,159,622.33</b> |                     | <b>- 75.18</b>                            |   |

## Notes to the Financial Statements for 2020

(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                  | 5,094,333,817.23        | 59,381,641.00        | 5,034,952,176.23        | 5,079,633,817.23        | 59,381,641.00        | 5,020,252,176.23        |
| Investments in associates and joint ventures | 523,754,399.78          |                      | 523,754,399.78          | 468,080,722.63          |                      | 468,080,722.63          |
| <b>Total</b>                                 | <b>5,618,088,217.01</b> | <b>59,381,641.00</b> | <b>5,558,706,576.01</b> | <b>5,547,714,539.86</b> | <b>59,381,641.00</b> | <b>5,488,332,898.86</b> |

##### (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          | 473,578,303.85        |                       | 748,578,303.85          |   |   |
| Kelon Property            | 4,441,400.00            |                       |                       | 4,441,400.00            |   |   |
| Hisense Hitachi           | 2,566,242,580.68        |                       |                       | 2,566,242,580.68        |   |   |
| Qingdao Gorenje           |                         | 14,700,000.00         |                       | 14,700,000.00           |   |   |
| <b>Total</b>              | <b>5,079,633,817.23</b> | <b>488,278,303.85</b> | <b>473,578,303.85</b> | <b>5,094,333,817.23</b> |   | <b>59,381,641.00</b>                        |

## Notes to the Financial Statements for 2020

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

### 16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

#### 3. Long-term equity investments (continued)

##### (3) Investments in associates and joint ventures

| Investee                     | Opening balance       | Increase in investment | Decrease in investment | Change for the year  |   |                        |  |                               | 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 |                 |   |
| I. Joint ventures            |                       |                        |                        |  |   |                        |  |                               |                 |   |
| Hisense Marketing Management | 45,615,225.13         |                        |                        | 2,009,377.22   |   |                        |  |                               |                 | 47,624,602.35                               |
| II. Associates               |                       |                        |                        |  |   |                        |  |                               |                 |   |
| Hisense Financial Holdings   | 285,497,760.50        | 74,400,000.00          |                        | 24,899,650.46  | -2,168,500.81                             | 334,010.61             |  |                               |                 | 382,962,920.76                              |
| Hisense International        | 136,967,737.00        |                        |                        | 57,295,948.67  | 9,101,820.20                              | 2,281,370.80           | -112,480,000.00                        |                               |                 | 93,166,876.67                               |
| <b>Total</b>                 | <b>468,080,722.63</b> | <b>74,400,000.00</b>   |                        | <b>84,204,976.35</b>   | <b>6,933,319.39</b>                       | <b>2,615,381.41</b>    | <b>-112,480,000.00</b>                 |                               |                 | <b>523,754,399.78</b>                       |

#### 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           |
| Other operations     | 129,448,695.65        | 68,966,099.04        | 81,078,565.25            | 67,682,837.03        |
| <b>Total</b>         | <b>129,448,695.65</b> | <b>68,966,099.04</b> | <b>80,767,319.32</b>     | <b>67,664,702.34</b> |

#### 5. Investment gain

| Item  | Amount for the year   | Amount for previous year |
|---|-----------------------|--------------------------|
| Gain from long-term equity investment under the cost method   | 390,347,417.88        | 44,462,400.20            |
| Gain from long-term equity investment under the equity method | 84,204,976.35         | 724,081,435.92           |
| Gain from disposal of transactional financial assets          | 28,859,412.11         | 18,619,684.92            |
| <b>Total</b>  | <b>503,411,806.34</b> | <b>787,163,521.04</b>    |

### 17. APPROVAL OF FINANCIAL REPORT

This financial report was approved by the Board of the Company on 30 March 2021.

## Notes to the Financial Statements for 2020

(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<br>for the year | Notes |
|---|------------------------|-------|
| Profit or loss from disposal of non-current assets  | 23,149,183.27          |       |
| 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)  | 236,769,593.38         |       |
| 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  | 103,945,862.69         |       |
| Asset impairment provided due to forced majeure (e.g. natural disasters)  |                        |       |
| Gain or loss arising from debt restructuring  |                        |       |
| Corporate restructuring expenses (e.g. staff placement costs and integration expenses)  |                        |       |
| Gain or loss arising from the difference between the fair value and transaction price in obviously unfair transactions  |                        |       |
| Net current profit or loss of subsidiaries arising from business combination under common control from beginning of year to the combination date  |                        |       |
| Gain or loss arising from contingencies irrelevant to the Company's normal business   |                        |       |
| Gain or loss from changes in fair values of 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 | 10,010,794.53          |       |
| 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  | 204,984,818.62         |       |
| Other profit or loss items within the meaning of non-recurring profit or loss   | 10,012,040.17          |       |
| <b>Subtotal</b>   | <b>588,872,292.66</b>  |       |
| Less: Effect of income tax  | 61,586,354.09          |       |
| Effect of minority interests (after tax)  | 44,471,811.03          |       |
| <b>Total</b>  | <b>482,814,127.54</b>  | -     |



## Notes to the Financial Statements for 2020

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

### 18. SUPPLEMENTARY INFORMATION OF FINANCIAL REPORT *(continued)*

#### 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  | 16.99  | 1.16                           | 1.16                       |
| Net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit or loss | 11.79  | 0.80                           | 0.80                       |

#### 3. Five-year financial summary

*Unit: RMB'0000*

| Statement item  | 2020         | 2019         | 2018         | 2017         | 2016         |
|---|--------------|--------------|--------------|--------------|--------------|
| Total operating revenue                                 | 4,839,287.07 | 3,745,304.40 | 3,601,959.83 | 3,348,759.04 | 2,673,021.95 |
| Total profits   | 348,513.00   | 215,225.03   | 156,490.59   | 225,287.43   | 129,916.82   |
| Income tax  | 63,909.53    | 20,180.12    | 14,183.15    | 18,106.71    | 12,874.77    |
| Net profit  | 284,603.46   | 195,044.91   | 142,307.44   | 207,180.72   | 117,042.05   |
| Net profit attributable to equity holders of the parent | 157,888.27   | 179,366.90   | 137,745.72   | 201,811.30   | 111,655.88   |
| Minority interests                                      | 126,715.19   | 15,678.01    | 4,561.72     | 5,369.42     | 5,386.17     |

*Unit: RMB'0000*

| Statement item  | 31 December 2020 | 31 December 2019 | 31 December 2018 | 31 December 2017 | 31 December 2016 |
|---|------------------|------------------|------------------|------------------|------------------|
| Total assets  | 4,181,163.58     | 3,399,066.35     | 2,182,790.50     | 2,160,745.24     | 1,917,316.08     |
| Total liabilities                                       | 2,740,511.68     | 2,150,980.05     | 1,393,849.81     | 1,452,029.68     | 1,373,159.85     |
| Net assets  | 1,440,651.90     | 1,248,086.30     | 788,940.70       | 708,715.56       | 544,156.23       |
| Total equity attributable to shareholders of the parent | 977,911.56       | 872,159.37       | 735,182.44       | 657,908.93       | 498,556.84       |
| Minority interests                                      | 462,740.35       | 375,926.93       | 53,758.26        | 50,806.63        | 45,599.39        |
| Total shareholders' equity                              | 1,440,651.90     | 1,248,086.30     | 788,940.70       | 708,715.56       | 544,156.23       |

## Notes to the Financial Statements for 2020

(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

| Statement item                           | Closing balance<br>or amount<br>for the year | Closing balance<br>or amount<br>for previous year | Change ratio | Reason for change  |
|--|--|---|--------------|--|
| Notes receivable                         | 548,498,540.36                               | 1,095,849,666.16                                  | -49.95%      | Mainly due to the fact that only the pledged portion of bank acceptance notes was shown at the end of the period and the pledge of notes decreased during the year   |
| Accounts receivable                      | 6,594,103,859.23                             | 3,967,576,310.11                                  | 66.20%       | Mainly due to the year-on-year increase in sales volume in the fourth quarter of the year  |
| Others receivables                       | 398,205,694.16                               | 297,145,507.98                                    | 34.01%       | Mainly due to more receivables from export tax refund during the year  |
| Other current assets                     | 4,198,014,186.53                             | 3,127,969,954.11                                  | 34.21%       | Mainly due to the increase in time deposits at the end of the year   |
| Investment properties                    | 36,648,535.29                                | 20,240,850.71                                     | 81.06%       | Mainly due to new leased assets during the year  |
| Other non-current assets                 | 4,228,456,393.79                             | 2,148,329,801.65                                  | 96.83%       | Mainly due to the increase in time deposits at the end of the year   |
| Short-term borrowings                    | 22,026,317.50                                | 100,083,424.66                                    | -77.99%      | Mainly due to the maturity of the subsidiary's short-term borrowings at the end of the year  |
| Notes payable                            | 10,775,376,397.87                            | 7,560,312,550.23                                  | 42.53%       | Mainly due to the increase in notes payments during the year   |
| Accounts payable                         | 7,291,829,266.10                             | 5,317,357,636.81                                  | 37.13%       | Mainly due to the growth of the Company's scale and the increase in purchase amount corresponding to the growth of the scale   |
| Research and development expenses        | 1,284,848,949.46                             | 934,412,243.42                                    | 37.50%       | Mainly due to increased investment in research and development during the year   |
| Other gain                               | 370,236,822.37                               | 278,436,805.32                                    | 32.97%       | Mainly due to the increase in government grants in during the year   |
| Investment gain                          | 195,655,206.20                               | 1,122,348,640.53                                  | -82.57%      | Mainly due to the recognition of investment income of Hisense Hitachi from January to September of the previous year and the inclusion of Hisense Hitachi in the scope of consolidation as a subsidiary in the current year, which does not require the recognition of investment income |
| Gains on disposal of asset               | 24,533,842.26                                | 121,585,370.54                                    | -79.82%      | Mainly due to the recognition of a larger gain on disposal of assets by a subsidiary in the previous year  |
| Non-operating income                     | 304,252,672.49                               | 126,227,060.64                                    | 141.04%      | Mainly due to the write-off of current accounts during the year  |
| Net cash flow from operating activities  | 5,962,707,809.84                             | 2,005,337,052.56                                  | 197.34%      | Mainly due to the continuous improvement of the Company's operation and the consolidation of the annual figures of Hisense Hitachi   |
| Net cash flows from investing activities | -3,900,554,598.52                            | -80,229,013.84                                    | N/A          | Mainly due to the increase in wealth management products and time deposits as a result of the consolidation of Hisense Hitachi's annual figures for the year   |
| Net cash flows from financing activities | -2,512,457,690.93                            | -922,450,308.60                                   | N/A          | Mainly due to the increase in the note margin during the year  |

**Hisense Home Appliances Group Co., Ltd.**  
30 March 2021