

Hisense 海信家電

海信家電集團股份有限公司

Hisense Home Appliances Group Co., Ltd.

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2023 ANNUAL
REPORT

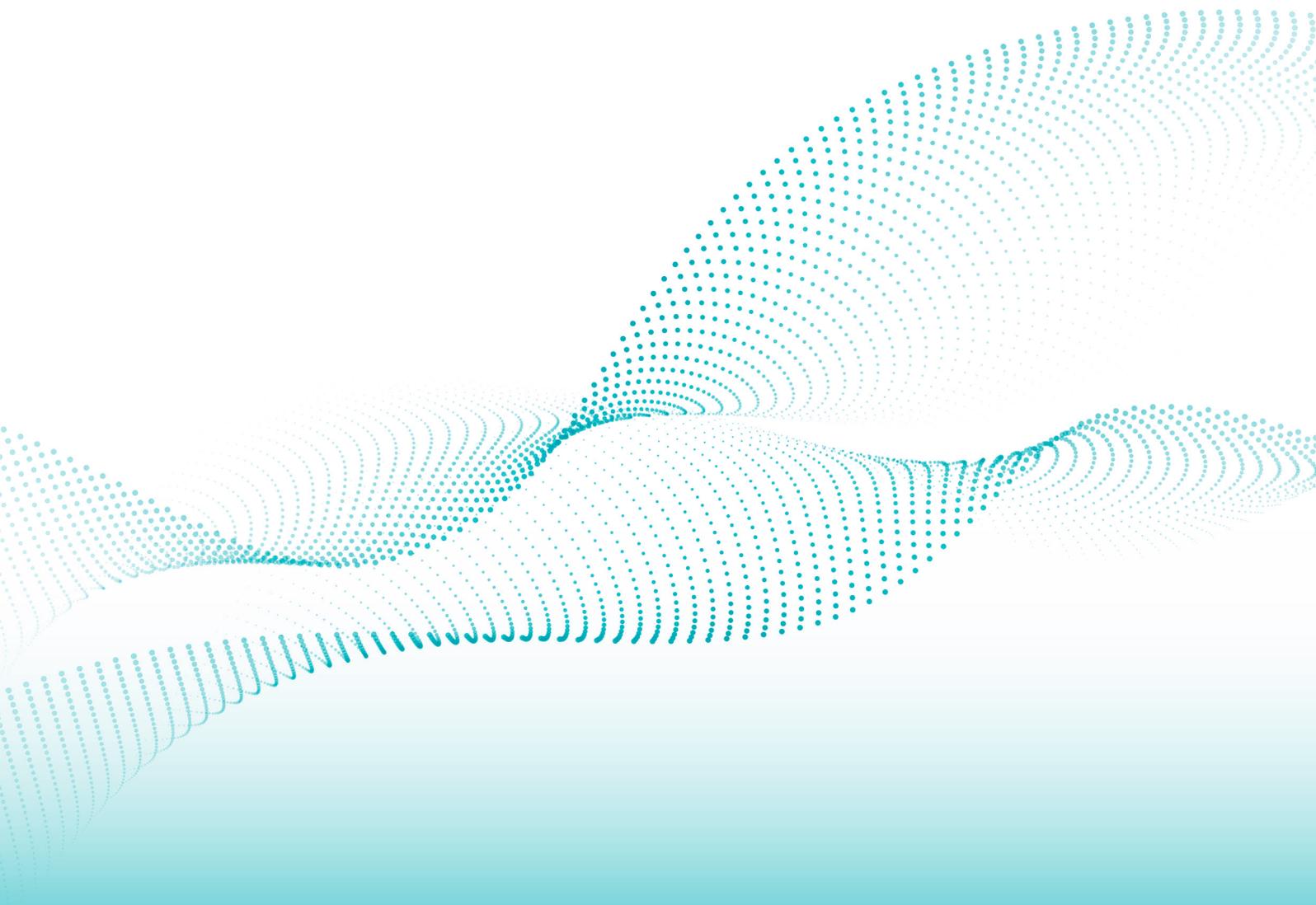
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Definitions

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

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

“Articles of Association”	the articles of association of the Company currently in force
“Company”, “We”, “Hisense Home Appliances”	Hisense Home Appliances Group Co., Ltd. *(海信家電集團股份有限公司), a joint stock limited incorporated in the PRC with limited liability, whose shares are listed on the main board of the Hong Kong Stock Exchange and the Shenzhen Stock Exchange
“Hisense Air-Conditioning”	Qingdao Hisense Air-Conditioning Company Limited *(青島海信空調有限公司), a company incorporated in the PRC with limited liability and indirectly controlled by Hisense Group, which holds approximately 37.23% of the issued shares of the Company
“Hisense Finance”	Hisense Finance Co., Ltd.*(海信集團財務有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group
“Hisense Group”	Hisense Company Holdings Limited*(海信集團控股股份有限公司), 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, which holds approximately 8.97% of the issued shares of the Company
“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”	Hisense Visual Technology Co., Ltd. *(海信視像科技股份有限公司), a joint stock limited incorporated in the PRC with limited liability and a subsidiary of Hisense Group, whose shares are listed on the main board of Shanghai Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

Definitions

“Johnson Hitachi”	Johnson Controls-Hitachi Air Conditioning Holding (UK) Ltd.
“PRC”	the People’s Republic of China
“Reporting Period”	1 January 2023 to 31 December 2023
“RMB”	Renminbi, the lawful currency of the PRC
“Sanden Company”	Sanden Holdings Corporation
“US\$”	the United States dollars, the lawful currency of the United States
“Yen”	Japanese Yen, the lawful currency of Japan

* *For identification purposes only*

Chairman's Statement

Dear shareholders,

Over time and with age, we bid farewell to the challenging 2023 and usher in the hopeful 2024. 2023 is an extraordinary year in the development process of Hisense Home Appliances. In the face of the complex and ever-changing global economic environment and the fierce competition in the home appliance industry, the Company insisted on being market-oriented and user-centered. With more than 56,000 employees worldwide working together to overcome difficulties, the Company has achieved sustained strong growth in both revenue and profit, with a year-on-year increase of 15.5% in revenue and a significant increase of 97.7% in net profit attributable to the parent company. Its performance has continued to lead the industry, and its domestic and foreign market share has hit a new high.

I. STICKING TO A LONG-TERM DOCTRINE AND BUILDING A SOLID FOUNDATION FOR DEVELOPMENT

Over the past year, the Company adhered to the concept of long-term development, and committed to optimizing its organizational structure and improving its talent strategy. Through introducing core talents and perfecting equity incentive mechanism, the Company fully mobilized the work enthusiasm of its backbones, forming a closer community of interests and destiny between the employees and the enterprise. Recently, we successfully launched the second-phase employee stock ownership plan, which not only enhanced the market's confidence in the Company's realizing strategic vision and performance growth, but also further improved the medium- and long-term incentive system and optimized the corporate governance structure, providing a strong guarantee for realizing long-term strategic planning objectives.

II. DRIVING DEVELOPMENT WITH INNOVATION AND LEADING A NEW CHAPTER IN SMART LIFE

Keeping an eye on technological upgrading, we have more than 20 technological innovation platforms at the provincial and ministerial level and above, and always regard "meeting user needs" as the core of our development, leading continuous breakthroughs in new technologies and new products. Hisense Central Air Conditioner released the commercial multi-connected M3 series, which could run from -30°C to -58°C without stopping and cope with various extreme working conditions by virtue of excellent quality. Ronshen WILL borderless series refrigerators applied an AI intelligent temperature control module to enable the preservation effect to improve by 20% while achieving the -31°C deep cooling and freshness locking, thus winning the AWE2023 Excellent Product Award. Hisense Tresor C2 and C3 series household air-conditioners focused on the fresh air track, with a one-time filtration efficiency of over 99.99% for PM0.3. Hisense washing machines successfully overcome the problem of "vibration and noise" and won the Qingdao Science and Technology Progress Award. Hisense Dishwasher 527 new set has obtained the double certification of "Zero Bacteria Storage" and "Maternal and Infant Grade Dishwasher". And Sanden Company introduced an integrated thermal management system using CO₂ and R290 as refrigerants, effectively increasing the heating efficiency of automotive air conditioners and reducing energy consumption.

Chairman's Statement

The Company deeply grasped the market demands for intelligence, set and scenario, and continued to promote the landing of the “smart new life” strategy. We upgraded the Hisense Smart Home APP and the Smart Cloud platform to render users with high-quality smart life solutions covering all scenarios such as clothing, food, housing, entertainment, learning, health and care. In 2023, the number of home appliance users on Hisense Smart Home platform increased by 54% year-on-year, the number of monthly active home appliance users increased by 58% year-on-year, the NPS of home appliance intelligent experience increased by 8% year-on-year, and the sales volume of domestic smart home appliances increased by more than 40%. In the meantime, the Company actively applied AI to empower digital transformation. Ronshen WILL borderless series refrigerators, Hisense Tresor air-conditioner C3 series, Hisense Smart Home platform, etc. adopted AI core technologies such as smart temperature control, “five-dimensional air housekeeper” and voice interaction to continuously improve its product strength.

III. BUILDING A BRAND MATRIX AND IMPROVING MARKET PERFORMANCE IN MULTIPLE DIMENSIONS

We built a multi-brand matrix, operated eight major brands, centered on the layout of home scenarios, segmented the needs of different groups of people based on massive data, carried out brand positioning more accurately and efficiently, and used AI predictions to provide active services from the perspective of users and customers to offer scenario solutions and improve user experience.

The target audience of Hisense brand will gradually transition to the technology experience oriented population and ultimately move towards the technology pursue oriented population. Hisense 5G + Glory Home series central air-conditioning products helped the Company's IoT multi-connected market share exceed 20%; Hisense washing machines innovated in washing and care technology, and the Roman Holiday series won the honor of “Top 10 Creative Products” of AVC in 2023; and Hisense kitchen appliances won the “2023 China Kitchen and Bathroom Industry User Word of Mouth Award” by virtue of whole-process cooking linkage. Both Hitachi and York brands focused on a user group attaching importance to technology and taste, while Hitachi Central Air Conditioner was deeply rooted in the purification field and the air customization track, maintaining a leading position in the multi-connected market. York VRF adhered to the leading strategy of top-freon and floor-water products, successfully created the industry's first top-freon and hot water two-connected central air-conditioner, and thus won the annual HVAC Industry Innovation Product Award at the 2023 National Heating and Cooling Industry Conference.

Ronshen brand placed emphasis on the emotional satisfaction of users, and finally focused on a refined and growing user base. During the Reporting Period, Ronshen refrigerators led the innovation of embedded systems, and the offline retail sales of its 60CM flat embedded concept refrigerators accounted for 36%, ranking first in the industry. Kelon launched professional sleep air-conditioners and these air-conditioner products with intelligent functions such as remote control and voice control, showcasing an “attractive, high-quality and professional” product image. ASKO and gorenje were positioned to showcase their taste. Among them, the artist electric package set under the gorenje by Starck master series won the 2023AWE Excellent Design Award for its perfect integration of aesthetics and technology. Sanden Company deepened its global customer development strategy, and achieved the total signed orders up by 43% year-on-year.

Chairman's Statement

Meanwhile, the Company comprehensively laid out a lineup of mid-to-high end products under the Tresor series. Hisense Tresor air-conditioner C3 series applied AI to empower the “five-dimensional air housekeeper” strategy, with its Tresor 310 fresh-air cabinet unit ranking first in the industry. Hisense Tresor refrigerators linked the experience with vacuum technology, with a year-on-year increase of 2.6 percentage points in the market share of mid-to-high end products. Hisense Tresor dishwashers adhered to the “maternal and infant grade cleaning” standard and empowered the creation of a healthy kitchen, with the retail sales of Hisense Tresor set grown by 287%.

IV. ACCELERATING THE PROCESS OF GLOBALIZATION AND DEEPENING SPORTS MARKETING TO BUILD BRILLIANCE

In the face of the severe global economic situation, we strengthened our own brand and committed to expanding overseas markets and building a diversified business layout. In 2023, our overseas business achieved a revenue of RMB27.92 billion, representing a year-on-year increase of 12.3%, and the proportion of Hisense's own brand business has exceeded 80%. The Company accelerated its channel layout, and the heat pump scale of its central air-conditioning business increased by 46% year-on-year. The market share of its refrigerator business in Thailand in the ASEAN region increased by 2.3 points year-on-year, and that in Malaysia increased by 3.1 points year-on-year.

The Company actively consolidated overseas localization construction and continued to push forward research, production and sales. The refrigerators and kitchen and bathroom products from the Smart Home Appliance Industrial Park located in Monterrey, Mexico have tapped into the mass production stage, providing strong support for Hisense to further develop the North American market and accelerate its overseas industrial layout. Hisense's full range products expanded business development and brand building in the ASEAN region, with an overall revenue growth of more than 20% year-on-year in 2023, including a revenue growth of more than 70% for Hisense brand. The new refrigerant air-conditioning system of Sanden Company was designated for development by international car companies, and has successfully won a historic order for HVAC business in the European market.

We continued to deepen our efforts in sports marketing by sponsoring world-class football events, aiming at continuously enhance our brand's visibility and influence in the global market. Hisense Group has officially become the official global partner for the Euro 2024 in Germany, which move marks Hisense's strength and determination in sports marketing, successfully combining its brand with top tier events, conveying its brand charm to global consumers, and becoming a golden business card for domestic brands in overseas markets.

V. LEADING GREEN TRANSFORMATION OF THE INDUSTRY AND PROMOTING SUSTAINABLE DEVELOPMENT WITH INNOVATIVE TECHNOLOGIES

Relying on technological innovation and process reengineering, we continue to practice green transformation. In active response to the national carbon neutrality policy, the Company laid out the strategy of light storage, direct flexibility and low carbon, and obtained the first batch of DC air-conditioner certificates for its full-effect direct drive series of commercial multi-connected machines, setting a benchmark for green development of the industry. The Company launched the ECO-B smart building mobile APP, reducing building operating costs by 20%, and giving strong support for the landing of building digitalization. The Company released the home energy management system, applying the integrated intelligent control technologies in photovoltaic, energy storage, heat pump and set home appliances, and achieving energy saving by 13%. And it is the first in the field of thermal management system that develops miniaturized and mid-level double-layer flow HVAC, achieving technological leadership in spatial layout and low energy consumption.

Chairman's Statement

The Company continued to move towards the higher goal of low-carbon and emission reduction, and has made a comprehensive layout on the green road. So far, it has established 7 national green factories, 2 green supply chains and 5 industrial product green design demonstration enterprises.

VI. ACTIVELY FULFILLING SOCIAL RESPONSIBILITIES AND CONTINUOUSLY GIVING BACK TO INVESTORS AND THE SOCIETY

The Company has always placed investor returns and social responsibility in an important position. In the past decade, the Company has accumulatively distributed the dividends of about RMB3.6 billion to its small and medium shareholders, reflecting its long-term commitment and returns to shareholders. In 2023, along with the rapid growth of the Company's performance, the Board of Directors proposed to maintain a high dividend ratio and continuously raise the total dividend amount, further demonstrating the Company's respect and guarantee of shareholder interests. Meanwhile, the Company actively repurchased shares and conducted a cumulative repurchase of RMB210 million during the year, further enhancing shareholder confidence.

Furthermore, we actively fulfill our social responsibilities and devote ourselves to public welfare undertakings. In the field of poverty alleviation through education, the Company set up facilities such as "Hisense School", "Love Laundry Room" and "Love Drawing Room" for some poor schools scattered in Dingxi, Gansu Province, a key poverty alleviation area, and also donated educational materials such as books, desks, chairs and home appliances, aiming at creating a better learning environment for children in these remote areas. Since its launch 6 years ago, Hisense Vacuum Refrigerator · Yuchen Student Aid Program has benefited more than 200,000 people, embodying the Company's continued positive contributions to educational undertaking and rural revitalization. In addition, the Company also actively responded to national policies by participating in activities such as rural revitalization, post-disaster construction assistance and home appliances going to the countryside, continuously practicing its corporate social responsibility.

During the Reporting Period, Hisense Home Appliances was awarded among the China Top 100 Technology Enterprises in the Light Industry for its outstanding performance in research and development, intelligent manufacturing and market operation, and ranked among the top 4 in the list. In addition, the Company has also won many authoritative awards in the industry such as "Top 500 Enterprises in Guangdong" and "Top 100 Manufacturing Enterprises". Thanks to its continuous efforts in the field of low-carbon environmental protection, the Company was included in the 2023-2024 Hang Seng A-share Sustainable Development Enterprise Benchmark Index, and became the only enterprise in the home appliance industry to win the "Carbon Neutrality Model Enterprise Award" for two consecutive sessions in the ESG Leader Summit. By virtue of its outstanding performance in the capital market, the Company won awards such as Phoenix Satellite Television's "Most Growing Listed Company" in terms of Hong Kong stocks, StockStar's "2023 Most Investment Value Award", and Boao's 2023 (Industry) Outstanding Value Listed Company during the period. In the global market, Hisense Home Appliances continued to rise in terms of its brand influence, and won the honor of "2023 (Industry) International Influential Brand" at the Boao Summit.

Chairman's Statement

Looking ahead to 2024, the stability of the global context will be challenged, the uncertainty of the global economy will rise, and the innovation and development of artificial intelligence will continue to make breakthroughs, all of which will undoubtedly bring profound changes to the home appliance industry. Faced with these challenges and opportunities, we will change in persistence and innovate in inheritance. We will continue to improve the long-term mechanism and enhance the organizational efficiency. In the meantime, we will adhere to the user-centered approach, create a brand positioning of “people-oriented technology” and “premium quality”, and continue to enhance brand and marketing capabilities. In addition, we will deepen digital transformation around the three main lines of products, customers and users, and continuously strengthen digital development, marketing and operation capabilities. Finally, we will upgrade our global regional centers, build five overseas regional centers in Europe, America, ASEAN, Central and East Africa, and Asia-Pacific, and constantly promote localized operations in overseas markets.

With this opportunity, we would like to express our sincere thanks to our shareholders for their continued trust and support. We will continue to uphold our entrepreneurial aspirations, forge ahead, actively listen to opinions from all parties with a more open attitude, continuously optimize corporate governance structure as well as enhance corporate value to create more lucrative returns for the investors. So, let's make progress together to unveil a more brilliant chapter of Hisense Home Appliances!

Corporate Information

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Company Secretary: Ms. Wong Tak Fong

AUTHORIZED REPRESENTATIVES

Mr. Dai Hui Zhong
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Management Discussion and Analysis

I. STATUS OF THE INDUSTRY IN WHICH THE COMPANY OPERATED DURING THE REPORTING PERIOD

1. Overview of the Domestic Heating, Ventilation and Air-conditioner (“HVAC”) Market

(1) *Central air-conditioner market*

According to the statistics from AICON (www.aicon.com.cn), the overall market capacity of the central air-conditioner industry increased by 4.6% year-on-year in 2023. Among these, centrifuges and two-connected supply products performed well in the market, while multi-connected machines grew steadily as weighted products, remaining the largest product category in the central air-conditioner market, accounting for 48.7% of the industry and experiencing a 3.3% year-on-year increase in market scale.

In the context of dual-carbon and new infrastructure, China continues to intensify its support for emerging industries, boosting the growth of the commercial fit-out market. In 2023, the commercial fit-out market achieved a strong rebound, representing a year-on-year increase of 5.7% in scale. The commercial fit-out market has gradually expanded into high-end manufacturing, data centers, photovoltaic, lithium battery, energy storage, new energy and other emerging industrial manufacturing fields. During the year, the investment in public construction projects in China increased by 8%, with rail transit increasing by nearly 10% and the emerging industrial manufacturing fields experiencing high-speed growth of 18%.

The home fit-out retail market was affected by the weak real estate market and the weakened demands, resulting in a 2.1% year-on-year increase in the scale of the home fit-out market in 2023. The home fit-out market still faces certain challenges. Meanwhile, users’ demands continued to undergo iterative upgrades focused on “health, comfort, energy saving and intelligence”, resulting in significant growth in the improved market. The two-connected supplies have become the fastest-growing products in the industry, with a growth rate of 14%, thereby driving the industry’s transformation and upgrade from central air-conditioner to air-conditioner, floor heating, purification and fresh air integrated system solutions.

(2) *Household air-conditioner market*

According to the omni-channel general data from AVC (奧維雲網), the retail volume increased by 6.5% year-on-year and the retail sales increased by 7.5% year-on-year in the domestic air-conditioner market in 2023.

Household air-conditioner products were continually upgraded and innovated to meet consumer demands. With increasing consumer demand for indoor air freshness and oxygen aeration, the market for fresh-air hangers is growing rapidly, with the online and offline growth of 10.4% and 20.7% year-on-year, respectively, according to the monitoring data from AVC. Intelligent voice air-conditioner empowers consumers with more advanced features and intelligent experience demands, with the online sales increasing by 20.7% year-on-year.

Management Discussion and Analysis

2. Overview of the Domestic Refrigerator, Washing Machine and Kitchen Appliances Market

(1) *Domestic refrigerator market*

According to the omni-channel general data from AVC, the retail volume of the domestic refrigerator market increased by 1.5% year-on-year in 2023 and the retail sales increased by 7.0% year-on-year.

Under the market structure dominated by high ownership and rejuvenation demand, refrigerator products continue to develop towards high-end, flat embedding and home scenarios. High-end products are continuously increasing their market share, with hot-selling items such as cross four-door and French-style refrigerators remaining favored by users. Meanwhile, the demand of embedded refrigerators is also rising, with the penetration rate of offline retail sales increasing from 18.1% in 2021 to 36.7% in 2023. On the other hand, industry sales have been targeting emerging channels, and online and offline channels have been further integrated. And the retail sales of refrigerators through the TikTok e-commerce platform increased by 113% year-on-year.

(2) *Domestic washing machine market*

According to the omni-channel general data from AVC, the retail volume of the washing machine market increased by 3.4% year-on-year in 2023, and the retail sales increased by 5.8% year-on-year.

Driven by the popularity of clothes dryers and the trend of trade-ins, the industry scale of domestic washing machines achieved a certain growth, especially with a steady recovery in the offline market. In the segmented market, the washing and drying joint operations have grown strongly, and users' awareness and acceptance of clothes dryers have been significantly enhanced. Ultra-thin embedded drum washing machines have also achieved a rapid growth alongside the trend of home integration. Users' demands for personal health classification care have increasingly subdivided, and mini washing machines continue to innovate in form, stimulating expanding scale.

(3) *Domestic kitchen appliance market*

According to the omni-channel general data from AVC, the retail volume of the kitchen and bathroom market in China increased by 0.8% year-on-year, and the retail sales increased by 5.3% year-on-year in 2023.

In the kitchen and bathroom industry, different categories of kitchen appliances showed a clear differentiation trend. The rigid-demand category including hoods, cookers, electric water heaters and gas water heaters, rebounded rapidly after a relatively low growth in the past, with a year-on-year increase of 6.5% in scale. The quality-life-demand category including dishwashers, disinfection cabinets and water purifiers suffered from a low penetration rate, with a year-on-year increase of 8.6% in scale. The integrated-product category including integrated stoves has experienced a certain decline in growth rate after high growth in previous years, with a year-on-year decrease of 4.0%.

Management Discussion and Analysis

3. Overview of the Automotive Air Conditioner Compressor and Integrated Thermal Management Market

According to the statistics from IHS, in 2023, the cumulative production of compressors in the global automotive industry was about 85.23 million units, an increase of about 6.4% year-on-year. The global automotive market experienced a rapid growth as a whole. Total production in the Greater China was about 26.93 million units, representing a 1.99% year-on-year increase. The development of new energy vehicles remains robust, with the global production of new energy vehicles reaching about 21.35 million units, an increase of more than 35.1% year-on-year, accounting for 25% of the total. Among them, the production of new energy vehicles in the Greater China market was about 9.68 million units, an increase of about 22% year-on-year, accounting for 36% of the total.

With the continuous and accelerated development in electrification, intelligence, networking and sharing in the automotive industry, high-voltage fast charging, battery thermal safety, temperature control management of electric motor control, and reduction of endurance mileage attenuation in winter have brought significant development space to the new energy vehicle market. Systems and components such as wide temperature range and multi-heat source waste heat recovery heat pumps, ultra-high pressure electric compressors, double-layer flow air conditioner boxes and water heaters have gradually become the mainstream demands for thermal management of new energy vehicles. Additionally, under the backdrop of global carbon neutrality, natural refrigerant thermal management systems such as R744 and R290, compressors and heat exchangers, etc. have gradually shifted from research and development to the early stage of practical application and development.

4. Overview of the Smart Home Market

In 2023, the smart home market in China faced dual challenges from both the macro consumption environment and its own development cycle, resulting in a slowdown in scale growth rate. However, the market is expected to gradually pick up with the upgrading of consumer demands. According to Statista, a think tank, the global smart home market is expected to grow from USD117.6 billion in 2022 to USD222.9 billion in 2027. Accompanied by technological upgrading, ecological improvement and channel expansion, consumers' acceptance of the smart home market will gradually enhance. The penetration rate of smart homes is expected to rise from 14.2% in 2022 to 28.8% in 2027, indicating a significant market space.

On 12 July 2023, 13 departments including the Ministry of Commerce introduced a series of measures to promote home consumption, supporting enterprises to accelerate the research and development of smart home appliances, smart sleep, smart audio-visual entertainment and other products. This initiative aims to advance the interconnection among smart home devices, and promote the development of single product intelligence to whole house intelligence. In the future, the smart home market will focus on seven scenarios: smart lighting, home infrastructure, air management, security management, audio-visual entertainment, home cleaning and cooking. Smart home scenarios will gradually extend to home infrastructure covering water, electricity, gas and heating, deepening integrated management from linkage control to comprehensive safety, health and energy saving. Meanwhile, the intelligentization of home infrastructure will drive the intelligent upgrade of related equipment and stimulate the innovation in smart home equipment in function and form.

Management Discussion and Analysis

5. Overseas Home Appliance Market

In 2023, influenced by factors such as the rebound of overseas demands, the decline in overseas inventories, the reduction in shipping prices and the low base for the same period, the demand in the overseas home appliance market has significantly improved. Countries along the “Belt and Road”, including those in Southeast Asia, the Middle East and Africa, are emerging as new growth points in the overseas home appliance markets, with the penetration rate of home appliances continuing to rise. Refrigerator products continue to grow in the European market, while demand for refrigerator products is gradually recovering in the North American market. Washing machine products have demonstrated stable performance in the Asian market and growing demand in the European market. The demand for air-conditioner products is increasing in Southeast Asia and other markets.

Additionally, the green upgrading and innovation of home appliances, along with the acceleration of globalization layout, are also the driving forces behind the industry’s growth overseas. Product intelligence, high-end and branding have become new trends in the overseas home appliance market.

II. PRIMARY BUSINESS IN WHICH THE COMPANY WAS ENGAGED DURING THE REPORTING PERIOD

1. HVAC Business

(1) *Central air-conditioner business*

The Company actively responds to the national “double carbon” policy, focusing on user demands, continuously introduces industry-leading products through technological innovation, and leads the development of central air-conditioner business in the home fit-out market, commercial fit-out market and new industries. In 2023, the central air-conditioner business achieved a year-on-year increase of 9.3% in main business revenue and 20.5% in total profit, with its multi-connected market share reaching more than 20%, maintaining a leading position in the industry.

① **In terms of home fit-out business, the Company is deeply engaged in the fields of “health, intelligence, energy saving” while focusing on users, providing comfortable and convenient air experience solutions.**

During the Reporting Period, the Company gained deep insight into the increasing demands of users for the home environment and continuously innovated and launched personalized and integrated air solutions. The Company meticulously developed a home-feel air customization system and successfully iterated and upgraded it to Version 2.0, achieving comprehensive control of air conditioning, underfloor heating, fresh air, dehumidification and humidification, thereby delivering the ultimate healthy and comfortable experience to users. Additionally, the Company introduced the innovative “ThinkAir Active All-Health Air Solution” and released a series 5G + Glory Home of central air-conditioner products, receiving positive feedback from users. By integrating IoT and AI technology, “all-round air housekeepers” not only possessed subjective consciousness and thinking ability, but also can realize active air management, further meeting the personalized needs of users.

Management Discussion and Analysis

Meanwhile, the Company continued to optimize its two-connected supply products matrix. The Company launched the water-comfort VRF full variable frequency series, which can maintain system stability and meet the low-carbon lifestyle of high-end users in large space with complicated room functions. York VRF adhered to the leading strategy of top-freon and floor-water (天氣地水) products, successfully creating the industry's first top-freon and hot water two-connected central air-conditioner, winning the annual HVAC Industry Innovation Product Award at the 2023 National Heating and Cooling Industry Conference (全國冷暖產業大會). The top-freon and floor-freon (天氣地氟) two-connected products released by Kelon carried the air source heat pump technology and adopted capillary copper tube floor heating, achieving efficient refrigeration and heating while effectively reducing energy consumption. The Company is committed to providing users with high-quality and energy-efficient product solutions. According to the statistics from AICON, the market share of Hisense's two-connected products increased to over 20% in 2023, fully proving that the Company's innovation strategy and product strength have been widely recognized by the market.

② **In terms of engineering business, the Company seized the opportunity of dual-carbon development and led the cutting-edge technology layout of the industry.**

The Company released the next generation of commercial multi-connected M3 series, which operated continuously from -30°C to 58°C through wide-range ambient temperature operation in refrigeration and heating. It could precisely control the temperature, humidity and cleanliness, meeting the needs of various scenarios such as production, storage and testing. At the same time, Hitachi's top-freon and floor-water series achieved explosive growth in the field of building support, with a growth rate exceeding 100%.

In active response to the national carbon neutrality policy, the Company built a full-effect direct drive series of commercial multi-connected machines that could effectively improve power conversion efficiency, obtaining the first batch of DC air-conditioner certificates in China. The highest energy efficiency of the new generation of water source variable frequency multi-connected machines has reached the top level in the industry, enabling the Company to obtain a number of characteristic product certifications due to excellent energy efficiency and intelligent variable flow. Its innovative four-tube multi-connected machines greatly reduced energy consumption, achieving a remarkable energy-saving effect of nearly 50%, and have been applied in numerous domestic data centers, archives, lithium battery processing workshops of automotive factories and other projects.

Furthermore, the Company continued to break through in green and efficient technological innovation, promoting the market share of Hisense's commercial fit-out series to reach more than 10%.

Management Discussion and Analysis

- ③ **In terms of new industries, the Company was committed to providing overall energy-saving and low-carbon solutions for government public building renovation, industrial manufacturing, rail transit and other segments, thereby aiding the high-speed growth of the second curve.**

In the smart building segment, the Company launched the ECO-B smart building mobile APP, achieving full-scenario and full-project lifecycle energy saving from air-conditioning intelligent control, building automatic control, energy management to smart operation and maintenance. This meets the segmented needs of various industries, effectively reducing building operating costs by 20% and assisting in the implementation and application of digital buildings. The Company ceremoniously released the home energy management system at IFA and CES exhibitions, applying integrated intelligent control technologies in photovoltaic, energy storage, heat pump and set home appliances to achieve energy saving by 13%. This empowers whole-house energy management, green power supply and optimal utilization.

In the heat pump fresh air segment, the Company helped to transform the northern clean energy heating market, achieving nearly 40% energy-saving results. During this period, the shipment amount of the new air Q5 products increased by 100% year-on-year. In the water heater segment, the Company broke through the rail transit and data center industries, deeply cultivated clean energy, large industry and other sub-sectors, and realized the application in factories, hospitals and other scenarios, achieving a 50% increase in revenue during the Reporting Period.

(2) *Household air-conditioner business*

The household air-conditioner business upheld the new mission of “building air conditioner as the central indoor air housekeeper, improving the living environment and benefiting hundreds of millions of families”, and focused on upgrading the technologies and products of Hisense and Kelon. According to the omni-channel general data from AVC, the online and offline retail sales of household air-conditioners increased by 41.4% and 14.3%, respectively in 2023, which is 26 points and 10 points higher than the industry growth rate, respectively.

- ① **Hisense brand highlights fresh air, providing users with scenario-based, systematic, intelligent and diversified whole-house air solutions through its all-weather air management technology.**

Hisense Air Conditioner continued to deepen its layout in the mid-to-high-end market, and launched a series of high-quality products including Tresor C2, C3 and X6, achieving the perfect integration of indoor comfortable temperature and healthy air for users to freely enjoy fresh air at home. Among them, 5 models have successfully entered the TOP10 of the fresh-air market segment, with Hisense Tresor 72C310 fresh-air cabinet topping the segmented market list, and the Tresor C3 cabinet and hanger combination even winning the AWE2023 Excellent Product Award.

Management Discussion and Analysis

The Company released a five-dimensional air housekeeper of “temperature, humidity, wind, purification and oxygen” to create an extremely comfortable experience for users through all-around air management. Hisense X620 fresh air hanger has become an ideal choice for study scenarios due to its two advantages of large fresh air volume and mute. Hisense Chunfeng A3 innovates against the pain points of users with respect to uneven temperature and direct wind blowing of traditional air-conditioners. The first hidden air machine is convenient to disassemble and wash independently, and the hidden fully closed tuyere is designed to lead the innovation trend of the air conditioning industry.

Hisense Air Conditioner has always been committed to tackling users’ pain points and responding to multiple demands efficiently. According to the monitoring data from AVC, mid-to-high-end retail sales of Hisense Air Conditioner significantly increased by 43.7% year-on-year, and the offline fresh air market share of fresh air conditioners increased by 12 percentage points year-on-year, firmly ranking among Top 2 in the industry. These achievements fully prove Hisense Air Conditioner’s outstanding strength in innovating products and meeting user needs.

② **Kelon Air Conditioner builds an Internet air conditioner brand that rejuvenates the vitality of changes and realizes a double breakthrough in brand reputation and sales volume.**

Kelon Air Conditioner keeps up with the aesthetic trend of the new generation, delving deep into the diversified needs of young consumers, and actively promoting rejuvenation and upgrading of its products based on the concept of home interconnection. To satisfying the pursuit of high-quality sleep among young people, Kelon Air Conditioner has launched a professional sleep air conditioner; in response to the desire for smart home appliances among young people, Kelon Air Conditioner has also launched a type of air-conditioner products with intelligent functions such as remote control and voice control; and meanwhile, considering the concern for health and energy saving among young people, Kelon Air Conditioner has also launched efficient, energy-saving, environmental and healthy air-conditioner products.

Kelon Air Conditioner continuously engages young user groups through a series of immersive marketing methods of lifestyle-oriented and easily spread, carrying out innovative marketing iterations and upgrades. With the help of the New Youth Music Festival IP, Kelon Air Conditioner unlocked the coolness of early summer together with more than 50,000 music fans, resonating with young emotions and showcasing the brand’s “attractive, high-quality and professional” product image and positive interconnected brand transformation attitude to the public. With this series of brand strategic transformation, brand image building and dissemination, Kelon Air Conditioner won the title of Fashionable Air Conditioner Brand Preferred by Young People in China’s Air Conditioning Industry in 2022-2023.

Management Discussion and Analysis

2. Refrigerator, Washing Machine and Kitchen Appliance Business

(1) Refrigerator Business

The refrigerator business continues to optimize and enhance the scenario-based experience for users and families. In 2023, the refrigerator business achieved remarkable results, with a 18.7% increase in main business revenue. According to the omni-channel general data from AVC, retail sales increased by 17.8% year-on-year, and market share increased by 1.6 percentage point during the Reporting Period.

① **Ronshen Refrigerator leads the new trend of embedding, high volume ratio and ultimate freshness preservation to meet consumers' demands for home furnishings quality.**

In the process of user demands evolving towards home appliances and home furnishings, Ronshen Refrigerator has launched a flat embedded and high volume ratio 506 product, upgrading its intelligent and sensory dual purification system. This system dynamic identifies and purifies the refrigeration space, ensuring that the air quality and ingredient freshness in the refrigerator are always optimal. In the second half of 2023, it won the industry's Top 1 performance. Additionally, Ronshen WILL Borderless Series 605 refrigerator incorporates an AI intelligent temperature control module to achieve a dynamic temperature balance, improving overall preservation effectiveness by 20% compared to traditional refrigerators while achieving -31°C deep cooling and freshness locking, earning the AWE2023 Excellent Product Award. The retail volume of Ronshen 60CM flat-embedded concept refrigerator in the offline market accounts for as high as 36%, firmly ranking first in the industry. Ronshen Refrigerator took the lead the formulation the industry's first freshness preservation standard, pushing the whole industry to a higher standard.

② **Hisense Refrigerator takes vacuum technology as the core, and tailors a unique spatial art kitchen for high-end families in China.**

Starting with Hisense Tresor Vacuum Refrigerator, Hisense Refrigerator constructs a complete set of intelligent cooking scenarios. The vacuum cube PRO, carried by Artist 509 Refrigerator, achieves fresh-keeping and separate storage, offering users a refined storage experience. Hisense Tresor Refrigerator 607 invests core research and development strength to achieve zero-distance door opening and invisible embedment. Tresor 503 applies vacuum negative pressure fresh-locking technology to slow down ingredient oxidation effectively. It adopts precious metal cold catalyst antibacterial technology to eliminate psychrophilic bacteria quickly, with an antibacterial rate as high as 99.99%, and ranks among the TOP20 in the industry in the first period of sales after its market launch. Hisense Refrigerator continues to optimize its mid-to-high-end product layout. According to the omni-channel general data from AVC, the sales share of Hisense's offline middle and high-end refrigerator products (unit price above RMB8,700) reached 12.0% in 2023, a year-on-year increase of 1.8 percentage points, and a year-on-year increase of 68% in revenue for the high-end brand Tresor series.

Management Discussion and Analysis

③ **Developing new channels, and empowering a new retail pattern.**

In the refrigerator segment, the Company focused on expanding new channels, while reforming online and offline product patterns. It vigorously expanded brand self-operated matrix accounts, and innovated live streaming and content marketing. In 2023, the scale of new channels like TikTok and Kwai increased by 151% year-on-year, achieving remarkable results in channel expansion, and injecting new vitality into the sustainable development of the refrigerator business.

(2) ***Washing machine***

The washing machine business pioneered the running water washing technology, and constantly innovated washing technology and product experience, achieving a growth of 53.6% in main business revenue in 2023.

The Hisense washing machine applies the first running water washing technology, fully stimulating water activity in the washing process, reducing washing time by 20%, and enhancing decontamination ability by 22% and sterilization rate by 99.99%. Meanwhile, it can prevent scale formation and prevent clothes from turning yellow and hard after being washed. The running water washing technology of Hisense won the “2023 Annual Technological Innovation Achievement” award issued by China Household Electrical Appliances Research Institute (CHEARI). The L3 products carrying the running water washing technology have been ranked TOP1 in the best-selling list of washing machines in Shandong Province for many times, being widely praised by users. The unique Roman Holiday washing machine was created for young users of Generation Z, and deeply favored by these young users due to its super-high fashionable retro appearance and extremely smart rounded corner design. In the first month of its release, the history of omni-channel sales of the innovative product has been broken through. Hisense Tresor C2 washing and drying set is designed on the basis of stricter standards for removing fungi, truly solving the pain points of intimate clothing care for women, infants and young children. During the Reporting Period, the washing machine segment won the first place in the gold medal of Qingdao “Mayor Cup” Industrial Design Competition, and Hisense Rome Holiday washing machine won the honor of “Top 10 Creative Products” of AVC in 2023.

(3) ***Kitchen appliances***

The kitchen appliances business integrates home appliance design with home aesthetics, realizing full-process cooking linkage in the kitchen. The scale of kitchen appliances increased by 66% year-on-year in 2023.

Hisense Dishwasher 527 Set is configured with a unique universal spray system and pasteurization technology, achieving the standard of “maternal-infant level detergent washing” in the whole process of washing, sterilization, drying, storage and purification. It won the “Zero Bacteria Storage Certification for Dishwashers” and the “Performance Certification for Maternal and Infant Dishwashers”, becoming the first batch of dishwasher brands certified by CHEARI. Additionally, it won the 2023 China Kitchen and Bathroom Industry Innovation Product Award in the China Kitchen and Bathroom Industry Innovation and Development Summit hosted by AVC. Hisense branded hoods have been iteratively upgraded in performance and form, launching a series of new crossover products with top-side double suction and ultra-thin low suction. Its stoves have completed the iteration of flat plate burner technology, achieving the industry’s first research and application of circular seam flat plate uniform fire burner, reaching a leading level in the industry. And at the China Kitchen and Bathroom Industry Innovation and Development Summit, the Company won the “2023 China Kitchen and Bathroom Industry User Word of Mouth Award”.

Management Discussion and Analysis

3. Automotive Air Conditioner Compressor and Integrated Thermal Management System Business

Sanden Company leverages its advantages and the synergistic resources of the Hisense to continuously drive the transition from a compressor-based component supplier to a supplier of integrated thermal management system for new energy vehicle. During the Reporting Period, the automotive air conditioner compressor and integrated thermal management segment achieved a revenue of 9.05 billion.

(1) *At the system level, focusing on green upgrading and achieving comprehensive breakthroughs in thermal management system and core components.*

Sanden Company launched integrated thermal management system using CO₂ and R290 as refrigerants, built two sets of direct and indirect integrated thermal management system (ITMS) solutions incorporating heat pump technology, secondary circulation waterway, waste heat recovery technology, and more. These systems provide balanced temperature management for the cabin, battery, motor and electronic control of electric vehicles, effectively enhancing driving comfort, extending winter endurance mileage, and aligning with the trend of energy saving and emission reduction. Meanwhile, the highly integrated, miniaturized, universal and serialized design not only reduces costs effectively, but also meets the customization requirements of different customers promptly.

The new Gen5 electric compressor platform is compatible with various refrigerants like R1234yf, CO₂ and R290, leading the industry in terms of high pressure, miniaturization, low vibration and noise and high energy efficiency. This platform reduces refrigerant charge in vehicle heat pump air conditioning system and adheres more closely to principles of lightweight and compactness.

Utilizing innovative technologies like membrane heating, the ECH product line has been expanded, ensuring normal battery operation in low-temperature environments and providing a comfortable experience for drivers and passengers. Sanden Company is the first in the industry to develop miniaturized and mid-level double-layer flow HVAC systems, achieving technological leadership in spatial layout and low energy consumption.

(2) *At the market level, firmly prioritizing customer needs and fully leveraging the global collaborative mechanism.*

The Company continuously strengthened the confidence of strategic customer cooperation, deepened the implementation of global customer development strategy, and intensified the promotion of thermal management systems and core accessories together with key global customers, especially those in Europe, the United States and China. Sanden Company made a historic breakthrough with key customers worldwide, successfully securing HVAC and ECH business from strategic customers in thermal management core components in Europe, acquiring ECH business of key customers in Japan, and securing key air conditioner box business in China. The total signing amount increased by 43% year-on-year, laying a solid foundation for large-scale and deepened global collaborative business in the future.

Management Discussion and Analysis

4. Overseas Markets for Home Appliances Business

During the Reporting Period, the Company, facing severe macro situations, accelerated the enhancement of its overseas brands' influence, deepened localization construction, and advanced research, production and sales collaboration. In 2023, its overseas business realized revenue of RMB27.92 billion, a year-on-year increase of 12.3%. At the same time, the newly established joint venture empowered the expansion of brand building in the ASEAN region. In 2023, the overall revenue of the ASEAN region increased by more than 20% year-on-year, with over 70% year-on-year growth in self-owned brand business.

(1) HVAC Business

- ① **The central air-conditioner business has continuously improved its overseas marketing system, and developed strategic markets in Europe.**

In 2023, the scale of European strategic markets increased by 45% year-on-year, driving the overall growth of self-operated business by 35%. The overseas business strategy of multi-connection and dual-core drive for heat pumps was proposed in the central air-conditioner business which provided customers with professional and healthy air system solutions. The scale of the heat pump increased by 46% year-on-year, and the breakthroughs were achieved in major water heater projects in Central Asia and other regions, establishing a model project for the development of overseas water heater. The dual-core drive strategy in overseas markets has shown significant effects.

- ② **The household air-conditioner business accelerated the expansion of channel layout and empowered overseas terminal retail.**

Driven by the refinement of Connect-life smart home sets, the household air-conditioner has vigorously expanded the professional channels in America and Asia-Pacific while continuing to consolidate the traditional advantages in professional channels in Europe and the Middle East. In the ASEAN market, Malaysia's market share increased by 3.8 percentage points year-on-year.

(2) Refrigerator, Washing Machine and Kitchen Appliance Business

- ① **The refrigerator and freezer business has deepened research, production and sales collaboration and continuously improved the structure of mid-to-high-end products.**

The refrigerator and freezer business continued to focus on localization construction and expand its channel distribution. In the European market, sales in Western Europe increased by 16.5% year-on-year, with a year-on-year increase of 1.2 percentage points in the market share, while sales in Eastern Europe increased by 25.1% year-on-year, with a year-on-year increase of 2.4 percentage points in the market share. The industry average price and the price index have outperformed the industry level. In the American Market, the first-year operation of the Monterrey Household Appliances Industrial Park in Mexico has also provided a delivery guarantee for the refrigerator and freezer business in America. In the ASEAN market, Thailand's market share increased by 2.3 percentage points year-on-year, and Malaysia's market share increased by 3.1 percentage points year-on-year.

Management Discussion and Analysis

② **The washing machine business deeply cultivated washing and drying integrated machine products, providing energy-efficient solutions.**

The washing machine business focused on users' pain points and usage scenarios, accounting for the first place in many market segments in Europe, with overseas market sales increasing by 66.9% and maintaining rapid growth. The Company focused on promoting energy consumption savings. The energy efficiency of these energy-efficient washing machines launched in Europe and Australia increased by 30%.

③ **Technological innovation in the kitchen appliance business is leading growth.**

Adhering to the brand concept of "Global Technology and Healthy Kitchen", the kitchen appliance business insisted on building a kitchen appliance brand trusted by users with technology and quality, and contributed to overseas delivery guarantee, with a year-on-year growth of 250.5% in the export scale of kitchen appliance in 2023.

5. **Deepening channel reform and building a whole domain user interaction matrix with digital transformation.**

(1) ***Improving the diversified store layout such as physical stores and online new retail platforms to have a comprehensive coverage across multiple touchpoints.***

In 2023, the Company focused on customers and pushed forward the retail transformation of specialty stores around the whole consumption journey of users. The scale of Hisense specialty stores increased by 25% year-on-year. The Company explored deep into the growth space of front-loading channels, increased the sales of cross-industry cooperation and home channels by over 200% year-on-year, added the number of front stores by 80%, and vigorously expanded the growth space of sinking channels. In 2023, the revenue from sinking channels increased by 18.6%, of which the revenue from air-conditioner sinking channels increased by 66%. By integrating products and sales, and the scale of emerging channels was actively expanded by means of exclusive product layout, localized operation and accurate delivery, the revenue from platforms such as TikTok and Kwai doubled.

(2) ***Actively building diversified and living scenes to provide users with comprehensive solutions that better meet their daily needs.***

Hisense Tresor set has created a complete set of home appliances covering all categories, scenarios and intelligent interconnection. The integration of appearance design, intelligent experience and service was extremely unified to meet the demands of high-end users for quality life. During the Reporting Period, the revenue from Tresor's high-end set products increased by 287% year-on-year and 3,562 stores were newly added. The products have been continuously expanded and iterated; and in 2023, Tresor has developed to cover 7 categories, 3 sets, 5 scenarios and 78 high-end product lineups, providing users with full-scenario high-end smart home appliance solutions from artistic homes, and smart homes to user-centered home scenarios.

Management Discussion and Analysis

(3) *Leading digital transformation and continuously improving the refined operation level of retail channels.*

The Company fully utilized the influence of new media platforms to expand brand awareness and enhance product exposure. It strengthened the building of a comprehensive user interaction matrix, and continuously enhanced user volume and quality through public domain user interaction touchpoints and digital tools, while focusing on “potential customer acquisition, member promotion and opportunity conversion”. In 2023, the number of new members increased by 23% year-on-year, and the sales of members increased by 33% year-on-year.

6. *Being user-centered and scenario-driven, continuously focusing on the themes of intelligence, health and energy saving, and upgrading smart home scenario schemes for users.*

As the smart hub of Hisense’s smart home business, Hisense Love Home Platform applies core technologies such as AI voice interaction and covers all the categories of Hisense and smart devices in its ecosystem. It provides intelligent control of all devices, full-space scenario linkage and full-process home appliance services around the entire home scenario journey of users, and creating a one-stop high-quality smart life experience for users.

In terms of comfortable air supply, the Company launched a drying room formaldehyde removal scheme based on new air technology, with a formaldehyde release rate of 99%, and won two awards, including in the Intelligent Electrical Appliance Application Scenario Development Competition; in terms of health preservation, the Company launched a vacuum pickling plan around vacuum preservation technology and innovatively developed 32 pickling recipes, with the penetration rate of pickling materials enhanced by up to 20% under vacuum environment; in terms of intelligent washing and care, the Company launched the intelligent recognition of laundry detergent scheme, supporting the recognition of more than 200 types of laundry detergents, helping automatically adjust washing parameters to release the best washing activity, and making the washing efficiency improved by up to 7%; and in terms of energy conservation, the Company launched a dishwasher valley-voltage night washing scheme, intelligently identifying peak-valley electricity price periods, and putting off-peak power consumption into practice. Thanks to the continuous upgrading of the scenario scheme and the substantial enhancement in the intelligent level of home appliances, the number of home appliance users on Hisense Love Home Platform increased by 54% year-on-year, the number of monthly active home appliance users increased by 58% year-on-year, the NPS of home appliance intelligent experience increased by 8% year-on-year, and the sales volume of domestic smart home appliances increased by more than 40% in 2023.

7. *Creating an efficient, agile, transparent and sustainable global intelligent supply chain centered on users, and empowering a lean manufacturing system driven by digital intelligence.*

Adhering to the vision of “building an efficient, agile, transparent and sustainable global intelligent supply chain centered on consumers/users”, the Company constantly consolidated planning management, order management, procurement management and supply chain operation management, prevented supply risks, and upgraded resilience and long-term competitiveness of the global supply chain. During the Reporting Period, the Company implemented supplier optimization, supplier sharing and category sharing, and continuously optimized supplier layout. It pushed forward the process of outbound support of domestic suppliers and localization of overseas materials, effectively solving bottleneck materials. This led to a shortened delivery cycle by 8.6% and enhanced the order guarantee rate by 7.5% year-on-year. Additionally, the Company promoted the standardization of common parts, significantly reducing the quantity of purchased materials.

Management Discussion and Analysis

The Company adhered to digital transformation, deepening the 4A structure reform in the fields of supply chain plan, order and procurement. It strengthened capabilities, improved efficiency and achieved sustained high growth by continuously deepening order coordination of the whole link, refining the category strategy management, deepening the end-to-end cost reduction, formulating a high-quality agile delivery system, operating the global supply chain in a dual-track mode, building a dual-carbon supply chain, and practicing transparent procurement.

The Company solidified the foundation of lean operation, continuously promoted intelligent manufacturing, and significantly improved production efficiency. The Company introduced Hisense's lean operation system, built a lean factory to consolidate its manufacturing foundation, continued to carry out lean improvement, and reduced the operating costs of enterprises around automation, process optimization and other directions, realizing automatic replacement of more than 2,300 people throughout the year. The Company continued to promote "digital and intelligent upgrade" and "advanced manufacturing application scenario demonstration", and greatly improved production efficiency and quality, achieving an overall year-on-year improvement of single set labor cost by 10.0%. Hisense Hitachi's Huangdao Factory has passed the fourth-level certification of intelligent manufacturing capability maturity of the Ministry of Industry and Information Technology of the People's Republic of China, and its Pingdu Factory of Refrigerator and Air Conditioner Company has passed the third-level certification. Monterrey Household Appliances Industrial Park in Mexico has put into production several models, with a dramatic improvement in the efficiency of the refrigerator production line and a 16.3% year-on-year improvement in the kitchen appliance production line.

The Company insisted on energy conservation and emission reduction, while accelerating the application of clean energy and promoting green manufacturing. By improving the refined level of energy management and focusing on energy saving and improvement of key energy-using equipment, the Company systematically carried out energy-saving management and technical energy-saving measures. It also promoted promoting the application of clean energy including distributed photovoltaic and energy storage, and advanced the full coverage of energy management system in China. The Company achieved an annual comprehensive energy saving rate up to 8.1%, adding two green factories and one green supply chain management enterprise.

8. Establishing a capital system with "operational safety as the first priority", and continuing to optimize the efficiency of capital use by means of digital transformation.

In light of the current market uncertainty, the Company consistently prioritizes operational safety to support long-term investment and stable development. Leveraging digital transformation as an opportunity and efficiency as a driving force, the Company shortens the order delivery cycle, subdivides inventory safety control standards, reduces redundant capital occupation and achieves a healthy inventory turnover through effective coordination of production, supply and marketing. The Company strictly implements the customer credit management system, identifies and avoids pre-risks, increases insurance coverage at the back end, dynamically monitors customer credit status, and reduces bad debt risks. The Company strictly implements the investment decision-making process and dynamically monitors project risks with the principle of "risk first, liquidity second, revenue third". In 2023, the accounts receivable turnover of the Company improved by 11.0% year-on-year, the inventory turnover improved by 21.6% year-on-year, and the cash flow from operating activities increased by 163.2% year-on-year.

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 adjustments to or restatement of the accounting data of prior years?

Yes No

The reason of retroactive adjustments or restatement

Change in accounting policy

Unit: RMB

Item	2023	2022		Increase or decrease as compared to last year (%) After Adjustment	2021	
		Before Adjustment	After Adjustment		Before Adjustment	After Adjustment
Operating revenue (RMB)	85,600,189,224.06	74,115,151,039.29	74,115,151,039.29	15.50	67,562,603,666.81	67,562,603,666.81
Net profits attributable to shareholders of listed company (RMB)	2,837,322,754.58	1,434,904,374.84	1,434,968,215.84	97.73	972,581,491.39	972,633,811.10
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	2,355,069,261.87	905,503,359.78	905,567,200.78	160.07	666,126,470.35	666,178,790.06
Net cash flow from operating activities (RMB)	10,611,857,591.35	4,032,382,602.38	4,032,382,602.38	163.17	4,313,780,760.27	4,313,780,760.27
Basic earnings per share (RMB/share)	2.08	1.05	1.05	98.10	0.71	0.71
Diluted earnings per share (RMB/share)	2.08	1.05	1.05	98.10	0.71	0.71
Weighted average rate of return on net assets (%)	22.64	13.13	13.13	9.51	9.64	9.64

Management Discussion and Analysis

Item	At the end of 2023	At the end of 2022		Increase or decrease as compared to last year (%) After Adjustment	At the end of 2021	
		Before Adjustment	After Adjustment		Before Adjustment	After Adjustment
Total assets (RMB)	65,946,495,555.67	55,375,550,868.66	55,375,868,443.33	19.09	55,948,549,486.98	55,948,692,331.34
Net assets attributable to shareholders of listed company (RMB)	13,580,174,485.95	11,518,257,281.54	11,518,373,442.25	17.90	10,342,355,185.33	10,342,407,505.04

Reasons for change in accounting policies:

On 30 November 2022, the Ministry of Finance issued the Notice on the Publication of No. 16 of the Enterprise Accounting Standards Interpretation (Finance and Accounting (2022) No. 31). (《關於印發〈企業會計準則解釋第16號〉的通知(財會〔2022〕31號)》), which stipulated that the accounting treatment of the deferred income tax related to assets and liabilities arising from a single transaction shall not be subject to the initial recognition exemption from 1 January 2023. The Company adjusted the opening balance accordingly.

(II) QUARTERLY MAJOR FINANCIAL INDICATORS

Unit: RMB

Item	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenue	19,430,480,828.07	23,513,494,791.31	21,955,657,812.97	20,700,555,791.71
Net profits attributable to shareholders of listed company	615,296,643.26	882,266,081.33	928,442,073.02	411,317,956.97
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company	520,783,170.28	742,444,196.87	799,315,978.16	292,525,916.56
Net cash flow from operating activities	886,463,601.52	2,925,580,567.82	4,888,837,931.31	1,910,975,490.70

Management Discussion and Analysis

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

✓ Applicable □ Not Applicable

Unit: RMB

Item	2023	2022	2021	Description
Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)	-3,666,652.72	47,140,615.81	3,535,383.13	
Government grants recognised in the profits or losses (excluding government grants that are closely related to the Company's normal business operations, in line with national policies and in accordance with established standards, and have a sustainable impact on the Company's profit or loss.)	195,139,772.58	225,922,958.46	219,822,004.71	
Except for effective hedging operations related to the Company's normal business operations, gains and losses arising from changes in the fair value of financial assets and financial liabilities held by non-financial corporations and gains and losses arising from the disposal of financial assets and financial liabilities	-239,068,307.45	16,533,562.48	39,567,358.88	
Profit and losses from assets which entrust others to invest or manage	298,844,795.34	187,413,275.48	103,919,806.78	
Gain or loss on debt restructuring	25,739,211.33			
Other non-operating income and expenses other than the aforementioned items	371,016,020.58	366,457,850.14	57,837,694.36	
Other profit and loss items that satisfy the definition of non-recurring profit and loss	72,041,335.03			
Less: Effect of income tax	147,009,791.45	194,250,687.61	78,433,576.30	
Effect of minority interests (after tax)	90,782,890.53	119,816,559.70	39,793,650.52	
Total	482,253,492.71	529,401,015.06	306,455,021.04	

Management Discussion and Analysis

(IV) ANALYSIS OF PRINCIPAL BUSINESS

1. Composition of operating revenue

Unit: RMB

Item	2023		2022		Increase or decrease as compared to corresponding period last year (%)
	Amount	Weighting to operating revenue (%)	Amount	Weighting to operating revenue (%)	
Total of operating revenue	85,600,189,224.06		74,115,151,039.29		15.50
By industry					
Manufacturing industry	76,959,191,272.42	89.91	67,494,739,192.70	91.07	14.02
By product					
HVAC	38,652,244,832.54	45.15	34,499,733,925.58	46.55	12.04
Refrigerators and washing machines	26,070,166,905.77	30.46	21,207,092,434.08	28.61	22.93
Others	12,236,779,534.11	14.30	11,787,912,833.04	15.91	3.81
By region					
Domestic	49,035,166,343.99	57.28	42,624,208,014.02	57.51	15.04
Overseas	27,924,024,928.43	32.63	24,870,531,178.68	33.56	12.28
By sales model					
Direct sales	52,044,822,688.37	60.80	45,135,900,814.62	60.90	15.31
Distribution	24,914,368,584.05	29.11	22,358,838,378.08	30.17	11.43

Management Discussion and Analysis

2. 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 of major operating businesses as compared to corresponding period last year (%)	Increase or decrease in gross profit margin as compared to corresponding period last year (percentage point)
By industry						
manufacturing industry	76,959,191,272.42	58,465,825,397.94	24.03	14.02	11.21	1.92
By products						
HVAC	38,652,244,832.54	26,800,791,715.99	30.66	12.04	7.78	2.73
Refrigerators and washing machines	26,070,166,905.77	21,088,500,691.11	19.11	22.93	20.58	1.58
Others	12,236,779,534.11	10,576,532,990.84	13.57	3.81	3.50	0.26
By region						
Domestic	49,035,166,343.99	33,389,722,531.18	31.91	15.04	11.12	2.41
Overseas	27,924,024,928.43	25,076,102,866.76	10.20	12.28	11.33	0.77
By sales model						
Direct sales	52,044,822,688.37	43,053,023,450.84	17.28	15.31	13.24	1.51
Distribution	24,914,368,584.05	15,412,801,947.10	38.14	11.43	5.91	3.23

Management Discussion and Analysis

3. Whether the company's income from sales of goods larger than its income from provision of services

Yes No

Industry category	Item	Unit	2023	2022	Increase or decrease as compared to corresponding period last year (%)
Manufacturing industry	Sales volume	Ten thousand units	4,815	4,280	12.50
	Production volume	Ten thousand units	4,870	4,449	9.46
	Inventory volume	Ten thousand units	428	373	14.75

4. Composition of operating costs

Unit: RMB'0000

Industry category	Item	2023		2022		Increase or decrease as compared to corresponding period last year (%)
		Amount	Weighting to operating costs (%)	Amount	Weighting to operating costs (%)	
Manufacturing industry	Raw materials	5,291,578.37	90.50	4,745,169.13	90.26	11.52
	Direct expense	348,212.30	5.96	296,583.01	5.64	17.41
	Others	206,791.87	3.54	215,574.10	4.10	-4.07

Management Discussion and Analysis

5. Expenses

Unit: RMB

Expense Item	2023	2022	Increase or decrease as compared to corresponding period last year (%)	Reason for the significant changes
Sales expense	9,311,027,187.99	8,070,720,273.85	15.37	No significant changes
Management expense	2,296,063,851.05	1,821,201,420.18	26.07	No significant changes
Finance expense	-204,586,431.88	-182,163,831.39	12.31	No significant changes
Research and development expenses	2,779,508,194.39	2,289,313,746.54	21.41	No significant changes

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 “III. (VI) CORE COMPETITIVENESS ANALYSIS” under the “Management Discussion and Analysis” section.

Research and development Staff of the Company

Item	2023	2022	Change in proportion (%)
Number of research and development staff	3,317	3,067	8.00%
Proportion of number of research and development staff (%)	5.90%	6.21%	-0.31%
Academic Structure of research and development Staff			
Undergraduate	1,633	1,486	9.89%
Master	1,374	1,130	21.59%
Age composition of research and development staff			
Under 30 years old	803	806	-0.37%
30~40 years old	1,494	1,390	7.48%
Over 40 years old	1,020	871	17.11%

Management Discussion and Analysis

Description of research and development inputs of the Company

Item	2023	2022	Change in proportion (%)
Amount of research and development inputs (RMB)	2,779,508,194.39	2,419,065,502.17	14.90
Proportion of research and development inputs to operating revenue (%)	3.25	3.26	-0.01 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

7. Cash Flow

			<i>Unit: RMB</i>
Item	2023	2022	Increase or decrease as compared to corresponding period last year (%)
Sub-total of cash inflows from operating activities	76,815,643,741.00	66,773,741,495.44	15.04
Sub-total of cash outflows from operating activities	66,203,786,149.65	62,741,358,893.06	5.52
Net cash flows from operating activities	10,611,857,591.35	4,032,382,602.38	163.17
Sub-total of cash inflows from investing activities	20,906,798,504.15	22,483,763,618.07	-7.01
Sub-total of cash outflows from investing activities	30,464,242,081.12	25,081,409,578.99	21.46
Net cash flows from investing activities	-9,557,443,576.97	-2,597,645,960.92	N/A
Sub-total of cash inflows from financing activities	4,558,764,891.41	3,348,695,041.76	36.14
Sub-total of cash outflows from financing activities	5,179,903,602.62	5,127,326,548.62	1.03
Net cash flows from financing activities	-621,138,711.21	-1,778,631,506.86	N/A
Net increase in cash and cash equivalents	398,794,325.14	-400,830,719.28	N/A

Management Discussion and Analysis

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

Applicable Not applicable

The increase in net cash flows from operating activities was mainly due to the improvement in the Company's operating and working capital turnover.

The increase in the cash inflows from financing activities was mainly due to the increase in external bank borrowings of subsidiaries during the Reporting Period.

(V) ANALYSIS OF ASSETS AND LIABILITIES

1. Significant changes in asset items

Unit: RMB

Item	At the end of 2023		At the beginning of 2023		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	4,939,273,198.62	7.49	6,001,295,427.37	10.84	-3.35	Mainly due to the investment of idle funds in wealth management products
Accounts receivable	9,225,321,882.07	13.99	7,665,702,299.91	13.84	0.15	No significant changes
Contract assets	35,878,308.82	0.05	6,918,368.07	0.01	0.04	No significant changes
Inventories	6,774,603,438.00	10.27	6,552,835,435.54	11.83	-1.56	No significant changes
Investment property	177,982,723.30	0.27	208,716,406.19	0.38	-0.11	No significant changes
Long-term equity investments	1,671,365,117.46	2.53	1,518,340,556.73	2.74	-0.21	No significant changes
Fixed assets	5,662,912,502.03	8.59	5,318,274,820.56	9.60	-1.01	No significant changes
Construction in progress	443,523,694.21	0.67	525,171,610.80	0.95	-0.28	No significant changes
Right to use assets	169,378,820.87	0.26	181,192,061.73	0.33	-0.07	No significant changes
Short-term borrowings	2,502,318,314.58	3.79	1,462,253,713.24	2.64	1.15	No significant changes
Contract liabilities	1,440,254,499.57	2.18	1,145,145,334.78	2.07	0.11	No significant changes
Long-term borrowings	42,956,652.46	0.07	19,808,239.84	0.04	0.03	No significant changes
Leasing liabilities	208,946,083.77	0.32	277,195,821.24	0.50	-0.18	No significant changes

Management Discussion and Analysis

2. Assets and liabilities measured at fair value

Unit: RMB

Item	Amount at the beginning of the period	Gain or loss from change in fair value during the period	Accumulated changes in fair value accounted in equity	Impairment provided during the period	Amount purchased during the period	Amount sold during the period	Other changes	Amount at the end of the period
Financial assets								
1. Financial assets held for trading (excluding derivative financial assets)	6,737,194,863.30	85,767,387.12			23,064,972,967.96	16,684,190,615.84	-16,004,247.43	13,187,740,355.11
2. Derivative financial assets	21,039,135.56	-17,939,112.07			245,020.96		940,136.31	4,285,180.76
3. Other investments in debt	5,072,959,470.76					429,531,886.99		4,643,427,583.77
4. Other investments in equity instruments	36,399,028.71		4,397,863.21		953,188.58		-1,505,313.54	40,244,766.96
5. Other non-current financial assets	25,748,931.39	3,810,332.67					-2,361,454.37	27,197,809.69
Sub-total of financial assets	11,893,341,429.72	71,638,607.72	4,397,863.21		23,066,171,177.50	17,113,722,502.83	-18,930,879.03	17,902,895,696.29
Investment properties								
Productive biological assets								
Others								
Total	11,893,341,429.72	71,638,607.72	4,397,863.21		23,066,171,177.50	17,113,722,502.83	-18,930,879.03	17,902,895,696.29
Financial liabilities	1,745,488.01	-56,712,337.91					-4,102,240.99	54,355,584.93

Other changes in content

Other changes mainly due to the effect of foreign exchange rate changes.

Management Discussion and Analysis

(VI) CORE COMPETITIVENESS ANALYSIS

Technical Advantages

The Company always adheres to the core concept of “Technology-based Enterprise”, revolves around the smart life strategy, and continues to carry out technological innovation with intelligence, health and energy saving as its cores. The Company boasts more than 20 provincial-level and above scientific and technological innovation platforms, including national-level enterprise technology centers, postdoctoral research workstations and national-level industrial design centers. In 2023, its Household Frequency Controller Research Center was recognized by Shandong Development and Reform Commission as Shandong Provincial Engineering Research Center. The Company vigorously promotes the transformation of IPD process and the development of engineer culture, establishes a European R&D center, further improves global R&D system layout and resource coordination, achieves major breakthroughs in multiple directions such as low-carbon energy-saving, comfort and health, intelligent preservation, high energy efficiency in washing and drying, and constant air volume duct control, as well as maintains leading technical levels in the industry and realizes product application.

1. HVAC Business

- (1) **In terms of central air-conditioner**, the Company continues to intensify innovations around core technologies such as “low-carbon energy saving, comfort and health”, and achieves low-carbon energy-saving through research on key technologies such as equipment energy-saving, scheme energy-saving, actual operation energy-saving and environmental refrigerant application, while breaking through building load forecasting and following control technology, realizing air-conditioner control to adapt to building load, and achieving comprehensive energy saving goals; as well as focuses on breaking through key technologies such as temperature and humidity control, low noise technology, health-based comfort control and purification, so as to greatly improve user comfort and help decarbonization of the buildings with near zero energy consumption. And relevant technologies of the Company have been evaluated by the Technology and Industrialization Development Center under the Ministry of Housing and Urban-Rural Development of the People’s Republic of China as to technological achievements, and are rated as internationally advanced.
- (2) **In terms of household air-conditioner**, the Company pioneers the pre-fresh air mixing technology in the industry, greatly improves the comfort and replacement efficiency of fresh air, and consolidates its leading position in the fresh air industry; innovatively releases multi-domain and periodic natural soft air technology, breaks through the industry problem in contradiction between soft air feeling and refrigeration effect, and has its achievements identified as internationally leading; makes major breakthroughs in the technical directions of temperature and humidity AI regulation, ion purification, catalytic antiviral, etc., and builds air conditioners into all-weather natural air housekeepers; as well as realizes industrial application in the self-developed high-power and density variable frequency controllers, gets rid of its dependence on imported chip providers, significantly improves the efficiency and reliability of its controllers, and has its technological achievements identified as internationally leading.

Management Discussion and Analysis

2. Refrigerator, Washing Machine and Kitchen Appliance Business

- (1) **In terms of refrigerator**, the Company focuses on user demands, insists on technological innovation and differentiation, and continuously enhances product quality. The Company breaks through the near infrared light preservation technology and achieves a 20% improvement in the 7-day preservation effect of fruits and vegetables; breaks through the key technologies in applying recycled HDPE materials and reduces the carbon emissions of parts by 70%; as well as innovatively researches and develops magnetic field-assisted vacuum preservation technology, forms a quadruple preservation solution covering temperature, humidity, hypoxia and magnetic physical field, realizes 7-day preservation of fresh meat ingredients in refrigerator, as well as reduces juice loss rate by 20%, and TVB-N and the total number of colonies by 10%.
- (2) **In terms of washing machine**, the Company focuses on the core demands of consumers in high energy efficiency, high quality, intelligence and green environmental protection in washing and drying clothes. The Company breaks through the condensation and control technology for integrated washing and drying machines, improves its drying efficiency by more than 25%, and achieves industry-leading product performance; as well as makes in-depth development in respect of skin-care steaming, scalding and washing with steam cabins, intelligent identification of clothes and detergents, improvement of washing water quality, removal of harmful substances, etc., solves the user pain points like wrinkles, yellowing and cross color in clothes. In terms of green environmental protection, the Company carries out a series of technical research on environmental packaging, low-carbon material substitution and plastic particle collection, and maintains its environmental protection level of products at the leading position in the industry.
- (3) **In terms of kitchen appliances**, the Company focuses on user demands and introduces technologies such as automatic delivery, UV waterway sterilization and variable frequency washing from Gorenje, a European Company, for its dishwashers, and self-develops and reserves industry-leading residual water-free and rotary spray enhanced washing technologies. Its such series of products have obtained the “Zero Bacteria Storage Certification for Dishwashers” and the “Performance Certification for Maternal and Infant Dishwashers”, making the dishwasher brand among the first batch certified by China Household Electrical Appliances Research Institute. Its smoke gathering technology through double lifting smoke guide plates can increase the air volume on one side by 20%, and its matching technology of constant air volume variable frequency air duct can realize constant air volume control, with the working air volume error being $\leq 10\%$. Its stoves complete the iteration of flat plate burner technology, realize the research on and application of the industry’s first annular slot and flat plate uniform fire burner, and increase the uniform heating area by 70%. And the research on rotary fire combustion technology with ample heat load adjustment brings the experience of cooking soup with minimal fire and stir-frying with strong fire, reaching the leading level in the industry.

Management Discussion and Analysis

3. Automotive Air Conditioner Compressor and Integrated Thermal Management System Business

The Company continuously promotes the transformation from a compressor-based component supplier to a new energy vehicle integrated thermal management system supplier, while centering on green upgrading to achieve a comprehensive breakthrough in thermal management system and core components. In terms of thermal management system, the Company concentrates on breaking through the new generation of natural refrigerant CO₂ direct and R290 indirect integrated thermal management system (ITMS), meeting the environmental protection demands such as carbon neutrality while achieving high efficiency and energy saving of the system, effectively extending endurance mileage in winter and keeping ahead in technology. Through the design of refrigerant and water circuit integration module, the Company presents miniaturized and generalized ITMS system, rapidly responding to the customized requirements of customers while reducing the costs. In terms of core components, the Company releases a new generation of electric compressor platform that reinforces the competitive advantages of electric compressors by breaking through such technologies involved high efficiency, energy saving, mute and ultra-high pressure; builds an 800V ECH product platform that can take into account the heating needs of both batteries and passenger compartments, and effectively guarantee battery low-temperature performance and passenger comfort; and takes the lead in the industry in developing miniaturized mid-level double-layer flow HVAC, leading in miniaturization, high energy efficiency and mute.

Brand matrix

The Company's products cover eight brands, i.e., "Hisense", "Ronshen", "KELON", "HITACHI", "YORK", "gorenje", "ASKO" and "SANDEN", with a rich brand lineup and a good brand reputation and market basis. With the help of the product range covered by different brands and their product characteristics, the Company can meet the demands of different users.

During the Reporting Period, Hisense's brand equity maintained strong growth with a 7% year-on-year increase in the Hisense Brand Equity Index (HBI), according to Ipsos Research 2023. A significant 22% year-on-year increase in the HBI among young adults, and a more than 14% year-on-year increase in the HBI among first-tier cities.

Along with the continuous advancement of Hisense's internationalization strategy, the overseas popularity and influence of the brand have been continuously improved. And in the meantime, Hisense continues to intensify its sports marketing efforts, ever sponsored the global top sports events such as Euro 2016, World Cup 2018, Euro 2020 and World Cup 2022, and officially became the global official partner of Euro 2024 in Germany, greatly enhancing its brand influence in the international market with the help of such international top sports events.

Management Discussion and Analysis

Integrity Culture

Integrity is the foundation of Hisense and also its core value. Abiding by business ethics and adhering to integrity operations is the Company's long-term philosophy. Employees of Hisense regard integrity as their lives and pass it down to this day to push the enterprise forward continuously. And the Company has raised the integrity work to the height of escorting its own sustainable operations.

The Company has continuously strengthened the foundation of compliance governance, enhanced risk management and control, and built an integrated system of scientific decision-making, transparency of authority and responsibility, and effective checks and balances to safeguard the Company's compliance and orderly operation.

With a view to making all employees of the Company always practice the core values of "honesty, integrity, pragmatism and innovation", the Company has formulated systems and norms including the Code of Integrity, the Administrative Measures for Reporting Violations and Disciplinary Actions, the Business Communication Guidelines for Hisense Partners, the Business Communication Guidelines for Hisense Employees, etc., so as to institutionalize, standardize and normalize its integrity behaviors, and encourage employees, suppliers and other partners to abide by high-standard business norms prior to carrying out business operations and cooperation.

(VII) MAJOR SUBSIDIARIES AND COMPANIES IN WHICH THE COMPANY HAS EQUITY INTEREST

Major Subsidiaries and Participating Companies Affecting 10% or More of the Company's Net Profit

Name of company	Company type	Major business	Registered capital	Total assets (RMB ten thousand)	Net assets (RMB ten thousand)	Operating revenue (RMB ten thousand)	Net profit attributable to shareholders of the Company	
							Operating profit (RMB ten thousand)	(RMB ten thousand)
Hisense Hitachi	Subsidiary	Production and sale of commercial air-conditioners	USD150 million	2,235,767.30	808,885.39	2,216,676.14	428,449.74	324,371.23

Acquisition and disposal of subsidiaries during the Reporting Period

Details of the changes in the scope of consolidation of the Company during the Reporting Period are set out in Note VII.

Management Discussion and Analysis

IV. OUTLOOK

(I) The Company's development strategy

With the mission of “devoting to scientific and technological innovation, leading advanced manufacturing centered on intelligence, and serving hundreds of millions of families with high-quality products”, the Company abides by the values of “honesty and integrity, pragmatic innovation, customer first and sustainable operation”, casts high-quality products with ingenuity, and aims to become the most trustworthy brand in the world.

(II) Business highlights for 2024

The Company will adhere to its customer- and user-centered approach, focus on the digital transformation of its brand and marketing capabilities, and continue to improve the quality of its operations through the following initiatives:

1. Stimulating talent vitality and improving organizational efficiency. To focus on business strategy and digitalization, build a global talent pool, improve the long-term incentive mechanism, mobilise the enthusiasm of all kinds of talents, and effectively enhance organizational efficiency.
2. Continuously improving brand and marketing capabilities, and promoting collaborative development across multiple categories. To actively build the brand positioning of “people-oriented technology” and “ultimate quality”, and promote brand rejuvenation and transformation. To maintain “brand-guided, user-centered and scenario-driven” to accelerate category integration and optimize the ability and efficiency of the entire marketing chain.
3. Upgrading the global regional operation mode and continuing to exert its strength in overseas markets. To strengthen the independent brand strategy, realize the integration of research, production, supply, sales and services, build five overseas regional centers in Europe, America, ASEAN, Middle East, Africa and Asia-Pacific, as well as drive overseas markets to achieve sustainable development with multiple engines.
4. Promoting chain-wide digital transformation and enhancing operational efficiency with AI. To comprehensively carry out digital transformation around the three main lines of product, customer and user, accelerate the digital transformation of research and development, strengthen digital marketing capabilities, and promote the integration of industry and finance to help cost competitiveness.

Management Discussion and Analysis

5. Strengthening ESG capacity building and empowering sustainable development of the home appliance industry. To set medium and long-term carbon reduction targets, clarify the emission reduction potentials of business operations, improve the ESG risk management mechanism, and establish systematic management and operation from top to bottom in key areas such as dual carbon and compliance.
6. Building a global dual-track supply chain and enhancing long-term cost reduction capability. To establish a dual-track supply chain mechanism, continuously deepen the optimization and integration of the supply system in China, standardize and manage from various angles as service level and access threshold, increase the proportion of localized resources in overseas factories, optimize the global production capacity layout of refrigerators and freezers, and implement a refined category strategy to help build the hard power of “Hisense Manufacturing”.
7. Practicing advanced manufacturing strategy and achieving high-quality product delivery. To promote the transformation and upgrading of manufacturing models towards digitization, intelligence and informatization, optimize user experience implementation processes and standards, unify the delivery quality management architecture, and create the ultimate product strength of Hisense home appliances.

(III) Risks faced by the Group include:

1. Macroeconomic fluctuation risk. With increasing global macroeconomic uncertainties, continued economic slowdowns may result in insufficient consumer spending power, thereby affecting demand for household appliances.
2. Rising cost risk. Fluctuations in raw material prices or continuous increases in costs related to labor, labor services, installation and maintenance services could negatively impact the Company’s profitability.
3. Exchange rate risk. Significant fluctuations in the RMB exchange rate could directly affect the cost competitiveness of the Company’s overseas products, thereby impacting the profitability of its overseas business.
4. Market risk due to trade protectionism and trade barriers. If certain countries and regions escalate trade barriers by raising tariffs or implementing mandatory certification to safeguard their own economic interests, it may increase operating costs for the Company and indirectly affect the competitiveness of the overseas business.

Management Discussion and Analysis

V. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

1. 2024 A Share Employee Stock Ownership Plan

On 22 February 2024, the EGM considered and approved (i) the resolution on the 2024 A Share Employee Stock Ownership Plan (Draft) of the Company and its summary, (ii) the resolution on the Administrative Measures for the 2024 A Share Employee Stock Ownership Plan of the Company and (iii) the resolution to propose the general meeting of shareholders to authorize the Board to deal with matters in relation to the 2024 A Share Employee Stock Ownership Plan of the Company. For details, please refer to the Company's circular dated 5 February 2024 and the Company's announcement dated 22 February 2024.

As at the date of this annual report, the Company has not yet administered the 2024 A Share Employee Stock Ownership Plan.

2. Repurchase of A Shares

On 8 January 2024, the Company convened the 1st extraordinary meeting of the eleventh session of the Board, in which the resolution relating to the plan of the repurchase of A Shares of the Company through centralized bidding trading (the "**2024 A Share Repurchase Plan**") was considered and approved. The 2024 A Shares repurchased under the A Share Repurchase Plan are intended to be used for the 2024 A Share Employee Stock Ownership Plan. The upper limit of the repurchase price under the 2024 A Share Repurchase Plan was not more than RMB27.00 per Share (inclusive), and the total repurchase funds were not less than RMB187,870,000 (inclusive) and not more than RMB375,730,000 (inclusive).

Please refer to the Company's announcement dated 8 January 2024 for details.

From 17 January 2024 to 29 February 2024, the Company repurchased 13,615,468 A Shares of the Company through centralized bidding trading at a total transaction amount of RMB335,319,596.75 (excluding transaction fees).

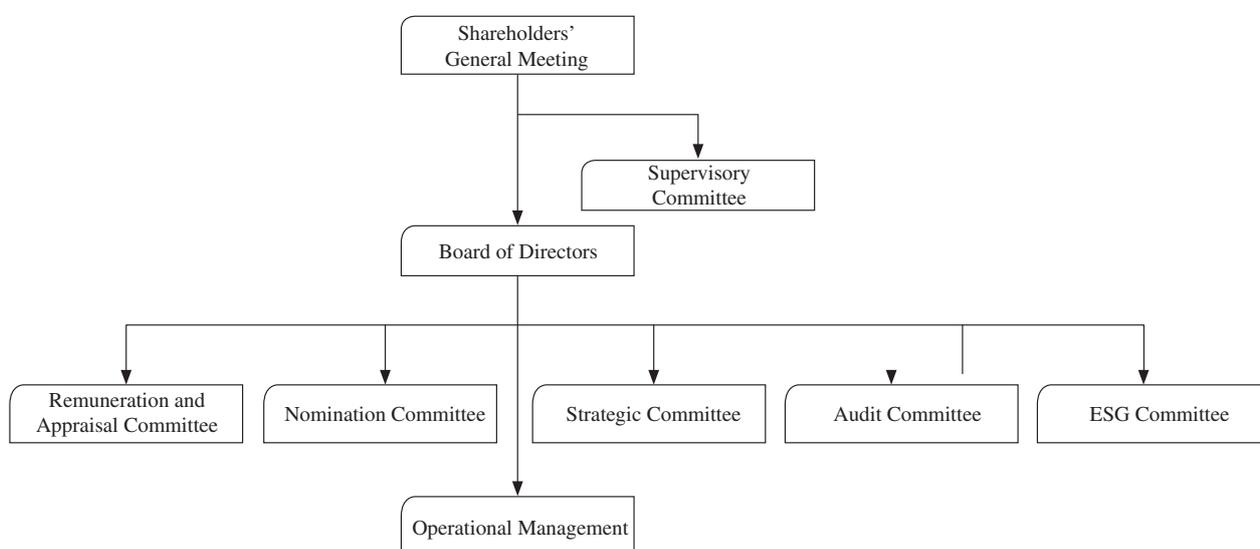
As at the date of this annual report, the repurchase of A shares under the 2024 A Share Repurchase Plan has not been completed.

Corporate Governance Report

Sound corporate governance is the basic assurance to the long-term healthy and stable development of a corporation, whereas continued enhancement of the governance level is a necessary measure to maintain the healthy development of the Company. During the Reporting Period, The shareholders' general meetings, the Board of Directors 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 C1 to the Hong Kong Listing Rules as its own code to govern its corporate governance practices.

(I) CORPORATE GOVERNANCE STRUCTURE:



(a) General Meetings

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

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

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

Corporate Governance Report

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

In 2023, one annual general meeting (“AGM”) was held by the Company on 29 June 2023, three extraordinary general meetings (“EGMs”) were held by the Company on 9 January 2023, 28 February 2023 and 19 April 2023 respectively, one A Share class meeting and one H Share class meeting (the “Class Meetings”) were held by the Company on 28 February 2023. The shareholding held by the shareholders attending the AGM represented 45.39% of the then total issued shares of the Company. The shareholding held by the shareholders attending the first EGM represented 52.57% of the then total issued shares of the Company. The shareholding held by the shareholders attending the second EGM and the Class Meetings represented 65.78% of the then total issued shares of the Company. The shareholding held by the shareholders attending the third EGM represented 46.45% of the then total issued shares of the Company.

The attendance records of the directors of the Company are set out in the following table:

Attendance of the general meetings of the Company 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. Dai Hui Zhong	4	4	0	100%
Mr. Jia Shao Qian	4	4	0	100%
Mr. Yu Zhi Tao ^(Note 1)	1	1	0	100%
Mr. Hu Jian Yong ^(Note 2)	1	1	0	100%
Mr. Xia Zhang Zhua	4	4	0	100%
Ms. Gao Yu Ling	4	4	0	100%
Mr. Zhong Geng Shen	4	4	0	100%
Mr. Cheung Sai Kit	4	4	0	100%
Mr. Li Zhi Gang ^(Note 3)	3	3	0	100%
Mr. Lin Lan ^(Note 4)	2	2	0	100%
Mr. Fei Li Cheng ^(Note 5)	2	2	0	100%
Mr. Ma Jin Quan ^(Note 6)	1	1	0	100%

Notes:

1. Mr. Yu Zhi Tao has been an executive Director of the Company since 19 April 2023;
2. Mr. Hu Jian Yong has been an executive Director of the Company since 19 April 2023;
3. Mr. Li Zhi Gang has been an independent non-executive Director of the Company since 9 January 2023;
4. Mr. Lin Lan has ceased to be an executive Director of the Company with effect from 28 February 2023;
5. Mr. Fei Li Cheng has ceased to be an executive Director of the Company with effect from 28 February 2023; and
6. Mr. Ma Jin Quan has ceased to be an independent non-executive Director of the Company with effect from 9 January 2023.

Corporate Governance Report

Rights of Shareholders

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

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

- (1) Shareholders holding individually or in aggregate 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
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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 hxjd.hisense.cn.

Changes in constitutional documents

On 28 February 2023, the shareholders of the Company approved the amendments to the Articles of Association at the 2023 second EGM, the 2023 first A share class meeting and the 2023 first H share class meeting. The relevant amendments were made according to the Company Law, Guidelines on the Articles of Association of Listed Companies (《上市公司章程指引》), and the relevant provisions of the Hong Kong Listing Rules. For details, please refer to the Company's announcement and circular dated 13 January 2023 and 13 February 2023.

The Company further amended its Articles of Association pursuant to the resolutions of the shareholders on 29 June 2023. For details, please refer to the Company's announcement and circular both dated 8 June 2023.

The full text of the Amended and Restated Articles of Association can be found at the Hong Kong Stock Exchange's website (<https://www.hkexnews.hk>) and the Company's website (hxjd.hisense.cn).

Corporate Governance Report

(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.

As at the date of this report, the Board comprised nine Directors, including six executive Directors, namely Mr. Dai Hui Zhong (Chairman), Mr. Jia Shao Qian, Mr. Yu Zhi Tao, Mr. Hu Jian Yong, Mr. Xia Zhang Zhua and Ms. Gao Yu Ling, and three independent non-executive Directors, namely, Mr. Zhong Geng Shen, Mr. Cheung Sai Kit and Mr. Li Zhi Gang. The following changes in the composition of the Board during the Reporting Period:

- (i) Mr. Ma Jin Quan has ceased to be an independent non-executive Directors of the Company with effect from 9 January 2023.
- (ii) Mr. Li Zhi Gang has been an independent non-executive Directors of the Company since 9 January 2023;
- (iii) Mr. Lin Lan has ceased to be an executive Director of the Company with effect from 28 February 2023;
- (iv) Mr. Fei Li Cheng has ceased to be an executive Director of the Company with effect from 28 February 2023;
- (v) Mr. Yu Zhi Tao has been an executive Director of the Company since 19 April 2023; and
- (vi) Mr. Hu Jian Yong has been an executive Director of the Company since 19 April 2023.

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

The Directors of the Company are all elected by the general meetings, with term of office of three years, which are renewable upon re-election and reappointment. Each of the independent non-executive Directors shall not remain in office for more than six years.

Corporate Governance Report

Board Diversity Policy

The Board has adopted a board diversity policy. The Company recognises and embraces the benefits of having a diverse board to enhance the quality of its performance. With a view to achieving sustainable and balanced development, the Company aims to achieve board diversity through consideration of a number of factors including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of services, and the selection of director candidates will be based on a range of diversity aspects and the final decision will be based on merits of and contribution that candidate may bring to the Board. The board diversity policy of the Company has been well implemented as the Board currently comprises one female Director, namely Ms. Gao Yu Ling, who was appointed as the executive Director on 19 January 2022.

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 64 and 65 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 2023 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.

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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.

In 2023, the Board of the Company held 13 meetings to discuss the Company's important operating matters. The Directors attended the meetings in person, and their attendance records are set out in the following table:

Attendance of the meetings of the Board in 2023 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. Dai Hui Zhong	13	13	0	100%
Mr. Jia Shao Qian	13	13	0	100%
Mr. Yu Zhi Tao ^(Note 1)	7	7	0	100%
Mr. Hu Jian Yong ^(Note 2)	7	7	0	100%
Mr. Xia Zhang Zhua	13	13	0	100%
Ms. Gao Yu Ling	13	13	0	100%
Mr. Zhong Geng Shen	13	13	0	100%
Mr. Cheung Sai Kit	13	13	0	100%
Mr. Li Zhi Gang ^(Note 3)	13	13	0	100%
Mr. Lin Lan ^(Note 4)	2	2	0	100%
Mr. Fei Li Cheng ^(Note 5)	2	2	0	100%
Mr. Ma Jin Quan ^(Note 6)	0	0	0	0%

Notes:

1. Mr. Yu Zhi Tao has been an executive Director of the Company since 19 April 2023;
2. Mr. Hu Jian Yong has been an executive Director of the Company since 19 April 2023;
3. Mr. Li Zhi Gang has been an independent non-executive Director of the Company since 9 January 2023;
4. Mr. Lin Lan has ceased to be an executive Director of the Company with effect from 28 February 2023;

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5. Mr. Fei Li Cheng has ceased to be an executive Director of the Company with effect from 28 February 2023; and
6. Mr. Ma Jin Quan has ceased to be an independent non-executive Director of the Company with effect from 9 January 2023.

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.

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 A.2.1 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 terms of office of Mr. Zhong Keng Shen, Mr. Cheung Sai Kit and Mr Li Zhi Gang will expire on 24 June 2024.

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.

Corporate Governance Report

Specialised Committees of the Board

The Board has established five specialised committees, namely, the Remuneration and Appraisal Committee, the Nomination Committee, the Strategic Committee, the Audit Committee and the ESG 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, the Remuneration and Appraisal Committee consisted of two executive Directors, namely, Mr. Jia Shao Qian, Mr. Yu Zhi Tao and three independent non-executive Directors, namely, Mr. Zhong Geng Shen, Mr. Cheung Sai Kit and Mr. Li Zhi Gang. Mr. Li Zhi Gang acted as the chairman of the committee.

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

- (A) to study, formulate and conduct appraisal standards for the Company's Directors and senior management, to formulate and review remuneration policies and packages for Directors and senior management, and to make recommendations to the Board on the following matters:
1. the remuneration of Directors and senior management;
 2. formulation or change of equity incentive scheme and employee stock ownership plan, fulfillment of the conditions for the grant and the exercise of rights to participants;
 3. arrangement of shareholding plans for Directors and senior management in subsidiaries proposed to be spun off;
 4. other matters stipulated by laws, regulations, securities regulatory rules of the place where the Company's shares are listed and the Articles of Association.
- (B) 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;
- (C) 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;
- (D) 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;
- (E) to make recommendations to the Board for the remuneration of independent non-executive Directors;
- (F) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

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- (G) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management (adopted the approach under code provision E.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;
- (H) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions of other positions in the Group;
- (I) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and
- (J) 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 72 of this annual report.

The Remuneration and Appraisal Committee of the Board held six 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 by the committee members

Name	Number of meeting which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Li Zhi Gang ^(Note 1)	6	6	0	100%
Mr. Jia Shao Qian	6	6	0	100%
Mr. Yu Zhi Tao ^(Note 2)	3	3	0	100%
Mr. Zhong Geng Shen	6	6	0	100%
Mr. Cheung Sai Kit	6	6	0	100%
Mr. Lin Lan ^(Note 3)	1	1	0	100%

Note:

1. Mr. Li Zhi Gang has been an independent non-executive Director of the Company since 9 January 2023;
2. Mr. Yu Zhi Tao has been an executive Director of the Company since 19 April 2023; and
3. Mr. Lin Lan has ceased to be an executive Director of the Company with effect from 28 February 2023.

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

1. Resolution on the election of Mr. Li Zhi Gang as the chairman of the eleventh session of the Remuneration and Appraisal Committee of the Board of the Company;
2. Resolution in relation to the annual remuneration of Executive Director candidates, namely Mr. Yu Zhi Tao and Mr. Hu Jian Yong;
3. Resolution on the annual remuneration of the chairman and senior management of the Company for the annual results of 2022;
4. Resolution on the annual remuneration policy of the senior management of the Company;
5. Resolution on the basic annual remuneration of the senior management of the Company;
6. Resolution on the election of Mr. Yu Zhi Tao as the member of the eleventh session of the Remuneration and Appraisal Committee of the Company (whose term of office expires upon the expiry of the eleventh session of the Board);
7. Resolution on allocation of reserved shares under the 2022 A Share Employee Stock Ownership Plan;
8. Resolution on the repurchase and cancellation of certain restricted A Shares; and
9. Resolution on the basic annual remuneration of the Chairman of the Company.

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 2023 are set out on pages 97 to 98 of this annual report.

Nomination Committee

The Board has established the Nomination Committee with specific written terms of reference. During the Reporting Period, the Nomination Committee comprised executive Directors, namely, Mr. Dai Hui Zhong, Mr. Jia Shao Qian and three independent non-executive Directors, namely, Mr. Zhong Geng Shen, Mr. Cheung Sai Kit and Mr. Li Zhi Gang. Mr. Zhong Geng Shen acted as the chairman of the committee.

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The major duties and authority of the Nomination Committee are:

- (A) to study and formulate criteria and procedures for the selection of Directors and senior management, to select and review the candidates of Directors and senior management and their qualifications for appointment, and to make recommendations to the Board on the following matters:
 - 1. nomination or removal of Directors;
 - 2. appointment or dismissal of senior management;
 - 3. other matters stipulated by laws, regulations, securities regulatory rules of the place where the Company's shares are listed and the Articles of Association.
- (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 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;
- (D) to assess the independence of the independent non-executive Directors;
- (E) 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
- (F) other matters authorised by the Board.

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.

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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 by the committee members				
Name	Number of meeting which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Zhong Kong Shen	2	2	0	100%
Mr. Dai Hui Zhong	2	2	0	100%
Mr. Jia Shao Qian	2	2	0	100%
Mr. Cheung Sai Kit	2	2	0	100%
Mr. Li Zhi Gang ^{Note 1}	2	2	0	100%

Notes:

1. Mr. Li Zhi Gang has been an independent non-executive Director of the Company since 9 January 2023.

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

- (i) the resolution for the election of Mr. Li Zhi Gang as a member of the Nomination Committee of the eleventh session of the Board;
- (ii) the resolution for the nomination of Mr. Hu Jian Yong as an executive Director of the eleventh session of the Board; and
- (iii) the resolution for the nomination of Mr. Yu Zhi Tao as an executive Director of the eleventh session of the Board.

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.

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Strategic Committee

The Board has established the Strategic Committee with specific written terms of reference. During the Reporting Period, the Strategic Committee of the eleventh session of the Board comprised the executive Directors, namely, Mr. Dai Hui Zhong, Mr. Jia Shao Qian, Mr. Yu Zhi Tao, Mr. Hu Jian Yong and Mr. Xia Zhang Zhua. Mr. Dai Hui Zhong 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.

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

Attendance of the meetings of the Strategic Committee of the Board by the committee members

Name	Number of meeting which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Dai Hui Zhong	2	2	0	100%
Mr. Jia Shao Qian	2	2	0	100%
Mr. Yu Zhi Tao ^{Note 1}	2	2	0	100%
Mr. Hu Jian Yong ^{Note 2}	2	2	0	100%
Mr. Xia Zhang Zhua	2	2	0	100%

Notes:

1. Mr. Yu Zhi Tao has been an executive Director of the Company since 19 April 2023; and
2. Mr. Hu Jian Yong has been an executive Director of the Company since 19 April 2023.

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

- (i) the resolution for the election of Mr. Yu Zhi Tao and Mr. Hu Jian Yong as members of the Strategic Committee of the eleventh session of the Board; and
- (ii) the resolution on the establishment of a joint venture company with a connected party.

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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:

- (1) to supervise and assess external audits, and to make recommendations on the appointment or change of external auditing body; 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;
- (2) 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;
- (3) 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;
- (4) To review and express an opinion on the Company's financial statements. To review the Company's financial accounting reports and express an opinion on the truthfulness, accuracy and completeness of the financial accounting reports, focusing on significant accounting and auditing issues in the Company's financial accounting reports, with particular attention to the possibility of fraud, fraudulent acts and material misstatements related to the financial accounting reports, and to oversee the rectification of problems in the financial accounting reports. The Audit Committee shall urge the external audit institutions to be honest, trustworthy, diligent and responsible, strictly abide by the business rules and industry discipline regulations, strictly implement the internal control system, check and verify the Company's financial and accounting reports, perform the special care obligations, and prudently express professional opinions. In reviewing these reports before submission to the Board, the committee should focus particularly on:
 1. any changes in accounting policies and practices;
 2. major judgmental areas;

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3. significant adjustments resulting from the audit;
 4. the going concern assumptions and any qualifications;
 5. compliance with accounting standards; and
 6. compliance with the listing rules of the stock exchange where the shares are listed and legal requirements in relation to financial reporting;
- (5) Regarding item (4) above:
1. members of the committee should liaise with the Board and senior management; 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.
- (6) to supervise and assess the Company's internal control; to review the Company's financial controls, risk management and internal control systems;
- (7) 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, experience and training programmes, and relevant budget of the Company's accounting and financial reporting function;
- (8) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (9) to supervise and assess internal audits, to be responsible for the co-ordination between internal audits and external audits, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- (10) to examine and review the Company's financial, accounting policies and practices;
- (11) to review the management letter 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;
- (12) to ensure that the Board will provide a timely response to the issues raised in the management letter provided to the management by the external auditing body;
- (13) to urge the external auditors to be honest, trustworthy and diligent, to strictly comply with the business rules and industry self-regulatory norms, to strictly implement the internal control system, to verify and validate the financial accounting reports of the Company, to perform special attention obligations and to express professional opinions prudently.

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- (14) to report to the Board on the matters in these terms of reference;
- (15) to examine and review the following arrangements: employees of the Company can, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for the Company to conduct fair and independent investigation of these matters and for appropriate follow-up action;
- (16) to act as the key representative body for overseeing the Company's relationship with the external auditing body;
- (17) to establish anti-corruption and whistle-blowing mechanism to follow, pay attention to and openly handle the questions and complaints made by the staff, customers, suppliers and investors of the Company and social media on the truthfulness, accuracy and completeness of financial information;
- (18) 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
- (19) to be responsible for matters pursuant to the laws, regulations, Articles of Association and such other matters as the Board may authorize.

All members of the Audit Committee are independent non-executive Directors. During the Reporting Period, the Audit Committee consisted of Mr. Cheung Sai Kit, Mr. Zhong Geng Shen and Mr. Li Zhi Gang. Mr. Cheung Sai Kit acted as the chairman of the committee.

The Audit Committee held seven 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 by the committee members

Name	Number of meeting which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Cheung Sai Kit	7	7	0	100%
Mr. Zhong Geng Shen	7	7	0	100%
Mr. Li Zhi Gang ^{Note 1}	7	7	0	100%

Note:

1. Mr. Li Zhi Gang has been an independent non-executive Director of the Company since 9 January 2023.

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In 2023, 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 2022 and the final report for the audit work conducted by the auditing body for the year of 2022;
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 2023;
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.

ESG Committee

The Board has established the ESG Committee with specific written terms of reference. During the Reporting Period, the ESG Committee of the eleventh session of the Board comprised the executive Directors, namely, Mr. Dai Hui Zhong, Mr. Jia Shao Qian, Mr. Yu Zhi Tao, Mr. Hu Jian Yong and Ms. Gao Yu Ling. Mr. Dai Hui Zhong acted as the chairman of the committee.

The ESG Committee of the Board is a specialised working organisation under the Board, primarily responsible for studying and making recommendations on the environmental, social and corporate governance work of the Group.

During the Reporting Period, the ESG 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 ESG 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.

Corporate Governance Report

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

Name	Number of meeting which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Dai Hui Zhong	1	1	0	100%
Mr. Jia Shao Qian	1	1	0	100%
Mr. Yu Zhi Tao	1	1	0	100%
Mr. Hu Jian Yong	1	1	0	100%
Ms. Gao Yu Ling	1	1	0	100%

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

The Chairman and members of the eleventh Environmental, Social and Corporate Governance (ESG) Committee of the Company (the term of office is until the expiry of the eleventh term of the Board).

(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.

During the Reporting Period, the Supervisory Committee comprised two shareholders representative supervisors, namely Mr. Liu Zhen Shun and Ms. Sun Jia Hui and one employee representative supervisor, Ms. Yin Zhi Xin, with Mr. Liu Zhen Shun acting as the chairman of the Supervisory Committee.

Please also refer to the profiles of the Supervisory Committee set out on page 65 of this annual report.

Corporate Governance Report

(II) COMPLIANCE WITH THE 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 C1 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.

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

Name	Type of training (Note)
Mr. Dai Hui Zhong	b
Mr. Jia Shao Qian	b
Mr. Yu Zhi Tao	a, b
Mr. Hu Jian Yong	a, b
Mr. Xia Zhang Zhua	b
Ms. Gao Yu Ling	b
Mr. Zhong Geng Shen	a, b
Mr. Cheung Sai Kit	a, b
Mr. Li Zhi Gang	a, 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.

Corporate Governance Report

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 are as follows:

Position	Chairman	Former President	President
Name	Mr. Dai Hui Zhong	Mr. Dai Hui Zhong	Mr. Hu Jian Yong
Term of office	28 October 2021 to present	28 October 2021 to 28 February 2023	28 February 2023 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 28 February 2023, Mr. Dai Hui Zhong has ceased to serve as the President of the Company and the position of the President has been held by Mr. Hu Jian Yong.

Internal Control

During the Reporting Period, pursuant to the provisions and requirements of the "Basic Norms for Enterprise Internal Control" and its ancillary guidelines, with the objectives of enhancing the level of corporate operation and management and risk prevention ability, as well as reasonably ensuring the compliance of the Company's operation with 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 2022. 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.

Corporate Governance Report

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 2023, the Company has maintained effective internal control related to financial reporting in accordance with the "Basic Norms for Enterprise Internal Control" and the relevant requirements in all material respects.

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

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

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

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

Corporate Governance Report

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 C3 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 29 June 2023, 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 2023, 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 2023 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

Ms. Wong Tak Fong has been 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 Board secretary of the Company, Ms. Zhang Yu Xin, 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

Incumbent Directors

Mr. Dai Hui Zhong, aged 58, Bachelor degree, served successively as the vice-general manager of Qingdao Hisense Mould Co., Ltd., the director and the general manager of Hisense Visual, the chairman and the president of Hisense Broadband Multimedia Technology (BVI) Inc., and the vice president and the senior vice president of Hisense Company Limited. Mr. Dai serves as the senior vice president of Hisense Group and the Chairman of the Company.

Mr. Jia Shao Qian, aged 51, Master of Management, served successively as the legal advisor of legal affairs department and the director of the president's office of Hisense Company Limited, the supervisor of Hisense Visual, the president and the vice president of the Company, the general manager of Hisense (Shandong) Refrigerator Co., the executive vice president of Hisense Company Limited, and the president of Hisense Group. Mr. Jia serves as the chairman of Hisense Group, the director of Hisense Visual and the director of the Company.

Mr. Yu Zhi Tao, aged 47, Bachelor degree, served successively as a research & development (“R&D”) engineer of Hisense Company Limited, the deputy general manager of Qingdao Hisense Mobile Technology Company Ltd., the general manager of software R&D department and overseas R&D department and the deputy general manager and the president of R&D centre of Hisense Visual, the deputy general manager and the general manager of Qingdao Hisense Media Network Technology Company Ltd.* (青島海信傳媒網絡技術有限公司), the general manager of VIDAA Technology Co., Ltd.* (聚好看科技股份有限公司). Mr. Yu serves as the president of Hisense Group, the Chairman of Hisense Visual and the director of the Company.

Mr. Hu Jian Yong, aged 50, Bachelor degree, served successively as an assistant general manager, the deputy general manager and the general manager of Hisense Visual, an assistant general manager and the vice president of Hisense Management. Mr. Hu serves as the President of the Company.

Mr. Xia Zhang Zhua, aged 45, Bachelor of Engineering, served successively a senior engineer of Huawei Technologies Co., Ltd.* (華為技術有限公司), the director of R&D Centre, the assistant general manager and the deputy general manager of Qingdao Hisense Media Network Technology Co., Ltd. and the deputy general manager of VIDAA Technology Co., Ltd.. Mr. Xia serves as the director of the Company and the general manager of Home Appliance R&D Center.

Ms. Gao Yu Ling, aged 42, Master of Management, served successively as the deputy director of finance center of Hisense Visual, the chief financial officer and the chief accountant of the Company, the general manager and deputy chief accountant of financial and operation management department of Hisense Company Limited, the general manager and the deputy chief accountant of financial and operation management department of Hisense Group. Ms. Gao serves as the director, the chief financial officer and the chief accountant of the Company.

Mr. Zhong Geng Shen, aged 63, Doctor of Management of Nankai University, served as an associate professor and a professor at the School of Economics and the School of Management of Shandong University. He serves as an executive director of Chinese Enterprise Management Research Association, an independent director of Shandong Publishing & Media Co., Ltd.* (山東出版傳媒股份有限公司), an independent director of Luyin Investment Group Co.* (魯銀投資集團股份有限公司) and the independent non-executive director of the Company.

Profiles of Directors, Supervisors and Members of the Senior Management

Mr. Cheung Sai Kit, aged 52, Certified Public Accountant in Hong Kong and a member of CPA Australia, served successively as the senior audit manager at BDO Limited and KPMG, the executive director of BDO Limited and a counsellor of Moore Stephens CPA Limited. He serves as an executive director of Moore Stephens CPA Limited, and the independent non-executive director of the Company.

Mr. Li Zhi Gang, aged 48, Doctor of Management of Nankai University, served as an associate professor at the School of Management of Ocean University of China. He serves as a professor at the School of Management of Ocean University of China, an independent director of Qingdao Thunderobot Technology Co., Ltd.*(青島雷神科技股份有限公司), and the independent non-executive director of the Company.

Incumbent Supervisors

Mr. Liu Zhen Shun, aged 54, 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 the discipline committee of Hisense Company Limited, the secretary of the discipline committee of Hisense Group. He serves as the chairman of the Supervisory Committee, deputy secretary of the Party Committee and the general manager of legal and intellectual properties department of the Hisense Group, and the chairman of the Supervisory Committee of the Company.

Ms. Sun Jia Hui, aged 35, Master of Management of Shandong University, served successively as the head of audit department, the head of business analysis of finance and operation management department of Hisense Company Limited, the vice-general manager of finance and operation management department of Hisense Visual, and the head of operation management department under the finance and operation management department of Hisense Company Limited. She serves as the vice-general manager of finance and operation management department of Hisense Group, and the Company's supervisor.

Mr. Yin Zhi Xin, aged 35, Bachelor degree, served as the head of marketing management department of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd, the director of brand department of Guangdong Hisense Refrigerator Marketing Co., Ltd, the vice general manager of customer and brand operations department, the director of president's office of the Company, the vice president of Hisense Refrigerator Co.. He serves as the general manager of Hisense Washing Machine Company and the supervisor of the Company.

Incumbent Senior Management Members

Mr. Hu Jian Yong, aged 50, Bachelor degree, served successively as an assistant general manager, the deputy general manager and the general manager of Hisense Visual, an assistant general manager and the vice president of Hisense Management. Mr. Hu serves as the President of the Company.

Ms. Gao Yu Ling, aged 42, Master of Management, served successively as the deputy director of finance center of Hisense Visual, the chief financial officer and chief accountant of the Company, the general manager and the deputy chief accountant of financial and operation management department of Hisense Company Limited, the general manager and the deputy chief accountant of financial and operation management department of Hisense Group. Ms. Gao serves as the director, the chief financial officer and the chief accountant of the Company.

Profiles of Directors, Supervisors and Members of the Senior Management

Ms. Zhang Yu Xin, aged 37, holds a Bachelor's degree and a Master's degree in law from Tsinghua University and a Master's degree in Public Administration from Cornell University, worked for Roland Berger Strategy Consultants Ltd, Swiss Bank and Haier Smart Home Co., Ltd. She serves as the Secretary of the Board of the Company.

Ms. Wong Tak Fong, aged 57, 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 Group and Hisense Air-Conditioning mentioned in the above profiles are substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

As at the date of this report, Mr. Dai Hui Zhong is a senior management of Hisense Group and the director of Hisense Air Conditioning. Hisense Group and Hisense Air Conditioning were deemed to have 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").

As at the date of this report, Mr. Jia Shao Qian is the director of Hisense Group and the director of Hisense Air Conditioning. Hisense Group and Hisense Air Conditioning were deemed to have 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 SFO.

As at the date of this report, Mr. Yu Zhi Tao is a senior management of Hisense Group. Hisense Group was deemed to have 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 SFO.

Report of the Directors

BOARD COMPOSITION

As at the date of this annual report, the Board comprised six executive Directors, being Mr. Dai Hui Zhong, Mr. Jia Shao Qian, Mr. Yu Zhi Tao, Mr. Hu Jian Yong, Mr. Xia Zhang Zhua and Ms. Gao Yu Ling, and three independent non-executive Directors, being Mr. Zhong Geng Shen, Mr. Cheung Sai Kit and Mr. Li Zhi Gang.

The Directors of the Company during the Reporting Period are set out below.

Executive Directors

Mr. Dai Hui Zhong

Mr. Jia Shao Qian

Mr. Yu Zhi Tao ^{Note 1}

Mr. Hu Jian Yong ^{Note 2}

Mr. Xia Zhang Zhua

Ms. Gao Yu Ling

Mr. Lin Lan ^{Note 3}

Mr. Fei Li Cheng ^{Note 4}

Independent Non-executive Directors

Mr. Zhong Geng Shen

Mr. Cheung Sai Kit

Mr. Li Zhi Gang ^{Note 5}

Mr. Ma Jin Quan ^{Note 6}

Notes:

1. Mr. Yu Zhi Tao has been appointed as an executive Director of the Company since 19 April 2023.
2. Mr. Hu Jian Yong has been appointed as an executive Director of the Company since 19 April 2023.
3. Mr. Lin Lan has ceased to be an executive Director of the Company with effect from 28 February 2023 due to job adjustment.
4. Mr. Fei Li Cheng has ceased to be an executive Director of the Company with effect from 28 February 2023 due to job adjustment.
5. Mr. Li Zhi Gang has been appointed as an independent non-executive Director of the Company since 9 January 2023, and
6. Mr. Ma Jin Quan has ceased to be an independent non-executive Director of the Company with effect from 9 January 2023 due to the expiry of his term of office.

Report of the Directors

PRINCIPAL BUSINESSES

The Group is mainly engaged in the R&D, manufacturing and marketing of refrigerators, household air-conditioners, central air-conditioners, freezers, washing machines, kitchen appliances and other electrical products, as well as of moulds, automotive air conditioner compressors and integrated thermal management systems, and provides full-scenario smart home solutions centered on intelligent upgrading of household 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 2023 Environmental, Social and Governance Report of the Company published on 24 April 2024, respectively.

These discussions form part of this Report of the Directors.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group closely integrated its energy conservation and emissions reduction efforts with its corporate operational strategy. This was done in full compliance with the laws, regulations and requirements of relevant systems of the Company for the purposes of further improving the environmental management system, specifying job responsibilities and detailed appraisal rules, strengthening supervision and management over the operation of environmental protection facilities and regulated environmental protection work. The Group's environmental protection work is always unremitting. The Company passed the recertification audit of ISO14001 environmental management system by the certification authority, and the certification certificate continues to be valid.

The Group maintains a refined system of occupational health and safety management. Its production safety management systems are developed at headquarters level in accordance with national laws and regulations. Corresponding rules for safe operation are also in place regarding the equipment and facilities of the Group's subordinate factories.

Report of the Directors

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 always prioritized customer needs by creating valuable products and improving services. The Company has increased customer satisfaction and offered the ideal experience for customers by improving its customer service system and putting policies in place to protect their rights and interests.

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 2023 Environmental, Social and Governance Report of the Company published on 24 April 2024.

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 by distributing dividends in form of cash, shares or a combination of both cash and shares and distribution of profits by cash dividends shall be a prioritized means. When the conditions for profit distribution by cash dividends are met, profit distribution by cash dividends shall be adopted. Share repurchase by means of offering or centralized bidding in consideration of cash shall be deemed as cash dividend and included in the percentage of cash dividend.

Report of the Directors

- (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.
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 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 Directors and the public 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.

Report of the Directors

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.

Please refer to the circular of the Company dated 27 May 2022 for further details on the Shareholders' Return Plan for the Next Three Years (2022-2024) of the Company, which has been approved by the shareholders of the Company at the 2021 annual general meeting held by the Company on 24 June 2022.

FINAL DIVIDEND

The Board proposes to distribute a cash dividend of RMB10.13 (tax inclusive) for every 10 shares to all shareholders (the "**Proposed Dividend**") on the basis of the total share capital of the Company of 1,373,429,913 shares which represents the total share capital of 1,387,935,370 shares deducting the repurchased shares from the repurchase account as at 29 March 2024 (as at 29 March 2024, the Company has repurchased 14,505,457 shares in total), without bonus issue and issue of shares by way of conversion of capital reserve. (For the year ended 31 December 2022, a cash dividend of RMB5.171314 (tax inclusive) per 10 shares was paid to all shareholders on the basis of the total share capital of 1,387,257,381 shares of the Company actually participating in the distribution).

The Proposed Dividend is subject to approval by the shareholders at the 2023 annual general meeting. Subject to the approval of the Proposed Dividend by the shareholders, the Proposed Dividend is expected to be paid on or about 15 August 2024. The total amount of profits to be distributed is expected to be RMB1,391,284,501.87. 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 V. (42-48) to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2023 are set out in note V. (48) and note XV to the financial statements.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

For the year ended 31 December 2023, net cash generated from operating activities of the Group amounted to approximately RMB10,612 million (2022: net cash generated from operating activities amounted to approximately RMB4,032 million).

As at 31 December 2023, the Group had cash and cash equivalents (including bank deposits, cash and guarantee balance) amounting to approximately RMB4,939 million (2022: RMB6,001 million), of which more than RMB3,926 million are denominated in Renminbi (2022: RMB5,315 million), and loans amounting to RMB3,301 million (2022: RMB3,464 million).

Report of the Directors

Total capital expenditures of the Group for the year ended 31 December 2023 amounted to approximately RMB985 million (2022: RMB883 million).

As at 31 December 2023, the Group's current liabilities amounted to RMB44,042 million, non-current liabilities amounted to RMB2,508 million, and shareholders' equity attributable to the shareholders of the Company amounted to RMB13,580 million.

Details of the Group's capital structure are set out in note X. (3) to the financial statements.

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 31 December 2023, the Group had 56,240 employees, mainly comprising 10,816 technical staff, 12,362 sales representatives, 497 financial staff, 1,236 administrative staff and 31,329 production staff. The Group had 76 employees with a doctorate degree, 2,500 with a master's degree and 53,664 with a bachelor's degree or below. For the year ended 31 December 2023, the Group's staff payroll amounted to RMB8,470 million (2022: RMB7,610 million).

EMPLOYEES' TRAINING AND REMUNERATION POLICY

Employees and talents are the cornerstone and guarantee of enterprise development. Under the talent management method of "selection-recruitment-cultivation-promotion-retention" and the two main tasks of "professional competency enhancement" and "management talent echelon construction", the Company systematically carries out employee training and development programs, so as to build broad development platform for the talents. In this way, both the overall employee quality and team capability are improved.

The Company has built a dual career advancement channel consisting of the professional channel and the management channel. In terms of the professional channel, the Company has established a job title and qualification management system, along with competency requirements and learning maps for each profession and stage. Moreover, the Company conducts annual employee capability certification programs, and those who pass are considered for qualification level promotion, thus driving long-term capability growth. In terms of the management channel, the Company has established a reserve talent selection mechanism, aiming to promote exceptional young employees to higher positions with more responsibilities and challenges.

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.

The Company takes training as the driving force to improve the quality and career development of employees and has built a three-level training system to implement staff training responsibilities at each level. During the Reporting Period, the total training hours of the Company exceeded 770,000 with 43,000 trainees. Further discussions on the Group's employees' training and remuneration policies are also contained in the 2023 Environmental, Social and Governance Report of the Company published on 24 April 2024.

Report of the Directors

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2023, the Group did not have major property, plant and equipment (including leasehold land held for own use), investment properties and trade receivables (31 December 2022: nil) which were pledged as security for the Group's borrowings.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Reporting Period are set out in note V.(15-16) to the financial statements.

PENSION SCHEMES

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

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

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

PUBLIC FLOAT

The Directors confirm that as at 29 March 2024, 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 eleventh session of the audit committee of the Company has reviewed the final results of the Group for the year ended 31 December 2023.

CAPITAL EXPENDITURE

The capital expenditure of the Group for 2023 was RMB985 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 2023, 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

GEARING RATIO

As of 31 December 2023, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 70.59% (2022: 70.60%).

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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 eleventh 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 eleventh 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' INTEREST 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" and "Other Connected Transactions" below, no contract of significance or contract of significance for the provision of services (as defined under note 15.2 of Appendix D2 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.

Report of the Directors

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NONEXECUTIVE DIRECTORS

The independent non-executive Directors of the eleventh 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.

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 AND SUPERVISORS

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

SHARE CAPITAL STRUCTURE

As at 31 December 2023, the share capital structure of the Company was as follows:

Class of shares	Number of shares	Percentage to the total issued share capital
A shares	928,345,562	66.89%
H shares	459,589,808	33.11%
Total	1,387,935,370	100.00%

Report of the Directors

TOP TEN SHAREHOLDERS

As at 31 December 2023, there were 20,853 (A shares: 20,816) 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	Domestic general legal person	516,758,670	37.23%	55.66%	0
HKSCC Nominees Limited ^{Note1}	Foreign legal person	458,904,667	33.06%	99.85%	0
The Hong Kong Securities Clearing Company (HKSCC) ^{Note2}	Foreign legal person	72,423,077	5.22%	7.80%	0
National Social Security Fund Portfolio No.101* (全國社保基金一零一組合)	Other	11,394,132	0.82%	1.23%	0
Hisense Home Appliances Group Co., Ltd. – the 2022 A Share Employee Stock Ownership Plan* (海信家電集團股份有限公司 – 2022年A股員工持股計劃)	Other	10,810,000	0.78%	1.16%	0
Zhang Shao Wu	Domestic natural person	7,200,000	0.52%	0.78%	0
Industrial and Commercial Bank of China – Southern Performance Growth Equity Securities Investment Fund* (中國工商銀行 – 南方績優成長股票型證券投資基金)	Other	7,187,151	0.52%	0.77%	0
Industrial and Commercial Bank of China – Fullgoal Research Selection Flexible Allocation Hybrid Securities Investment Fund* (中國工商銀行股份有限公司 – 富國研究精選靈活配置混合型證券投資基金)	Other	6,904,300	0.50%	0.74%	0

Report of the Directors

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
National Social Security Fund Portfolio No.103* (全國社保基金一零三組合)	Other	6,500,000	0.47%	0.70%	0
Industrial Securities Co., Ltd. – Purekind Xinrui Core Selection Hybrid Securities Investment Fund* (興業證券股份有限公司 – 淳厚信睿核心精選混合型證券投資基金)	Other	5,447,317	0.39%	0.59%	0

Note 1: HKSCC Nominees Limited is the nominal shareholder of the Company's non-registered shareholders in H shares. The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, among which, Hisense (Hong Kong) Company Limited, a party acting in concert with the controlling shareholder of the Company. By the end of this reporting period, Hisense (Hong Kong) Company Limited held a total of 124,452,000 H shares of the Company as at representing 8.97% of the total number of shares of the Company.

Note 2: HKSCC is the nominal shareholder of the Company's non-registered shareholders in A shares through Shenzhen Connect. The shares held by HKSCC are held on behalf of a number of its account participant.

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

Report of the Directors

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	458,904,667	Overseas listed foreign shares
HKSCC	72,423,077	RMB ordinary shares
National Social Security Fund Portfolio No.101*(全國社保基金一零一組合)	11,394,132	RMB ordinary shares
Hisense Home Appliances Group Co., Ltd. – the 2022 A Share Employee Stock Ownership Plan*(海信家電集團股份有限公司 – 2022年A股員工持股計劃)	10,810,000	RMB ordinary shares
Zhang Shao Wu	7,200,000	RMB ordinary shares
Industrial and Commercial Bank of China- Southern Performance Growth Equity Securities Investment Fund*(中國工商銀行 – 南方績優成長股票型證券投資基金)	7,187,151	RMB ordinary shares
Industrial and Commercial Bank of China - Fullgoal Research Selection Flexible Allocation Hybrid Securities Investment Fund*(中國工商銀行股份有限公司 – 富國研究精選靈活配置混合型證券投資基金)	6,904,300	RMB ordinary shares
National Social Security Fund Portfolio No.103*(全國社保基金一零三組合)	6,500,000	RMB ordinary shares
Industrial Securities Co., Ltd. – Purekind Xinrui Core Selection Hybrid Securities Investment Fund*(興業證券股份有限公司 – 淳厚信睿核心精選混合型證券投資基金)	5,447,317	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 2023, 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
Hisense Air-conditioning ^{Note}	Beneficial owner	A shares	516,758,670(L)	37.23%	55.66%
Hisense Group ^{Note}	Interest of controlled corporation	A shares	516,758,670(L)	37.23%	55.66%
Hisense Hong Kong ^{Note}	Beneficial owner	H shares	124,452,000(L)	8.97%	27.08%
Hisense Group	Interest of controlled corporation	H shares	124,452,000(L)	8.97%	27.08%

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

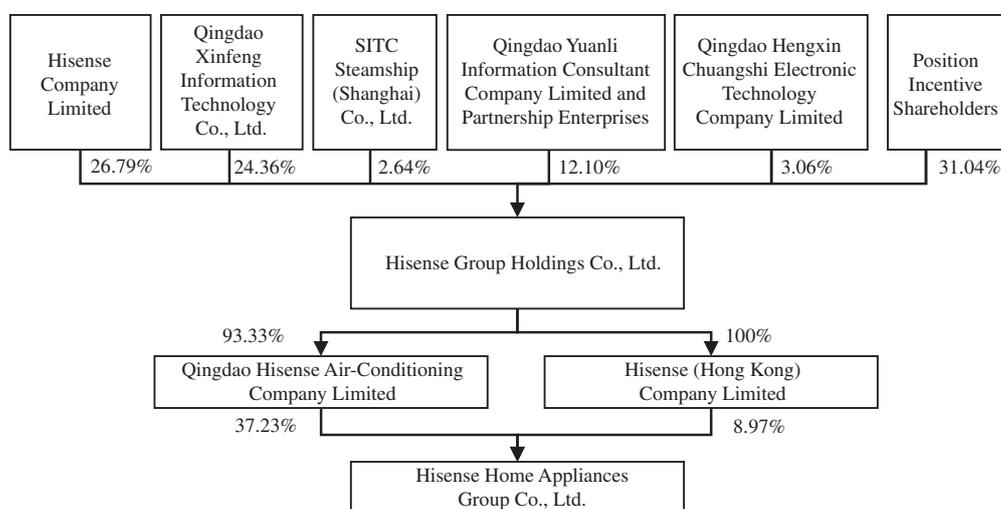
Note: Hisense Air-conditioning is a company 93.33% directly owned by Hisense Group, whereas Hisense Hong Kong is a company directly wholly-owned by Hisense Group. By virtue of the SFO, Hisense Group was deemed to be interested in the same parcel of A shares of which Hisense Air-conditioning was interested and in the same parcel of H shares of which Hisense Hong Kong was interested.

Save as disclosed above, as at 31 December 2023, 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. Dai Hui Zhong 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, the sum of the equity ratios in the above chart has a trailing difference.

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 2023, 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.

Report of the Directors

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. Dai Hui Zhong	Beneficial owner	900,000	0.10%	0.06%
Mr. Jia Shao Qian	Beneficial owner	954,360	0.10%	0.07%
Mr. Hu Jian Yong	Beneficial owner	660,000	0.07%	0.05%
Mr. Xia Zhang Zhua	Beneficial owner	450,000	0.05%	0.03%
Ms. Gao Yu Ling	Beneficial owner	550,000	0.06%	0.04%
Mr. Yin Zhi Xin	Beneficial owner	220,000	0.02%	0.02%

SALES TO MAJOR CUSTOMERS AND MAJOR SUPPLIERS

Sales to major customers of the Company

Total sales to top 5 customers (RMB)	25,301,014,047.13
Total sales to top 5 customers as a percentage of the total sales for the year (%)	29.56
Total sales to top 5 customers which are related parties as a percentage of the total sales for the year (%)	19.89

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	12,685,359,460.76	14.82
2	The second	6,220,292,414.43	7.27
3	The third	2,865,804,609.21	3.35
4	The fourth	2,056,718,487.21	2.40
5	The fifth	1,472,839,075.52	1.72

Explanation on the other situation of major customers

Applicable Not applicable

Among the top 5 customers, the first, third and fifth customers are controlled by Hisense Group and have connected relationship with the Company. Except for this, other customers have no connected relationship with the Company.

Major suppliers of the Company

Total purchases from top 5 suppliers (RMB)	6,123,544,758.83
Total purchases from top 5 suppliers as a percentage of the total purchases for the year (%)	9.18
Total purchases from top 5 suppliers which are related parties as a percentage of the total purchases for the year (%)	1.07

Report of the Directors

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	2,696,730,950.10	4.04
2	The second	1,015,862,970.08	1.52
3	The third	967,207,025.36	1.45
4	The fourth	732,200,061.52	1.10
5	The fifth	711,543,751.77	1.07

Explanation on the other situation of major suppliers

Applicable Not applicable

Among the top 5 suppliers, the fifth supplier and the Company are controlled by Hisense Group and have connected relationship with the Company. Except for this, other suppliers have no connected relationship with the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

On 30 December 2022, the Company convened the 10th extraordinary meeting of the eleventh session of the Board, in which the resolution relating to the plan of the repurchase of A Shares of the Company through centralized bidding trading (the “**2022 A Share Repurchase Plan**”) was considered and approved. The 2022 A Shares repurchased under the 2022 A Share Repurchase Plan are intended to be used for the 2022 A Share Employee Stock Ownership Plan.

On 14 March 2023, the Company convened the fourth extraordinary meeting of the eleventh session of the Board, in which the resolution relating to adjusting the plan of the repurchase of A Shares of the Company through centralized bidding trading was considered and approved. The upper limit of the repurchase price under the 2022 A Share Repurchase Plan was adjusted from not more than RMB17.00 per Share to not more than RMB21.00 per Share, and the total repurchase funds were adjusted from not less than RMB99,450,000 and not more than RMB198,900,000 to not less than RMB122,850,000 and not more than RMB245,700,000.

From 16 January 2023 to 16 March 2023, the Company repurchased 11,699,989 A Shares of the Company through centralized bidding trading at a total transaction amount of RMB211,401,111.66 (excluding transaction fees). As at the date of this annual report, the repurchase of A shares under the 2022 A Share Repurchase Plan has been completed.

Report of the Directors

The monthly report on the repurchase of A Shares by the Company in 2023 is as follows:

Month	Number of repurchases (shares)	Maximum purchase price per share (RMB/share)	Minimum purchase price per share (RMB/share)	Total funds used (RMB, excluding transaction costs)
January 2023	2,060,816	17	16.66	34,640,666.64
February 2023	4,630,673	17	16.71	78,383,813.67
March 2023	5,008,500	20.12	18.41	98,376,631.35

AUDITOR

On 29 June 2023, 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 2023, and the Board was authorised to fix their remuneration. There have been no changes of auditors of the Company in the preceding three years.

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.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As of 31 December 2023, the Group did not have any significant investment or future plans for material investments or capital assets.

As at 31 December 2023, the Group did not have detailed future plans for material investments or capital assets.

Report of the Directors

CONTINGENT LIABILITIES

As at 31 December 2023, the Group was involved, as defendant, in litigations with amount of RMB134,598,642.85, and recognised projected liabilities of RMB115,479,065.21 had been made.

Save as disclosed above, the Company did not have any significant contingent liabilities.

PERMITTED INDEMNITY

A Directors' and Officers' Liability Insurance is in place to protect the Directors and officers of the Group against any potential liability arising from the Group's activities which such Directors and officers may be held liable.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES IN OR DEBENTURES OF THE COMPANY

At no time during the year ended 31 December 2023 was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors or the Supervisors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouse or children under the age of 18 had any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

On 28 February 2023, the Company adopted the 2022 Restricted A Share Incentive Scheme and the 2022 A Share Employee Stock Ownership Plan. For details, please refer to the announcement dated 2 January 2023 and the circular dated 13 February 2023.

THE RESTRICTED SHARE INCENTIVE SCHEME AND EMPLOYEE STOCK OWNERSHIP PLAN

On 28 February 2023, the Company adopted the 2022 Restricted A Share Incentive Scheme (the "**Incentive Scheme**") on the 2023 second extraordinary general meeting, the 2023 first A Share class meeting and the 2023 first H Share class meeting, and adopted the 2022 A Share Employee Stock Ownership Plan (the "**Stock Ownership Plan**") on the 2023 second extraordinary general meeting.

A summary of the Incentive Scheme

1. *Purpose of the Incentive Scheme*

The purposes of the Incentive Scheme are to further establish and improve the Company's long-term incentive mechanism, attract and retain excellent talents, fully mobilize the enthusiasm of the mid-level management and key staff of the Company, effectively align the interests of the Shareholders, the Company and individuals of the core team to focus on the long-term development of the Company.

2. *Participants of the Incentive Scheme*

There are 596 participants (subsequently adjusted to 511 Participants) to be granted under the Incentive Scheme, who are mid-level management and key staff of the Company. All of the participants must be employed by the Company and enter into labour contracts or employment agreement with his/her employment unit at the time of the grant of Restricted Shares by the Company and during the appraisal period specified in the Incentive Scheme.

Report of the Directors

The participants granted under the Incentive Scheme include certain expatriate employees. The expatriate employees, who are the Participants, are in the core key positions of the Company and play an important role in the future operation and development of the Company. The implementation of the Incentive Scheme can better stabilize and attract foreign top talents to join the Company. All participants are the mid-level management and key staff of the Company, who are the pillar of achieving the strategic targets of the Company. The attraction, retention and the active mobility of such pillar are of utmost importance to the development of the Company. The Incentive Scheme will further facilitate the construction and stability of the core talent team of the Company, thus contributing to the long-term development of the Company.

The participants under the Incentive Scheme do not include the independent Directors, supervisors of the Company, Shareholders individually or in aggregate holding more than 5% of the Shares or the de facto controllers and their spouses, parents or children.

3. *Total number of shares available for issue under the Incentive Scheme and percentage of issued shares that it represents as at the date of the annual report*

The Restricted Shares proposed to be granted to the Participants under the Incentive Scheme shall be 29,618,000 Shares (subsequently adjusted to 25,422,000 Shares due to the adjustment of the number of the Participants), the underlying Shares of which are RMB ordinary A Shares. As at the date of this annual report, there is no Restricted Shares available for future grant under the Incentive Scheme.

4. *Maximum entitlements of each participant under the Incentive Scheme*

The total number of Shares granted under all incentive schemes of the Company to any Participant shall not exceed 1% of the total share capital of the Company.

5. *Basis of determination of the grant price*

The Grant Price of the Restricted Shares under the Incentive Scheme shall not be lower than the nominal value of the shares and not be lower than 50% of the higher of the followings:

- (a) the average trading price of the Shares for the last trading day preceding the Announcement Date (total trading amount for the last trading day/total trading volume for the last trading day) of RMB13.28 per Share;
- (b) the average trading price of the Shares for the last 60 trading days preceding the Announcement Date (total trading amount of the Shares for the last 60 trading days/total trading volume of the Shares for the last 60 trading days) of RMB12.07 per Share.

6. *Remaining validity period of the Incentive Scheme*

The Validity Period of the Incentive Scheme shall commence from the completion date of registration of the grant of the Restricted Shares and end on the date on which all Restricted Shares granted to Participants are unlocked or repurchased, and shall not exceed 48 months. The grant of all the Restricted Shares under the Incentive Scheme was made on 28 February 2023, the registration of which was completed on 23 May 2023. The validity term is from 23 May 2023 to 25 May 2026.

Report of the Directors

7. Fair values of the relevant options and awards as at the grant date and the accounting standards and policies adopted

According to the requirements of the Accounting Standards for Business Enterprises No. 11 – Share-based Payments and the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, on each balance sheet date during the Lock-up Period, the Company shall revise the number of the Restricted Shares expected to be unlocked with reference to the changes in the latest available number of persons eligible to unlock the Restricted Shares and the completion status of performance indicators, and recognize the services obtained in the current period in relevant costs or expenses and capital reserve at the fair value of the Restricted Shares as of the Grant Date. The fair value of the Restricted Shares granted on the date of grant was approximately RMB57.109 million.

The following table sets out the details of grant of the Restricted Shares under the Incentive Scheme during the Reporting Period.

Grantee	Date of grant	Unlocking period ⁽²⁾	Grant price	Closing price of the A Shares		Unvested as at 1 January 2023 ⁽³⁾	Granted during the Reporting Period	Vested during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Unvested as at 30 June 2023
				on the completion date of the registration for the grant	Closing price of the A Shares on the date of grant						
511 Participants who are mid-level management and key staff of the Company (including its controlled subsidiaries)	28 February 2023 ⁽¹⁾	The lock-up period of the Restricted Shares granted under the Incentive Scheme shall be 12 months, 24 months and 36 months from the completion date of registration of the grant of the Restricted Shares of the Participants, respectively.	RMB6.64 per A Share	RMB24.40 per A Share	RMB19.11 per A Share	N/A	25,422,000 A Shares	-	-	-	25,422,000 A Shares
Total							25,422,000 A Shares	-	-	-	25,422,000 A Shares

Notes:

- (1) The registration for the grant was completed on 23 May 2023.
- (2) The unlocking period, unlocking schedule and ratio of the Restricted Shares under the Incentive Scheme are set out in the table below:

Unlocking arrangement	Unlocking period	Unlocking ratio
First unlocking period	Commencing from the first trading day after the expiry of the 12-month period from the completion date of registration of the grant and ending on the last trading day of the 24-month period from the completion date of registration of the grant	40%
Second unlocking period	Commencing from the first trading day after the expiry of the 24-month period from the completion date of registration of the grant and ending on the last trading day of the 36-month period from the completion date of registration of the grant	30%
Third unlocking period	Commencing from the first trading day after the expiry of the 36-month period from the completion date of registration of the grant and ending on the last trading day of the 48-month period from the completion date of registration of the grant	30%

- (3) The Incentive Scheme was adopted on 28 February 2023.

Report of the Directors

A summary of the Stock Ownership Plan

1. *Purposes of the Stock Ownership Plan*

The purposes of the Stock Ownership Plan are to establish and improve the mechanism for sharing benefits between employees and shareholders, attract, motivate and retain core talents, improve corporate governance standards, increase the cohesion of employees and competitiveness of the Company, raise the enthusiasm and creativity of employees, and promote the long-term, sustainable and healthy development of the Company.

2. *Participants of the Stock Ownership Plan*

The participants of the Stock Ownership Plan are Directors (excluding independent Directors), supervisors, senior management and other core employees of the Company, who have an important role and influence on the overall performance and medium- to long-term development of the Company. The total number of Directors (excluding independent Directors), supervisors, senior management and other core employees of the Company participating in the Stock Ownership Plan shall not exceed 59 for the first grant, including 7 Directors, supervisor and senior management. The relationship between such personnel and the Stock Ownership Plan does not constitute acting-in-concert relationship.

3. *Total number of shares under the Stock Ownership Plan and percentage of issued shares that it represents as at the date of the annual report*

The underlying Shares under the Stock Ownership Plan will not exceed 11,700,000 Shares. As at the date of this annual report, there are 889,989 A Shares available for future grant under the Stock Ownership Plan, representing approximately 0.10% of the Company's total ordinary A Shares of 928,345,562 and 0.06% the Company's total share capital of 1,387,935,370 Shares.

4. *Maximum entitlements of each participant under the Stock Ownership Plan*

The number of the underlying Shares corresponding to the units of Stock Ownership Plan held by any Holder shall not exceed 1% of the total share capital of the Company (excluding the Shares acquired by the Holder before the Company's initial public offering for listing, the Shares purchased by the Holder through the secondary market and the Shares acquired through equity incentives).

5. *Purchase price and pricing basis of the Stock Ownership Plan*

The purchase price of the Shares held in the Company's designated securities repurchase account under the Stock Ownership Plan shall be RMB6.64 per Share, being 50% of the average price of the Shares traded on the last trading day preceding the Announcement Date.

The participants of the Stock Ownership Plan are Directors (excluding independent Directors), supervisors, senior management and other core employees of the Company, who are responsible for corporate governance, assisting in the formulation of the Company's strategic planning or other important tasks. The Company is of the view that, on the basis of compliance with the laws and regulations, providing incentives to these employees by granting Shares to them at an appropriate price can truly enhance the enthusiasm and sense of responsibility of the target employees.

Report of the Directors

6. Remaining validity period of the Stock Ownership Plan

The term of the Stock Ownership Plan shall be 48 months, commencing from the date on which the Company announces the transfer of the last tranche of underlying Shares for the first grant to the Stock Ownership Plan. If not extended, the Stock Ownership Plan will be terminated automatically upon the expiry of its term. Upon expiry of the lock-up period of the Stock Ownership Plan and if all the underlying Shares held under the Stock Ownership Plan are sold or transferred to the unit holders and liquidated and distributed in accordance with the regulations, the Stock Ownership Plan may be terminated prior to the expiry upon consideration and approval by the holders' meeting. The validity term is from 1 June 2023 to 1 June 2026.

7. Fair values of the relevant options and awards as at the grant date and the accounting standards and policies adopted

According to the provisions of Accounting Standards for Enterprises No. 11 – Share-based Payment, the equity-settled share-based payments in consideration of services rendered by staff that can only be exercised upon the completion of services or attainment of required performance targets within the vesting period are recognized in relevant cost or expenses and the capital reserve in respect of services obtained for the period at the fair value on the date of grant of the equity instrument based on the best estimate of the volume of exercisable equity instruments at each balance sheet date during the vesting period. The fair value of the underlying Shares of the Stock Ownership Plan granted on the date of grant was approximately RMB20.883 million.

The following table sets out the details of grant of Shares under the Stock Ownership Plan during the Reporting Period.

Grantee	Date of grant	Unlocking period	Purchase price	Closing price of the A Shares on the date of grant	Unvested as at 1 January 2023 ⁽³⁾	Granted during the Reporting Period	Vested during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Unvested as at 30 June 2023 ⁽²⁾	
Dai Hui Zhong (Chairman)		The underlying Shares acquired by the Stock Ownership Plan through non-trading transfer or other ways permitted by the laws and regulations shall be unlocked in three phases commencing from 12 months after the date of the announcement of the Company of the transfer of the last tranche of underlying Shares for the first grant to the Stock Ownership Plan. The lock-up period shall be up to 36 months.				900,000 A Shares	-	-	-	900,000 A Shares	
Jia Shao Qian (Executive Director)						550,000 A Shares	-	-	-	550,000 A Shares	
Hu Jian Yong (Executive Director and President)						660,000 A Shares	-	-	-	660,000 A Shares	
Gao Yu Ling (Executive Director and person in charge of finance)	1 June 2023 ⁽¹⁾			RMB6.64 per A Share	RMB24.42 per A Share		550,000 A Shares	-	-	-	550,000 A Shares
Xia Zhang Zhua (Executive Director)						N/A	450,000 A Shares	-	-	-	450,000 A Shares
Yin Zhi Xin (Supervisor)							220,000 A Shares	-	-	-	220,000 A Shares
Zhang Yu Xin (Secretary to the Board)							180,000 A Shares	-	-	-	180,000 A Shares
Sub-total							3,510,000 A Shares	-	-	-	3,510,000 A Shares
Other core employees (not exceeding 52 people)	1 June 2023			RMB6.64 per A Share	RMB24.42 per A Share		7,300,000 A Shares	-	-	-	7,300,000 A Shares
Total							10,810,000 A Shares	-	-	-	10,810,000 A Shares

Report of the Directors

Notes:

- (1) Please refer to the announcement of the Company dated 2 June 2023 in relation to the transfer of the underlying Shares for the first grant to the Stock Ownership Plan.
- (2) Details of the unlocking period are as follows:
 - Time of unlocking for the first batch shall be: the expiry of 12 months from the date of the announcement of the Company of the transfer of the last tranche of the underlying Shares for the first grant to the Stock Ownership Plan, and the number of Shares to be unlocked shall be 40% of the total number of the underlying Shares held by the Stock Ownership Plan.
 - Time of unlocking for the second batch shall be: the expiry of 24 months from the date of the announcement of the Company of the transfer of the last tranche of the underlying Shares for the first grant to the Stock Ownership Plan, and the number of Shares to be unlocked shall be 30% of the total number of the underlying Shares held by the Stock Ownership Plan.
 - Time of unlocking for the third batch shall be: the expiry of 36 months from the date of the announcement of the Company of the transfer of the last tranche of the underlying Shares for the first grant to the Stock Ownership Plan, and the number of Shares to be unlocked shall be 30% of the total number of the underlying Shares held by the Stock Ownership Plan.
- (3) The Stock Ownership Plan was adopted on 28 February 2023.

EQUITY-LINKED AGREEMENT

To the best knowledge of the Directors, there was no equity-linked agreement entered into by the Company or any of its subsidiaries during the year ended 31 December 2023.

On 28 February 2023, the Company adopted the 2022 Restricted A Share Incentive Scheme and the 2022 A Share Employee Stock Ownership Plan. For details, please refer to the announcement dated 2 January 2023 and the circular dated 13 February 2023.

Report of the Directors

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

Connected transactions during the Reporting Period

- (I) On 7 November 2022, the Company entered into (i) a business co-operation framework agreement, and (ii) a financial services agreement with Hisense Group and Hisense Finance respectively. On 9 January 2023, the Company entered into a business co-operation agreement with Johnson Hitachi. On 30 October 2023, the Company entered into a second 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 37.23% of the issued shares of the Company. Hisense Hong Kong holds approximately 8.97% of the issued shares of the Company. Hisense Group and its subsidiaries (including but not limited to Hisense Finance) 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.

Details of the business co-operation framework agreement with Hisense Group, and the financial services agreement with Hisense Finance can be found in the announcement and the circular published on the website of the Hong Kong Stock Exchange on 7 November 2022 and 20 December 2022. Details of the business co-operation agreement and the second business co-operation agreement, with Johnson Hitachi can be found in the announcement published on the website of the Hong Kong Stock Exchange on 9 January 2023 and 30 October 2023.

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.

Report of the Directors

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

1. Business co-operation framework agreement with Hisense Group

On one hand, the supply of home electrical appliances, raw materials and parts and components, equipment and moulds by the Group to Hisense Group 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 which reduces the product circulation links. Provision of services to Hisense Group will increase the income of the Group. On the other hand, taking into account the product quality, prices and services provided by Hisense Group, purchases of home electrical appliances, equipment, raw materials and parts and components from Hisense Group 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 with Hisense Group on 7 November 2022, the principal terms of which are as follows:

- (1) The business co-operation framework agreement shall commence from 9 January 2023, being the date on which the agreement was approved by the shareholders of the Company at the first 2023 extraordinary general meeting of the Company, until 31 December 2023, which can be terminated before its expiration by mutual agreement of the parties.
- (2) Pricing for the mutual purchase of home electrical appliances between the Group on the one hand and Hisense Group 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 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 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 is determined by the open bidding process. Pricing for the mutual provision of services between the Group on the one hand and Hisense Group on the other hand is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services in the industry.

Report of the Directors

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

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

Types of connected transactions	Connected person	Annual cap
Sale of electrical appliances products by the Group	Hisense Group	2,930,961
Sale of raw materials, parts and components by the Group	Hisense Group	305,951
Sale of moulds by the Group	Hisense Group	14,282
Provision of property services, material processing services and installation services by the Group	Hisense Group	7,564
Purchase of electrical appliances products by the Group	Hisense Group	60,496
Purchase of raw materials, parts and components by the Group	Hisense Group	310,935
Receipt of employee health management, material processing, installation and maintenance, distribution, property, leasing, design, inspection, agency, training, technical support, and information system maintenance services by the Group	Hisense Group	177,016

Report of the Directors

2. *Financial services agreement with Hisense Finance*

The Group is expected to benefit from the rates on loans and deposits offered by Hisense Finance to the Group, which will be equal to or more favourable than those offered by the PRC commercial banks, and, at the same time, Hisense Finance's better understanding of the operations of the Group 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 National Financial Regulatory Administration 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 7 November 2022, the principal terms of which are as follows:

- (1) The term of the financial services agreement shall commence from 9 January 2023, being the date on which the agreement was approved by the independent shareholders of the Company at the first 2023 extraordinary general meeting of the Company, until 31 December 2023, 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 RMB27,000,000,000 (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 RMB18,000,000,000 (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.

Report of the Directors

- (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 Group	Purchase	Finished goods	Agreed price	39,497	0.59
Johnson Hitachi	Purchase	Finished goods	Agreed price	10,350.34	0.16
Hisense Group	Purchase	Materials	Agreed price	198,272.88	2.97
Johnson Hitachi	Purchase	Materials	Agreed price	77,488.62	1.16
Hisense Group	Receipt of services	Receipt of services	Agreed price	129,629.23	1.94
Johnson Hitachi	Receipt of services	Receipt of services	Agreed price	1,520.48	0.02
Hisense Group	Sale	Finished goods	Agreed price	2,115,942.78	24.72
Johnson Hitachi	Sale	Finished goods	Agreed price	25,243.92	0.29
Hisense Group	Sale	Materials	Agreed price	126,591.34	1.48
Johnson Hitachi	Sale	Materials	Agreed price	537.77	0.01
Hisense Group	Sale	Moulds	Agreed price	6,757.63	0.08
Johnson Hitachi	Sale	Moulds	Agreed price	985.20	0.01
Hisense Group	Provision of services	Provision of services	Agreed price	6,446.25	0.08
Johnson Hitachi	Provision of services	Provision of services	Agreed price	-	-

As of the end of the Reporting Period, the Group had the balance of deposit of RMB15.338 billion, recognised interest income of RMB0.332 billion, the actual balance of loan of RMB0.110 billion, recognised loan interest of RMB1.9131 million, the balance of electronic bank acceptance bill of RMB1.556 billion, the handling fee for opening accounts for electronic bank acceptance bill of RMB1.0472 million. For the Reporting Period, the actual amount of discounted interest for the provision of draft discount services was RMB0.8188 million, the actual amount involved in the provision of settlement and sale of foreign exchange services was US\$12.2286 million and the actual service fee paid for the provision of agency services such as settlement services for receipt and payment of funds was RMB1.0374 million.

Report of the Directors

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

No.	Agreement	Connected persons	Type of connected transactions	Annual cap (exclusive of value-added tax)		
				For the year ending 31 December 2024	For the year ending 31 December 2025	For the year ending 31 December 2026
1	Business co-operation framework agreement	Hisense Group	Purchase of products from connected persons	RMB5,526,320,000	RMB6,921,750,000	RMB8,495,960,000
		Hisense Group	Sale of products to connected persons	RMB30,852,220,000	RMB40,334,050,000	RMB47,652,240,000
2	Financial services agreement	Hisense Finance	Deposit services to be provided by Hisense Finance to the Group	The maximum daily closing balance at any time shall not exceed the cap of RMB27,000,000,000 (inclusive of interest) on any given day.	The maximum daily closing balance at any time shall not exceed the cap of RMB27,000,000,000 (inclusive of interest) on any given day.	The maximum daily closing balance at any time shall not exceed the cap of RMB27,000,000,000 (inclusive of interest) on any given day.
			Loan and electronic finance company acceptance bill services (電子財務公司承兌匯票服務) to be provided by Hisense Finance to the Group	The daily closing balance shall not exceed the cap of RMB5,000,000,000 (inclusive of interest and service fees) on any given day.	The daily closing balance shall not exceed the cap of RMB5,400,000,000 (inclusive of interest and service fees) on any given day.	The daily closing balance shall not exceed the cap of RMB5,900,000,000 (inclusive of interest and service fees) on any given day.
			Draft discount services (票據貼現服務) to be provided by Hisense Finance to the Group	The annual discount interest shall not exceed the cap of RMB50,000,000.	The annual discount interest shall not exceed the cap of RMB50,000,000.	The annual discount interest shall not exceed the cap of RMB50,000,000.
			Settlement and sale of foreign exchange services (結售匯服務) to be provided by Hisense Finance to the Group	The annual amount settled or sold shall not exceed the cap of US\$300,000,000.	The annual amount settled or sold shall not exceed the cap of US\$300,000,000.	The annual amount settled or sold shall not exceed the cap of US\$300,000,000.
			Agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務), to be provided by Hisense Finance to the Group	The annual amount of the service fees payable shall not exceed the cap of RMB3,000,000.	The annual amount of the service fees payable shall not exceed the cap of RMB3,000,000.	The annual amount of the service fees payable shall not exceed the cap of RMB3,000,000.

Report of the Directors

The date of the above agreements is 28 November 2023. 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, 25 January 2024) until 31 December 2026. The relationships between the Group and Hisense Group 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 28 November 2023 and 3 January 2024 respectively.

CONNECTED TRANSACTIONS IN RELATION TO JOINT EXTERNAL INVESTMENT

For details, please refer to the section headed “Other Major Connected Transactions”.

CONNECTED CREDITOR’S RIGHTS AND LIABILITIES

During the reporting period, the Company’s related credit and debt transactions were mainly transactions arising from the sale of goods, purchase of goods, provision of services and acceptance of services, and the Company did not have any non-operational connected creditor’s rights and liabilities.

OTHER MAJOR CONNECTED TRANSACTIONS

On 21 December 2023, the Company held the ninth extraordinary meeting of the eleventh session of the Board in 2023, the resolution on the establishment of a Joint Venture Company with a connected party was considered and passed, at which the Company agreed to enter into the Joint Venture Agreement with Hisense Visual to establish Qingdao Hisense Global Asia Holding Co., Ltd.*(青島海信環亞控股有限公司) (the “**Joint Venture Company**”). The registered capital of the Joint Venture Company will be RMB318,300,000, of which Hisense Visual has agreed to contribute RMB159,150,000 in cash, being 50% of the registered capital of the Joint Venture Company, and the Company has agreed to contribute the remaining RMB159,150,000 in cash.

Details of the above transaction can be found in the announcement published on the website of the Hong Kong Stock Exchange on 21 December 2023.

Report of the Directors

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 XII.3 to the financial statements. Save as disclosed in the paragraphs headed "Particulars of Material Connected Transactions of the Company During the Reporting Period" and "Other Connected Transactions" in this annual report, related party transactions as disclosed in note XII.3 to the financial statements are not deemed as connected transactions under Chapter 14A of the Hong Kong Listing Rules, but are exempt from the reporting, announcement and shareholders' approval requirements under the Hong Kong Listing Rules. 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 C1 to the Hong Kong Listing Rules.

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

This annual report, containing all information as required by Appendix D2 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 (hxjd.hisense.cn).

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
Dai Hui Zhong	Chairman	Male	58	Current	642.10 ^{Note 1}	No
Jia Shao Qian	Executive Director	Male	51	Current	0.00	Yes
Yu Zhi Tao	Executive Director	Male	47	Current	0.00	Yes
Hu Jian Yong	Executive Director, President	Male	50	Current	729.49 ^{Note 2}	No
Xia Zhang Zhua	Executive Director	Male	45	Current	314.15 ^{Note 3}	No

Report of the Directors

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
Gao Yu Ling	Executive Director Chief Financial Officer	Female	42	Current	334.13 ^{Note 4}	No
Zhong Geng Shen	Independent non-executive Director	Male	63	Current	14.00	No
Cheung Sai Kit	Independent non-executive Director	Male	52	Current	24.00	No
Li Zhi Gang	Independent non-executive Director	Male	48	Current	13.68	No
Liu Zhen Shun	Chairman of Supervisory Committee	Male	54	Current	0.00	Yes
Sun Jia Hui	Supervisor	Female	35	Current	0.00	Yes
Yin Zhi Xin	Supervisor	Male	35	Current	226.02 ^{Note 5}	No
Zhang Yu Xin	Secretary to the Board	Female	37	Current	103.04	No
Wong Tak Fong	Company Secretary	Female	58	Current	18.10	No
Lin Lan	Former Executive Director	Male	66	Resigned	0.00	Yes
Fei Li Cheng	Former Executive Director	Male	60	Resigned	116.24 ^{Note 6}	No
Ma Jin Quan	Former Independent non-executive Director	Male	82	Resigned	0.32	No
Total	–	–	–	–	2,535.28	--

Report of the Directors

Notes:

1. The executive Directors do not receive remuneration as directors. The above remuneration was received by Mr. Dai Hui Zhong as the Chairman and President of the Company during the Reporting Period.
2. The executive Directors do not receive remuneration as directors. The above remuneration was received by Mr. Hu Jian Yong as the President of the Company during the Reporting Period.
3. The executive Directors do not receive remuneration as directors. The above remuneration was received by Mr. Xia Zhang Zhua as the general manager of the Company's home appliance research and development center during the Reporting Period.
4. The executive Directors do not receive remuneration as directors. The above remuneration was received by Ms. Gao Yu Ling as the chief financial officer of the Company during the Reporting Period.
5. The Supervisors do not receive remuneration as supervisors. The above remuneration was received by Mr. Yin Zhi Xin as the vice president of the Company's subsidiary during the Reporting Period.
6. The executive Directors do not receive remuneration as directors. The above remuneration was received by Mr. Fei Li Cheng 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.

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.

Report of the Directors

IV. GUARANTEE ITEMS

External guarantees by the Company and its subsidiaries (excluding guarantees to subsidiaries)

Name of the guarantee object	Date of disclosure of the announcement related to the guarantee amount	Guarantee quota	Actual date of occurrence		Type of guarantee	Collateral (if any)	Counter-guarantee situation (if any)	Guarantee period	Whether the performance completed	Whether the guarantee for related parties
			(date of guarantee agreement)	Actual guarantee amount						
N/A										
Total amount of external guarantees approved during the Reporting Period (A1)			0	Total actual amount of external guarantees incurred during the Reporting Period (A2)					0	
Total amount of approved external guarantees at the end of the Reporting Period (A3)			0	Total actual external guarantee balance at the end of the Reporting Period (A4)					0	

Company's guarantees to subsidiaries

Name of the guarantee object	Date of disclosure of the announcement related to the guarantee amount	Guarantee quota	Actual date of occurrence		Type of guarantee	Collateral (if any)	Counter-guarantee situation (if any)	Guarantee period	Whether the performance completed	Whether to guarantee for related parties
			(date of guarantee agreement)	Actual guarantee amount						
Kelon Development Limitee			15 February 2022	5 billion yen (equivalent to RMB0.251 billion)	Joint and several liability guarantee		15 February 2022-1 March 2023	Yes	No	
SANDEN CORPORATION	8 May 2021	35.3 billion yen (equivalent to RMB1.7773 billion)	7 September 2022	RMB0.165 billion	Joint and several liability guarantee		7 September 2022-23 September 2023	Yes	No	
SANDEN CORPORATION			22 December 2022	RMB0.3385 billion	Joint and several liability guarantee		22 December 2022-3 January 2024	Yes	No	

Report of the Directors

Company's guarantees to subsidiaries										
Name of the guarantee object	Date of disclosure of the announcement related to the guarantee	Guarantee quota	Actual date of occurrence (date of guarantee agreement)	Actual guarantee amount	Type of guarantee	Collateral (if any)	Counter-guarantee situation (if any)	Guarantee period	Whether the	Whether to
									performance completed	guarantee for related parties
SANDEN CORPORATION			7 February 2023	5 billion yen (equivalent to RMB0.251 billion)	Joint and several liability guarantee			7 February 2023-31 January 2024	No	No
SANDEN CORPORATION			10 February 2023	4 billion yen (equivalent to RMB0.201 billion)	Joint and several liability guarantee			10 February 2023-31 January 2024	No	No
SANDEN CORPORATION			22 February 2023	1.03 billion yen (equivalent to RMB0.052 billion)	Joint and several liability guarantee			22 February 2023-31 January 2024	No	No
SANDEN CORPORATION	30 November 2022	RMB0.7 billion	24 March 2023	3.09 billion yen (equivalent to RMB0.155 billion)	Joint and several liability guarantee			24 March 2023-31 January 2024	No	No
SANDEN CORPORATION			4 April 2023	11.845 billion yen (equivalent to RMB0.595 billion)	Joint and several liability guarantee			4 April 2023-31 January 2024	No	No
SANDEN CORPORATION			19 April 2023	0.515 billion yen (equivalent to RMB0.026 billion)	Joint and several liability guarantee			19 April 2023-31 January 2024	No	No

Report of the Directors

Company's guarantees to subsidiaries											
Name of the guarantee object	Date of disclosure of the announcement related to the guarantee	Guarantee amount	Guarantee quota	Actual date of occurrence			Collateral (if any)	Counter-guarantee situation (if any)	Guarantee period	Whether the performance completed	Whether the guarantee for related parties
				(date of guarantee agreement)	Actual guarantee amount	Type of guarantee					
SANDEN CORPORATION				4 April 2023	RMB0.145 billion	Joint and several liability guarantee			4 April 2023-5 April 2024	No	No
SANDEN CORPORATION				18 April 2023	RMB0.102 billion	Joint and several liability guarantee			18 April 2023-30 April 2024	No	No
SANDEN CORPORATION				21 April 2023	RMB0.202 billion	Joint and several liability guarantee			21 April 2023-5 May 2024	No	No
SANDEN CORPORATION				21 July 2023	RMB0.114 billion	Joint and several liability guarantee			21 July 2023-5 August 2024	No	No
SANDEN CORPORATION				22 September 2023	RMB0.165 billion	Joint and several liability guarantee			22 September 2023-30 September 2024	No	No
SANDEN CORPORATION				21 November 2023	2.2 billion yen (equivalent to RMB0.110 billion)	Joint and several liability guarantee			21 November 2023-20 November 2024	No	No
SANDEN CORPORATION				19 December 2023	2.5 billion yen (equivalent to RMB0.126 billion)	Joint and several liability guarantee			19 December 2023-11 January 2024	No	No
Hisense (Guangdong) Air Conditioning Co.	30 November 2022	RMB0.7 billion		29 March 2023	RMB0.032 billion	Joint and several liability guarantee			29 March 2023-29 September 2023	Yes	No
Hisense (Guangdong) Air Conditioning Co.				26 April 2023	RMB0.24 billion	Joint and several liability guarantee			26 April 2023-26 October 2023	Yes	No
Hisense (Guangdong) Air Conditioning Co.				29 May 2023	RMB0.119 billion	Joint and several liability guarantee			29 May 2023-29 November 2023	Yes	No
Hisense (Guangdong) Air Conditioning Co.				28 June 2023	RMB0.16 billion	Joint and several liability guarantee			28 June 2023-28 December 2023	Yes	No
Hisense (Guangdong) Air Conditioning Co.				28 August 2023	RMB0.120 billion	Joint and several liability guarantee			28 August 2023-28 February 2024	No	No
Hisense (Guangdong) Air Conditioning Co.				26 September 2023	RMB0.064 billion	Joint and several liability guarantee			26 September 2023-26 March 2024	No	No
Hisense (Guangdong) Air Conditioning Co.				27 November 2023	RMB0.062 billion	Joint and several liability guarantee			27 November 2023-27 May 2024	No	No

Report of the Directors

Company's guarantees to subsidiaries										
Name of the guarantee object	Date of disclosure of the announcement related to the guarantee	Guarantee quota	Actual date of occurrence		Type of guarantee	Collateral (if any)	Counter-guarantee situation (if any)	Guarantee period	Whether the performance completed	Whether to guarantee for related parties
			(date of guarantee agreement)	Actual guarantee amount						
Total amount of guarantees to subsidiaries approved during the Reporting Period (B1)			RMB7.7 billion	Total actual amount incurred for guarantees to subsidiaries during the Reporting Period (B2)						RMB3.841 billion
Total amount of guarantees to subsidiaries approved at the end of the Reporting Period (B3)			RMB9.473 billion	Total actual guarantee balances to subsidiaries at the end of the Reporting Period (B4)						RMB2.750 billion
Subsidiaries' guarantees to subsidiaries										
Name of the guarantee object	Date of disclosure of the announcement related to the guarantee	Guarantee amount	Actual date of occurrence		Type of guarantee	Collateral (if any)	Counter-guarantee situation (if any)	Guarantee period	Whether the performance completed	Whether to guarantee for related parties
			(date of guarantee agreement)	Actual guarantee amount						
Hisense (Guangdong) Kitchen & Bath System Co.	30 November 2022	RMB12,200,000	30 November 2022	RMB1,297,400	Joint and several liability guarantee		30 November 2022-20 May 2025	No	No	
Total amount of guarantees to subsidiaries approved during the Reporting Period (C1)			0	Total actual amount incurred for guarantees to subsidiaries during the Reporting Period (C2)						RMB1,297,400
Total amount of guarantees to subsidiaries approved at the end of the Reporting Period (C3)			RMB12,200,000	Total actual guarantee balances to subsidiaries at the end of the Reporting Period (C4)						0
Total company guarantees (the sum of the first three major items)										
Total amount of guarantee approved during the Reporting Period (A1+B1+C1)			RMB7.7 billion	Total actual amount of guarantees incurred during the Reporting Period (A2+B2+C2)						RMB3.842 billion
Total amount of approved guarantees at the end of the Reporting Period (A3+B3+C3)			RMB9.485 billion	Total actual guarantee balance at the end of the Reporting Period (A4+B4+C4)						RMB2.750 billion
Total actual guarantees (i.e.A4+B4+C4) as a percentage of the company's net assets										
Among them:										
Balance of guarantees provided to shareholders, beneficial owners and their related parties (D)										
Balance of debt guarantees provided directly or indirectly for the guaranteed objects with a gearing ratio exceeding 70% (E)										
Amount of the portion of total guarantees exceeding 50% of net assets (F)										
Total amount of the above three guarantees (D+E+F)										
For unexpired guarantee contracts, a description of the guarantee liability that has occurred or potential joint and several liability with evidence during the Reporting Period (if any)										
Description of external guarantees provided in violation of prescribed procedures (if any)										

Report of the Directors

V. PARTICULARS OF ENTRUSTED WEALTH MANAGEMENT

Unit: RMB ten thousand

Product Type	Source of funding for entrusted wealth management	Total subscription amount of entrusted wealth management as at 31 December 2023	Amount of undue principal and return as at 31 December 2023	Amounts overdue for recovery as at 31 December 2023	Impairment of amounts overdue for recovery as at 31 December 2023
Wealth management products of banks	Self-owned funds	1,381,200.00	1,302,197.30	0.00	0.00
Total		1,381,200.00	1,302,197.30	0.00	0.00

During the Reporting Period, the Company did not have a high-risk entrusted wealth management product which has a significant individual amount, or low security, poor liquidity or no assurance on investment principal, 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.

VI. FINANCIAL ASSETS INVESTMENT

1. Securities investment

Unit: RMB

Securities species	Securities code	Abbreviation of securities	Initial investment cost	Accounting measurement model	Opening book value	Gains or losses on changes in fair value for the period	Accumulated fair value changes included in equity	Purchase amount for the period	Amount sold during the period	Profit and loss for the Reporting Period	Other changes	Closing book value	Accounting accounts	Fund source
Equity	7267	Honda Motor Co., Ltd. (Listed on the Tokyo Stock Exchange)	-	Fair value measurement	10,051,181.81		4,397,863.21	953,188.58			-425,912.30	14,976,321.30	Other equity instruments	Own funds
Equity	8795	T&D Holdings (Listed on the Tokyo Stock Exchange)	-	Fair value measurement	20.94						-0.85	20.09	Other equity instruments	Own funds
Equity	PRU	Prudential (Listed on the New York Stock Exchange)	-	Fair value measurement	1,591,070.61	70,746.20					40,267.77	1,702,084.58	Trading financial assets	Own funds
Equity	000980	ZOTYE AUTOMOBILE (10757)	-	Fair value measurement		-13,732.53		43,857.90			1,954.37	32,079.74	Trading financial assets	Own funds
Equity	601777	Lifan Technology (4452)	-	Fair value measurement		-15,206.22		201,163.06			9,126.57	195,083.41	Trading financial assets	Own funds
Other securities investments held at the end of the period			-	-									-	-
Total			-	-	11,642,273.36	41,807.45	4,397,863.21	1,198,209.54			-374,564.44	16,905,589.12	-	-

Date of the announcement disclosing the approval of securities investment by the Board

N/A

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

N/A

Report of the Directors

Note: All of the Company's investments in securities during the Reporting Period were in Sanden company.

2. *Derivatives investment*

The Company had no investments in derivatives for hedging purposes and no investments in derivatives for speculative purposes during the Reporting Period.

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

Applicable Not applicable

Details of the changes in scope of consolidation of the Company during the Reporting Period are set out in Note 7.

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

On 30 November 2022, the Ministry of Finance issued the Notice on the Publication of No. 16 of the Enterprise Accounting Standards Interpretation (Finance and Accounting (2022) No. 31). (《關於印發〈企業會計準則解釋第16號〉的通知(財會〔2022〕31號)》), which stipulated that the accounting treatment of the deferred income tax related to assets and liabilities arising from a single transaction shall not be subject to the initial recognition exemption from 1 January 2023. The Company adjusted the opening balance accordingly.

Report of the Supervisory Committee

During the Reporting Period, the Supervisory Committee of the Company has faithfully discharged its duties to protect the lawful interests of the Company, employees 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 2023 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 7 meetings, details of which are summarised as follows:

1. the first meeting of the eleventh session of the Supervisory Committee in 2023 was held on 28 February 2023, at which the granting of restricted shares to the participants under the 2022 Restricted A Share Incentive Scheme was considered and approved.
2. the second meeting of the eleventh session of the Supervisory Committee in 2023 was held on 30 March 2023, at which the 2022 annual report of the Company and related matters were considered and approved.
3. the third meeting of the eleventh session of the Supervisory Committee in 2023 was held on 11 April 2023, at which the 2023 first quarterly report of the Company was considered and approved.
4. the fourth meeting of the eleventh session of the Supervisory Committee in 2023 was held on 12 May 2023, at which the allocation of reserved shares under the 2022 A Share Employee Stock Ownership Plan was considered and approved.
5. the fifth meeting of the eleventh session of the Supervisory Committee in 2023 was held on 8 June 2023, at which the repurchase and cancellation of certain Restricted A Shares was considered and approved.
6. the sixth meeting of the eleventh session of the Supervisory Committee in 2023 was held on 28 August 2023, at which the 2023 interim report of the Company and related matters, the adjustment of the repurchase price under the 2022 Restricted A Share Incentive Scheme were considered and approved.
7. the seventh meeting of the eleventh session of the Supervisory Committee in 2023 was held on 27 October 2023, at which the 2023 third quarterly report of the Company was considered and approved.

II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2023

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

Report of the Supervisory Committee

2. Examination of the Company's financial situation. ShineWing Certified Public Accountants LLP has audited the Company's financial statements for the year 2023 and issued an auditor's report with standard unqualified opinion. The Supervisory Committee is of the view that the opinion expressed in the auditor's report was fair and objective and the current financial statements have truthfully and fairly reflected the financial condition and operating results of the Company.
3. During the Reporting Period, the Company had not made any investments which were funded by capital raising activities.
4. During the Reporting Period, the Company had not made any significant disposal of assets.
5. During the Reporting Period, the connected transactions which the Company entered into with connected parties were fair and reasonable and the prices were fairly determined without prejudicing the interests of any independent shareholders and the Company.
6. Opinion of the Company's 2023 internal control assessment Report.

After reviewing the Company's 2023 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 2023 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 2023 Internal Control Assessment Report by the Board.

7. Opinion of the Company's 2022 Restricted A Share Incentive Scheme.

After reviewing, the Company's Supervisory Committee is of the view that:

- (1) The Participants of the Incentive Scheme have the qualifications required by the Company Law, the Administrative Measures on Share Incentives of Listed Companies, the Articles of Association of the Company and other laws, regulations and regulatory documents, and meet the requirements of the 2022 Restricted A Share Incentive Scheme (Draft) of the Company and its summary.

Report of the Supervisory Committee

- (2) None of the circumstances in which a Participant of the Incentive Scheme becomes unqualified to be a Participant as stipulated under Article 8 of the Administrative Measures on Share Incentives of Listed Companies has occurred to a Participant.
 - (3) The Participants of the Incentive Scheme are the mid-level management and key staff who serve the Company (including its subsidiaries, the same applies below) at the time of announcement of the Incentive Scheme made by the Company.
 - (4) The Participants of the Incentive Scheme meet the requirements of the Administrative Measures on Share Incentives of Listed Companies and other documents and meet the requirements of the Incentive Scheme. The Participants under the Incentive Scheme do not include the independent directors, supervisors of the Company, shareholders individually or in aggregate holding more than 5% of the shares of the Company or the de facto controllers and their spouses, parents or children.
 - (5) The Participants of the Incentive Scheme are consistent with the Participants under the 2022 Restricted A Share Incentive Scheme of Hisense Home Appliances Group Co., Ltd. which was approved by the 2023 second extraordinary general meeting, the 2023 first A Share class meeting and the 2023 first H Share class meeting.
 - (6) On 8 June 2023, the consideration of the repurchase and cancellation of certain Restricted A Shares of the Company was in compliance with the provisions and requirements of the Administrative Measures on Share Incentives of Listed Companies and the 2022 Restricted A Share Incentive Scheme of the Company. The Supervisory Committee verified the number of the repurchase and cancellation of certain Restricted A Shares, and the list of the Participants. The procedures performed by the Board in relation to the repurchase and cancellation are in compliance with the relevant regulations. The Supervisory Committee approved the repurchase and cancellation of certain Restricted A Shares.
 - (7) On 28 August 2023, the consideration of the adjustment of the repurchase price under the 2022 Restricted A Share Incentive Scheme was in compliance with the relevant laws and regulations such as the Administrative Measures on Share Incentives of Listed Companies and the 2022 Restricted A Share Incentive Scheme of the Company, and was not detrimental to the interests of the Company and shareholders. The Supervisory Committee approved the adjustment of the repurchase price
8. Opinion of the Company's the 2022 A Share Employee Stock Ownership Plan
- (1) The participants of the allocation of reserved shares under the 2022 A Share Employee Stock Ownership Plan meet the relevant provisions of the laws and regulations, departmental rules and regulations and regulatory documents, and meet the scope of the provisions of the 2022 A Share Employee Stock Ownership Plan, and the Administrative Measures for the 2022 A Share Employee Stock Ownership Plan of the Company. The eligibility of the Participants as reserved shares holders under the 2022 A Share Employee Stock Ownership Plan is legal and valid.

Report of the Supervisory Committee

- (2) The decision-making procedures in respect of the allocation of reserved shares under the A Share Employee Stock Ownership Plan of the Company are lawful and effective, and the connected Directors have abstained from voting. There are no circumstances that are detrimental to the interests of the Company and shareholders. The allocation of the reserved shares was participated by the employees in accordance with principles of legal compliance, voluntary participation and voluntary risk assumption, and there are no circumstances that the Company forced employees to participate in the allocation of reserved shares under the Employee Share Ownership Plan by means such as apportionment and mandatory distribution. There are no circumstances that the Company provided financial assistance such as advances, guarantees and loans or other financial assistance to the Participants of the reserved shares under the Employee Share Ownership Plan.
- (3) The implementation of the allocation of reserved shares under the 2022 A Share Employee Stock Ownership Plan of the Company is conducive to establish and improve the mechanism for sharing benefits between employees and holders, making the employees' interests more closely aligned with the long-term development of the Company. And it is conducive to meet the needs of the Company's sustainable development, attract and retain outstanding talents continuously, and enhance the cohesion and competitiveness of the employees.

Auditor's Report



信永中和會計師事務所

ShineWing

certified public accountants

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XYZH/2024QDAA4B0024

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 2023, the consolidated and the Parent Company’s income statements, the consolidated and the Parent Company’s cash flow statements, the consolidated and the Parent Company’s statements of changes in equity for 2023 and the notes to the financial statements.

In our opinion, the accompanying financial statements of Hisense Appliances present fairly, in all material aspects, the consolidated and the Parent Company’s financial position as at 31 December 2023, and the consolidated and the Parent Company’s results of operations and cash flows for the year 2023 of Hisense Appliances 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 III. 12. "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 V. 9. "Inventories", as at 31 December 2023, the balance of finished goods was RMB4,863,238,690.81; the provision for declines in value of finished goods was RMB55,315,902.93; and the carrying amount of finished goods was RMB4,807,922,787.88. The sufficiency of provision for declines in value of finished goods has a material impact on the financial statements.	(1) Evaluated and tested key internal controls relating to the provision for declines in value of finished goods;
Hisense Appliances determines the net realizable value of finished goods based on the estimated selling price of finished goods less the estimated sales expenses and related taxes.	(2) Carried out stock counting procedures for the finished goods of Hisense Appliances, checked the quantity and condition of finished goods;
The management estimates the expected selling price of finished goods based on their conditions, and the management is required to make significant judgments in the estimation process.	(3) Obtained the calculation table of provision for declines in value of finished goods of Hisense Appliances, selected certain product models on a sampling basis and compared their records and ageing in the table against the results of our stock counting;
In view of the large amount involved in the matter and the need for management to make significant judgments, we treat the provision for declines in value of finished goods as a key audit matter.	(4) By comparing historical selling prices of similar products and reviewing the trend in future selling prices of products based on seasonal and cyclical characteristics, we assessed the selling prices estimated by the management and checked the same against the actual selling prices subsequent to the balance sheet date;
	(5) By comparing historical selling expenses and relevant taxation and fees of similar products, we assessed the selling expenses and relevant taxation and fees estimated by the management and checked the same against the actual amount incurred subsequent to the balance sheet date;
	(6) Selected certain finished goods and re-calculated their recoverable amount and the balance of provision for declines in value of finished goods as at the end of the period.

Auditor's Report

2. Sales to and receivables from related party

Key audit matters	Audit response
As described in “XII. 3. to the Financial Statements Related Party Transactions, 4. Receivables from and payables to related parties”, Hisense Appliances has a relatively large amount of sales to related parties, and as of 31 December 2023, it had account receivables from related party of RMB5,682,941,225.24. 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">(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;(2) obtained a list of related parties compiled by the management and checked it with information obtained from other public sources;(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;(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;(5) Checked repayment of receivable after the period;(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.

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 2023 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

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 fairness 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

- (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: Xu Zhi Yang
(engagement partner)

Chinese Certified Public Accountants: Liu Qing

Beijing, PRC

29 March 2024

Financial Statements

The units of the statements in the financial notes are: RMB

1. CONSOLIDATED BALANCE SHEETS

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

Unit: RMB

31 December 2023

Item	Note	As at 31 December 2023	As at 1 January 2023
Current assets:			
Cash at bank and on hand	V.1	4,939,273,198.62	6,001,295,427.37
Including: Deposits with Hisense Finance		1,947,864,398.82	4,620,904,868.10
Balances with clearing companies			
Lending capital			
Transactional financial assets	V.2	13,192,025,535.87	6,758,233,998.86
Derivative financial assets			
Notes receivable	V.3	741,622,573.50	144,188,330.26
Accounts receivable	V.4	9,225,321,882.07	7,665,702,299.91
Factoring of accounts receivables	V.6	4,643,427,583.77	5,072,959,470.76
Prepayments	V.8	389,066,274.16	262,443,975.56
Insurance premium receivable			
Receivables from reinsurers			
Reserves for reinsurance contract receivable			
Other receivables	V.7	145,804,125.45	475,034,340.60
Including: Interest receivable			
Dividends receivable		89,630.21	152,634,355.75
Financial assets purchased under agreements to resell			
Inventories	V.9	6,774,603,438.00	6,552,835,435.54
Contract assets	V.5	35,878,308.82	6,918,368.07
Assets held for sale			
Non-current assets due within one year	V.10	3,641,708,361.11	1,986,840,000.00
Other current assets	V.11	1,411,188,199.90	1,702,738,189.99
Total current assets		45,139,919,481.27	36,629,189,836.92
Non-current assets:			
Disbursement of loans and advances			
Investments in debt			
Other investments in debt			
Long-term receivables			
Long-term equity investments	V.12	1,671,365,117.46	1,518,340,556.73
Other equity investment	V.13	40,244,766.96	36,399,028.71
Other non-current financial assets	V.14	27,197,809.69	25,748,931.39
Investment properties	V.15	177,982,723.30	208,716,406.19
Fixed assets	V.16	5,662,912,502.03	5,318,274,820.56
Construction in progress	V.17	443,523,694.21	525,171,610.80
Productive biological assets			
Oil and gas assets			
Right-of-use assets	V.18	169,378,820.87	181,192,061.73
Intangible assets	V.19	1,341,855,927.15	1,459,616,347.69
Development costs			
Goodwill	V.20	226,408,877.76	226,408,877.76
Long-term prepaid expenses	V.21	40,734,232.78	41,623,003.89
Deferred tax assets	V.22	1,125,596,510.74	984,485,078.70
Other non-current assets	V.23	9,879,375,091.45	8,220,701,882.26
Total non-current assets		20,806,576,074.40	18,746,678,606.41
Total assets		65,946,495,555.67	55,375,868,443.33

Financial Statements

The units of the statements in the financial notes are: RMB

Item	Note	As at 31 December 2023	As at 1 January 2023
Current liabilities:			
Short-term borrowings	V.25	2,502,318,314.58	1,462,253,713.24
Borrowings from central bank			
Loans from other banks			
Transactional financial liabilities	V.26	54,355,584.93	1,745,488.01
Derivative financial liabilities			
Notes payable	V.27	14,608,429,378.74	11,322,271,209.54
Accounts payable	V.28	12,049,877,232.20	9,717,666,826.44
Advances from customers	V.29	3,833,256.75	
Contract liability	V.30	1,440,254,499.57	1,145,145,334.78
Proceeds from disposal of financial assets under agreements to repurchase			
Receipt of deposits and deposits from other banks			
Customer brokerage deposits			
Securities underwriting brokerage deposits			
Employee remunerations payable	V.31	1,373,816,151.59	1,002,267,354.81
Taxes payable	V.32	774,372,089.67	705,821,864.03
Other payables	V.33	4,670,674,014.20	5,219,154,864.04
Including: Interest payable			
Dividends payable		70,574,497.68	67,374,222.13
Handling fees and commission payable			
Reinsured accounts payable			
Liabilities held for sale			
Non-current liabilities due within one year	V.34	121,677,937.29	145,170,159.23
Other current liabilities	V.35	6,442,483,786.34	5,643,445,390.50
Total current liabilities		44,042,092,245.86	36,364,942,204.62

Financial Statements

The units of the statements in the financial notes are: RMB

Item	Note	As at 31 December 2023	As at 1 January 2023
Non-current liabilities:			
Reserves for reinsurance contract			
Long-term borrowings	V.36	42,956,652.46	19,808,239.84
Bonds payable			
Including: Preference shares			
Perpetual debts			
Lease liabilities	V.37	208,946,083.77	277,195,821.24
Long-term payables			
Long-term employee remunerations payable	V.38	105,961,766.83	116,092,710.65
Provisions	V.39	1,229,967,589.74	1,313,738,416.00
Deferred income	V.40	149,189,343.53	145,835,582.02
Deferred tax liabilities	V.22	158,435,374.83	168,179,961.94
Other non-current liabilities	V.41	612,887,372.01	690,992,901.11
Total non-current liabilities		2,508,344,183.17	2,731,843,632.80
Total liabilities		46,550,436,429.03	39,096,785,837.42
Shareholders' equity:			
Share capital	V.42	1,387,935,370.00	1,362,725,370.00
Other equity instruments			
Including: Preference shares			
Perpetual debts			
Capital reserve	V.43	2,115,407,718.05	2,074,168,605.49
Less: treasury shares	V.44	236,626,482.61	
Other comprehensive income	V.45	226,997,819.74	121,267,445.50
Special reserves	V.46	6,319,636.53	
Surplus reserves	V.47	724,682,309.99	711,971,309.99
General risk provisions			
Undistributed profit	V.48	9,355,458,114.25	7,248,240,711.27
Total equity attributable to shareholders of the parent		13,580,174,485.95	11,518,373,442.25
Minority interests		5,815,884,640.69	4,760,709,163.66
Total shareholders' equity		19,396,059,126.64	16,279,082,605.91
Total liabilities and shareholders' equity		65,946,495,555.67	55,375,868,443.33

Legal representative: **Dai Hui Zhong** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Li Jia**

Financial Statements

The units of the statements in the financial notes are: RMB

2. BALANCE SHEETS OF PARENT COMPANY

Unit: RMB

Item	Note	As at 31 December 2023	As at 1 January 2023
Current assets:			
Cash at bank and on hand		78,796,769.09	84,309,922.91
Including: Deposits with Hisense Finance		72,835,723.90	84,209,377.46
Transactional financial assets		1,326,115,505.29	1,818,751,571.58
Derivative financial assets			
Notes receivable		749,731.29	
Accounts receivable	XVII.1	618,381,907.19	206,829,884.72
Factoring of accounts receivables		26,311,535.56	2,910,556.42
Prepayment		21,670,721.68	54,781,395.72
Other receivables	XVII.2	1,255,850,852.04	1,427,048,731.01
Including: Interest receivable			
Dividends receivable		68,351,678.85	83,026,795.53
Inventories		4,042,505.04	8,753,015.70
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets		97,352,470.53	57,354,135.76
Total current assets		3,429,271,997.71	3,660,739,213.82
Non-current assets:			
Investments in debt			
Other investments in debt			
Long-term receivables		1,182,103,450.53	646,890,129.38
Long-term equity investments	XVII.3	5,935,343,771.41	5,648,789,481.52
Other equity investment			
Other non-current financial assets			
Investment properties		2,091,120.00	2,091,121.00
Fixed assets		32,456,914.98	20,836,556.99
Construction in progress		295,088.50	8,987,930.20
Productive biological assets			
Oil and gas assets			
Right-of-use assets			
Intangible assets		160,458,676.30	165,929,570.43
Development costs			
Goodwill			
Long-term prepaid expenses		164,213.60	
Deferred tax assets			
Other non-current assets		2,453,747.08	674,145.00
Total non-current assets		7,315,366,982.40	6,494,198,934.52
Total assets		10,744,638,980.11	10,154,938,148.34

Financial Statements

The units of the statements in the financial notes are: RMB

Item	Note	As at 31 December 2023	As at 1 January 2023
Current liabilities:			
Short-term borrowings			
Transactional financial liabilities			
Derivative financial liabilities			
Notes payable		36,610,973.32	5,218,317.57
Accounts payable		42,353,376.00	31,907,576.55
Advances from customers			
Contract liability		3,175,690.52	4,212,914.05
Employee remunerations payable		41,599,867.10	9,139,554.77
Taxes payable		2,592,997.56	13,209,586.75
Other payables		800,818,012.63	531,234,884.31
Including: Interest payable			
Dividends payable			
Liabilities held for sale			
Non-current liabilities due within one year			
Other current liabilities		93,285,809.09	51,599,130.92
Total Current Liabilities		1,020,436,726.22	646,521,964.92
Non-current Liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preference shares			
Perpetual debts			
Lease liabilities			
Long-term payables			
Long-term employee remunerations payable			
Provisions		209,867,477.18	178,721,488.20
Deferred income		23,941,659.62	24,300,098.28
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities		233,809,136.80	203,021,586.48
Total liabilities		1,254,245,863.02	849,543,551.40
Shareholders' equity:			
Share capital		1,387,935,370.00	1,362,725,370.00
Other equity instruments			
Including: Preference shares			
Perpetual debts			
Capital reserve		2,352,730,955.68	2,276,770,725.22
Less: Treasury shares		236,626,482.61	
Other comprehensive income		1,507,133.78	-1,699,624.23
Special reserves			
Surplus reserves		694,073,685.00	681,362,685.00
Undistributed profit		5,290,772,455.24	4,986,235,440.95
Total shareholders' equity		9,490,393,117.09	9,305,394,596.94
Total liabilities and shareholders' equity		10,744,638,980.11	10,154,938,148.34

Financial Statements

The units of the statements in the financial notes are: RMB

3. CONSOLIDATED INCOME STATEMENT

Unit: RMB

Item	Note	2023	2022
I. Total operating revenue		85,600,189,224.06	74,115,151,039.29
Including: Operating revenue	V.49	85,600,189,224.06	74,115,151,039.29
Interest income			
Insurance premium earned			
Income from handling fees and commission			
II. Total operating costs		81,457,336,033.74	71,261,426,810.30
Including: Operating costs	V.49	66,696,116,231.21	58,783,119,200.03
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	V.50	579,207,000.98	479,236,001.09
Sales expenses	V.51	9,311,027,187.99	8,070,720,273.85
Management expenses	V.52	2,296,063,851.05	1,821,201,420.18
Research and development expenses	V.53	2,779,508,194.39	2,289,313,746.54
Financial expenses	V.54	-204,586,431.88	-182,163,831.39
Including: Interest expense		144,388,196.47	88,136,778.11
Interest income		56,918,785.34	79,204,113.83
Add: Other income	V.55	598,955,858.57	402,784,997.75
Investment gain (loss expressed with "-")	V.56	719,432,575.42	512,712,041.01
Including: Share of profit of associates and joint ventures		343,907,407.14	253,464,775.11
Income from derecognition of financial assets at amortised cost		-1,048,232.87	-8,626,472.16
Foreign exchange gains (loss expressed with "-")			
Net exposure hedge income (loss expressed with "-")			
Gain from changes in fair values (loss expressed with "-")	V.57	14,926,269.81	22,522,221.59
Impairment losses on credit (loss expressed with "-")	V.58	-43,203,421.13	-150,871,087.49
Impairment losses on assets (loss expressed with "-")	V.59	-190,783,091.93	-275,152,336.56
Gains on disposal of asset (loss expressed with "-")	V.60	5,835,013.43	1,384,257.12
III. Operating profits (loss expressed with "-")		5,248,016,394.49	3,367,104,322.41
Add: Non-operating incomes	V.61	498,281,308.38	531,249,812.33
Less: Non-operating expenses	V.62	61,740,282.05	74,544,406.53
IV. Total profit (total loss expressed with "-")		5,684,557,420.82	3,823,809,728.21
Less: Income tax expenses	V.63	893,067,496.90	754,400,667.51
V. Net profits (net loss expressed with "-")		4,791,489,923.92	3,069,409,060.70
(1) Classified on a going concern basis			
1. Net profit from continuing operations (net loss expressed with "-")		4,791,489,923.92	3,069,409,060.70
2. Net profit from discontinued operations (net loss expressed with "-")			
(2) Classified by ownership of equity			
1. Net profit attributable to shareholders of the parent		2,837,322,754.58	1,434,968,215.84
2. Profit and loss of minority interests		1,954,167,169.34	1,634,440,844.86

Financial Statements

The units of the statements in the financial notes are: RMB

Item	Note	2023	2022
VI. Other comprehensive income after tax, net		107,901,029.90	20,116,688.31
Other comprehensive income after tax attributable to owners of the parent, net		105,730,374.24	27,697,446.93
(1) Items not to be reclassified into profit or loss		-3,821,920.55	
1. Changes arising from remeasurement of defined benefit plan		-6,252,650.20	
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		2,430,729.65	
4. Changes in the fair value of the company's own credit risk			
5. Others			
(2) Items to be reclassified into profit or loss		109,552,294.79	27,697,446.93
1. Other comprehensive income that is convertible into gains and losses under the equity method		3,579,459.96	-9,868,592.45
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		105,972,834.83	21,841,340.30
7. Others			15,724,699.08
Other comprehensive income after tax attributable to minority interests, net		2,170,655.66	-7,580,758.62
VII. Total comprehensive income		4,899,390,953.82	3,089,525,749.01
Total comprehensive income attributable to shareholders of the parent		2,943,053,128.82	1,462,665,662.77
Total comprehensive income attributable to minority interests		1,956,337,825.00	1,626,860,086.24
VIII. Earnings per share:			
(1) Basic earnings per share		2.08	1.05
(2) Diluted earnings per share		2.08	1.05

Legal representative: **Dai Hui Zhong** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Li Jia**

Financial Statements

The units of the statements in the financial notes are: RMB

4. INCOME STATEMENT OF PARENT COMPANY

Unit: RMB

Item	Note	2023	2022
I. Total operating revenue	XVII.4	5,743,034,442.57	4,566,323,538.63
Less: Operating costs	XVII.4	5,143,737,953.99	4,449,171,331.84
Taxes and surcharges		8,629,217.39	8,604,565.88
Sales expenses		321,477,331.45	33,287,521.30
Management expenses		146,632,178.94	50,876,273.86
Research and development expenses		157,519,925.93	88,312,323.82
Financial expenses		-52,151,596.98	-15,865,368.94
Including: Interest expense			
Interest income		51,740,903.61	15,584,374.82
Add: Other income		6,542,533.50	7,767,149.37
Investment gain (loss expressed with “-”)	XVII.5	1,020,279,707.63	2,076,760,486.31
Including: Share of profit of associates and joint ventures		123,053,319.33	76,185,459.11
Income from derecognition of financial assets at amortised cost (loss expressed with “-”)			
Net exposure hedge income (loss expressed with “-”)			
Gain from changes in fair values (loss expressed with “-”)		5,024,236.99	6,957,814.12
Impairment losses on credit (loss expressed with “-”)		-2,274,833.76	-57.30
Impairment losses on assets (loss expressed with “-”)			
Gains on disposal of asset (loss expressed with “-”)		2,641,007.36	-649,996.97
II. Operating profits (loss expressed with “-”)		1,049,402,083.57	2,042,772,286.40
Add: Non-operating incomes		3,477,602.20	2,672,320.88
Less: Non-operating expenses		2,270,585.36	-4,107,301.86
III. Total profit (total loss expressed with “-”)		1,050,609,100.41	2,049,551,909.14
Less: Income tax expenses		15,966,734.52	13,232,122.33
IV. Net profits (net loss expressed with “-”)		1,034,642,365.89	2,036,319,786.81
(1) Net profit from continuing operations (net loss expressed with “-”)		1,034,642,365.89	2,036,319,786.81
(2) Net profit from discontinued operations (net loss expressed with “-”)			
V. Other comprehensive income after tax, net		3,206,758.01	-9,868,592.45
(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		3,206,758.01	-9,868,592.45
1. Other comprehensive income that is convertible into gains and losses under the equity method		3,206,758.01	-9,868,592.45
2. Changes in fair value of other investments in debt			
3. The amount of financial assets reclassified into other comprehensive income			
4. Credit impairment provisions for other debt investment			
5. Cash flow hedge reserve			
6. Differences on translation of foreign currency financial statements			
7. Others			
VI. Total comprehensive income		1,037,849,123.90	2,026,451,194.36
VII. Earnings per share:			
(1) Basic earnings per share			
(2) Diluted earnings per share			

Financial Statements

The units of the statements in the financial notes are: RMB

5. CONSOLIDATED CASH FLOW STATEMENT

Unit: RMB

Item	Note	2023	2022
I. Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		72,865,336,513.72	62,823,645,913.67
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 interest, 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		2,980,874,916.21	2,840,857,200.86
Cash received relating to other operating activities	V.65	969,432,311.07	1,109,238,380.91
Subtotal of cash inflows from operating activities		76,815,643,741.00	66,773,741,495.44
Cash paid for purchases of commodities and receipt of services		44,352,349,811.68	43,339,657,470.36
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 interest, fees and commissions			
Cash paid for policyholders' dividend			
Cash paid to and for employees		8,470,053,926.86	7,609,951,472.32
Cash paid for taxes and surcharges		3,850,636,539.31	3,497,879,527.00
Cash paid relating to other operating activities	V.65	9,530,745,871.80	8,293,870,423.38
Subtotal of cash outflows from operating activities		66,203,786,149.65	62,741,358,893.06
Net cash flows from operating activities		10,611,857,591.35	4,032,382,602.38
II. Cash flows from investing activities:			
Cash received from recovery of investments			1,433,047.36
Cash received from investment income		647,703,705.24	369,724,329.33
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		12,399,066.62	94,264,844.17
Net cash received from disposal of subsidiaries and other operation units			56,397,893.44
Cash received relating to other investing activities	V.65	20,246,695,732.29	21,961,943,503.77
Subtotal of cash inflows from investing activities		20,906,798,504.15	22,483,763,618.07
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		985,119,113.16	883,484,663.15
Cash paid for investments		159,150,000.00	
Net increase in pledged loans			
Cash paid for acquiring subsidiaries and other operation units			
Cash paid relating to other investing activities	V.65	29,319,972,967.96	24,197,924,915.84
Subtotal of cash outflows from investing activities		30,464,242,081.12	25,081,409,578.99
Net cash flows from investing activities		-9,557,443,576.97	-2,597,645,960.92

Financial Statements

The units of the statements in the financial notes are: RMB

Item	Note	2023	2022
III. Cash flows from financing activities:			
Cash received from capital contribution		228,142,805.62	
Including: Cash contribution to subsidiaries from minority shareholders' investment		59,340,725.62	
Cash received from borrowings		2,705,953,052.26	1,477,880,104.85
Cash received relating to other financing activities	V.65	1,624,669,033.53	1,870,814,936.91
Subtotal of cash inflows from financing activities		4,558,764,891.41	3,348,695,041.76
Cash paid for repayment of borrowings		1,607,840,828.46	2,849,975,160.00
Cash paid for distribution of dividends, profit or payment of interest expenses		1,913,395,751.24	1,774,385,315.87
Including: Dividend and profit paid to minority shareholders by subsidiaries		1,099,839,572.98	1,409,731,660.84
Cash paid relating to other financing activities	V.65	1,658,667,022.92	502,966,072.75
Subtotal of cash outflows from financing activities		5,179,903,602.62	5,127,326,548.62
Net cash flows from financing activities		-621,138,711.21	-1,778,631,506.86
IV. Effects of foreign exchange rate changes on cash and cash equivalents		-34,480,978.03	-56,935,853.88
V. Net increase in cash and cash equivalents		398,794,325.14	-400,830,719.28
Add: Balance of cash and cash equivalents at the beginning of the period		2,478,346,075.40	2,879,176,794.68
VI. Balance of cash and cash equivalents at the end of the period		2,877,140,400.54	2,478,346,075.40

Financial Statements

The units of the statements in the financial notes are: RMB

6. CASH FLOW STATEMENT OF PARENT COMPANY

Unit: RMB

Item	Note	2023	2022
I. Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		1,197,739,510.98	22,545,277.59
Tax rebates received		260,000.00	15,469,921.16
Cash received relating to other operating activities		206,860,819.88	206,730,356.16
Subtotal of cash inflows from operating activities		1,404,860,330.86	244,745,554.91
Cash paid for purchases of commodities and receipt of labor services		557,455,615.24	20,876,561.99
Cash paid to and for employees		277,737,144.41	107,652,074.41
Cash paid for taxes and surcharges		37,411,493.59	16,344,508.90
Cash paid relating to other operating activities		748,451,940.71	197,377,874.27
Subtotal of cash outflow from operating activities		1,621,056,193.95	342,251,019.57
Net cash flows from operating activities		-216,195,863.09	-97,505,464.66
II. Cash flow from investing activities:			
Cash received from recovery of investments			
Cash received from investment income		1,078,375,158.59	1,277,839,257.40
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		6,041,886.71	3,850.00
Net cash received from disposals of subsidiaries and other operation units			
Cash received relating to other investing activities		3,107,437,816.68	2,619,152,994.95
Subtotal of cash inflows from investing activities		4,191,854,861.98	3,896,996,102.35
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		17,991,407.29	15,564,732.91
Cash paid for investments		199,150,000.00	34,053,075.00
Net cash paid for acquisition of subsidiaries and other operation units			
Cash paid relating to other investing activities		3,079,091,268.27	3,439,793,757.41
Subtotal of cash outflows from investing activities		3,296,232,675.56	3,489,411,565.32
Net cash flows from investing activities		895,622,186.42	407,584,537.03
III. Cash flows from financing activities:			
Cash received from capital contribution		168,802,080.00	
Cash received from borrowings			
Cash received relating to other financing activities		77,368,590.43	
Subtotal of cash inflows from financing activities		246,170,670.43	
Cash paid for repayment of borrowings			
Cash paid for distribution of dividends, profit or payment of interest expenses		717,394,351.60	291,623,229.18
Cash paid relating to other financing activities		214,206,611.75	
Subtotal of cash outflows from financing activities		931,600,963.35	291,623,229.18
Net cash flows from financing activities		-685,430,292.92	-291,623,229.18
IV. Effects of foreign exchange rate changes on cash and cash equivalents			
		490,815.77	
V. Net increase in cash and cash equivalents			
Add: Balance of cash and cash equivalents at the beginning of the period		84,309,922.91	65,854,079.72
VI. Balance of cash and cash equivalents at the end of the period			
		78,796,769.09	84,309,922.91

Financial Statements

The units of the statements in the financial notes are: RMB

7. CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Amount for current period

Unit: RMB

Item	2023														Minority interests	Total owners' equity
	Attributable to the owners of the parent												Subtotal			
	Other equity instruments				Less: comprehensive income				General risk provisions		Undistributed profits					
Share capital	Preference shares	Perpetual debts	Others	Capital reserve	Treasury shares	Special reserves	Surplus reserves	Others	Others	Others	Others	Others	Others			
I. Closing balance of previous year	1,362,725,370.00				2,074,168,605.49		121,267,445.50		711,971,309.99			7,248,124,550.56		11,518,257,281.54	4,760,507,749.70	16,278,765,031.24
Add: Changes in accounting policies												116,160.71		116,160.71	201,413.96	317,574.67
Correction for error in previous period																
Business combination involving entities under common control																
Others																
II. Opening balance for the year	1,362,725,370.00				2,074,168,605.49		121,267,445.50		711,971,309.99			7,248,240,711.27		11,518,373,442.25	4,760,709,163.66	16,279,082,605.91
III. Movements in the current period																
(Decreases expressed with "-")	25,210,000.00				41,239,112.56	236,626,482.61	105,730,374.24	6,319,636.53	12,711,000.00			2,107,217,402.98		2,061,801,043.70	1,055,175,477.03	3,116,976,520.73
(1) Total comprehensive income							105,730,374.24					2,837,322,754.58		2,943,053,128.82	1,956,337,825.00	4,899,390,953.82
(2) Owners' contributions and capital reductions	25,210,000.00				174,423,336.57	236,626,482.61								-36,991,246.04	95,452,420.55	58,461,174.51
1. Ordinary shares contributed by shareholders	25,210,000.00				142,284,040.00									167,494,040.00	59,340,725.62	226,834,765.62
2. Capital contributions by holders of other equity instruments																
3. Amount of share-based payment included in shareholders' equity					156,045,669.25									156,045,669.25	35,789,603.15	191,835,272.40
4. Others					-123,904,472.68	236,626,482.61								-360,530,955.29	322,091.78	-360,208,863.51
(3) Profit Distribution									12,711,000.00			-730,105,351.60		-717,394,351.60	-997,671,098.94	-1,715,065,450.54
1. Appropriations to surplus reserve									12,711,000.00			-12,711,000.00				
2. Appropriations to general risk provisions																
3. Distribution to owners (shareholders)														-717,394,351.60	-717,394,351.60	-997,671,098.94
4. Others																
(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								6,319,636.53						6,319,636.53	441,815.25	6,761,451.78
1. Provided during the period								69,325,350.93						69,325,350.93	2,819,063.66	72,144,414.59
2. Used during the period								63,005,714.40						63,005,714.40	2,377,248.41	65,382,962.81
(6) Others					-133,186,124.01									-133,186,124.01	614,515.17	-132,571,608.84
IV. Closing balance for the period	1,387,935,370.00				2,115,407,718.05	236,626,482.61	226,997,819.74	6,319,636.53	724,682,309.99			9,355,458,114.25		13,580,174,485.95	5,815,884,640.69	19,396,059,126.64

Financial Statements

The units of the statements in the financial notes are: RMB

Amount for previous period

Unit: RMB

Item	2022													Minority interests	Total owners' equity
	Attributable to the owners of the parent											Subtotal			
	Other equity instruments				Less: comprehensive income			General risk provisions	Undistributed profits	Others					
Share capital	Preference shares	Perpetual debts	Others	Capital reserve	Treasury shares	Special reserves	Surplus reserves								
I. Closing balance for previous year	1,362,725,370.00				2,069,245,101.87		93,569,998.57		711,971,309.99		6,104,843,404.90		10,342,355,185.33	5,248,896,051.45	15,591,251,236.78
Add: Changes in accounting policies													52,319.71	52,319.71	142,844.36
Correction for error in previous period															
Business combination involving entities under common control															
Others															
II. Opening balance for the year	1,362,725,370.00				2,069,245,101.87		93,569,998.57		711,971,309.99		6,104,895,724.61		10,342,407,505.04	5,248,986,576.10	15,591,394,081.14
III. Movements in the current period															
(Decreases expressed with "-")					4,923,503.62		27,697,446.93				1,143,344,986.66		1,175,965,937.21	-488,277,412.44	687,688,524.77
(1) Total comprehensive income							27,697,446.93				1,434,968,215.84		1,462,665,662.77	1,626,860,086.24	3,089,525,749.01
(2) Owners' contributions and capital reduction														31,244,006.36	31,244,006.36
1. Ordinary shares contributed by owners														63,535,535.74	63,535,535.74
2. Capital contributions by holders of other equity instruments															
3. Amount of share-based payment included in shareholders' equity															
4. Others														-32,291,529.38	-32,291,529.38
(3) Profit Distribution													-291,623,229.18	-291,623,229.18	-2,146,822,112.48
1. Appropriations to surplus reserve															
2. Appropriations to general risk provisions															
3. Distribution to owners (shareholders)													-291,623,229.18	-291,623,229.18	-2,438,445,341.66
4. Others															
(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) Others					4,923,503.62								4,923,503.62	440,607.44	5,364,111.06
IV. Closing balance for the period	1,362,725,370.00				2,074,168,605.49		121,267,445.50		711,971,309.99		7,248,240,711.27		11,518,373,442.25	4,760,709,163.66	16,279,082,605.91

Financial Statements

The units of the statements in the financial notes are: RMB

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

Amount for current period

Unit: RMB

Item	Share capital	Other equity instruments			2023			Undistributed profits	Total owners' equity	
		Preference shares	Perpetual debts	Others	Less: Treasury shares	Other comprehensive income	Special reserves			Surplus reserves
I. Closing balance in previous year	1,362,725,370.00				2,276,770,725.22		-1,699,624.23	681,362,685.00	4,986,235,440.95	9,305,394,596.94
Add: Changes in accounting policies										
Correction for error in previous period										
Others										
II. Opening balance for the year	1,362,725,370.00				2,276,770,725.22		-1,699,624.23	681,362,685.00	4,986,235,440.95	9,305,394,596.94
III. Movements in the current period										
(Decreases expressed with "-")	25,210,000.00				75,960,230.46	236,626,482.61	3,206,758.01	12,711,000.00	304,537,014.29	184,998,520.15
(1) Total comprehensive income							3,206,758.01		1,034,642,365.89	1,037,849,123.90
(2) Owners' contributions and capital reductions	25,210,000.00				210,540,696.27	236,626,482.61				-875,786.34
1. Ordinary shares contributed by owners	25,210,000.00				142,284,040.00					167,494,040.00
2. Capital contributions by holders of other equity instruments										
3. Amount of share-based payment included in shareholders' equity					191,835,272.39					191,835,272.39
4. Others					-123,578,616.12	236,626,482.61				-360,205,098.73
(3) Profit Distribution								12,711,000.00	-730,105,351.60	-717,394,351.60
1. Appropriations to surplus reserve								12,711,000.00	-12,711,000.00	
2. Distribution to owners (shareholders)									-717,394,351.60	-717,394,351.60
3. Others										
(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) Others						-134,580,465.81				-134,580,465.81
IV. Closing balance for the period	1,387,935,370.00				2,352,730,955.68	236,626,482.61	1,507,133.78	694,073,685.00	5,290,772,455.24	9,490,393,117.09

Financial Statements

The units of the statements in the financial notes are: RMB

Amount for previous period

Unit: RMB

Item	Share capital	Other equity instruments			2022					Total	
		Preference shares	Perpetual debts	Others	Less: Treasury shares	comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Others	owners' equity
I. Closing balance in previous year	1,362,725,370.00			2,271,399,045.35		8,168,968.22		681,362,685.00	3,241,538,883.32		7,565,194,951.89
Add: Changes in accounting policies											
Correction for error in previous period											
Others											
II. Opening balance for the year	1,362,725,370.00			2,271,399,045.35		8,168,968.22		681,362,685.00	3,241,538,883.32		7,565,194,951.89
III. Movements in the current period											
(Decreases expressed with "-")				5,371,679.87		-9,868,592.45			1,744,696,557.63		1,740,199,645.05
(1) Total comprehensive income						-9,868,592.45			2,036,319,786.81		2,026,451,194.36
(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. Others											
(3) Profit Distribution									-291,623,229.18		-291,623,229.18
1. Appropriations to surplus reserve											
2. Distribution to owners (shareholders)									-291,623,229.18		-291,623,229.18
3. Others											
(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) Others				5,371,679.87							5,371,679.87
IV. Closing balance for the period	1,362,725,370.00			2,276,770,725.22		-1,699,624.23		681,362,685.00	4,986,235,440.95		9,305,394,596.94

Notes to the Financial Statements for 2023

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

I. 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, with its place of registration and head office address at No. 8 Ronggang Road, Ronggui Street, Shunde District, Foshan City, Guangdong Province. 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 accordance with the Industrial Classification for National Economic Activities (2017) issued by the National Bureau of Statistics, the Company belongs to “C3851 Manufacturer of household refrigeration appliances”, which is principally engaged in the research and development, manufacturing, marketing and service business of HVAC, refrigerators, freezers, washing machines, kitchen appliances, automotive air-conditioning compressors, automotive integrated thermal management systems and other products, and provides the full-scenario smart home solutions. The main products include HVAC, refrigerators, freezers, washing machines, kitchen appliances, automotive air-conditioning compressors, automotive integrated thermal management systems, etc.

The financial statements were approved for publication by the Board of the Company on 29 March 2024.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

1. Basis of preparation

The financial statements of the Group are prepared based on actual transactions and events according to the “Accounting Standards for Business Enterprises” and its application guidelines, interpretations and other relevant regulations (hereinafter referred to collectively as the “Accounting Standards for Business Enterprises”) issued by the Ministry of Finance, the “Preparation Rules for Information Disclosure by Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reports” (Revised in 2023) and relevant provisions issued by the China Securities Regulatory Commission (“CSRC”), as well as the relevant disclosure provisions required by the “Companies Ordinance” of Hong Kong and the “Listing Rules” of The Stock Exchange of Hong Kong.

2. Going-concern

The Group has evaluated its ability to continue as a going concern for twelve months as of 31 December 2023, and has found no events or circumstances that cast significant doubt on its ability to continue as a going concern. The financial statements are presented on a going concern basis.

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Specific accounting policies and accounting estimates: The accounting policies and accounting estimates developed by the Group according to characteristics of actual production and operation include bad debts provision for receivables, provision for decline in value of inventories, depreciation of fixed assets, 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

These financial statements give a true, accurate and complete view of the financial position as at 31 December 2023, operation results, cash flows and other information for 2023 of the Company and the Group in accordance with the Accounting Standards for Business Enterprises.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2. Accounting period

The Group adopts the 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

The Company and its domestic subsidiaries adopt RMB as their reporting currencies. The overseas subsidiaries of the Group shall determine their respective reporting currencies depending on the primary economic environment where they operate. The Group converts other currencies into RMB in preparing the financial statements according to the methods described in Section III. 10.

5. Method for determination and basis for selection of materiality criteria

The Group follows the principle of materiality in the preparation and disclosure of its financial statements. The matters disclosed in the notes to the financial statements that involve judgements about materiality criteria and the method for determination and basis for selection of materiality criteria are set out as follows:

Disclosures involving judgements about materiality criteria	Disclosure sections of matters in the notes to the financial statements	Method for determination and basis for selection of materiality criteria
Accounts receivable/other receivables with significant amount of bad debt provision recovered or reversed during the Year	V. 4. (3); V. 7.2. (4)	Individual amount accounts for 0.5% of the net assets attributable to shareholders of the listed company
Write-off of significant accounts receivable/other receivables during the Year	V. 4. (4); V. 7.2. (5)	Individual amount accounts for 0.5% of the net assets attributable to shareholders of the listed company
Significant accounts payable/contract liabilities/other payables with an ageing of over one year or overdue	V. 28. (2); V. 30. (2); V. 33.2. (2)	Individual amount accounts for 0.5% of the net assets attributable to shareholders of the listed company
Important overseas business entities	V. 67. (2)	Subsidiaries with normal business operations and with their net assets accounting for over 0.5% of the Group's consolidated net assets
Main components of the enterprise group	VIII. 1. (1)	Subsidiaries with normal business operations and with their net assets accounting for over 0.5% of the Group's consolidated net assets
Important non-wholly-owned subsidiaries	VIII. 1. (2)	Subsidiaries with their net assets accounting for over 15% of the Group's consolidated net assets

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

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

(1) Business combinations involving entities under common control

A business combination under common control means that the entities involved in the combination are under the ultimate control of the same party or parties before and after the combination and that such control is not temporary.

The assets and liabilities obtained by the Group as the merging party in a business combination under common control are measured at the combination-date carrying amount of the merged party in the consolidated statements of the ultimate controller. The difference between the carrying amount of net assets obtained and the carrying amount of the combination consideration paid (or the total par value of the issued shares) shall be adjusted in capital reserve; if the capital reserve is not sufficient for offsetting, the retained earnings shall be adjusted.

(2) Business combinations involving entities not under common control

A business combination not under common control means that the parties involved in the combination are not under the ultimate control of the same party or parties before and after the combination.

The acquiree's identifiable assets, liabilities and contingent liabilities obtained by the Group as an acquirer in a business combination not under common control shall be measured at fair value on the acquisition date. Where the cost of combination exceeds the acquirer's share of the fair value of the acquiree's identifiable net assets, the difference is recognised 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 fair values of all the identifiable assets, liabilities and contingent liabilities obtained in the business combination and the cost of combination shall be 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.

7. Criteria for determining control and preparation of consolidated financial statements

The consolidation scope of the consolidated financial statements of the Group is determined based on control, including the Company and all subsidiaries controlled by the Company (including the divisible parts of enterprises and investees, as well as structured entities controlled by enterprises). The standard for judging control by the Group is that the Group has the power over the investee, enjoys variable returns through participating in related activities of the investee, and is able to use the power over the investee to influence its return amount.

When preparing the consolidated financial statements, when the accounting policy or 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 policy or accounting period of the Company.

The impact of internal transactions between the Company and its subsidiaries or between subsidiaries on the consolidated financial statements shall be offset at the time of consolidation. 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 shall be listed under "equity of minority shareholders, gain or loss attributable to minority interests, other comprehensive income attributable to minority shareholders and total comprehensive income attributable to minority shareholders" in the consolidated financial statements.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

7. Criteria for determining control and preparation of consolidated financial statements *(continued)*

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.

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.

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

Joint arrangements of the Group include joint operation and joint venture. Joint operation refers to a joint arrangement in which the joint venturers enjoy the assets and assume the liabilities associated with the arrangement. Joint venture refers to a joint arrangement in which the joint venturers only have rights to the net assets of the arrangement.

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 recognized according to the related agreed individual or in proportion assets and liabilities. For assets transactions that are purchased or sold under joint operation that do not constitute business, only the profit or loss incurred from that transaction attributable to the other parties under the joint operation is recognized.

9. 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 in the cash flow statement represent investments which are held for less than three months, highly liquid and are readily convertible to known amounts of cash and subject to an insignificant risk of value change.

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

(1) Foreign currency transactions

When foreign currency transactions of the Group are initially recognised, the amount in foreign currency shall be translated into the reporting currency at the approximate exchange rate of the spot exchange rate on the date when the transactions take place. As at the balance sheet date, foreign currency monetary items are translated into the reporting currency using the spot exchange rate on 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 capitalisation are dealt with based on the capitalisation principle. Foreign currency non-monetary items measured at historical cost are still translated using the spot exchange rate on the transaction date, without changing their reporting currency amount. Foreign currency non-monetary items measured at fair value are translated using the spot exchange rate on the date of fair value determination. The difference between the translated amount in reporting currency and the original amount in reporting currency is treated as changes in fair value (including exchange rate changes) and included in the profit or loss for current period. The capital from investors in foreign currency is translated using the spot exchange rate on the transaction date, and there is no foreign currency capital translation difference between the foreign currency investment and the reporting currency amount of corresponding monetary item.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

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

(2) Translation of financial statements in foreign currency

When preparing the consolidated financial statements, the Group translates the financial statements on overseas operations into RMB, in which, asset and liability items in the balance sheet denominated in foreign currency are translated at the spot exchange rate prevailing on the balance sheet date; the owners' equity items, except for the "undistributed profits", are translated at the spot exchange rate when a business takes place; income and expense items in the income statement are translated at the spot exchange rate or approximate exchange rate on 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 spot exchange rate or approximate exchange rate on 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.

11. Financial instruments

(1) Recognition and derecognition of financial instruments

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

A financial asset (or part of a financial asset, or part of a group of similar financial assets) shall be derecognised, i.e., be written off from its accounts and balance sheet, if the following conditions are satisfied: 1) the right to collect cash flows from the financial asset expires; 2) the Group has transferred the right to collect cash flows from the financial asset, or assumed the obligation under a "transfer agreement" to timely pay the collected cash flows to a third party in full; and the Group has substantially transferred almost all the risks and rewards on ownership of the financial asset, or relinquished control over such financial asset even though it has neither substantially transferred nor retained almost all the risks and rewards on ownership of the financial asset.

If the obligation for financial liabilities has been fulfilled, revoked or expired, the financial liabilities shall be derecognised. If the existing financial liability is replaced by another financial liability with substantially different terms by the same creditor, or if the terms of the existing liability are substantially modified, such replacement or modification shall be treated as derecognition of original liability and recognition of new liability, and the difference shall be included in the profit or loss for current period.

The financial assets acquired or sold in a conventional manner shall be recognised and derecognised according to the accounting on the transaction date.

(2) Classification and measurement of financial assets

At the time of initial recognition, the Group classifies financial assets into financial assets at amortised 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. All affected related financial assets will be reclassified only when the Group changes its business model for managing financial assets.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

11. Financial instruments *(continued)*

(2) Classification and measurement of financial assets (continued)

When judging the business model, the Group considers the methods of enterprise evaluation and reporting financial asset performance to key management personnel, the risks affecting financial asset performance and their management methods, as well as the compensation obtainment methods of relevant business management personnel. When evaluating whether to target the collection of contractual cash flows, the Group needs to analyse and judge the reason, time, frequency and value of the sale of financial assets before their maturity date.

When judging the characteristics of contractual cash flow, the Group needs to determine whether the contractual cash flow is only for the payment of principal and interest based on unpaid principal. When evaluating the correction of the time value of money, it is necessary to determine whether there is a significant difference compared to the benchmark cash flow. For financial assets with prepayment characteristics, it is necessary to determine whether the fair value of prepayment characteristics is very low.

Financial assets are measured at fair value upon initial recognition, but if the accounts receivable or notes receivable arising from the sale of goods or provision of services do not include significant financing components or do not consider financing components for a period not exceeding one year, they are initially measured at the transaction price.

As for financial assets at fair value through profit or loss, relevant transaction costs are directly included in profit or loss for the period; as for other kinds of financial assets, relevant transaction costs are included in their initial recognition amount.

The subsequent measurement of financial assets depends on their classification:

1) Financial assets measured at amortised cost

Financial assets that simultaneously meet the following conditions are classified as financial assets measured at amortised 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. The Group's financial assets in this category mainly include: currency funds, accounts receivable, notes receivable, other receivables, etc.

2) Investments in debt instruments at fair value through other comprehensive income

Financial assets that simultaneously meet the following conditions are classified as 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. The interest income on such financial assets is recognised using the effective interest method. Except for interest income, impairment losses and exchange differences, other changes in fair value are recognised 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's financial assets in this category mainly include: receivables financing.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

11. Financial instruments *(continued)*

(2) Classification and measurement of financial assets (continued)

3) Investments in equity instruments at fair value through other comprehensive income

The Group irrevocably designates part of the investments in equity instruments not held for trading as financial assets at fair value through other comprehensive income. Such designation cannot be revoked once made. The Group only recognises relevant dividend income (except for dividend income that is clearly recovered as part of the investment cost) in profit or loss for the period, and subsequent changes in fair value are included in other comprehensive income without making the provision for impairment. 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 retained earnings. The Group's financial assets in this category are investments in other equity instruments.

4) Financial assets at fair value through profit or loss

Other than the above financial assets classified as financial assets measured at amortised cost and those classified or designated as financial assets at fair value through other comprehensive income, the Group classifies its financial assets as financial assets at fair value through profit or loss for the period. Such financial assets are subsequently measured at fair value, with all changes in fair value included in profit or loss for the period except for those related to hedge accounting. The Group's financial assets in this category mainly include: financial assets held for trading.

(3) Classification, recognition and measurement of financial liabilities

Except for the signed financial guarantee contracts, the loan commitments at a rate lower than the market interest rate, and 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, the Group classifies its financial liabilities as financial liabilities at fair value through profit or loss and financial liabilities measured at amortised cost at the time of initial recognition. As for financial liabilities at fair value through profit or loss, relevant transaction costs are directly included in profit or loss for the period; as for financial liabilities measured at amortised cost, relevant transaction costs are included in their initial recognition amount.

The subsequent measurement of financial liabilities depends on their classification:

1) Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are recognised using the effective interest method and subsequently measured at amortised cost.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

11. Financial instruments *(continued)*

(3) Classification, recognition and measurement of financial liabilities *(continued)*

2) Financial liabilities at fair value through profit or loss

Financial liabilities (includes derivative instruments that are 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. Held-for-trading financial liabilities (includes derivative instruments that are financial liabilities) are subsequently measured at fair value, with all changes in fair value included in profit or loss for the period (except for those related to hedge accounting). Financial liabilities designated as measured at fair value through profit or loss are subsequently measured at fair value, with other changes in fair value included in profit or loss for the period, except that the changes in fair value arising from changes in the Group's own credit risk are recognised in other comprehensive income. If fair value changes caused by changes in the Group's own credit risk are recognised in other comprehensive income, which would result in or amplify an accounting mismatch in profit or loss, the Group will recognise all fair value changes (including the amount affected by changes in its own credit risk) in the profit or loss for current period.

(4) Impairment of financial instruments

Based on expected credit losses, the Group conducts impairment treatment and recognises loss provisions for financial assets measured at amortised cost, debt investments measured at fair value with changes recognised in other comprehensive income, contract assets, lease receivables, loan commitments, and financial guarantee contracts.

Expected credit loss refers to the weighted average of credit losses of financial instruments weighted by the risk of default. Credit loss refers to the present value of all cash shortages, which is the difference between all contractual cash flows receivable under the contract and all expected cash flows received, discounted at the original effective interest rate by the Group. When considering the method of measuring expected credit losses, the Group reflects the following elements: ① an unbiased probability weighted average amount determined by evaluating a series of possible outcomes; ② the time value of money; and ③ reasonable and evidence-based information about past events, current conditions, and future economic conditions that can be obtained without incurring unnecessary additional costs on the balance sheet date.

The Group evaluates the expected credit losses of financial instruments based on individual and combination. When evaluating on a combination basis, the Group divides financial instruments into different groups based on common credit risk characteristics. The common credit risk characteristics adopted by the Group include: financial instrument type, credit risk rating, debtor's geographical location, debtor's industry, overdue information, ageing of accounts receivable, etc.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

11. Financial instruments (continued)

(4) Impairment of financial instruments (continued)

The Group's evaluation of impairment of financial instruments and contract assets using the expected credit loss model requires significant judgment and estimate, taking into account all reasonable and evidence-based information, including forward-looking information. When making these judgments and estimates, the Group infers expected changes in the debtor's credit risk based on historical repayment data combined with economic policies, macroeconomic indicators, industry risks, and other factors. Different estimates may affect the provision for impairment, and the accrued provision for impairment may not be equal to the actual amount of future impairment losses.

1) Impairment testing method for accounts receivable and contract assets

For accounts receivable, notes receivable, receivables financing, contract assets and other receivables that do not contain significant financing components arising from ordinary business activities, such as sales of goods and provision of services, the Group adopts a simplified measurement methodology to measure the loss provision based on the amount of expected credit losses equivalent to the entire duration of the life.

The Group recognises accounts receivable that face special risks as accounts receivable with significant individual amounts. The Group conducts separate impairment tests on accounts receivable with significant individual amounts.

For accounts receivable, except for those with significant individual amounts and credit impairment that have occurred, their credit losses are usually determined based on a combination of common credit risk characteristics, taking into account the elements that should be reflected in the expected credit loss measurement method, and referring to historical credit loss experience, a comparison table of overdue days of accounts receivable, accounts receivable aging, and default loss rate is prepared, and based on this, the expected credit losses are calculated. If a customer's credit risk characteristics are significantly different from those of other customers in the portfolio, or if the customer's credit risk characteristics undergo significant changes, such as severe financial difficulties, and the expected credit loss rate of accounts receivable from the customer is significantly higher than its expected credit loss rate in the aging and overdue range, the Group shall make a provision for losses on a single item basis for accounts receivable from the customer.

① Combination categories and determination basis of accounts receivable and contract assets

Based on information such as the ageing of accounts receivable and contract assets, overdue ageing, nature of accounts, credit risk exposure, and historical collection status, the Group classifies them as follows according to the similarity and correlation of credit risk characteristics:

Item	Basis for determination of groups
Ageing analysis	This group uses the 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

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

11. Financial instruments (continued)

(4) Impairment of financial instruments (continued)

1) Impairment testing method for accounts receivable and contract assets (continued)

② Combination categories and determination basis of notes receivable

Based on the common risk characteristics of the acceptor credit risk of notes receivable, the Group classifies them into different combinations and determines the accounting estimate policy for expected credit losses as follows:

Item	Basis for determination of groups
Bank acceptance notes	Acceptor being a bank with less credit risk. The Group identifies these receivables as having a low credit risk and does not recognise their expected credit losses
Commercial acceptance notes	Based on the credit risk of the acceptor (same as accounts receivable)

2) Impairment testing methods for debt investments, other debt investments, loan commitments, and financial guarantee contracts

Except for financial assets that adopt simplified measurement methods as mentioned above, the Group adopts the general method (three-stage method) to calculate expected credit losses. On each balance sheet date, the Group assesses whether its credit risk has significantly increased since initial recognition. If the credit risk has not significantly increased since initial recognition and is in the first stage, the Group measures the provision for losses based on an amount equivalent to the expected credit loss for the next 12 months, and calculates interest income based on the book balance and actual interest rate. If credit risk has significantly increased since initial recognition but credit impairment has not yet occurred, in the second stage, the Group measures loss provisions at an amount equivalent to the expected credit loss over the entire existence period, and calculates interest income based on the book balance and actual interest rate. If credit impairment occurs after initial recognition, in the third stage, the Group measures the provision for losses at an amount equivalent to the expected credit loss for the entire existence period, and calculates interest income at amortized cost and actual interest rate. For financial instruments with lower credit risk on the balance sheet date, the Group assumes that their credit risk has not significantly increased since initial recognition.

The expected credit loss for the entire expected lifespan of a financial instrument refers to the expected credit loss caused by all possible default events that may occur throughout the expected lifespan of the financial instrument. The expected credit loss within the next 12 months refers to the expected credit loss that may occur due to a default event of a financial instrument within the next 12 months after the balance sheet date (if the expected maturity of the financial instrument is less than 12 months, then the expected maturity), which is a part of the expected credit loss for the entire maturity period.

Please refer to Note X. 1 for the disclosure of the criteria for significantly increasing credit risk and the definition of credit impairment assets that have occurred in the Group.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

11. Financial instruments *(continued)*

(5) Recognition and measurement of transfer of financial assets

For financial asset transfer transactions, if the Group has transferred almost all the risks and rewards of ownership of the financial asset to the transferee, the recognition of the financial asset shall be terminated. If almost all risks and rewards related to the ownership of financial assets are retained, the recognition of such financial assets shall not be terminated; If almost all risks and rewards related to the ownership of financial assets have not been transferred or retained, and control over the financial asset has been relinquished, the recognition of the financial asset and the recognition of the resulting assets and liabilities shall be terminated. If control over the financial asset has not been relinquished, relevant financial asset shall be recognised based on its continued involvement in the transferred financial assets, with corresponding liabilities recognised.

If the whole transfer of the financial asset meets the conditions for derecognition, the difference between the carrying amount of the transferred financial asset at the date of derecognition and the sum of the consideration received for the transfer and the accumulative amount of fair value changes originally recorded into other comprehensive income which is relevant to the portion of derecognition (the transferred financial asset shall meet all of the following conditions: ① the Group's 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.) is included in the profit or loss for the period.

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 derecognised 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 derecognised portion (the transferred financial asset shall meet all of the following conditions: ① the Group's 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), and the apportioned entire carrying amount of the said financial assets are included in the profit or loss for the period.

For those who continue to be involved by providing financial guarantees for the transferred financial assets, the assets formed by further involvement shall be recognised based on the lower of the book value of the financial assets and the amount of financial guarantees. The financial guarantee amount refers to the highest amount of consideration received that will be required to be repaid.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

11. Financial instruments *(continued)*

(6) 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).

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.

(7) Derivative financial instruments

The Group uses derivative financial instruments, such as foreign exchange forward contracts, commodity forward contracts, and interest rate swaps, to hedge exchange rate risk, commodity price risk, and interest rate risk, respectively. Derivative financial instruments are initially measured at their fair value on the date of signing the derivative transaction contract, and subsequently measured at their fair value. Derivative financial instruments with a positive fair value are recognised as an asset, while those with a negative fair value are recognised as a liability.

Except for those related to hedge accounting, gains or losses arising from changes in fair value of derivative instruments are directly included in the profit or loss for current period.

(8) 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 recognised 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.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

12. Inventories

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

Inventories are initially measured at cost. Inventory costs include purchase costs, processing costs and other costs. The Group maintains a perpetual inventory system. Actual cost is calculated using weighted average method when the inventories are received or delivered. Low-value consumables and packaged goods are amortised using one-time resale method.

Inventories are measured at the lower of their cost and net realisable value on the balance sheet date. If the cost of inventories is higher than their net realisable value, a provision for decline in value of inventories will be made and included in profit or loss for the period. Net realisable value refers to the estimated selling price of inventories in daily activities, minus the estimated costs to be incurred till completion, estimated selling expenses and related taxes.

The Group makes provisions for decline in value of inventories on the basis of individual inventory items. Net realisable value of the inventories of goods directly used for sale, such as finished goods, work in process and materials for sale, is determined by the estimated selling price of such inventories, minus the estimated selling expenses and related taxes; net realisable value of the inventories of materials held for production is determined by the estimated selling price of finished goods produced, minus the estimated costs to be incurred till completion, estimated selling expenses and related taxes.

13. Contract assets and contract liabilities

(1) 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.

For method of determination and accounting treatment of expected credit loss of contract assets, please refer to relevant contents in "Note III. 11. (4) Impairment of financial instruments" described above.

(2) Contract liabilities

A contract liability reflects the Group's obligation to transfer goods to a customer for which the Company has received or should receive consideration 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 recognise 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 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

14. Assets relating to 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. According to the liquidity, contract performance costs are presented separately in inventory and other non-current assets, while contract acquisition costs are presented separately in other current assets and other non-current assets.

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, such as inventories, fixed assets or intangible assets, 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, manufacturing costs (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 and which is recognised as an asset as contract acquisition cost. If the amortisation period of such asset is no more than one year, the Group chooses the simplified treatment of including such contract acquisition cost 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

If the carrying amount of the Group's assets relating to contract costs is higher than the difference between the following two items, the Group makes a provision for impairment and recognises the excess as an asset impairment loss: ① the remaining consideration expected to be received from transfer of the goods relating to the asset; and ② the cost expected to be incurred for transfer of the relevant goods.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

15. Long-term equity investments

Long-term equity investments of the Group include the investments in subsidiaries, investments in associates and equity investments in joint ventures.

(1) Determination of significant influence and common control

The Group's investment in associates refers to the equity investment that has a significant influence on the investee. Significant influence means that the Group has the power to participate in decision-making on the financial and operational policies of the investee, but cannot control or jointly control the formulation of these policies with other parties. 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 sent to the investee, or significant technology information provided to the investee which have significant influence to the investee.

The equity investment in a joint venture refers to the investment in which the Group exercises joint control with other joint venture parties over the investee and has the power over the net assets of the investee. Joint control refers to the shared control over a certain arrangement in accordance with relevant agreements, and the related activities of the arrangement must be unanimously agreed upon by the participating parties who share control before decision-making can be made. Basis for determination in respect of common control is that all participating parties or a group of participating parties control such arrangement, and that policies of such related business of such arrangement have to obtain unanimous agreement by all parties that control such arrangement.

(2) Accounting treatment method

The Group initially measures the long-term equity investments obtained based on the initial investment cost.

For long-term equity investments obtained through business combination under common control, proportion of carrying amount 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. For carrying amount 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 long-term equity investments 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 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

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

(2) Accounting treatment method (continued)

Apart from the long-term equity investments acquired through business combination, for long-term equity investments acquired by cash payment, the initial investment cost shall be based on the actual purchase price paid and the expenses, taxes and other necessary expenditures directly related to the acquisition of long-term equity investments. For long-term equity investments acquired by issuing equity securities, the cost of investment is the fair value of the equity securities issued;

The Company's investments in subsidiaries are accounted for in individual financial statements using cost method. When the cost method is used, long-term equity investments are measured at their initial investment cost. When making additional investment, carrying amount 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.

The Group's investments in the associates and joint ventures are accounted for under equity method. When using the equity method, if the initial investment cost of a long-term equity investment exceeds the share of the fair value of the identifiable net assets of the investee that should be enjoyed at the time of investment, the book value of the long-term equity investment shall not be adjusted. If the initial investment cost of a long-term equity investment is less than the share of the fair value of the identifiable net assets of the investee that should be enjoyed at the time of investment, the difference shall be adjusted to the book value of the long-term equity investment and included in the profit or loss for current investment period.

For long-term equity investment for which the subsequent measurement is accounted for under equity method, carrying amount of long-term equity investment shall be increased or decreased accordingly according to the change in the shareholders' equity of the investee during the investment period. When determining the amount of proportion of net profit or loss in the investee which it entitles, fair value of each identifiable asset 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 Group according to the shareholding (if internal transaction losses belong to asset impairment losses, they shall be fully recognised), and recognised after adjustment is made to the net profit of the investee. The Group recognises the net loss incurred by the investee, with the book value of long-term equity investments and other long-term equity essentially constituting the net investment in the investee reduced to zero, except for the obligation of the Group to bear additional losses.

16. Investment properties

The Group's investment properties refer to the real estate held for the purpose of earning rent or capital appreciation, or for both, which comprise rented out houses, buildings and land. They are measured using the cost model.

The Group's investment property is depreciated or amortised using the same policy as that for houses, buildings or land use rights.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

17. Fixed assets

Fixed assets of the Group are tangible assets that are held for production of goods or provision of services, leasing to others, or for administrative purposes, with a 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 offshore land, buildings and structures, machinery equipment, electronic equipment, appliances and furniture, transportation equipment.

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)	Estimated rate of residual value (%)	Annual depreciation rates (%)
1	Offshore land	Unlimited	Not applicable	Not applicable
2	Buildings and structures	20-50	0-10	1.8-5
3	Machinery equipment	5-20	5-10	4.5-19
4	Electronic equipment, appliances and furniture	3-10	0-10	9-33.33
5	Transportation equipment	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.

18. Construction in progress

The cost of construction in progress is determined based on actual project expenses, including necessary project expenses and other related expenses incurred during the construction period.

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, price or actual cost of construction. Depreciation is calculated from the next month of the transfer. The original value of the fixed asset is adjusted when the construction finalisation procedures are completed.

Construction in progress is transferred to fixed assets when it reaches its intended usable state, with the following standards:

Item	Standards for transferring to fixed assets
Houses and buildings	Completion acceptance/actual start of use (Whichever is earlier)
Machinery and equipment	Completion of installation, debugging and acceptance

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

19. Borrowing costs

The Group will capitalise the borrowing costs that can be directly attributed to the construction or production of assets eligible for capitalisation, and include them in the relevant asset costs. Other borrowing costs will be recognised in the profit or loss for current period. The assets eligible for capitalisation as determined by the Group include borrowing costs for fixed assets, investment properties and inventories that require more than one year of construction or production activities to reach their intended usable or saleable condition. Capitalisation starts when the assets expenses and borrowing costs have been incurred and the construction or production activities for making the assets reach their intended usable or saleable condition have started; capitalisation stops when the constructed or produced assets eligible for capitalisation conditions have reached their intended usable or saleable condition. Borrowing costs incurred afterwards are included into the profit or loss for current period. If assets eligible for capitalisation conditions interrupt abnormally during construction or production progress, and such interruption lasts for more than three consecutive months, capitalisation of borrowing costs shall be suspended until construction of assets or production activities resume.

During each accounting period within the capitalisation period, the Group recognises the capitalised amount of borrowing costs using the following method: The capitalised amount of borrowing costs, accrued from the funds borrowed under a specific purpose, 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 capitalised amount of borrowing costs, accrued from the funds borrowed under a general purpose, 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.

20. Intangible asset

The Group's intangible assets include land use right, trademark right, patented technology, sales channel, 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. Intangible assets acquired in a merger not under common control that are owned by the acquiree but not recognised in its financial statements are recognised and measured at fair value on initial recognition.

(1) Useful life and its basis of determination, estimation, amortization method or review procedure

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 costs and profit or 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.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

20. Intangible asset (continued)

(1) Useful life and its basis of determination, estimation, amortization method or review procedure (continued)

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.

(2) Scope of R&D expenditure collection and related accounting treatment methods

The scope of R&D expenditures of the Group cover employee salaries of R&D personnel, direct investment expenses, depreciation and deferred expenses, other expenses, etc.

The Group classifies the expenditures on internal research and development projects into expenditure at the research phase and expenditure at the development phase based on the nature of the expenditures and whether there is great uncertainty for the research and development activities to ultimately form into intangible assets. Expenditure at the research phase is recognised in profit or loss for the period when it is incurred. Expenditure at the development phase is capitalised when all of the following conditions are satisfied at the same time: As assessed by the Group, it is technically feasible to complete the intangible asset so that it will be available for use or sale; the Group intends to complete and use or sell the intangible asset; the intangible asset is expected to bring economic benefits to the Group; the Group has adequate technical, financial and other resources to complete the development and has the ability to use or sell the intangible asset; and the expenditure attributable to the intangible asset at its development phase can be reliably measured. Expenditure at the development phase that fails to meet the conditions for capitalisation is recognised in the profit or loss when incurred.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

21. 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-of-use assets and intangible 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, intangible assets with uncertain useful life, at the year end regardless of whether there is indication of impairment loss.

(1) Impairment of non-current assets other than financial assets (excluding goodwill)

When conducting impairment testing, the Group determines its recoverable amount based on the higher of the net amount after deducting disposal expenses from the fair value of the asset and the present value of the expected future cash flows of the asset. After impairment testing, if the book value of the asset exceeds its recoverable amount, the difference is recognised as impairment loss.

The Group estimates its recoverable amount based on individual assets. If it is difficult to estimate the recoverable amount of individual assets, the recoverable amount shall be determined based on the asset group to which the asset belongs. The recognition of an asset group is based on whether the main cash inflows generated by the asset group are independent of the cash inflows of other assets or asset groups.

The net amount after deducting disposal costs from fair value is determined by referring to the sales agreement price or observable market price of similar assets in fair trade, minus the incremental costs directly attributable to the disposal of the asset. When estimating the present value of future cash flows, the management must estimate the expected future cash flows of the asset or asset group and select an appropriate discount rate to determine the present value of future cash flows. Please refer to Note V. 19 for details.

(2) Impairment of goodwill

The Group shall amortise the book value of the goodwill formed by the merger of enterprises to the relevant asset groups in a reasonable manner from the date of purchase. If it is difficult to amortise to the relevant asset groups, it shall be amortised to the relevant asset group combinations. When conducting impairment tests on asset groups or asset group combinations related to goodwill, if there are signs of impairment in the asset groups or asset group combinations related to goodwill, the Group shall first conduct impairment tests on the asset groups or asset group combinations that do not contain goodwill, calculate the recoverable amount, compare it with the relevant book value, and recognise the corresponding impairment losses. Then the Group shall conduct impairment tests on asset groups or asset group combinations containing goodwill, comparing the book value with the recoverable amount. If the recoverable amount is lower than the book value, the impairment loss amount is first offset against the book value of goodwill amortised to the asset group or asset group combination. Then, based on the proportion of the book value of assets other than goodwill in the asset group or asset group combination, the book value of other assets is proportionally offset.

The methods, parameters and assumptions for impairment testing of goodwill are detailed in Note V. 20.

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

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

22. Long-term prepaid expenses

Long-term prepaid expenses are expenditures of the Group that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Such expenses are amortised on average during the benefit period. If a long-term prepaid expense item cannot benefit subsequent accounting periods, the amortised value of the item that has not yet been amortised shall be fully transferred to the profit or loss for current period.

23. Employee remuneration

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

Short-term remuneration mainly includes staff 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 and defined benefit 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.

The Group operates a defined benefit pension scheme which requires contributions to be made to an independently managed fund. No fund has been injected to the scheme, and the cost of providing the benefit under the defined benefit scheme is based on the expected cumulative benefit unit method. Re-measurements arising from the defined benefit pension scheme, including actuarial gains or losses, changes in the impact of asset ceilings (net of amounts included in net interest on net liabilities for the defined benefit scheme) and returns on assets under the scheme (net of amounts included in net interest on net liabilities for the defined benefit scheme) shall be recognised immediately in the balance sheet. They shall be included in the shareholders' equity through other comprehensive income for the period in which they occur, and not reversed to profit or loss in subsequent periods. The Group recognises past service costs as current expenses on the date of modification of the defined benefit scheme or the date of recognition of relevant restructuring expenses or dismissal benefits, whichever is earlier. Net interest is calculated by multiplying the net amount of liabilities or assets under the defined benefit scheme by the discount rate. The Group recognises in profit or loss the following changes in the net obligations under the defined benefit scheme: service costs, including current service cost, past service cost and settlement gains or losses; and net interest, including interest income on assets under the scheme, interest expenses on obligations under the scheme and interest affected by asset ceiling.

Dismissal benefits arise from the Company's decision to terminate the employment relationship with employees before the expiration of labour contracts or offer compensation to encourage employees to voluntarily accept layoffs. When the Company is unable to unilaterally withdraw the dismissal benefits provided due to termination of the employment relationship or the proposal for layoffs, or when the Company recognises the costs or expenses related to the restructuring involving the payment of dismissal benefits, whichever is earlier, an employee compensation liability arising from dismissal benefits shall be recognised and included in the current profit or loss. The compensation payments made for more than one year shall be included in the current profit or loss after discounted at an appropriate discount rate.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

24. Accrued liabilities

The Group recognises it as a liability when an obligation pertinent to contingencies such as external guarantees, discounting of commercial acceptance bills, pending litigation or arbitration, product quality assurance, etc. simultaneously meets the following conditions: The obligation is a current obligation borne by the Group; it is likely that an outflow of economic benefits will be resulted from the performance of the obligation; and the amount of the obligation can be reliably measured.

Accrued liabilities are initially 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. The Group reviews the current best estimates and makes adjustments to the carrying amount of the accrued liabilities on the balance sheet date.

Contingent liabilities of the acquiree acquired in a business combination not under common control are measured at fair value at the time of initial recognition and be subsequently measured at the higher of the recognised amount of accrued liabilities or the balance after deducting the accumulated amortisation amount determined by the revenue recognition principle from the initial recognition amount.

25. 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 can be vested immediately upon grant, it shall be included in relevant costs or expenses according to the fair value of equity instruments on the grant date, and the capital reserves shall be increased accordingly. 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 on each balance sheet date within the vesting period, the services acquired during the period shall be included in relevant costs or expenses and capital reserves according to the fair value of equity instruments on the grant date, based on the best estimate of the number of vested equity instruments. If the terms of an equity-settled share-based payment are modified, acquired services are recognised at least as if the terms had not been modified. In addition, modifications that increase the fair value of equity instruments granted, or changes that are beneficial to employees on the date of modification, are recognised as an increase in services acquired.

If equity-settled share-based payments are cancelled, they shall be treated as accelerated exercise on the date of cancellation, and the unrecognised amount shall be recognised immediately. If employees or other parties can choose to satisfy the non-exercisable conditions but fail to do so within the vesting period, it shall be treated as cancellation of the equity-settled share-based payment. However, if a new equity instrument is granted and it is determined on the date of grant that the new equity instrument is intended to replace the cancelled equity instrument, the substitute equity instrument granted shall be treated in the same manner as the modification to the terms and conditions of the original equity instrument.

26. Recognition and measurement of revenue

The Group recognises revenue when a performance obligation in the contract is fulfilled, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customers. Acquiring control over relevant goods or services means to be able to dominate the use of such goods or the provision of such services and obtain almost all economic benefits from them.

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

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

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

The sale of products by the Group to customers is the fulfilment of its performance obligation at a certain point of time, and revenue is recognised when the performance obligation is completed. Domestic sales business: Revenue is recognised when the goods are delivered by the Group according to the contract or order and received by the customer. Overseas sales business: It is generally agreed in the sales contracts signed between the Group and overseas customers that the point of time at which the control over the goods is transferred is when the goods are loaded onto ships and depart from the ports. Therefore, the Group recognises the overseas sales revenue from its major overseas sales business when the goods depart from the ports.

27. Government grants

Government grants are recognised when they meet the accompanying conditions and can be received. Government grants that are monetary assets shall be measured at the amount actually received. Grants, which are disbursed according to fixed quota standard or where there is conclusive evidence at the end of the year that they can satisfy relevant conditions set out in the financial support policy and that the financial support funds are expected to be received, shall be measured at the amount receivable. Government grants that are non-monetary assets shall be measured at fair value or, at a nominal amount (RMB1) if their fair value cannot be reliably obtained.

Government grants of the Group consist of asset-related government grants and income-related government grants. Asset-related government grants refer to government grants obtained for acquisition or construction of long-term assets or other forms of long-term asset formation; income-related government grants refer to those other than asset-related government grants. If related government documents do not specify targets of the grants, the Group will recognise the grants according to the above principle, and if it's difficult to distinguish, they shall be recognised as the income-related government grants as a whole.

Asset-related government grants shall be recognised as deferred income, and included in profit or loss over the useful life of the asset based on reasonable and systemic methods. If relevant assets are sold, transferred, scrapped or damaged before the end of their useful lives, the balance of undistributed deferred income shall be transferred to profit or loss for the period in which the assets are disposed of.

Income-related government grants, which are used to compensate for related expenses or losses to be incurred in the subsequent periods, shall be recognised as deferred income, and included in profit or loss over the periods in which the related costs or losses are recognised. Government grants related to daily activities, depending on the essence of economic business, are included in other income or used to offset relevant expenses. Government grants not related to daily activities are included in non-operating income or expenses.

Where the Group obtains subsidised interest rates for policy concessionary loans, the Group distinguishes between the disbursement of the subsidised interest rate funds by the finance department to the lending bank and the disbursement of the subsidised interest rate funds by the finance department directly to the Group, and carries out the accounting treatment according to the following principles, respectively: (1) Where the finance department disburses the subsidised funds to the lending bank, and the lending bank provides the Group with a loan at a policy preferential interest rate, the Group takes the actual loan amount received as the entry value of the loan and calculates the related borrowing costs according to the principal amount of the loan and the policy preferential interest rate (or takes the fair value of the loan as the entry value of the loan and calculates the borrowing costs using the effective interest rate method, with the difference between the actual amount received and the fair value of the loan being recognised as deferred income. Deferred income is amortised over the duration of the loan using the effective interest rate method, and used to offset relevant borrowing costs). (2) Where the finance department disburses the subsidised funds directly to the Group, the Group will offset relevant borrowing costs with the corresponding subsidised funds.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

28. Deferred income tax assets and deferred income tax liabilities

The Group's deferred income tax assets and deferred income tax liabilities are recognised on the basis of (temporary differences) arising from differences between the tax bases of assets and liabilities and their carrying amount, as well as from differences between the tax bases and their carrying amount of items that are not recognised as assets and liabilities but whose tax bases can be determined according to tax laws.

The Group recognises deferred income tax liabilities for all taxable temporary differences, except in the following circumstances: (1) temporary differences arising from the initial recognition of goodwill or the initial recognition of assets or liabilities arising from transactions that are not business combinations and that affect neither the accounting profit nor taxable income (or deductible losses); (2) taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the Group is able to control the timing of the reversal of the temporary differences and such temporary differences are likely not to be reversed in the foreseeable future.

The Group recognises deferred income tax assets for deductible temporary differences, deductible losses and tax credits to the extent 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, except in the following circumstances: (1) temporary differences arising from the initial recognition of assets or liabilities in transactions other than business combinations that affect neither accounting profit nor taxable income (or deductible losses); and (2) deductible temporary differences related to investments in subsidiaries, associates and joint ventures that can not simultaneously satisfy the following conditions: temporary differences are likely to be reversed in the foreseeable future, and taxable income is likely to be obtained in the future to offset deductible temporary differences.

The Group recognises deferred income tax assets for all unused deductible losses to the extent that it is likely that sufficient taxable income will be available to offset the deductible losses. The management uses considerable judgements in estimating the time and amount of future taxable income, and determines the amount of deferred income tax assets to be recognised by taking into account the tax planning strategies, thus resulting in uncertainty.

On the balance sheet date, deferred income tax assets and liabilities are measured at the applicable tax rate during the expected period in which the asset is recovered or the liability is settled.

The Group presents deferred income tax assets and liabilities as net amounts after offsetting when all of the following conditions are met: the Group has the legal right to settle current income tax assets and current deferred income tax liabilities on a net basis; deferred income tax assets and liabilities are related to income tax levied by the same tax collection and management authority on the same taxpayer or on different taxpayers. However, for each future period in which significant deferred income tax assets and liabilities are reversed, the taxpayers involved intend to either settle the current income tax assets and liabilities on a net basis or to acquire the assets and settle the liabilities simultaneously.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

29. Lease

(1) Identification of lease

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 lease or includes lease.

Where a contract concurrently contains multiple separate leases, the Group splits the contract and conduct accounting treatment respectively for all separate leases.

(2) The Group as a lessee

1) Lease recognition

Except for short-term lease and lease of low-value assets, the Group recognises right-of-use assets and lease liabilities of the lease at the inception of the lease term.

The right-of-use assets refer to the right of underlying assets in the lease term for the Group as a lessee, which are initially measured at cost. Such cost shall comprise: ① the amount of the initial measurement of the lease liability; ② any lease payments made on or before the inception of the lease, less any lease incentives received; ③ any initial direct costs incurred; 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 (costs of production of inventory are excluded). If the Group re-measures lease liability in accordance with the relevant provisions of the lease standards, the carrying amount of the right-of-use assets shall be adjusted accordingly.

The Group depreciates the right-of-use assets on a straight-line basis over the expected consumption of the economic benefits associated with the right-of-use assets. If it can reasonably determined that ownership of the leased asset will be obtained upon expiration of the lease term, depreciation shall be accrued within the remaining useful life of the leased asset; if it can not be reasonably determined that ownership of the leased asset will be obtained upon expiration of the lease term, depreciation shall be accrued within the lease term or the remaining useful life of the leased asset, whichever is shorter. The depreciation amount accrued is included in the cost of relevant asset or current profit or loss based on the use of the right-of-use asset.

The lease liability is initially measured at the present value of the outstanding lease payments at the inception of the lease term. The lease payments include: ① the fixed payment and the substantial fixed payment, net of the lease incentive amount; ② the variable lease payments depending on the index or ratio; ③ the 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; and ⑤ the amount payable based on the residual value of the security provided by the Group.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

29. Lease *(continued)*

(2) *The Group as a lessee (continued)*

1) Lease recognition *(continued)*

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 Group 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 capitalisation.

Subsequent to the inception of the lease term, the Group increases the carrying amount of the lease liability at the time of recognising interest on the lease liability, and decreases the carrying amount of the lease liability at the time of making lease payments. When there is a change in the substantive fixed payments, a change in the expected payable amount for the residual value of the guarantee, a change in the index or ratio used to determine the amount of lease payments, or a change in the valuation result or actual exercise of the option of purchase, renewal or termination, the Group will re-measure the lease liability based on the present value of lease payments as a result of the change.

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*

The Group as a lessor classifies the lease as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, and classifies other leases as operating leases.

1) Finance lease

At the inception of the lease term, the Group confirms the finance lease receivable on the finance lease and terminates the recognition of the finance lease assets. When the initial measurement of the finance 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 at the inception of the lease term, which is discounted according to the interest rate implicit in lease. The Group calculates and recognises interest income for each period of the lease term based on a fixed periodic interest rate. The variable lease payments received by the Group that are not included in the net lease investment are recognised in profit or loss for the period in which they are actually incurred.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

29. Lease *(continued)*

(3) *The Group as a lessor (continued)*

2) Operating lease

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

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

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.

30. Discontinued operation

Discontinued operation refers to a component of the Group that meets one of the following conditions, that can be separately distinguishable, and that has been disposed of or classified as held for sale: (1) the component represents a separate principal business or a separate principal operating area; (2) the component is part of a related plan for the proposed disposal of a separate principal business or a separate principal operating area; and (3) the component is a subsidiary that has been acquired exclusively for the purpose of resale.

In the income statement, the Group has added the items of “net profit from continuing operations” and “net profit from discontinued operations” under the item of “net profit” in the income statement to reflect the profit or loss from continuing operations and profit or loss from discontinued operations, respectively, on a net after-tax basis. Profit or loss from discontinued operations shall be presented as profit or loss from discontinued operations, and the profit or loss from discontinued operations shall be presented for the entire reporting period, not only for the reporting period after being recognised as discontinued operations.

31. Fair value measurement

The Group measures investment properties, derivative financial instruments and equity instrument investments at fair value on each balance sheet date. Fair value refers to the price that a market participant would receive from selling an asset or pay for transferring a liability in an orderly transaction occurring on the measurement date.

Assets and liabilities that are measured or disclosed at fair value in the financial statements are identified within the fair value levels based on the lowest level input that is significant to the fair value measurement as a whole: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities that are available on the measurement date. 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.

Notes to the Financial Statements for 2023

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

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

32. Changes in critical accounting policies and estimates

(1) Changes in critical accounting policies

On 30 November 2022, the Ministry of Finance promulgated the “Notice on the Issuance of Interpretation No. 16 of the Accounting Standards for Business Enterprises” (Cai Kuai [2022] No. 31), which stipulates that the accounting treatment for deferred income taxes related to assets and liabilities arising from single transactions shall not be subject to the exemption from initial recognition, and that the accounting treatment, which came into effect as of 1 January 2023.

Notes on the names and amounts of the statement items that are materially affected:

Affected items	1 January 2023 (January to December 2022)		
	Before adjustment	Adjustment	After adjustment
Total assets	55,375,550,868.66	317,574.67	55,375,868,443.33
Including: Deferred tax assets	984,167,504.03	317,574.67	984,485,078.70
Total shareholders' equity	16,278,765,031.24	317,574.67	16,279,082,605.91
Including: Undistributed profits	7,248,124,550.56	116,160.71	7,248,240,711.27
Minority interests	4,760,507,749.70	201,413.96	4,760,709,163.66
Net profit	3,069,234,330.39	174,730.31	3,069,409,060.70
Including: Income tax expenses	754,575,397.82	-174,730.31	754,400,667.51
Profit and loss of minority interests	1,634,329,955.55	110,889.31	1,634,440,844.86

(2) Changes in critical accounting estimates

None.

IV. 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 to the Financial Statements for 2023

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

IV. TAXATION (continued)

1. The main types and rates of taxes (continued)

Notes on taxpayers subject to different enterprise income tax rates:

Name of tax payer	Income tax rate
Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.	15.00%
Guangdong Kelon Mould Co., Ltd.	15.00%
Hisense Refrigerator Co., Ltd.	15.00%
Hisense Air-Conditioning Co., Ltd.	15.00%
Qingdao Hisense Mould Co., Ltd.	15.00%
Hisense (Guangdong) Kitchen and Bath System Co., Ltd.	15.00%
Foshan Shunde Rongsheng Plastic Co., Ltd.	15.00%
Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.	15.00%
Hisense Ronshen (Guangdong) Freezer Co., Ltd.	15.00%
Foshan Hisense Property Service Co., Ltd.	20.00%
Hisense (Chengdu) Refrigerator Co., Ltd.	15.00%
Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.	15.00%
Qingdao Hisense Commercial Cold Chain Co., Ltd.	15.00%
Hisense (Guangdong) Air-Conditioner Company Limited	15.00%
Kelon International Incorporation (KII)	8.25%/16.5%
Pearl River Electric Refrigerator Co., Ltd.	16.50%
Kelon Development Co., Ltd.	16.50%
Hisense (Hong Kong) America Manufacturing Co., Ltd.	16.50%
Hisense Mould (Deutschland) GmbH	15.00%
Hisense Monterrey Manufacturing, S.de R.L. de C.V.	30.00%
Hisense Monterrey Property Management, S.de R.L. de C.V.	30.00%
Sanden Corporation	30.50%
SANDEN INTERNATIONAL (EUROPE) GmbH	30.00%
SANDEN MANUFACTURING EUROPE S.A.S.	28.00%
SANDEN VIKAS (INDIA) LTD.	35.00%
SANDEN MANUFACTURING MEXICO S.A. DE C.V.	30.00%
Tianjin Sanden Auto Air-Conditioning CO., LTD.	15.00%
Other overseas subsidiaries	5%-34%

2. Tax preferences

On 28 December 2023, Hisense Ronshen (Guangdong) Refrigerator Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Certificate No.: GR202344003724, with an effective period of three years), which was jointly issued by Guangdong Provincial Department of Science and Technology, Guangdong Provincial Department of Finance and the State Administration of Taxation Guangdong Provincial Taxation Bureau. The subsidiary has handled tax reduction and exemption filing procedures with the competent tax authorities, and adopted the enterprise income tax rate of 15% in 2023, 2024 and 2025.

On 28 December 2023, Guangdong Kelon Mould Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Certificate No.: GR202344002886, with an effective period of three years), which was jointly issued by Guangdong Provincial Department of Science and Technology, Guangdong Provincial Department of Finance and the State Administration of Taxation Guangdong Provincial Taxation Bureau. The subsidiary has handled tax reduction and exemption filing procedures with the competent tax authorities, and adopted the enterprise income tax rate of 15% in 2023, 2024 and 2025.

Notes to the Financial Statements for 2023

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

IV. TAXATION (continued)

2. Tax preferences (continued)

On 9 November 2023, Hisense Refrigerator Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Certificate No.: GR202337101305, with an effective period of three years), which was jointly issued by Qingdao Municipal Bureau of Science and Technology, Qingdao Municipal Bureau of Finance and the State Administration of Taxation Qingdao Municipal Taxation Bureau. The subsidiary has handled tax reduction and exemption filing procedures with the competent tax authorities, and adopted the enterprise income tax rate of 15% in 2023, 2024 and 2025.

On 9 November 2023, Hisense Air-Conditioning Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Certificate No.: GR202337101226, with an effective period of three years), which was jointly issued by Qingdao Municipal Bureau of Science and Technology, Qingdao Municipal Bureau of Finance and the State Administration of Taxation Qingdao Municipal Taxation Bureau. The subsidiary has handled tax reduction and exemption filing procedures with the competent tax authorities, and adopted the enterprise income tax rate of 15% in 2023, 2024 and 2025.

On 9 November 2023, Qingdao Hisense Mould Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Certificate No.: GR202337100712, with an effective period of three years), which was jointly issued by Qingdao Municipal Bureau of Science and Technology, Qingdao Municipal Bureau of Finance and the State Administration of Taxation Qingdao Municipal Taxation Bureau. The subsidiary has handled tax reduction and exemption filing procedures with the competent tax authorities, and adopted the enterprise income tax rate of 15% in 2023, 2024 and 2025.

On 19 December 2022, Hisense (Guangdong) Kitchen and Bath System Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Certificate No.: GR202244002710, with an effective period of three years), which was jointly issued by Guangdong Provincial Department of Science and Technology, Guangdong Provincial Department of Finance and the State Administration of Taxation Guangdong Provincial Taxation Bureau. The subsidiary has handled tax reduction and exemption filing procedures with the competent tax authorities, and adopted the enterprise income tax rate of 15% in 2022, 2023 and 2024.

On 19 December 2022, Foshan Shunde Rongshen Plastic Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Certificate No.: GR202244004440, with an effective period of three years), which was jointly issued by Guangdong Provincial Department of Science and Technology, Guangdong Provincial Department of Finance and the State Administration of Taxation Guangdong Provincial Taxation Bureau. The subsidiary has handled tax reduction and exemption filing procedures with the competent tax authorities, and adopted the enterprise income tax rate of 15% in 2022, 2023 and 2024.

On 12 December 2022, Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Certificate No.: GR202232015499, with an effective period of three years), which was jointly issued by Jiangsu Provincial Department of Science and Technology, Jiangsu Provincial Department of Finance and the State Administration of Taxation Jiangsu Provincial Taxation Bureau. The subsidiary has handled tax reduction and exemption filing procedures with the competent tax authorities, and adopted the enterprise income tax rate of 15% in 2022, 2023 and 2024.

On 20 December 2021, Hisense Ronshen (Guangdong) Freezer Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Certificate No.: GR202144001612, with an effective period of three years), which was jointly issued by Guangdong Provincial Department of Science and Technology, Guangdong Provincial Department of Finance and the State Administration of Taxation Guangdong Provincial Taxation Bureau. The subsidiary has handled tax reduction and exemption filing procedures with the competent tax authorities, and adopted the enterprise income tax rate of 15% in 2021, 2022 and 2023.

Notes to the Financial Statements for 2023

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

IV. TAXATION (continued)

2. Tax preferences (continued)

Foshan Hisense Kelon Property Service Co., Ltd., a subsidiary of the Company, meets the identification standards for small and micro-sized enterprises stipulated in Cai Shui [2023] No. 12: 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, the taxable income was calculated according to 25%, and the enterprise income tax was paid at the rate of 20% in 2023.

Hisense (Chengdu) Refrigerator Co., Ltd., a subsidiary of the Company, belongs to an encouraged industrial enterprise located in the western region. In accordance with relevant provisions of the Announcement [2020] No. 23 of the Ministry of Finance, the State Administration of Taxation and the National Development and Reform Commission on Continuing the Enterprise Income Tax Policies for the Large-Scale Development of Western China, the applicable enterprises income tax rate for this subsidiary is 15% from 1 January 2021 to 31 December 2030.

On 14 December 2021, Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Certificate No.: GR202137101914, with an effective period of three years), which was jointly issued by Qingdao Municipal Bureau of Science and Technology, Qingdao Municipal Bureau of Finance and the State Administration of Taxation Qingdao Municipal Taxation Bureau. The subsidiary has handled tax reduction and exemption filing procedures with the competent tax authorities, and adopted the enterprise income tax rate of 15% in 2021, 2022 and 2023.

On 4 November 2021, Qingdao Hisense Commercial Cold Chain Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Certificate No.: GR202137100462, with an effective period of three years), which was jointly issued by Qingdao Municipal Bureau of Science and Technology, Qingdao Municipal Bureau of Finance and the State Administration of Taxation Qingdao Municipal Taxation Bureau. The subsidiary has handled tax reduction and exemption filing procedures with the competent tax authorities, and adopted the enterprise income tax rate of 15% in 2021, 2022 and 2023.

On 28 December 2023, Hisense (Guangdong) Air-Conditioner Company Limited, a subsidiary of the Company, received the Certificate of High-tech Enterprise (Certificate No.: GR202344002235, with an effective period of three years), which was jointly issued by Guangdong Provincial Department of Science and Technology, Guangdong Provincial Department of Finance and the State Administration of Taxation Guangdong Provincial Taxation Bureau. The subsidiary has handled tax reduction and exemption filing procedures with the competent tax authorities, and adopted the enterprise income tax rate of 15% in 2023, 2024 and 2025.

The subsidiaries of the Company which were incorporated in Hong Kong are subject to an enterprise income tax on the estimated assessable profits derived from or arising in Hong Kong at the following rates: ① for KII: a rate of 8.25% is applied to the part which does not exceed HK\$2,000,000, while a rate of 16.5% is applied to the part which exceeds HK\$2,000,000; ② for other Hong Kong subsidiaries: a rate of 16.5% is applied to all of them (the income tax rate in 2023 is all 16.5%).

3. Other tax preferences

In accordance with relevant provisions of the Circular of the Ministry of Finance and the State Administration of Taxation on Value-added Tax Policies for Software Products (Cai Shui [2011] No. 100), the subsidiaries of the Company, including Hisense Ronshen (Guangdong) Refrigerator Co., Ltd., Hisense Ronshen (Guangdong) Freezer Co., Ltd., Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd., Hisense (Chengdu) Refrigerator Co., Ltd., Hisense Air-Conditioning Co., Ltd., Hisense (Zhejiang) Air-Conditioner Co., Ltd., Hisense Refrigerator Co., Ltd. and Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd., will enjoy the tax incentives of immediate collection and refund for the portion of the embedded software products with the actual VAT burden of more than 3%.

Notes to the Financial Statements for 2023

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

V. 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 2023; and “Closing Balance” refers to the balance as at 31 December 2023. “Current Year” refers to the period from 1 January to 31 December 2023; “Last Year” refers to the period from 1 January to 31 December 2022. The currency is denominated in RMB.

1. Cash at bank and on hand

Item	Closing balance	Opening balance
Cash on hand	151,362.17	716,500.30
Bank deposits	1,242,044,709.82	904,217,465.51
Other cash at bank and on hand	1,749,212,727.81	475,456,593.46
Deposit in financial company	1,947,864,398.82	4,620,904,868.10
Including: Bank deposits	1,612,090,951.28	1,564,578,049.80
Other cash at bank and on hand	335,773,447.54	3,056,326,818.30
Total	4,939,273,198.62	6,001,295,427.37
Including: Total amount deposited overseas	937,552,504.07	610,462,587.09

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

Item	Closing balance	Opening balance
Security deposit for setting up bank acceptance notes	2,011,488,962.44	3,476,294,153.37
Other security deposit	50,643,835.64	46,655,198.60
Total	2,062,132,798.08	3,522,949,351.97

2. Transactional financial assets

Item	Closing balance	Opening balance
Financial assets at fair value through profit or loss	13,192,025,535.87	6,758,233,998.86
Including: Derivative financial instruments	4,285,180.76	21,039,135.56
Wealth management products	13,187,740,355.11	6,737,194,863.30
Total	13,192,025,535.87	6,758,233,998.86

Notes to transactional financial assets:

The Group did not have high-risk entrusted wealth management, 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 XI.1. Fair value of assets and liabilities measured at fair value as at the end of the year.

Notes to the Financial Statements for 2023

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

V. 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	165,995,198.60	62,225,000.00
Commercial acceptance notes	575,627,374.90	81,963,330.26
Total	741,622,573.50	144,188,330.26

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

(2) As shown by provision for bad debts

Category	Book value		Closing balance		Carrying amount
	Amount	%	Amount	%	
Separate provision for bad debts					
Provision for bad debts on a group basis	742,123,337.77	100.00	500,764.27	0.07	741,622,573.50
Including:					
Bank acceptance notes	165,995,198.60	22.37			165,995,198.60
Commercial acceptance notes	576,128,139.17	77.63	500,764.27	0.09	575,627,374.90
Total	742,123,337.77	100.00	500,764.27	0.07	741,622,573.50

Notes to the Financial Statements for 2023

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

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

3. Notes receivable (continued)

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

(continued)

Category	Book value		Opening balance		Carrying amount
	Amount	%	Amount	%	
	Separate provision for bad debts				
Provision for bad debts on a group basis	144,680,985.53	100.00	492,655.27	0.34	144,188,330.26
Including:					
Bank acceptance notes	62,225,000.00	43.01			62,225,000.00
Commercial acceptance notes	82,455,985.53	56.99	492,655.27	0.60	81,963,330.26
Total	144,680,985.53	100.00	492,655.27	0.34	144,188,330.26

1) Among the group, provision for bad debts for bank acceptance notes

Item	Closing balance		%
	Book value	Provision for bad debts	
Acceptor being a bank with low credit risk	165,995,198.60		
Total	165,995,198.60		–

2) Among the group, provision for bad debts for commercial acceptance notes

Item	Closing balance		%
	Book value	Provision for bad debts	
Acceptor being a related party company	545,895,594.81		
Acceptor being other types of company	30,232,544.36	500,764.27	1.66
Total	576,128,139.17	500,764.27	–

Notes to the Financial Statements for 2023

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

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

3. Notes receivable (continued)

(3) Provision for bad debts of notes receivable that are accrued, recovered or reversed in the current year

Category	Opening balance	Changes during the year			Closing balance
		Provision	Recoveries or reversal	Write-off	
Commercial acceptance notes	492,655.27	518,103.08	509,994.08		500,764.27
Total	492,655.27	518,103.08	509,994.08		500,764.27

(4) Notes receivable pledged as at the end of the year

Item	Pledged amount at the end of the year
Bank acceptance notes	165,995,198.60
Total	165,995,198.60

Note: For details of pledges, please refer to Note V. 24. Assets with restrictions on ownership or right of use.

(5) Notes receivables endorsed or discounted as at the end of the year but not mature at the balance sheet date

Item	Amount derecognised at the end of the year	Amount not derecognised at the end of the year
Bank acceptance notes		
Commercial acceptance notes		82,390,636.93
Total		82,390,636.93

(6) Notes receivable written-off during the year

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

Notes to the Financial Statements for 2023

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

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

4. Accounts receivable

(1) Accounts receivable by ageing

Ageing	Book value as at the end of the year	Book value as at the beginning of the year
Within three months	8,330,628,047.85	6,536,005,628.49
Over three months but within six months	433,307,441.27	447,891,643.76
Over six months but within one year	246,354,515.38	520,314,101.55
Over one year	527,815,292.00	471,721,042.96
Total	9,538,105,296.50	7,975,932,416.76

(2) Accounts receivable by provision for bad debts

Category	Closing balance				Carrying amount
	Book value		Provision for bad debts		
	Amount	%	Amount	%	
Accounts receivable for which provision for bad debts is separately made	97,304,043.14	1.02	97,304,043.14	100.00	
Accounts receivable for which provision for bad debts is made on a group basis	9,440,801,253.36	98.98	215,479,371.29	2.28	9,225,321,882.07
Including:					
Aging analysis method	1,505,237,529.67	15.78	132,000,437.65	8.77	1,373,237,092.02
Receivables from related parties	5,682,941,225.24	59.58	21,281,661.78	0.37	5,661,659,563.46
Other amount	2,252,622,498.45	23.62	62,197,271.86	2.76	2,190,425,226.59
Total	9,538,105,296.50	100.00	312,783,414.43	3.28	9,225,321,882.07

Notes to the Financial Statements for 2023

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

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

4. Accounts receivable (continued)

(2) Accounts receivable by provision for bad debts (continued)

(continued)

Category	Opening balance				Carrying amount
	Book value		Provision for bad debts		
	Amount	%	Amount	%	
Accounts receivable for which provision for bad debts is separately made	84,543,983.28	1.06	84,543,983.28	100.00	
Accounts receivable for which provision for bad debts is made on a group basis	7,891,388,433.48	98.94	225,686,133.57	2.86	7,665,702,299.91
Including:					
Aging analysis method	1,689,953,878.88	21.19	133,906,891.31	7.92	1,556,046,987.57
Receivables from related parties	3,826,829,100.36	47.98	4,275,612.89	0.11	3,822,553,487.47
Other amount	2,374,605,454.24	29.77	87,503,629.37	3.68	2,287,101,824.87
Total	7,975,932,416.76	100.00	310,230,116.85	3.89	7,665,702,299.91

1) Accounts receivable subject to separate provision for bad debts

Item	Opening balance		Closing balance			Reasons for provision
	Book value	Provision for bad debts	Book value	Provision for bad debts	%	
Domestic customers	84,543,983.28	84,543,983.28	97,304,043.14	97,304,043.14	100.00	Expected to be difficult to recover in full
Total	84,543,983.28	84,543,983.28	97,304,043.14	97,304,043.14	-	-

2) Among the group, accounts receivable for which provision for bad debts is made by aging analysis method:

Ageing	Closing balance		
	Book value	Provision for bad debts	%
Within three months	1,362,079,885.22	2,724,032.65	0.20
Over three months but within six months	13,713,250.92	1,371,325.10	10.00
Over six months but within one year	3,078,627.27	1,539,313.64	50.00
Over one year	126,365,766.26	126,365,766.26	100.00
Total	1,505,237,529.67	132,000,437.65	8.77

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

Notes to the Financial Statements for 2023

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

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

4. Accounts receivable (continued)

(2) Accounts receivable by provision for bad debts (continued)

- 3) Among the group, accounts receivable subject to provision for bad debts by receivables from related parties:

Ageing	Closing balance		%
	Book value	Provision for bad debts	
Within one year	5,661,659,563.46		
Over one year	21,281,661.78	21,281,661.78	100.00
Total	5,682,941,225.24	21,281,661.78	0.37

- 4) Among the group, accounts receivable subject to provision for bad debts by other amount:

Category	Closing balance		%
	Book value	Provision for bad debts	
Other amount	2,252,622,498.45	62,197,271.86	2.76
Total	2,252,622,498.45	62,197,271.86	2.76

(3) Provision for bad debts of accounts receivable that are accrued, recovered or reversed in the current year

Category	Opening balance	Changes during the year				Closing balance
		Provision	Recoveries or reversals	Write-off	Exchange rate changes	
Separate provision	84,543,983.28	12,760,059.86				97,304,043.14
Aging analysis method	133,906,891.31	7,799,732.02	7,073,265.63	2,632,920.05		132,000,437.65
Receivables from related parties	4,275,612.89	17,022,894.78	4,820.61		-12,025.28	21,281,661.78
Other amount	87,503,629.37	3,844,574.35	39,323,579.84	3,317,706.21	13,490,354.19	62,197,271.86
Total	310,230,116.85	41,427,261.01	46,401,666.08	5,950,626.26	13,478,328.91	312,783,414.43

Note: The Group has no significant amount of bad debt provisions recovered or reversed during the year.

Notes to the Financial Statements for 2023

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

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

4. Accounts receivable (continued)

(4) Accounts receivable written-off during the year

Item	Written-off amount
Accounts receivable written-off	5,950,626.26

Note: The Group has no significant accounts receivable written-off during the year.

(5) Top five accounts receivable by closing balance of debtors and contract assets

The total top five accounts receivable by closing balance of debtors amounted to RMB5,095,295,236.09, accounting for 53.42% of the closing balance of accounts receivable. A provision for bad debts of RMB14,029,432.19 in total was made as at the end of the year.

5. Contract assets

(1) Contract assets

Item	Closing balance			Opening balance		
	Book value	Provision for bad debts	Carrying amount	Book value	Provision for bad debts	Carrying amount
Guarantee	41,049,130.53	5,170,821.71	35,878,308.82	10,729,193.43	3,810,825.36	6,918,368.07
Total	41,049,130.53	5,170,821.71	35,878,308.82	10,729,193.43	3,810,825.36	6,918,368.07

(2) Contract assets by provision for bad debts

Category	Closing balance				Carrying amount
	Book value		Provision for bad debts		
	Amount	%	Amount	%	
Contract assets for which provision for bad debts is separately made					
Contract assets for which provision for bad debts is made on a group basis	41,049,130.53	100.00	5,170,821.71	12.60	35,878,308.82
Including:					
Guarantee	41,049,130.53	100.00	5,170,821.71	12.60	35,878,308.82
Total	41,049,130.53	100.00	5,170,821.71	12.60	35,878,308.82

Notes to the Financial Statements for 2023

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

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

5. Contract assets (continued)

(2) Contract assets by provision for bad debts (continued)

(continued)

Category	Opening balance				Carrying amount
	Book value		Provision for bad debts		
	Amount	%	Amount	%	
Contract assets for which provision for bad debts is separately made					
Contract assets for which provision for bad debts is made on a group basis	10,729,193.43	100.00	3,810,825.36	35.52	6,918,368.07
Including:					
Guarantee	10,729,193.43	100.00	3,810,825.36	35.52	6,918,368.07
Total	10,729,193.43	100.00	3,810,825.36	35.52	6,918,368.07

1) Contract assets for which provision for bad debts is made on a group basis

Item	Closing balance		
	Book value	Provision for bad debts	%
Guarantee	41,049,130.53	5,170,821.71	12.60
Total	41,049,130.53	5,170,821.71	-

(3) Provision for bad debts of contract assets that are accrued, recovered or reversed in the current year

Item	Provision for the year	Reversal for the year	Written-off for the year	Reason
Guarantee	1,928,968.31	568,971.96		
Total	1,928,968.31	568,971.96		-

Notes to the Financial Statements for 2023

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

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

5. Contract assets (continued)

(4) Contract assets written-off for the year

There were no contract assets written-off for the year.

6. Factoring of accounts receivable

(1) Factoring of accounts receivable by category

Item	Closing balance	Opening balance
Bank acceptance notes	4,643,427,583.77	4,817,127,421.42
Commercial acceptance notes		255,832,049.34
Total	4,643,427,583.77	5,072,959,470.76

Note: For details on the fair value, please refer to Note 11. (1) Fair value of assets and liabilities measured at fair value as at the end of the year.

(2) Factoring of accounts receivable by provision for bad debts

Category	Closing balance				Carrying amount
	Book value		Provision for bad debts		
	Amount	%	Amount	%	
Factoring of accounts receivable for which provision for bad debts is separately made					
Factoring of accounts receivable for which provision for bad debts is made on a group basis	4,643,427,583.77	100.00			4,643,427,583.77
Including:					
Bank acceptance notes	4,643,427,583.77	100.00			4,643,427,583.77
Total	4,643,427,583.77	100.00			4,643,427,583.77

Notes to the Financial Statements for 2023

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

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

6. Factoring of accounts receivable (continued)

(2) Factoring of accounts receivable by provision for bad debts (continued)

(continued)

Category	Opening balance				Carrying amount
	Book value		Provision for bad debts		
	Amount	%	Amount	%	
Factoring of accounts receivable for which provision for bad debts is separately made					
Factoring of accounts receivable for which provision for bad debts is made on a group basis	5,072,959,470.76	100.00			5,072,959,470.76
Including:					
Bank acceptance notes	4,817,127,421.42	94.96			4,817,127,421.42
Commercial acceptance notes	255,832,049.34	5.04			255,832,049.34
Total	5,072,959,470.76	100.00			5,072,959,470.76

(3) Factoring of accounts receivable pledged as at the end of the year

There was no factoring of accounts receivable pledged as at the end of the year

(4) Notes receivable endorsed or discounted as at the end of the year but not mature at the balance sheet date

Item	Amount derecognised at the end of the year	Amount not derecognised at the end of the year
Bank acceptance notes	5,946,576,428.69	
Total	5,946,576,428.69	

(5) Factoring of accounts receivable written-off for the year

There was no factoring of accounts receivable written-off for the year

Notes to the Financial Statements for 2023

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

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

7. Other receivables

Item	Closing balance	Opening balance
Dividends receivable	89,630.21	152,634,355.75
Other receivables	145,714,495.24	322,399,984.85
Total	145,804,125.45	475,034,340.60

7.1 Dividends receivable

(1) Classification of dividends receivable

Investee	Closing balance	Opening balance
SANPAK ENGINEERING INDUSTRIES Huayu Sanden Auto Air-Conditioning CO., LTD.	89,630.21	152,634,355.75
Total	89,630.21	152,634,355.75

(2) At the end of the year, the Group did not have any significant amount of dividends receivable aged over 1 year.

7.2 Other receivables

(1) Classification of other receivables by nature

Nature of the amount	Book value as at the end of the year	Book value as at the beginning of the year
Security deposit	92,707,932.31	108,282,510.45
Refund of tax for exports	6,920,930.95	88,528,435.69
Other current account	181,056,905.05	277,592,801.28
Total	280,685,768.31	474,403,747.42

Notes to the Financial Statements for 2023

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

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

7.2 Other receivables (continued)

(2) Other receivables by ageing

Ageing	Book value as at the end of the year
Within three months	118,165,891.96
Over three months but within six months	8,099,834.14
Over six months but within one year	7,981,343.89
Over one year	146,438,698.32
Total	280,685,768.31

(3) Provision for bad debts for other receivables

	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 2023	46,192,685.88	30,906,760.01	74,904,316.68	152,003,762.57
During the year, the book balance of other receivables as at 1 January 2023	-	-	-	-
- transferred to second stage	-40,434,656.88	40,434,656.88		
- transferred to third stage				
- reversed to second stage				
- reversed to first stage				
Provision for the year	976,498.40	52,382,147.84		53,358,646.24
Reversal for the year	5,188,929.04			5,188,929.04
Written-off for the year				
Charge off for the year		1,985,636.77	63,734,955.36	65,720,592.13
Other changes	30,849.25	487,536.18		518,385.43
Balance as at 31 December 2023	1,576,447.61	122,225,464.14	11,169,361.32	134,971,273.07

Note 1: The amount of other changes arises from the translation of the amount of provision for bad debts in the foreign currency statements of foreign subsidiaries using spot exchange rates at the balance sheet date.

Note 2: Except for separate assessment, the Group assessed whether the credit risk of financial instruments since its initial recognition was significantly increased based on the ageing, and estimated the expected credit loss of other receivables with ageing of over one year in the lifetime.

Notes to the Financial Statements for 2023

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

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

7.2 Other receivables (continued)

(4) Provision for bad debts of other receivables that are accrued, recovered or reversed in the current year

Category	Opening balance	Changes during the year			Closing balance
		Provision	Recoveries or reversals	Write-off	
Separate provision	58,030,000.00			58,030,000.00	
Aging analysis method	75,195,403.14	24,535,095.70	2,957,648.94	7,690,592.13	89,113,107.02
Receivables from related parties	1,002,664.56	23,972,007.25	592,343.58		23,555,199.92
Other amount	17,775,694.87	4,851,543.29	1,638,936.52		22,302,966.13
Total	152,003,762.57	53,358,646.24	5,188,929.04	65,720,592.13	518,385.43

Note: The Group has no significant amount of bad debt provisions recovered or reversed during the year.

(5) Other receivables written-off during the year

Item	Written-off amount
Other receivables written-off	65,720,592.13

Note: The Group has no significant other receivables written off during the year.

(6) Top five other receivables by balance of debtors as at the end of the year

No.	Nature of the amount	Closing balance	Ageing	Percentage of total closing balance of other receivables (%)	Closing balance of provision for bad debts
No. 1	Security deposit	45,000,000.00	Over one year	16.03	45,000,000.00
No. 2	Other current accounts	7,500,000.00	Over one year	2.67	7,500,000.00
No. 3	Refund of tax for exports	5,537,964.50	Within three months	1.97	
No. 4	Other current accounts	5,818,588.94	Within three months	2.07	
No. 5	Security deposit	4,200,000.00	Within three months	1.50	
Total	-	68,056,553.44	-	24.24	52,500,000.00

Notes to the Financial Statements for 2023

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

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

8. Prepayments

(1) Ageing of prepayments

Item	Closing balance		Opening balance	
	Amount	%	Amount	%
Within one year	386,713,010.82	99.40	257,754,590.89	98.21
Over one year	2,353,263.34	0.60	4,689,384.67	1.79
Total	389,066,274.16	100.00	262,443,975.56	100.00

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

During the Year, the total top five prepayments by supplier based on closing balance amounted to RMB218,684,960.17, accounting for 56.21% of total closing balance of prepayments.

9. Inventories

(1) Classification of inventories

Item	Closing balance		
	Book value	Provision for declines in value	Carrying amount
Raw materials	1,299,765,277.95	32,551,279.20	1,267,213,998.75
Works in progress	705,502,423.53	6,035,772.16	699,466,651.37
Finished goods	4,863,238,690.81	55,315,902.93	4,807,922,787.88
Total	6,868,506,392.29	93,902,954.29	6,774,603,438.00

(continued)

Item	Opening balance		
	Book value	Provision for declines in value	Carrying amount
Raw materials	1,333,153,151.93	35,133,945.83	1,298,019,206.10
Works in progress	729,409,203.90	6,197,076.20	723,212,127.70
Finished goods	4,605,205,146.85	73,601,045.11	4,531,604,101.74
Total	6,667,767,502.68	114,932,067.14	6,552,835,435.54

Notes to the Financial Statements for 2023

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

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

9. Inventories (continued)

(2) Provision for declines in value of inventories

Item	Opening balance	Increase for the year		Decrease for the year		Closing balance
		Provision	Others	Reversed or written-off	Exchange rate changes	
Raw materials	35,133,945.83	5,102,506.69		7,995,535.41	-310,362.09	32,551,279.20
Works in progress	6,197,076.20	5,283,728.45		5,252,464.24	192,568.25	6,035,772.16
Finished goods	73,601,045.11	57,147,650.00		75,156,030.06	276,762.12	55,315,902.93
Total	114,932,067.14	67,533,885.14		88,404,029.71	158,968.28	93,902,954.29

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

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

10. Non-current assets due within one year

Item	Closing balance	Opening balance
Time deposits due within one year	3,641,708,361.11	1,986,840,000.00
Total	3,641,708,361.11	1,986,840,000.00

11. Other current assets

Item	Closing balance	Opening balance
Time deposits and interest	428,942,015.90	864,357,351.72
Prepaid tax and tax deductible	773,825,888.41	673,725,104.02
Prepaid expenses and others	208,420,295.59	164,655,734.25
Total	1,411,188,199.90	1,702,738,189.99

Note: Time deposits maturing within one year held by the Group for investment are presented under other current assets, but not recognised as cash and cash equivalents.

Notes to the Financial Statements for 2023

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

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

12. Long-term equity investments

Investee	Opening balance (Carrying amount)	Opening balance of provision for impairment	Additional investment	Decrease in investment	Change for the year							Closing balance (Carrying amount)	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	Exchange rate changes			
I. Joint ventures													
Hisense Marketing Management Co., Ltd.	51,737,850.74				-2,028,893.94							49,708,956.80	
Qingdao Hisense Global Asia Holding Co., Ltd.			159,150,000.00		-194,362.50	-134,485.11	-134,777,028.75					24,044,123.64	
Subtotal	51,737,850.74		159,150,000.00		-2,223,256.44	-134,485.11	-134,777,028.75					73,753,080.44	
II. Associates													
Qingdao Hisense Jinlong Holdings Co., Ltd.	391,512,863.29				15,082,906.79							406,595,770.08	
Hisense International Co., Ltd.	136,533,516.26				85,958,498.32	3,341,243.12	196,562.94	33,337,400.00				192,692,420.64	
Associates of Sanden Corporation	938,556,326.44				224,903,064.17	497,267.44		161,281,007.49		-4,351,804.26		998,323,846.30	
Subtotal	1,466,602,705.99				325,944,469.28	3,838,510.56	196,562.94	194,618,407.49		-4,351,804.26		1,597,612,037.02	
III. Others													
Jiangxi Kelon Combine Electrical Appliances Co., Ltd.		11,000,000.00											11,000,000.00
Subtotal		11,000,000.00											11,000,000.00
Total	1,518,340,556.73	11,000,000.00	159,150,000.00		323,721,212.84	3,704,025.45	-134,580,465.81	194,618,407.49		-4,351,804.26		1,671,365,117.46	11,000,000.00

- Notes: (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 Jinlong Holdings Co., Ltd. (formerly Qingdao Hisense Financial Holdings Co., Ltd.) is hereinafter referred to as "Hisense Jinlong Holdings".
- (3) Qingdao Hisense Global Asia Holding Co., Ltd. is hereinafter referred to as "Hisense Global Asia Holding".
- (4) Hisense Marketing Management Co., Ltd. is hereinafter referred to as "Hisense Marketing Management".
- (5) Hisense International Co., Ltd. is hereinafter referred to as "Hisense International".
- (6) As at the end of the Reporting Period, all the joint ventures and associates of the Company were unlisted companies.

Notes to the Financial Statements for 2023

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

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

12. Long-term equity investments (continued)

Including:

Item	Closing balance	Opening balance
Unlisted investments:		
Equity method	1,671,365,117.46	1,518,340,556.73
Including: Joint ventures	73,753,080.44	51,737,850.74
Associates	1,597,612,037.02	1,466,602,705.99
Total	1,671,365,117.46	1,518,340,556.73

13. Other equity investment

(1) Other equity investment

Item	Closing balance	Opening balance
Non-trading equity investments	40,244,766.96	36,399,028.71
Total	40,244,766.96	36,399,028.71

14. Other non-current financial assets

Item	Closing balance	Opening balance
Financial assets at fair value through profit or loss	27,197,809.69	25,748,931.39
Total	27,197,809.69	25,748,931.39

Notes to the Financial Statements for 2023

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

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

15. Investment properties

(1) Investment properties measured at cost

Item	Buildings and structures	Lands	Total
I. Original carrying amount			
1. Opening balance	272,561,387.36	41,666,850.83	314,228,238.19
2. Increase for the year		1,770,468.00	1,770,468.00
(1) Transfer from intangible assets		1,770,468.00	1,770,468.00
3. Decrease for the year	3,418,200.05	5,513,247.83	8,931,447.88
(1) Disposal for the year	782,588.19		782,588.19
(2) Exchange rate changes	2,635,611.86	5,513,247.83	8,148,859.69
4. Closing balance	269,143,187.31	37,924,071.00	307,067,258.31
II. Accumulated depreciation and accumulated amortisation			
1. Opening balance	105,511,832.00		105,511,832.00
2. Increase for the year	24,264,196.86	681,641.00	24,945,837.86
(1) Provision or amortisation	24,264,196.86	24,535.00	24,288,731.86
(2) Transfer from intangible assets		657,106.00	657,106.00
3. Decrease for the year	1,373,134.85		1,373,134.85
(1) Exchange rate changes	1,373,134.85		1,373,134.85
4. Closing balance	128,402,894.01	681,641.00	129,084,535.01
III. Provision for impairment			
1. Opening balance			
2. Increase for the year			
3. Decrease for the year			
4. Closing balance			
IV. Carrying amount			
1. Carrying amount as at the end of the year	140,740,293.30	37,242,430.00	177,982,723.30
2. Carrying amount as at the beginning of the year	167,049,555.36	41,666,850.83	208,716,406.19

(2) Investment properties without ownership certificates

Item	Carrying amount	Reason for failure to obtain ownership certificates
Mee King Building	689,725.19	Due to historical reasons; in the process of application

Notes to the Financial Statements for 2023

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

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

16. Fixed assets

Item	Closing carrying amount	Opening carrying amount
Fixed assets	5,662,566,792.19	5,317,673,134.03
Disposal of fixed assets	345,709.84	601,686.53
Total	5,662,912,502.03	5,318,274,820.56

16.1 Fixed assets

(1) Particulars of fixed assets

Item	Lands	Buildings and structures	Machinery and equipment	Electronic equipment, appliances and furniture	Transportation equipment	Total
I. Original carrying amount						
1. Opening balance	301,471,043.71	3,898,186,333.64	4,871,545,780.05	3,357,313,876.06	55,366,087.13	12,483,883,120.59
2. Increase for the year	25,662,844.37	115,218,416.63	940,765,099.06	334,993,881.82	29,735,171.34	1,446,375,413.22
(1) Additions		40,014,286.95	184,937,743.65	96,316,665.04	18,740,114.20	340,008,809.84
(2) Transfer from construction in progress		75,204,129.68	755,827,355.41	238,677,216.78	10,995,057.14	1,080,703,759.01
(3) Exchange rate changes	25,662,844.37					25,662,844.37
3. Decrease for the year		23,250,393.56	242,694,226.73	195,634,719.22	6,968,957.59	468,548,297.10
(1) Disposal or retirement		19,212,894.07	232,167,720.41	188,300,051.11	6,774,837.55	446,455,503.14
(2) Exchange rate changes		4,037,499.49	10,526,506.32	7,334,668.11	194,120.04	22,092,793.96
4. Closing balance	327,133,888.08	3,990,154,356.71	5,569,616,652.38	3,496,673,038.66	78,132,300.88	13,461,710,236.71
II. Accumulated depreciation						
1. Opening balance		1,547,977,253.92	2,670,788,393.90	2,715,512,116.18	31,420,532.06	6,965,698,296.06
2. Increase for the year		181,916,931.12	504,016,059.31	258,573,415.77	8,865,186.85	953,371,593.05
(1) Provision		181,916,931.12	504,016,059.31	258,573,415.77	8,865,186.85	953,371,593.05
3. Decrease for the year		16,406,114.84	194,714,936.92	186,610,298.50	5,439,265.59	403,170,615.85
(1) Disposal or retirement		11,477,820.83	191,530,429.82	182,393,289.43	5,336,972.73	390,738,512.81
(2) Exchange rate changes		4,928,294.01	3,184,507.10	4,217,009.07	102,292.86	12,432,103.04
4. Closing balance		1,713,488,070.20	2,980,089,516.29	2,787,475,233.45	34,846,453.32	7,515,899,273.26
III. Provision for impairment						
1. Opening balance		9,076,269.26	142,189,286.99	48,836,772.16	409,362.09	200,511,690.50
2. Increase for the year			47,843,403.64	44,889,445.75	1,190.00	92,734,039.39
(1) Provision			47,843,403.64	44,889,445.75	1,190.00	92,734,039.39
3. Decrease for the year			8,370,213.85	1,612,694.46	18,650.32	10,001,558.63
(1) Disposal or retirement			6,378,648.39	110,030.42		6,488,678.81
(2) Exchange rate changes			1,991,565.46	1,502,664.04	18,650.32	3,512,879.82
4. Closing balance		9,076,269.26	181,662,476.78	92,113,523.45	391,901.77	283,244,171.26
IV. Carrying amount						
1. Carrying amount as at the end of the year	327,133,888.08	2,267,590,017.25	2,407,864,659.31	617,084,281.76	42,893,945.79	5,662,566,792.19
2. Carrying amount as at the beginning of the year	301,471,043.71	2,341,132,810.46	2,058,568,099.16	592,964,987.72	23,536,192.98	5,317,673,134.03

Notes to the Financial Statements for 2023

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

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

16. Fixed assets (continued)

16.1 Fixed assets (continued)

(2) Fixed assets leased out under operating lease

Item	Closing carrying amount
Buildings and structures	123,550,835.91
Machinery and equipments, etc.	4,695,126.92
Transportation equipment	145,710.96
Total	128,391,673.79

(3) Fixed assets without ownership certificates

Item	Carrying amount	Reason for failure to obtain ownership certificates
Buildings and structures	319,743,983.03	Transferred to fixed assets on achieving scheduled availability and in the process of application for ownership certificates

(4) Impairment test of fixed assets

The recoverable amount is determined as the net of fair value less disposal costs

Item	Carrying amount	Recoverable amount	Impairment amount
Machinery and equipments	57,572,000.85	9,728,597.21	47,843,403.64
Electronic equipment, appliances and furniture	46,864,529.92	1,975,084.17	44,889,445.75
Transportation equipment	1,940.00	750.00	1,190.00
Total	104,438,470.77	11,704,431.38	92,734,039.39

The Group measures impairment by estimating the recoverable amount of a fixed asset for which there is any sign of impairment. Impairment of assets is calculated and recognised on an individual asset basis. The fair value of an asset is determined on the basis of the market price in fair transactions, or where there is no active market for the asset, the fair value of the asset is estimated on the basis of the best available information. Disposal costs include legal expenses, relevant taxes and handling fees related to the disposal of assets and direct expenses incurred to bring the assets to a saleable condition. The Group determines the fair value mainly by reference to the replacement cost and depreciation rate of equipment.

Notes to the Financial Statements for 2023

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

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

16. Fixed assets (continued)

16.2 Disposal of fixed assets

Item	Closing balance	Opening balance
Disposal of fixed assets	345,709.84	601,686.53
Total	345,709.84	601,686.53

17. Construction in progress

Item	Closing balance	Opening balance
Construction in progress	443,523,694.21	525,171,610.80
Total	443,523,694.21	525,171,610.80

(1) Breakdown of construction in progress

Item	Closing balance			Opening balance		
	Book value	Impairment provision	Carrying amount	Book value	Impairment provision	Carrying amount
Air conditioning infrastructure construction	358,800.00		358,800.00	3,220,211.80		3,220,211.80
Refrigerator production line project	3,076,052.62		3,076,052.62	260,161,490.98		260,161,490.98
Staff apartment project	103,176,525.50		103,176,525.50			
Refrigerator production line expansion project	11,766,283.11		11,766,283.11			
Others	373,076,538.74	47,930,505.76	325,146,032.98	296,891,339.52	35,101,431.50	261,789,908.02
Total	491,454,199.97	47,930,505.76	443,523,694.21	560,273,042.30	35,101,431.50	525,171,610.80

Notes to the Financial Statements for 2023

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

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

17. Construction in progress (continued)

(2) Changes in construction 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					
Air-conditioning infrastructure construction	3,220,211.80		2,861,411.80		358,800.00	433,753,816.31	87.22	87.22	Self funding
Refrigerator production line project	260,161,490.98	119,225,849.44	345,214,203.57	31,097,084.23	3,076,052.62	767,677,318.00	88.35	88.35	Self funding
Staff apartment project		103,176,525.50			103,176,525.50	112,446,477.77	91.76	91.76	Self funding
Refrigerator production line expansion project		11,766,283.11			11,766,283.11	30,518,000.00	38.56	38.56	Self funding
Others	296,891,339.52	810,140,238.87	732,628,143.64	1,326,896.01	373,076,538.74				Self funding
Total	560,273,042.30	1,044,308,896.92	1,080,703,759.01	32,423,980.24	491,454,199.97				

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

(3) Provision for impairment of construction in progress during the year

Item	Provision for the year	Reason for provision
Other projects	14,384,623.14	Recoverable amount is less than carrying amount
Total	14,384,623.14	—

(4) Impairment testing of construction in progress

Determination of the net recoverable amount at fair value minus disposal costs

Item	Carrying amount	Recoverable amount	Impairment amount
Other product line related assets	14,533,417.92	148,794.78	14,384,623.14
Total	14,533,417.92	148,794.78	14,384,623.14

The Group measures impairment by estimating the recoverable amount of construction in progress for which there is any sign of impairment. Impairment of assets is calculated and recognised on an individual asset basis. The fair value of an asset is determined on the basis of the market price in fair transactions, or where there is no active market for the asset, the fair value of the asset is estimated on the basis of the best available information. Disposal costs include legal expenses, relevant taxes and handling fees related to the disposal of assets and direct expenses incurred to bring the assets to a saleable condition. The Group determines the fair value mainly by reference to the replacement cost and depreciation rate of equipment.

Notes to the Financial Statements for 2023

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

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

18. Right-of-use assets

Item	Buildings and structures	Machinery, equipment and others	Total
I. Original carrying amount			
1. Opening balance	289,397,637.38	26,924,353.17	316,321,990.55
2. Increase for the year	40,728,416.88	20,697,729.82	61,426,146.70
(1) Rental	40,728,416.88	20,697,729.82	61,426,146.70
3. Decrease for the year	30,141,588.68	495,844.43	30,637,433.11
(1) Disposal	28,251,537.94	355,015.25	28,606,553.19
(2) Exchange rate changes	1,890,050.74	140,829.18	2,030,879.92
4. Closing balance	299,984,465.58	47,126,238.56	347,110,704.14
II. Accumulated depreciation			
1. Opening balance	118,888,481.16	16,190,189.18	135,078,670.34
2. Increase for the year	62,462,816.39	7,589,425.25	70,052,241.64
(1) Provision	62,462,816.39	7,589,425.25	70,052,241.64
3. Decrease for the year	26,836,243.93	836,473.75	27,672,717.68
(1) Disposal	23,994,717.31	168,864.94	24,163,582.25
(2) Exchange rate changes	2,841,526.62	667,608.81	3,509,135.43
4. Closing balance	154,515,053.62	22,943,140.68	177,458,194.30
III. Provision for impairment			
1. Opening balance	51,258.48		51,258.48
2. Increase for the year	-2,099.95	224,530.44	222,430.49
(1) Provision		222,736.31	222,736.31
(2) Exchange rate changes	-2,099.95	1,794.13	-305.82
3. Decrease for the year			
4. Closing balance	49,158.53	224,530.44	273,688.97
IV. Carrying amount			
1. Carrying amount as at the end of the year	145,420,253.43	23,958,567.44	169,378,820.87
2. Carrying amount as at the beginning of the year	170,457,897.74	10,734,163.99	181,192,061.73

Notes to the Financial Statements for 2023

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

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

19. Intangible assets

(1) Breakdown of intangible assets

Item	Land use rights	Trademark rights	Know-how	Sales channels	Others	Total
I. Original carrying amount						
1. Opening balance	1,067,174,847.14	663,195,362.44	90,417,537.30	794,759,590.57	462,605,680.42	3,078,153,017.87
2. Increase for the year	374,354.92		729,833.25		79,646,031.84	80,750,220.01
(1) Additions			712,139.52		79,646,031.84	80,358,171.36
(2) Exchange rate changes	374,354.92		17,693.73			392,048.65
3. Decrease for the year	1,770,468.00	2,551,500.00			26,605,546.73	30,927,514.73
(1) Disposal		2,551,500.00			18,547,388.96	21,098,888.96
(2) Transfer to investment properties	1,770,468.00					1,770,468.00
(3) Exchange rate changes					8,058,157.77	8,058,157.77
4. Closing balance	1,065,778,734.06	660,643,862.44	91,147,370.55	794,759,590.57	515,646,165.53	3,127,975,723.15
II. Accumulated amortisation						
1. Opening balance	318,056,287.76	258,830,098.31	50,441,588.25	309,798,506.10	337,720,127.28	1,274,846,607.70
2. Increase for the year	21,973,619.55	4,444,654.09	5,348,162.09	96,040,565.98	35,520,684.65	163,327,686.36
(1) Provision	21,973,619.55	4,444,654.09	5,348,162.09	96,040,565.98	35,520,684.65	163,327,686.36
3. Decrease for the year	682,399.91		9,273.30		11,300,321.38	11,991,994.59
(1) Disposal					10,802,113.00	10,802,113.00
(2) Transfer to investment properties	657,106.00					657,106.00
(3) Exchange rate changes	25,293.91		9,273.30		498,208.38	532,775.59
4. Closing balance	339,347,507.40	263,274,752.40	55,780,477.04	405,839,072.08	361,940,490.55	1,426,182,299.47
III. Provision for impairment						
1. Opening balance	50,012,843.19	286,061,116.40			7,616,102.89	343,690,062.48
2. Increase for the year					16,921,315.86	16,921,315.86
(1) Provision					16,921,315.86	16,921,315.86
3. Decrease for the year					673,881.81	673,881.81
(1) Exchange rate changes					673,881.81	673,881.81
4. Closing balance	50,012,843.19	286,061,116.40			23,863,536.94	359,937,496.53
IV. Carrying amount						
1. Carrying amount as at the end of the year	676,418,383.47	111,307,993.64	35,366,893.51	388,920,518.49	129,842,138.04	1,341,855,927.15
2. Carrying amount as at the beginning of the year	699,105,716.19	118,304,147.73	39,975,949.05	484,961,084.47	117,269,450.25	1,459,616,347.69

Notes to the Financial Statements for 2023

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

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

19. Intangible assets (continued)

(2) *There were no land use rights whose certificates of ownership are pending as at the end of the Year*

(3) *Impairment testing of intangible assets*

1) Determination of the net recoverable amount at fair value minus disposal costs

In 2023, the Group made an impairment provision of RMB16,921,315.86 for other categories of intangible assets, corresponding to a carrying amount of RMB16,921,315.86, mainly due to the full amount of impairment provision for software and other assets without any disposal value.

2) Determination of recoverable amount according to the present value of the expected future cash flows

Item	Carrying amount	Recoverable amount	Impairment amount	Number of years in the forecast period	Key parameters for the forecast period	Key parameters for the stabilisation period	Basis for determining key parameters for the stabilisation period
Trademarks with uncertain useful life	101,666,327.00	1,289,455,030.64		5 years	Income growth rate: 0%; Sales commission rate: 1.80%; Discount rate: 19.10%	Income growth rate, sales commission rate, discount rate	The income growth rate during the stabilisation period is 0%; Sales commission rate and discount rate are consistent with those for the last year in the forecast period.
Total	101,666,327.00	1,289,455,030.64		-	-	-	-

Note: The Company commissioned an independent and specific third party to appraise the value of our “Kelon” and “Rongshen” brands in 2005. According to the “Asset Appraisal Report on the Verification Project of the Value of Trademarks and Intangible Assets of Guangdong Kelon Electric Appliances Co., Ltd.” issued by the third party, the appraised value of the “Rongshen” and “Kelon” brands was RMB118,378,600.00, of which the appraised value of “Rongshen” brand was RMB79,905,500.00, the appraised value of “Kelon” brand was RMB38,473,100.00, and the appraisal impairment was RMB286,061,116.40 as at 31 December 2005.

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 Income growth rate and prepared net profit and cash flow forecasts for the next 5 years according to the principle of prudence 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, 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 as at the end of the Year and no provision for impairment was made.

Notes to the Financial Statements for 2023

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

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

20. Goodwill

(1) Original value of goodwill

Name of investees	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
Sanden Holdings Corporation	93,837,131.40			93,837,131.40
Total	226,408,877.76			226,408,877.76

(2) Relevant information on the asset group or portfolio to which goodwill belongs

Name	Composition and basis of the asset group or portfolio to which it belongs	Business segment and basis	Whether keeping consistent with previous years
Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.	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 on 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.	For internal management purposes, this asset group belongs to the air-conditioning segment	Consistent
Sanden Holdings Corporation	The goodwill formed by the Company's acquisition of Sanden Holdings Corporation is reflected in the related business asset group of automotive air-conditioning compressors and integrated thermal management systems on the acquisition date. Since it can generate cash flow independently, the Company regards development, design, manufacturing and sales of automotive air-conditioning compressors and integrated thermal management systems of the Company as an asset group and allocated the goodwill of RMB93,837,131.40 to the asset group.	For internal management purposes, this asset group belongs to other segments	Consistent

Notes to the Financial Statements for 2023

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

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

20. Goodwill (continued)

(3) Determination of recoverable amount according to the present value of the expected future cash flows

Items	Carrying amount of an asset group or portfolio of asset groups containing full goodwill	Recoverable amount	Impairment amount	Number of years in the forecast period	Key parameters for the forecast period	Basis for determining key parameters for the forecast period	Key parameters for the stabilisation period	Basis for determining key parameters for the stabilisation period
Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.	1,943,014,955.69	26,567,327,678.63		5 years	Income growth rate, profit margin, discount rate	Income growth rate: 1.70%-6.00%; Profit margin: 13.05%-13.74% Discount rate: 12.44%	Income growth rate, profit margin, discount rate	The income growth rate during the stabilisation period is 0%; Profit margin and discount rate are consistent with those for the last year in the forecast period
Sanden Holdings Corporation	2,275,811,268.14	2,293,800,000.00		6 years	Income growth rate, profit margin, discount rate	Income growth rate: 4.40%-18.04%; Profit margin: -2.80%-5.04% Discount rate: 12.50%	Income growth rate, profit margin, discount rate	The income growth rate during the stabilisation period is 0%; Profit margin and discount rate are consistent with those for the last year in the forecast period

Note: Based on the principle of prudence, the key parameters for the forecast period do not constitute a commitment to future performance.

21. Long-term prepaid expenses

Item	Opening balance	Increase for the year	Amortization for the year	Other deductions for the year	Closing balance
Long-term prepaid expenses	41,623,003.89	14,611,421.07	15,168,588.18	331,604.00	40,734,232.78
Total	41,623,003.89	14,611,421.07	15,168,588.18	331,604.00	40,734,232.78

22. 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	334,544,586.58	69,407,745.06	258,208,504.90	52,526,517.83
Accrued expenses	5,213,201,415.36	952,917,557.88	4,209,763,962.61	824,763,309.51
Others	1,042,708,500.77	204,484,349.27	1,022,780,333.24	184,755,283.49
Total	6,590,454,502.71	1,226,809,652.21	5,490,752,800.75	1,062,045,110.83

Notes to the Financial Statements for 2023

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

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

22. Deferred tax assets and deferred tax liabilities (continued)

(2) Undeducted deferred tax liabilities

Item	Closing balance		Opening balance	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Accelerated depreciation	508,897,224.91	80,973,714.15	463,758,822.06	74,852,682.89
Transactional financial assets	69,225,594.91	17,181,198.73	10,917,458.18	2,729,364.55
Asset appraisal appreciation due to business combination involving entities not under common control	253,062,239.80	49,463,778.67	285,886,349.64	55,938,555.95
Others	384,983,049.80	112,029,824.75	380,489,852.67	112,219,390.68
Total	1,216,168,109.42	259,648,516.30	1,141,052,482.55	245,739,994.07

(3) Deferred tax assets or liabilities stated at net of offset

Item	Deferred tax assets and liabilities offset amounts at the end of the year	Closing balance of deferred tax assets and liabilities after offsetting	Deferred tax assets and liabilities offset amounts at the beginning of the year	Opening balance of deferred tax assets or liabilities after offsetting
Deferred tax assets	101,213,141.47	1,125,596,510.74	77,560,032.13	984,485,078.70
Deferred tax liabilities	101,213,141.47	158,435,374.83	77,560,032.13	168,179,961.94

(4) Breakdown of unrecognized deferred tax assets

Item	Closing balance	Opening balance
Deductible temporary difference	1,828,139,962.25	2,393,000,057.35
Deductible tax loss	3,180,838,738.98	3,889,989,642.03
Total	5,008,978,701.23	6,282,989,699.38

Notes to the Financial Statements for 2023

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

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

22. Deferred tax assets and deferred tax liabilities (continued)

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

Year	Closing balance	Opening balance	Remark
2023		55,072,161.24	
2024	11,347,033.31	69,425,317.63	
2025	78,313,089.48	312,819,912.92	
2026	126,754,665.56	166,796,848.95	
2027	202,115,127.12	243,265,630.99	
2028 (Opening balance at 2028 and afterwards)	191,510,291.65	3,042,609,770.30	
2029 and afterwards	2,570,798,531.86		
Total	3,180,838,738.98	3,889,989,642.03	

23. Other non-current assets

Item	Closing balance	Opening balance
Term deposit and interest	9,750,910,000.02	7,978,930,444.45
Others	128,465,091.43	241,771,437.81
Total	9,879,375,091.45	8,220,701,882.26

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.

24. Assets with restrictions on ownership or right of use

Items	As at the end of the Year			
	Book balance	Carrying amount	Type of restrictions	Restrictions
Monetary funds	2,062,132,798.08	2,062,132,798.08	Deposit	Deposit for issuing bank acceptance bills
Notes receivable	165,995,198.60	165,995,198.60	Pledge	Pledge to issue bank acceptance bills
Fixed assets	179,159,761.29	143,040,928.05	Mortgage	For a loan
Inventories	134,838,334.33	134,838,334.33	Mortgage	For a loan
Accounts receivable	130,174,328.93	130,174,328.93	Pledge	For a loan
Construction in progress	37,260,368.53	29,626,411.38	Mortgage	For a loan
Intangible assets	5,292,940.78	5,292,940.78	Mortgage	For a loan
Total	2,714,853,730.54	2,671,100,940.15	-	-

Notes to the Financial Statements for 2023

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

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

25. Short-term borrowings

(1) Classification of short-term borrowings

Categories of borrowings	Closing balance	Opening balance
Credit borrowings	121,475,530.12	26,012,347.63
Guarantee borrowings	2,358,953,905.88	1,414,315,667.74
Mortgage borrowings	21,888,878.58	21,925,697.87
Total	2,502,318,314.58	1,462,253,713.24

(2) *There are no overdue short-term borrowings as at the end of the year.*

26. Transactional financial liabilities

Item	Closing balance	Opening balance
Transactional financial liabilities	54,355,584.93	1,745,488.01
Including: Derivative financial liabilities	54,355,584.93	1,745,488.01
Total	54,355,584.93	1,745,488.01

Notes to transactional financial liabilities:

They mainly represent the Group's outstanding forward contracts with banks, which are recognized as transactional financial assets or liabilities based on the difference between the quoted prices of the outstanding forward contracts and the forward exchange rates at the end of the year.

27. Notes payable

Categories of notes	Closing balance	Opening balance
Bank acceptance notes	9,101,350,361.29	8,301,493,794.02
Commercial acceptance notes	5,507,079,017.45	3,020,777,415.52
Total	14,608,429,378.74	11,322,271,209.54

Note: There were no overdue notes payable as at the end of the year.

Notes to the Financial Statements for 2023

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

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

28. Accounts payable

(1) Accounts payable

Ageing	Closing balance	Opening balance
Within one year	12,007,211,767.15	9,581,962,727.38
Over one year	42,665,465.05	135,704,099.06
Total	12,049,877,232.20	9,717,666,826.44

(2) *The Group had no significant accounts payable aged over one year or overdue as at the end of the year*

29. Advances from customers

Category	Closing balance	Opening balance
Rent received in advance	3,833,256.75	
Total	3,833,256.75	

30. Contract liability

(1) Contract liability

Item	Closing balance	Opening balance
Advance on sales	1,440,254,499.57	1,145,145,334.78
Total	1,440,254,499.57	1,145,145,334.78

(2) *The Group had no significant contract liability aged over one year as at the end of the year.*

Notes to the Financial Statements for 2023

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

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

31. Employee remunerations payable

(1) Classification of employee remunerations payable

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Short-term remuneration	996,858,178.13	8,318,357,510.08	7,943,845,030.78	1,371,370,657.43
Post-employment benefits – defined contribution plans	3,964,377.13	476,764,683.90	478,760,525.55	1,968,535.48
Termination benefits	1,444,799.55	23,983,660.27	24,951,501.14	476,958.68
Total	1,002,267,354.81	8,819,105,854.25	8,447,557,057.47	1,373,816,151.59

(2) Short-term remuneration

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Salaries, bonuses, allowances and subsidies	949,337,384.44	7,316,637,503.27	6,941,122,902.90	1,324,851,984.81
Staff welfare	32,503,119.72	338,286,226.44	337,725,218.23	33,064,127.93
Social insurance	10,465,757.60	370,266,928.46	373,522,118.57	7,210,567.49
Including: Medical insurance	9,524,973.42	341,931,356.66	345,656,907.83	5,799,422.25
Work-related injury insurance	873,791.81	27,230,435.10	26,721,950.18	1,382,276.73
Maternity insurance	66,992.37	1,105,136.70	1,143,260.56	28,868.51
Housing provident funds	1,541,997.16	223,853,679.36	222,042,940.66	3,352,735.86
Labour union funds and employee education funds	3,009,919.21	69,313,172.55	69,431,850.42	2,891,241.34
Total	996,858,178.13	8,318,357,510.08	7,943,845,030.78	1,371,370,657.43

(3) Defined contribution plans

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Basic pension insurance	3,813,859.98	459,223,227.26	461,132,428.39	1,904,658.85
Unemployment insurance	150,517.15	17,541,456.64	17,628,097.16	63,876.63
Total	3,964,377.13	476,764,683.90	478,760,525.55	1,968,535.48

Notes to the Financial Statements for 2023

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

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

32. Taxes payable

Item	Closing balance	Opening balance
Value-added tax	129,595,207.99	147,919,026.32
Enterprise income tax	508,299,564.69	426,130,125.08
Individual income tax	34,956,876.42	20,910,752.94
City maintenance and construction tax	9,577,038.52	10,826,556.61
Real estate tax	12,538,017.12	11,357,449.84
Land use tax	14,665,398.83	13,564,637.04
Educational surcharges	7,080,939.51	8,387,515.60
Others	57,659,046.59	66,725,800.60
Total	774,372,089.67	705,821,864.03

33. Other payables

Item	Closing balance	Opening balance
Dividends payable	70,574,497.68	67,374,222.13
Other payables	4,600,099,516.52	5,151,780,641.91
Total	4,670,674,014.20	5,219,154,864.04

33.1 Dividends payable

Item	Closing balance	Opening balance
Dividends on ordinary shares	70,574,497.68	67,374,222.13
Total	70,574,497.68	67,374,222.13

33.2 Other payables

(1) Other payables by nature

Item	Closing balance	Opening balance
Current account	3,089,481,175.74	4,157,585,503.74
Deposit and margin	1,167,578,825.36	812,260,063.15
Payment for project and equipment	343,039,515.42	181,935,075.02
Total	4,600,099,516.52	5,151,780,641.91

(2) *The Group had no significant other payables aged over one year or overdue as at the end of the year.*

Notes to the Financial Statements for 2023

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

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

34. Non-current liabilities due within one year

Item	Closing balance	Opening balance
Long-term borrowings due within one year	15,204,736.26	14,044,590.55
Lease liabilities due within one year	106,473,201.03	131,125,568.68
Total	121,677,937.29	145,170,159.23

35. Other current liabilities

Item	Closing balance	Opening balance	Reasons for the balance
Installation fees	1,268,994,692.74	951,227,502.35	Installation fee provided for but not yet paid in respect of goods sold
Sales discounts	3,491,257,535.59	3,052,934,508.66	Incurred but not yet settled
Others	1,682,231,558.01	1,639,283,379.49	Incurred but not yet settled
Total	6,442,483,786.34	5,643,445,390.50	

36. Long-term borrowings

Types of borrowings	Closing balance	Opening balance
Secured borrowings	56,720,490.51	25,959,502.17
Guaranteed borrowings		6,673,784.72
Credit borrowings	1,440,898.21	1,219,543.50
Less: Long-term borrowings due within one year	15,204,736.26	14,044,590.55
Total	42,956,652.46	19,808,239.84

37. Lease liabilities

Item	Closing balance	Opening balance
Lease liabilities	208,946,083.77	277,195,821.24
Total	208,946,083.77	277,195,821.24

Notes to the Financial Statements for 2023

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

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

38. Long-term employee remunerations payable

(1) Classification of long-term employee remunerations payable

Item	Closing balance	Opening balance
Post-employment benefits – Net liability for defined benefit plans	105,961,766.83	116,092,710.65
Total	105,961,766.83	116,092,710.65

39. Provisions

Item	Closing balance	Opening balance	Reason for occurrence
Pending litigation	115,479,065.21	130,363,423.59	Estimated litigation compensation
Provision for warranties	1,017,020,555.28	834,505,618.74	Estimated quality guarantee of products
Others	97,467,969.25	348,869,373.67	Estimated other expenditures
Total	1,229,967,589.74	1,313,738,416.00	-

40. 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	145,835,582.02	29,401,327.78	26,047,566.27	149,189,343.53	Amortization of government grants
Total	145,835,582.02	29,401,327.78	26,047,566.27	149,189,343.53	-

Notes to the Financial Statements for 2023

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

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

40. Deferred income (continued)

(2) Government grants

Government grants	Opening balance	New grants received during the year	Amount included in other income during the year	Exchange rate changes	Closing balance	Related to assets/revenue
Industrial design development promotion grant	2,000,000.00	3,000,000.00			5,000,000.00	Related to assets
State debenture projects for technical advancement and industry upgrade	21,450,000.00				21,450,000.00	Related to assets
Transformation project on system integration technology of green supply chain of freezers	7,606,614.62		1,381,194.84		6,225,419.78	Related to assets
Technological transformation project	8,882,735.09	3,590,000.00	4,017,998.31		8,454,736.78	Related to assets
Other related to revenue	400,000.00				400,000.00	Related to revenue
Other related to assets	105,496,232.31	19,245,796.87	20,648,373.12	3,565,530.91	107,659,186.97	Related to assets
Total	145,835,582.02	25,835,796.87	26,047,566.27	3,565,530.91	149,189,343.53	

41. Other non-current liabilities

Item	Closing balance	Opening balance
Long-term dividends payable	597,352,709.07	667,927,206.75
Others	15,534,662.94	23,065,694.36
Total	612,887,372.01	690,992,901.11

42. Share capital

Item	Opening balance	Change for the year (+,-)				Subtotal	Closing balance
		Issue of new shares	Bonus issue	Conversion from reserve	Repurchase and cancellation		
Total shares	1,362,725,370.00	25,422,000.00			-212,000.00	25,210,000.00	1,387,935,370.00

Note: During the Year, the Company issued 25,422,000.00 restricted shares to the incentive recipients under the Restricted Share Incentive Scheme for A Shares.

During the Year, the Company repurchased and cancelled 212,000.00 restricted shares that had been granted but not unlocked.

Notes to the Financial Statements for 2023

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

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

43. Capital reserve

Item	Opening balance	Increase for the Year	Decrease for the Year	Closing balance
Share premium	1,956,375,474.70	143,380,080.00	160,790,115.83	1,938,965,438.87
Other capital reserve	117,793,130.79	193,229,614.20	134,580,465.81	176,442,279.18
Total	2,074,168,605.49	336,609,694.20	295,370,581.64	2,115,407,718.05

Notes:

① The change in share capital premium is mainly due to:

Increase in share capital premium by RMB143,380,080.00 as a result of the issue of restricted shares during the period;

The difference between the repurchase price and the grant price of the Employee Stock Ownership Plan reduced the equity premium by RMB123,541,956.03;

Equity incentive expenses borne in proportion to the shareholdings of minority shareholders of the subsidiaries decreased by RMB35,789,603.15 in equity premium;

The equity premium was reduced by RMB325,856.56 from equity transactions of subsidiaries;

The handling fee for repurchase of treasury shares reduced the capital premium by RMB36,660.09;

The lapse and repurchase of restricted shares reduced equity premium by RMB1,096,040.00.

② Main reason for the change in other capital surplus:

Costs and expenses recognised in equity-settled share-based payment for the period increased other capital surplus by RMB191,835,272.40;

Increase in other capital reserves by RMB1,394,341.80 for deferred income tax assets recognised in the current period for share-based payment;

The equity method of accounting for other changes in the Company's equity decreased other capital surplus by RMB134,580,465.81.

Notes to the Financial Statements for 2023

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

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

44. Treasury shares

Item	Opening balance	Increase for the Year	Decrease for the Year	Closing balance
Treasury shares for share-based payment incentive scheme – Granted		240,580,480.00	20,034,753.02	220,545,726.98
Treasury shares for share-based payment incentive scheme – Not granted		211,401,111.66	195,320,356.03	16,080,755.63
Total		451,981,591.66	215,355,109.05	236,626,482.61

Notes: During the Year, the repurchase of 11,699,989.00 shares of the Company increased treasury shares by RMB211,401,111.66; the granting of 10,810,000.00 shares to employees under the Employee Stock Ownership Plan decreased ungranted treasury shares by RMB195,320,356.03; the granting of 36,232,000.00 shares under the Restricted Share Incentive Scheme and the Employee Stock Ownership Plan increased granted treasury shares by RMB240,580,480.00. Dividends for the Year decreased granted treasury shares by RMB18,736,704.88, and the repurchase and cancellation of 212,000.00 restricted shares granted but not unlocked decreased granted treasury shares by RMB1,298,048.14.

45. Other comprehensive income

Item	Opening balance	Amount incurred in the Year					Attributable to parent after tax	Attributable to minority interest after tax	Closing balance
		Amount before income tax for the Year	Less: 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 previous period and transferred to retained earnings in current period	Less: income tax expense				
1. Other comprehensive income that would not be reclassified to profit or loss	34,421,220.08	-5,099,293.59				-3,821,920.55	-1,277,373.04	30,599,299.53	
Including: Changes arising from re-measurement of defined benefit plan	35,047,941.23	-8,342,428.55				-6,252,650.20	-2,089,778.35	28,795,291.03	
Changes in the fair value of other equity instruments investment	-626,721.15	3,243,134.96				2,430,729.65	812,405.31	1,804,008.50	
2. Other comprehensive income that would be reclassified to profit or loss	86,846,225.42	113,000,323.49				109,552,294.79	3,448,028.70	196,398,520.21	
Including: Other comprehensive income that would be reclassified into profit or loss under equity method	-1,599,624.23	3,704,025.45				3,579,459.96	124,565.49	1,979,835.73	
Difference arising from translation of financial statements presented in foreign currency	88,445,849.65	109,296,298.04				105,972,834.83	3,323,463.21	194,418,684.48	
Total other comprehensive income	121,267,445.50	107,901,029.90				105,730,374.24	2,170,655.66	226,997,819.74	

Notes to the Financial Statements for 2023

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

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

46. Special reserves

Item	Opening balance	Increase for the Year	Decrease for the Year	Closing balance
Safety production fee		69,325,350.93	63,005,714.40	6,319,636.53
Total		69,325,350.93	63,005,714.40	6,319,636.53

47. Surplus reserve

Item	Opening balance	Increase for the Year	Decrease for the Year	Closing balance
Statutory surplus reserve	711,971,309.99	12,711,000.00		724,682,309.99
Total	711,971,309.99	12,711,000.00		724,682,309.99

Note: The Company shall set aside 10% of its net profit as statutory surplus reserve. If the accumulated statutory surplus reserve reaches more than 50% of the Company's registered capital, no further withdrawal shall be made.

48. Undistributed profits

Item	Amount for the Year	Amount for the previous year
Balances at the end of the previous year	7,248,124,550.56	6,104,843,404.90
Adjustment of total undistributed profits at the beginning of the Year (increase +, decrease -)	116,160.71	52,319.71
Including: Retroactive adjustment of "Business Accounting Standards" and related new regulations	116,160.71	52,319.71
Balances at the beginning of the Year	7,248,240,711.27	6,104,895,724.61
Plus: Net profits attributable to owners of the parent company for the Year	2,837,322,754.58	1,434,968,215.84
Less: Appropriation of statutory surplus reserve	12,711,000.00	
Dividends payable on ordinary shares	717,394,351.60	291,623,229.18
Balances at the end of the Year	9,355,458,114.25	7,248,240,711.27

Notes to the Financial Statements for 2023

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

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

49. Operating revenue and costs

(1) Particulars of operating revenue and operating costs

Item	Amount for the year		Amount for previous year	
	Revenue	Costs	Revenue	Costs
Principal operations	76,959,191,272.42	58,465,825,397.94	67,494,739,192.70	52,573,262,431.34
Other operations	8,640,997,951.64	8,230,290,833.27	6,620,411,846.59	6,209,856,768.69
Total	85,600,189,224.06	66,696,116,231.21	74,115,151,039.29	58,783,119,200.03

(2) Principal operation revenue generated from contracts

Categories of contract	Amount for the year	
	Revenue	Costs
Categories of product:		
Air-conditioners	38,652,244,832.54	26,800,791,715.99
Refrigerators and washing machines	26,070,166,905.77	21,088,500,691.11
Others	12,236,779,534.11	10,576,532,990.84
By operating regions:		
Domestic	49,035,166,343.99	33,389,722,531.18
Overseas	27,924,024,928.43	25,076,102,866.76
Total	76,959,191,272.42	58,465,825,397.94

50. Tax and surcharges

Item	Amount for the year	Amount for previous year
City maintenance and construction tax	155,209,529.48	126,031,877.34
Education surcharges	111,883,083.11	90,643,486.81
Others	312,114,388.39	262,560,636.94
Total	579,207,000.98	479,236,001.09

Notes to the Financial Statements for 2023

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

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

51. Sales expenses

Item	Amount for the year	Amount for previous year
Sales expenses	9,311,027,187.99	8,070,720,273.85
Total	9,311,027,187.99	8,070,720,273.85

Note: In 2023, sales expenses mainly include after-sale expenses, publicity and promotion, and employee compensation, with the percentage to the total sales expenses over 70% (2022: over 70%).

52. Management expenses

Item	Amount for the year	Amount for previous year
Management expenses	2,296,063,851.05	1,821,201,420.18
Total	2,296,063,851.05	1,821,201,420.18

Note: In 2023, management expenses mainly include employee compensation, depreciation and amortization, and executive office fee, with the percentage to the total management expenses over 80% (2022: over 80%).

53. Research and development expenses

Item	Amount for the year	Amount for previous year
Research and development expenses	2,779,508,194.39	2,289,313,746.54
Total	2,779,508,194.39	2,289,313,746.54

Note: In 2023, 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% (2022: over 80%).

54. Financial expenses

Item	Amount for the year	Amount for previous year
Interest expenses	144,388,196.47	88,136,778.11
Less: Interest income	56,918,785.34	79,204,113.83
Add: Exchange loss	-304,993,741.48	-205,797,333.01
Other expenses	12,937,898.47	14,700,837.34
Total	-204,586,431.88	-182,163,831.39

Note: Interest expenses for 2023 include interest expenses of lease liabilities of RMB11,217,592.95 (2022: RMB10,097,415.81). Other interest expenses for 2023 and 2022 were wholly interests on bank borrowings, of which the last term of repayment is within five years.

Notes to the Financial Statements for 2023

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

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

55. Other income

Sources of other income	Amount for the year	Amount for previous year
Immediate refund of value-added tax	419,824,595.82	268,476,480.28
Other government subsidies related to general activities	120,113,100.68	130,642,115.81
Others	59,018,162.07	3,666,401.66
Total	598,955,858.57	402,784,997.75

56. Investment gain

Item	Amount for the year	Amount for previous year
Gain from long-term equity investment by the equity method	343,907,407.14	253,464,775.11
Investment gain from disposal of transactional financial assets	-49,009,326.89	-52,786,004.23
Interest income from time deposits	304,935,738.87	247,540,002.04
Others	119,598,756.30	64,493,268.09
Total	719,432,575.42	512,712,041.01

Gain from long-term equity investments by the equity method

Investee	Amount for the year	Amount for previous year
Hisense Jinlong Holdings	15,082,906.79	12,968,049.38
Hisense Marketing Management	-2,028,893.94	1,441,022.29
Hisense Global Asia Holding	-194,362.50	
Hisense International	110,193,668.98	61,776,387.44
Associates of Sanden Company	220,854,087.81	177,279,316.00
Total	343,907,407.14	253,464,775.11

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

Notes to the Financial Statements for 2023

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

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

57. Profit or loss on changes in fair value

Sources of gain arising from changes in fair value	Amount for the year	Amount for previous year
Transactional financial assets	71,638,607.72	24,267,465.22
Including: Gain from changes in fair value of derivative financial instruments	-14,128,779.40	7,733,902.74
Transactional financial liabilities	-56,712,337.91	-1,745,243.63
Including: Gain from changes in fair value of derivative financial instruments	-56,712,337.91	-1,745,243.63
Total	14,926,269.81	22,522,221.59

58. Impairment loss on credit

Item	Amount for the year	Amount for previous year
Loss of bad debts of notes receivable	-8,109.00	3,894,431.38
Loss of bad debts of accounts receivable	4,974,405.07	-129,625,058.64
Loss of bad debts of other receivables	-48,169,717.20	-25,140,460.23
Total	-43,203,421.13	-150,871,087.49

59. Impairment losses on assets

Item	Amount for the year	Amount for previous year
Loss on decline in value of inventories	-65,160,380.88	-124,759,689.84
Impairment loss on fixed assets	-92,734,039.39	-103,438,833.64
Impairment loss on contractual assets	-1,359,996.35	1,411,121.47
Impairment loss on construction in progress	-14,384,623.14	-41,341,908.89
Impairment loss on intangible assets	-16,921,315.86	-6,972,662.77
Impairment loss on right-of-use assets	-222,736.31	-50,362.89
Total	-190,783,091.93	-275,152,336.56

Notes to the Financial Statements for 2023

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

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

60. Gains on disposal of assets (loss expressed with “-”)

Item	Amount for the year	Amount for previous year
Gains on disposal of non-current assets	5,835,013.43	1,384,257.12
Including: Gains on disposal of non-current assets which are not classified as held for sale	5,835,013.43	1,384,257.12
Including: Gains on disposal of fixed assets	2,876,181.04	1,289,209.31
Gains on disposal of intangible assets	2,637,179.25	14,858.49
Total	5,835,013.43	1,384,257.12

61. 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	5,834,881.32	6,774,905.91	5,834,881.32
Government grants	75,026,671.90	95,280,842.65	75,026,671.90
Others	417,419,755.16	429,194,063.77	417,419,755.16
Total	498,281,308.38	531,249,812.33	498,281,308.38

62. Non-operating expenses

Item	Amount for the year	Amount for previous year	Amount included in non-recurring profit or loss of the current year
Loss on scrapping of non-current assets	15,336,547.47	11,808,192.90	15,336,547.47
Others	46,403,734.58	62,736,213.63	46,403,734.58
Total	61,740,282.05	74,544,406.53	61,740,282.05

Notes to the Financial Statements for 2023

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

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

63. Income tax expense

(1) Income tax expense

Item	Amount for the year	Amount for previous year
Current income tax expenses	1,030,925,303.34	846,911,451.83
Including: PRC enterprise income tax	1,031,179,157.46	807,415,277.51
Hong Kong profit tax	784,538.52	910,933.90
Deferred income tax expenses	-137,857,806.44	-92,510,784.32
Total	893,067,496.90	754,400,667.51

(2) Reconciliation of accounting profit and income tax expenses

Item	Amount for the year
Total profits	5,684,557,420.82
Income tax expense calculated at statutory (or applicable) tax rates	1,421,139,355.20
Effect of application of different tax rate to certain subsidiaries	-453,129,861.37
Adjustment to income tax in previous periods	-9,236,187.32
Effect of non-taxable income	-39,220,019.99
Effect of non-deductible cost, expense and loss	93,980,093.86
Effect of utilization of deductible losses and deductible difference of unrecognized deferred tax assets in previous period	-116,115,036.59
Effect of deductible temporary difference or deductible loss of unrecognized deferred tax assets in current period	217,252,567.84
Effect of super deduction of research and development expense	-221,023,026.97
Others	-580,387.76
Income tax expense	893,067,496.90

64. Other comprehensive income

Please see note 5(45) for details.

Notes to the Financial Statements for 2023

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

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

65. Items in the cash flows statement

(1) Cash relating to operating activities

1) Cash received relating to other operating activities

Item	Amount for the year	Amount for previous year
Interest income	51,743,856.01	63,468,382.57
Government grants	173,566,433.79	196,708,824.30
Security deposit and others	744,122,021.27	849,061,174.04
Total	969,432,311.07	1,109,238,380.91

2) Cash paid relating to other operating activities

Item	Amount for the year	Amount for previous year
Cash payments for management expenses	1,380,346,587.87	1,624,788,278.45
Cash payments for sales expenses	6,992,030,847.84	5,836,213,521.99
Bank charges	10,739,569.21	13,143,825.95
Security deposit and others	1,147,628,866.88	819,724,796.99
Total	9,530,745,871.80	8,293,870,423.38

(2) Cash relating to investing activities

1) Significant cash received relating to investing activities

Item	Amount for the year	Amount for previous year
Recovery of wealth management products of banks	16,684,190,615.84	17,190,000,000.00
Recovery of time deposits upon maturity	3,562,505,116.45	4,766,326,190.40

Notes to the Financial Statements for 2023

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

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

65. Items in the cash flows statement (continued)

(2) Cash relating to investing activities (continued)

2) Significant cash paid relating to investing activities

Item	Amount for the year	Amount for previous year
Acquisition of wealth management products of banks	23,064,972,967.96	18,331,190,615.84
Placement of time deposits	6,255,000,000.00	5,866,734,300.00
	29,319,972,967.96	24,197,924,915.84

3) Cash received relating to other investing activities

Item	Amount for the year	Amount for previous year
Disposal of wealth management products and time deposits upon maturity	20,246,695,732.29	21,961,943,503.77
	20,246,695,732.29	21,961,943,503.77

4) Cash paid relating to other investing activities

Item	Amount for the year	Amount for previous year
Acquisition of wealth management products and time deposits	29,319,972,967.96	24,197,924,915.84
	29,319,972,967.96	24,197,924,915.84

(3) Cash relating to financing activities

1) Cash received relating to other financing activities

Item	Amount for the year	Amount for previous year
Security deposit	1,460,991,001.06	657,509,903.00
Others	163,678,032.47	1,213,305,033.91
	1,624,669,033.53	1,870,814,936.91

Notes to the Financial Statements for 2023

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

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

65. Items in the cash flows statement (continued)

(3) Cash relating to financing activities (continued)

2) Cash paid relating to other financing activities

Item	Amount for the year	Amount for previous year
Payment of the principal and interest on lease liabilities	150,896,204.18	33,372,167.20
Others	1,507,770,818.74	469,593,905.55
Total	1,658,667,022.92	502,966,072.75

3) Changes in liabilities arising from financing activities

Item	Opening balance	Increase for the Year		Decrease for the Year		Closing balance
		Cash changes	Non-cash changes	Cash changes	Non-cash changes	
Short-term borrowings	1,462,253,713.24	2,681,108,164.71	62,154,634.38	1,666,476,419.72	36,721,778.03	2,502,318,314.58
Long-term borrowings (including borrowings due within one year)	33,852,830.39	24,844,887.55	889,473.78	1,425,803.00		58,161,388.72
Lease liabilities (including leases due within one year)	408,321,389.92		57,994,099.06	150,896,204.18		315,419,284.80
Other payables – Borrowings from affiliated companies	1,971,854,258.50	86,309,442.04	75,019,084.98	1,356,910,330.93	35,260,292.12	741,012,162.47
Other payables – Restricted shares			168,802,080.00	1,308,040.00	13,136,522.59	154,357,517.41
Other payables – Employee Stock Ownership Plan repayment obligations		71,778,400.00		7,050,990.43		64,727,409.57
Total	3,876,282,192.05	2,864,040,894.30	364,859,372.20	3,184,067,788.26	85,118,592.74	3,835,996,077.55

Notes to the Financial Statements for 2023

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

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

66. Supplementary information to consolidated cash flows statement

(1) Supplementary information to cash flows statement

Item	Amount for the year	Amount for previous year
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	4,791,489,923.92	3,069,409,060.70
Add: Impairment provision for assets	190,783,091.93	275,152,336.56
Impairment loss on credit	43,203,421.13	150,871,087.49
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets	977,660,324.91	1,004,561,223.56
Depreciation of right-of-use assets	70,052,241.64	114,028,425.20
Amortization of intangible assets	163,327,686.36	239,965,897.80
Amortization of long-term prepaid expenses	15,168,588.18	12,543,841.33
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain expressed with "-")	-5,835,013.43	-1,384,257.12
Loss on retirement of fixed assets (Gain expressed with "-")	9,501,666.15	5,033,286.99
Loss on change in fair value (Gain expressed with "-")	-14,926,269.81	-22,522,221.59
Financial expenses (Gain expressed with "-")	-160,605,545.01	-117,660,554.90
Investment loss (Gain expressed with "-")	-719,432,575.42	-512,712,041.01
Decrease in deferred tax assets (Increase expressed with "-")	-128,113,219.33	-86,473,289.96
Increase in deferred tax liabilities (Decrease expressed with "-")	-9,744,587.11	-6,037,494.36
Decrease in inventories (Increase expressed with "-")	-200,738,889.61	1,835,856,733.51
Decrease in operating receivables (Increase expressed with "-")	-1,837,172,947.31	-658,220,353.58
Increase in operating payables (Decrease expressed with "-")	7,427,239,694.16	-1,270,029,078.24
Others		
Net cash flows from operating activities	10,611,857,591.35	4,032,382,602.38
2. Significant investment and financing activities not involving cash receipts and payments:		
Liabilities converted into equity		
Convertible company debentures due within one year		
Fixed assets under finance leases		
3. Net changes in cash and cash equivalents:		
Cash at the end of the year	2,877,140,400.54	2,478,346,075.40
Less: Cash at the beginning of the year	2,478,346,075.40	2,879,176,794.68
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	398,794,325.14	-400,830,719.28

Notes to the Financial Statements for 2023

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

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

66. Supplementary information to consolidated cash flows statement (continued)

(2) Cash and cash equivalents

Item	Closing balance	Opening balance
Cash	2,877,140,400.54	2,478,346,075.40
Including: Cash on hand	151,362.17	716,500.30
Bank deposits that are readily available for payment	2,854,135,661.10	2,468,795,515.31
Other cash at bank and on hand that are readily available for payment	22,853,377.27	8,834,059.79
Cash equivalents		
Including: Bond investments due within three months		
Cash and cash equivalents as at the end of the year	2,877,140,400.54	2,478,346,075.40
Including: Cash and cash equivalents of the parent or subsidiaries subject to restrictions on use		

67. Monetary items in foreign currencies

(1) Major monetary items in foreign currencies

Item	Closing balance of foreign currency	Translation rate	Closing balance denominated in RMB
Cash at bank and on hand	–	–	–
Including: USD	23,788,557.31	7.0827	168,487,214.86
EUR	2,580,475.62	7.8592	20,280,473.99
HKD	1,285,945.25	0.9062	1,165,323.59
JPY	321,611,514.00	0.05021	16,148,114.12
Accounts receivable	–	–	–
Including: USD	56,285,817.77	7.0827	398,655,561.52
EUR	19,278,378.37	7.8592	151,512,631.29
JPY	502,936,025.00	0.05021	25,252,417.82
Other receivables	–	–	–
Including: USD	58,256.39	7.0827	412,612.53
EUR	50,510.25	7.8592	396,970.16
HKD	9,750.00	0.9062	8,835.45
JPY	16,295,194.00	0.05021	818,181.69
Accounts payable	–	–	–
Including: USD	6,920,684.94	7.0827	49,017,135.22
EUR	6,941,263.21	7.8592	54,552,775.82
JPY	210,973,920.00	0.05021	10,593,000.52
Other payables	–	–	–
Including: USD	112,530,822.96	7.0827	797,022,059.78
EUR	70,749.64	7.8592	556,035.57
HKD	1,109.00	0.9062	1,004.98

Notes to the Financial Statements for 2023

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

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

67. Monetary items in foreign currencies (continued)

(2) Major overseas operating entities

Company name	Principal place of business	Functional currency	Whether there is change of functional currency
Hisense (Hong Kong) America Manufacturing Co., Limited	Hong Kong	HKD	No
Hisense Monterrey Manufacturing, S.de R.L. de C.V.	Mexico	Mexican Peso	No
Hisense Monterrey Property Management, S.de R.L. de C.V.	Mexico	Mexican Peso	No
Hisense Japan Automotive Air-Conditioning Systems Corporation (海信日本汽車空調系統合同會社)	Japan	JPY	No
Sanden Corporation	Japan	JPY	No
SANDEN INTERNATIONAL (EUROPE) GmbH	Germany	EUR	No
SANDEN MANUFACTURING EUROPE S.A.S.	France	EUR	No
SANDEN VIKAS (INDIA) LTD.	India	Indian Rupee	No
SANDEN MANUFACTURING MEXICO S.A. DE C.V.	Mexico	USD	No

68. Leases

(1) The Group as a lessee

Item	Amount for the Year	Amount for the previous year
Interest expenses on lease liabilities	11,217,592.95	10,097,415.81
Short-term lease expenses recognised in profit or loss using simplified treatment	97,439,574.37	69,867,924.12
Lease expenses for low-value assets recognised in profit or loss using simplified treatment (excluding short-term leases)		
Variable lease payments not included in the measurement of lease liabilities		
Including: Part arising from sale and leaseback transactions		
Income from sublease of right-to-use assets		
Total cash outflows related to leases	246,923,029.67	267,012,157.01
Related gain or loss arising from sale and leaseback transactions		
Cash inflows from sale and leaseback transactions		
Cash outflows from sale and leaseback transactions		

Notes to the Financial Statements for 2023

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

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

68. Leases (continued)

(2) The Group as a lessor

1) The Group as a lessor under operating lease

Item	Rental Income	Including: Income related to variable lease payments not included in lease receipts
Buildings and structures	63,641,545.48	
Machinery and equipment	2,979,369.51	
Transportation equipment	106,194.66	
Land	1,065,054.27	
Total	67,792,163.92	

Notes to the Financial Statements for 2023

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

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

69. Segment reporting

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

(1) Segment profit or loss and assets and liabilities

Amount for the year	Air-conditioners	Refrigerators and washing machines	Others	Inter-segment elimination	Total
I. Revenue from external sales	38,652,244,832.54	26,070,166,905.77	12,236,779,534.11		76,959,191,272.42
II. Revenue from inter-segment transactions	715,130.91	18,525,397.50	2,923,068,294.16	-2,942,308,822.57	
III. Gain from investment in associates and joint ventures	-1,014,446.97	-1,014,446.97	345,936,301.08		343,907,407.14
IV. Depreciation and amortization	492,716,306.72	348,074,753.86	385,417,780.51		1,226,208,841.09
V. Gain arising from changes in fair value	14,287,476.99	68,782,493.59	-68,143,700.77		14,926,269.81
VI. Impairment losses on credits and assets	-64,147,315.49	-34,316,884.06	-135,522,313.51		-233,986,513.06
VII. Total profits (losses)	4,894,033,212.74	967,687,795.47	-177,163,587.39		5,684,557,420.82
VIII. Total assets	37,150,119,357.79	43,212,073,454.51	15,618,116,396.53	-30,033,813,653.16	65,946,495,555.67
IX. Total liabilities	24,473,385,908.89	32,006,871,299.96	11,096,684,769.39	-21,026,505,549.21	46,550,436,429.03
X. Additions to other non-current assets other than long-term equity investments	1,669,601,574.03	-22,436,407.92	259,707,741.15		1,906,872,907.26

Continued from above table

Amount for previous year	Air-conditioners	Refrigerators and washing machines	Others	Inter-segment elimination	Total
I. Revenue from external sales	34,499,733,925.58	21,207,092,434.08	11,787,912,833.04		67,494,739,192.70
II. Revenue from inter-segment transactions	1,001,205.93	12,092,073.41	2,520,058,040.12	-2,533,151,319.46	
III. Gain from investment in associates and joint ventures	720,511.15	720,511.15	252,023,752.81		253,464,775.11
IV. Depreciation and amortization	578,212,144.80	366,557,127.40	426,330,115.69		1,371,099,387.89
V. Gain arising from changes in fair value	-42,920.00	11,446,773.25	11,118,368.34		22,522,221.59
VI. Impairment losses on credits and assets	-98,258,731.21	-132,615,991.81	-195,148,701.03		-426,023,424.05
VII. Total profits (losses)	3,452,041,902.34	282,337,472.47	89,430,353.40		3,823,809,728.21
VIII. Total assets	31,188,124,293.26	28,652,214,278.81	15,651,116,404.12	-20,115,586,532.86	55,375,868,443.33
IX. Total liabilities	20,810,902,742.15	17,966,094,914.07	11,451,687,077.60	-11,131,898,896.40	39,096,785,837.42
X. Additions to other non-current assets other than long-term equity investments	2,604,699,926.77	25,307,181.32	-213,198,062.67	-1,123,200.00	2,415,685,845.42

Notes to the Financial Statements for 2023

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

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

69. Segment reporting (continued)

(2) Geographic information

Region	Amount for the year/closing balance	Amount for previous year/ opening balance
Revenue from domestic transactions	49,035,166,343.99	42,624,208,014.02
Revenue from overseas transactions	27,924,024,928.43	24,870,531,178.68
Total	76,959,191,272.42	67,494,739,192.70
Non-current assets – Domestic	16,928,683,438.39	15,359,424,477.26
Non-current assets – Overseas	3,877,892,636.01	3,387,254,129.15
Total	20,806,576,074.40	18,746,678,606.41

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

VI. R&D EXPENDITURE

Item	Amount for the Year	Amount for the previous year
R&D expenses	2,779,508,194.39	2,289,313,746.54
Total	2,779,508,194.39	2,289,313,746.54
Including: Expensed R&D expenditure	2,779,508,194.39	2,289,313,746.54
Capitalised R&D expenditure		

1. R&D projects eligible for capitalisation

The Group had no R&D projects eligible for capitalisation

2. Significant outsourced projects under research

The Group had no significant outsourced projects under research.

Notes to the Financial Statements for 2023

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

VII. CHANGE IN SCOPE OF CONSOLIDATION

1. Changes in scope of consolidation for other reasons

Hangzhou Kelon Electric Appliances Co., Ltd., a subsidiary of the Company, was deregistered by the Company during the Year and no longer included in the scope of consolidation after deregistration.

On 24 July 2023, the Company's tier-two subsidiary Qingdao Hisense Air-conditioner Marketing Co., Ltd. invested in the establishment of Rizhao Hisense Home Appliances Trading Co., Ltd. with a registered capital of RMB1 million, of which Qingdao Hisense Air-conditioner Marketing Co., Ltd. has contributed RMB1 million, representing 100% of the registered capital. The Company has control over the subsidiary, which was included in the scope of consolidation with effect from 24 July 2023.

VIII. 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		100.00	Establishment
Hisense Ronshen (Guangdong) Freezer Co., Ltd.	Guangdong Freezer	RMB237 million	Foshan	Foshan	Manufacturing		100.00	Establishment
Hisense (Guangdong) Kitchen and Bath System Co., Ltd.	Hisense K&B	RMB77.5751 million	Foshan	Foshan	Manufacturing		74.00	Establishment
Foshan Shunde Rongsheng Plastic Co., Ltd.	Rongsheng Plastic	USD15.8274 million	Foshan	Foshan	Manufacturing	44.92	25.13	Establishment
Guangdong Kelon Mould Co., Ltd.	Kelon Mould	USD15.0561 million	Foshan	Foshan	Manufacturing		70.11	Establishment
Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.	Yangzhou Refrigerator	USD44.4479 million	Yangzhou	Yangzhou	Manufacturing		100.00	Establishment
Hisense (Chengdu) Refrigerator Co., Ltd.	Chengdu Refrigerator	RMB50 million	Chengdu	Chengdu	Manufacturing		100.00	Establishment
Hisense Refrigerator Co., Ltd.	Shandong Refrigerator	RMB275 million	Qingdao	Qingdao	Manufacturing	100.00		Establishment
Guangdong Hisense Refrigerator Marketing Co., Ltd.	Refrigerator Marketing Company	RMB200.8190 million	Foshan	Foshan	Trading		78.82	Establishment
Qingdao Hisense Air-conditioner Marketing Co., Ltd.	Air-conditioner Marketing Company	RMB100.91 million	Qingdao	Qingdao	Trading		75.57	Establishment
Hisense (Guangdong) Air-Conditioner Company Limited	Hisense Guangdong Air-Conditioner	RMB200 million	Jiangmen	Jiangmen	Manufacturing		100.00	Establishment
Hisense Air-Conditioning Co. Ltd.	Shandong Air-conditioning	RMB500 million	Qingdao	Qingdao	Manufacturing	100.00		Business combination under common control
Qingdao Hisense Mould Co., Ltd.	Hisense Mould	RMB36.0664 million	Qingdao	Qingdao	Manufacturing	82.41		Business combination under common control
Hisense (Zhejiang) Washing Machine Co., Ltd.	Zhejiang Washing Machine	RMB450 million	Huzhou	Huzhou	Manufacturing		100.00	Business combination not under common control
Qingdao Hisense Commercial Cold Chain Co., Ltd.	Commercial Cold Chain	RMB50 million	Qingdao	Qingdao	Manufacturing		70.00	Establishment
Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.	Hisense Hitachi	USD150 million	Qingdao	Qingdao	Manufacturing	49.20		Business combination not under common control
Qingdao Hisense Hitachi Air-Conditioner Marketing Co., Ltd.	Hitachi Marketing	RMB274.3003 million	Qingdao	Qingdao	Trading		70.00	Business combination not under common control

Notes to the Financial Statements for 2023

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

VIII. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

(1) Composition of enterprise group (continued)

Name of subsidiary	Abbreviation	Registered capital	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Method for acquisition
						Direct	Indirect	
Qingdao Johnson Controls Air-Conditioning Co., Ltd.	Johnson Controls	RMB400 million	Qingdao	Qingdao	Trading		100.00	Business combination not under common control
Qingdao Hisense Hvac Equipment Co., Ltd.	Hisense Hvac	RMB600 million	Qingdao	Qingdao	Manufacturing		100.00	Business combination not under common control
Hisense (Hong Kong) America Manufacturing Co., Limited.	Hong Kong Home Appliance Manufactory	HKD1,016.6257 million	Hong Kong	Hong Kong	Manufacturing		100.00	Business combination under common control
Hisense Monterrey Manufacturing, S.de R.L. de C.V.	Hisense Monterrey Manufacturing	MXN462.2452 million	Mexico	Mexico	Manufacturing		100.00	Business combination not under common control
Hisense Monterrey Property Management, S.de R.L. de C.V.	Monterrey Property	MXN1,092.5993 million	Mexico	Mexico	Service industry		100.00	Business combination under common control
Qingdao Gorenje Electrical Co., Ltd.	Qingdao Gorenje	RMB21 million	Qingdao	Qingdao	Trading	70.00		Establishment
Hisense Japan Automotive Air-Conditioning Systems Corporation	SPV	JPY1	Japan	Japan	Investment		100.00	Establishment
Qingdao Hisense Hitachi Air Conditioning Technology Co., Ltd.	Hitachi Air Conditioning Technology	RMB20 million	Qingdao	Qingdao	Manufacturing		100.00	Establishment
Sanden Corporation	SDC	JPY21,741,869,287 million	Japan	Japan	Manufacturing		74.95	Business combination not under common control
Sanden International (Europe) GmbH	SIE	EUR0.025 million	Germany	Germany	Manufacturing		100.00	Business combination not under common control
SANDEN MANUFACTURING EUROPE S.A.S.	SME	EUR21 million	France	France	Manufacturing		100.00	Business combination not under common control
SANDEN VIKAS (INDIA) PRIVATE LIMITED.	SVL	INR296.25 million	India	India	Manufacturing		50.00	Business combination not under common control
SANDEN MANUFACTURING MEXICO S.A. DE C.V.	SMM	USD66,785,379.26 million	Mexico	Mexico	Manufacturing		100.00	Business combination not under common control
Suzhou Sanden Precision Parts Co., Ltd.	SSP	USD11 million	Suzhou	Suzhou	Manufacturing		65.00	Business combination not under common control
Sanden (China) Automotive Air Conditioning Co., Ltd.	CSA	RMB145,123,843.6 million	Chongqing	Chongqing	Manufacturing		100.00	Business combination not under common control

Notes:

- ① 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.
- ② The Company held 49.20% 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 2023

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

VIII. 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%	1,905,571,702.19	832,931,024.00	4,870,876,506.09

(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	998,767.35	1,236,999.95	2,235,767.30	1,197,141.45	153,566.59	1,350,708.04

(continued)

Name of subsidiary	Opening balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hisense Hitachi	861,858.78	1,058,501.37	1,920,360.15	1,053,117.28	163,801.87	1,216,919.15

Continued table:

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	2,216,676.14	324,371.23	324,371.23	522,993.90	2,013,457.15	271,831.59	271,831.59	342,761.74

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

- In January 2023, the minority shareholders of Hisense Mould, a subsidiary of the Company, carried out a capital increase. The Company's shareholding in Hisense Mould changed from 83.47% to 82.41%, and the Company still has control over Hisense Mould after the capital increase.
- In 2023, due to changes in treasury shares of Sanden Company, a tier-two subsidiary of the Company, the Company's shareholding in Sanden Company changed from 74.88% to 74.95%, but the Company still has control over Sanden Company.
- In December 2023, Hisense Hitachi, a subsidiary of the Company, increased its capital contribution in Hitachi Marketing, a subsidiary of Hisense Hitachi, with a change in its shareholding after the capital increase, but the Company still has control over Hisense Hitachi.

Notes to the Financial Statements for 2023

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

VIII. INTERESTS IN OTHER ENTITIES *(continued)*

2. Transactions that led to changes in the ownership interest in, but without losing of control of the subsidiary *(continued)*

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

① Capital increase by minority shareholders of Hisense Mould

Item	Hisense Mould
Cash	9,379,313.06
Total cost of purchase/consideration for disposal	9,379,313.06
Less: Share of net assets of subsidiary based on the shareholding percentage acquired/disposed of	10,679,666.76
Difference	-1,300,353.70
Including: Adjustment to capital reserves	-1,300,353.70

② Changes in the Company's shareholding in Sanden Company

Item	Sanden Company
Cash	
Total cost of purchase/consideration for disposal	
Less: Share of net assets of subsidiary based on the shareholding percentage acquired/disposed of	-965,595.85
Difference	965,595.85
Including: Adjustment to capital reserves	965,595.85

③ Changes in Hitachi Marketing's shareholding

Item	Hitachi Marketing
Cash	-116,715,200.00
Total cost of purchase/consideration for disposal	-116,715,200.00
Less: Share of net assets of subsidiary based on the shareholding percentage acquired/disposed of	-116,724,101.29
Difference	8,901.29
Including: Adjustment to capital reserves	8,901.29

Notes to the Financial Statements for 2023

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

VIII. INTERESTS IN OTHER ENTITIES (continued)

3. Interests in joint ventures or associates

(1) Aggregated financial information of insignificant joint ventures and associates

(Unit: RMB'0000)

Item	Closing balance/ Amount for the year	Opening balance/ Amount for previous year
Joint ventures	–	–
Total carrying amount of investments	7,375.31	5,173.79
Amounts in aggregate in proportion to the shareholdings	–	–
– Net profit	-222.33	144.10
– Other comprehensive income	-13.45	
– Total comprehensive income	-235.78	144.10
Associates	–	–
Total carrying amount of investments	159,761.20	146,660.27
Amounts in aggregate in proportion to the shareholdings	–	–
– Net profit	32,594.45	25,202.38
– Other comprehensive income	383.85	-986.86
– Total comprehensive income	32,978.30	24,215.52

IX. GOVERNMENT GRANTS

1. Government grants recognised based on the amount receivable at the end of the Year

The Group had no government grants recognised based on the amount receivable at the end of the Year.

2. Liability items involving government grants

Government grant items	Opening balance	Amount of new grants for the year	Amount included in other income for the year	Changes in exchange rate	Closing balance	Asset-related/ income-related
Deferred income	145,435,582.02	25,835,796.87	26,047,566.27	3,565,530.91	148,789,343.53	Asset-related
Deferred income	400,000.00				400,000.00	Income-related
Total	145,835,582.02	25,835,796.87	26,047,566.27	3,565,530.91	149,189,343.53	

3. Government grants included in profit or loss

Accounting items	Amount for the Year	Amount for the previous year
Other income	539,937,696.50	399,118,596.09
Non-operating income	75,026,671.90	95,280,842.65

Notes to the Financial Statements for 2023

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

X. RISKS RELATING TO FINANCIAL INSTRUMENTS

The Group faces a variety of financial instrument risks in its daily activities, which primarily include market risk (including exchange rate risk, and interest rate risk), credit risk and liquidity risk. The risks associated with these financial instruments and the risk management policies adopted by the Group to mitigate these risks are described below. The Group's management manages and monitors these risk exposures to ensure that the above risks are controlled within a limited range.

1. Various risk management objectives and policies

The Group engages in risk management with the objective of striking an appropriate balance between risk and return, minimise the negative impact of risks on the Group's operating results and maximises the interests of shareholders and other equity investors. Based on this risk management objective, the basic strategy of the Group's risk management is to identify and analyse various risks faced by the Group, establish appropriate risk tolerance thresholds to manage the risks, and monitor various risks in a timely and reliable manner to control the risks within a limited range.

(1) Market risk

1) Exchange rate risk

The Group's exposure to exchange rate risk is primarily related to USD and EUR. Such risk is due to sales or purchases made by the Group in currencies other than its reporting currency. The exchange rate risk arising from monetary assets and liabilities held by the Group in foreign currencies may have an impact on the Group's results of business operations.

As at the end of the Reporting Period, the carrying amounts of the Group's major monetary assets and monetary liabilities denominated in foreign currencies were as follows:

Currency	Closing balances		Opening balances	
	Assets	Liabilities	Assets	Liabilities
USD	567,555,388.91	846,039,195.00	474,814,252.59	1,358,606,224.39
EUR	172,190,075.44	55,108,811.39	127,696,160.14	336,877,464.66

The following table indicates the approximate effect of reasonably possible changes in exchange rates, to which the Group had significant exposure at the end of the Reporting Period, on the net profit:

Sensitivity analysis of changes in exchange rates:

Item	For the Year	For the
	Increase/Decrease in profit after taxation	Previous Year Increase/Decrease in profit after taxation
USD to RMB		
Appreciates by 5%	-10,443,142.73	-33,142,198.94
Depreciates by 5%	10,443,142.73	33,142,198.94
EUR to RMB		
Appreciates by 5%	4,390,547.40	-7,844,298.92
Depreciates by 5%	-4,390,547.40	7,844,298.92

The Group pays close attention to the impact of exchange rate changes on the Group, and through research and judgement on the trend of foreign exchange rates, the Group duly operates forward settlement/purchase of foreign exchange to effectively counteract market risks and ensure a reasonable level of profit for the Company.

Notes to the Financial Statements for 2023

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

X. RISKS RELATING TO FINANCIAL INSTRUMENTS *(continued)*

1. Various risk management objectives and policies *(continued)*

(1) **Market risk** *(continued)*

2) Interest rate risk

The Group's interest rate risk arises from interest-bearing debts such as bank loans. Financial liabilities with floating interest rates expose the Group to cash flow interest rate risk, while financial liabilities with fixed interest rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of fixed-rate and floating-rate contracts based on the prevailing market conditions. As at 31 December 2023, the Group's interest-bearing debts mainly consisted of fixed-rate loan contracts denominated in Japanese Yen, totalling to RMB2,480,777,429.96 and the floating-rate contracts denominated in Japanese Yen, totalling to RMB79,702,273.34.

The Group's risk of changes in fair value of financial instruments resulted from the changes in interest rates is mainly associated with fixed-rate bank loans. For fixed-rate loans, the Group aims to maintain their floating rates.

The Group's risk of changes in cash flow of financial instruments resulted from the changes in interest rates is mainly associated with floating-rate bank loans. The Group's policy is to maintain these loans at floating rates, so as to eliminate fair value risks arising from changes in interest rate.

(2) **Credit risk**

The Group manages credit risk by portfolio classification. Credit risk mainly arises from monetary funds, notes receivable, accounts receivable, receivables financing, other receivables, contract assets, etc.

The Group maintains substantially all of its bank balances in domestic financial institutions with higher credit rating. The Board of the Group 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.

Notes to the Financial Statements for 2023

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

X. RISKS RELATING TO FINANCIAL INSTRUMENTS (continued)

1. Various risk management objectives and policies (continued)

(3) 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.

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 2023

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets					
Cash at bank and on hand	4,939,273,198.62				4,939,273,198.62
Transactional financial assets	13,192,025,535.87				13,192,025,535.87
Notes receivable	741,622,573.50				741,622,573.50
Accounts receivable	9,225,321,882.07				9,225,321,882.07
Accounts receivable financing	4,643,427,583.77				4,643,427,583.77
Other receivables	145,804,125.45				145,804,125.45
Other current assets	428,942,015.90				428,942,015.90
Non-current assets due within one year	3,641,708,361.11				3,641,708,361.11
Other non-current financial assets				27,197,809.69	27,197,809.69
Other non-current assets		4,758,035,277.79	4,992,874,722.23		9,750,910,000.02
Total	36,958,125,276.29	4,758,035,277.79	4,992,874,722.23	27,197,809.69	46,736,233,086.00
Financial liabilities					
Short-term borrowings	2,502,318,314.58				2,502,318,314.58
Transactional financial liabilities	54,355,584.93				54,355,584.93
Notes payable	14,608,429,378.74				14,608,429,378.74
Accounts payable	12,049,877,232.20				12,049,877,232.20
Other payables	4,670,674,014.20				4,670,674,014.20
Other current liabilities	6,442,483,786.34				6,442,483,786.34
Non-current liabilities due within one year	129,924,113.67				129,924,113.67
Lease liabilities		97,238,874.85	95,803,553.55	38,932,932.94	231,975,361.34
Long-term borrowings		962,797.50	44,251,224.00		45,214,021.50
Total	40,458,062,424.66	98,201,672.35	140,054,777.55	38,932,932.94	40,735,251,807.50

Notes to the Financial Statements for 2023

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

X. RISKS RELATING TO FINANCIAL INSTRUMENTS *(continued)*

1. Various risk management objectives and policies *(continued)*

(3) Liquidity risk *(continued)*

31 December 2022

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets					
Cash at bank and on hand	6,001,295,427.37				6,001,295,427.37
Transactional financial assets	6,758,233,998.86				6,758,233,998.86
Notes receivable	144,188,330.26				144,188,330.26
Accounts receivable	7,665,702,299.91				7,665,702,299.91
Accounts receivable financing	5,072,959,470.76				5,072,959,470.76
Other receivables	475,034,340.60				475,034,340.60
Other current assets	864,357,351.72				864,357,351.72
Non-current assets due within one year	1,986,840,000.00				1,986,840,000.00
Other non-current financial assets				25,748,931.39	25,748,931.39
Other non-current assets		3,545,074,611.12	4,433,855,833.33		7,978,930,444.45
Total	28,968,611,219.48	3,545,074,611.12	4,433,855,833.33	25,748,931.39	36,973,290,595.32
Financial liabilities					
Short-term borrowings	1,462,253,713.24				1,462,253,713.24
Transactional financial liabilities	1,745,488.01				1,745,488.01
Notes payable	11,322,271,209.54				11,322,271,209.54
Accounts payable	9,717,666,826.44				9,717,666,826.44
Other payables	5,219,154,864.04				5,219,154,864.04
Other current liabilities	5,643,445,390.50				5,643,445,390.50
Non-current liabilities due within one year	146,539,109.09				146,539,109.09
Lease liabilities		114,995,774.57	121,816,855.82	45,185,161.05	281,997,791.44
Long-term borrowings			19,808,239.84		19,808,239.84
Total	33,513,076,600.86	114,995,774.57	141,625,095.66	45,185,161.05	33,814,882,632.14

Notes to the Financial Statements for 2023

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

X. RISKS RELATING TO FINANCIAL INSTRUMENTS *(continued)*

2. Hedging business

(1) *The Company conducts hedging business for risk management*

In order to avoid the exchange rate risk faced by the foreign exchange business and to ensure sound operation, the Group conducted forward foreign exchange business to evade the risk of foreign exchange business without engaging in any speculative operation. The approval procedures for the Group's use of self-owned funds to carry out foreign exchange hedging business were in compliance with relevant national laws and regulations and relevant provisions of the "Internal Control System for Forward Foreign Exchange Funds Transaction Business" and the "Foreign Exchange Management Procedures and Measures" formulated by the Company.

(2) *The Company conducts hedging operations for risk management, expects to achieve its risk management objectives, but does not apply hedge accounting.*

Item	Reasons for not applying hedge accounting	Impact on financial statements
Forward foreign exchange settlement/sale	The Company carries out foreign exchange derivatives transactions that are closely linked to its daily operations and strictly controls the scale and risks, and temporarily conducts simplified treatment to balance the management costs and benefits.	Gain or loss from changes in fair value: RMB-74,651,449.98; Investment income: RMB-245,671,136.32.

3. Transfer of financial assets

(1) *Classification of transfer methods*

Transfer methods	Nature of transferred financial assets	Amount of transferred financial assets	Derecognition	Basis for determining derecognition
Endorsement or discounting of notes	Notes receivable	82,390,636.93	Not derecognised	Almost all of its risks and rewards have been retained, including the related default risk.
Endorsement or discounting of notes	Receivables financing	5,946,576,428.69	Derecognised	Almost all of its risks and rewards have been transferred.
Total		6,028,967,065.62		

(2) *Financial assets derecognised due to transfer*

Item	Method for the transfer of financial assets	Amount of financial assets derecognised	Gain or loss related to derecognition
Receivables financing	Endorsement or discounting of notes	5,946,576,428.69	
Total		5,946,576,428.69	

Notes to the Financial Statements for 2023

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

XI. DISCLOSURE OF FAIR VALUE

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

Item	Fair value as at the end of the Year			Total
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	
I. Fair value measurement on a recurring basis	-	-	-	-
(i) Transactional financial assets		4,285,180.76	13,187,740,355.11	13,192,025,535.87
1. Financial assets at fair value through profit or loss		4,285,180.76	13,187,740,355.11	13,192,025,535.87
(1) Wealth management products			13,187,740,355.11	13,187,740,355.11
(2) Derivative financial assets		4,285,180.76		4,285,180.76
(ii) Other debt investments			4,643,427,583.77	4,643,427,583.77
1. Receivables financing			4,643,427,583.77	4,643,427,583.77
(iii) Other equity instrument investments			40,244,766.96	40,244,766.96
(iv) Other non-current financial assets			27,197,809.69	27,197,809.69
Total assets measured at fair value on a recurring basis		4,285,180.76	17,898,610,515.53	17,902,895,696.29
(v) Transactional financial liabilities		54,355,584.93		54,355,584.93
1. Financial liabilities at fair value through profit or loss		54,355,584.93		54,355,584.93
(1) Derivative financial liabilities		54,355,584.93		54,355,584.93
Total liabilities measured at fair value on a recurring basis		54,355,584.93		54,355,584.93

2. Basis for determination of the market value of Level 1 fair value measurements on a recurring and non-recurring basis

For transactional financial assets held by the Company subject to Level 1 fair value measurements, the quoted market prices of the corresponding products and investments in the open market shall be used as the basis for determining the market value.

3. Valuation techniques and qualitative and quantitative information of significant parameters used for items at level 2 fair value measurement on a recurring and non-recurring basis

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

Notes to the Financial Statements for 2023

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

XI. DISCLOSURE OF FAIR VALUE (continued)

4. Valuation techniques and qualitative and quantitative information of significant parameters used for items at Level 3 fair value measurement on a recurring and non-recurring basis

The Group's level 3 items are wealth management products of banks, receivables financing, other investments in equity instruments, and other non-current financial assets. The wealth management products of banks 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. Other investments in equity instruments are mainly equity investments for which there is no observable and active market data to validate the financial projections using their own data.

A gain or loss from change in fair value of RMB85,767,387.12 was recognised in respect of the wealth management products of banks during the year. Changes in the unobservable input (expected rate of return) do not result in significant changes in fair value. At the end of the year, the Group determined the fair value to be the forecast future cash flows based on the expected rate of return, and the changes in valuation techniques had a relatively insignificant impact on the financial statements.

XII. RELATED PARTY AND RELATED TRANSACTIONS

1. Relationship with related parties

(1) Parent company of the Company

Name of the parent company	Place of registration	Business nature	Registered capital (RMB0'000)	Parent company's percentage of shareholding in the Company (%)	Parent company's percentage of voting rights in the Company (%)
Qingdao Hisense Air-Conditioning Co., Ltd.	Qingdao	Manufacture of air-conditioners and moulds and provision of after-sale services	67,479	37.23	37.23

The indirect controlling shareholder of the Company is Hisense Group Holdings Co., Ltd., and the Company has no actual controller.

(2) Subsidiaries of the Company

For details of subsidiaries, please refer to relevant information as set out in "VIII. 1.(1) Major composition of the enterprise group" in the Notes.

Notes to the Financial Statements for 2023

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

XII. RELATED PARTY AND RELATED TRANSACTIONS (continued)

1. Relationship with related parties (continued)

(3) Joint ventures and associates of the Company

Other joint ventures or associates that had related party transactions with the Company during the Year, or had balances arising from related party transactions with the Company in the pervious periods, are as follows:

Name of joint ventures or associates	Relationship with the Company
Hisense Jinlong Holdings	Associate
Hisense Marketing Management	Joint venture
Hisense Huanya Holdings	Joint venture
Hisense International Marketing	Associate
Associate of Sanden Company	Associate

(4) Other related parties of the Company

Name of other related parties	Relationship with the Company
Hisense Group Holdings Co., Ltd. and its subsidiaries ("Hisense Group Holdings and its subsidiaries")	Indirect holding company and other subsidiaries controlled by them
Hisense Finance Co., Ltd. ("Hisense Finance")	Subsidiary of the indirect holding company
Hisense Visual Technology Co., Ltd. and its subsidiaries ("Hisense Visual and its subsidiaries", formerly known as Qingdao Hisense Electric Appliance Co., Ltd.)	Subsidiary of the indirect holding company
Hisense Group Company Limited and its subsidiaries ("Hisense Group and its subsidiaries")	Related parties with significant influence over indirect controlling shareholders of the Company
Haifeng Group Company Limited and its subsidiaries ("Haifeng Group and its subsidiaries")	Related parties with significant influence over indirect controlling shareholders of the Company
Beijing Xuehua Group Company Limited ("Xuehua Group")	Minority shareholder of Beijing Refrigerator
Johnson Controls-Hitachi Air Conditioning Holding (UK) Ltd. ("Johnson Hitachi")	Controlling shareholder of the minority shareholder of Hisense Hitachi

2. Greencool Companies, controlled by the original de facto controller of the Company, 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
Shangqiu Bingxiang	Specific Third Party Company

Notes to the Financial Statements for 2023

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

XII. RELATED PARTY AND RELATED TRANSACTIONS (continued)

3. Related party transactions

(1) Purchase of goods/receipt of services

Related party	Particulars of related party transactions	Amount for the year	Approved transaction limit (as applicable)	Whether the transaction limit is exceeded (as applicable)	Amount for previous year
Hisense Visual and its subsidiaries	Finished goods	4,754,693.25			918,244.34
Hisense Holdings and its subsidiaries	Finished goods	390,215,371.17	604,960,000.00	No	188,935,618.39
Johnson Hitachi and its subsidiaries	Finished goods	103,503,403.90	105,000,000.00	No	61,194,455.27
Associates of Sanden Company	Finished goods	41,087,438.64	N/A	N/A	26,456,215.56
Subtotal of purchase of finished goods		539,560,906.96			277,504,533.56
Hisense Visual and its subsidiaries	Materials	272,396,030.79			90,485,294.08
Hisense Holdings and its subsidiaries	Materials	1,710,332,860.33	3,109,350,000.00	No	906,214,153.93
Johnson Hitachi and its subsidiaries	Materials	774,886,175.51	1,167,000,000.00	No	639,120,768.08
Associates of Sanden Company	Materials	364,902,747.82	N/A	N/A	408,552,177.23
Subtotal of purchase of materials		3,122,517,814.45			2,044,372,393.32
Hisense Visual and its subsidiaries	Equipment	818,722.83	N/A	N/A	
Hisense Holdings and its subsidiaries	Equipment	17,488,068.11	N/A	N/A	16,570,640.33
Subtotal of purchase of equipment		18,306,790.94			16,570,640.33
Hisense Group and its subsidiaries	Receipt of services	11,559,970.60	N/A	N/A	
Hisense Visual and its subsidiaries	Receipt of services	61,839,849.68			47,572,155.02
Hisense Holdings and its subsidiaries	Receipt of services	1,234,452,379.55	1,770,160,000.00	No	1,282,141,721.04
Johnson Hitachi and its subsidiaries	Receipt of services	15,204,771.67	31,810,000.00	No	23,319,525.78
Xuehua Group	Receipt of services	411,376.81	N/A	N/A	
SITC Group	Receipt of services	186,050.41	N/A	N/A	
Associates of Sanden Company	Receipt of services	4,054,442.98	N/A	N/A	17,377,293.44
Subtotal of receipt of services		1,327,708,841.70			1,370,410,695.28

Note: The lease payment amounted to RMB55,513,100 recognised by the Company as a lessee was included in the “receipt of services” under related party transactions during the Year.

Notes to the Financial Statements for 2023

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

XII. RELATED PARTY AND RELATED TRANSACTIONS *(continued)*

3. Related party transactions *(continued)*

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

The above agreements were considered and approved at the eighth interim meeting of the Company's Eleventh Session of the Board of Directors in 2022 convened on 7 November 2022, the first extraordinary general meeting in 2023 convened on 9 January 2023, and the first interim meeting of the Company's Eleventh Session of the Board of Directors in 2023 convened on 5 January 2023, respectively.

The above transactions with Hisense Holdings 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 Listing Rules; The Company and Johnson Hitachi entered into a Business Cooperation Agreement, and the Board has approved the transactions and the Directors (including the Independent Non-executive Directors) have also confirmed that the terms of the transactions are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole. Therefore, the connected transactions with Johnson Hitachi are exempt from the circular, independent financial advice and Shareholders' approval requirements according to of Rule 14A.101 of the Hong Kong Listing Rules).

Other than the above transactions, the transactions with related parties conducted in 2023 as disclosed in note 12 of the financial statements in the 2023 annual report do not constitute connected transactions under Chapter 14A of the Listing Rules.

Notes to the Financial Statements for 2023

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

XII. RELATED PARTY AND RELATED TRANSACTIONS (continued)

3. Related party transactions (continued)

(2) Sale of goods/rendering of service

Related party	Particulars of related party transactions	Amount for the year	Approved transaction limit	Whether the transaction limit is exceeded	Amount for previous year
Hisense Visual and its subsidiaries	Finished goods	763,090.09			1,814,439.38
Hisense Holdings and its subsidiaries	Finished goods	21,158,664,710.68	29,309,610,000.00	No	17,241,376,478.02
Johnson Hitachi and its subsidiaries	Finished goods	252,439,156.76	399,550,000.00	No	247,503,190.27
Associates of Sanden Company	Finished goods	1,407,127,497.78	N/A	N/A	1,500,967,662.36
Subtotal of sale of finished goods		22,818,994,455.31			18,991,661,770.03
Hisense Visual and its subsidiaries	Materials	767,388,506.27			3,210.36
Hisense Holdings and its subsidiaries	Materials	498,524,878.22	3,059,510,000.00	No	360,863,097.84
Johnson Hitachi and its subsidiaries	Materials	5,377,684.80	18,040,000.00	No	10,042,606.10
Associates of Sanden Company	Materials		N/A	N/A	202,030.15
Subtotal of sale of materials		1,271,291,069.29			371,110,944.45
Hisense Holdings and its subsidiaries	Equipment	889,453.90	N/A	N/A	
Subtotal of sale of equipment		889,453.90			
Hisense Visual and its subsidiaries	Moulds	40,445,176.14			44,625,995.11
Hisense Holdings and its subsidiaries	Moulds	27,131,077.02	142,820,000.00	No	28,800,456.92
Johnson Hitachi and its subsidiaries	Moulds	9,851,989.56	15,000,000.00	No	
Subtotal of sale of moulds		77,428,242.72			73,426,452.03
Hisense Group and its subsidiaries	Rendering of service	85,313.34	N/A	N/A	
Hisense Visual and its subsidiaries	Rendering of service	6,129,338.71			295,889,962.11
Hisense Holdings and its subsidiaries	Rendering of service	58,333,275.40	75,640,000.00	No	19,721,455.59
Xuehua Group	Rendering of service		N/A	N/A	
Subtotal of rendering of services		64,547,927.45			315,611,417.70

Note: The lease revenue amounted to RMB9,813,800 recognised by the Company as a lessor was included in the “rendering of services” under related party transactions during the Year.

Notes to the Financial Statements for 2023

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

XII. RELATED PARTY AND RELATED TRANSACTIONS (continued)

3. Related party transactions (continued)

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

The above agreements were considered and approved at the eighth interim meeting of the Company's Eleventh Session of the Board of Directors in 2022 convened on 7 November 2022, the first extraordinary general meeting in 2023 convened on 9 January 2023, the first interim meeting of the Company's Eleventh Session of the Board of Directors in 2023 convened on 5 January 2023, and the fourth meeting of the Company's Eleventh Session of the Board of Directors in 2023 convened on 30 October 2023, respectively.

The above transactions with Hisense Holdings 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 2023 as disclosed in note 12 of the financial statements in the 2023 annual report do not constitute connected transactions under Chapter 14A of the Listing Rules.

(3) Related guarantees

1) As guaranteed party

Name of guarantor	Amount of guarantee	Guarantee start date	Guarantee expiry date	Whether the guarantee has been fulfilled
Hisense (Hong Kong) Company Limited	JPY 12,000,000,000.00	2022-5-30	2023-5-26	Fulfilled
Hisense (Hong Kong) Company Limited	JPY 12,000,000,000.00	2023-5-25	2024-5-24	Outstanding

Notes to the Financial Statements for 2023

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

XII. RELATED PARTY AND RELATED TRANSACTIONS (continued)

3. Related party transactions (continued)

(4) Loans and borrowings of the related parties

Name of related parties	Amount of loans and borrowings	Start date	Expiry date	Remarks
Placements				
Hisense Group Holdings and its subsidiaries	445,734,400.00	2022-4-8	2023-4-6	Repaid, an interest expense of RMB7,486,287.70 was paid during the year
Hisense Group Holdings and its subsidiaries	304,338,900.00	2022-4-8	2023-4-6	Repaid, an interest expense of RMB2,647,945.92 was paid during the year
Hisense Group Holdings and its subsidiaries	91,932,720.00	2022-4-20	2023-4-20	Repaid, an interest expense of RMB1,755,534.24 was paid during the year
Hisense Group Holdings and its subsidiaries	27,858,400.00	2022-5-30	2023-5-30	Repaid, an interest expense of RMB714,969.50 was paid during the year
Hisense Group Holdings and its subsidiaries	289,030,900.00	2022-4-29	2023-4-28	Repaid, an interest expense of RMB5,745,489.47 was paid during the year
Hisense Group Holdings and its subsidiaries	390,017,600.00	2022-5-20	2023-5-19	Repaid, an interest expense of RMB9,248,190.98 was paid during the year
Hisense Group Holdings and its subsidiaries	209,432,000.00	2022-7-11	2023-7-11	Repaid, an interest expense of RMB1,656,937.76 was paid during the year
Hisense Group Holdings and its subsidiaries	209,432,000.00	2022-8-12	2023-2-13	Repaid, an interest expense of RMB957,800.50 was paid during the year
Hisense Group Holdings and its subsidiaries	52,785,720.00	2023-1-19	2023-2-17	Repaid, an interest expense of RMB103,986.07 was paid during the year
Hisense Group Holdings and its subsidiaries	287,346,000.00	2023-4-28	2024-4-26	An interest expense of RMB14,004,077.29 was paid during the year
Hisense Group Holdings and its subsidiaries	7,661,940.00	2023-5-15	2024-5-14	An interest expense of RMB346,786.34 was paid during the year
Hisense Group Holdings and its subsidiaries	393,993,600.00	2023-5-19	2024-5-17	An interest expense of RMB17,365,984.90 was paid during the year
Hisense Group Holdings and its subsidiaries	28,327,200.00	2023-5-30	2024-5-29	An interest expense of RMB1,184,285.43 was paid during the year
Hisense Group Holdings and its subsidiaries	7,128,900.00	2023-6-19	2024-6-19	Repaid, an interest expense of RMB205,910.42 was paid during the year
Hisense Group Holdings and its subsidiaries	14,347,200.00	2023-9-18	2024-9-18	Repaid, an interest expense of RMB164,240.15 was paid during the year
Hisense Group Holdings and its subsidiaries	12,776,760.00	2023-12-19	2024-12-19	An interest expense of RMB32,232.38 was paid during the year

Notes to the Financial Statements for 2023

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

XII. RELATED PARTY AND RELATED TRANSACTIONS (continued)

3. Related party transactions (continued)

(5) Other connected transactions

- 1) As at 31 December 2023, the Group had balance of bank deposit of RMB15,337,864,400 (listed in monetary funds, other current assets, other non-current assets due within one year and other non-current assets according to holding intention and liquidity), net deposit and withdrawal of RMB191,959,500, and balance of notes payable of RMB1,556,151,800 with Hisense Finance. The Group recognised the loan amount of Hisense Finance of RMB110,319,500, the amount of loan interest of RMB1,913,100, the amount of discounted interest paid for notes of RMB818,800, the amount of handling fees paid for electronic bank acceptance notes of RMB1,047,200, and the amount of handling fees for settlement services paid for receipt and payment of funds of RMB1,037,400. Interest income from bank deposits of RMB332,134,100 was recognised for Hisense Finance. During the Year, the amount involved for the provision of settlement and sale of foreign exchange services provided by Hisense Finance to the Group was RMB86,611,400, and the amount for provision of discounted notes was RMB290,350,500.
- 2) The Company held the 2021 Second Interim Meeting of the Eleventh Session of the Board on 15 October 2021, which considered and approved the “Framework Contract for Purchase of Part of the Houses at No. 7 Hisense Liaoyang Road” entered into by the Company and Qingdao Hisense Real Estate Company Limited as well as the connected transactions proposed to be carried out under this Contract. The Company agreed to subscribe for part of the houses from the 14th floor to the 21st floor of Building No. 2, Hisense-Liaoyang Road No. 7 Project (the "Project") located at No. 567 Liaoyang West Road, Shibei District, Qingdao City, Shandong Province (the "Subject House") with a total planned floor area of 5,141.14 square meters (subject to the final measured area determined by relevant government departments) at a consideration of not exceeding RMB117 million, which will be used as staff apartments of the Company. The transaction price was determined on the principles of fairness and reasonableness through negotiation between both parties to the transaction based on a comparison with comparable properties in the market and the public sale price of Hisense Real Estate. The transaction amount incurred during the Year was RMB102 million (excluding VAT).
- 3) The Company held the 2023 ninth interim meeting of the Eleventh Session of the Board of the Company on 21 December 2023, which considered and approved the establishment of Qingdao Hisense Huanya Holdings Co., Ltd. jointly invested by the Company and Hisense Visual. The registered capital of the joint venture was RMB318,300,000.00, and each party contributed in cash respectively, of which: Hisense Visual contributed RMB159,150,000.00, accounting for 50% of the registered capital; and the Company contributed RMB159,150,000.00, accounting for 50% of the registered capital. As at 31 December 2023, the capital contribution has been completed.
- 4) 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 2023

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

XII. RELATED PARTY AND RELATED TRANSACTIONS (continued)

4. 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
Receivables Financing	Hisense Visual and its subsidiaries	12,428,611.93		292,961,372.58	
Receivables Financing	Hisense Group Holdings and its subsidiaries	81,566,277.21		245,335,521.69	
Subtotal		93,994,889.14		538,296,894.27	
Notes receivable	Hisense Visual and its subsidiaries	319,007,723.28			
Notes receivable	Hisense Group Holdings and its subsidiaries	226,887,871.53			
Subtotal		545,895,594.81			
Interest receivable	Hisense Finance	426,261,929.09		305,146,673.85	
Subtotal		426,261,929.09		305,146,673.85	
Accounts receivable	Hisense Visual and its subsidiaries	96,504,120.74		38,379,414.56	53.78
Accounts receivable	Hisense Group and its subsidiaries	708,092.53	708,092.53		
Accounts receivable	Hisense Group Holdings and its subsidiaries	5,197,036,356.39	20,130,123.69	3,293,667,509.15	3,993,192.42
Accounts receivable	Johnson Hitachi and its subsidiaries	68,933,497.31		75,283,087.23	
Accounts receivable	Associates of Sanden Company	319,759,158.27	443,445.56	419,499,089.42	282,366.69
Subtotal		5,682,941,225.24	21,281,661.78	3,826,829,100.36	4,275,612.89
Other receivables	Hisense Visual and its subsidiaries	190,548.80	18,000.00	84,813.15	18,000.00
Other receivables	Hisense Group Holdings and its subsidiaries	2,106,607.85	392,320.98	15,533,884.06	984,664.56
Other receivables	Associates of Sanden Company	23,908,679.93	23,144,878.94	38,772,232.79	
Subtotal		26,205,836.58	23,555,199.92	54,390,930.00	1,002,664.56
Dividends receivable	Associates of Sanden Company	89,630.21		152,634,355.75	
Subtotal		89,630.21		152,634,355.75	
Prepayments	Hisense Visual and its subsidiaries	411,109.28		47,972.80	
Prepayments	Hisense Group Holdings and its subsidiaries	87,637,498.40		36,331,999.75	
Subtotal		88,048,607.68		36,379,972.55	
Other non-current assets	Hisense Group Holdings and its subsidiaries	6,384,738.43		51,728,324.82	
Subtotal		6,384,738.43		51,728,324.82	

Note: Interest receivable represents the total amount of interest accrued based on the effective interest rate method. It is included in the carrying balance of the corresponding financial assets and is listed in other current assets, non-current assets due within one year, and other non-current assets according to holding intention and liquidity.

Notes to the Financial Statements for 2023

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

XII. RELATED PARTY AND RELATED TRANSACTIONS (continued)

4. Receivables from and payables to related parties (continued)

(2) Payables to related parties

Item	Related party	Closing balance	Opening balance
Note payable	Hisense Visual and its subsidiaries	4,638,174.56	26,769,657.01
Note payable	Hisense Group Holdings and its subsidiaries	68,374,144.06	27,656,165.47
Note payable	Johnson Hitachi and its subsidiaries	279,435,254.04	295,057,130.98
Note payable	Associates of Sanden Company	1,402,649.94	1,518,715.00
Subtotal		353,850,222.60	351,001,668.46
Accounts payable	Hisense Visual and its subsidiaries	1,885,200.49	329,137.24
Accounts payable	Hisense Group Holdings and its subsidiaries	251,028,022.33	851,629,758.98
Accounts payable	Johnson Hitachi and its subsidiaries	43,155,749.32	37,129,015.58
Accounts payable	Associates of Sanden Company	40,136,801.48	26,483,074.76
Subtotal		336,205,773.62	915,570,986.56
Dividends payable	Johnson Hitachi and its subsidiaries	68,073,826.50	64,986,946.54
Subtotal		68,073,826.50	64,986,946.54
Other payables	Hisense Visual and its subsidiaries	406,339.02	436,321.32
Other payables	Hisense Group and its subsidiaries	50,983.14	50,983.14
Other payables	Hisense Group Holdings and its subsidiaries	818,587,876.17	2,069,583,306.23
Other payables	Johnson Hitachi and its subsidiaries	200,000.00	200,000.00
Other payables	Xuehua Group	100,859.00	100,859.00
Other payables	Associates of Sanden Company	37,781,629.00	8,917,679.48
Subtotal		857,127,686.33	2,079,289,149.17
Advances	Hisense Visual and its subsidiaries	160,022.73	
Subtotal		160,022.73	
Contractual liabilities	Hisense Visual and its subsidiaries	12,939.87	187,630.70
Contractual liabilities	Hisense Group Holdings and its subsidiaries	102,170,950.58	60,071,489.34
Contractual liabilities	Johnson Hitachi and its subsidiaries	21,851.62	1,428,854.04
Subtotal		102,205,742.07	61,687,974.08
Other non-current liabilities	Johnson Hitachi and its subsidiaries	576,186,668.20	644,260,494.71
Subtotal		576,186,668.20	644,260,494.71
(3) Transactions with "Specific Third Party Companies"			
Item	Related party	Closing book value	Beginning book value
Other receivables	Shangqiu Bingxiong		58,030,000.00
Subtotal of other receivables			58,030,000.00

Notes to the Financial Statements for 2023

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

XII. RELATED PARTY AND RELATED TRANSACTIONS (continued)

5. Emoluments of Directors, Supervisors and Employees

(1) The emoluments of our directors and supervisors are as follows:

As at 31 December 2023

Unit: (RMB0'000)

Name	Position	Emoluments of independent directors	Salaries and allowances	Pension scheme contributions	Share-based payments	Total
Executive directors						
Dai Hui Zhong	Chairman		637.82	4.28	446.47	1,088.57
Jia Shao Qian	Director				272.84	272.84
Yu Zhi Tao	Director					
Hu Jian Yong	Director, President		725.22	4.27	474.14	1,203.63
Xia Zhang Zhua	Director		309.82	4.33	223.24	537.39
Gao Yu Ling	Director, CFO		329.80	4.33	272.84	606.97
Lin Lan	Former Director					
Fei Li Cheng	Former Director		111.94	4.31		116.25
Independent non-executive directors						
Zhong Geng Shen	Independent non-executive director	14.00				14.00
Cheung Sai Kit	Independent non-executive director	24.00				24.00
Li Zhi Gang	Independent non-executive director	13.68				13.68
Ma Jin Quan	Former independent non-executive director	0.32				0.32
Supervisors						
Liu Zhen Shun	Chairman of the Supervisory Committee					
Sun Jia Hui	Supervisor					
Yin Zhi Xin	Supervisor		221.77	4.25	109.14	335.16
Total		52.00	2,336.37	25.77	1,798.67	4,212.81

① Note: During the Year, no emoluments were paid by the Company to any director 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.

② Mr. Yu Zhi Tao was appointed as a director of the Company in April 2023.

Notes to the Financial Statements for 2023

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

XII. RELATED PARTY AND RELATED TRANSACTIONS (continued)

5. Emoluments of Directors, Supervisors and Employees (continued)

(1) The emoluments of our directors and supervisors are as follows: (continued)

- ③ Mr. Hu Jian Yong was appointed as the President of the Company in February 2023, and was appointed as a director of the Company in April 2023.
- ④ Mr. Lin Lan resigned in February 2023 and ceased to be a director of the Company.
- ⑤ Mr. Fei Li Cheng resigned in February 2023 and ceased to be a director of the Company.
- ⑥ Mr. Li Zhi Gang was appointed as an independent non-executive director of the Company in January 2023.
- ⑦ Mr. Ma Jin Quan resigned in January 2023 and ceased to be an independent non-executive director of the Company.

As at 31 December 2022

Unit: (RMB0'000)

Name	Position	Emoluments of independent directors	Salaries and allowances	Pension scheme contributions	Total
Executive directors					
Dai Hui Zhong	Chairman, President		624.26	4.00	628.26
Lin Lan	Director				
Jia Shao Qian	Director				
Fei Li Cheng	Director		702.19	4.06	706.25
Xia Zhang Zhua	Director		211.24	3.99	215.23
Gao Yu Ling	Director, CFO		219.33	3.99	223.32
Independent non-executive director					
Ma Jin Quan	Independent non-executive director	14.00			14.00
Zhong Geng Shen	Independent non-executive director	14.00			14.00
Cheung Sai Kit	Independent non-executive director	24.00			24.00
Li Zhi Gang	Independent non-executive director				
Supervisors					
Liu Zhen Shun	Chairman of the Supervisory Committee				
Sun Jia Hui	Supervisor				
Yin Zhi Xin	Supervisor		81.72	3.99	85.71
Total		52.00	1,838.74	20.03	1,910.77

Notes to the Financial Statements for 2023

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

XII. RELATED PARTY AND RELATED TRANSACTIONS (continued)

5. Emoluments of Directors, Supervisors and Employees (continued)

(1) The emoluments of our directors and supervisors are as follows: (continued)

- ① Note: During the Year, no emoluments were paid by the Company to any director 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.

(2) Five highest paid individuals

In 2023, two (2022: two) of the five highest paid individuals of the Company were the directors. The aggregate of the emoluments in respect of the other three individuals (2022: three) are as follows (in respect of the range of emoluments for 2023, 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, and that of one individual exceeded RMB3,500,000 and below RMB4,000,000; in respect of the range of emoluments for 2022, emoluments of one individual exceeded RMB3,000,000 and below RMB3,500,000, and that of two individuals exceeded RMB2,000,000 and below RMB2,500,000):

Unit: (RMB0'000)

Item	Amount for the Year	Amount for the Previous Year
Salaries and allowances	1,310.88	792.46
Pension scheme contributions	8.53	8.08
Total	1,319.41	800.54

(3) Emoluments of key management personnel

Unit: (RMB0'000)

Item	Amount for the Year	Amount for the Previous Year
Directors and supervisors		
Emoluments, salaries and allowances of independent directors	2,388.38	1,890.75
Pension scheme contributions	25.76	20.01
Share-based payments	1,798.67	
Emoluments of other key management personnel		
Salaries and allowances	116.90	65.95
Pension scheme contributions	4.25	3.25
Share-based payments	89.29	
Total	4,423.25	1,979.96

Note: Key management personnel refer to the senior management who has the authority and responsibility for planning, directing and controlling the corporate activities.

Notes to the Financial Statements for 2023

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

XII. RELATED PARTY AND RELATED TRANSACTIONS *(continued)*

6. 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.

XIII. SHARE-BASED PAYMENTS

1. General information about share-based payments

(1) Overview on Restricted Share Incentive Scheme

On 28 February 2023, the 2023 second extraordinary general meeting, the 2023 first A Share class general meeting and the 2023 first H Share class general meeting considered and approved the “Resolution on the 2022 Restricted Share Incentive Scheme for A Shares (Draft) of the Company and its Summary”, the “Resolution on the Administrative Measures for the Appraisal System of the 2022 Restricted Share Incentive Scheme for A Shares of the Company” and the “Resolution to Propose the General Meeting to Authorise the Board to Handle Matters Relating to the 2022 Restricted Share Incentive Scheme for A Shares of the Company”. On the same day, the 2023 third extraordinary general meeting of the Eleventh Session of the Board and the 2023 first meeting of the Eleventh Session of the Supervisory Committee were convened to consider and approve the “Proposal for the Granting of Restricted Shares to Incentive Recipients under the 2022 Restricted Share Incentive Scheme for A Shares”. The above resolutions determined that the total number of restricted shares granted to 596 incentive recipients was 29,618,000 shares. As some of the incentive recipients forfeited the restricted shares granted to them, the actual number of recipients of the first grant under the Incentive Scheme was 511, the number of shares granted was 25,422,000 shares, and the grant price was RMB6.64 per share.

(2) Overview on Employee Stock Ownership Plan

The Company held the 2022 tenth interim meeting of the Eleventh Session of the Board and the 2022 fourth meeting of the Eleventh Session of the Supervisory Committee on 30 December 2022, and the 2023 first A Share class general meeting and the 2023 first H Share class general meeting on 28 February 2023, which considered and approved relevant resolutions, such as the “Resolution on the 2022 Employee Stock Ownership Plan for A Shares of the Company and its Summary” and the “Resolution on the Administrative Measures for the 2022 Employee Stock Ownership Plan for A Shares of the Company”, agreeing to implement the 2022 Employee Stock Ownership Plan for A Shares and authorising the Board to handle the matters in relation to the 2022 Employee Stock Ownership Plan for A Shares of the Company. On 12 May 2023, the Company held the 2023 sixth interim meeting of the Eleventh Session of the Board, which considered and passed the “Resolution on the Allocation of Reserved Shares under the Employee Stock Ownership Plan for A Shares in 2022” within the scope of authorisation of the 2023 second extraordinary general meeting. The participants of this Employee Stock Ownership Plan are the directors (excluding independent directors), supervisors, senior management and other core employees of the Company, with the total number of the first grant not exceeding 30 participants (excluding the reserved shares) and with the reserved shares allocated to 29 participants. The number of the underlying shares involved in this Employee Stock Ownership Plan was not more than 11,700,000 shares. According to the actual subscription and final payment by the participants, a total of 52 employees (including reserved shares) actually participated in the subscription of shares of the first grant under the 2022 Employee Stock Ownership Plan of the Company, corresponding to 10,810,000 shares, with the grant price of RMB6.64 per share. The source of the shares was the Company's repurchase of its shares through a special securities account for share repurchase through centralised bidding transactions.

Notes to the Financial Statements for 2023

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

XIII. SHARE-BASED PAYMENTS (continued)

1. General information about share-based payments (continued)

(2) Overview on Employee Stock Ownership Plan (continued)

Category of grant targets	Granted during the Year		Exercised during the Year		Unlocked during the Year		Expired during the Year	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Senior management and core personnel	36,232,000.00	240,580,480.00					212,000.00	1,407,680.00
Total	36,232,000.00	240,580,480.00					212,000.00	1,407,680.00

Share options or other equity instruments issued as at the end of the Year

Category of grant targets	Other equity instruments issued as at the end of the Year	
	Range of exercise prices	Remaining contractual term
Senior management and core personnel	6.64	The validity period of the equity incentive scheme shall commence on the date of completion of the registration of the grant of restricted shares and end on the date on which all restricted shares granted to the target of the incentive scheme are released from restriction or repurchased and cancelled, which shall not exceed 48 months at the longest.

2. Equity settled share-based payments

Item	During the Year
Method for determining fair value of equity instruments on the date of grant	The fair value of restricted shares and the Employee Stock Ownership Plan is determined by subtracting the grant price from the market price on the date of grant.
Important parameters for fair value of equity instruments on the date of grant	Market price on the date of grant
Basis for determining the number of equity instruments with exercisable rights	The Company revises the estimated number of equity instruments that can be released from sale restriction on each balance sheet date during the period of restriction based on the latest available subsequent information such as changes in the number of persons who can be released from sale restriction, achievement of performance targets, and so on.
Reasons for significant discrepancies between estimates of the year and the previous year	N/A
Accumulated amount of equity-settled share-based payment included in the capital surplus	156,045,669.25

Notes to the Financial Statements for 2023

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

XIII. SHARE-BASED PAYMENTS (continued)

3. Share-based payment expenses during the Year

Category of grant targets	Equity settled share-based payment expenses
Senior management and core personnel	191,835,272.40
Total	191,835,272.40

XIV. COMMITMENTS AND CONTINGENCIES

1. Important commitments

Unit: (RMB0'000)

Item	Closing balance	Opening balance
Commitments in respect of investment in subsidiaries and jointly controlled entities (commitment to purchase long-term assets):		
– Authorised but not contracted		
– Contracted but not paid	41,097.13	14,286.39
Commitments in respect of acquisition of the property, plant and equipment of subsidiaries (commitment for external investment):		
– Contracted but not paid		

2. Contingencies

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

As at 31 December 2023, the Group was involved, as defendant, in litigations with amount of RMB134,598,642.85, and accrued liabilities of RMB115,479,065.21 had been made.

Notes to the Financial Statements for 2023

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

XV. SUBSEQUENT EVENTS

1. Significant non-adjusted matters

(1) Significant external investments

On 29 March 2024, the Company considered and approved the "Resolution on Related Transactions for Joint Capital Increase with Related Parties" at the first meeting of the Eleventh Session of the Board of Directors in 2024, agreeing that the Company and Hisense Visual, a related party of the Group, jointly increased capital in its subsidiary, Qingdao Hisense Intelligent Electronic Technology Co. Ltd., in which Hisense Visual invested RMB153 million to hold 12.64% of the shares of Intelligent Electronic, while the Company invested RMB147 million to hold 12.14% of the shares of Intelligent Electronic. After the capital increase, the shareholding structure of Intelligent Electronic is as follows: Hisense Visual holds 87.86% of the equity, while the Company holds 12.14% of the equity.

2. Share repurchase

At the First Extraordinary Meeting of the Eleventh Session of the Board of Directors of the Company in 2024 convened on 8 January 2024, the "Resolution on the Repurchase of A Shares of the Company by way of Centralised Bidding Transactions" was considered and approved, agreeing that the Company could use its own funds to repurchase part of its shares for the Employee Stock Ownership Plan. The total repurchase fund was not less than RMB187.87 million (inclusive) and not more than RMB375.73 million (inclusive), and the maximum repurchase price was not more than RMB27.00 per share (inclusive). The implementation period for the share repurchase shall not exceed 12 months from the date of consideration and approval of the share repurchase proposal at the First Extraordinary Meeting of the Eleventh Session of the Board of Directors of the Company in 2024.

As at 29 March 2024, the Company had repurchased 13,615,468.00 shares of the Company through centralised bidding transactions with a dedicated securities account for share repurchase, representing 0.98% of the current total share capital of the Company, with the highest transaction price being RMB25.83 per share and the lowest transaction price being RMB23.33 per share, for a total transaction amount of RMB335,319,596.75 (excluding transaction fees).

3. Profit distribution

On 29 March 2024, the Proposed Profit Distribution Plan for 2023 was considered and approved at the first meeting of 2024 of the eleventh session of the Board of the Company: Based on the total share capital of 1,387,935,370.00 shares of the Company as of the date of disclosure of the annual report 2023, deducting the total share capital of 1,373,429,913.00 shares repurchased from the repurchase account (as of the date of disclosure of this report, the Company has repurchased a cumulative total of 14,505,457.00 shares of the Company), a cash dividend of RMB10.13 (tax inclusive) was to be paid to all shareholders for every 10 shares held, amounting to a total distribution of profit of RMB1,391,284,501.87. The undistributed profit would be rolled over for distribution in subsequent years. There will be no issue of bonus share and no transfer of reserve to share capital during the year. Such resolution is subject to the approval at general meeting of the Company.

Notes to the Financial Statements for 2023

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

XVI. OTHER SIGNIFICANT EVENTS

1. Capital management

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or procedures for managing capital during the years ended 31 December 2023 and 31 December 2022.

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 period were as follows:

Item	End of the year	Beginning of the year
Total liabilities	46,550,436,429.03	39,096,785,837.42
Including: Short-term borrowings	2,502,318,314.58	1,462,253,713.24
Accounts payable	12,049,877,232.20	9,717,666,826.44
Notes payable	14,608,429,378.74	11,322,271,209.54
Other payables	4,670,674,014.20	5,151,780,641.91
Less: Cash and cash equivalents	2,877,140,400.54	2,478,346,075.40
Net debt	43,673,296,028.49	36,618,439,762.02
Equity attributable to shareholders of parent	13,580,174,485.95	11,518,373,442.25
Capital and net liability	57,253,470,514.44	48,136,813,204.27
Gearing ratio	76.28%	76.07%

Notes to the Financial Statements for 2023

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

XVI. OTHER SIGNIFICANT EVENTS (continued)

2. 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	31,660.82	19,397.57
Land use rights	108.88	
Machinery and equipment, etc.	469.51	489.55
Transportation equipment	14.57	
Total	32,253.78	19,887.12

(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 2023 amounted to RMB3,798.62 (2022: RMB68.8751 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	5,875.12	4,590.21
Over one year but within five years	16,220.10	15,970.80
Over five years	55.70	
Total	22,150.92	20,561.01

Notes to the Financial Statements for 2023

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

XVI. OTHER SIGNIFICANT EVENTS (continued)

2. 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 2023 were as follows:

Unit: RMB'0000

Operating lease payments	Amount for the year	Amount for previous year
Building or structures	15,359.31	15,348.65
Others	9,332.99	11,352.56
Total	24,692.30	26,701.21

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	14,658.48	16,639.22
Over one year but within five years	19,499.65	27,316.81
Over five years	3,893.29	4,779.11
Total	38,051.42	48,735.14

3. Auditors' remuneration

In 2023, 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 2023, 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 2023 and bear the corresponding travel expenses.

Notes to the Financial Statements for 2023

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

XVII. NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT

1. Accounts receivable

(1) Accounts receivable by ageing

Ageing analysis of accounts receivable based on invoice day is as follows:

Ageing	Closing balance	Opening balance
Within three months	617,522,768.99	206,829,967.75
Over three months but within six months	860,204.88	
Over one year	107,107,551.47	107,107,549.79
Total	725,490,525.34	313,937,517.54

(2) Accounts receivable by provision for bad debts

Category	Closing balance				Carrying amount
	Book value		Provision for bad debts		
	Amount	%	Amount	%	
Accounts receivable for which provision for bad debts is separately made					
Accounts receivable for which provision for bad debts is made on a group basis	725,490,525.34	100.00	107,108,618.15	14.76	618,381,907.19
Including:					
Aging analysis method	107,640,893.73	14.84	107,108,618.15	99.51	532,275.58
Receivables from related parties	617,849,631.61	85.16			617,849,631.61
Total	725,490,525.34	100.00	107,108,618.15	14.76	618,381,907.19

Notes to the Financial Statements for 2023

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

XVII. NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Accounts receivable (continued)

(2) Accounts receivable by provision for bad debts (continued)

(continued)

Category	Book value		Opening balance		Carrying amount
	Amount	%	Amount	%	
	Accounts receivable for which provision for bad debts is separately made				
Accounts receivable for which provision for bad debts is made on a group basis	313,937,517.54	100.00	107,107,632.82	34.12	206,829,884.72
Including:					
Aging analysis method	107,149,061.30	34.13	107,107,632.82	99.96	41,428.48
Receivables from related parties	206,788,456.24	65.87			206,788,456.24
Total	313,937,517.54	100.00	107,107,632.82	34.12	206,829,884.72

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

Ageing	Closing balance		
	Book value	Provision for bad debts	%
Including: Within three months	533,342.26	1,066.68	0.20
Over one year	107,107,551.47	107,107,551.47	100.00
Total	107,640,893.73	107,108,618.15	99.51

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.

Notes to the Financial Statements for 2023

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

XVII. NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Accounts receivable (continued)

(2) Accounts receivable by provision for bad debts (continued)

- 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	617,849,631.61		
Total	617,849,631.61		

(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	107,107,632.82	2,019,554.09		2,018,568.76	107,108,618.15
Total	107,107,632.82	2,019,554.09		2,018,568.76	107,108,618.15

(4) Accounts receivable written-off during the year

Item	Written-off amount
Accounts receivable written-off	2,018,568.76

(5) 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 RMB607,260,871.57, accounting for 83.70% of the closing balance of accounts receivable. A provision for bad debts of RMB16,469,134.78 in total was made as at the end of the year.

Notes to the Financial Statements for 2023

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

XVII. NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables

Item	Closing balance	Opening balance
Dividends receivable	68,351,678.85	83,026,795.53
Other receivables	1,187,499,173.19	1,344,021,935.48
Total	1,255,850,852.04	1,427,048,731.01

2.1 Dividends receivable

(1) Classification of dividends receivable

Item (or investee)	Closing balance	Opening balance
Hisense Hitachi	68,351,678.85	65,252,199.38
Hisense Mould		17,774,596.15
Total	68,351,678.85	83,026,795.53

2.2 Other receivables

(1) Classification of other receivables by nature

Nature of the amount	Closing book value	Beginning book value
Other current account	1,202,314,549.91	1,364,286,987.89
Total	1,202,314,549.91	1,364,286,987.89

Notes to the Financial Statements for 2023

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

XVII. NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables (continued)

2.2 Other receivables (continued)

(2) Other receivables by ageing

Ageing	Closing book value
Within three months	4,409,170.69
Over three months but within six months	109,810,463.68
Over six months but within one year	201,777,099.73
Over one year	886,317,815.81
Total	1,202,314,549.91

(3) Other receivables as shown by provision for bad debts

Category	Closing balance				Carrying amount
	Book balance		Provision for bad debts		
	Amount	Percentage (%)	Amount	Percentage (%)	
Separate provision for bad debt Provision for bad debts on a group basis	1,202,314,549.91	100.00	14,815,376.72	1.23	1,187,499,173.19
Including:					
Ageing analysis method	14,836,569.05	1.23	14,815,376.72	99.86	21,192.33
Receivables from related parties	1,186,884,657.69	98.72			1,186,884,657.69
Other account payments	593,323.17	0.05			593,323.17
Total	1,202,314,549.91	100.00	14,815,376.72	1.23	1,187,499,173.19

Category	Opening balance				Carrying amount
	Book balance		Provision for bad debts		
	Amount	Percentage (%)	Amount	Percentage (%)	
Separate provision for bad debt Provision for bad debts on a group basis	1,364,286,987.89	100.00	20,265,052.41	1.49	1,344,021,935.48
Including:					
Ageing analysis method	20,857,698.21	1.53	20,262,475.85	97.15	595,222.36
Receivables from related parties	1,343,429,289.68	98.47	2,576.56		1,343,426,713.12
Total	1,364,286,987.89	100.00	20,265,052.41	1.49	1,344,021,935.48

Notes to the Financial Statements for 2023

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

XVII. NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables (continued)

2.2 Other receivables (continued)

(3) Other receivables as shown by provision for bad debts (continued)

- 1) Among the group, provision for bad debts for other receivables by ageing analysis method:

Ageing	Closing balance		
	Book balance	Provision for bad debts	Percentage (%)
Including: Within three months	6,398.00		
Over three months but within six months	1,134.00	113.40	10.00
Over six months but within one year	27,547.46	13,773.73	50.00
Over one year	14,801,489.59	14,801,489.59	100.00
Total	14,836,569.05	14,815,376.72	99.86

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

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

Ageing	Closing balance		
	Book balance	Provision for bad debts	Percentage (%)
Related parties within the scope of consolidation	1,186,875,571.49		
Related parties beyond the scope of consolidation	9,086.20		
Including: Within one year	9,086.20		
Total	1,186,884,657.69		

Notes to the Financial Statements for 2023

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

XVII. NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables (continued)

2.2 Other receivables (continued)

(3) Other receivables as shown by provision for bad debts (continued)

- 3) Among the group, provision for bad debts for other receivables by other account payments:

Ageing	Closing balance		Percentage (%)
	Book balance	Provision for bad debts	
Other account payments	593,323.17		
Total	593,323.17		

(4) 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	Lifetime expected credit loss (without credit impairment)	Lifetime expected credit loss (with credit impairment)	
Balance as at 1 January 2023		3,390,735.73	16,874,316.68	20,265,052.41
During the year, the balance of other receivables as at 1 January 2023	-	-	-	-
- transferred to second stage				
- transferred to third stage				
- reversed to second stage				
- reversed to first stage				
Provision for the year	13,887.13	241,392.54		255,279.67
Reversal for the year				
Written-off for the year			5,704,955.36	5,704,955.36
Charge-off for the year				
Balance as at 31 December 2023	13,887.13	3,632,128.27	11,169,361.32	14,815,376.72

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 ageing, and estimated the expected credit loss of other receivables with ageing of over one year in the lifetime.

Notes to the Financial Statements for 2023

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

XVII. NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables (continued)

2.2 Other receivables (continued)

(5) Provision for bad debts of other receivables by ageing analysis method

Category	Opening balance	Changes during the Year			Closing balance
		Provision	Recoveries or reversals	Write-off or charge-off	
Ageing analysis method	20,265,052.41	255,279.67		5,704,955.36	14,815,376.72
Total	20,265,052.41	255,279.67		5,704,955.36	14,815,376.72

(6) Other receivables actually written off during the Year

Item	Written-off amount
Other receivables actually written off	5,704,955.36

(7) Top five other receivables by debtor in terms of balances 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	Inter-group current account payments	372,699,354.39	Over one year	31.00	
Top 2	Inter-group current account payments	219,000,000.00	Within one year, over one year	18.21	
Top 3	Inter-group current account payments	150,373,502.93	Within one year, over one year	12.51	
Top 4	Inter-group current account payments	145,332,789.99	Within one year, over one year	12.09	
Top 5	Inter-group current account payments	99,044,583.94	Over one year	8.24	
Total	-	986,450,231.25	-	82.05	

Notes to the Financial Statements for 2023

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

XVII. NOTES TO MAJOR ITEMS IN 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 balance	Impairment provision	Carrying amount	Book balance	Impairment provision	Carrying amount
Investments in subsidiaries	5,297,448,970.59	59,381,641.00	5,238,067,329.59	5,128,386,892.23	59,381,641.00	5,069,005,251.23
Investments in associates and joint ventures	697,276,441.82		697,276,441.82	579,784,230.29		579,784,230.29
Total	5,994,725,412.41	59,381,641.00	5,935,343,771.41	5,708,171,122.52	59,381,641.00	5,648,789,481.52

(2) Investments in subsidiaries

Investees	Opening balance (carrying amount)	Provision for impairment Opening balance	Increase or decrease for the Year			Closing balance (carrying amount)	Provision for impairment Closing balance
			Increase in investment	Decrease in investment	Increase in share-based payments		
Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.					5,227,619.58	5,227,619.58	
Guangdong Kelon Air Conditioner Co., Ltd.	221,618,359.00	59,381,641.00				221,618,359.00	59,381,641.00
Hisense Ronshen (Guangdong) Freezer Co., Ltd.					1,258,766.53	1,258,766.53	
Hisense (Guangdong) Kitchen and Bath System Co., Ltd.					2,285,200.95	2,285,200.95	
Foshan Shunde Rongshen Plastic Co., Ltd.	53,270,064.00				1,015,435.65	54,285,499.65	
Foshan Shunde Wangao Import & Export Co., Ltd.	600,000.00					600,000.00	
Guangdong Kelon Jiake Electronics Co., Ltd.	42,000,000.00		40,000,000.00			82,000,000.00	
Hisense Ronshen (Yingkou) Refrigerator Co., Ltd.	84,000,000.00					84,000,000.00	
Jiangxi Kelon Industrial Development Co., Ltd.	147,763,896.00					147,763,896.00	
Hangzhou Kelon Electric Appliances Co., Ltd.	24,000,000.00			24,000,000.00			
Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.					1,661,131.90	1,661,131.90	
Zhuhai Kelon Industrial Development Co., Ltd.	189,101,850.00					189,101,850.00	

Notes to the Financial Statements for 2023

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

XVII. NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT (continued)

3. Long-term equity investments (continued)

(2) Investments in subsidiaries (continued)

Investees	Opening balance (carrying amount)	Provision for impairment Opening balance	Increase or decrease for the Year		Increase in share-based payments	Closing balance (carrying amount)	Provision for impairment Closing balance
			Increase in investment	Decrease in investment			
Shenzhen Kelon Procurement Co., Ltd.	95,000,000.00					95,000,000.00	
Kelon Development Co., Ltd.	11,200,000.00					11,200,000.00	
Hisense (Chengdu) Refrigerator Co., Ltd.					113,402.40	113,402.40	
Hisense (Beijing) Electric Appliances Co., Ltd	92,101,178.17					92,101,178.17	
Hisense Air-Conditioning Co., Ltd.	567,175,477.74				19,928,542.14	587,104,019.88	
Qingdao Hisense Mould Co., Ltd.	207,212,141.79				1,184,788.63	208,396,930.42	
Hisense Refrigerator Co., Ltd.	748,578,303.85				27,152,110.26	775,730,414.11	
Foshan Hisense Kelon Property Development Co., Ltd.	4,441,400.00				567,011.99	5,008,411.99	
Qingdao Hisense Hitachi Air- Conditioning Systems Co., Ltd.	2,566,242,580.68				24,634,861.87	2,590,877,442.55	
Qingdao Gorenje Electrical Co., Ltd.	14,700,000.00				2,140,534.29	16,840,534.29	
Hisense (Shandong) Kitchen and Bath Co., Ltd.					3,016,863.30	3,016,863.30	
Qingdao Hisense Commercial Cold Chain Co., Ltd.					5,334,046.68	5,334,046.68	
Guangdong Hisense Refrigerator Marketing Co., Ltd.					15,207,676.59	15,207,676.59	
Hisense (Zhejiang) Air-Conditioner Co., Ltd.					476,290.07	476,290.07	
Qingdao Hisense Air-conditioner Marketing Co., Ltd.					16,574,088.62	16,574,088.62	
Guangdong Kelon Mould Co., Ltd.					433,324.37	433,324.37	
Jiangmen Hisense Home Appliances Co., Ltd.					1,166,103.75	1,166,103.75	
Qingdao Hisense Hitach Air-conditioner Marketing Co., Ltd.					17,844,908.20	17,844,908.20	
Hisense (Guangdong) Air-Conditioner Company Limited					5,839,370.59	5,839,370.59	
Total	5,069,005,251.23	59,381,641.00	40,000,000.00	24,000,000.00	153,062,078.36	5,238,067,329.59	59,381,641.00

Notes to the Financial Statements for 2023

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

VII. NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT (continued)

3. Long-term equity investments (continued)

(3) Investments in associates and joint ventures

Investees	Opening balance (carrying amount)	Provision for impairment Opening balance	Increase in investment	Decrease in investment	Increase or decrease for the Year					Closing balance (carrying amount)	Provision for impairment Closing balance		
					Gains or losses from investment recognised using equity method	Adjustment or other comprehensive income	Other change in equity	Declaration of cash dividend or profit	Provision for impairment made			Changes in exchange rate	
I. Joint ventures													
Hisense Marketing Management Co., Ltd.	51,737,850.74				-2,028,893.94							49,708,956.80	
Qingdao Hisense Huanya Holdings Co., Ltd.			159,150,000.00		-194,362.50	-134,485.11	-134,777,028.75					24,044,123.64	
Subtotal	51,737,850.74		159,150,000.00		-2,223,256.44	-134,485.11	-134,777,028.75					73,753,080.44	
II. Associates													
Qingdao Hisense Jinlong Holdings Co., Ltd.	391,512,863.29				15,082,906.79							406,595,770.08	
Qingdao Hisense International Marketing Co., Ltd.	136,533,516.26				110,193,668.98	3,341,243.12	196,562.94	33,337,400.00				216,927,591.30	
Subtotal	528,046,379.55				125,276,575.77	3,341,243.12	196,562.94	33,337,400.00				623,523,361.38	
Total	579,784,230.29		159,150,000.00		123,053,319.33	3,206,758.01	-134,580,465.81	33,337,400.00				697,276,441.82	

Notes to the Financial Statements for 2023

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

XVII. NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT (continued)

4. Operating revenue and operating costs

Breakdown of operating revenue and operating costs

Item	Amount for the Year		Amount for the previous year	
	Revenue	Cost	Revenue	Cost
Principal operations	5,497,951,954.67	4,932,341,066.63	4,419,980,575.75	4,345,495,550.73
Other operations	245,082,487.90	211,396,887.36	146,342,962.88	103,675,781.11
Total	5,743,034,442.57	5,143,737,953.99	4,566,323,538.63	4,449,171,331.84

5. Investment gain

Item	Amount for the Year	Amount for the previous year
Gain from long-term equity investment under the cost method	851,575,300.95	1,955,546,592.73
Gain from long-term equity investment under the equity method	123,053,319.33	76,185,459.11
Gain from disposal of transactional financial assets	69,651,087.35	45,028,434.47
Gain from disposal of long-term equity investment	-24,000,000.00	
Total	1,020,279,707.63	2,076,760,486.31

XVIII. APPROVAL OF THE FINANCIAL REPORT

This financial report was approved by the Board of the Company on 29 March 2024.

Notes to the Financial Statements for 2023

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

XIX. SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS

1. Breakdown of non-recurring profit or loss for the year

Item	Amount for the year	Notes
Gain or loss from disposal of non-current assets (Including the offsetting part of the provision for impairment of assets already provisioned)	-3,666,652.72	
Government grants included in the gain or loss (excluding those government grants that are closely related to the Company's normal business operations, that are in line with national policies, that are enjoyed according to defined criteria, and that have a sustained impact on the Company's profit or loss)	195,139,772.58	
Gain or loss from changes in fair value of financial assets and liabilities held by non-financial enterprises and gain or loss from the disposal of financial assets and liabilities, except for the effective hedging business related to the Company's normal business operations	-239,068,307.45	
Capital occupation fees received from non-financial enterprises that are included in current profit or loss		
Gain or loss arising from entrusted investment or entrusted asset management	298,844,795.34	
Gain or loss arising from entrusted loan		
Loss of assets due to force majeure factors such as natural disasters		
Reversal of impairment provision for accounts receivable individually tested for impairment		
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 identifiable net assets of the investee at the time the investment is acquired		
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 non-monetary assets exchange		
Gain or loss arising from debt restructuring	25,739,211.33	
One-off costs incurred by the enterprise as a result of discontinuation of relevant business activities, such as expenses for resetting employees		
One-off effect on current profit or loss arising from adjustments as required by taxation, accounting and other laws and regulations		
One-off recognition of share-based payment expense due to cancellation and modification of equity incentive plans		
For cash-settled share-based payments, gain or loss arising from changes in the fair value of employee compensation payable after the date on which the right is exercisable		
Gain or loss arising from changes in fair value of investment properties measured subsequently by using fair value model		
Gain arising from transactions at significantly unfair prices		
Gain or loss arising from contingencies unrelated to the Company's normal business operations		
Custody fee income from entrusted operations		
Other non-operating income and expense other than the aforementioned items	371,016,020.58	
Other profit or loss items within the meaning of non-recurring profit or loss	72,041,335.03	
Subtotal	720,046,174.69	
Less: Effect of income tax	147,009,791.45	
Effect of minority interests (after tax)	90,782,890.53	
Total	482,253,492.71	

Notes to the Financial Statements for 2023

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

XIX. SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS (continued)

2. Return on net asset and earnings per share

Profit for the reporting period	Weighted average return on net assets(%)	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the parent	22.64	2.08	2.08
Net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit or loss	18.79	1.73	1.73

3. Five-year financial summary

Unit: RMB'0000

Statement item	2023	2022	2021	2020	2019
Total operating revenue	8,560,018.92	7,411,515.10	6,756,260.37	4,839,287.07	3,745,304.40
Total profits	568,455.74	382,380.97	291,653.70	348,513.00	215,225.03
Income tax	89,306.75	75,440.07	57,359.32	63,909.53	20,180.12
Net profit	479,148.99	306,940.91	234,294.38	284,603.46	195,044.91
Net profit attributable to owners of the parent	283,732.28	143,496.82	97,263.38	157,888.27	179,366.90
Profit and loss of minority interests	195,416.72	163,444.08	137,031.00	126,715.19	15,678.01

Continued from above table

Statement item	31 December 2023	31 December 2022	31 December 2021	31 December 2020	31 December 2019
Total assets	6,594,649.56	5,537,586.84	5,594,869.23	4,181,163.58	3,399,066.35
Total liabilities	4,655,043.64	3,909,678.58	4,035,729.83	2,740,511.68	2,150,980.05
Net assets	1,939,605.91	1,627,908.26	1,559,139.40	1,440,651.90	1,248,086.30
Total equity attributable to owners of the parent	1,358,017.45	1,151,837.34	1,034,240.75	977,911.56	872,159.37
Minority interests	581,588.46	476,070.92	524,898.66	462,740.35	375,926.93
Total equity	1,939,605.91	1,627,908.26	1,559,139.40	1,440,651.90	1,248,086.30

Hisense Home Appliances Group Co., Ltd.
29 March 2024