Hisense 海信科龙

海信科龍電器股份有限公司
Hisense Kelon Electrical Holdings Company Limited

Stock Code: 00921

2008 | Annual Report

Contents

Company Profile

Hisense Kelon Electrical Holdings Company Limited (the "Company") and its subsidiaries (collectively referred as "Hisense Kelon" or the "Group") are currently one of the largest manufacturers of household electrical appliances in the People's Republic of China (the "PRC" or "China").

Headquartered in Shunde District, Foshan City, Guangdong Province, Hisense Kelon, as one of the first refrigerator manufacturing enterprises, commenced refrigerator production in 1984. The sales volume of Hisense Kelon's refrigerators and air-conditioners has been among the highest in China for many years. In particular, Hisense Kelon's refrigerators have embraced the biggest market share for a decade. The "Kelon" and "Ronshen" brand names are appraised as "The Chinese Well-known marks".

The Group adheres to its corporate philosophy of "relying on technology and the talents of its people to build up the Group", and considers "technology" as the basic motivation for the Group's development. Leveraging on the superior refrigeration technology and application of high technology on its products, Hisense Kelon's refrigerators and air-conditioners have won good reputation in the industry and have earned the Group many honors for technology and products at a national level. For example, in 2003, its refrigerator "209S" was awarded the "United Nations Energy Saving Grand Prix"; and the double-efficiency technique of Kelon's air-conditioners broke the world record of air-conditioner energy-efficiency by achieving a ratio of 7.0 in 2004. The Group has reinforced its quality control based on its strength in technology, and Hisense Kelon's products are highly praised by both consumers and authorities for its reliable and notable advantages in quality. In December 2005, the Company was pleased to be acknowledged as one of the "Top 500 Quality Companies in China" which is one of the most trusted labels by the consumers. The "Kelon" brand air-conditioners and the "Ronshen" brand refrigerators were awarded the "Top 10 Quality Air-Conditioner Brands in China" and the "Top 10 Quality Refrigerator Brands in China", respectively, and Kelon air-conditioners and Ronshen refrigerators were also ranked first and second, respectively, in the household electrical appliances sector. At the "Appliance World Expo Beijing 2006" held in Beijing, Kelon's KFR-35GW/S3F and KFR-27GW/S3F air-conditioners and Kelon's BCD-209S/E and BCD-215YMB refrigerators won the "Super Energy-saving Award", and Ronshen's BCD-568WYM refrigerator won the "Industrial Design Excellence Award". "Ronshen" 's "Energy Saving Grand Prix" series of refrigerators have been honored with the "United Nations Energy Saving Grand Prix" at a grand award ceremony jointly organized by the United Nations Development Programme, the Global Environmental Protection Fund and the National Environmental Protection Bureau. In 2007, the Company and Pepsi CO. Inc. entered into a strategic partnership. Kelon Air-conditioner's VC split type air-conditioners and VC cabinet type air-conditioners were formally granted the certificates of the "4th China Industrial Design IF Award".

In 2008, the Company entered into a strategic cooperation agreement with Whirlpool, the largest white goods manufacturer in the world, to establish a joint venture company mainly involved in the research and development and manufacture of high-end washing machine and refrigerator products. The three products "FIMS food information management refrigerator", "Polychromatic photoelectric food preservation refrigerator BCD-288WYM" and "Optimized high-efficiency air duct wall air-conditioner" were confirmed as the Nation's key products. The Company's subsidiary, Guangdong Kelon Mould Co., Ltd., was named a key mould enterprise of the PRC. During the two rounds of household appliances rural subsidy program, nearly 40 models of refrigerator, air-conditioner and freezer products of the Company were qualified.

Amidst the current global economic downturn, the Company strives to enhance its operational efficiency after taken into consideration of the actual situation, and accordingly proposes and plans to implement the operational strategy of "reshaping quality advantages, focusing on market-orientation, strictly controlling operational risks, improving the efficiency per capita, reinforcing project management". Parallel to this, the Group will continue to leverage on the management advantages and experience of its major shareholder, Hisense, to fully implement its reform measures and procure the healthy and steady development of the Group, which in turn will bring along the maximum benefit to its shareholders.

2008 Major Events Calendar

JANUARY

The Company organized the donation ceremony “Fighting Frost Disaster with Love and Care” to cohere force in fighting the frost disaster.

MARCH

“The Opening Ceremony of Hisense Kelon Student Aid” was held in Shaoguan Municipal Education Bureau. 15 high schools from northern Guangdong region received the first student aid fund from the Company.

APRIL

With outstanding public image, good reputation, rich enterprise culture and high brand value, the two brands “Kelon” and “Ronshen” were named “Top Ten Self-owned Brands in Guangdong 2007”.

The Company entered into a strategic cooperation agreement with Whirlpool, the largest white goods manufacturer in the world, to establish a joint venture company mainly involved in the research and development and manufacture of high-end washing machine and refrigerator products.

MAY

Mr. Tang Ye Guo, Chairman of the Company, was named “Outstanding Entrepreneur in Guangdong Province” in the Guangdong 2007 “Outstanding Enterprise and Outstanding Entrepreneur Assessment”.

JUNE

In the “Energy Efficiency Label Advanced Enterprise 2008” award assessed by the Energy Efficiency Label Management Center of the Chinese National Institution of Standardization (CNIS) and initiated by the General Administration of Quality, Inspection and Quarantine of the PRC and the Development and Reform Commission of the PRC, the Company was awarded in the two major areas of home-use refrigerator and room air-conditioners.

JULY

The three products of Hisense Kelon, namely “FIMS food information management refrigerator”, “Polychromatic photoelectric food preservation refrigerator BCD-288WYM” and “Optimized high-efficiency air duct wall air-conditioner” were confirmed as the Nation’s key products.

OCTOBER

Hisense (Chengdu) Refrigerator Co., Ltd., a wholly-owned subsidiary of the Company, was named a “Chengdu Municipal Star Enterprise”.

NOVEMBER

The Company was named a “Shunde Headquarter Enterprise”.

At the “Annual Meeting of the China Refrigerator Industry 2008” held in He Fei, Ronshen Refrigerator was awarded the “Breakthrough Prize in Energy-saving Refrigerator in the PRC”.

DECEMBER

The project “R&D and application of new energy-saving, environmental-compliant foaming technology” won the bid successfully for the 2008 Guangdong-Hongkong Project of Breakthrough in Key Areas.

The Company and its subsidiaries, Hisense Ronshen (Guangdong) Refrigerator Co. Ltd., and Guangdong Kelon Mould Company Limited, formally passed the certification of New High Technology Enterprise Certification, and are entitled to enterprise income tax at a preferential rate of 15%.

Chairman's Statement

Dear Shareholders,

I am pleased to present the annual report of the Company for the year ended 31 December 2008.

At the beginning of 2008, cost-oriented home appliance manufacturers and the Company faced enormous pressure in cost control with the CPI (consumption price index) and PPI (production price index) and the inflation standing high. From the second quarter of the reporting period onward, the global economic crisis, sluggish real estate industry and a poor consumer sentiment preferring to keep the cash significantly dampened the demand for home appliances both domestically and overseas, which in turn pushed down the sales volume to a significant extent. In addition, the air-conditioner market recorded substantial decrease in sales due to the cool summer weather.

During the reporting period, the Company generated a sales revenue of RMB8,052,909,000 for the year, of which the sales revenue of refrigerators amounted to RMB4,189,049,000, representing an decrease of 3.14% as compared to the previous year; the sales revenue of air-conditioners business amounted to RMB3,024,028,000, representing an decrease of 5.94% as compared to last year.

In 2008, the operating results of the Company unavoidably recorded a decrease to a certain extent under the operating pressure brought by fluctuating raw material prices, shrinkage in domestic and overseas consumption and a severe macroeconomic environment of global economic downturn. In response to this, the Company implemented effective improvements in merchandising management, logistics enhancement, quality control, new product development, adjustment system etc. Consistently upholding an operation strategy of "creating product advantages, enhancing product quality, increasing production capacity, accelerating cash flow, strengthening personnel training", the Company fully implemented management of benchmark projects, standardization of spare parts and simplification of product series to strengthen quality control; improved the R&D sentiment and increased investments for product pre-research to continuously upgrade its product sales structure; enhanced the supplier system to significantly reduce the purchase cost; streamlined the logistics management and stepped up the adjustment system to increase management efficiency; adjusted the distributor structure and perfected the market feedback system. With the above measures, the overall profitability of the Company's products recorded a remarkable increase.

In 2008, the Company also reviewed the situation of receivables and occupation of capital in inventory, and accordingly executed strict control of capital risks and enhanced the capital efficiency. On 27 April 2008, the Company entered into a strategic cooperation agreement with Whirlpool (Hong Kong) Limited in Qingtao, the PRC for the establishment of a joint venture, Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd. This would enhance the position of the Company in the high-end refrigerator industry and facilitate the development of the washing machine business.

Looking forward to 2009, the Company will uphold the operational strategy of "reshaping quality advantages, focusing on market-orientation, strictly controlling operational risks, improving the efficiency per capita, reinforcing project management", with the objectives to gradually increasing the core competitiveness of its products through implementing in-depth management of benchmark projects, strengthening product quality control, continuously increase investments in product R&D and design; to reasonably adjust and improve resource engagement through enhancing the distribution channels and inventory control; to improve production efficiency through continuously reinforcing project management; to manage capital risk and reduce capital occupation, through enhancing management of receivables and occupation of capital in inventory; to upgrade work efficiency and strategy talent pool through human resources management and assessment system. All of these would fuel the sustained healthy development of the Company. At the same time, many of the Company's products were qualified for the State's industry policy "household appliances rural subsidy program". The Company will aggressively adjust its sales structure and expand its distribution channels to effectively capture the opportunity. On the other hand, the Company will continue its R&D efforts in energy-saving, high-efficiency, environmental-compliant products and forcefully promote its double-efficient and inverter air-conditioners in response to the energy standards newly promulgated by the State.

In 2008, the Company's results unavoidably recorded a decrease to a certain degree as affected by the abovementioned unfavorable factors. However, we successfully achieved significant improvements in our product quality, channel management and product profitability, and our brands have obtained wide recognition. These are attributable to the encouragement and support from our shareholders, and the strong support from the government, financial institutions, our partners, our directors and our supervisors. Our success is also directly built on the outstanding leadership of the management and the continued dedication of our staff. I would like to take this opportunity to express my gratitude to all of them and hope to receive your continued support in the coming year!

Chairman's Statement

Affected by the ongoing the global economic crisis, the macroeconomic environment will remain severe both domestically and overseas. Under the new industry policy, the home appliances industry will be exposed to new challenges but at the same time opened up to new opportunities. The pursuit for higher living standard will continue to drive the Company to leverage on its advantages in product quality, technology and branding to further enhance its position in the market. The Board is optimistic about the prospect of the Company in 2009. I also earnestly look forward to sharing a better and brighter future of Hisense Kelon with you all.

Tang Ye Guo
Chairman

The PRC, 16 April 2009

PERFORMANCE REVIEW

In 2008, the household appliance industry operated under challenging internal and external operating environments. On the one hand, CPI (Consumer Price Index) and PPI (Producer Price Index) fluctuated significantly with the substantial fall in domestic consumer demand and the slowdown of economic growth. On the other hand, under the global financial crisis, the household appliance industry faced unfavorable market conditions with falling exports and depressed property market. In particular, the air-conditioner sector posted a significant downturn in the second half of the year. According to the statistics provided by ChinaCCM.com, the domestic and overseas sales in the air-conditioner sector in the second half of 2008 decreased approximately 20% as compared to the corresponding period last year. Market sales were subject to unprecedented challenges.

During the Reporting Period, under the abovementioned adverse operating environment and pressures, the Company adhered to its operating objectives of “Creating product advantages; Improving product quality; and Accelerating cash flow”. The self innovativeness of the Company was increased with the introduction of top-notched talents, technological cooperation and implementation of incentive policies on research and development achievements. Product performance was improved in aspects of design, research and development and techniques. The quality level of production was enhanced by strengthening the quality control on production process and facilitating systematic quality control structure. The competitive advantages of products were increased with deepened project management, comprehensive implementation of industry benchmarks and lowering manufacturing and management costs. Fund utilisation efficiency was improved with strict control over the risks relating to fund appropriation.

During the Reporting Period, the Company recorded the revenue from its principal operations of RMB 8,052,909,000, representing a decrease of 3.21% as compared to the corresponding period in 2007. The net loss attributable to equity holders of the Company was RMB231,896,000.

ANALYSIS OF OPERATION STRUCTURE

During the Reporting Period, of the revenue from the Company’s principal operations, the revenue from the refrigerator business accounted for 52.02% of the total turnover of the Company, representing a decrease of 3.14% as compared to the corresponding period last year; the revenue from the air-conditioner business accounted for 37.55% of the total turnover of the Company, representing a decrease of 5.94% as compared to the corresponding period last year; and the remaining 10.43% of the total turnover was generated from other businesses, such as sales of freezers and product components.

In addition, the domestic sales business accounted for 60.95% of the total turnover of the Company, representing an increase of 1.80% as compared to the corresponding period last year; and the overseas sales business accounted for 39.05% of the total turnover of the Company, representing a decrease of 10.12% as compared to the corresponding period last year.

Refrigerator Business

During the Reporting Period, the difficult external operating environment affected our refrigerator business. However, as the Company further defined the strategic brand position of Ronshen refrigerator, its sales structure continued to improve. The business of domestic sales grew by 3.4% as compared to the corresponding period last year, while its gross profit margin remained basically the same as compared to the corresponding period last year. During the Reporting Period, the Company achieved effective improvements in aspects such as procurement management, flow optimisation, quality control, new product development and mechanism adjustment.

The Company fully adopted industry benchmarks to lower manufacturing costs while improving product quality, and obtained remarkable direct economic benefits. The Company also established a quality control system project group, which is responsible for the perfection of flow management, optimisation of techniques and formulating management measures on boosting the first pass yield. With improved process techniques, the product first pass yield was increased, so did the quality control standard. The Company continued to build and maintain a general platform for its products, enhancing the universality and standardisation of its product components, and increasing the production efficiency of its refrigerator products. Meanwhile, the Company redeveloped technologies to enhance the accuracy and performance of equipment, improved the bottle-neck areas that affected manufacturing efficiency, and increased the effectiveness of frequent small-quantity export orders.

In 2008, the Company stepped up its efforts in the breakthrough of new products and the depth of research and development as well as the self-development and the introduction of cooperation with other parties, facilitating product upgrades. The double-door refrigerators were successfully launched in the market. The technological level of the newly-introduced multi-door refrigerators was at the advanced level within the industry. The SBS product series was expanded and perfected the product lines of refrigerators. The Company also improved the recruitment system for technical professionals, established a mechanism to cultivate technicians, formulated special policies to motivate research and development staffs, and opened channels for technicians to achieve. In addition, the Company reviewed and modified the distributorship structure, which strengthened the sales efficiency management and adjusted the product mix for market extension.

The above-mentioned measures have brought certain effects on the refrigerator business with respect to cost reduction, quality improvement and technological innovation. At the same time, the full support of the State's policy of "Home Appliances Subsidy Policy for Rural Areas and Villages" and the rapid development of rural household appliances and construction of networks in villages and towns have enabled the expansion of the refrigerator business to the third and fourth-tier markets.

Air-conditioner Business

The air-conditioner sector was clearly subject to seasonal changes. During the Reporting Period, due to the cooler summer in the peak season and the occurrence of natural hazards, the air-conditioner business recorded a relatively significant decrease in terms of market scale during its prime sales period. Besides, following the outbreak of the global financial crisis, the consumption for premise-supporting air-conditioners decreased significantly as the domestic property market cooled down rapidly. Domestic and overseas consumptions also fell. In addition, in 2008 cold year, factors such as global inflation, continual appreciation of Renminbi and high raw material prices resulted in high air-conditioner product cost, industrial downscaling of exports, significant decrease in profits and keen market competition. Affected by the above factors, during the Reporting Period, the air-conditioner business of the Company shrank, with profitability falling sharply.

During the Reporting Period, to improve the market position of its products, the Company remarkably saved the product design cost through the self-development of key technologies and optimisation of the overall product designs. Through strengthened technological development and improved research standard, the energy-saving advantages of Kelon's double-efficiency air-conditioner products were consolidated, perfecting the energy-saving, high-efficiency, environmental product lines. The problem of small-quantity frequent production of export products was solved by adopting an effective project and standard management. The manufacturing efficiency was increased, ensuring punctual export delivery and winning the trust of international clients. Under the difficult market conditions, the Company further lowered its inventory level and strictly managed fund appropriation. At the end of the Reporting Period, the inventory of air-conditioner products was significantly lower than competitors, creating favorable conditions for the peak season in 2009 cold year.

However, as the economic environment in 2008 was very difficult, the Company failed to turnaround even after various measures had been taken to reduce losses.

Analysis of Impacts on Results

During the Reporting Period, although the Company achieved improvements in the aspects of technological innovation, quality control and production efficiency, under the downturn of marco-operating environment, low market consumption demand and increasing market competition, the room for the growth in profit was shrunk further. The results of the Company posted a significant decline. The analysis of the specific reasons is as follows:

(1) During the Reporting Period, the revenue from the disposal of idle assets of the Company decreased significantly as compared to last year. The non-recurring revenue for the Reporting Period decreased by RMB315,000,000 as compared to last year.

(2) Under the global financial crisis, the consumption and demand in overseas markets shrank remarkably. The Company recorded a relatively significant decrease in exports in the second half of the year. In particular, the decrease in the export business of the Company in the fourth quarter was significantly greater than expected;

(3) During the Reporting Period, the exchange loss of the Company was higher as compared to the corresponding period last year given the appreciation of Renminbi and significant fluctuation of exchange rate;

(4) During the Reporting Period, the sales size and gross profit margin of the Company fell below the expected targets. In particular, the air-conditioner business recorded remarkable decrease in both production and sales volume as compared to the corresponding period last year due to the slowdown of both domestic and overseas markets resulted from industrial depression and lower temperature during the summer time.

In the face of various adverse factors, the Company undertook a series of measures to reduce its losses. The Company lowered the production cost, raised the manufacturing efficiency, increased the technological level of products and increased the product competitiveness to maintain a stable and healthy operation. Raw material prices fluctuated rapidly after the outbreak of the financial crisis. The Company adjusted its procurement strategy immediately, acted prudently in estimating market sales and implemented strict review on orders and proposals, avoiding overstock. Under the guidance of the State's policy of domestic demand expansion, the Company leveraged on the opportunity brought by "Home Appliances Subsidy Policy for Rural Areas and Villages" and spared no effort to participate in the bid for rural household appliances. By gaining and exploring the third- and fourth-tier markets in villages and towns, the decrease in sizes of domestic and overseas sales was offset to a certain extent.

During the Reporting Period, the Company actively sought for the State Hi-tech Enterprise Certification. As at the date of this announcement, the Company and two subsidiaries (Ronshen Refrigerator and Kelon Mould) were recognised as the State Hi-tech Enterprises.

OUTLOOK

The management of the Company is of the view that, under the continual influence of the global financial crisis, the operating environment of household appliance industry in 2009 will remain challenging. Currently, the room for the growth in profit of household appliance industry is gradually squeezed down by the high inventory level of air-conditioner sector, the significant fluctuation of raw material prices, the increasing competitiveness of export market and the shrinking consumption demand for premise-supporting household appliances due to depressed property market. On the other hand, both opportunities and challenges exist. New industrial policies and environmental policies are constantly introduced. Consumers become more aware of air-conditioner products with high energy efficiency ratio, driving enterprises to adjust their industrial structure and set up new consumption growth points. The increase in the demand for double-door refrigerator and multi-door refrigerator will also further increase the market share of high-end refrigerator products. The Company may overcome the difficulties only through the improvement in products and the product mix.

As a technologically-advance enterprise in the domestic household appliance industry, the Company adheres to the operating strategy of technologically-oriented. The Company will continue to step up its efforts in technological research and development, reinforce its technological strengths and lead the industry in product upgrade and innovation. The following measures will also be taken to improve the operating conditions of the Company:

(1) Continue to improve product quality and provide clients with products of highest quality. The Company established a "Quality Risk Annual Reward" assessment mechanism to strengthen the control over quality management process, enhance the quality control standard in every manufacturing area, optimise after-sale service management system and lower quality cost loss;

(2) Strengthen channel management, market research and marketing efforts, establish sales management system and operating mechanism to cope with the intensified market competition, lower the difficulty of production organisation, and accelerate response to market. Leverage on its strengths over product quality, technology and brand, seize the opportunities offered by "Home Appliances Subsidy Policy for Rural Areas and Villages" and new air-conditioner industry energy efficiency standard policies for larger market share;

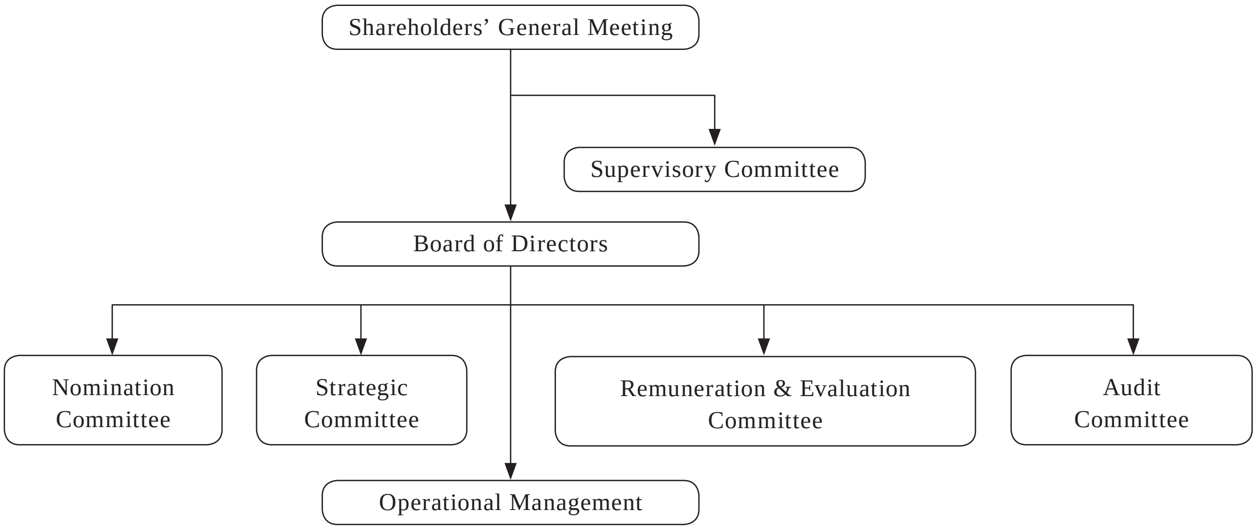
(3) Focus on market demand, strengthen product planning and new energy efficiency standard product line management, reasonably control orders and proposals, effectively adjust sales structure and stock structure, increase profitability and avoid fund risks;

(4) Explore new opportunities in export business, seize the opportunities for the substantial expansion of the international market share. Reinforce strategic cooperation relationship with major clients through measures such as target product development, cost analysis and shorter product delivery cycle, optimise export product structure and improve profitability. At the same time, undertake effective measures to deal with the impact of Renminbi appreciation;

(5) Further improve the human resource management and remuneration and examination mechanism of the Company, promote industrial benchmarks and other management items in the form of project management, improve key issues that affect profit in enterprise operation, increase output efficiency per capita, achieve management sophistication, enhance overall enterprise competitiveness;

Year 2009 is a challenging year. The management of the Company believes that, with the care and support of all shareholders, government, financial institutions and partners as well as the dedication from our staff, the Company will do its best to accomplish the operating objectives for 2009 and foster growth against adversity.

The following diagram sets forth the Company's corporate governance structure:



(a) Corporate Governance Practices

Good corporate governance practices are essential for a dual-listed company. The Board acknowledges its responsibility to ensure the formulation of good corporate governance practices and procedures in strict compliance with the Code on Corporate Governance Practices (the "Code") under Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited. To the best knowledge and information of the Company, the Company has complied with the Code during the Reporting Period.

(b) Securities Transactions by Directors

The Company has adopted all the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its code for securities transactions by the Directors. After making specific enquiries to the Directors of the sixth session of Board, namely, Mr. Tang Ye Guo, Mr. Wang Shi Lei, Ms. Yu Shu Min, Mr. Lin Lan, Ms. Liu Chun Xin, Mr. Zhang Ming, Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren, and to the newly appointed Director, Mr. Zhou Xiao Tian, they all confirmed that they had complied with the Model Code during their terms of office.

Structure of Governance

(c) The Board of Directors

The sixth session of the Board of the Company was elected and established at the extraordinary general meeting of the Company held on 26 June 2006. The Board comprised 9 directors from 1 January 2008 to 25 February 2008, where Mr. Tang Ye Guo (chairman), Mr. Yang Yun Duo, Mr. Wang Shi Lei, Ms. Yu Shu Min, Mr. Lin Lan and Ms. Liu Chun Xin were appointed as executive directors, and Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren were appointed as independent non-executive directors. Due to the resignation of Mr. Yang Yun Duo on 26 February 2008, the Board consisted of 8 directors from 26 February 2008 to 15 April 2008. After Mr. Zhang Ming was elected as the director of the sixth session of the Board of the Company on 16 April 2008, the Board was composed of 9 directors. Due to the resignation of Mr. Wang Shi Lei on 4 December 2008, there were only 8 members in the Board from 4 December 2008 to 3 February 2009. Since Mr. Zhou Xiao Tian was elected as the director of the sixth session of the Board of the Company on 4 February 2009, the Board has comprised 9 directors until now. The members of the Board have different backgrounds with extensive experiences in various fields such as science and technology, corporate management and finance and accounting. The biographies and roles of the aforesaid Directors are set out on pages 17 to 18 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 rights as delegated by the shareholders at the general meetings with respect to the strategic development plans of the Company, establishment of the management structure, investment and financing proposals, financial controls, disposal of material assets, material transactions and human resources. The Board is responsible for formulating the Company's overall strategy and annual business and budget plans, and ensuring that the operation of its production 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 have established four special committees, namely, the audit committee, the Remuneration and Evaluation Committee, the Nomination committee and the strategic committee.

Directors are also responsible for the supervision and 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 explanations and sufficient information to the Board so as to enable it to make an informed assessment of the financial information and other information submitted to it for approval. In preparing the accounts for the year ended 31 December 2008, the Directors:

— selected and consistently applied the appropriate accounting policies;

— approved adoption of all applicable standards as set out in International Financial Reporting Standards; and

— made prudent and reasonable judgments and estimates and prepared the accounts on a going concern basis.

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

The Company has formulated the relevant rules in accordance with the Listing Rules and the relevant laws and regulations to remind the Directors of their obligations, including making disclosures to the regulatory authorities in a timely manner of their interests, potential conflicts of interests and changes in their personal information. Each Director also undertakes that he or she is able to devote sufficient efforts and time to the Company's affairs.

In 2008, the sixth session of the Board of the Company convened 29 meetings to discuss the Company's operating results, overall strategies, investment schemes as well as operating and financial performance. The Directors attended the meetings in person or by their proxies, and their attendance records are set out in the following table:

	The attendance of the Sixth Session of the Board Meeting			
Name	**Number of Meetings Should Be Attended for the Year**	**Number of Attendance in Person**	**Number of Attendance by proxy**	**Attendance Rate for the Year**
Executive Directors				
Mr. Tang Ye Guo	29	29	0	100%
Mr. Yang Yun Duo	2	2	0	100%
Mr. Wang Shi Lei	27	26	1	100%
Ms. Yu Shu Min	29	22	3	86.21%
Mr. Lin Lan	29	28	0	96.55%
Ms. Liu Chun Xin	29	29	0	100%
Mr. Zhang Ming	22	22	0	100%
Mr. Zhou Xiao Tian	0	0	0	N/A

Name	The attendance of the Sixth Session of the Board Meeting Number of Meetings Should Be Attended for the Year	Number of Attendance in Person	Number of Attendance by proxy	Attendance Rate for the Year
Independent Non-executive Directors				
Mr. Zhang Sheng Ping	29	29	0	100%
Mr. Lu Qing	29	29	0	100%
Mr. Cheung Yui Kai, Warren	29	27	1	96.55%

As at the date of this annual report, the Directors of the sixth session of the Board of the Company confirmed that the operation and development of the Company may be affected by the following significant uncertainties:

1. As at the date of this report, the Group has taken legal actions against Guangdong Greencool and its related companies (the "Greencool Companies") for their misappropriation of the funds of the Group, and demanded the compensation for the losses. The judgments of most cases have become effective. However, as the Group is not completely aware of the assets and liabilities of the Greencool Companies, there are risks that such claims, even if awarded, may be unable to enforce. This uncertainty may have a material impact on the assets of the Company.

2. Due to the fact that the reorganization of assets of the Company has not been approved by the China Securities Regulatory Commission (the "CSRC"), as at the date of this report, the issue of competition among the Company, the controlling shareholder, and the beneficial controller Hisense Group, has not been eliminated. The Company Has been activated with Hisense Air-Conditioning the said reorganization of assets so as to resolve the issue of competition with the controlling shareholder.

(d) Chairman and President

The Chairman and president of the Company are appointed by the Board. The persons who were appointed as the Chairman or the president of the Company during the Reporting period are as follows:

POSITION	Chairman	President	President
NAME	Mr. Tang Ye Guo	Mr. Wang Shi Lei	Mr. Zhou Xiao Tian
TERM OF OFFICE	26 June 2006 to the date of this Report	13 November 2006 to 3 December 2008	4 December 2008 to the date of this Report

The Chairman shall take responsibilities for presiding over the general meetings, convening and presiding over the Board meetings, ensuring that the Board is under proper operation and reviews and discusses all the significant issues in a timely and effective manner, reviewing the implementation of the Board's resolutions as well as discharging its duties as the legal representative of the Company. The president shall take charge of the production, operation and management functions of the Company, and is responsible for organizing resources for implementing the Board's resolutions, the Company's annual operation and investment plans and making decisions on other issues within the scope of delegation by the Board.

(e) Independent Non-Executive Directors

The sixth session of the Board of the Company comprised three independent non-executive Directors, accounting for one-thirds of the total number of Directors. All independent non-executive Directors of the Company have complied with Rules 3.10 (1) and (2) and Rule 3.13 of the Listing Rules and all of them are independent of any Directors, Supervisors, chief executives and substantial shareholders (as defined in the Listing Rules) or such individuals or corporate bodies without any connection thereto (the "Independent Third Party"). The Company has received the confirmation of independence from each of the independent non-executive Directors. The term of office of each independent non-executive directors is from 26 June 2006 to 25 June 2009.

(f) Remuneration and Evaluation Committee

The Company has established the Remuneration and Evaluation Committee under the sixth session of the Board, which consists of the executive directors, namely, Mr. Tang Ye Guo and Ms. Yu Shu Min, and the independent non-executive Directors, namely, Mr. Zhang Sheng Ping, Mr. Lu Qing, and Mr. Cheung Yui Kai, Warren. Mr. Zhang Sheng Ping acts as the chairman of the Committee.

The main functions of the Remuneration and Evaluation Committee are set out below:

(1) studying the standards for the assessment of the Directors and the senior management of the Company, conducting the assessment and making recommendations; studying and examining the remuneration policy and plan for the Directors and the senior management of the Company;

(2) carrying out the responsibilities delegated from the Board, i.e. to determine the specific remuneration packages for all executive Directors and the senior management of the Company, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations on the remuneration of independent non-executive Directors to the Board; and

(3) the Remuneration and Evaluation Committee should consider the following factors:

The salaries paid by comparable companies, the time commitment and responsibilities of the Directors, the employment conditions of other positions elsewhere in the Group and the desirability of performance-based remuneration;

Reviewing and approving performance-based remuneration by reference to corporate goals and objectives passed by the Board from time to time;

Reviewing and approving the compensation payable to the executive Directors and senior management of the Company in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms; and

Reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with the relevant contractual terms.

The Remuneration and Evaluation Committee may seek professional advice when necessary.

No director or any member of the senior management shall be involved in deciding his own remuneration.

The main purpose of the remuneration policies formulated by the Remuneration and Evaluation Committee is to attract and retain the Directors and the senior management who faithfully and diligently discharge their duties and are loyal to their responsibilities and, accordingly, is extremely important to the Company.

The Remuneration and Evaluation Committee under the sixth session of the Board of the Company held two meetings during the Reporting Period. All members of the Remuneration and Evaluation Committee attended the meeting. Members of the Remuneration and Evaluation Committee confirmed that the remunerations of the directors, supervisors and senior management are in line with the remuneration evaluation system set up by the Company during Reporting Period.

Details of the remuneration of the Directors, the supervisors and the senior management of the Company for the year ended 31 December 2008 are set out on page 28 of this annual report.

(g) Nomination of Directors

The sixth session of the Board of the Company has established the Nomination Committee on 15 October 2007. The Nomination Committee comprises 3 independent non-executive directors, namely, Mr. Zhang Sheng Ping, Mr. Lu Qing, Mr. Cheung Yui Kai, Warren and executive Directors, namely, Mr. Tang Ye Guo and Mr. Wang Shi Lei (with its term ending on 3 December 2008). Mr. Zhang Sheng Ping acts as the Chairman of the committee.

Due to the resignation of Mr. Wang Shi Lei, the Board of the Company approved to appoint Mr. Zhou Xiao Tian as a member of the Nomination Committee of the Board of the Company on 11 March 2009 to fill the vacancy.

The Nomination Committee is a special body under the Board, primarily responsible for identifying suitable and qualified individuals to become board members and senior management candidates, and selecting or making recommendations to the board on the selection of, individuals nominated for directorships or senior management and the criteria and procedures of selection.

The Nomination Committee comprises five Directors, including three independent non-executive Directors who are nominated by the Chairman of the Board, the majority of the independent non-executive Directors or more than one-thirds of directors, and are appointed by the Board. The Nomination Committee shall have one chairman (convener) who should be an independent non-executive Director responsible for presiding over the committee. The convener shall be elected by the committee members, and approved by the Board. The term of office of each member of the Nomination Committee is consistent with the term he or she served in the Board. During the term of office, if any member of the committee ceases to be a director, his or her membership in the committee shall lapse automatically, and the vacancy should be filled with the person elected by the Board in accordance with the requirements. The human resources department of the Company would assist the Nomination Committee in handling the duties such as selection and nomination of suitable candidates.

The Nomination Committee of the sixth session of the Board of the Company held one meeting during the Reporting Period. All members of the Nomination Committee were present at the meeting. The nomination of Mr. Zhang Ming as a candidate for directorship of the Company was considered and approved at the meeting.

(h) Strategic Committee

The sixth session of the Board of the Company established the Strategic Committee on 15 October 2007. During the Reporting Period, the Strategic Committee under the sixth session of the Board comprised Mr. Tang Ye Guo, Mr. Yang Yun Duo (with his term ending on 25 February 2008), Mr. Wang Shi Lei (with his term ending on 3 December 2008), Ms. Yu Shu Min and Mr. Lin Lan, and Mr. Tang Ye Guo was the Chairman.

Due to the resignation of Mr. Wang Shi Lei and Mr. Zhang Ming, the Board of the Company approved to appoint Mr. Zhou XiaoTian and Mr. Zhang Ming as the members of the Strategic Committee under the Board of the Company on 11 March 2009 to fill the vacancies.

The Strategic Committee of the Board is a special body under the Board, primarily responsible for studying and making recommendations on the long-term development strategy and the decision-making on significant investments to the Company.

The Strategic Committee comprises five Directors, who are nominated by the Chairman, the majority of the independent non-executive Directors or one-thirds of all the Directors, and are appointed by the Board. The committee shall have one chairman (convener), who shall be the Chairman of the Company. The term of office of each member of the Strategic Committee shall be consistent with his or her term of office in the Board, and the member of the committee can be re-elected upon retirement. During the term of office, if any member of the committee ceases to be a director of the Company, his or her membership in the committee shall lapse automatically, and the vacancy should be filled with the person elected by the Board in accordance with the requirements.

The Strategic Committee under the sixth session of the Board of the Company held one meeting during the Reporting Period, and all the members of the committee were present at such meeting, during which the Joint Venture Agreement between the Company and Whirlpool (Hong Kong) Limited with respect to the establishment of Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd. (海信•惠而浦(浙江)電器有限公司) was considered and approved at the meeting.

(i) Audit Committee

The Board holds ultimate responsibility for the Company's internal control system. To achieve the best corporate governance practices, the Company has set up an Audit Committee to review the efficiency of the relevant systems. The Audit Committee is a specific work body under the Board, 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 primary duties of the Audit Committee as delegated by the Board shall include the following:

1. Making recommendation to the board on the appointment and change of the external auditor;

2. Overseeing the internal audit system of the Company and its implementation;

3. Ensuring the co-ordination between the internal auditor and external auditor;

4. Reviewing the financial information of the Company and its disclosure;

5. Reviewing the internal control system of the Company; and

6. Other duties as delegated by the Board.

All members of the sixth session of the Audit Committee of the Company are independent non-executive Directors, namely, Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren, and Mr. Lu Qing is the chairman of the Committee.

In 2008, the Audit Committee of the sixth session of the Board of the Company held four meetings with the auditor. All members of the Audit Committee were present at all meetings. All matters considered and approved at such meetings were recorded in accordance with relevant requirements and filed for record after being reviewed and signed by all members of the Audit Committee.

In 2008, the Audit Committee of the sixth session of the Board of the Company accomplished the following tasks:

1. Having reviewed the annual and interim financial reports, together with the opinions issued by the auditors and the responses from the senior management of the Company;

2. Having made recommendations on the Company's internal control and the Company's control over its subsidiaries;

3. Having reviewed the accounting policies adopted by the Group and the matters concerning accounting practices;

4. Having reviewed the connected transactions of the Company and ensured that the connected transactions were in compliance with the principles of fairness, impartiality and transparency with sufficient protection of the minority shareholders; and

5. Having made recommendations on significant events of the Company and reminded the senior management of the Company of the relevant risks.

Internal Control and Internal Audit

To strengthen the internal management of the Company, materialize the objectives of corporate governance, enhance the quality of information disclosure, ensure the safety of the Company's operation and management and the reliability of the financial information, prevent and resolve different types of risks, and improve the operation efficiency and profitability, the Company has established the "System of Internal Control" which mainly standardizes the controlling procedures in respect of the environment, business, accounting system, electronic information system, information circulation, internal audit and other areas.

During the Reporting Period, the Company has improved the internal control system for reviewing the Company's financial, operating and supervisory controlling procedures to safeguard the shareholders' interests and the Company's assets. The Audit Committee is responsible for reviewing the effectiveness of the internal control system. The internal audit department shall inspect, monitor and assess the disclosure of financial information, operations and internal control activities of the Company and its subsidiaries on a regular basis or whenever necessary, based on the potential risks and the importance of internal control systems for different businesses operations.

The sixth session of the Board of the Company reviewed the effectiveness of the internal control system of the Company during the Reporting Period. During the course of the review, the Board observed that the system had an ideal improvement as compared to last year. And the Company has established an appropriate internal control system based on the actual situations, and prepared a comprehensive summary and explanation as to the goal, the details, the modes and the functions of the internal control system.

(j) General Meeting

As the highest authority of the Company, the general meeting exercises its rights under the laws to make decisions on significant events of the Company. The Company has established and maintained different communication channels with its shareholders through the publication of annual reports, interim reports and announcements.

In 2008, the Company convened an Annual General Meeting (“AGM”) and four Extraordinary General Meetings (“EGM”). The shareholding held by the shareholders attending the AGM and the EGM represented 30.74%; 36.89%; 33.84%; 32.63% and 34.17% respectively, of all the issued shares of the Company.

(k) Supervisory Committee

The Supervisory Committee was established in accordance with the PRC laws. It independently performs its supervisory duties under the laws to protect the legal interests of shareholders, the Company and its staff. It also reviews the Company’s financial positions in accordance with the relevant requirements of the articles of association of the Company, and oversees any misconducts of the Directors and the senior management of the Company who violate the laws and administrative regulations in performing their duties.

From 1 January 2008 to 25 August 2008, the sixth session of the Supervisory Committee of the Company is composed of two shareholders’ representatives, namely Mr. Guo Qing Cun and Mr. Zhou Zhao Li and one staff representative of the Company, Mr. Liu Zhan Cheng. Mr. Zhou Zhao Li resigned as a supervisor on 7 August 2008, and Mr. Gao Zhong Xiang was elected as the supervisor of the sixth session of the Supervisory Committee of the Company on 26 August 2008. From 26 August 2008 until now, the sixth session of the Supervisory Committee of the Company is composed of two shareholders’ representatives, namely Mr. Guo Qing Cun and Mr.Gao Zhong Xiang and one staff representative of the Company, Mr. Liu Zhan Cheng, with Mr. Guo Qing Cun acting as the chairman of the committee. Details of the above-mentioned supervisors’ biographies are set out on pages 18 to 19 of this annual report.

Details of the work performed and the meetings convened by the Supervisory Committee of the Company in 2008 are set out in pages 41 to 42 of this Annual Report.

(l) Auditors’ Remuneration

In 2008, the Company appointed Guangdong Dahua Delu Certified Public Accountants (formerly known as “Shenzhen Dahua Tiancheng Certified Public Accountants”) and BDO McCabe Lo Limited as the Company’s domestic and foreign auditors, respectively. Their remunerations were determined by the Board under the authority granted at the general meeting. The Company agreed to pay a total of approximately RMB3 million and RMB0.6 million for audit services and non-audit services respectively for the year ended 31 December 2008.

Profiles of Directors, Supervisors & Members of the Senior Management

Directors:

Mr. Tang Ye Guo, was as the deputy general manager and chief accountant of 青島海信電器股份有限公司 (Qingdao Hisense Electric Co., Ltd.) (“Hisense Electrical”); the general manager of Hisense Electrical from November 1999 to August 2003; an assistant to the president and later the vice president of Hisense Group Company Limited (“Hisense Group”), and the general manager and chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited (“Hisense Air-Conditioning”) from August 2003 to September 2005. Mr. Tang was appointed as the chairman of the board of directors of Hisense Air-Conditioning and a director of Hisense Electrical and the president of Hisense Kelon Electrical Holdings Company Limited from September 2005 to June 2006. He has been acted as chairman of the board of directors of Hisense Air-Conditioning(which is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) and the chairman of the board of directors of Hisense Kelon Electrical Holdings Company Limited since June 2006.

Mr. Zhou Xiao Tian, worked in BSH Bosch und Siemens Hausgeraete GmbH (德國博世西門子集團), and served as the engineer of refrigerant department of BSH Bosch und Siemens Hausgeraete GmbH, the department head of research and development department of refrigerator factory (Chuzhou, the PRC) of BSH Bosch und Siemens Hausgeraete GmbH, the general manager of the PRC technology center of BSH Bosch und Siemens Hausgeraete GmbH and the department manager of refrigerant department and refrigerant system department of BSH Bosch und Siemens Hausgeraete GmbH. From November 2006 to July 2008, Mr. Zhou also severed as the Secretary-General (representing Germany) of Freezer and Compressor Sub-committee (SC61C) of the International Electrotechnical Commission (IEC). From March 2008 to December 2008, he served as the deputy president of Hisense Kelon Electrical Holdings Company Limited. From December 2008 to date, he has being serving as the president of Hisense Kelon Electrical Holdings Company Limited. he has been an executive director of Hisense Kelon Electrical Holdings Company Limited since February 2009.

Mr. Wang Shi Lei, has served as the deputy general manager and general manager of Hisense Air-Conditioning (which is a substantial shareholder of the Company within the meaning of Part XV of the SFO); the standing deputy general manager of Qingdao Hisense Communications Company Limited from January 2002 to June 2002; the general manager of Hisense (Beijing) Electrical Appliances Company Limited from July 2002 to December 2003; the general manager of Hisense Electrical from January 2004 to January 2006; and the general manager of Qingdao Hisense Network Technology Company Limited from February 2006 to November 2006. From November 2006 to December 2008, Mr. Wang has acted as the president of Hisense Kelon Electrical Holdings Company Limited. From January 2007 to December 2008, he has also served as a director of Hisense Kelon Electrical Holdings Company Limited.

Ms. Yu Shu Min, has successively served as the deputy to the party committee secretary of 青島市電子儀錶工業總公司 (Qingdao Municipal Electronics Instrument Industrial Corporation), the deputy secretary to the party committee and the vice president of Hisense Group, the general manager of Hisense Electrical, the chief executive officer of Hisense Group and the chairman of the board of directors of Hisense Electrical. Ms. Yu has been the vice chairman of the board of directors and the president of Hisense Group and the chairman of the board of directors of Hisense Electrical since July 2001. She has been an executive director of Hisense Kelon Electrical Holdings Company Limited since June 2006.

Mr. Lin Lan, had been working as the manager of the Power System Software Development Department of 西門子諮詢公司 (Simons, currently known as “AMEC Limited” in the UK) between 1995 and 1998, and was responsible for the development and management of the simulative systems for dynamic power systems, large scale paper manufacturing plants and large chemical plants. From 1998 to May 2002, Mr. Lin has worked as a senior project manager and senior engineer for GE 動力系統公司 (GE Power Systems), responsible for the advancement of equipment and technologies of several thermal power plants and atomic power plants. Mr. Lin had acted as the vice president of Hisense Kelon Electrical Holdings Company Limited from September 2002 to June 2006. Since July 2006, he has served as the vice president of Hisense Group. He has served as an executive director of Hisense Kelon Electrical Holdings Company Limited since June 2006.

Mr. Zhang Ming, joined Hisense in July 1995, has successively served as the deputy head of capital operation department, the deputy chief officer of the strategy study department and chief officer of the strategy development department of Hisense Group from August 1998 to February 2004. Mr. Zhang had acted as the chief supervisor at the capital operation department of Hisense Group from February 2004 to June 2006. He had served as a director of Hisense Kelon Electrical Holdings Company Limited from 26 June 2006 to 13 November 2006; From 28 June 2006 to date, Mr. Zhang has been working in Huayi Compressor Holdings Company Limited as a director. He has been a vice president of Hisense Kelon Electrical Holdings Company Limited since June 2006. Since August 2007, he has served as a director of Qingdao Hisense Air-Conditioning (which is a substantial shareholder of the Company within the meaning of Part XV of the SFO), and on 16 April 2008, he was appointed as a director of Hisense Kelon Electrical Holdings Company Limited.

Ms. Liu Chun Xin, a certified public accountant, a registered tax advisor and an economist. She served as project manager, department manager and senior manager in various accountant firms for years. She has years of experience in auditing and consultation on financial management and has been responsible for conducting the planning on the corporate restructuring, restructuring and conversion, asset and capital verification and provision of management consultation on the corporate restructuring of several enterprises. She has served as a vice chairman of Hisense Kelon Electrical Holdings Company Limited since November 2006. She has been a director of Hisense Kelon Electrical Holdings Company Limited since 8 August 2007.

Mr. Zhang Sheng Ping, graduated from Shandong University with a master's degree of Science, from Nankai University with a doctorate in Economics, and from Peking University with a doctorate in finance. From July 1987 to June 2000, he had been working as a teaching fellow, lecturer and an associate professor at the School of Economics of Shandong University. Since August 2002, he has been an associate professor at the Guanghua School of Management of Peking University. He has acted as an independent non-executive director of Yin Zuo Bohai Group Co., Ltd. and Hisense Kelon Electrical Holdings Company Limited since June 2006.

Mr. Lu Qing, a postgraduate of the master's degree in finance, senior accountant, the partner of 中和正信會計師事務所 (Zhonghe ZhengXin Certified Public Accountants), and a council member of 山東省會計學會 (Shandong Provincial Accounting Society). He is also a registered accountant on securities and futures and a certified assets valuer in the PRC. From 2003 to date, he has been the partner of 中和正信會計師事務 (Zhonghe ZhengXin Certified Public Accountants). In January 2002, he completed the training course for independent directors of listed companies jointly organized by the CSRC and Fudan University. He has served as an independent non-executive director of Hisense Kelon Electrical Holdings Company Limited since June 2006.

Mr. Cheung Yui Kai, Warren, a Hong Kong permanent resident, graduated from the University of Southern Queensland in Australia with a bachelor's degree in business and is a certified public accountant in Hong Kong. He has over 16 years of investment banking experiences in the Asian Pacific Region. He has worked successively as a senior manager in 渣打（亞洲）有限公司 (Standard Chartered (Asia) Limited); a senior manager in 渣打澳洲有限公司 (Standard Chartered Australia Limited) and a vice director in 荷銀融資亞洲有限公司 (ABN AMRO Corporate Finance (Asia) Limited); a director in 軟庫金（香港）有限公司 (SB1 E2-Capital (HK) Limited); and a director in 凱利融資有限公司 (Hercules Capital Limited). From 2005 to date, he has served as a managing director of 寶來資本（亞洲）有限公司 (Polaris Capital (Asia) Limited). He has served as an independent non-executive director of Hisense Kelon Electrical Holdings Company Limited since June 2006.

Mr. Yang Yun Duo, had served as a manager of the sales division and the deputy general manager of Hisense Electrical, and the deputy general manager of Hisense Air-Conditioning from August 2002 to July 2003; the general manager and the secretary to the party committee of 青島海信營銷有限公司 (Qingdao Hisense Marketing Company Limited) from July 2003 to January 2004; an assistant to the president of Hisense Group and the general manager and the secretary to the party committee of Qingdao Hisense Marketing Company Limited from January 2004 to January 2006. Mr. Yang served as the general manager of the domestic marketing company of Hisense Kelon Electrical Holdings Company and was appointed as the vice chairman of the Board of the Company for a term from January 2007 to February 2008.

Supervisors:

Mr. Guo Qing Cun, has been a lecturer, associate professor and professor of Shandong University and held various positions at the university, including the deputy president of the Institute of Science, an assistant to the head of School of Management and the chief officer of the Research Centre of Technology Law and Intellectual Property Rights. In 1998, he was nominated as a Professional Technology Talent in Shandong Province. Mr. Guo was a visiting scholar of the faculty of law at Peking University in 1995. After attaining the qualification of practicing lawyer in the national examination in 1986, he acted as part-time lawyer in the legal advisory office in Shandong and Wenhan Law Firm（文翰律師事務所）. From 2002 to date, he has served as an assistant to the president and vice president at Hisense Group. He has served as a supervisor of Hisense Kelon Electrical Holdings Company Limited since 5 December 2006.

Mr. Zhou Zhao Li, graduated from Jinan University with a master's degree in business administration in June 2000. Mr. Zhou is an economist. He had been working in the Foshan Branch of the China Construction Bank and the Foshan business department of Everbright Securities Company Limited. Mr. Zhou has been working in the Guangzhou office of China Finance Asset Management Corporation from March 2002 to Septemper2007. From October 2007, Mr. Zhou has been working in the business Department of China Finance Securities Limited（華融證券股份有限公司）. He had been acting as a supervisor of Hisense Kelon Electrical Holdings Company Limited From 5 December 2006 to 25 August 2008.

Mr. Gao Zhong Xiang, He had been working at Zhengzhou Branch of Four Company of Seventh Construction Bureau (中國建築第七工程局四公司鄭州公司), Guangdong Guangshou Land Development Company (廣東廣壽房地產開發公司) and Guangzhou Qinling Land Development Company Limited (廣州麒麟房地產開發有限公司). Mr.Gao has been working in the Guangzhou office of China Finance Asset Management Corporation (which is a substantial shareholder of the Company within the meaning of Part XV of the SFO) since March 2002. Mr. Gao is the manager of the five business departments of China Finance Asset Management Corporation, . Mr. Gao also holds a directorship in Shantou Huashan Electronic Devices Co., Ltd., Guangzhou South China Rubber Tire Co., Ltd. and Zhuhai Yuhua Polyester Co., Ltd., and acts as the supervisor of Guangzhou Weidagao Industry Co., Ltd. He has been working as a supervisor of Hisense Kelon Electrical Holdings Company Limited since August 2008.

Mr. Liu Zhan Cheng, graduated from Zhongnan University of Finance (中南財經大學) in 1999. He has been working in Kelon after graduation. He has acted as the deputy manager and then the manager of the accounting division of the finance department of Hisense Kelon Electrical Holdings Company Limited from April 2001 to November 2002. He was the deputy department head of the operation and management department of Guangdong Kelon Refrigerator/Freezer Co., Ltd. (廣東冰箱／冷柜有限公司) from November 2002 to September 2003, and had been the department head of the material control department of Guangdong Kelon Refrigerator/ Freezer Co., Ltd. from September 2003 to September 2005. From September 2005 to March 2008, he had acted as the department head of the supply department, the assistant to general manager and controller of the international marketing department of Guangdong Kelon Air-Conditioner Co., Ltd.. From February 2008 to date , he has been the assistant to general manager and the department head, vice general manager and department head of the purchase department of Hisense RonShen (Guangdong) Refrigerator Co., Ltd. He has served as the supervisor of Hisense Kelon Electrical Holdings Company Limited from June 2006 to date.

Senior Management Members:

Mr. Shi Yong Chang, graduated with a bachelor degree. Mr. Shi has served as the deputy factory manager of Plastic Products Factory under Qingdao Television Factory, the manager of an overseas branch of Qingdao Hisense Electric Sales Company, the deputy general manager of Guiyang Hisense Company and the general manager of an overseas branch of Qingdao Hisense Electric Sales Company and the deputy general manager of Hisense (Beijing) Electrical Co., Ltd. (海信(北京)電器有限公司) and the deputy general manager of Hisense Agent Co., Ltd (青島海信營銷公司). From September 2005 to November 2006, he had acted as the vice president of Hisense Kelon Electrical Holdings Company Limited. From November 2006 to January 2008, had acted as the general manager of Qingdao Hisense Communication Company Limited. Since 30 January 2008, he has acted as the vice president of Hisense Kelon Electrical Holdings Company Limited.

Ms. Wang Jiu Cun, she has worked as the deputy division head, division head and the department head of the manufacturing department, the the head of marketing management department and the after-sale service department of Guangdong Kelon Air-Conditioner Co., Ltd. She was the chief of the first plant and the chief of the second plant of Guangdong Kelon Air-Conditioner Co., Ltd. from 2000 to July 2002, and the deputy general manager of production and the head of the production department of Guangdong Kelon Air-Conditioner Co., Ltd. from August 2002 to August 2004. Ms. Wang had worked as deputy general manager of production from September 2004 to 17 May 2006, and an assistant to president of Hisense Kelon Electrical Holdings Company Limited from 18 May 2006 to June 2006. She served as the vice president of Hisense Kelon Electrical Holdings Company Limited from June 2006 to January 2009.

Mr. Jia Shao Qian, he has served as a legal adviser in the corporate legal department of Hisense Group, supervisor of public relations in the president office of Hisense Group from January 2000 to January 2003, deputy manager of the president office of Hisense Group from January 2003 to July 2005 and manager of the president office of Hisense Group Company from July 2005 to January 2007. He has served as chairman of the supervisory committee of Hisense Electric Company Limited from June 2006 to date. He has also served as the vice president of Hisense Kelon Electrical Holdings Company Limited since January 2007.

Mr. Su Yu Tao, has worked successively as a deputy manager of the supply department and property management department of Hisense Electrical; and the deputy manager and manager of the production planning department and purchase department of Hisense Air-Conditioning (which is a substantial shareholder of the Company within the meaning of Part XV of the SFO). He had worked as an assistant to general manager, deputy general manager and general manager of Hisense Air-Conditioning from October 2000 to January 2004; general manager of 海信（北京）電器有限公司 (Hisense (Beijing) Electrical Appliances Company Limited) from February 2004 to September 2005. Mr. Su has acted as a director of Hisense Air-Conditioning from September 2005 to date, and was a vice president of Hisense Kelon Electrical Holdings Company Limited from September 2005 to 26 June 2006. He was a director and president of Hisense Kelon Electrical Holdings Company Limited from 26 June 2006 to 14 November 2006. He acted as a vice president of Hisense Kelon Electrical Holdings Company Limited from March 2007 to December 2008.

Ms. Yu Wan Li, graduated from ZhongShan University in 2000 and joined Hisense Kelon Electrical Holdings Company Limited in the same year. Ms. Yu has served as the head of securities affairs of the securities department and the deputy head of President Office. She has served as the deputy department head of the securities department of Hisense Kelon Electrical Holdings Company Limited from November 2008 and the secretary to the board of directors of Hisense Kelon Electrical Holdings Company Limited from December 2008.

Mr. Chen Zhen Wen, a PRC certified public accountant with a bachelor's degree in economics and a certified public accountant registered with the Hong Kong Institute of Certified Public Accountant, and a member of the ACCA. Mr. Chen has been working in the fields of finance and auditing for many years, and possesses ample accounting experience. Mr. Chen joined Hisense Kelon Electrical Holdings Company Limited as the head of the finance department in October 2007. Since May 2008 to date, Mr. Chen has served as the company secretary and qualified accountant of Hisense Kelon Electrical Holdings Company Limited.

Mr. Zhong Liang, a postgraduate of master's degree, joined the Company in 2001 and has acted as the representative of the Company on securities affairs since then. He has acted as the deputy manager and manager of the office of secretary to the board of directors and head of the securities department of the Company from July 2006 to August 2008. He had acted as the secretary to the board of directors of Hisense Kelon Electrical Holdings Company Limited from September 2006 to August 2008.

PRINCIPAL ACTIVITIES

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

FINAL DIVIDENDS

The Group recorded a loss of RMB237,520,000 for the year 2008. The Board has resolved neither pay any dividend for the year 2008 nor capitalise any reserve funds (no dividend was paid by the Group for the year ended 31 December 2007).

LIQUIDITY AND SOURCES OF FUNDS

For the year ended 31 December 2008, net cash used in operating activities was approximately RMB380,508,000 (2007: net cash used in operating activities amounted to approximately RMB10,418,000).

As at 31 December 2008, the Company had bank deposits and cash (including pledged bank deposits) amounting to approximately RMB133,456,000 (2007: RMB146,528,000), and borrowings amounting to approximately RMB1,814,948,000 (2007: RMB1,310,972,000).

Total capital expenditures for the year 2008 amounted to approximately RMB282,147,000 (2007: RMB374,143,000).

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 31 December 2008, the Group had approximately 17,250 employees, mainly comprising 2,271 technical staff, 4,247 sales representatives, 385 financial staff, 515 administrative staff and 9,832 production staff. The Company had 4 employees with a doctorate degree, 128 with a master's degree and 2,363 with a bachelor's degree. There were 422 employees who occupied mid-level positions or above in the Company according to the national standards. In addition, the Company was responsible for the charge of 20 employees who have resigned or retired. For the year ended 31 December 2008, the staff costs of the Company amounted to approximately RMB641,905,000 (2007: RMB630,870,000).

CHARGES ON THE GROUP'S FIXED ASSETS

As at 31 December 2008, the Group's property, plant and equipment (including leasehold land held for own use) and investment properties of approximately RMB522,442,000 (2007: RMB694,080,000) were pledged as security for the Group's bank borrowings.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

Since the majority of the Group's purchase and overseas sales during the Reporting Period were denominated in foreign currency, the Group exposed to the risk of exchange rate fluctuation. The Group has used financial instruments such as discounted export bills, import/export documentary bills and foreign currency forward exchange contract to manage the Group's foreign currency exposure.

PUBLIC FLOAT

As at 25 April 2009, based on publicly available information and to the best knowledge of the Directors, 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 requirements stipulated under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

MATERIAL LITIGATIONS

As at 16 April 2009, the Company and its subsidiaries were involved in 6 litigations, which in outstanding case, the target claim amount was more than RMB10 million. The total target claim amount was RMB346,427,000 and US$13,751,000.

AUDIT COMMITTEE

The sixth session of the audit committee of the Company has reviewed the announcement and report of the final results of the Company for the year ended 31 December 2008.

CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2009 will be approximately RMB140,080,000.

DEPOSIT IN TRUST

As at 31 December 2008, the Company did not have any deposit in trust in any financial institution in the PRC. All of the Company's deposits are placed with the commercial banks in the PRC and Hong Kong.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2008, the Group did not have long-term bank borrowings and had cash and cash equivalents of RMB110,216,000 (2007: RMB76,395,000), over 61.09% of which are denominated in Renminbi.

RATIO OF TOTAL ASSETS TO TOTAL LIABILITIES

As at 31 December 2008, the ratio of total assets to total liabilities of the Group was 81.11%.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The sixth session of the Board has received the written confirmation from each of the independent non-executive Directors in respect of their independence in accordance with the requirements under Rule 3.13 of the Listing Rules, and considers that all the existing independent non-executive Directors have been in compliance with the relevant requirements under Rule 3.13 of the Listing Rules and are still independent persons.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately RMB274.5 million on acquisition of property, plant and equipment. The details of the movements in property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

PENSION SCHEMES

Details of the Group's pension schemes for the year ended 31 December 2008 are set out in note 42 to the financial statements.

RESERVES

Details of movements in reserves of the Group during the year 2008 are set out in consolidated statement of changes in equity on page 49 of the financial statements.

DISTRIBUTABLE RESERVES

There was no distributable reserves of the Company as at 31 December 2008.

SERVICE CONTRACTS AND INTERESTS IN CONTRACTS OF DIRECTORS AND SUPERVISORS

No service contract has been entered into with any Directors and supervisors of the sixth session of the Board. The Directors and supervisors of the sixth session of the Board of the Company have not directly or indirectly held any material interests in any material contracts during 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS' REVIEWS OF CONTINUING CONNECTED TRANSACTIONS

The independent non-executive Directors of the sixth session of the Board have reviewed the continuing connected transactions of the Company for the year 2008 and confirmed that these transactions were conducted in the ordinary course of business of the Company on normal commercial terms which were fair and reasonable and in the interests of the shareholders of the Company as a whole.

The independent auditor of the Company is engaged to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. Based on the works performed, the independent auditor reported that the continuing connected transactions have been approved by the Board of Directors of the Company, entered into in accordance with the pricing policies of the Group and the terms of the relevant agreements and the amounts have not exceeded the relevant cap amounts.

MODEL CODE FOR 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 the Listing Rules as its code for securities transactions by the Directors. After making specific enquiries to the Directors of the Board, namely, Mr. Tang Ye Guo, Mr. Wang Shi Lei, Ms. Yu Shu Min, Mr. Lin Lan, Ms. Liu Chun Xin, Mr. Zhang Ming, Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren and to the newly appointed Director, Mr. Zhou Xiao Tian, the Company confirmed that all directors had acted in full compliance with the Model Code during their terms of office.

SHARE CAPITAL STRUCTURE

As at 31 December 2008, the share capital structure of the Company was as follows:

Class of shares	Number of shares	Percentage of the total issued share capital (%)
A Shares	532,416,755	53.67%
H Shares	459,589,808	46.33%
Total	992,006,563	100.00%

TOP TEN/SUBSTANTIAL SHAREHOLDERS

(1) As of 31 December 2008, the Company had a total of 43,124 shareholders. The shareholding information of the top ten/substantial shareholders was as follows:

Shareholdings of the top ten shareholders

Name of Shareholder	Nature of Shareholder	Percentage of the total issued share capital of the Company	Percentage of the issued class shares of the Company	No. of Shares Held	No. of Shares (Subject to Selling Restrictions) Held	No. of Pledged or Frozen Shares
Qingdao Hisense Air-conditioning Company Limited	Domestic Non-state-owned Legal Person	25.22%	46.99%	250,173,722 A Shares	234,375,922	—
The Hongkong and Shanghai Banking Corporation Limited	Foreign Shareholder	9.94%	21.45%	98,587,029 H Shares	—	Unknown
China Huarong Asset Management Corporation	Domestic State-owned Legal Person	6.44%	12.01%	63,923,804 A Shares	63,923,804	—
Shenyin Wanguo Securities (H.K.) Limited	Foreign Shareholder	5.56%	11.99%	55,107,000 H Shares	—	Unknown
Bank of China (Hong Kong) Limited	Foreign Shareholder	4.91%	10.60%	48,700,000 H Shares	—	Unknown
Guotai Junan Securities (Hong Kong) Limited	Foreign Shareholder	4.12%	8.90%	40,920,000 H Shares	—	Unknown
First Shanghai Securities Limited	Foreign Shareholder	2.61%	5.63%	25,860,000 H Shares	—	Unknown
Hang Seng Securities Limited	Foreign Shareholder	2.04%	4.40%	20,235,000 H Shares	—	Unknown
BOCI Securities Limited	Foreign Shareholder	0.82%	1.77%	8,136,000 H Shares	—	Unknown
Sun Hung Kai Investment Services Ltd.	Foreign Shareholder	0.80%	1.73%	7,945,000 H Shares	—	Unknown

Notes: As at 31 December 2008, as shown in the register of substantial shareholders maintained under Section 336 of the Securities and Futures Ordinance under the Laws of Hong Kong (the "SFO"), the top seven shareholders among the top 10 shareholders above held interests in the issued share capital of the Company:

Shareholdings of top ten holders of tradable shares

Name of Shareholder	Number of Tradable Shares	Class of Shares
The Hongkong and Shanghai Banking Corporation Limited	98,587,029	H Shares
Shenyin Wanguo Securities (H.K.) Limited	55,107,000	H Shares
Bank of China (Hong Kong) Limited	48,700,000	H Shares
Guotai Junan Securities (Hong Kong) Limited	40,920,000	H Shares
First Shanghai Securities Limited	25,860,000	H Shares
Hang Seng Securities Limited	20,235,000	H Shares
Hisense Air-conditioning *(Note 2)*	15,797,800	RMB ordinary shares
BOCI Securities Limited	8,136,000	H Shares
Sun Hung Kai Investment Services Ltd.	7,945,000	H Shares
Citibank N.A.	7,291,984	H Shares

Note 1: The Company is not aware whether any of the top ten holders of tradable shares is connected with each other or any of them is a party acting in concert with any of the other nine shareholders within the meaning of the 《上市公司股東持股變動信息披露管理辦法》(Administrative Measures for Information Disclosure of the Shareholders of Listed Companies).

Note 2: During the Reporting Period, Hisense Air-conditioning, the largest shareholder of the Company, increased its tradable A Shares of the Company by an aggregate of 15,797,800 Shares.

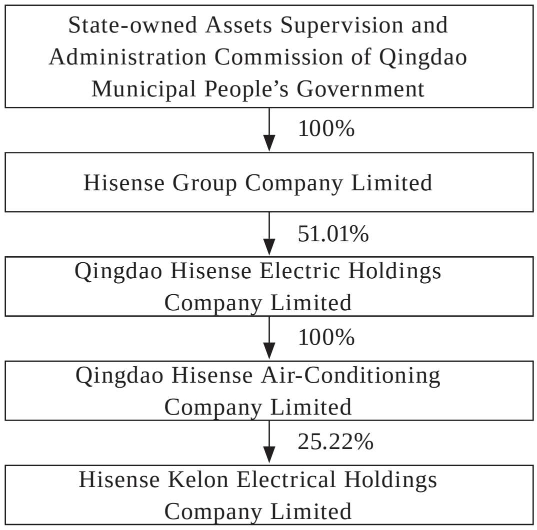
(2) Profiles of the controlling shareholders of the Company

(1) Qingdao Hisense Air-Conditioning Co., Ltd., the controlling shareholder of the Company, was incorporated on 17 November 1995 with the registered capital of RMB674.79 million. Its registered address is Changsha Road, Hi-tech Industrial Zone, Qingdao, the PRC and the legal representative is Mr. Tang Ye Guo. It is primarily engaged in the development and manufacture of air-conditioners and injection moulds and the provision of after-sale repairing services for its products.

(2) The beneficial controller of the Company is Hisense Group Company Limited, which was incorporated in August 1979 with its registered address at No. 17 Donghai West Road, Shinan, Qingdao. Zhou Houjian is the legal representative of Hisense Group, a wholly state-owned enterprise with the registered capital of RMB806,170,000. The scope of business includes: the entrusted operation of state-owned assets; the manufacture and sales of TV sets, refrigerators, freezers, washing machines, small household appliances, VCD and DVD players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products and the provision of related services; the development of software and the provision of internet services; the technological development and the provision of consultation services; the self-operated import and export business (with its operation subject to the list of projects as approved by the MOFTEC); the foreign economic and technical cooperation (with its operation subject to the list of projects as approved by the MOFTEC); operation of property rights transaction, provision of brokerage and information services; provision of industrial travel agency services; and provision of relevant business trainings. (Permit/licence shall be obtained for the operation of the businesses above if they fall into the requirements of licensure)

The ultimate beneficial controller of the Company is the State-owned Assets Supervision and Administration Commission of Qingdao Municipal People's Government.

(3) Relationship between the Company and its Beneficial Controlling Shareholders:



(4) During the Reporting Period, there was no change in the controlling shareholder of the Company.

(3) No shareholders of the Company own more than 10% (including 10%) of its shares.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES

As at 31 December 2008, none of the members of the sixth session of the Board, supervisors and the chief executive of the Company and any of their associates held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations, as recorded in the register required to be maintained by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, the aggregate amount of the Company's purchases from the top five suppliers was RMB 928 million, representing 14.35% of total purchase amount of the Company for the year while the aggregate sales amount of the top five customers was RMB1,759 million, representing 21.85% of total sales amount of the Company for the year. As at 31 December 2008, none of the Directors, their associates or shareholders of the Company, who, to the best knowledge of the Company, hold 5% or more of the shares of the Company, have any interest in the above suppliers or customers.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the year ended 31 December 2008, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

Pursuant to the Enterprise Income Tax Law of the PRC and the relevant regulations which became effective on 1 January 2008, the Company is required to withhold corporate income tax at the rate of 10% when distributing dividends to non-resident enterprise shareholders whose name appears on the H Shares register of members.

AUDITORS

The reappointment of Shenzhen Dahua Tiancheng Certified Public Accountants (now known as "Guangdong Dahua Delu Certified Public Accountants") and BDO McCabe Lo Limited as the Company's local and foreign auditors respectively was reviewed and approved by the 2007 AGM of the Company.

Note: **Supplementary information as required by The Stock Exchange of Hong Kong Limited in relation to the Company's A share annual results announcement (prepared in accordance with PRC GAAP)**

I. INVESTMENTS OF THE COMPANY DURING THE REPORTING PERIOD

1. During the Reporting Period, the Company did not raise any capital and no proceeds obtained prior to the Reporting Period was used during the Reporting Period.

2. Material Investment excluding raising of capital during the Reporting Period

On 27 April 2008, the Company entered into the Joint Venture Agreement with Whirlpool (Hong Kong) to establish the Joint Venture Company Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd (海信•惠而浦(浙江)電器有限公司). Pursuant to the Joint Venture Agreement, each of the Company and Whirlpool (Hong Kong) agreed to invest RMB225,000,000 as the capital contribution to the Joint Venture Company. The Joint Venture Company is owned as to 50% by the Company and 50% by Whirlpool (Hong Kong).

II. PARTICULARS OF THE CHANGES IN SHAREHOLDINGS AND REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Current Position	Gender	Age	Term of Office	No. of shares held at the beginning of the year	No. of shares held at the end of the year	Total remuneration received from the Company during the Reporting Period (before taxation) (RMB ten thousand)	Remuneration received from shareholders' entities or other related companies
Tang Ye Guo	Director, Chairman	Male	46	2006.6.26-2009.6.25	—	—	74.0	No
Zhou Xiao Tian	Director President	Male	50	2009.2.4-2009.6.25 2008.12.4-2009.6.25	—	—	46.6	No
Wang Shi Lei	Former Director Former President	Male	41	2007.1.4-2008.12.3 2006.11.13-2008.12.3	—	—	55.0	No
Yang Yun Duo	Former Director Former Vice Chairman	Male	53	2007.1.4-2008.2.25	—	—	4.0	No
Yu Shu Min	Director	Female	58	2006.6.26-2009.6.25	—	—	—	Yes
Lin Lan	Director	Male	51	2006.6.26-2009.6.25	—	—	—	Yes
Liu Chun Xin	Director Vice President	Female	40	2007.8.8-2009.6.25 2006.10.31-2009.6.25	—	—	36.0	No
Zhang Ming	Director Vice President	Male	38	2008.4.16-2009.6.25 2006.6.26-2009.6.25	—	—	27.3	No
Zhang Sheng Ping	Independent Non-Executive Director	Male	44	2006.6.26-2009.6.25	—	—	6.0	No
Lu Qing	Independent Non-Executive Director	Male	42	2006.6.26-2009.6.25	—	—	6.0	No
Cheung Yui Kai, Warren	Independent Non-Executive Director	Male	41	2006.6.26-2009.6.25	—	—	24.0	No
Guo Qing Cun	Supervisor	Male	55	2006.12.5-2009.6.25	—	—	—	Yes
Gao Zhong Xiang	Supervisor	Male	41	2008.8.26-2009.6.25	—	—	—	Yes
Zhou Zhao Li	Former Supervisor	Male	40	2006.12.5-2008.8.25	—	—	—	Yes
Liu Zhan Cheng	Supervisor	Male	31	2006.6.23-2009.6.25	—	—	18.3	No
Su Yu Tao	Former Vice President	Male	43	2007.3.23-2008.12.3	—	—	33.0	No
Wang Jiu Cun	Former Vice President	Female	55	2006.6.26-2009.1.11	15,456	16,146	36.0	No
Jia Shao Qian	Vice President	Male	37	2007.1.30-2009.6.25	—	—	23.7	No
Shi Yong Chang	Vice President	Male	49	2008.1.30-2009.6.25	—	—	47.7	No
Yu Wan Li	Secretary to the Board	Female	30	2008.12.1-2009.6.25	—	—	10.12	No
Chen Zhen Wen	Company Secretary	Male	32	2008.5.29-2009.6.25	—	—	37.3	No
Zhong Liang	Former Secretary to the Board	Male	31	2006.9.7-2008.8.21	—	—	8.3	No
Total	—	—	—	—	15,456	16,146	493.32	—

III. OTHER DISCLOSEABLE MATTERS

(I) Material litigations and arbitrations of the Company

1. General information of litigation

As of the date of this report, the Company and its subsidiaries were involved in 379 litigations with a total claim amount of RMB423,171,500 and US$13,750,719.19.

Among the aforementioned litigations involving the Company and its subsidiaries, the Company and its subsidiaries acted as plaintiffs in 11 cases with a total claim amount of RMB361,312,600 and as defendants in 368 cases involving an amount of RMB61,858,900 and US$13,750,719.19.

Among the aforementioned litigations involving the Company and its subsidiaries, there were 6 litigations and arbitrations as disclosed above involving an amount exceeding RMB10,000,000 each (with a total claim amount of RMB346,426,600 and US$13,750,719.19) and 373 litigations with a claim amount of less than RMB10,000,000 each (with a total claim amount of RMB76,744,900).

2. New litigations

From 1 January 2008 to the date of this report, the Company and its subsidiaries were involved in 182 new litigations with a total claim amount of RMB34,902,000 and US$1,494,391.21.

The Company and its subsidiaries acted as plaintiff in 5 cases with a total claim amount of RMB12,445,000, among which 2 cases with a total claim amount of RMB3,047,000 have been closed. The Company and its subsidiaries acted as defendants in 177 cases with a total claim amount of RMB22,457,000, among which 23 cases with a total claim amount of RMB2,816,000 and US$1,494,391.21 were closed.

Among the aforementioned new litigations involving the Company and its subsidiaries, there was 1 case as disclosed above involving an amount exceeding RMB10,000,000 with a total claim amount of US$1,494,391.21, and there were 181 litigations with a claim amount of less than RMB10,000,000 with a total claim amount of RMB34,902,000.

The background information of the new litigations involving the target claim amount of more than RMB10,000,000 each is set out below:

No.	Name of Case	Target Claim Amount	Particulars	Development
1	Litigation initiated by Home Depot against Kelon USA regarding the sale and purchase contract	US$1,494,391.21	This case is a dispute over the sale and purchase contract. The total claim amount demanded by the Plaintiff is US$1,494,391.21 (the principal of US$1,143,171.38 plus the interest of US$351,219.83 (calculated based on the annual interest rate of 18%)).	The parties have entered into the settlement agreement on 16 June 2008, pursuant to which the Company has settled the first two payments of US$152,060.10 on a time basis. The case was closed.

3. Particulars of completed litigations

From 1 January 2008 to the date of this report, the Company and its subsidiaries were involved in 67 closed litigations with a total claim amount of RMB600,444,100 and US$1,494,391.21.

The Company and its subsidiaries acted as plaintiffs in 22 cases with a total claim amount of RMB564,188,600 and as defendants in 45 cases involving an amount of RMB36,255,500 and US$1,494,391.21.

Among the aforementioned closed cases involving the Company and its subsidiaries, there were 17 litigations involving an amount exceeding RMB10,000,000 with a total claim amount of RMB555,729,500, US$1,494,391.21, and 50 litigations with a claim amount less than RMB10,000,000 with a total claim amount of RMB44,714,600.

The background information of the completed litigations involving the target claim amount of more than RMB10,000,000 is set out below:

No.	Name of Case	**Target Claim Amount** *(In RMB ten thousand, unless otherwise stated)*	Particulars	Development
1	Litigation initiated by Home Depot against Kelon USA regarding the sale and purchase contract	US$1,494,391.21	The case is a dispute over the sale and purchase contract. The total claim amount demanded by the Plaintiff is US$1,494,391.21 (the principal of US$1,143,171.38 plus the interest of US$351,219.83 (calculated based on the annual interest rate of 18%)).	The parties have entered into the settlement agreement on 16 June 2008, pursuant to which the Company has settled the first two payments of US$152,060.10 on a timely basis. The case was close.
2	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun, Hainan Greencool, Greencool Refrigerant and Jinan San Ai Fu	8,160	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB81.6 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
3	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Greencool Refrigerant, Tianjin Aike and Gu Chu Jun etc	9,000	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB90 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
4	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun and Greencool Refrigerant	7,500	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB75 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
5	Litigation initiated by Yangzhou Kelon against Guangdong Greencool, Gu Chu Jun and Yangzhou Greencool	4,000	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB40 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.

No.	Name of Case	**Target Claim Amount** *(In RMB ten thousand, unless otherwise stated)*	Particulars	Development
6	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun, Jiangxi Keda and Greencool Procurement	1,300	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB13 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
7	Litigation initiated by Yangzhou Kelon against Guangdong Greencool, Gu Chu Jun and Yangzhou Greencool	3,500	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB35 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
8	Litigation initiated by the Company's Hubei Branch against Guangdong Greencool, Gu Chu Jun and Wuhan Changrong	2,984.37	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB29.8437 million of the plaintiff.	The lawsuit has been withdrawn by the Company.
9	Litigation initiated by the Company and its Anhui Branch against Guangdong Greencool, Gu Chu Jun and Hefei Weixi	1,869.48	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to facilitate that Hefei Weixi took delivery of a large number of air-conditioners and refrigerators from the Plaintiffs without making any payment during the period from 31 December 2003 to August 2005, and the defaulted payments of RMB16,075,400 and RMB2,619,400 due to the Anhui Branch and the Company, respectively, have not yet been settled. The connected transaction above was conducted without going through the normal internal approval procedures of the Company and no announcement has been issued on it. Therefore, it is attributive to the misuse of Guangdong Greencool and Gu Chu Jun of their controlling position in the company against the interests of the plaintiff.	The court ruled that Hefei Weixi should pay the damages of RMB11,723,263.82 to the Company and its Anhui Branch. The judgment has come into force.
10	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Shenzhen Greencool Environmental	3,300	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB33 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.

No.	Name of Case	**Target Claim Amount** *(In RMB ten thousand, unless otherwise stated)*	Particulars	Development
11	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun and Zhuhai Defa	2,140	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB21.4 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
12	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun and Wuhan Changrong	2,000	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB20 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
13	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Hainan Greencool	1,228.94	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB12.2894 million of the plaintiff.	The court rejected the petition of the Company. And the Company did not make any appeal.
14	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Shenzhen Greencool Technology	3,200	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB32 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
15	Litigation initiated by the Company against Guangdong Greencool, Gu Chu Jun, Zhuhai Greencool, Beijing Greencool, and Hainan Greencool	1,375.46	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB13.7546 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
16	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, and Gu Chu Jun, Zhuhai Longjia	2,860	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB28.6 million of the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
17	Litigation initiated by the Company against Hangxiao Ganggou in relation to the dispute over the contract for construction project	1,154.70	Hangxiao Ganggou should pay the penalty to the Company for its delayed completion and inspection of the projects it undertook for the Company.	The Court rejected the petition of the Company. The judgment has come into force.

(II). Disposal of assets by the Company during the Reporting Period.

Unit: RMB (in ten thousand)

Transaction counterpart	Assets disposed or sold	Date of disposal	Net book value	Transaction price	Net profit attributable to the disposed assets from the beginning of the year to the date of disposal	Gain or loss on disposal	The proportion of total profit	Connected transaction or not	Pricing principles	Completion of transfer of title of relevant assets
Jilin Yinqiao Group Company Limited	100% shares in Jilin Kelon	7 January 2008	1,107	50	0	-1,057	N/A	NO	Through negotiation	YES

(III) Particulars of the material connected transactions of the Company during the Reporting Period

1. *Connected transactions related to ordinary operation*

During the Reporting Period, the Company and Hisense Group and its relevant subsidiaries and Huayi Compressor and its subsidiaries, entered into certain connected transactions related to the ordinary operation, details of which are as follows:

Unit: RMB ten thousand

Connected Persons	Particulars of the Connected transaction	Pricing policy	Sale of products and provision of services to connected persons: Transaction amount	Sale of products and provision of services to connected persons: Percentage of total amount of similar transactions	Purchase of goods and receipt of services from connected persons: Transaction amount	Purchase of goods and receipt of services from connected persons: Percentage of total amount of similar transactions
Hisense Zhejiang	Purchase of finished air-conditioner	Arrived at after arm's length negotiations between both parties			48,350.74	7.10%
Hisense Zhejiang	Purchase of materials for air-conditioners	Arrived at after arm's length negotiations between both parties			160.86	0.02%
Hisense Zhejiang	Sales of plastic parts of air-conditioners	Arrived at after arm's length negotiations between both parties	2,125.76	0.26%		
Hisense Shandong	Purchase of finished air-conditioners	Arrived at after arm's length negotiations between both parties			11,659.98	1.71%
Hisense Shandong	Purchase of materials for air-conditioners	Arrived at after arm's length negotiations between both parties			331.69	0.05%

Connected Persons	Particulars of the Connected transaction	Pricing policy	Sale of products and provision of services to connected persons: Transaction amount	Sale of products and provision of services to connected persons: Percentage of total amount of similar transactions	Purchase of goods and receipt of services from connected persons: Transaction amount	Purchase of goods and receipt of services from connected persons: Percentage of total amount of similar transactions
Hisense Shandong	Sales of finished air-conditioners	Arrived at after arm's length negotiations between both parties	8,338.14	1.04%		
Hisense Shandong	Sales of components of air-conditioner	Arrived at after arm's length negotiations between both parties	1,207.76	0.15%		
Hisense Nanjing	Purchase of finished refrigerators	Arrived at after arm's length negotiations between both parties			24,694.76	3.62%
Hisense Nanjing	Purchase materials for refrigerators	Arrived at after arm's length negotiations between both parties			61.55	0.01%
Hisense Nanjing	Sales of finished refrigerators	Arrived at after arm's length negotiations between both parties	3,535.62	0.44%		
Hisense Beijing	Purchase of finished refrigerators	Arrived at after arm's length negotiations between both parties			8,833.18	1.30%
Hisense Beijing	Purchase of materials for refrigerators	Arrived at after arm's length negotiations between both parties			32.81	0.00%
Hisense Beijing	Sales of finished refrigerators	Arrived at after arm's length negotiations between both parties	16,536.50	2.05%		
Hisense Hong Kong	Sales of finished refrigerators	Arrived at after arm's length negotiations between both parties	883.69	0.11%		
Hisense Hong Kong	Sales of finished air-conditioners	Arrived at after arm's length negotiations between both parties	972.63	0.12%		
Hisense Hong Kong	Sales of finished freezers	Arrived at after arm's length negotiations between both parties	29.38	0.00%		
Hisense Mould	Sales of moulds	Arrived at after arm's length negotiations between both parties	296.98	0.04%		

Connected Persons	Particulars of the Connected transaction	Pricing policy	Sale of products and provision of services to connected persons: Transaction amount	Sale of products and provision of services to connected persons: Percentage of total amount of similar transactions	Purchase of goods and receipt of services from connected persons: Transaction amount	Purchase of goods and receipt of services from connected persons: Percentage of total amount of similar transactions
Hisense Zhejiang	Sales of moulds	Arrived at after arm's length negotiations between both parties	103.20	0.01%		
Hisense Shandong	Sales of moulds	Arrived at after arm's length negotiations between both parties	272.35	0.03%		
Hisense Nanjing	Sales of moulds	Arrived at after arm's length negotiations between both parties	217.26	0.03%		
Hisense Beijing	Sales of moulds	Arrived at after arm's length negotiations between both parties	129.40	0.02%		
Huayi Compressor	Purchase of compressors	Arrived at after arm's length negotiations between both parties			7,976.93	1.17%
Huayi Jingzhou	Purchase of compressors	Arrived at after arm's length negotiations between both parties			560.12	0.08%
Jiaxibeila	Purchase of compressors	Arrived at after arm's length negotiations between both parties			19,068.75	2.80%
			34,648.67	4.30%	121,731.37	17.87%

Among which, the connected transaction in relation to the sale of products or provision of labour services by the Company to its controlling shareholders and its subsidiaries amounted to RMB346,486,700 in aggregate.

(IV) Funds Embezzled For Non-operating Purposes and the Their Settlement Progress.

1. Amount of funds embezzled for non-operating purposes at beginning of the Reporting Period and end of the Reporting Period

Unit: RMB (in ten thousand)

Outstanding amount of funds of the Company embezzled by the former substantial shareholders, its subsidiaries, specified third parties and other related parties for non-operating purpose 1 January 2008	31 December 2008	Total amount recovered during this period	Settlement Method	Amount recovered	Time of Settlement
65,514.95	65,514.95	—	—	—	—

As at the end of the Reporting Period, the total funds of the Company embezzled by the former substantial shareholder and its subsidiaries, specified third parties and other related parties for non-operating reasons amounted to RMB655.1495 million in aggregate, of which, a total amount of RMB650.6941 million was embezzled by the former substantial shareholder (Guangdong Greencool) and its associated companies (the “Greencool Companies”) and specified third parties while the remaining balance of RMB4.4554 million was embezzled by other related parties.

2. Explanation of the Board on the development of the Company’s claims for all embezzled amounts during Reporting Period:

During the Reporting Period, the Company has stepped up its effort to recover the embezzled funds pursuant to the requirements of the《關於進一步加快推進清欠工作的通知》(證監公司字[2006]92號) (“Notice on Expediting the Loan Recovering Process” (Zheng Jian Gong Si Zi 2006 No. 92)). The progress is as follows:

(1) Recovering arrangement on the funds embezzled by Greencool companies and the specified third parties and its development:

The Company has initiated 19 proceedings with the total claim amount of RMB791 million. As at the date of this report, Foshan Intermediate Court has made all the judgments of first instance (See “Material litigations and arbitrations of the Company” in this report for details). Currently, the judgments on 13 cases have become effective, involving a total amount of RMB502,049,400; 1 case has been withdrawn, involving an amount of RMB29,843,700; 1 case has been dismissed due to the insufficiency of evidence, involving an amount of RMB12,289,400; and four cases are under second trial upon appeal of the opposite parties, and their judgments have not yet to become effective. In respect of those cases with the judgments have become effective, the Company has applied to Foshan Intermediate Court for the enforcement of the judgments.

(2) Recovering arrangement on the funds embezzled by other parties and its development

With respect to the embezzlement of the funds of RMB4,455,400 from the Company’s subsidiary Shunde Huaao Electrics Company Limited (“Huaao”) amounting to by Shunde Yunlong Consultancy Service Company Limited (“Yunlong”), the Company has obtained certain valuable assets from Yunlong for settlement of the embezzled fund, which will be recovered after disposal of such assets.

The Company fully understands that the settlement of embezzled funds constitutes an irrevocable obligation of management of Company. The Company will put its greatest effort to recover the funds and reinforce communication with relevant judiciary authorities, gathering more evidence and secure the possible success in litigation to the most extent. The Company has actively implemented the judgments.

(V) Material contracts and their performance

1. External guarantee

Unit: RMB (in ten thousand)

External guarantee made by the Company (excluding guarantees to its subsidiaries)

Guaranteed party	Date (the day of signing the agreement)	Guaranteed amount	Type of guarantee	Period of guarantee	Completion or not	Whether in favour of any related party (yes or no)
Zhejiang Kelon Air-conditioners Sales Company Limited	March 2008	2,000.00	Jointly and severally liable	Six months	Yes	No
Zhejiang Kelon Air-conditioners Sales Company Limited	July 2008	1,000.00	Jointly and severally liable	Six months	No	No
Zhejiang Kelon Air-conditioners Sales Company Limited	October 2008	2,000.00	Jointly and severally liable	Six months	No	No
FuJian Kelon Air-conditioners Sales Company Limited	September 2008	1,000.00	Jointly and severally liable	Six months	No	No
FuJian Kelon Air-conditioners Sales Company Limited	December 2008	1,000.00	Jointly and severally liable	Six months	No	No
Total actual guaranteed amount during the Reporting Period						7,000.00
Total balance of the actual guaranteed amount at the end of the Reporting Period						5,000.00
Guarantees made by the Company to its subsidiaries						
Total actual guaranteed amount to subsidiaries during the Reporting Period						130,258.16
Total balance of the actual guaranteed amount to subsidiaries at the end of the Reporting Period						49,213.77
Total guarantee made by the Company (including the guarantees to subsidiaries)						
Total guaranteed amount						54,213.77
Percentage of the total guaranteed amount to absolute net assets of the Company						54.68%
Attributable to:						
Guaranteed amount provided to shareholders, actual controlling parties and their related parties						—
Guaranteed amount provided directly or indirectly to guaranteed objects with gearing ratio over 70%						47,068.46
Total guaranteed amount over 50% of the net asset						4,641.69
Total guarantee amount of the above three guarantees						51,710.15

(VI) Guangdong Dahua Delu Certified Public Accountants Issued a Qualified Auditor's Report for the Company. the Detailed Explanation Given by the Board of the Company on the Matters Relating to the Audit Opinion is as follows:

As described in Notes 6.4, 6.6, 10 and 11 to the financial statements, a series of related party transactions and unusual cash flows occurred between Guangdong Greencool Enterprise Development Limited, the former largest shareholder of the Company, and its related parties (hereinafter referred to as the "Greencool Companies") and the Company during the period from October 2001 to July 2005. In addition, during the period, the Greencool Companies, through certain specified party companies such as Tianjin Lixin Commercial Trading Development Company Limited, involved in a series of unusual cash flows with the Company. The Company has instituted proceedings for such transactions and unusual cash flows as well as the suspected fund embezzlements. These matters are related to the Company's amounts due from or to the Greencool Companies and the specified third party companies mentioned above.

As at 31 December 2008, the balance of amounts due from the Greencool Companies and such specified third party companies amounted to RMB651 million. The Company has made a provision for bad debts of RMB365 million in respect of the amounts due from the Greencool Companies and such third party companies. As described in Note 11 to the financial statements, the abovementioned cases have achieved significant progress, with most cases obtaining judgments in favour of the Company. However, we are unable to adopt appropriate audit procedures to obtain sufficient and appropriate audit evidence to ascertain whether or not the estimated provision for bad debts based on such amount and the assessment and calculation of the receivables are reasonable.

Explanation: A series of related party transactions and unusual cash flows occurred between the Company and Guangdong Greencool Enterprise Development Limited, the former largest shareholder of the Company, and its related parties, or through its third party companies, from 2001 to 2005. Such transactions and unusual cash flows as well as the suspected fund embezzlements have been formally investigated by relevant authorities. As at 31 December 2008, the balance of amounts due from the Greencool Companies and the abovementioned specified third party companies amounted to RMB651 million.

The Company has estimated, based on the information about the cases available at present, the recoverable amount of the amounts due from the Greencool Companies and the specified third party companies, and has made a provision for bad debts of RMB365 million. The bases of the estimate include: the information regarding the properties of the Greencool Companies sealed and frozen by the court as applied by the Company, and the preliminary analysis report on the aforesaid fund embezzlements prepared by the lawyer of the Company. As analyzed by the lawyer, the properties of the Greencool Companies available for settlement amounted to approximately RMB1 billion, and the total claim amount against the Greencool Companies by the creditors to the court amounted to approximately RMB2.4 billion. The amount claimed by the Company for fund embezzlements by the Greencool Companies amounted to RMB791 million. The Company sought to have the outstanding amounts settled based on the proportion of property to debts. Based on the estimated settlement proportion, and taking into consideration that the case is still in progress, the court has not yet acknowledged the claim amount of the debts by the Company. The Board of the Company estimated the recoverable amount and made a provision for bad debts of RMB365 million.

Meanwhile, the law firm handling this case declared that, as the court has not determined the appropriation arrangement for the properties sealed in the abovementioned cases, the law firm is unable to assert on the outcome of the cases and the accurate recovery rate.

The Board of the Company considers that the provision for bad debts is an accounting estimate. The accounting method applied to such receivables does not breach the relevant requirements of the Accounting System for Business Enterprises. Although the relevant court has made the judgments of first instance in favour of the Company on seventeen cases in respect of the litigations initiated by the Company against the Greencool Companies and its specified third party cases (the judgments for thirteen cases has become effective), the abovementioned seventeen cases have not been enforced so far. The Board of the Company is of the view that: as there is no material difference in terms of the assessed recoverability of such receivables between that for 2008 and 2007, this qualified opinion will not affect the fairness in the preparation of the Company's income statement for 2008.

After the determination of the abovementioned debt settlement proportion, the Company will, based on the confirmed recoverable proportion, adjust retrospectively the 2005 balance sheet and income statement, and adjust the relevant items in the balance sheet as at 31 December 2006, 31 December 2007 and 31 December 2008. The Company has taken measures to sequestrate the properties of the Greencool Companies which are available for settlement. The Company will also pay attention to the progress of the case and make its best efforts to ensure its rights as a creditor.

(VII) Guangdong Dahua Delu Certified Public Accountants Issued A Qualified Auditor's Report for the 2008 Annual Report of the Company. The Detailed Explanation Given by the Independent Non-executive Directors of the Company on the Matters Relating to the Audit Opinion is as follows:

The Independent Non-executive Directors of the Company studied and considered the matters relating to the report, and reviewed the detailed explanation on matters relating to the audit opinion rendered by the sixth session of the Board of the Company. The Independent Non-executive Directors of the Company consented to such explanation on matters relating to the audit opinion from the sixth session of the Board of the Company.

(VIII) Guangdong Dahua Delu Certified Public Accountants Issued a Qualified Auditor's Report for the 2008 Annual Report of the Company. The Detailed Explanation Given by the Supervisory Comittiee of the Company on the matters relating to the Audit Opinion is as follows:

The Supervisory Committee of the Company reviewed the detailed explanation on matters relating to the audit opinion rendered by the sixth session of the Board of the Company, and consented to such explanation on the abovementioned matters from the sixth session of the Board of the Company.

DEFINITIONS

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

"Company", "the Company"	Hisense Kelon Electrical Holdings Company Limited
"Hisense Air-Conditioning"	Qingdao Hisense Air-conditioning Company Limited
"Hisense Electrical Appliances"	Qingdao Hisense Electric Co., Ltd.
"Hisense Group"	Hisense Group Company
"Hisense Hong Kong"	Hisense International (HK) Limited
"Guangdong Greencool"	Guangdong Greencool Enterprise Development Company Limited
"Greencool Companies"	Guangdong Greencool and other related parties
"Kelon Air-Conditioner"	Guangdong Kelon Air-Conditioner Co., Ltd.
"Kelon Fittings"	Guangdong Kelon Fittings Co., Ltd.
"Chengdu Kelon"	Hisense (Chengdu) Refrigerator Co., Ltd.
"Jiangxi Kelon"	Jiangxi Kelon Industrial Development Co., Ltd.
"Yangzhou Kelon"	Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.
"Huayi Compressor"	Huayi Compressor Holdings Company Limited
"Tianjin Greencool"	Greencool Refrigerant (China) Company Limited

"Hainan Greencool"	Hainan Greencool Environmental Protection Engineering Co. Ltd.
"Jinan San Ai Fu"	Jinan San Ai Fu Petrochemical Company Limited
"Greencool Procurement"	Greencool Procurement (Shenzhen) Co., Ltd.
"Chengdu Xinxing"	Chengdu Xinxing Electrical Appliance Holdings Company Limited
"Yangzhou Greencool"	Yangzhou Greencool Venture Capital Company Limited
"Keda Plastic"	Jiangxi Keda Plastic Technology Company Limited
"Wuhan Changrong"	Wuhan Changrong Electrical Appliance Company Limited
"Zhuhai Longjia"	Zhuhai City Longjia Refrigerant Co., Ltd.
"Zhuhai Defa"	Zhuhai Defa Air-conditioner Fittings Company Limited
"Hefei Weixi"	Hefei Weixi Home Appliances Co., Ltd.
"Zhuhai Greencool"	Zhuhai Greencool Refrigeration and Engineering Co., Limited
"Beijing Greencool"	Beijing Greencool Refrigerant Replacement Engineering Co., Limited
"Shenzhen Greencool Technology"	Greencool Technology Development (Shenzhen) Company Limited
"Shenzhen Greencool Environmental"	Greencool Technology Environmental Protection Engineering (Shenzhen) Co., Ltd.
"Hangxiao Ganggou"	Zhejiang Hangzhou Hangxiao Ganggou Holdings Company Limited
"Intermediate People's Court of Foshan City"	Intermediate People's Court of Foshan City
"CSRC"	China Securities Regulatory Commission
"Shenzhen Stock Exchange"	Shenzhen Stock Exchange
"RMB"	Renminbi
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

Report of the Supervisory Committee

Dear shareholders:

During the Reporting Period, the supervisory committee of Hisense Kelon Electrical Holdings Company Limited has faithfully discharged its duties to protect the lawful interests of the Company, its staff and shareholders in compliance with the relevant requirements of the Company Law of the PRC, the Listing Rules of Shenzhen Stock Exchange, and the articles of association of the Company. We would like to report to you the work of the Supervisory Committee during 2008 in accordance with the articles of association of the Company:

I. MEETINGS OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

During the Reporting Period, the Supervisory Committee held a total of five meetings:

1. A supervisory committee meeting was held in the meeting room at the headquarter of the Company on 24 April 2008. The Company's 2007 annual report and the relevant issues were approved at the meeting.

2. A supervisory committee meeting was held in the meeting room at the headquarter of the Company on 25 April 2008. The Company's 2008 first quarterly report was approved at the meeting.

3. A supervisory committee meeting was held by way of written resolutions on 7 August 2008. A resolution relating to the replacement of the supervisor acting as representative of Shareholders was approved at the meeting. Mr. Gao Zhong Xiang was nominated as the supervisor candidate of the sixth supervisory committee to represent Shareholders.

4. A supervisory committee meeting was held in the meeting room at the headquarter of the Company on 21 August 2008. The Company's 2008 interim report was approved at the meeting.

5. A supervisory committee meeting was held by way of written resolutions on 28 October 2008. The Company's 2008 third quarterly report was approved at the meeting.

II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2008

According to the relevant requirements under the Company Law of the PRC and the articles of association of the Company, the sixth session of the Supervisory Committee of the Company has expressed its independent opinion on relevant affairs of the Company during the Reporting Period as follows:

1. During the Reporting period, the Company has formulated and perfected its control systems, the Company's decision-making procedures of were lawful, and no material breach of law, regulations and the articles of association of the Company or any actions against the interest of the Company were found when the directors and members of the Senior management of the Company performed their duties during the Reporting Period. The self evaluation report on the Company's internal control truthfully and objectively reflects status of the establishment and implementation of the Company's internal control systems.

2. During the Reporting Period, the Company had no capital raising activity.

3. During the Reporting Period, the prices for disposal of the Company's assets are reasonable. There is neither any insider dealing nor any prejudice to the shareholders' interests or any loss of the assets of the Company.

4. During the Reporting Period, the connected transactions the Company entered into with the connected parties were fair and reasonable and the prices were fairly determined without prejudicing the interests of any non-connected shareholders and the listed Company.

5. Guangdong Dahua Delu Certified Public Accountants has audited the Company's financial statement for the year ended 2008 and issued an Auditor's Report with qualified opinions. In the opinion of the Supervisory Committee, the Auditor's Report was fair and objective, and the current financial statement has truthfully reflected the state of financial condition and operating results of the Company.

6. The Supervisory Committee has reviewed the specific explanations provided by the sixth session of the Board of the Company regarding the issues contained in the qualified opinions from auditors. The Supervisory Committee has agreed to such specific explanations.

Corporate Information

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Foshan, Guangdong Province
China

PLACE OF BUSINESS IN HONG KONG

Room 3104-06,
Singga Commercial Centre,
No. 148 Connaught Road West,
Hong Kong

SECRETARY FOR THE BOARD OF DIRECTORS & COMPANY SECRETARY

Secretary for the Board of Directors:
Yu Wan Li
Company Secretary:
Chen Zhen Wen

AUTHORIZED REPRESENTATIVES

Liu Chun Xin
Chen Zhen Wen

SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
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LEGAL ADVISERS

China: Guangdong Guardian Law Firm
26th Floor North of Yuexiu City Square
445 Dongfengzhong Road, Guangzhou

Hong Kong: Huen Wong & Co. in association
with Fried, Frank, Harris, Shriver & Jacobson LLP
9th Floor Gloucester Tower
The Landmark 15 Queen's Road Central
Hong Kong

BANKERS IN CHINA

The Industrial and Commercial Bank of China
China Construction Bank
Bank of China
China Everbright Bank
China Minsheng Bank
Guangdong Development Bank
Bank of Communications
China Merchant Bank
Agricultural Bank of China
Shenzhen Development Bank
Standard Chartered Bank PLC Shenzhen Branch
The Rural Credit Cooperative of Shunde District Foshan City

BANKERS IN HONG KONG

Bank of Communications Co. Ltd.
Hong Kong Branch

BDO McCabe Lo Limited
Certified Public Accountants
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TO THE SHAREHOLDERS OF
HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED
(海信科龍電器股份有限公司)
(A joint stock limited company established in the People's Republic of China with limited liability)

We have audited the financial statements of Hisense Kelon Electrical Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 46 to 112, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BASIS FOR QUALIFIED OPINION

It was reported by the Company that the previous controlling shareholder, Guangdong Greencool Enterprise Development Company Limited ("Greencool Enterprise"), had entered into a series of activities/transactions during the period from 2001 to 2005 which had been harmful to the Group, including but not limited to unauthorised use of the Group's funds, fictitious sales of goods and scrap materials, unreasonable prepayments and purchases of raw materials and property, plant and equipment at unreasonable quantities and prices. These transactions were conducted through Greencool Enterprise, its affiliates and/or companies suspected to be connected with the Company's former chairman, Mr. Gu Chu Jun ("Mr. Gu"). As at 31 December 2008, the aggregate amount of receivables due from these companies was approximately RMB285 million (net of an accumulated impairment loss of RMB365 million) which were reflected in the consolidated balance sheet at 31 December 2008 as "Amounts due from Greencool Enterprise and its affiliates" and "Amounts due from companies suspected to be connected with Mr. Gu" within current assets.

During the year ended 31 December 2008, legal proceedings which were previously initiated against Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu have reached court judgements which mostly ruled in favour of the Company. However, certain court judgments are under further appeal and the enforcement of court judgements has not been completed. Due to the uncertainty on the final outcome of the legal proceedings and execution of court judgements, we are unable to satisfy ourselves as to the appropriateness of the accumulated impairment amounts and the recoverability of the carrying amounts of receivable due from these companies. Any adjustments found to be necessary would affect the opening accumulated losses as at 1 January 2008, the net liabilities as at 31 December 2008 and the loss for the year then ended.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matters set out in the basis for qualified opinion section of this report, the financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2008 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without further qualifying our opinion, we draw attention to note 2(b) to the financial statements which indicates that the Company incurred a net loss of RMB238 million during the year ended 31 December 2008 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB2,850 million. These conditions, along with other matters as set forth in note 2(b) to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The directors are of the opinion that the Group will have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due for the foreseeable future and have prepared the consolidated financial statements on a going concern basis.

BDO McCabe Lo Limited
Certified Public Accountants
Chow Tak Sing, Peter
Practising Certificate Number P04659

Hong Kong, 16 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Turnover	5	**8,052,909**	8,319,960
Cost of sales		**(6,816,609)**	(6,942,789)
Gross profit		**1,236,300**	1,377,171
Other income and gains	7	**201,701**	570,905
Distribution costs		**(1,081,498)**	(1,126,269)
Administrative expenses		**(432,835)**	(397,500)
Other operating expenses	8	**(71,529)**	(133,500)
(Loss)/profit from operations		**(147,861)**	290,807
Share of results of associates		**4,197**	2,247
Finance costs	10	**(89,771)**	(78,530)
(Loss)/profit before income tax	11	**(233,435)**	214,524
Income tax expense	14	**(4,085)**	(10,867)
(Loss)/profit for the year		**(237,520)**	203,657
Attributable to:			
— Equity holders of the Company		**(231,896)**	238,712
— Minority interests		**(5,624)**	(35,055)
		(237,520)	203,657
Dividends		**—**	—
(Loss)/earnings per share attributable to equity holders of the Company	15		
— Basic and diluted		**RMB(0.23)**	RMB0.24

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*16*	**1,363,074**	1,383,062
Investment properties	*17*	**35,565**	38,192
Payments for leasehold land held for own use under operating leases	*18*	**286,835**	305,392
Interests in associates	*20*	**86,589**	82,839
Interests in jointly controlled entity	*21*	**33,750**	—
Available-for-sale financial assets	*22*	**4,550**	1,220
Intangible assets	*23*	**167,135**	168,112
Goodwill	*24*	**—**	—
Deferred tax assets	*25*	**13,647**	11,300
Total non-current assets		**1,991,145**	1,990,117
Current assets			
Inventories	*26*	**505,528**	940,284
Trade and other receivables	*27*	**1,050,415**	1,307,209
Taxation recoverable		**943**	585
Other financial assets	*28*	**6,019**	9,479
Pledged bank deposits		**23,240**	70,133
Cash and cash equivalents		**110,216**	76,395
Total current assets		**1,696,361**	2,404,085
Non-current assets held for sale	*29*	**—**	20,369
Total assets		**3,687,506**	4,414,571
LIABILITIES			
Current liabilities			
Trade and other payables	*30*	**2,178,071**	3,093,181
Trade deposits received		**354,243**	406,379
Other financial liabilities	*28*	**13,611**	6,158
Provisions	*31*	**114,215**	144,006
Taxation payable		**27,342**	27,856
Other liabilities	*32*	**43,704**	55,793
Borrowings	*33*	**1,814,948**	1,310,972
Total current liabilities		**4,546,134**	5,044,345

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Net current liabilities		**(2,849,773)**	(2,640,260)
NET LIABILITIES		**(858,628)**	(629,774)
Capital and reserves attributable to equity holders of the Company			
Share capital	*34*	**992,007**	992,007
Share premium		**1,195,597**	1,195,597
Statutory reserves	*43(a)*	**114,581**	114,581
Capital reserve		**266,638**	266,672
Foreign exchange reserve		**37,891**	29,111
Accumulated losses		**(3,614,636)**	(3,382,740)
Equity attributable to equity holders of the Company		**(1,007,922)**	(784,772)
Minority interests		**149,294**	154,998
TOTAL EQUITY		**(858,628)**	(629,774)

On behalf of the Board

Tang Ye Guo
Director

Liu Chun Xin
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Share capital *RMB'000*	Share premium *RMB'000*	Statutory reserves *(Note 43(a))* *RMB'000*	Capital reserve *RMB'000*	Foreign exchange reserve *RMB'000*	Accumulated losses *RMB'000*	Equity attributable to equity holders of the Company *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
As at 1 January 2007	992,007	1,195,597	114,581	309,733	14,956	(3,621,452)	(994,578)	266,647	(727,931)
Share of reserves of associates	—	—	—	1,611	—	—	1,611	—	1,611
Acquisition of additional interests in a subsidiary *(Note 38)*	—	—	—	(44,672)	—	—	(44,672)	(36,716)	(81,388)
Disposal of a subsidiary *(Note 39)*	—	—	—	—	—	—	—	(36,880)	(36,880)
Exchange differences on translation	—	—	—	—	14,155	—	14,155	(2,998)	11,157
Profit for the year	—	—	—	—	—	238,712	238,712	(35,055)	203,657
As at 31 December 2007	992,007	1,195,597	114,581	266,672	29,111	(3,382,740)	(784,772)	154,998	(629,774)
As at 1 January 2008	**992,007**	**1,195,597**	**114,581**	**266,672**	**29,111**	**(3,382,740)**	**(784,772)**	**154,998**	**(629,774)**
Share of reserves of associates	**—**	**—**	**—**	**(34)**	**—**	**—**	**(34)**	**—**	**(34)**
Additional interest acquired in subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(80)**	**(80)**
Exchange differences on translation	**—**	**—**	**—**	**—**	**8,780**	**—**	**8,780**	**—**	**8,780**
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(231,896)**	**(231,896)**	**(5,624)**	**(237,520)**
As at 31 December 2008	**992,007**	**1,195,597**	**114,581**	**266,638**	**37,891**	**(3,614,636)**	**(1,007,922)**	**149,294**	**(858,628)**

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008	2007
	RMB'000	*RMB'000*
Cash flows from operating activities		
(Loss)/profit before income tax	**(233,435)**	214,524
Adjustments for:		
Share of results of associates	**(4,197)**	(2,247)
Interest income	**(1,447)**	(3,753)
Interest expense	**89,771**	67,905
Depreciation of property, plant and equipment	**214,386**	236,181
Depreciation of investment properties	**2,627**	3,687
Amortisation of intangible assets	**7,892**	3,919
Amortisation of payments for leasehold land held for own use under operating leases	**13,042**	15,555
Impairment loss on property, plant and equipment	**5,056**	26,658
Impairment loss on intangible assets	**—**	1,282
Impairment loss on payments for leasehold land held for own use under operating leases	**—**	17,189
(Gain)/loss on disposal of property, plant and equipment, net	**(2,975)**	50,556
Impairment loss on trade and other receivables	**14,369**	13,546
Partial recovery of an impaired receivable	**—**	(57,072)
Reversal of impairment loss on trade and other receivables	**(2,095)**	(12,564)
Write down of inventories to net realisable value, net	**17,428**	11,954
Gain on disposal of investment properties	**—**	(60,258)
Loss/(gain) on disposal of a subsidiary	**10,568**	(4,509)
Gain on disposal of payments for leasehold land held for own use under operating leases	**—**	(284,351)
Loss/(gain) on fair value change of other financial assets and other financial liabilities, net	**10,913**	(3,104)
Gain on disposal of an associate	**(296)**	—
Gain on disposal of non-current assets held for sale	**(52,888)**	—
Operating profit before working capital changes	**88,719**	235,098
Decrease/(increase) in inventories	**416,018**	(33,310)
Increase in trade and other receivables	**(31,475)**	(133,790)
(Decrease)/increase in trade and other payables	**(754,744)**	32,274
Decrease in trade deposits received	**(52,136)**	(80,577)
Decrease in provisions	**(29,791)**	(25,989)
Decrease in other liabilities	**(12,089)**	(4,779)
Cash used in operations	**(375,498)**	(11,073)
Tax (paid)/refund, net	**(7,304)**	655
Net cash flows used in operating activities	**(382,802)**	(10,418)

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Cash flows from investing activities			
Purchase of property, plant and equipment		**(276,485)**	(236,149)
Purchase of intangible assets		**(7,647)**	(47,482)
Proceeds from disposal of property, plant and equipment		**46,437**	197,544
Decrease in pledged bank deposits		**46,893**	178,124
Purchase of investment properties		**—**	(1,035)
Proceeds from disposal of investment properties		**5,233**	100,289
Proceeds from disposal of an associate		**709**	—
Proceeds from disposal of available-for-sale financial assets		**2,920**	—
Proceeds from disposal of non-current assets held for sale		**10,573**	—
Purchase of payments for leasehold land held for own use under operating leases		**—**	(16,605)
Investment in available-for-sale financial assets		**(6,250)**	(1,220)
Disposal of a subsidiary, net of cash acquired/(disposed)	*39*	**415**	(23)
Interest received		**1,447**	3,753
Proceeds from disposal of payments for leasehold land held for own use under operating leases		**195,258**	131,485
Investment in a jointly controlled entity		**(33,750)**	—
Net cash flows (used in)/from investing activities		**(14,247)**	308,681
Cash flows from financing activities			
Borrowings raised		**2,448,943**	1,780,780
Interest paid		**(89,771)**	(67,905)
Proceeds on transfer of trade and other receivables		**—**	142,000
Repayment of borrowings		**(1,926,966)**	(2,026,510)
Repayment to a shareholder		**—**	(191,004)
Net cash flows from/(used in) financing activities		**432,206**	(362,639)
Net increase/(decrease) in cash and cash equivalents		**35,157**	(64,376)
Cash and cash equivalents at beginning of the year		**76,395**	142,247
Effect of foreign exchange rate changes		**(1,336)**	(1,476)
Cash and cash equivalents at end of year representing cash and bank balances	*40*	**110,216**	76,395

1. GENERAL INFORMATION

Hisense Kelon Electrical Holdings Company Limited (the "Company") is a public limited company incorporated in the People's Republic of China (hereinafter referred to as the "PRC") on 16 December 1992. Its H shares are listed on The Stock Exchange of Hong Kong Limited on 23 July 1996 and its A shares are listed on the Shenzhen Stock Exchange on 13 July 1999.

The Company was formerly named Guangdong Kelon Electrical Holdings Company Limited (廣東科龍電器股份有限公司) and has changed its name to Hisense Kelon Electrical Holdings Company Limited (海信科龍電器股份有限公司) since 21 June 2007.

As at 31 December 2006, Qingdao Hisense Air-Conditioner Company Limited ("Hisense Air-Conditioner") held 262,212,194 shares of domestic legal person shares of the Company, representing 26.43% of total share capital of the Company.

In December 2006, a share reform scheme (the "Share Reform Scheme") was set up for converting the Company's domestic legal person shares, which were not freely transferable, into the Company's freely transferable A shares (the "Transferable Shares"). Pursuant to the provisions in the Share Reform Scheme, Hisense Air-Conditioner undertakes that it will make advance allocation of shares to respective A shares shareholders on behalf of other domestic legal person shareholders who have not explicitly given consent to participate in the Share Reform Scheme. As a result, Hisense Air-Conditioner obtained 238,872,074 Transferable Shares of the Company subject to certain selling restrictions on 29 March 2007 when the Share Reform Scheme was approved in the A shares general meeting.

On 28 March 2008, the proposed Acquisition of White Goods Assets of Hisense Air-Conditioner (the "Acquisition") was rejected by the Merger and Reorganisation Review Committee of the CSRC (China Securities Regulatory Commission). Pursuant to the Share Reform Scheme completed on 29 March 2007, Hisense Air-Conditioner made a compensation of 9,725,059 shares calculated based on 0.5 shares for every 10 transferable A shares held by such holders as registered on 10 April 2008 as that the Acquisition was not completed by 29 March 2008. The share held by Hisense Air-Conditioner was reduced to 229,147,015 shares, representing 23.10% of the Company's total share capital.

On 10 April 2008 and 19 June 2008, two domestic legal person shareholders joined to convert their non-freely transferable shares into the Transferable Shares of the Company. Pursuant to the provisions in the Share Reform Scheme, these domestic legal person shareholders availed 5,228,907 A shares to Hisense Air-Conditioner. Accordingly, the total number of A shares held by Hisense Air-Conditioner were increased to 234,375,922 shares, representing 23.63% of the Company's total share capital.

As at 31 December 2008, Hisense Air-Conditioner held 250,173,722 shares representing 25.22% of the Company's total share capital and continued to be the major single largest shareholder of the Company.

The English names by which some of the companies are referred to in these financial statements represent management's best efforts in translating their Chinese names as no English names have been registered for these companies. The Group, comprising the Company and its subsidiaries, is principally engaged in the manufacture and sale of refrigerators and air-conditioners. The address of the registered office and principal place of business of the Company is No. 8 Ronggang Road, Ronggui, Shunde, Foshan, the PRC.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB. IFRSs include International Financial Reporting Standards, International Accounting Standards ("IAS") and Interpretations (collectively referred to as "IFRSs"). In addition, the consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of preparation

As at 31 December 2008, the Group incurred a loss of RMB238 million and accumulated losses of approximately RMB3,615 million. Its current liabilities exceeded current assets by approximately RMB2,850 million (2007: RMB2,640 million) in which the Group has outstanding short-term loans in the aggregate of approximately RMB1,815 million (2007: RMB1,311 million). These conditions indicate the existence of a material uncertainty, which may cast significant doubt on the Group's ability to continue as a going concern. Nevertheless, the directors are of the opinion that the Group will be able to finance its future working capital and financial requirements based on (i) loan and draft discount financing available from Hisense Finance Company Ltd. ("Hisense Finance") with maximum loan amount and service fee payable not exceeding annual cap of RMB1 billion and RMB25 million respectively on a revolving basis; (ii) continuous financial support available from Hisense Group Holdings Company Ltd. ("Hisense Group"), the holding company of Hisense Air-Conditioner in form of providing corporate guarantees to lenders; and (iii) cash flow forecasts projected by the Group's management showing adequate cash flows from its future operation.

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries, the Group's interests in associates and jointly controlled entity. The measurement basis used in the preparation of the financial statements is historical cost except for certain financial instruments which are measured at fair value as explained in the accounting policies set out below.

(c) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are disclosed in Note 45.

(d) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

(a) Application of International Financial Reporting Standards

In the current year, the Group has applied, for the first time, the following amendments and new interpretations issued by the IASB and IFRIC that are effective for the current accounting period of the Group. The adoption of the following amendments and new interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods and no prior period adjustment has been recognised.

Amendments to IAS 39 and IFRS 7	Reclassification of Financial Assets
IFRIC – Interpretation 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC – Interpretation 12	Service Concession Arrangements
IFRIC – Interpretation 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

(b) Potential impact arising on the new accounting standards not yet effective

The Group has not yet applied the following new standards, amendment or interpretations that have been issued but are not yet effective. There will be changes in disclosure required by IFRS 8 and IAS 1 (Revised) and the adoption of IAS 23 (Revised) may result in changes in accounting policies in future. The adoption of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company are in the process of making an assessment of the potential impact of the application of the other new or revised standards, amendments and interpretations and it is so far concluded that there will have no material effect on how the results and financial position of the Group are prepared and presented.

IFRSs (Amendments)	Improvements to IFRSs[1]
Amendments to IFRS 1 and IAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
Amendments to IFRS 7	Improving Disclosures about Financial Instruments[2]
Amendments to IFRIC – Int 9 and IAS 39	Embedded Derivatives[4]
IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards[3]
IFRS 2 Amendment	Share-based Payments – Vesting Conditions and Cancellations[2]
IFRS 3 (Revised)	Business Combinations[3]
IFRS 8	Operating Segments[2]

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

(b) Potential impact arising on the new accounting standards not yet effective *(continued)*

IAS 1 (Revised)	Presentation of Financial Statements[2]
IAS 23 (Revised)	Borrowing Costs[2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
Amendments to IAS 32 and IAS1	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
Amendment to IAS 39	Eligible Hedged Items[3]
IFRIC – Interpretation 13	Customer Loyalty Programmes[5]
IFRIC – Interpretation 15	Agreements for the Construction of Real Estate[2]
IFRIC – Interpretation 16	Hedges of a Net Investment in a Foreign Operation[6]
IFRIC – Interpretation 17	Distributions of Non-cash Assets to Owners[3]
IFRIC – Interpretation 18	Transfer of Assets from Customers[7]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009

[3] Effective for annual periods beginning on or after 1 July 2009

[4] Effective for annual periods ending on or after 30 June 2009

[5] Effective for annual periods beginning on or after 1 July 2008

[6] Effective for annual periods beginning on or after 1 October 2008

[7] Effective for transfer of assets from customers received on or after 1 July 2009

4. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group") as at 31 December each year. Inter-company transactions and balances between group companies are therefore eliminated in full in preparing the consolidated financial statements.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year attributable to minority interests and the equity shareholders of the Company.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Basis of consolidation *(continued)*

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

(c) Associates

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, that other entity is classified as an associate. Associates are accounted for using equity method whereby they are initially recognised in the consolidated balance sheet at cost and thereafter, their carrying values are adjusted for Group's share of the post-acquisition change in the associate's net assets — except that losses in excess of the Group's investment in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment and is not amortised or separately tested for impairment, but the entire carrying amount of investment is subject to impairment test in accordance with IAS 36 (Note 4(s)).

(d) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The Group's share of post acquisition results of jointly controlled entity is included in the consolidated income statement. The Group's interests in jointly controlled entity is accounted for using the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition changes in the Group's share of the net assets of the jointly controlled entity.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Joint ventures *(continued)*

Results of jointly controlled entity are accounted for by the Company on the basis of dividends received and receivable. The Company's interests in jointly controlled entities are stated at cost less impairment losses, if any.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entity is eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are immediately recognised in the income statement.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill arising from acquisition of a subsidiary is capitalised as a separate asset with any impairment in carrying value being charged to the consolidated income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated income statement.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the item.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) Property, plant and equipment *(continued)*

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date. The useful lives are as follows:

Leasehold land and buildings	20 to 50 years
Plant, machinery and equipment	5 to 10 years
Moulds	3 years
Motor vehicles	5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Construction in progress represents buildings, plant and machinery on which construction work has not been completed and which, upon completion, management intends to hold for production purposes. Construction in progress is carried at costs which include development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses. On completion, construction in progress is transferred to other property, plant and equipment at cost less accumulated impairment losses. No depreciation is provided in respect of construction in progress until it is completed and is ready for its intended use.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

(g) Investment properties

Investment properties are properties held to earn rentals or for capital appreciation and not occupied by the Group. Investment properties are carried at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided using the straight-line method to write off the cost of the investment properties over their estimated useful lives of 20 to 50 years. Where the carrying amount of an investment property is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

(h) Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis to the consolidated income statement.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the consolidated income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are charged to the consolidated income statement on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification. When the lease payments cannot be allocated reliably between land and building elements, the entire lease payments are included in the cost of leasehold land and buildings as a finance lease in property, plant and equipment.

(j) Intangible assets (other than goodwill)

(i) Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over their useful lives. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense and impairment loss are included within administrative expenses in the consolidated income statement.

Intangible assets separate from goodwill, are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

The significant intangibles recognised by the Group, their useful economic lives are as follows:

Intangible	**Useful economic life**
Trademarks	Indefinite
Software	4 years
Non-patented technologies	4 to 10 years

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Intangible assets (other than goodwill) *(continued)*

(ii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- It is technically feasible to develop the product for it to be sold;
- Adequate resources are available to complete the development;
- There is an intention to complete and sell the product;
- The Group is able to sell the product;
- Sale of the product will generate future economic benefits; and
- Expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is included within administrative expenses in the consolidated income statement.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the consolidated income statement as incurred.

(iii) Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired.

(k) Financial instruments

(i) Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Financial instruments *(continued)*

(i) Financial assets *(continued)*

Financial assets at fair value through profit or loss: These assets include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognised in the consolidated income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that the separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or loss on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets: These assets are non-derivative financial assets that are designated as available for sale or are not included in other categories of financial assets and comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. At each balance sheet date subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised directly in equity.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Financial instruments *(continued)*

(ii) Impairment loss on financial assets

Objective evidence that the asset is impaired includes observable data that comes to the attention of the Group including the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtors' financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loans and receivables

An allowance for impairment loss is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount is recognised in the income statement. When the asset is uncollectible, it is written off against the allowance account. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the consolidated income statement.

Any impairment loss recognised in the consolidated income statement on available-for-sale debt investments is subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

(iii) Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value net of transaction costs that are directly attributable to the issue of the financial liabilities.

Financial liabilities at fair value through profit or loss: Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Financial instruments *(continued)*

(iii) Financial liabilities *(continued)*

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the consolidated income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise.

Financial liabilities at amortised cost include the following items:

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently measured at amortised cost using effective interest method.

- Bank borrowings and the debt element of convertible debt issued by the Group, which are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Gains or losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

(iv) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Financial instruments *(continued)*

(v) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IAS 39.

The Group derecognises a financial liability when the obligation under the liability is discharged or cancelled or expired.

(l) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in the consolidated income statement up to the date of disposal.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes. Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Subsidy income is recognised when the rights to receive the income is established and approved.

Penalty income is recognised when triggering events to receive payment occur and the amount of payment can be reliably measured.

(o) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income taxes are recognised in the consolidated income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

(p) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(p) Foreign currency *(continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of foreign operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to the foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the foreign exchange reserve.

(q) Employee benefits

The Group's subsidiaries incorporated in the PRC makes monthly contributions to a state-sponsored defined contribution scheme for the local staff. The contributions are made at a specific percentage on the standard salary pursuant to laws of the PRC and relevant regulation issued by local social security authorities.

In addition, the Group manages a defined contribution Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee for those employees who are eligible to participate in the MPF scheme. The Group makes contributions based on a percentage of the eligible employees' salaries funded by the Group and are charged to the income statement as they become payable in accordance with the rules of the MPF scheme.

(r) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(s) Impairment of other assets

At each balance sheet date, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment and investment properties;
- payments for leasehold land held for own use under operating lease;
- interests in associates; and
- interests in jointly controlled entity.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(t) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated. Provisions are not recognised for future operating losses.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Warranty obligation

The Group provides free repairing services for its products and free replacement of the major components of its products for one to three years after sales.

The costs of the warranty obligation under which the Group agrees to remedy defects in its products are accrued at the time the related sales are recognised. Provision for warranty is accrued based on the estimated costs of fulfilling the total obligation, including handling and transportation costs. The costs are estimated by management based on sales volume and past experience of repairs or returns. The assumptions used to estimate the warranty provision are reviewed periodically in light of actual results.

5. TURNOVER

Turnover and revenue represent the net amounts received and receivable for goods sold during the year. An analysis of the Group's revenue for the year is as follows:

	2008	2007
	RMB'000	*RMB'000*
Sales of refrigerators	**4,189,049**	4,324,808
Sales of air-conditioners	**3,024,028**	3,214,875
Sales of freezers	**397,572**	324,821
Sales of product components	**442,260**	455,456
	8,052,909	8,319,960

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group is organised into four main operating divisions – refrigerators, air-conditioners, freezers and product components. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Year ended 31 December 2008

(i) Consolidated income statement

	Refrigerators	**Air-conditioners**	**Freezers**	**Product components**	**Elimination**	**Consolidated**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Turnover						
External sales	**4,189,049**	**3,024,028**	**397,572**	**442,260**	**—**	**8,052,909**
Inter-segment sales	**—**	**—**	**—**	**406,148**	**(406,148)**	**—**
Total revenue	**4,189,049**	**3,024,028**	**397,572**	**848,408**	**(406,148)**	**8,052,909**

Inter-segment sales are charged at prevailing market rates.

Result						
Segment result	**(10,256)**	**(89,570)**	**2,518**	**(28,971)**	**—**	**(126,279)**
Unallocated corporate expenses						**(21,582)**
Share of results of associates	**2,183**	**1,560**	**207**	**247**	**—**	**4,197**
Finance costs						**(89,771)**
Loss before income tax expense						**(233,435)**
Income tax expense						**(4,085)**
Loss for the year						**(237,520)**

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Year ended 31 December 2008 *(continued)*

(ii) Consolidated balance sheet

	Refrigerators	Air-conditioners	Freezers	Product components	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets					
Segment assets	1,806,597	952,716	173,896	428,188	3,361,397
Interests in associates	56,283	28,574	1,732	—	86,589
Unallocated corporate assets					239,520
Consolidated total assets					3,687,506
Liabilities					
Segment liabilities	1,403,727	854,319	120,234	206,043	2,584,323
Unallocated corporate liabilities					1,961,811
Consolidated total liabilities					4,546,134

(iii) Other information

	Refrigerators	Air-conditioners	Freezers	Product components	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Additions of property, plant and equipment	187,453	33,026	27,658	26,363	274,500
Additions of intangible assets	4,484	2,263	600	300	7,647
Depreciation of property, plant and equipment	108,686	66,358	9,490	29,852	214,386
Depreciation of investment properties	2,003	598	26	—	2,627
Amortisation of intangible assets	4,253	3,166	230	243	7,892
Amortisation of payments for leasehold land held for own use under operating leases	8,244	2,923	735	1,140	13,042
Impairment loss on property, plant and equipment	—	—	—	5,056	5,056
Gain/(loss) on disposal of property, plant and equipment, net	309	(306)	(2,662)	(316)	(2,975)
Gain on disposal of non-current assets held for sale	34,623	17,499	766	—	52,888
Write down of inventories to net realisable value, net	3,980	11,520	497	1,431	17,428

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Year ended 31 December 2007

(i) Consolidated income statement

	Refrigerators *RMB'000*	Air-conditioners *RMB'000*	Freezers *RMB'000*	Product components *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Turnover						
External sales	4,324,808	3,214,875	324,821	455,456	—	8,319,960
Inter-segment sales	—	—	—	603,559	(603,559)	—
Total revenue	4,324,808	3,214,875	324,821	1,059,015	(603,559)	8,319,960

Inter-segment sales are charged at prevailing market rates.

	Refrigerators *RMB'000*	Air-conditioners *RMB'000*	Freezers *RMB'000*	Product components *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Result						
Segment result	305,559	9,872	17,464	(24,940)	—	307,955
Unallocated corporate expenses						(17,148)
Share of results of associates	1,168	868	88	123	—	2,247
Finance costs						(78,530)
Profit before income tax expense						214,524
Income tax expense						(10,867)
Profit for the year						203,657

(ii) Consolidated balance sheet

	Refrigerators *RMB'000*	Air-conditioners *RMB'000*	Freezers *RMB'000*	Product components *RMB'000*	Consolidated *RMB'000*
Assets					
Segment assets	2,290,306	1,212,432	166,650	471,722	4,141,110
Interests in associates	49,680	32,247	842	70	82,839
Unallocated corporate assets					190,622
Consolidated total assets					4,414,571
Liabilities					
Segment liabilities	1,871,830	1,375,441	108,200	237,725	3,593,196
Unallocated corporate liabilities					1,451,149
Consolidated total liabilities					5,044,345

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Year ended 31 December 2007 *(continued)*

(iii) Other information

	Refrigerators	Air-conditioners	Freezers	Product components	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Additions of property, plant and equipment	232,366	44,458	11,464	20,733	309,021
Additions of investment properties	619	405	11	—	1,035
Additions of payments for leasehold land held for own use under operating leases	16,605	—	—	—	16,605
Additions of intangible assets	26,327	20,395	464	296	47,482
Depreciation of property, plant and equipment	115,296	72,579	10,284	38,022	236,181
Depreciation of investment properties	2,462	1,120	29	76	3,687
Amortisation of intangible assets	1,212	1,032	123	1,552	3,919
Amortisation of payments for leasehold land held for own use under operating leases	9,310	4,092	723	1,430	15,555
Impairment loss on property, plant and equipment	1,564	—	—	25,094	26,658
Impairment loss on intangible assets	—	—	—	1,282	1,282
Impairment loss on payments for leasehold land held for own use under operating leases	17,189	—	—	—	17,189
Loss on disposal of property, plant and equipment, net	40,788	7,595	(342)	2,515	50,556
Write down of inventories to net realisable value, net	2,013	846	431	8,664	11,954

Geographical segments

The following table provides an analysis of the Group's turnover by geographical markets with reference to locations of customers:

	2008	2007
	RMB'000	*RMB'000*
The PRC		
Mainland China	**4,908,477**	4,821,614
Hong Kong	**357,652**	257,188
	5,266,129	5,078,802
Europe	**582,678**	883,350
America	**824,377**	926,332
Others	**1,379,725**	1,431,476
	8,052,909	8,319,960

The Group's operations are carried out in the PRC and all of the production facilities of the Group are located in the PRC. Therefore, presentation of segment assets by geographical locations is not shown.

7. OTHER INCOME AND GAINS

An analysis of the Group's other income and gains is as follows:

	2008	2007
	RMB'000	*RMB'000*
Gain on disposal of raw materials	**15,924**	27,190
Gain on disposal of scrap materials	**44,745**	26,694
Gain on disposal of property, plant and equipment	**6,650**	16,040
Gain on disposal of payments for leasehold land held for own use under operating leases	**—**	284,351
Gain on disposal of non-current assets held for sale *(Note 29)*	**52,888**	—
Gain on disposal of investment properties	**—**	60,258
Gain on debts settlement with suppliers	**4,639**	4,422
Gain on fair value change of other financial assets *(Note 28)*	**10,928**	9,479
Gain on disposal of a subsidiary *(Note 39)*	**—**	4,509
Interest income	**1,447**	3,753
Penalty income *(i)*	**9,509**	12,166
Rental income	**17,757**	20,721
Partial recovery of an impaired receivable	**—**	57,072
Reversal of impairment loss on trade and other receivables *(Note 27)*	**2,095**	12,564
Subsidy income *(ii)*	**23,046**	6,236
Others	**12,073**	25,450
	201,701	570,905

(i) The penalty income represented mainly compensation received from suppliers for the supply of defective materials and parts used in the production. The compensation amount was determined with reference to actual costs incurred by the Group.

(ii) The subsidy income represented mainly subsidies received from relevant authorities in the PRC for encouraging production and business development in Chengdu and relocation of certain manufacturing plants in Shunde.

8. OTHER OPERATING EXPENSES

An analysis of the Group's other operating expenses is as follows:

	2008	2007
	RMB'000	*RMB'000*
Loss on fair value change of other financial liabilities *(Note 28)*	**31,235**	6,375
Loss on disposal of property, plant and equipment	**9,625**	66,596
Impairment loss on intangible assets	**—**	1,282
Impairment loss on payments for leasehold land held for own use under operation leases	**—**	17,189
Impairment loss on property, plant and equipment	**5,056**	26,658
Loss on non-deductible input value added tax	**—**	4,894
Loss on disposal of a subsidiary *(Note 39)*	**10,568**	—
Penalty	**8,752**	2,544
Donation	**2,305**	162
Others	**3,988**	7,800
	71,529	133,500

9. DEPRECIATION AND AMORTISATION

An analysis of the Group's depreciation of property, plant and equipment and investment properties is as follows:

	2008	2007
	RMB'000	*RMB'000*
Amount charged as cost of sales	176,215	191,500
Amount included in distribution costs	6,458	6,346
Amount included in administrative expenses	34,340	40,847
Amount included in other operating expenses	—	1,175
	217,013	239,868

An analysis of the Group's amortisation of intangible assets and payments for leasehold land held for own use under operating leases is as follows:

	2008	2007
	RMB'000	*RMB'000*
Amount included in administrative expenses	20,934	19,474

10. FINANCE COSTS

	2008	2007
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings wholly repayable within five years	66,057	63,597
Discounted note receivables	18,863	4,308
	84,920	67,905
Others	4,851	10,625
	89,771	78,530

11. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is stated after charging:

	2008	2007
	RMB'000	*RMB'000*
Inventories recognised as an expense		
— upon sales of goods	6,799,137	6,932,254
— upon sales of raw materials/scrap materials	493,479	425,839
— write-down of inventories	17,428	11,954
Staff costs (including directors' and supervisors' remuneration)		
— Basic salaries, housing and other allowances and benefits in kind	592,743	589,735
— Defined contribution pension cost	49,162	41,135
	641,905	630,870
Auditors' remuneration	3,567	4,800
Research and development costs	64,112	58,857
Impairment loss on trade and other receivables *(Note 27)*	14,369	13,546
Foreign exchange loss, net	65,773	40,970

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The amounts of emoluments paid and payable to the directors and supervisors of the Company by the Group are as follows:

Year ended 31 December 2008	Fees	Basic salaries, housing and other allowances and benefits in kind	Defined contribution pension cost	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Tang Ye Guo	—	740	4	—	744
Yu Shu Min	—	—	—	—	—
Lin Lan	—	—	—	—	—
Wang Shi Lei *(i)*	—	550	4	—	554
Liu Chun Xin	—	360	4	—	364
Zhang Ming *(iv)*	—	273	4	—	277
Yang Yun Duo *(v)*	—	40	1	—	41
Independent non-executive directors					
Zhang Sheng Ping	60	—	—	—	60
Lu Qing	60	—	—	—	60
Cheung Yui Kai, Warren	240	—	—	—	240
Supervisors					
Guo Qing Cun	—	—	—	—	—
Zhou Zhao Li *(iii)*	—	—	—	—	—
Gao Zhong Xiang *(ii)*	—	—	—	—	—
Liu Zhan Cheng	—	183	4	—	187
	360	2,146	21	—	2,527

(i) Mr. Wang Shi Lei was resigned on 4 December 2008.
(ii) Mr. Gao Zhong Xiang was appointed on 26 August 2008.
(iii) Mr. Zhou Zhao Li was resigned on 7 August 2008.
(iv) Mr. Zhang Ming was appointed on 26 February 2008
(v) Mr. Yang Yun Duo was resigned on 26 February 2008.

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(continued)*

The amounts of emoluments paid and payable to the directors and supervisors of the Company by the Group are as follows:

Year ended 31 December 2007	Fees	Basic salaries, housing and other allowances and benefits in kind	Defined contribution pension cost	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Tang Ye Guo	—	600	15	200	815
Yang Yun Duo *(i)*	—	400	15	160	575
Yu Shu Min	—	—	—	—	—
Lin Lan	—	—	—	—	—
Xiao Jian Lin *(ii)*	—	—	—	—	—
Wang Shi Lei *(iii)*	—	460	13	180	653
Liu Chun Xin *(iv)*	—	117	2	50	169
Independent non-executive directors					
Zhang Sheng Ping	60	—	—	—	60
Lu Qing	60	—	—	—	60
Cheung Yui Kai, Warren	233	—	—	—	233
Supervisors					
Guo Qing Cun	—	—	—	—	—
Zhou Zhao Li	—	—	—	—	—
Liu Zhan Cheng	—	100	4	100	204
	353	1,677	49	690	2,769

(i) Mr. Yang Yun Duo was appointed on 4 January 2007 and resigned on 26 February 2008.
(ii) Mr. Xiao Jian Lin was resigned on 21 June 2007.
(iii) Mr. Wang Shi Lei was appointed on 4 January 2007.
(iv) Ms. Liu Chun Xin was appointed on 8 August 2007.

Bonus granted to directors and supervisors are based on performance and subject to directors' discretion.

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration for the years ended 31 December 2008 and 2007.

None of the directors and supervisors received compensation for the loss of office as a director or a supervisor of the Group in connection with the management of the affairs of the Group for the years ended 31 December 2008 and 2007.

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five highest paid individuals of the Group, two (2007: three) are directors of the Group whose emoluments are included in Note 12 above. The emoluments of the remaining three individuals (2007: two) are as follows:

	2008	2007
	RMB'000	*RMB'000*
Basic salaries, housing and other allowances and benefits in kind	1,357	716
Discretionary bonuses	—	120
	1,357	836

The emoluments set out above of these individuals are within the following bands:

	2008 Number of staff	2007 Number of staff
Nil to RMB909,000 (2007: Nil to RMB969,000) (equivalent to Nil to HKD1,000,000)	3	2

14. INCOME TAX EXPENSE

	2008	2007
	RMB'000	*RMB'000*
Income taxes consist of:		
Current tax		
— PRC enterprise income tax ("EIT")	6,257	266
— Hong Kong Profits Tax	175	514
Deferred tax	(2,347)	10,087
	4,085	10,867

Taxation is calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law"), which took effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate in the PRC changed from 33% to 25% with effect from 1 January 2008.

The Company, Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. and Guangdong Kelon Mould Co., Ltd are entitled to a preferential tax rate of 15% as "high technology" company for 2008.

14. INCOME TAX EXPENSE *(continued)*

Hisense Ronshen Yangzhou Refrigerator Co., Ltd. ("Yangzhou Kelon"), Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon"), and Hisense Ronshen (Guangdong) Freezer Co., Ltd. ("Kelon Freezer") are foreign invested enterprises, enjoying the 5-year tax holiday starting from the first profit making year with full exemption for the first two years, followed by half exemption for the consecutive three years.

Other subsidiaries of the Group, which are established and operating in the PRC are subject to EIT at a standard rate of 25% for the year ended 31 December 2008.

Hong Kong Profits Tax has been changed from 17.5% to the rate of 16.5% and is applied on the assessable profit for the year 2008.

A reconciliation between income tax expense and accounting (loss)/profit at applicable tax rate is as follows:

	2008	2007
	RMB'000	*RMB'000*
(Loss)/profit before income tax	**(233,435)**	214,524
Less: Share of results of associates	**(4,197)**	(2,247)
	(237,632)	212,277
Tax at the PRC statutory rate of 25% (2007: 33%)	**(59,408)**	70,051
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,774)**	(3,087)
Effect of exemption granted and preferential tax treatment	**6,875**	(60,314)
Tax effect of expenses not deductible for tax purposes	**2,580**	25,622
Tax effect of revenue not taxable for tax purposes	**(8,039)**	(9,503)
Tax effect of tax losses and other deductible temporary differences not recognised	**72,843**	24,387
Under provision in respect of prior years	**6,411**	—
Utilisation of tax losses previously not recognised	**(15,403)**	(36,289)
Income tax expense	**4,085**	10,867

At the balance sheet date, deferred tax assets arising on tax losses carried forward had been recognised to the extent it is probable that future taxable profit will be available against which the unused tax losses can be utilised *(Note 25)*.

15. (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted loss/earnings per share attributable to equity holders of the Company for the year is based on the net loss attributable to equity holders of the Company for the year of RMB231,896,000 (2007: net profit attributable to equity holders of the Company of RMB238,712,000) and 992,006,563 shares (2007: 992,006,563 shares) outstanding during the year.

There were no dilutive potential ordinary shares in issue in both years.

16. PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2008

	Leasehold land and buildings *RMB'000*	Plant, machinery and equipment *RMB'000*	Moulds *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost						
At 1 January 2008	1,090,156	1,890,578	227,796	35,004	179,196	3,422,730
Exchange differences	—	(62)	—	(87)	—	(149)
Additions at cost	3,520	61,352	54,762	2,349	152,517	274,500
Disposals	(21,392)	(164,632)	(36,114)	(21,761)	(11,943)	(255,842)
Disposal of a subsidiary *(Note 39)*	(24,408)	(33,717)	—	(180)	—	(58,305)
Reclassification	85,669	126,472	14,559	393	(227,093)	—
At 31 December 2008	1,133,545	1,879,991	261,003	15,718	92,677	3,382,934
Accumulated depreciation and impairment						
At 1 January 2008	426,284	1,408,274	134,757	28,263	42,090	2,039,668
Exchange differences	—	(42)	—	(86)	—	(128)
Depreciation for the year	67,714	84,113	59,858	2,701	—	214,386
Impairment provided for the year	—	5,056	—	—	—	5,056
Elimination on disposals	(10,290)	(151,748)	(29,799)	(20,543)	—	(212,380)
Disposal of a subsidiary *(Note 39)*	(5,845)	(13,060)	—	(129)	(7,708)	(26,742)
Reclassification	—	7,294	14	332	(7,640)	—
At 31 December 2008	477,863	1,339,887	164,830	10,538	26,742	2,019,860
Net book value						
At 31 December 2008	655,682	540,104	96,173	5,180	65,935	1,363,074

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Year ended 31 December 2007

	Leasehold land and buildings *RMB'000*	Plant, machinery and equipment *RMB'000*	Moulds *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost						
At 1 January 2007	1,259,060	2,060,243	227,017	43,432	290,506	3,880,258
Exchange differences	(1,302)	(243)	—	(111)	—	(1,656)
Additions at cost	14,004	39,995	63,906	206	190,910	309,021
Disposals	(177,197)	(302,263)	(59,876)	(8,164)	(28,673)	(576,173)
Disposal of a subsidiary *(Note 39)*	(24,137)	(13,524)	(12,674)	(354)	(15)	(50,704)
Reclassified to investment properties *(Note 17)*	(81,461)	—	—	—	—	(81,461)
Reclassified to non-current assets held for sale	(56,555)	—	—	—	—	(56,555)
Reclassification	157,744	106,370	9,423	(5)	(273,532)	—
At 31 December 2007	1,090,156	1,890,578	227,796	35,004	179,196	3,422,730
Accumulated depreciation and impairment						
At 1 January 2007	492,837	1,547,839	138,712	34,517	53,586	2,267,491
Exchange differences	(749)	(213)	—	(109)	—	(1,071)
Depreciation for the year	72,473	105,386	56,587	1,735	—	236,181
Impairment provided for the year	—	16,050	62	—	10,546	26,658
Elimination on disposals	(62,669)	(258,648)	(48,130)	(7,585)	(22,042)	(399,074)
Disposal of a subsidiary *(Note 39)*	(4,201)	(3,245)	(12,674)	(274)	—	(20,394)
Reclassified to investment properties *(Note 17)*	(25,785)	—	—	—	—	(25,785)
Reclassified to non-current assets held for sale	(44,338)	—	—	—	—	(44,338)
Reclassification	(1,284)	1,105	200	(21)	—	—
At 31 December 2007	426,284	1,408,274	134,757	28,263	42,090	2,039,668
Net book value						
At 31 December 2007	663,872	482,304	93,039	6,741	137,106	1,383,062

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The net book value of the Group's leasehold land and buildings comprise properties situated on land held under medium-term leases in:

	2008	2007
	RMB'000	*RMB'000*
PRC, other than in Hong Kong	**633,644**	640,219
Japan	**22,038**	23,653
	655,682	663,872

Certain of the Group's "Leasehold land and buildings" and "Plant, machinery and equipment" with an aggregate net book value of approximately RMB38,998,000 (2007: RMB3,333,000) and RMB29,339,000 (2007: RMB395,000) have been frozen by relevant local PRC courts which are undergone legal proceedings.

"Leasehold land and buildings" and "Plant, machinery and equipment" with net book values of approximately RMB340,363,000 (2007: RMB444,444,000) and nil (2007: RMB21,033,000) respectively, have been pledged as security for the Group's bank borrowings.

17. INVESTMENT PROPERTIES

	2008	2007
	RMB'000	*RMB'000*
Cost		
At 1 January	**57,356**	28,201
Exchange differences	—	(990)
Additions at cost	—	1,035
Disposals	—	(52,351)
Reclassified from property, plant and equipment *(Note 16)*	—	81,461
At 31 December	**57,356**	57,356
Accumulated depreciation and impairment		
At 1 January	**19,164**	2,057
Exchange differences	—	(44)
Depreciation for the year	**2,627**	3,687
Elimination on disposals	—	(12,321)
Reclassified from property, plant and equipment *(Note 16)*	—	25,785
At 31 December	**21,791**	19,164
Carrying amount at 31 December	**35,565**	38,192
Directors' valuation at fair value	**53,538**	54,698

The Group's investment properties are situated in the PRC under medium term leases. The valuation for the investment properties at 31 December 2008 were determined by the directors by reference to the market price for similar properties.

Investment properties with net book values of approximately RMB1,937,000 (2007: RMB2,568,000) has been pledged as security for the Group's bank borrowings.

18. PAYMENTS FOR LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

The Group's payments for leasehold land held for own use under operating leases comprise:

	2008	2007
	RMB'000	*RMB'000*
Leasehold land in PRC:		
— Medium-term leases	**286,835**	305,392
Carrying amount at 1 January	**305,392**	372,533
Reclassified to non-current assets held for sale	**—**	(8,152)
Additions at cost	**—**	16,605
Charge for the year	**(13,042)**	(15,555)
Impairment provided for the year *(ii)*	**—**	(17,189)
Disposal of a subsidiary *(Note 39)*	**(5,515)**	(13,084)
Disposals	**—**	(29,766)
Carrying amount at 31 December	**286,835**	305,392

(i) At 31 December 2008, certain of the Group's land with an aggregate net book value of approximately RMB19,425,000 (2007: RMB9,800,000) have its legal title frozen by relevant local PRC courts which are undergone legal proceedings.

(ii) In July 2004, Shangqiu Kelon Electrical Company Limited ("Shangqiu Kelon"), Shangqiu Bing Xiong Freezing Facilities Company Limited ("Shangqiu Bing Xiong"), and the Administration Committee of Shangqiu Economic and Technological Development Zone (商丘經濟技術開發區管委會) ("Shangqiu Administrative Committee") entered into a three-party land transfer agreement under which all parties agreed that Shangqiu Kelon acquires a piece of land use right with 187 acres from Shangqiu Bing Xiong at a consideration of approximately RMB36 million. Under the land transfer agreement, it was agreed that Shangqiu Kelon develops the land and meets minimum production and sales requirements after the development is completed. However, the land has not been developed nor has Shangqiu Kelon met the minimum production and sales requirements thereafter.

In August 2005, Shangqiu Kelon received a notice from Shangqiu Administrative Committee claiming that it has breached the three-party land transfer agreement for not fulfilling the minimum production and sales requirements and requesting that Shangqiu Kelon surrenders the land use right. The local court froze the land accordingly. The Company has made an impairment loss of approximately RMB18 million against the carrying amount of the land use right for the probable loss that may arise as a result of the event for the year ended 2005.

In mid 2007, through a local source, the Company further realised that the land use right has been confiscated by Henan Shangqiu Bureau of Land and Resources ("SQBLR") in November 2006 for the reason of delayed development.

In October 2008, the local court reached its judgment that Shangqiu Kelon should surrender the land use right but Shangqiu Kelon lodged an appeal against the local court's judgment.

In the consolidated financial statements for 2007, the carrying amount of such land use right has been fully impaired by a further impairment loss of approximately RMB17 million for the maximum loss that may arise.

(iii) At 31 December 2008, the carrying amount of payments for leasehold land held for own use under operating leases pledged as security for the Group's bank borrowings amounted to approximately RMB180,142,000 (2007: RMB226,035,000).

19. INTERESTS IN SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2008 are listed under a table as follows:

Name	Place and date of incorporation/ establishment	Registered capital	Percentage of ownership/ profit share Directly	Indirectly	Principal activities
Entities operating in the PRC:					
Shunde Rongsheng Plastic Co., Ltd.	PRC *(i)* 18 October 1991	US$15,827,400	44.92%	25.13%	Manufacture of plastic parts
Guangdong Kelon Mould Co., Ltd.	PRC *(i)* 20 July 1994	US$15,056,100	40.22%	29.89%	Manufacture of moulds
Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.	PRC *(i)* 25 December 1995	US$26,800,000	70%	30%	Manufacture and sale of refrigerators
Kelon Freezer	PRC *(i)* 25 December 1995	RMB237,000,000	44%	56%	Manufacture and sale of freezers
Guangdong Kelon Air-Conditioner Co., Ltd.	PRC *(i)* 19 March 1996	US$36,150,000	60%	—	Manufacture and sale of air-conditioners
Chengdu Kelon	PRC *(i)* 19 November 1996	RMB200,000,000	75%	25%	Manufacture and sale of refrigerators
Hisense Ronshen Yingkou Refrigerator Co., Ltd.	PRC *(i)* 15 December 1996	RMB200,000,000	42%	36.79%	Manufacture and sale of refrigerators
Yangzhou Kelon	PRC *(i)* 23 December 1996	US$29,800,000	74.33%	25.67%	Manufacture and sale of refrigerators
Shunde Kelon Household Electrical Appliance Company Limited	PRC *(ii)* 16 July 1999	RMB10,000,000	25%	75%	Manufacture and sale of electrical household appliances
Guangdong Kelon Fittings Co., Ltd.	PRC *(i)* 24 November 1999	US$5,620,000	70%	30%	Manufacture and sale of spare parts for air-conditioners and refrigerators
Shunde Huaao Electronics Co., Ltd. ("Huaao Electronics")	PRC *(ii)* 23 November 2000	RMB10,000,000	—	70%	Manufacture and sale of electronic products
Shunde Wangao Import & Export Co., Ltd.	PRC *(ii)* 7 June 2001	RMB3,000,000	20%	80%	Import and export business
Shunde Jiake Electronic Company Limited	PRC *(ii)* 12 October 2001	RMB60,000,000	70%	30%	IT and communication technology and micro-electronics technology development

19. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place and date of incorporation/ establishment	Registered capital	Percentage of ownership/ profit share Directly	Indirectly	Principal activities
Entities operating in the PRC: *(continued)*					
Xi'an Kelon Cooling Co., Ltd. ("Xi'an Kelon")	PRC *(ii)* 20 March 2002	RMB202,000,000	60%	—	Manufacture and sale of spare parts for refrigerators
Jiangxi Kelon Industrial Development Co., Ltd.	PRC *(i)* 24 June 2003	US$29,800,000	60%	40%	Manufacture and sale of refrigerators, air-conditioners and other household appliances
Hangzhou Kelon Electrical Co., Ltd. ("Hangzhou Kelon")	PRC *(i)* 22 August 2003	RMB 24,000,000	100%	—	Manufacture and sale of refrigerators
Shangqiu Kelon	PRC *(ii)* 23 September 2003	RMB150,000,000	—	100%	Manufacture and sale of refrigerators
Zhuhai Kelon Industrial Development Co., Ltd.	PRC *(i)* 3 December 2003	US$29,980,000	75%	25%	Manufacture and sale of refrigerators
Hisense (Chengdu) Refrigerator Co., Ltd.	PRC *(i)* 28 March 2007	RMB5,000,000	100%	—	Manufacture and sale of refrigerators
Entities operating in Hong Kong:					
Pearl River Electric Refrigerator Company Limited	Hong Kong 26 July 1985	HK$400,000	—	100%	Trading in materials and parts for refrigerators and import and export business
Kelon Electric Appliances Co., Ltd.	Hong Kong 29 August 1991	HK$10,000	—	100%	Property investment
Kelon Development Company Limited	Hong Kong 17 August 1993	HK$5,000,000	100%	—	Investment holding
Kelon International Inc.	British Virgin Islands 13 January 1999	US$50,000	—	100%	Investment holding and sale of refrigerators and air-conditioners

(i) Established as a sino-foreign equity joint venture in the PRC.

(ii) Established as a limited liability company in the PRC.

(iii) The financial statements of Jiangxi Combine Electrical Appliance Co., Ltd. ("Jiangxi Combine") was excluded from the consolidated financial statements. Jiangxi Combine has not commenced active business since its establishment. The management considers that the impact of not consolidating Jiangxi Combine is insignificant to the Group.

19. INTERESTS IN SUBSIDIARIES *(continued)*

None of the subsidiaries had issued any debt securities at the end of the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20. INTERESTS IN ASSOCIATES

	2008	2007
	RMB'000	*RMB'000*
Share of net assets	**86,589**	82,839
Goodwill	**—**	—
	86,589	82,839
Listed investment	**82,934**	78,179
Unlisted investment	**3,655**	4,660
	86,589	82,839
Fair value of listed investment	**197,364**	164,070

Details of the goodwill are as follows:

	2008	2007
	RMB'000	*RMB'000*
Cost		
At 1 January and 31 December	**131,207**	131,207
Impairment		
At 1 January and 31 December	**131,207**	131,207
Carrying amount at 31 December	**—**	—

20. INTERESTS IN ASSOCIATES *(continued)*

Details of the Group's principal associates as at 31 December 2008 are listed under a table as follows:

Name	Place and date of incorporation/ establishment	Registered capital	Percentage of ownership/ profit sharing Directly	Indirectly	Principal activities
Huayi Compressor Holdings Company Limited ("Huayi")	PRC *(i)* 13 June 1996	RMB324,581,218	18.26%	—	Manufacture and sale of compressors
Attend Logistics Co., Ltd. ("Attend Logistics")	PRC *(ii)* 11 July 2001	RMB10,000,000	20%	—	Provision of logistics and storage services

(i) Established as a joint stock limited company.

(ii) Established as a limited liability company.

(iii) Notwithstanding the Company's equity interest in Huayi is 18.26%, which is less than 20%, the Company continues to possess the power to participate in the financial and operating policy decision of Huayi and account for its interest in Huayi under the equity method.

The summarised financial information in respect of the Group's associates is set out below:

	2008	2007
	RMB'000	*RMB'000*
Total assets	**2,120,231**	2,471,410
Total liabilities	**(1,423,711)**	(1,831,894)
Net assets	**696,520**	639,516
Revenue	**3,108,161**	2,766,448
Profit for the year	**23,229**	8,654

The financial statements of Huayi and Attend Logistics have been audited by Sichuan Jun He Certified Public Accountants Co., Ltd. and Guangdong Branch of China Regal CPA respectively.

21. INTERESTS IN JOINTLY CONTROLLED ENTITY

	2008	2007
	RMB'000	*RMB'000*
Share of net assets	**33,750**	—

21. INTERESTS IN JOINTLY CONTROLLED ENTITY *(continued)*

Details of the Group's jointly controlled entity as at 31 December 2008 are listed under a table as follows:

Name	Place and date of incorporation/ establishment	Registered capital	Percentage of ownership/ profit sharing Directly	Indirectly	Principal activities
Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd. ("Hisense-Whirlpool") *(i)*	PRC 4 November 2008	RMB450,000,000	50%	—	Manufacture and sale of washing machines, other electrical appliances and provision of after-sales and related consultation services.

(i) Established as a sino-foreign limited equity joint venture in the PRC.

On 4 November 2008, the Company established a jointly controlled entity, Hisense-Whirlpool with Whirlpool (Hong Kong) Company Limited and both parties agreed to make capital contribution of RMB225,000,000 each. The Company will contribute for 50% of equity interests in the jointly controlled entity.

During the year ended 31 December 2008, both parties have injected approximately RMB33,750,000 each into Hisense-Whirlpool. In the opinion of the directors, Hisense-Whirlpool did not have material results in the year or formed a substantial portion of the net assets of the Group during the year ended 31 December 2008.

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2008 *RMB'000*	2007 *RMB'000*
Unquoted long-term equity investments in the PRC, at cost *(a)*	**11,799**	8,469
Impairment loss *(b)*	**(7,249)**	(7,249)
	4,550	1,220

(a) During the year ended 31 December 2008, the Company made an investment of RMB3,800,000 in Qingdao Hisense International Marketing Co., Ltd. (青島海信國際營銷有限公司), which was incorporated in the PRC on 24 January 2008 with a registered capital of RMB20,000,000.

(b) All unquoted long-term equity investments are measured at cost less impairment at the balance sheet date as the directors of the Company are of the opinion that their fair value cannot be measured reliably.

23. INTANGIBLE ASSETS

	Trademarks *(i)* *RMB'000*	Non-patented technologies *(ii)* *RMB'000*	Software systems *(ii)* *RMB'000*	Total *RMB'000*
Year ended 31 December 2008				
Cost				
At 1 January 2008	**521,858**	**44,248**	**37,324**	**603,430**
Additions at cost	**2,552**	**4,289**	**806**	**7,647**
Disposal of a subsidiary *(Note 39)*	**—**	**—**	**(8)**	**(8)**
Write off	**—**	**—**	**(1,139)**	**(1,139)**
At 31 December 2008	**524,410**	**48,537**	**36,983**	**609,930**
Accumulated amortisation and impairment				
At 1 January 2008	**403,480**	**514**	**31,324**	**435,318**
Charge for the year	**—**	**4,822**	**3,070**	**7,892**
Disposal of a subsidiary *(Note 39)*	**—**	**—**	**(4)**	**(4)**
Elimination on write off	**—**	**—**	**(411)**	**(411)**
At 31 December 2008	**403,480**	**5,336**	**33,979**	**442,795**
Carrying amount				
At 31 December 2008	**120,930**	**43,201**	**3,004**	**167,135**
Year ended 31 December 2007				
Cost				
At 1 January 2007	521,858	537	33,751	556,146
Additions at cost	—	43,711	3,771	47,482
Disposal of a subsidiary *(Note 39)*	—	—	(8)	(8)
Write off	—	—	(190)	(190)
At 31 December 2007	521,858	44,248	37,324	603,430
Accumulated amortisation and impairment				
At 1 January 2007	403,480	377	26,458	430,315
Charge for the year	—	137	3,782	3,919
Impairment provided for the year	—	—	1,282	1,282
Disposal of a subsidiary *(Note 39)*	—	—	(8)	(8)
Elimination on write off	—	—	(190)	(190)
At 31 December 2007	403,480	514	31,324	435,318
Carrying amount				
At 31 December 2007	118,378	43,734	6,000	168,112

23. INTANGIBLE ASSETS *(continued)*

(i) Impairment tests for trademarks

Trademarks represent the rights of using「科龍」,「容聲」,「容升」and「華寶」brands in producing refrigerators and air-conditioners.「科龍」,「容聲」and「容升」was recognised in October 2003 and「華寶」was recognised in October 2008.

Prior to 1 January 2005, the cost of trademarks is amortised on a straight-line basis over their estimated useful lives of 10 years. With effect from 1 January 2005 and in accordance with the provisions of IAS 38, trademarks are assessed to have indefinite useful lives and therefore are not amortised but tested for impairment for each reporting date and where an indicator of impairment exists.

Due to the significant loss incurred in 2005 and the business interruption in May 2005, the management conducted an impairment assessment on the trademarks. The recoverable amount of trademarks was determined based on value-in-use calculations with the support of valuation performed by independent third party valuer. As a result of such assessment, trademarks had been assessed to be impaired by approximately RMB338,247,000 as at 31 December 2005.

As at 31 December 2008, the management performed self-assessment and concluded that there was no further impairment of the trademarks.

The carrying amount of the trademarks has been allocated to cash generating units relevant to the business segments of the Group for impairment testing, which is summarised as follows:

	2008	2007
	RMB'000	*RMB'000*
Air-conditioners	**41,025**	38,473
Refrigerators	**79,905**	79,905
	120,930	118,378

The recoverable amounts of Segment Air-conditioners and Segment Refrigerators have been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five-year period to 31 December 2013 with a discount rate of 15%. The cash flows beyond the five-year period are extrapolated using a steady 2% growth rate, which does not exceed the long-term average growth rate of the products. The resulting value of the trademarks as at 31 December 2008 was higher than their carrying amount. Management believes that the key assumptions currently applied are reasonable and supportable. In view of the current market condition, if the expected long-term average growth rate is below 1%, an impairment loss may be considered necessary.

(ii) Non-patented technologies and software systems are amortised over their estimated useful lives of 4 to 10 years.

24. GOODWILL

	RMB'000
Year ended 31 December 2008	
Cost	
At 1 January 2008 and 31 December 2008	**47,033**
Impairment	
At 1 January 2008 and 31 December 2008	**47,033**
Carrying amount	
At 31 December 2008	—
Year ended 31 December 2007	
Cost	
At 1 January 2007 and 31 December 2007	47,033
Impairment	
At 1 January 2007 and 31 December 2007	47,033
Carrying amount	
At 31 December 2007	—

25. DEFERRED TAX ASSETS

Deferred tax assets of the Group were arising from deductible temporary differences and tax losses carried forward to the extent it is probable that future taxable profit will be available against which the unused tax losses can be utilised, based on all available evidence. Net movement for the year is as follows:

	2008	2007
	RMB'000	*RMB'000*
At 1 January	**11,300**	21,387
Recognition for the year	**2,347**	7,183
Utilisation of tax losses for the year	**—**	(9,317)
Effect of change in tax rate	**—**	(7,953)
At 31 December	**13,647**	11,300

25. DEFERRED TAX ASSETS *(continued)*

The following are the major deferred tax assets/ (liabilities) and movements thereon for the year:

Assets/(liabilities)	Depreciation allowance and provisions *RMB'000*	Tax losses *RMB'000*	Total *RMB'000*
At 1 January 2008	**7,183**	**4,117**	**11,300**
Credit to income statement for the year	**2,347**	**—**	**2,347**
At 31 December 2008	**9,530**	**4,117**	**13,647**
At 31 January 2007	—	21,387	21,387
Credit/(charge) to income statement for the year	7,183	(9,317)	(2,134)
Effect of change in tax rate	—	(7,953)	(7,953)
At 31 December 2007	7,183	4,117	11,300

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2008 *RMB'000*	2007 *RMB'000*
Deferred tax assets	**13,647**	11,300

The unused tax losses carried forward and deductible temporary differences not recognised in the consolidated financial statements due to unpredictability of future profit streams are as follows:

	2008 *RMB'000*	2007 *RMB'000*
Unused tax losses	**2,505,260**	2,170,960
Deductible temporary differences	**611,917**	911,032
	3,117,177	3,081,992

The PRC tax losses can only be carried forward for a maximum period of five years and the Hong Kong tax losses can be carried forward indefinitely. The expiry of unused tax losses for which no deferred tax assets have been recognised is as follows:

	2008 *RMB'000*	2007 *RMB'000*
Tax losses will expire in 2008	**—**	7,068
Tax losses will expire in 2009	**44,748**	44,748
Tax losses will expire in 2010	**1,129,327**	1,097,025
Tax losses will expire in 2011	**608,022**	649,153
Tax losses will expire in 2012	**291,502**	145,268
Tax losses will expire in 2013	**332,436**	—
Tax losses can be carried forward indefinitely	**99,225**	227,698
	2,505,260	2,170,960

26. INVENTORIES

	2008	2007
	RMB'000	*RMB'000*
Raw materials	**84,257**	195,695
Work in progress	**16,712**	42,333
Finished goods	**404,559**	702,256
	505,528	940,284

As at 31 December 2008, the carrying amount of inventories pledged for bank borrowings amounted to Nil (2007: RMB40,000,000).

27. TRADE AND OTHER RECEIVABLES

	2008	2007
	RMB'000	*RMB'000*
Trade receivables *(i), (iii) & (iv)*	**458,947**	442,835
Notes receivable *(i)*	**62,453**	2,740
Other receivables *(ii) & (iii)*	**207,646**	540,497
Amounts due from Greencool Enterprise and its affiliates *(v)*	**72,061**	72,061
Amounts due from companies suspected to be connected with Mr. Gu *(v)*	**213,217**	214,217
Amounts due from Hisense Group *(Note 36 III a)*	**36,086**	28,821
Amounts due from associates *(Note 36 III b)*	**5**	322
Amounts due from other related companies *(Note 36 III c)*	**—**	5,716
	1,050,415	1,307,209

(i) As at 31 December 2008, included in trade and notes receivable was an amount of RMB179,279,000 (2007: RMB73,072,000) being pledged for bank borrowings.

The aging analysis of trade receivables is as follows:

	2008	2007
	RMB'000	*RMB'000*
Within three months	**412,441**	396,038
Three to six months	**36,832**	34,126
Six months to one year	**9,541**	13,695
Over one year	**160,500**	186,423
Less: Provision for impairment of trade receivables	**(160,367)**	(187,447)
At 31 December	**458,947**	442,835

Normal credit term of 30 days is granted to customers. The Group allows a credit period of up to one year for large and well-established customers. Sales are usually settled by cash on delivery for small and new customers. Trade receivables are non-interest bearing.

Trade receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

27. TRADE AND OTHER RECEIVABLES *(continued)*

(i) *(continued)*

An aging analysis of trade receivables that are past due but not impaired is as follows:

	2008	2007
	RMB'000	*RMB'000*
Less than three months past due	**77,609**	20,311
More than three months but less than twelve months past due	**16,023**	13,531
More than twelve months past due	**2,267**	172
Amount past due at balance sheet date but not impaired *(Note a)*	**95,899**	34,014

(a) The balance that was past due but not impaired related to a number of customers that had a good track record with the Group. Based on the past experience, the management estimated that the carrying amounts could be fully recovered.

(ii) As at 31 December 2008, other receivables principally comprised of value-added tax recoverable and prepayment to suppliers of RMB88,898,000 (2007: RMB147,308,000) and RMB38,079,000 (2007: RMB83,228,000) respectively. As at 31 December 2007, other receivable also included receivable from disposal of payments for leasehold land held for own use under operating leases and investment properties of RMB251,065,000 and RMB5,233,000 respectively.

The management has assessed the recoverability of the balance of other receivables and considered no further provision for impairment is needed.

(iii) The below table reconciled the allowance of impairment loss on trade and other receivables for the year:

	2008	2007
	RMB'000	*RMB'000*
At 1 January	**579,160**	676,758
Impairment loss recognised	**14,369**	13,546
Bad debt written off	**(38,806)**	(41,508)
Reversal of impairment loss previously recognised	**(2,095)**	(69,636)
At 31 December	**552,628**	579,160

The Group recognised impairment loss on trade and other receivables by individual assessment based on the accounting policy stated in Note 4(k)(ii).

(iv) As at 31 December 2008, the Group has trade and other receivables denominated in USD of approximately RMB300,038,000 (2007: RMB245,000,000).

(v) On 13 December 2006, the share transfer transaction between Greencool Enterprise and Hisense Air-Conditioner was completed. Upon the completion, Mr. Gu, Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu were no longer connected with the Group. Accordingly, no related party disclosure was made in respect of Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu for the period.

As at 31 December 2008, accumulated impairment loss of approximately RMB345,968,000 (2007: RMB344,968,000) and RMB18,985,000 (2007: RMB18,985,000) were recorded in respect of amounts due from companies suspected to be connected with Mr. Gu and amounts due from Greencool Enterprise and its affiliates.

28. OTHER FINANCIAL ASSETS AND LIABILITIES

During the year, the Group entered into a number of foreign currency forward exchange contracts to manage its foreign exchange rates exposures arising from ordinary course of business. These contracts are primarily denominated in the currencies of the Group's principal markets. At the balance sheet date, the details of outstanding contracts are as follows:

	2008	
	Notional amounts *RMB'000*	**Forward rates**
— contracted to sell USD in exchange for RMB	**198,969**	**6.4510 to 6.6302**
— contracted to sell Euro in exchange for RMB	**11,890**	**8.6845 to 8.8412**
— contracted to sell AUD in exchange for RMB	**4,804**	**4.6586 to 4.6843**
— contracted to sell Euro in exchange for USD	**25,988**	**1.2575 to 1.4898**
— contracted to sell GBP in exchange for USD	**10,460**	**1.4868 to 1.4901**
— contracted to buy USD	**78,593**	**0.1542 to 0.1546**

	2007	
	Notional amounts *RMB'000*	Forward rates
— contracted to sell USD in exchange for RMB	208,181	7.0653 to 7.2936
— contracted to buy USD	203,330	0.1379 to 0.1436

The foreign currency forward exchange contracts are required to be settled net in cash on maturity date and were measured at fair value at balance sheet date. These contracts are mature within one year from the balance sheet date. The fair value loss, net of the foreign currency forward exchange contracts for the year ended 31 December 2008 is RMB20,307,000 (2007: fair value gain, net of the foreign currency forward exchange contracts RMB3,104,000). The fair values of these contracts are based on market values of equivalent instruments provided by counterparty financial institutions at the balance sheet date.

29. NON-CURRENT ASSETS HELD FOR SALE

In May 2007, the Group entered into a sale and purchase agreement to dispose certain lands and buildings to an independent third party. The sales transaction has been completed during the year ended 31 December 2008. The Group recognised a gain of RMB52,888,000 upon the completion of the transaction which is included in other income and gains (Note 7) of the consolidated income statement.

30. TRADE AND OTHER PAYABLES

	2008 RMB'000	2007 RMB'000
Trade payables	**819,919**	1,152,853
Notes payable	**445,750**	770,960
Other payables	**469,080**	616,756
Accruals	**184,363**	165,679
Amounts due to Greencool Enterprise and its affiliates	**13,050**	13,050
Amounts due to companies suspected to be connected with Mr. Gu	**114,939**	118,461
Amounts due to Hisense Group *(Note 36 III a)*	**79,990**	205,184
Amounts due to associates *(Note 36 III b)*	**43,522**	40,200
Amounts due to other related companies *(Note 36 III c)*	**7,458**	10,038
	2,178,071	3,093,181

The aging analysis of trade payables is as follows:

	2008 RMB'000	2007 RMB'000
Within one year	**638,531**	995,092
One to two years	**76,948**	70,838
Two to three years	**25,298**	64,796
Over three years	**79,142**	22,127
	819,919	1,152,853

As at 31 December 2008, the Group has trade and other payables denominated in USD of approximately RMB29,301,000 (2007: RMB45,000,000).

31. PROVISIONS

	Warranty *(i)* RMB'000	Legal *(ii)* RMB'000	Total RMB'000
At 1 January 2008	**133,420**	**10,586**	**144,006**
Additional provision in the year	**3,554**	**20,556**	**24,110**
Utilisation of provision	**(53,901)**	**—**	**(53,901)**
At 31 December 2008	**83,073**	**31,142**	**114,215**
At 1 January 2007	165,783	4,212	169,995
Additional provision in the year	66,643	10,471	77,114
Utilisation of provision	(99,006)	(4,097)	(103,103)
At 31 December 2007	133,420	10,586	144,006

(i) The Group provides free repairing services on its products and free replacement of the major components of its products for one to three years after date of sale. The warranty provision is estimated by management based on past experience. The assumptions used to estimate the warranty provision are reviewed periodically in light of actual results.

(ii) The Group is currently involved in a number of legal disputes. The amount provided represents the directors' best estimate of the Group's liability having taken legal advice. Uncertainties exist as to whether claims will be settled out of court or if not whether the Group is successful in defending any action.

32. OTHER LIABILITIES

	2008	2007
	RMB'000	*RMB'000*
Employee benefits *(i)*	**14,320**	30,820
Government grants *(ii)*	**29,384**	24,973
	43,704	55,793

(i) The amounts represent accrued contributions to a defined contribution pension scheme for its employees during the period from 1993 to 2001. Settlement of employee benefits payable was mutually agreed by the Company and the committee of the Company's staff union.

(ii) The amounts represent government grants received for the Group's research and development activities. Government grants recognised as income for the year amounted to approximately RMB23,046,000 (2007: RMB6,236,000).

33. BORROWINGS

	2008	2007
	RMB'000	*RMB'000*
Bank loan *(i)*	**1,314,948**	1,310,972
Other loan *(ii)*	**500,000**	—
Borrowings due within one year	**1,814,948**	1,310,972
Analysed as:		
Secured	**651,089**	773,812
Unsecured	**1,163,859**	537,160
	1,814,948	1,310,972

(i) As at 31 December 2008, bank borrowings of approximately RMB651,089,000 (2007: RMB773,812,000) were secured by pledge of property, plant and equipment (Note 16), investment properties (Note 17), payments for leasehold land held for own use under operating leases (Note 18), inventories (Note 26), trade and notes receivable (Note 27).

The bank borrowings carry interest at rates per annum ranging as follows:

	2008	2007
Fixed-rate borrowings	**4.32% to 8.02%**	5.47% to 8.35%
Variable-rate borrowings	**PRC National benchmark interest rate (4.78% to 6.12%)**	—

At 31 December 2008, included in bank borrowings were amount of approximately RMB29,629,000 (2007: RMB9,000,000) in respect of financial guarantees provided to banks in favour of certain distributors of the Group. Under the guarantee arrangements, the Group assumed the repayment responsibilities of the banks' issued acceptance notes after it utilised the credit facilities granted to the distributors by such banks. The management assessed that this guarantee arrangements would not result in the Group picking up additional credit risks or financial contingencies in favour of the distributors. These financing arrangements would however result in a reclassification of trade deposits received to bank borrowings.

33. BORROWINGS *(continued)*

(i) *(continued)*

At 31 December 2008, included in bank borrowings was an amount of approximately RMB186,829,000 (2007: RMB89,946,000) in respect of notes and trade receivables factored to banks with recourse.

(ii) The other loans represented borrowings from Hisense Finance, which were guaranteed by Hisense Group and bear interest at rates ranging from 4.20% to 5.52% per annum and are repayable within one year.

34. SHARE CAPITAL

	2008	2007
	RMB'000	*RMB'000*
Share of RMB1 each:		
459,589,808 (2007: 459,589,808) H shares	**459,590**	459,590
298,311,835 (2007: 314,587,227) transferable A shares that are subject to selling restrictions	**298,312**	314,587
234,104,920 (2007: 217,829,528) A shares	**234,105**	217,830
Total A shares	**532,417**	532,417
	992,007	992,007

(i) Pursuant to the Share Reform Scheme, the transferable A shares that are subject to selling restrictions will be lasted until 28 March 2010. Except for the currency in which dividends are paid and the restrictions as to whether the shareholders can be PRC investors or foreign investors, Domestic shares, H shares and A shares rank pari passu in all respects with each other.

(ii) The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

- to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debt (as shown in the balance sheet) less cash and cash equivalents. Adjusted capital comprises all components of equity.

During 2008, the Group's strategy, which was unchanged from 2007 was to substantially finance through debts as the Group has deficiency in equity of RMB858,628,000 (2007: RMB629,774,000). At 31 December 2008, the total borrowings were approximately RMB1,814,948,000 (2007: RMB1,310,972,000). (Note 33).

35. LEASES

Operating leases – lessee

The Group leases certain leasehold land and buildings and plant and machinery under operating lease arrangements with lease terms ranging from one to five years. The operating lease charges for the year ended 31 December 2008 was as follows:

	2008	2007
	RMB'000	*RMB'000*
Operating lease charges		
— leasehold land and buildings	**9,368**	40,434
— plant and machinery	**54**	250

The total future payments under non-cancellable operating leases are due as follows:

	2008	2007
	RMB'000	*RMB'000*
Not later than one year	**1,865**	2,196
Later than one year and not later than five years	**205**	457
	2,070	2,653

Operating leases – lessor

The Group's investment properties are also leased to a number of tenants for varying terms. The lease rental income for the year ended 31 December 2008 was RMB17,757,000 (2007: RMB 20,721,000).

The minimum rent receivables under non-cancellable operating leases are as follows:

	2008	2007
	RMB'000	*RMB'000*
Not later than one year	**3,776**	3,523
Later than one year and not later than five years	**4,840**	8,397
	8,616	11,920

36. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company have been eliminated on consolidation and are not disclosed in this note.

36. RELATED PARTY TRANSACTIONS *(continued)*

During the period from 2001 to 2005, the Group had significant transactions and relationships with Greencool Enterprise and its affiliates. The Group also had entered into a series of activities/transactions with companies suspected to be connected with Mr. Gu. On 9 September 2005, Greencool Enterprise entered into an equity transfer agreement with Hisense Air-Conditioner to transfer 262,212,194 shares of domestic legal person shares representing 26.43% of total share capital of the Company. The equity transfer was completed on 13 December 2006. Upon the completion of share transfer, Mr. Gu, Greencool Enterprise and its affiliates were no longer connected with the Group. Accordingly, no related party disclosure was made in respect of Mr. Gu, Greencool Enterprise and its affiliates for the year.

I. Relationship with related parties

During the year, for the purpose of this report, the directors are of the view that the following companies are related parties of the Group:

Name of related parties	**Relationship**
Hisense Air-Conditioner	The substantial shareholder of the Company
Hisense Group	The holding company of Hisense Air-Conditioner
Qingdao Hisense Marketing Co., Ltd. ("Hisense Agent")	A subsidiary of Hisense Air-Conditioner
Hisense Electric Co., Ltd. ("Hisense Electric")	A fellow subsidiary of Hisense Air-Conditioner
Hisense (Zhejiang) Air-Conditioner Co., Ltd. ("Hisense Zhejiang")	A subsidiary of Hisense Air-Conditioner
Hisense (Shandong) Air-Conditioner Co., Ltd. ("Hisense Shandong")	A subsidiary of Hisense Air-Conditioner
Hisense (Nanjing) Electric Co., Ltd. ("Hisense Nanjing")	A subsidiary of Hisense Air-Conditioner
Hisense (Beijing) Electric Co., Ltd. ("Hisense Beijing")	A subsidiary of Hisense Air-Conditioner
Qingdao Hisense Moulds Co., Ltd. ("Hisense Moulds")	A fellow subsidiary of Hisense Air-Conditioner
Guangdong Hisense Multimedia Co., Ltd. ("Hisense Multimedia")	A fellow subsidiary of Hisense Air-Conditioner
Hisense (Qingdao) Import & Export Co., Ltd. ("Hisense Import & Export")	A fellow subsidiary of Hisense Air-Conditioner
Hisense Hitachi Air Conditioning Co., Ltd. ("Hisense Hitachi")	A fellow subsidiary of Hisense Air-Conditioner
Savor Household Electrical Appliance Service Industry Co., Ltd. ("Savor Service")	A fellow subsidiary of Hisense Air-Conditioner
Hisense International (HK) Co., Ltd. ("Hisense Hong Kong")	A fellow subsidiary of Hisense Air-Conditioner

36. RELATED PARTY TRANSACTIONS *(continued)*

I. Relationship with related parties *(continued)*

Name of related parties	**Relationship**
Hisense Finance	A fellow subsidiary of Hisense Air-Conditioner
Linyi Savor Hisense Technology Park Co., Limited (“Linyi Savor”)	A fellow subsidiary of Hisense Air-Conditioner
Attend Logistics	An associate of the Company
Huayi	An associate of the Company
Jiaxibeila Compressor Company Limited (“Jiaxibeila”)	A subsidiary of Huayi
Huayi Compressor (Jinzhou) Co., Ltd. (“Huayi Jinzhou”)	A subsidiary of Huayi
Jiangxi Combine	An unconsolidated subsidiary of the Company
Chengdu Engine (Group) Company Limited (“Chengdu Engine”)	A minority investor of Chengdu Kelon before 24 April 2007
Hangzhou Xileng Group Company Limited (“Hangzhou Xileng”)	A minority investor of Hangzhou Kelon before 5 December 2007
Xi’an Gaoke (Group) Limited (“Xi’an Gaoke”)	A minority investor of Xi’an Kelon

36. RELATED PARTY TRANSACTIONS *(continued)*

II. Transactions with related parties

(a) Transactions with Hisense Group

The Group had the following significant transactions with Hisense Group:

	Notes	**2008**	2007
		RMB'000	*RMB'000*
Sales of goods/raw materials to			
— Hisense Shandong	*(i)*	**95,459**	132,725
— Hisense Agent	*(i)*	**352**	192
— Hisense Zhejiang	*(i)*	**21,258**	9,693
— Hisense Import & Export	*(i)*	**—**	6
— Hisense Beijing	*(i)*	**165,365**	110,303
— Hisense Nanjing	*(i)*	**35,356**	429
— Hisense Hong Kong	*(i)*	**18,857**	—
— Hisense Multimedia	*(i)*	**293**	—
Sales of property, plant and equipment to			
— Hisense Shandong		**—**	8
Sales of moulds to			
— Hisense Shandong	*(i)*	**2,723**	—
— Hisense Zhejiang	*(i)*	**1,032**	—
— Hisense Beijing	*(i)*	**1,294**	—
— Hisense Nanjing	*(i)*	**2,173**	—
— Hisense Moulds	*(i)*	**2,970**	—
Service fee charged to			
— Hisense Zhejiang		**—**	75
Loan interest to			
— Hisense Agent		**—**	8,684
— Hisense Finance	*(ii)*	**358**	—
Draft discount services fee to			
— Hisense Finance	*(iii)*	**4,493**	—
Purchases of goods/raw materials from			
— Hisense Shandong	*(i)*	**119,917**	120,923
— Hisense Zhejiang	*(i)*	**485,116**	334,424
— Hisense Nanjing	*(i)*	**247,564**	105,329
— Hisense Beijing	*(i)*	**88,660**	15
— Hisense Electric	*(i)*	**—**	32

36. RELATED PARTY TRANSACTIONS *(continued)*

II. Transactions with related parties *(continued)*

(a) ***Transactions with Hisense Group*** *(continued)*

	Notes	**2008** **RMB'000**	2007 *RMB'000*
Purchases of property, plant and equipment from			
— Hisense Shandong		**—**	32
— Hisense Beijing		**—**	19
Repair and maintenance services provided by Savor Service		**1,113**	1,944
Loan and note payables guarantee provided by Hisense Group Co., Ltd.			
— amount as at 31 December		**1,259,000**	1,141,500
Loan provided by Hisense Finance	*33(ii)*		
— amount as at 31 December		**500,000**	—

(i) Sales and purchases were conducted in accordance with mutually agreed terms with reference to the market rates.

(ii) Loan interest was charged by Hisense Finance with reference to the interest rate charged by the normal commercial banks in the PRC for comparable loans.

(iii) Draft discount services fee was charged by Hisense Finance with reference to the normal commercial banks in the PRC for providing comparable draft discount services.

36. RELATED PARTY TRANSACTIONS *(continued)*

II. Transactions with related parties *(continued)*

(b) Transactions with associates

The Group had the following significant transactions with associates:

	Notes	**2008** *RMB'000*	2007 *RMB'000*
Sales of goods/raw materials to			
— Chongqing Rongsheng	*(i)*	**6,208**	64,756
— Huayi and Jiaxibeila	*(i)*	**39**	18
Purchases of goods/raw materials from			
— Huayi and Jiaxibeila	*(ii)*	**276,058**	221,801
Service fee charged to			
— Attend Logistics		**76**	103
Logistics management fee/ warehouse rental to			
— Attend Logistics	*(iii)*	**5,621**	29,657

(i) Sales were conducted in accordance with mutually agreed terms with reference to the market rates.

(ii) Huayi and Jiaxibeila mainly provide compressors to the Group for production of air-conditioners and refrigerators.

(iii) The Group and Attend Logistics entered into a logistics service agreement, pursuant to which Attend Logistics provides transportation and warehousing service to the Group. The service fee is based on the actual volume of goods, the distance delivered, the occupancy space of warehouse and charged at a pre-determined rate agreed by both parties.

(c) Transactions with other related parties

The Group had the following significant transactions with other related parties:

	Notes	**2008** *RMB'000*	2007 *RMB'000*
Water and electricity expenses paid to			
— Chengdu Engine	*(i)*	**—**	7,057

(i) Water and electricity expenses are charged at cost.

36. RELATED PARTY TRANSACTIONS *(continued)*

III. Balances with related parties

(a) Balances with Hisense Group

	2008	2007
	RMB'000	*RMB'000*
Included in trade and other receivables, net		
— Hisense Agent	**—**	47
— Hisense Air-Conditioner	**—**	675
— Hisense Zhejiang	**4,004**	—
— Hisense Nanjing	**779**	—
— Hisense Beijing	**21,749**	28,066
— Savor Service	**3**	33
— Hisense Electric	**100**	—
— Hisense Hong Kong	**8,104**	—
— Hisense Multimedia	**212**	—
— Hisense Shandong	**1,135**	—
	36,086	28,821
Included in trade and other payables		
— Hisense Air-Conditioner	**—**	58
— Hisense Shandong	**3,925**	54,487
— Hisense Agent	**35,481**	38,785
— Hisense Nanjing	**20,026**	545
— Hisense Zhejiang	**15,351**	109,236
— Savor Service	**475**	2,073
— Hisense Hong Kong	**4,580**	—
— Hisense Moulds	**152**	—
	79,990	205,184

Amounts due from Hisense Group are unsecured, interest-free and are repayable in accordance with normal commercial terms.

Amounts due to Hisense Group are unsecured, interest-free and repayable on demand.

36. RELATED PARTY TRANSACTIONS *(continued)*

III. Balances with related parties *(continued)*

(b) Balances with associates

	2008	2007
	RMB'000	*RMB'000*
Included in trade and other receivables, net		
— Chongqing Rongsheng	**—**	317
— Attend Logistics	**5**	5
	5	322
Included in trade and other payables		
— Attend Logistics	**4,556**	7,998
— Chongqing Rongsheng	**—**	207
— Huayi and Jiaxibeila	**38,966**	31,995
	43,522	40,200

Amounts due from/to associates are unsecured, interest-free and are repayable in accordance with normal commercial terms.

(c) Balances with other related companies

	2008	2007
	RMB'000	*RMB'000*
Included in trade and other receivables, net		
— Kelon Europe	**—**	5,716
Included in trade and other payables		
— Chengdu Engine	**—**	109
— Hangzhou Xileng	**—**	2,471
— Jiangxi Combine	**5,100**	5,100
— Xi'an Gaoke	**2,358**	2,358
	7,458	10,038

All amounts due from/to other related companies are unsecured, interest-free and are repayable on demand.

36. RELATED PARTY TRANSACTIONS *(continued)*

IV. Key management personnel emoluments

	2008	2007
	RMB'000	*RMB'000*
Basic salaries, allowances and benefits-in-kind	**6,030**	4,692
Defined contribution pension cost	**63**	90
	6,093	4,782

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors, supervisors and other senior management, totalling 25 individuals (2007: 18 individuals).

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed through its operations to one or more of the following financial risks:

- Interest rate risk
- Foreign exchange risk
- Liquidity risk
- Credit risk

The Group does not hold or issue any financial derivatives for trading purpose.

Interest rate risk

The Group is exposed to interest rate risks due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks, which are mostly short-term in nature whereas interest-bearing financial liabilities are primarily short-term bank borrowings. As at 31 December 2008, the Group's short-term bank borrowings were carried at both fixed and floating interest rates, and therefore were exposed to both fair value and cash flow interest rate risks.

The following table indicates the approximate change in the profit after tax in response to reasonably possible changes in an interest rate to which the Company has exposure at the balance sheet date. In determining the effect on profit after tax on the next accounting period until next balance sheet date, we assume that the change in interest rate had occurred at the balance sheet date and all other variables remain constant. There is no change in the methods and assumptions used in 2007 and 2008.

	2008	2007
	Effect on profit after tax	Effect on profit after tax
	RMB'000	*RMB'000*
Increase by 100 basis points	**(4,000)**	(3,000)
Decrease by 100 basis points	**4,000**	3,000

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movements in exchange rates relating to investments and transactions denominated in foreign currencies. The Group's monetary assets and transactions are mainly denominated in RMB, USD, GBP and Euro. The exchange rates between RMB, USD, GBP and Euro are not pegged, and there is fluctuation of exchange rates between RMB, USD, GBP and Euro.

Certain subsidiaries in the Group use foreign exchange forward contracts when major fluctuation in the relevant foreign currency is anticipated to manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currency at the reporting date are as follows:

	Liabilities		**Assets**	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
USD	**240,796**	174,362	**330,380**	275,048
GBP	**10,504**	35,774	**9,424**	39,541
Euro	**2,337**	4,572	**27,299**	15,551

The sensitivity analysis on foreign exchange risk includes monetary financial assets and liabilities that are denominated in a foreign currency, i.e. in a currency other than the functional currency in which they are measured. The following table indicates the approximate effect on the profit after tax in the next accounting period in response to reasonably possible changes in exchange rates to which the Group has significant exposure at the balance sheet date.

	2008	2007
	Effect on profit after tax	Effect on profit after tax
	RMB'000	*RMB'000*
USD to RMB		
Appreciates by 5% (2007: 1%)	**3,386**	675
Depreciates by 5% (2007: 1%)	**(3,386)**	(675)
GBP to RMB		
Appreciates by 9% (2007: 6%)	**(73)**	151
Depreciates by 9% (2007: 6%)	**73**	(151)
Euro to RMB		
Appreciates by 6% (2007: 9%)	**1,123**	662
Depreciates by 6% (2007: 9%)	**(1,123)**	(662)

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign exchange risk *(continued)*

The following table indicates the approximate effect on the profit after tax in the next accounting period in response to reasonably possible changes in forward rates to which the company has significant exposure at the balance sheet date.

	2008 Effect on profit after tax ***RMB'000***	2007 Effect on profit after tax *RMB'000*
USD to RMB		
Appreciates by 5%	**(6,453)**	(19,670)
Depreciates by 5%	**6,453**	19,670
Euro to USD		
Appreciates by 9%	**(2,561)**	—
Depreciates by 9%	**2,561**	—
Euro to RMB		
Appreciates by 6%	**(784)**	—
Depreciates by 6%	**784**	—

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management 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 and flexibility of funding through the use of bank facilities in order to meet the Group's liquidity requirements. All of the debts of the Group would mature in less than one year as at 31 December 2008.

The contractual maturities of financial liabilities are shown as below:

	2008 ***RMB'000***	2007 *RMB'000*
Current	**697,147**	868,417
Within six months	**2,459,833**	2,823,675
Within one year	**1,305,138**	1,246,105
	4,462,118	4,938,197

The Group had net current liabilities of approximately RMB2,849,773,000 as at 31 December 2008. Most of the bank financing of the Group is in the form of short-term bank loans. The Group has not experienced any difficulty in renewing the borrowings when they fell due. Besides, the Group has unutilised banking facilities of approximately RMB659,747,300 at 31 December 2008, which the Group can utilise its to meet its short-term cash demands. As a result, the directors are of the opinion that the Group maintains an adequate liquidity reserve.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

It is the risk that a counterparty is unable to pay amount in full when due. It arises primarily from the Group's trade receivables and amounts due from related parties. The Group limits its exposure to credit risk by vigorously selecting counterparties. There is no concentration of credit risk. The Group mitigates its exposure to risk relating to accounts receivable by dealing with diversified customers with sound financial standing. Certain new customers are required to place cash deposits with the Group to reduce the maximum exposure to credit risk. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. In addition, all receivable balances are monitored on an ongoing basis and overdue balances are followed up by senior management.

The maximum exposure to credit risk at reporting date is the carrying amount of each class of financial assets is shown on the balance sheet.

38. ACQUISITION OF FURTHER EQUITY INTERESTS IN A SUBSIDIARY

On 24 April 2007, the Company acquired an additional 30% shareholding in a subsidiary, Chengdu Kelon, from Chengdu Engine. After the acquisition, Chengdu Kelon became a wholly-owned subsidiary of the Company.

Details of the identifiable assets and liabilities acquired, and the purchase consideration are as follows:

	2007 *RMB'000*
Property, plant and equipment	84,365
Payments for leasehold land held for own use under operating leases	19,450
Trade and other receivables	183,516
Inventories	7,361
Cash and cash equivalents	7,525
Trade and other payables	(150,950)
Taxation payable	(3,981)
Bank borrowings	(24,900)
Net assets	122,386
Net assets acquired	36,716
Consideration:	
Satisfied by payment in advance and a note payable	81,388
Net assets acquired	(36,716)
Debited to capital reserve	44,672

39. DISPOSAL OF A SUBSIDIARY

(a) On 7 January 2008, the Group disposed of its 100% shareholding in a subsidiary, Jilin Kelon Electric Co., Ltd. (“Jilin Kelon”) for a consideration of approximately of RMB30,000,000 in which RMB29,500,000 was used for the settlement of liabilities of Jilin Kelon. The remaining balance of RMB500,000 was settled in cash. Details of the identifiable assets and liabilities disposed and the sales consideration are as follows:

	2008
	RMB'000
Sale proceeds	**500**
Net book value of net assets disposed	**(11,068)**
Loss on disposal of Jilin Kelon	**(10,568)**

The assets and liabilities disposed of at the date of disposal were as follows:

Property, plant and equipment	**31,563**
Payments for leasehold land held for own use under operating leases	**5,515**
Intangible assets	**4**
Trade and other receivables	**706**
Inventories	**1,186**
Cash and cash equivalents	**85**
Trade and other payables	**(9,991)**
Bank borrowings	**(18,000)**
Net book value of net assets disposed	**11,068**

(b) On 27 August 2007, the Company disposed 70% shareholding in a subsidiary, Kaifeng Kelon Air-Conditioner Co., Ltd. (“Kaifeng Kelon”) to the minority equity holder, Hanan Province Kaifeng Economic Technology Development (Group) Company for a consideration of approximately RMB6,123,000 satisfied by waiver of debt settlement by Kaifeng Kelon. Kaifeng Kelon ceased to be a subsidiary of the Company following the disposal and the Company had no more shareholding interest in Kaifeng Kelon.

39. DISPOSAL OF A SUBSIDIARY *(continued)*

(b) *(continued)*

Details of the identifiable assets and liabilities disposed and the sales consideration are as follows:

	2007 *RMB'000*
Sale proceeds satisfied by waiver of debt settlement	6,123
Net book value of net assets disposed	(1,614)
Gain on disposal of Kaifeng Kelon	4,509

The assets and liabilities disposed of at the date of disposal were as follows:

Property, plant and equipment	30,310
Payments for leasehold land held for own use under operating leases	13,084
Cash and cash equivalents	23
Trade and other receivables	837
Inventories	782
Trade and other payables	(6,542)
Minority interests	(36,880)
Net book value of net assets disposed	1,614

40. NOTES SUPPORTING CASH FLOW STATEMENT

	2008 ***RMB'000***	2007 *RMB'000*
Cash available on demand	**110,216**	76,395

Significant non-cash transactions are as follows:

	2008 ***RMB'000***	2007 *RMB'000*
Investing activities		
Net settlement of liabilities through partial consideration on disposal of a subsidiary *(Note 39)*	**29,500**	—

41. CAPITAL COMMITMENTS

	2008 ***RMB'000***	2007 *RMB'000*
Capital expenditure contracted for but not provided in the financial statements in respect of		
— acquisition of property, plant and equipment	**52,280**	90,831
— unlisted investment in a jointly controlled entity	**87,800**	—
	140,080	90,831

42. RETIREMENT BENEFITS SCHEMES

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 pay an amount, calculated at a percentage of the total salaries and wages of the employees, to a retirement fund.

The total cost charged to the consolidated income statement of approximately RMB49,162,000 (2007: RMB41,135,000) represents contributions to the scheme by the Group at rates specified in the rules of the scheme.

43. RESERVES

(a) Statutory reserves

According to the Articles of Association of the Company, when distributing net profit of each year, the Company shall set aside 10% of its after tax profits for the statutory common reserve fund (except where the fund has reached 50% of the Company's registered capital). This reserve fund can only be used, upon approval by the relevant authority to offset accumulated deficit or increase in capital and is not distributable as cash dividends.

(b) Distributable reserves of the Company

In accordance with the Articles of Association of the Company, the accumulated profits of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the amount determined in accordance with PRC accounting standards and regulations ("PRC GAAP") and (ii) the amount determined in accordance with IFRS.

As at 31 December 2008, the Company did not have reserve available for distribution to its shareholders (2007: Nil).

44. CONTINGENCIES

The Group is a defendant in certain lawsuits as well as the plaintiff in other proceedings arising in the ordinary course of business. The amount involved in the litigations against the Group relate mainly to bank loans, purchases and expenditures incurred by the Group and most of them were recorded as liabilities of the Group as at the balance sheet date. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have material adverse effect on the financial position or operating results of the Group.

45. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF UNCERTAINTY

Impairment

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, payments for leasehold land held for own use under operating leases, intangible assets and interests in jointly controlled entity, recoverable amounts of the assets need to be determined. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to precisely estimate fair value less costs to sell because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which require significant judgment relating to items such as level of sales, selling price and amount of operating costs. The Group uses all readily available information in determining amounts that are reasonable approximations of recoverable amounts, including estimates based on reasonable and supportable assumptions and projections of items such as sales volume, selling price and amount of operating costs.

In considering the impairment losses that may be required for current receivables, future cash flows need to be determined. One of the key assumptions that has to be applied is the ability of the debtors to settle the receivables. Although the Group has used all available information to make this estimation, inherent uncertainty exists and actual may be different from the amount estimated.

Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual values. The Group reviews the estimated useful lives of the assets regularly. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Warranty provision

As explained in noted 31(i), the Group makes provisions under the warranties it gives on sales of its electrical products taking into account the Group's recent claim experience. As the Group is continuously upgrading its product designs and launching new models, it is possible that recent claim experience is not indicative of the future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

Taxation

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the year in which such determination is made.

46. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 16 April 2009.

DIFFERENCES BETWEEN IFRS AND PRC GAAP AS APPLICABLE TO THE GROUP

The consolidated shareholders' equity of the Group prepared under IFRS and that prepared under PRC GAAP have the following major differences:

	2008	2007
	RMB'000	*RMB'000*
Equity attributable to equity holders of the Company as per financial statements prepared under IFRS	**(1,007,922)**	(784,772)
Adjustment on restructuring costs expensed	**16,877**	11,684
Adjustment on dilution loss on share reform of an associate	**16,317**	16,317
Amortisation of trademark	**(16,712)**	(16,712)
Equity attributable to equity holders of the Company as per financial statements prepared under PRC GAAP	**(991,440)**	(773,483)

The consolidated net (loss)/profit prepared under IFRS and that prepared under PRC GAAP have the following major differences:

	2008	2007
	RMB'000	*RMB'000*
Net (loss)/profit attributable to equity holders of the Company as per financial statements prepared under IFRS	**(231,896)**	238,712
Adjustment on restructuring costs expensed	**5,193**	11,684
Net (loss)/profit attributable to equity holders of the Company as per financial statements prepared under PRC GAAP	**(226,703)**	250,396

There are differences in other items in the financial statements due to differences in classification between IFRS and PRC GAAP.

Five Years Summary

	Year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULT					
Turnover	**8,052,909**	8,319,960	6,564,257	6,978,372	7,923,001
(Loss)/profit before share of results of associates	**(237,632)**	212,277	24,788	(3,754,514)	(119,550)
Share of results of associates	**4,197**	2,247	3,590	(31,571)	(84,252)
(Loss)/profit before income tax	**(233,435)**	214,524	28,378	(3,786,085)	(203,802)
Income tax (expense)/credit	**(4,085)**	(10,867)	20,871	(1,021)	(23,718)
(Loss)/profit for the year	**(237,520)**	203,657	49,249	(3,787,106)	(227,520)
Attributable to:					
Equity holders of the Company	**(231,896)**	238,712	69,989	(3,722,565)	(217,064)
Minority interests	**(5,624)**	(35,055)	(20,740)	(64,541)	(10,456)
	(237,520)	203,657	49,249	(3,787,106)	(227,520)
Dividends	**—**	—	—	—	—

	As at 31 December				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES					
Total assets	**3,687,506**	4,414,571	4,668,544	5,493,770	11,704,220
Total liabilities	**(4,546,134)**	(5,044,345)	(5,396,475)	(6,283,472)	(8,778,305)
Net (liabilities)/assets	**(858,628)**	(629,774)	(727,931)	(789,702)	2,925,915
Capital and reserves attributable to equity holders of the Company	**(1,007,922)**	(784,772)	(994,578)	(1,074,092)	2,567,984
Minority interests	**149,294**	154,998	266,647	284,390	357,931
Total equity	**(858,628)**	(629,774)	(727,931)	(789,702)	2,925,915

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Shenhua (2007) gushenzi No. (028)

Huadegushenzi No. [2009]28

To the Shareholders of Hisense Kelon Electrical Holdings Company Limited:

We have audited the accompanying financial statements of Hisense Kelon Electrical Holdings Company Limited (the "Company"), including the consolidated and company balance sheets and the consolidated and company statement of changes in equity as at 31 December 2008 and the consolidated and company statements, profit and loss and cash flows for 2008 and the accompanying notes.

1. RESPONSIBILITY OF THE MANAGEMENT

It is the responsibility of the Company's management to prepare the Financial Statements pursuant to the Accounting Standards for Business Enterprises. The responsibility includes: (1) to design, implement and maintain the internal controls related to the preparation of the Financial Statements, so as to ensure that they are free of any material misstatements due to fraud and errors; (2) to choose and apply appropriate accounting policies; and (3) and make reasonable accounting estimations.

2. RESPONSIBILITY OF THE AUDITOR

Our responsibility is to express opinions on the Financial Statements based on our audit. Except as described 3. qualified items in this report, we conducted our audit in accordance with China's Independent Audit Standards of Certified Public Accountants. The audit standards require that we follow the Code of Professional Ethics to plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatements.

An audit involves performing procedures to obtain evidence relevant to the amounts and disclosures in the Financial Statements. The procedures selected depend on the judgments of auditor, which include an assessment of the material misstatement in the Financial Statements due to fraud and errors. When making the assessment, we need to design appropriate audit procedures considering the internal controls related to the preparation of the Financial Statements. However, the purpose of the assessment is not to express opinions on the effectiveness of the internal controls. Our audit also includes an assessment on the appropriateness of accounting policies, reasonableness of accounting estimates used by the management and the overall presentations of the Financial Statements.

We believe that our audit evidence is sufficient and reasonable and provides a reasonable basis for our opinion.

3. QUALIFIED ITEMS

As described in Appendix 6 Note 4 and Note 6, Appendix 10 and 11 to the financial statements, a series of related parties' transactions and unusual cash flows occurred between the Company and its former largest shareholder, Guangdong Greencool Enterprise Development Limited and its related parties (the "Greencool Companies") during the period from October 2001 to July 2005. In addition, the Greencool Companies, through certain specified third party companies such as Tianjin Lixin Commercial Trading Development Company Limited, involved in a series of unusual cash flows with the Company in the same period. Such transactions and unusual cash flows as well as the suspected fund embezzlement have been reported to the relevant authority, and are pending for judgment. Such reported matters involve the accounts receivables and payables between the Company and the Greencool Companies as well as the specified third party companies mentioned above.

As at 31 December 2008, the balance of the accounts receivables of the Company from the Greencool Companies and the above specified third party companies amounted to RMB651 million. The Company has made a provision of RMB365 million in respect of the accounts receivables from Greencool Companies and the above specified third party companies. As mentioned in Appendix 11 to the financial statements, the above cases have already made significant progress where in judgments have been made in favour of the Company for most of cases, but we were unable to adopt appropriate audit procedures to obtain sufficient and appropriate audit evidence to ascertain whether the estimated provision for bad debts is reasonable and the assessment and calculation of the receivables is reasonable.

4. AUDIT OPINION

In our opinion, except for the item mentioned above, the above-mentioned financial statements have been prepared in compliance with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises and present fairly, in all material respects, the financial position of the Company as at 31 December 2008, and the results of operations and cash flows of the Company for 2008.

Guangdong Dahua Delu Certified Public Accountants (Special General Partnership)

Shenzhen, PRC
Certified Public Accountants Registered
in the People's Republic of China
Kang Yue Hua
Certified Public Accountants Registered
in the People's Republic of China
Gao De Hui
16 April 2009

The auditors' report and the accompanying financial statements are English translations of the Chinese auditors' report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. In case the English version does not conform to the Chinese version, the Chinese version prevails.

Balance Sheet

Prepared by: Hisense Kelon Electrical Holdings Company Limited Unit: RMB

Assets	31 December 2008 Consolidation	31 December 2008 Company	31 December 2007 Consolidation	31 December 2007 Company
Current assets:				
Bank balances and cash	**133,455,893.08**	**44,572,735.66**	146,527,807.16	47,055,872.14
Transactional financial assets	**6,018,689.45**	—	9,479,410.00	—
Notes receivable	**62,452,896.51**	**4,642,618.72**	2,740,000.00	100,000.00
Accounts receivable	**669,221,502.59**	**528,888,656.07**	618,566,012.70	388,208,800.61
Prepayments	**54,767,077.06**	**593,495,719.90**	72,847,598.00	336,124,026.29
Interests receivable	—	—	—	—
Dividends receivable	—	—	—	—
Others receivable	**333,797,033.08**	**920,170,803.43**	593,172,778.27	1,109,850,412.61
Inventories	**505,528,330.15**	**350,486,211.93**	940,284,389.70	615,051,793.84
Non-current assets due within one year	—	—	—	—
Other current assets	**19,730,909.81**	**18,480,634.72**	15,376,482.03	13,541,212.89
Total current assets	**1,784,972,331.73**	**2,460,737,380.43**	2,398,994,477.86	2,509,932,118.38
Non-current assets:				
Available-for-sale fixed assets	—	—	—	—
Held-to-maturity investments	—	—	—	—
Long-term receivable	—	—	—	—
Long-term equity investment	**141,205,574.48**	**1,766,532,589.68**	128,924,101.80	1,901,334,592.62
Investment properties	**35,564,782.86**	**18,920,551.00**	38,192,137.43	20,728,217.00
Fixed assets	**1,297,083,870.69**	**332,620,634.03**	1,234,496,001.63	380,412,420.05
Construction in progress	**65,935,254.53**	**32,537,022.21**	137,105,983.23	17,303,509.63
Construction materials	—	—	—	—
Disposal of fixed assets	**55,316.40**	—	5,149,749.16	5,125,440.00
Productive biological assets	—	—	—	—
Intangible assets	**437,257,036.31**	**278,163,961.00**	464,944,203.67	291,605,318.88
Development costs	—	—	—	—
Goodwill	—	—	—	—
Long term deferred expenditures	**3,367,496.87**	—	2,222,788.48	—
Deferred income tax assets	**13,646,782.34**	—	11,299,667.77	—
Other non-current assets	—	—	—	—
Total non-current assets	**1,994,116,114.48**	**2,428,774,757.92**	2,022,334,633.17	2,616,509,498.18
Total assets	**3,779,088,446.21**	**4,889,512,138.35**	4,421,329,111.03	5,126,441,616.56

Company legal representative: **Tang Ye Guo** Principal in charge of accounting: **Liu Chun Xin** Principal of the accounting department: **Chen Zhen Wen**

Balance Sheet *(continued)*

Prepared by: Hisense Kelon Electrical Holdings Company Limited Unit: RMB

Liabilities and Shareholders' equity	31 December, 2008 Consolidation	31 December, 2008 Company	31 December, 2007 Consolidation	31 December, 2007 Company
Current liabilities:				
Short-term loans	**1,814,948,725.08**	**1,148,628,997.87**	1,310,971,970.91	895,000,000.00
Transactional financial liability	**13,610,671.47**	**—**	6,157,782.89	—
Notes payable	**445,750,000.00**	**565,000,000.00**	770,959,940.00	733,959,940.00
Accounts payable	**878,266,574.01**	**24,757,411.36**	1,352,524,482.02	164,747,880.81
Advance from customers	**381,396,923.93**	**255,908,250.36**	417,174,192.88	473,580,561.40
Staff remuneration payables	**97,688,563.22**	**40,723,203.08**	91,851,650.73	39,546,709.70
Taxes payable	**(18,485,692.35)**	**21,609,117.89**	(65,430,540.63)	(20,372,408.90)
Interests payable	**3,079,013.17**	**1,660,198.00**	4,405,858.84	1,748,914.38
Dividends payable	**2,067.02**	**—**	2,067.02	—
Other payables	**607,478,590.93**	**2,215,366,083.42**	689,536,918.96	1,843,584,601.17
Non-current liabilities due within one year	**—**	**—**	—	—
Deferred income	**29,384,048.90**	**25,009,048.90**	24,972,364.90	55,592,534.72
Other current liabilities	**253,901,020.75**	**171,128,393.00**	292,682,611.12	233,115,295.19
Total Current Liabilities	**4,507,020,506.13**	**4,469,790,703.88**	4,895,809,299.64	4,420,504,028.47
Non-current liabilities:				
Long-term loans	**—**	**—**		—
Bonds payable	**—**	**—**		—
Long-term payable	**—**	**—**		
Specific payables	**—**	**—**		—
Provisions	**114,215,444.09**	**97,449,219.20**	144,005,574.26	129,085,638.25
Deferred income tax liabilities	**—**	**—**	—	—
Other non-current liabilities	**—**	**—**	—	—
Total Non-current liabilities	**114,215,444.09**	**97,449,219.20**	144,005,574.26	129,085,638.25
Total liabilities	**4,621,235,950.22**	**4,567,239,923.08**	5,039,814,873.90	4,549,589,666.72
Shareholders' equity:				
Share capital	**992,006,563.00**	**992,006,563.00**	992,006,563.00	992,006,563.00
Capital reserve	**1,538,321,802.37**	**1,723,080,890.63**	1,538,356,635.50	1,723,121,352.12
Less: Treasury shares	**—**	**—**	—	—
Surplus reserves	**114,580,901.49**	**114,580,901.49**	114,580,901.49	114,580,901.49
Unappropriated profits	**(3,674,263,413.69)**	**(2,507,396,139.85)**	(3,447,561,785.51)	(2,252,856,866.77)
Exchange differences on foreign currency translation	**37,912,545.46**	**—**	29,133,511.65	—
Equity attributable to the holders of the parent	**(991,441,601.37)**	**322,272,215.27**	(773,484,173.87)	576,851,949.84
Minority Interests	**149,294,097.36**	**—**	154,998,411.00	—
Total shareholders' equity	**(842,147,504.01)**	**322,272,215.27**	(618,485,762.87)	576,851,949.84
Total liabilities and shareholders' equity	**3,779,088,446.21**	**4,889,512,138.35**	4,421,329,111.03	5,126,441,616.56

Company legal representative: **Tang Ye Guo**
Principal in charge of accounting: **Liu Chun Xin**
Principal of the accounting department: **Chen Zhen Wen**

Income Statement

Prepared by: Hisense Kelon Electrical Holdings Company Limited — Unit: RMB

Items	2008 Consolidation	2008 Company	2007 Consolidation	2007 Company
1. **Total operating income**	**8,635,475,359.75**	**4,714,369,480.83**	8,822,347,228.40	5,021,911,719.32
Including: Operating income	**8,635,475,359.75**	**4,714,369,480.83**	8,822,347,228.40	5,021,911,719.32
2. **Total operating costs**	**8,913,987,411.92**	**5,005,528,877.83**	8,980,380,969.11	5,211,137,995.21
Including: Operating costs	**7,313,026,053.50**	**3,930,012,548.32**	7,368,479,127.09	4,088,689,613.96
Operating tax	**1,298,875.55**	**940,427.50**	1,856,823.76	1,031,322.95
Sales costs	**1,081,498,451.55**	**893,893,792.96**	1,116,923,591.23	961,362,150.53
Administrative expenses	**337,055,244.53**	**77,825,372.28**	311,516,093.52	58,605,430.01
Financial expenses	**151,269,234.67**	**91,666,621.87**	119,179,346.67	97,093,371.48
Asset impairment losses	**29,839,552.12**	**11,190,114.90**	62,425,986.84	4,356,106.28
Add: Gain from changes in fair value	**(11,058,654.62)**	**—**	3,104,581.01	—
Investment income	**(19,730,161.25)**	**(29,017,056.23)**	6,756,455.99	2,226,963.73
Including: Investment income from associates and joint ventures	**—**	**—**	—	—
3. **Operating profits**	**(309,300,868.04)**	**(320,176,453.23)**	(148,172,703.71)	(186,999,312.16)
Add: Non-operating income	**106,345,094.26**	**75,015,588.96**	463,679,353.02	86,428,600.16
Less: Non-operating expenses	**25,285,573.95**	**9,378,408.81**	89,299,117.37	9,424,093.64
Including: Losses on disposal of non-current assets	**—**	**—**	—	—
4. **Total profit**	**(228,241,347.73)**	**(254,539,273.08)**	226,207,531.94	(109,994,805.64)
Less: Income tax expense	**4,084,727.26**	**—**	10,867,387.46	—
5. **Net profit**	**(232,326,074.99)**	**(254,539,273.08)**	215,340,144.48	(109,994,805.64)
Net profit attributable to the holders of the parent	**(226,701,628.18)**	**(254,539,273.08)**	250,395,446.91	(109,994,805.64)
Profit or loss of minority shareholders	**(5,624,446.81)**	**—**	(35,055,302.43)	—
6. **Earnings per share**				
(1) Basic earnings per share	**(0.2285)**	**—**	0.2524	—
(2) Diluted earnings per share	**(0.2285)**	**—**	0.2524	—

Company legal representative: **Tang Ye Guo**

Principal in charge of accounting: **Liu Chun Xin**

Principal of the accounting department: **Chen Zhen Wen**

Cash Flow Statement

Prepared by: Hisense Kelon Electrical Holdings Company Limited — Unit: RMB

Items	2008 Consolidation	2008 Company	2007 Consolidation	2007 Company
1. Net cash flow from operating activities:				
Cash received from sales of goods and rendering of services	**4,440,326,261.67**	**684,864,751.65**	4,522,597,002.35	1,675,242,801.55
Refund of tax and levies	**258,261,634.08**	**—**	214,104,492.78	—
Cash received from other operation activities	**43,981,471.61**	**789,837,904.60**	31,414,712.83	1,604,677,347.97
Sub-total of cash inflow from operating activities	**4,742,569,367.36**	**1,474,702,656.25**	4,768,116,207.96	3,279,920,149.52
Cash paid for purchases of goods and services	**3,329,571,575.18**	**585,489,831.09**	2,992,877,751.78	2,300,517,630.89
Cash paid to and on behalf of employees	**568,742,694.47**	**204,717,863.21**	562,760,732.10	197,121,515.83
Tax paid	**244,361,075.23**	**156,150,909.97**	180,528,099.70	103,868,423.05
Cash paid for other operation activities	**1,042,235,094.46**	**655,663,320.42**	1,036,345,273.13	854,706,371.92
Sub-total of cash outflows from operating activities	**5,184,910,439.34**	**1,602,021,924.69**	4,772,511,856.71	3,456,213,941.69
Net cash flows from operating activities	**(442,341,071.98)**	**(127,319,268.44)**	(4,395,648.75)	(176,293,792.17)
2. Cash flows from investing activities:				
Cash received from investment returns	**3,200,000.00**	**2,920,000.00**	—	—
Cash received from investment revenues	**8,808,257.00**	**429,291.59**	—	—
Net Cash received from disposals of fixed assets, intangible assets and other long-term assets	**231,469,414.61**	**40,997,634.52**	429,318,371.19	163,759,000.14
Net Cash received from disposals of subsidiaries and other operation units	**—**	**—**	—	—
Other cash received from investing activities	**1,447,193.50**	**441,089.65**	4,011,408.82	2,061,207.24
Sub-total of cash inflow from investing activities	**244,924,865.11**	**44,788,015.76**	433,329,780.01	165,820,207.38
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	**211,995,764.09**	**43,477,325.22**	301,657,981.60	90,265,898.21
Cash paid for investments	**51,819,199.46**	**43,969,103.56**	1,220,000.00	2,720,000.01
Net increase in secured loans				
Cash paid for obtaining subsidiaries and other operation units	**—**	**—**	—	—
Cash paid for other investing activities	**—**	**—**	—	—
Sub-total of cash outflow from investing activities	**263,814,963.55**	**87,446,428.78**	302,877,981.60	92,985,898.22
Net cash flows from investing activities	**(18,890,098.44)**	**(42,658,413.02)**	130,451,798.41	72,834,309.16

Company legal representative: **Tang Ye Guo** — Principal in charge of accounting: **Liu Chun Xin** — Principal of the accounting department: **Chen Zhen Wen**

Items	2008 Consolidation	2008 Company	2007 Consolidation	2007 Company
3. Cash flow from financing activities				
Cash contribution from investment	—	—	—	—
Including: Cash contribution from minority shareholders' investment by subsidiaries	—	—	—	
Cash received from borrowings	**1,888,075,107.49**	**1,227,000,000.00**	1,780,779,623.28	1,029,000,000.00
Cash received from issue of bonds	—	—	—	—
Increase in policyholder deposits and investments	—	—	—	
Other cash received from investing activities	**46,893,209.83**	**25,462,210.43**	320,124,523.59	267,537,644.94
Sub-total of cash inflow from financing activities	**1,934,968,317.32**	**1,252,462,210.43**	2,100,904,146.87	1,296,537,644.94
Cash paid for repayment of borrowings	**1,366,098,353.32**	**994,000,000.00**	2,020,809,900.89	995,202,248.52
Cash paid for distribution of dividends, profit or interest expenses	**62,426,825.77**	**54,114,783.84**	75,119,918.47	35,251,849.34
Including: dividend and profit paid to minority shareholders by subsidiaries	—	—	—	
Cash paid for other financial activities	**11,390,672.06**	**11,390,672.06**	196,881,712.79	195,149,389.74
Sub-total of cash outflow from financing activities	**1,439,915,851.15**	**1,059,505,455.90**	2,292,811,532.15	1,225,603,487.60
Net cash flow from financing activities	**495,052,466.17**	**192,956,754.53**	(191,907,385.28)	70,934,157.34
4. Effects of foreign exchange rate changes on cash	—		—	—
5. Net increase in cash and cash equivalents	**33,821,295.75**	**22,979,073.07**	(65,851,235.62)	(32,525,325.67)
Add: Balance of cash and cash equivalents at the beginning of the year	**76,395,270.52**	**21,593,661.71**	142,246,506.14	54,118,987.38
Balance of cash and cash equivalents at the end of the year	**110,216,566.27**	**44,572,734.78**	76,395,270.52	21,593,661.71

Company legal representative: **Tang Ye Guo**

Principal in charge of accounting: **Liu Chun Xin**

Principal of the accounting department: **Chen Zhen Wen**

Consolidated Statement of Changes of Shareholders' Equity

Prepared by: Hisense Kelon Electrical Holdings Company Limited Unit: RMB

Items	2008 Equity attributable to the shareholders of the parent Share capital	Capital reserve	*Less:* Treasury share	Surplus reserve	Undistributed profit	Others (Exchange difference on foreign currency translation)	Minority interests	Total shareholders' interest
1. Closing Balance of previous year	992,006,563.00	1,538,356,635.50	–	114,580,901.49	(3,447,561,785.51)	29,133,511.65	154,998,411.00	(618,485,762.87)
Add: Changes of accounting policies	–	–	–	–	–	–	–	–
Correction for error in previous period	–	–	–	–	–	–	–	–
2. Opening balance of the year	992,006,563.00	1,538,356,635.50	–	114,580,901.49	(3,447,561,785.51)	29,133,511.65	154,998,411.00	(618,485,762.87)
3. Changes in amounts in the year ("-" for decrease)	–	(34,833.13)	–	–	(226,701,628.18)	8,779,033.81	(5,704,313.64)	(223,661,741.14)
(1) Net Profit	–	–	–	–	(226,701,628.18)	–	(5,624,446.81)	(232,326,074.99)
(2) Gains and losses directly accounted for as shareholders' equity	–	–	–	–	–	–	–	–
1. Net changes in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	–
2. Effect of changes of other owners' equity in investee under equity method	–	(34,833.13)	–	–	–	–	–	(34,833.13)
3. Income tax effect related to items included in shareholders' equity	–		–	–	–	–	–	–
4. Others	–		–	–	–	8,779,033.81	(79,866.83)	8,699,166.98
Sub-total of (1) and (2) above	–	(34,833.13)	–	–	(226,701,628.18)	8,779,033.81	(5,704,313.64)	(223,661,741.14)
(3) Equity holder contributions and capital reductions	–	–	–	–	–	–	–	–
1. Equity holder contributions	–	–	–	–	–	–	–	–
2. Amount of share-based payment included in equity	–	–	–	–	–	–	–	–
3. Others	–	–	–	–	–	–	–	–
(4) Profit Appropriation	–	–	–	–	–	–	–	–
1. Appropriations to surplus reserve	–	–	–	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	–	–	–	–
3. Others	–	–	–	–	–	–	–	–
(5) Internal transfer of shareholders' equity	–	–	–	–	–	–	–	–
1. Transfer to share capital from capital reserve	–	–	–	–	–	–	–	–
2. Transfer to share capital from surplus reserve	–	–	–	–	–	–	–	–
3. Compensation of losses by surplus reserve	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–
4. Closing balance of the year	992,006,563.00	1,538,321,802.37	–	114,580,901.49	(3,674,263,413.69)	37,912,545.46	149,294,097.36	(842,147,504.01)

Company legal representative: **Tang Ye Guo**

Principal in charge of accounting: **Liu Chun Xin**

Principal of the accounting department: **Chen Zhen Wen**

Consolidated Statement of Changes of Shareholders' Equity

Prepared by: Hisense Kelon Electrical Holdings Company Limited | Unit: RMB

	2007							
	Equity attributable to the shareholders of the parent							
Items	**Share capital**	**Capital reserve**	***Less:* Treasury share**	**Surplus reserve**	**Undistributed profit**	**Others (Exchange difference on foreign currency translation)**	**Minority interests**	**Total shareholders' interest**
1. Closing Balance of previous year	992,006,563.00	1,608,102,127.20	–	114,580,901.49	(3,697,957,232.42)	14,978,392.50	239,961,125.90	(728,328,122.33)
Add: Changes of accounting policies	–	–	–	–	–	–	–	–
Correction for error in previous period	–	–	–	–	–	–	–	–
2. Opening balance of the year	992,006,563.00	1,608,102,127.20	–	114,580,901.49	(3,697,957,232.42)	14,978,392.50	239,961,125.90	(728,328,122.33)
3. Changes in amounts in the year ("-" for decrease)	–	(69,745,491.70)	–	–	250,395,446.91	14,155,119.15	(84,962,714.90)	109,842,359.46
(1) Net Profit	–	–	–	–	250,395,446.91	–	(35,055,302.43)	215,340,144.48
(2) Gains and losses directly accounted for as shareholders' equity	–	–	–	–	–	–	–	–
1. Net changes in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	–
2. Effect of changes of other owners' equity in investee under equity method	–	(25,073,387.07)	–	–	–	–	–	(25,073,387.07)
3. Income tax effect related to items included in shareholders' equity	–		–	–	–	–	–	–
4. Others	–	(44,672,104.63)	–	–	–	14,155,119.15	(49,907,412.47)	(80,424,397.95)
Sub-total of (1) and (2) above	–	(69,745,491.70)	–	–	250,395,446.91	14,155,119.15	(84,962,714.90)	109,842,359.46
(3) Equity holder contributions and capital	–	–	–	–	–	–	–	–
1. Equity holder contributions	–	–	–	–	–	–	–	–
2. Amount of share-based payment included in equity	–	–	–	–	–	–	–	–
3. Others	–	–	–	–	–	–	–	–
(4) Profit Appropriation	–	–	–	–	–	–	–	–
1. Appropriations to surplus reserve	–	–	–	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	–	–	–	–
3. Others	–	–	–	–	–	–	–	–
(5) Internal transfer of shareholders' equity	–	–	–	–	–	–	–	–
1. Transfer to share capital from capital reserve	–	–	–	–	–	–	–	–
2. Transfer to share capital from surplus reserve	–	–	–	–	–	–	–	–
3. Compensation of losses by surplus reserve	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–
Closing balance of the y ear	992,006,563.00	1,538,356,635.50	–	114,580,901.49	(3,447,561,785.51)	29,133,511.65	154,998,411.00	(618,485,762.87)

Company legal representative: **Tang Ye Guo**

Principal in charge of accounting: **Liu Chun Xin**

Principal of the accounting department: **Chen Zhen Wen**

Statement of Changes of Shareholders' Equity (Parent Company)

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

	2008							
	Equity attributable to the shareholders of the parent							
Items	Share capital	Capital reserve	*Less:* Treasury share	Surplus reserve	Undistributed profit	Others (Exchange difference on foreign currency translation)	Minority interests	Total shareholders' interest
1. Closing Balance of previous year	992,006,563.00	1,723,121,352.12	–	114,580,901.49	(2,252,856,866.77)	–	–	576,851,949.84
Add: Changes of accounting policies	–	–	–	–	–	–	–	–
Correction for error in previous period	–	–	–	–	–	–	–	–
2. Opening balance of the year	992,006,563.00	1,723,121,352.12	–	114,580,901.49	(2,252,856,866.77)	–	–	576,851,949.84
3. Changes in amounts in the year ("-" for decrease)	–	(40,461.49)	–	–	(254,539,273.08)	–	–	(254,579,734.57)
(1) Net Profit	–	–	–	–	(254,539,273.08)	–	–	(254,539,273.08)
(2) Gains and losses directly accounted for as shareholders' equity	–	–	–	–	–	–	–	–
1. Net changes in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	–
2. Effect of changes of other owners' equity in investee under equity method	–	(40,461.49)	–	–	–	–	–	(40,461.49)
3. Income tax effect related to items included in shareholders' equity	–		–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–
Sub-total of (1) and (2) above	–	(40,461.49)	–	–	(254,539,273.08)	–	–	(254,579,734.57)
(3) Equity holder contributions and capital reductions	–	–	–	–	–	–	–	–
1. Equity holder contributions	–	–	–	–	–	–	–	–
2. Amount of share-based payment included in equity	–	–	–	–	–	–	–	–
3. Others	–	–	–	–	–	–	–	–
(4) Profit Appropriation	–	–	–	–	–	–	–	–
1. Appropriations to surplus reserve	–	–	–	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	–	–	–	–
3. Others	–	–	–	–	–	–	–	–
(5) Internal transfer of shareholders' equity	–	–	–	–	–	–	–	–
1. Transfer to share capital from capital reserve	–	–	–	–	–	–	–	–
2. Transfer to share capital from surplus reserve	–	–	–	–	–	–	–	–
3. Compensation of losses by surplus reserve	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–
4. Closing balance of the year	992,006,563.00	1,723,080,890.63	–	114,580,901.49	(2,507,396,139.85)	–	–	322,272,215.27

Company legal representative: **Tang Ye Guo**

Principal in charge of accounting: **Liu Chun Xin**

Principal of the accounting department: **Chen Zhen Wen**

Statement of Changes of Shareholders' Equity (Parent Company)

Prepared by: Hisense Kelon Electrical Holdings Company Limited | Unit: RMB

	2007							
	Equity attributable to the shareholders of the parent							
Items	Share capital	Capital reserve	*Less:* Treasury share	Surplus reserve	Undistributed profit	Others (Exchange difference on foreign currency translation)	Minority interests	Total shareholders' interest
1. Closing Balance of previous year	992,006,563.00	1,721,510,391.64	—	114,580,901.49	(2,142,862,061.13)	—	—	685,235,795.00
Add: Changes of accounting policies	—	—	—	—	—	—	—	—
Correction for error in previous period	—	—	—	—	—	—	—	—
2. Opening balance of the year	992,006,563.00	1,721,510,391.64	—	114,580,901.49	(2,142,862,061.13)	—	—	685,235,795.00
3. Changes in amounts in the year ("-" for decrease)	—	1,610,960.48	—	—	(109,994,805.64)	—	—	(108,383,845.16)
(1) Net Profit	—	—	—	—	(109,994,805.64)	—	—	(109,994,805.64)
(2) Gains and losses directly accounted for as shareholders' equity	—	—	—	—	—	—	—	—
1. Net changes in fair value of available-for-sale financial assets	—	—	—	—	—	—	—	—
2. Effect of changes of other owners' equity in investee under equity method	—	1,610,960.48	—	—	—	—	—	1,610,960.48
3. Income tax effect related to items included in shareholders' equity	—		—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
Sub-total of (1) and (2) above	—	1,610,960.48	—	—	(109,994,805.64)			(108,383,845.16)
(3) Equity holder contributions and capital reductions	—	—	—	—	—	—	—	—
1. Equity holder contributions	—	—	—	—	—	—	—	—
2. Amount of share-based payment included in equity	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(4) Profit Appropriation	—	—	—	—	—	—	—	—
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(5) Internal transfer of shareholders' equity	—	—	—	—	—	—	—	—
1. Transfer to share capital from capital reserve	—	—	—	—	—	—	—	—
2. Transfer to share capital from surplus reserve	—	—	—	—	—	—	—	—
3. Compensation of losses by surplus reserve	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
4. Closing balance of the year	992,006,563.00	1,723,121,352.12	—	114,580,901.49	(2,252,856,866.77)	—	—	576,851,949.84

Company legal representative: **Tang Ye Guo** | Principal in charge of accounting: **Liu Chun Xin** | Principal of the accounting department: **Chen Zhen Wen**

I. COMPANY PROFILE

Hisense Kelon Electrical Holdings Company Limited (hereinafter referred to as the "Company") is a joint stock limited company incorporated in the PRC on 16 December 1992. 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 approval to issue 110,000,000 domestic shares (the "A Shares"), which were listed on the Shenzhen Stock Exchange on 13 July 1999.

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

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

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

The company's share reform project was approved on the A shareholders' meeting on 29 January 2007 and approved by the National Commerce Department on 22 March 2007. The shareholding of the largest shareholder, Qingdao Hisense Air-Conditioning Company Limited, in the Company changed to 23.63% after such share reform. In 2008, Qingdao Hisense Air-Conditioning Company Limited overweights the company's stock through the secondary market and as at 31 December 2008, the shareholding has increased to 25.22%.

On 20 June 2007, the name of the Company was changed from "Guangdong Kelon Electrical Holdings Company Limited" to "Hisense Kelon Electrical Holdings Company Limited".

The Group is principally engaged in the manufacture and sale of refrigerators, air-conditioners and household electricity appliances.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE TO ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The Company's operating profits for 2008 was (RMB309,300,868.04). As at 31 December 2008, the accumulated loss of the Company amounted to RMB3,674,263,413.69, and equity attributable to the parent company was RMB(991,441,601.37). Accordingly, the operation of the Company's businesses on an ongoing concern basis is dependent on the continuous capital support from the investors to a significant extent. The beneficial controller of the Company, Hisense Group Company Limited, has already confirmed continuous support for the operation of the Company and has injected the white goods assets to the Company so that the Company would be capable of repaying its debts due in the foreseeable future without causing a significant reduction in the scale of operation. At the same time, according to the operating cash flow statement prepared by the Company on a best estimation basis for 2009, the Company will be generating continuous operating cash flow. Since the management firmly believes that the Company will be operating on an ongoing concern basis, the Company prepares the financial statements on the basis of ongoing concern with recognitions and estimations made in accordance the Accounting Standards for Business Enterprise – Application Guidelines" and the requirements of other accounting standards. The preparation of financial statements in accordance with the PRC Accounting Standards requires the use of estimations and assumptions, which may affect the disclosure of assets, liabilities and contingent liabilities as at the date of financial report and the income and expenses of the Reporting Period. The financial statement prepared by the Company complies with the requirements of the Accounting Standards for Business Enterprises and truly and completely reflects the financial state, operating results, cash flow and other related information of the Company.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

III. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENT

1. Controlled subsidiaries:

Name of controlling company	Place of registration	Nature of Business	Registered Capital	Actual Investment Amount at the End of the Period	Actual Net Investment Balance to the Subsidiary	Shareholding of the Company			Percentage of Voting Rights
						Direct	Indirect	Total	
1. Subsidiaries acquired through business combination									
(I) Subsidiaries under common control									
Hisense Ronshen (Guangdong) Refrigerator Co Ltd ("Ronshen Refrigerator")	Foshan	Manufacture and sale of refrigerators	US$26,800,000	210,432,087.94	210,432,087.94	70%	30%	100%	100%
Guangdong Kelon Air-conditioner Co., Ltd. ("Kelon Air-conditioner")*2	Foshan	Manufacture and sale of air-conditioners	US$36,150,000	281,000,000.00	281,000,000.00	60%	—	60%	60%
Hisense Ronshen (Guangdong) Freezer Co. Ltd. ("Kelon Freezer")	Foshan	Manufacture and sale of freezers	RMB237,000,000	37,620,581.63	37,620,581.63	44%	56%	100%	100%
Shunde Kelon Household Electrical Appliance Company Limited ("Kelon Household Electrical Appliance")	Foshan	Manufacture and sale of household electrical appliances	RMB10,000,000	2,500,000.00	2,500,000.00	25%	75%	100%	100%
Guangdong Kelon Fittings Co., Ltd. ("Kelon Fittings")	Foshan	Manufacture and sale of refrigerators and air-conditioner fittings	US$5,620,000	44,140,399.75	44,140,399.75	70%	30%	100%	100%
Shunde Rongsheng Plastic Products Co., Ltd. ("Rongsheng Plastic")	Foshan	Manufacture of plastic fittings	US$15,827,400	85,214,124.30	85,214,124.30	44.92%	25.13%	70.05%	70.05%
Guangdong Kelon Mould Co., Ltd. ("Kelon Mould")	Foshan	Manufacture of moulds	US$15,056,100	81,039,703.90	81,039,703.90	40.22%	29.89%	70.11%	70.11%
Shunde Huaao Electronics Co., Ltd. ("Huaao Electronics")*2	Foshan	Research and development, manufacture and sale of electronic products	RMB10,000,000	7,000,000.00	7,000,000.00	—	70%	70%	70%
Foshan Shunde Kelon Property Service Co., Ltd ("Kelon Property")	Foshan	Enterprise consultancy management, catering, household decoration design	RMB5,000,000	4,927,821.40	4,927,821.40	—	100%	100%	100%
Shunde Wangao Import & Export Co., Ltd. ("Wangao I&E")	Foshan	Import and export	RMB3,000,000	3,000,000.00	3,000,000.00	20%	80%	100%	100%
Shunde Jiake Electronic Company Limited ("Kelon Jiake")	Foshan	IT and communication technology, and micro-electronics technology development	RMB60,000,000	60,000,000.00	60,000,000.00	70%	30%	100%	100%
Guangdong Kelon Weili Electrical Appliances Company Limited ("Kelon Weili")	Zhongshan	Production of intelligent washing machine, air-conditioner and after-sale services and technology consultation for other products, 70% products for domestic sale	RMB200,000,000.00	—	—	55%	25%	80%	80%
Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon")	Chengdu	Manufacture and sale of refrigerators	RMB200,000,000	212,623,548.05	212,623,548.05	75%	25%	100%	100%

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

III. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENT *(continued)*

1. Controlled subsidiaries: *(continued)*

Name of controlling company	Place of registration	Nature of Business	Registered Capital	Actual Investment Amount at the End of the Period	Actual Net Investment Balance to the Subsidiary	Shareholding of the Company Direct	Indirect	Total	Percentage of Voting Rights
Hisense Ronshen Yingkou Refrigerator Co., Ltd. ("Yingkou Kelon")	Yingkou	Manufacture and sale of refrigerators	RMB200,000,000	125,176,300.95	125,176,300.95	42%	36.79%	78.79%	78.79%
Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon")	Nanchang	Manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small electrical appliances	US$29,800,000	250,222,058.75	250,222,058.75	60%	40%	100%	100%
Jiangxi Kelon Combine Electrical Appliances Co., Ltd. ("Jiangxi Combine") *1	Nanchang	Research and development, manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small household electrical appliances	RMB20,000,000	11,000,000.00	11,000,000.00	—	55%	55%	55%
Hangzhou Kelon Electrical Company Limited ("Hangzhou Kelon")	Hangzhou	Research and development of the technology for environmental friendly refrigerators, production of high efficiency, energy saving and environmental friendly refrigerators, information consultation, warehousing, and sale of the products made by the Company	RMB24,000,000	24,000,000.00	24,000,000,00	100%	—	100%	100%
Yangzhou Kelon Electrical Company Limited ("Yangzhou Kelon")	Yangzhou	Production of energy environmental friendly refrigerators and other energy saving cooling appliances, and sale of products made by the Company	US$29,800,000	230,161,354.01	230,161,354.01	74.33%	25.67%	100%	100%
Shangqiu Kelon Electrical Company Limited ("Shangqiu Kelon")	Shangqiu	Research, development, production and sale of household and commercial air-conditioners, refrigerators, freezers, small household electrical appliances and parts and accessories, and provision of relevant information and technical consultancy services	RMB150,000,000	150,000,000.00	150,000,000.00	—	100%	100%	100%

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

III. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENT *(continued)*

1. Controlled subsidiaries: *(continued)*

Name of controlling company	Place of registration	Nature of Business	Registered Capital	Actual Investment Amount at the End of the Period	Actual Net Investment Balance to the Subsidiary	Shareholding of the Company			Percentage of Voting Rights
						Direct	Indirect	Total	
Zhuhai Kelon Industrial Development Co., Ltd ("Zhuhai Kelon")	Zhuhai	Research and development of electric refrigerator, air-conditioner, freezer, small household electrical appliances and related accessories	US$29,980,000	241,322,620.40	241,322,620.40	75%	25%	100%	100%
Xi'an Kelon Cooling Co., Ltd. ("Xi'an Kelon")	Xi'an	Development, manufacture, design, production of chlorofluorocarbon-free refrigerator (freezer) cooling compressor products; sale of products and conducting after-sale services, research and manufacture, development and production of new cooling compressor products subject to the market demands	RMB202,000,000	107,729,620.45	107,729,620.45	60%	—	60%	60%
Shenzhen Kelon Purchase Company Limited ("Shenzhen Kelon")	Shenzhen	Import and export, provision of warehouse and storage, information consultation and technology services (excluding those items limited)	RMB100,000,000	100,000,000.00	100,000,000.00	95%	5%	100%	100%
Beijing Hengsheng Xin Chuang Technology Company Limited ("Beijing Hengsheng")	Beijing	Research, development of industrial and commercial intelligent system	RMB30,000,000	24,000,000.00	24,000,000.00	80%	—	80%	80%
Beijing Kelon Tiandi IT Network Company Limited ("Beijing Tiandi")	Beijing	Operation items are under free-option, excluding those prohibited by laws and regulations	RMB5,000,000	5,000,000.00	5,000,000.00	—	78%	78%	78%
Beijing Kelon Shikong Information Technology Company Limited ("Beijing Shikong")	Beijing	Operation items are under free-option, excluding those prohibited by laws and regulations	RMB5,000,000	5,000,000.00	5,000,000.00	—	78%	78%	78%
Pearl River Electric Refrigerator Company Limited ("Pearl River Refrigerator")	Hong Kong	Trading in materials and parts for refrigerators	HK$400,000	352,756.00	352,756.00	—	100%	100%	100%
Kelon Electric Appliances Co., Ltd. ("Kelon Electric Appliances")	Hong Kong	Property investment	HK10,000	8,818.90	8,818.90	—	100%	100%	100%
Kelon Development Company Limited ("Kelon Development")	Hong Kong	Investment holdings	HK$5,000,000	11,200,000.00	11,200,000.00	100%	—	100%	100%
Wetherell Development Limited ("Wetherell Development")	British Virgin Islands	Advertising agency	US$1	6.61	6.61	—	100%	100%	100%

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

III. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENT *(continued)*

1. Controlled subsidiaries: *(continued)*

Name of controlling company	Place of registration	Nature of Business	Registered Capital	Actual Investment Amount at the End of the Period	Actual Net Investment Balance to the Subsidiary	Shareholding of the Company Direct	Indirect	Total	Percentage of Voting Rights
Kelon (Japan) Limited ("Kelon Japan")	Japan	Technical research and trading in electrical household appliances	JPY$1,100,000,000	26,887,062.32	26,887,062.32	—	100%	100%	100%
Kelon (USA) Inc.("Kelon USA")	USA	Business liaison	US$100	2,059,045.59	2,059,045.59	—	100%	100%	100%
Kelon International Incorporation ("Kelon Int")	British Virgin Islands	Investment holding and sale of household electrical appliance	US$50,000	6.89	6.89	—	100%	100%	100%
Sichuan Rongsheng Kelon Refrigerator Sales Company Limited ("Sichuan Kelon Sales")	Chengdu	Sale of refrigerator	RMB2,000,000	1,520,000.00	1,520,000.00	76%	—	76%	76%
Wuhu Ecan Motors Company Limited ("Wuhu Motors")	Wuhu	Production and sale of motor starter and permanent-magnet current brushless motor, micro alternating current machine and electrical equipment	US$7,210,000	20,665,075.36	20,665,075.36	40%	40%	80%	80%
Kelon Europe Industrial Design Limited ("Kelon Europe") *1	United Kingdom	Business liaison	—	—	—	—	100%	100%	100%
Hisense (Chengdu) Refrigerator Co., Ltd. ("Hisense Chengdu")	Chengdu	Manufacture of household electric appliances, refrigerating equipment, sale of the Company's products and provision of related after-sale services	RMB5,000,000.00	5,000,000.00	5,000,000.00	100%	—	100%	100%

*1 The Company holds 100% shareholdings of Kelon Europe, 55% shareholdings of Jiangxi Combine. The above companies have not been consolidated in the financial statements due to their smaller sizes.

*2 The Company holds 60% shareholdings of Kelon Air-conditioner, 70% shareholdings of Huaao Electronics, but as the Company has committed to bear 100% of the liabilities of these companies, the long term equity investment was accounted for based on 100% beneficiary control.

III. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENT *(continued)*

1. Controlled subsidiaries: *(continued)*

*3 Changes in the scope of consolidation for the year are as follows:

1 The Company holds 100% shareholdings of Japan Kelon indirectly. It has not been consolidated in the financial statements as the Company planned to dispose of Japan Kelon in the previous years and due to its smaller size. During the year, Japan Kelon was consolidated as the progress of disposal was slow;

2 The Company and its controlling subsidiary, Ronshen Refrigerator, have entered into a equity transfer agreement with Jilin Yinqiao Group Co., Ltd on 7 January 2008, transferring 100% stake in Jilin Kelon (90% by the Company, 10% by Ronshen Refrigerator) to Jilin Yinqiao Group Co., Ltd at a consideration of RMB30 million. At the same time, the Company and Ronshen Refrigerator agreed to take up all the carrying debts of Jilin Kelon as at the date of the agreements. An investment loss of RMB10.57 million was incurred to the Company by the equity transfer, and Jilin Kelon was no longer within the scope of consolidation during the year;

3 On 17 January 2008, the controlling subsidiary of the Company, Kelon Mould, increased its registered capital by US$56,100, all contributed by the Company. The capital increase has been verified by the capital verification report Yuedehuiyanzi [2008] No. 008, issued by GuangDong Dezheng Certified Public Accountants Limited. After the capital increase, the registered capital of Kelon Mould increased from the original US$15 million to US$15.0561 million, and the shareholding of the Company in Kelon Mould increased from the original 70% to 70.11% (40.22% by the Company, 29.89% by Pearl River Refrigerator);

4 On 29 January 2008, the controlling subsidiary of the Company, Rongsheng Plastic, increased its capital by US$27,400, all contributed by the Company. The capital increase has been verified by the capital verification report Yuedehuiyanzi [2008] No. 010, issued by GuangDong Dezheng Certified Public Accountants Limited. After the capital increase, the registered capital of Rongsheng Plastic increased from the original US$15.80 million to US$15.8274 million, and the shareholding of the Company in Rongsheng Plastic increased from the original 70% to 70.05% (44.92% by the Company, 25.13% by Pearl River Refrigerator);

5 On 14 May 2008, the controlling subsidiary of the Company, Kelon Property, increased its capital by RMB4 million, all contributed by Kelon Fittings and Kelon Jiake (both being subsidiaries of the Company) at equal proportion. The capital increase has been verified by the capital verification report Yuedehuiyanzi [2008] No. 072, issued by GuangDong Dezheng Certified Public Accountants Limited. After the capital increase, the registered capital of Kelon Property increased from the original RMB1 million to RMB5 million, and the shareholding of the Company in Kelon Property was 100% (20% by Kelon Fittings, 80% by Kelon Jiake);

6 The Company originally held 100% shareholdings of Hisense Chengdu, of which 75% by the Company and 25% by the controlling subsidiary of the Company, Pearl River Refrigerator. On 31 July 2008, the Company acquired the 25% shareholdings in Hisense Chengdu from Pearl River Refrigerator. After the acquisition, the Company directly held 100% shareholdings in Hisense Chengdu, and the enterprise nature of Hisense Chengu changed from a foreign enterprise to a domestic enterprise (legal person wholly owned). On 24 December 2008, the Company completed the second contribution to the registered capital of Hisense Chengdu, with an actual contribution amount of RMB3,005,628.36. This has been verified by the capital verification report Chuanweichengyanzi (2008) No. 006, issued by 四川維誠會計師事務所有限公司.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

III. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENT *(continued)*

1. Controlled subsidiaries: *(continued)*

*4 Within the scope of consolidation, entities operating overseas whose accounts are denominated in foreign currency include Pearl River Refrigerator, Hong Kong Kelon Electric Appliances, Hong Kong Kelon Development, Wetherell Development, KII, Japan Kelon and Kelon USA. On the date of consolidation, we have translated the items under assets and liabilities at the prevailing exchange rate at the balance sheet date, whereas items under equity (except unallocated profits) were translated at the historic exchange rate, and items under profit and loss were translated at the average exchange rate. The difference between assets and liabilities and net assets was reflected in "exchange difference on foreign currency translation" and was shown separately under "equity" in the balance sheet.

Particulars of minority shareholders:

Name of subsidiaries	**Minority interests**	**Amount of minority interests used to offset profit and loss of minority shareholders**	**Amount of parent company interests used to offset minority interests**
Rongsheng Plastic	80,823,608.68	—	—
Kelon Mould	41,848,064.07	—	—
Weili Electrical Appliances	(3,242,067.90)	—	—
YingKou Kelon	22,616,157.03	—	—
Xi'an Kelon*1	—	—	(14,283,550.11)
Beijing Hengsheng	3,872,175.36	—	—
Beijing Tiandi	1,087,850.94	—	—
Beijing Shikong	1,063,218.64	—	—
Sichuan Kelon Sales	263,795.76	—	—
Wuhu Motors	961,294.78	—	—
Total	149,294,097.36	—	(14,283,550.11)

*1 The profit and loss of minority shareholders of Xi'an Kelon for the year according to the actual investment proportion should be RMB(10,618,417.83), and the minority interests should be RMB(14,283,550.11). However, as the Company has undertaken to provide financial support to that company the carrying value of minority interests for that company would not be further reduced when it reduced to zero. Accordingly, RMB10,618,417.83 loss attributable to minority interests for the year and the loss attributable to minority shareholders of RMB3,665,132.28 of the previous year were assumed by Hisense Kelon.

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting regulations and standards

The accounting policies adopted by the Company are in accordance with "Accounting Standards for Business Enterprises" and the supplementary regulations enacted by PRC Ministry of Finance.

2. Accounting year

The Company adopts the Gregorian calendar year as its accounting year, i.e. from 1 January to 31 December of each year.

3. Basis of accounting and principle of measurement

The Company maintains its accounting records on accrual basis. Assets are recorded at historical cost. However, certain fixed assets were restated at assessed value from 1999.

4. Reporting currency

The reporting currency of the Company is Renminbi ("RMB").

5. Foreign exchange translation

Transactions in foreign currencies are translated into RMB at the applicable rates of exchange ("market exchange rate") prevailing at the dates of transactions. Monetary accounts denominated in foreign currencies are translated into RMB at the market exchange rate prevailing at the balance sheet date. Gains and losses arising on exchange are included in financial expenses, except from those arising from the special foreign borrowings for the acquisition and construction of fixed assets which were included in the cost of assets before they are ready for use, and those arising in the pre-operating periods which were recorded as long term deferred expenditures for amortisation.

6. Basis of preparation for the consolidated accounting report

Subsidiaries under the control of the Company are within the scope of consolidation. Where the subsidiary adopts accounting policies different from those of the Company, adjustments are made in accordance with the accounting policies of the Company before consolidation. Where the accounting period of the subsidiary is different from that of the Company, the financial statements of the subsidiary will be adjusted in accordance with the accounting period of the parent company.

The equity method is used for acquisition of subsidiaries under the same controlling party by the Company, and the income, expenses and profits incurred from the beginning of the year to the date of consolidation are included in the consolidated statement of income, and the assets and liabilities that the merging party obtains in a business combination shall be measured on the basis of their carrying amount in the merged party on the date of combination. The purchase method is adopted for acquisition of subsidiaries not under the same controlling party to consolidate the accounts of the subsidiary from the dates of obtaining control over the subsidiary, and the identifiable assets and liabilities of the subsidiaries acquired are measured at fair value.

On the basis of full off-set, the unrealized profit and loss of the investments, inter-company accounts and internal transactions between the Company's controlled subsidiaries and associates of beneficiary control are consolidated individually taking into the account of minority interests. Minority interests refer to third parties not being the Company and its subsidiaries who are entitled to a share of profit (or loss) in the subsidiaries of the Company. The equity method is adopted for joint ventures under the Company.

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

7. Method for translation of foreign currency financial statements

The foreign currency financial statements of the Group's overseas subsidiaries are translated into RMB for consolidation by adopting the following methods:

Assets and liabilities are translated into RMB at the market exchange rate prevailing at the balance sheet date. Shareholders' equity, except for retained earnings, are translated into RMB at the market rates at transaction dates. All items in the statements of income and profit appropriation are translated at the applicable average exchange rates for the accounting period of the consolidated financial statements. Retained earnings at the beginning of the year represent the translated closing balance brought forward from the previous year; retained earnings at year end are arrived at after the translation of all other items in the income statement. The difference between translated assets and translated liabilities plus equity is shown separately in the balance sheet as exchange differences arising from the translation of the foreign currency in the financial statements under the item "Unappropriated profit".

The translation of cash flow has been made at the average foreign exchange rate. The effect of foreign exchange rate changes on cash will be treated as adjustments and is shown separately as "Effect of foreign exchange rate changes on cash" in the cash flow statement.

8. Cash equivalents

Cash equivalents are short-term (usually less than three months), highly liquid investments that are readily convertible to known amounts of cash and which are held by enterprises and subject to insignificant risk on changes in value.

9. Financial assets

Financial assets are initially classified as: Financial assets measured at their fair values and variation included into the current profits and losses, receivables, financial assets available for sale and held-to-maturity investments. The classification of financial assets depends on the intention and capability of holding of the Company and its subsidiaries.

(1) Financial assets measured at their fair values and variation included into the current profits and losses

Financial assets measured at their fair values and variation included into the current profits and losses, including transactional financial assets and financial assets designated to be measured at their fair values and whose variation is included into the current profits and losses.

(2) Receivables

Receivables refers to non-derivative financial assets that are not quoted and has fixed or defined recoverable value, including notes receivable, trade receivables, interests receivable, dividends receivable and other receivables.

(3) Financial assets available for sale

Financial assets available for sale include non-derivative financial assets designated as available for sale upon initial recognition and assets not classified as financial assets measured at their fair values and variation included into the current profits and losses, receivables and held-to-maturity investments. Financial assets to be disposed of within 12 months from the balance sheet date are classified as other current assets.

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

9. Financial assets *(continued)*

(4) Held-to-maturity investments

Held-to-maturity investments refer to non-derivative financial assets with fixed maturity date, recoverable or defined amount which are held by the Company and its subsidiaries with definite intention and capacity. Held-to-maturity investments maturing within 12 months are classified as non-current assets maturing in one year on the balance sheet.

(5) Recognition and measurement

When the Company and its subsidiaries become a party of financial instrument contracts, the financial assets are initially recognized at fair value. For Financial assets measured at their fair values and variation included into the current profits and losses, the related transaction fees at acquisition are directly accounted for in the profit and loss of the period. The related transaction fees of other financial assets are accounted for as initially recognized amount. Where the contractual rights to receiving cash flow of certain financial assets are terminated or the ownership of the financial assets are substantially transferred to the transferee, the financial assets will ceased to be recognized.

Financial assets measured at their fair values and variation included into the current profits and losses and financial assets available for sale are subsequently measured at fair value.

The fair value of financial assets measured at their fair values and variation included into the current profits and losses are accounted for profit and loss of fair value changes; interests or cash dividends received during the asset-holding period are recognized as investment gains; upon disposal, the difference between the fair value and the carrying amount is recognized as investment profit and loss and profit and loss of changes in fair value is simultaneously adjusted.

Gain and loss from changes in fair value of financial assets available for sale (excluding impairment loss and exchange differences from financial assets in foreign currency) are directly accounted for shareholders' equity and is accounted for the profit and loss of the current period when the financial assets ceased to be recognized.

Receivables and held-to-maturity investments are amortized at cost using the actual interest method.

(6) Financial assets impairment

Except for financial assets measured at their fair values and variation included into the current profits and losses, the Company and its subsidiaries review the carrying value of the financial assets at the balance sheet date if there is any objective evidence that a certain financial asset is impaired, and impairment provision is made.

Where there is a relatively significant or non-temporary decrease in the fair value of financial assets available for sale, the accumulated loss arising from the decrease in fair value from the original amount directly included in the shareholders' equity is accounted for in the impairment loss. For equity instruments available for sale already recognized for impairment loss, the previously recognized impairment loss is reversed and accounted for in shareholders' equity when the fair value subsequently increases and is objectively related to the events happened after the previously recognized impairment loss.

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

9. Financial assets *(continued)*

(6) Financial assets impairment (continued)

Where financial assets measured at amortized costs are impaired, the carrying amount of the financial assets are reduced to the present value of anticipated future cash flow (excluding future credit loss that has not happened yet), the reduced amount is recognized as impairment loss of asset and is accounted for in the profit and loss of the period. Where there is objective evidence that the value of the financial assets is recovered, and is objectively related to the events happened after the previously recognized impairment loss, the previously recognized impairment loss is reversed and accounted for in the profit and loss of the period.

For equity instruments that are not quoted on the active market and whose fair value cannot be reliably measured, impairment loss is not reversed when the value is recovered during subsequent periods.

10. Provision for bad debts

(1) Criteria for recognition of bad debts

a. The irrecoverable amount for a debtor who becomes bankrupt after pursuing the statutory recovery procedures;

b. The irrecoverable amount for a debtor who dies and has no offsetting estate and obligatory undertakers;

c. The amount for a debtor who does not comply with repayment obligation after the debt becomes due, with sufficient evidence showing that such amount is irrecoverable or unlikely to be recovered.

(2) Accounting for provision for bad debts

Provisions for general bad debts and special bad debts are accounted for using the allowance method and provided based on with the recoverability of accounts receivable as at year end.

Provision for general bad debts against the account receivables for domestic customers is accounted for with reference to the aging analysis and the provision percentage is as follows:

Age	Provision percentage
Within 3 months	—
Over 3 months and within 6 months	10%
Over 6 months and within one year	50%
Over one year	100%

Bad debt provision is made against trade receivable from overseas customers by individually analyzing large-amount receivables and then bad debts are calculated by using the aging analysis of accounts.

The provision for bad debts of other debtors is provided for individually based on the nature of current accounts and the past experiences of the Company, the actual financial position and cash flows condition of the debtor, and other information.

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

11. Inventories

Inventories are stated at actual cost of acquisition. Inventories include raw materials, work-in-progress and finished goods.

Standard cost is applied for the record of raw materials movement. At the end of each period, amortization for cost variances is made to the standard cost to arrive at the actual cost.

Actual cost is applied for the record of movement of work-in-progress and finished goods, and is recognized on a weighted average basis.

Inventories are kept on a periodic inventory system. Inventories at year-end are measured at the lower of cost and net realisable value. Provision for impairment loss of inventories is made when the cost of inventories is higher than the net realisable value because of damage, partially or totally obsolete or the sale price falling below the cost, etc. Provision for impairment loss of inventories is made on an individual basis for the difference between the cost and the net realisable value.

For finished goods held for execution of sales contracts, the net realizable value represents the contract price of the finished goods deducted by the anticipated sales costs and tax amount, or the market price of the finished goods deducted by the anticipated sales expenses and tax amount.

For raw materials acquired for production of finished goods, the net realizable value represents the estimated sales price of the finished goods produced from the normal production and operation processes, deducted by the estimated costs to be incurred as at the time of completion, estimated expenses and related tax amount.

12. Long term equity investments

Long term equity investments include the Company's equity investments in subsidiaries, the Company's equity investments in joint ventures and associates, and the Company's long term investments in the investee that has no control, joint control or significant influence and is not quoted on the active market and the fair value cannot be measured reliably.

(a) Subsidiaries

Subsidiaries are investees in which the Company has power to govern the investees' financial and operating policies and receive benefits from its operating activities. In determining whether control can be exerted on the investee, the potential voting power of bonds convertible during the period, share options exercisable during the period of the investee are also considered. The investments in subsidiaries are set out as the amount recognized in the individual financial statements of the Company using the cost method, and is consolidated after being adjusted using the equity method when preparing the financial statements.

Long term equity investments accounted for using the cost method are measured in accordance with initial investment costs. Cash dividends or profits declared for distribution by the investee are recognized as investment gains for the period. Investment gains recognized are restricted to the allocated accumulated new profits generated after the investment is accepted by the investee, and the part of profit or cash dividend received exceeding the above amount is accounted for as recovery of initial investment costs.

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

12. Long term equity investments *(continued)*

(b) Joint ventures and associates

Joint ventures are investees on which the Company and other parties exert joint control; associates are investee in which in the Company exert significant influence on its financial and operating decisions. Investments in joint ventures and associates are initially recognized at actual cost, and subsequently measured using the equity method. Where the initial investment cost exceeds the share of the fair value of the recognizable new assets of the investee, the difference is included in the initial investment cost; where the initial investment cost is below the share of the fair value of the recognizable new assets of the investee, the difference is accounted for in the profit and loss for the period and the cost of the long term equity investment is simultaneously adjusted. When the equity method is used for accounting, the investment profit and loss for the period is recognized based on the share of the profit and loss of the investee by the Company. Upon recognition of net loss of the investee, the carrying value of the long term equity investment and other long term equities that actually form net investment in the investee are debited to zero as a limit. However, where the Company has the additional liability to loss and where it conforms to the conditions of recognizing anticipated liabilities as required by the standard of contingent liabilities, the investment loss and anticipated liabilities are continually recognized. Changes of shareholders' equity of the investee other than net profit and loss are directly accounted for in the capital reserve for the part attributable in proportion to the Company's shareholding, assuming there is no change to the shareholding proportion. Profits or cash dividends distributed by the investee are set off against the carrying value of the long term equity investment upon the time of distribution in accordance with the part attributable to the Company. Unrealized profit and loss from transactions between the Company and the investee are set off within the scope of the equity of the investee held by the Company. However, when the assets transferred in the transaction are impaired, the corresponding unrealized loss is not set off.

(c) Other long term equity investments

For investees in which the Company has no control, joint control or significant influence, and which are not quoted on the active market and whose fair value cannot be reliably measured, they are accounted for using the cost method.

(d) Impairment of long term equity investments

Where the recoverable amount of long term equity investment is less than the carrying value, the carrying value is reduced to its recoverable amount.

13. Investment properties

The investment properties of the Company are classified as leased land use rights, land use rights held and intended for transfer after appreciation, and leased buildings.

The Company adopts the cost method for subsequent measurement of investment properties, and the depreciation or amortization method takes reference from the depreciation method for buildings under fixed assets and amortization method of land use rights under intangible assets, and method for impairment provision and calculation take reference from fixed assets and intangible assets.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

14. Fixed assets and depreciation

Fixed assets are tangible assets held by the Company for production, provision of services, lease or operation, with useful life exceeding one year and with a relatively higher unit cost.

Fixed assets are recorded at actual cost on acquisition. Depreciation is provided to write down the cost of each category of fixed assets over their estimated useful lives using straight-line method from the month after they are put into use. The estimated residual values, estimated useful lives and annual depreciation rates of each category of fixed assets are as follows:

Category	Estimated rate of residual value	Estimated Useful life	Annual depreciation rate
Buildings and structures	0-5%	20-50	2-4.75%
Machinery and equipment	5%	10-20	4.75%-9.50%
Furniture, fixtures and office equipment	5%	5	19%
Motor vehicles	5%	5	19%
Moulds	0%	3	33.33%

Provision for impairment of fixed assets

At the end of each period, the Company assesses if there is any indication that fixed assets are suffered from an impairment loss case by case and determines whether provision for impairment of fixed assets should be made accordingly. When the recoverable amount of any fixed assets is lower than its carrying amount, an impairment loss on fixed assets will be recognised for the difference.

15. Construction in progress

Construction in progress is stated at actual cost incurred for the construction. Actual cost comprises construction expenditure incurred during the construction period, capitalised borrowing costs incurred on a specific borrowing for the construction of fixed assets before it has reached the working condition for its intended use and other relevant expenses. The construction in progress is transferred to fixed assets when it has reached the working condition for its intended use. No depreciation is provided for construction in progress.

Provision for impairment on construction in progress is made when the construction project is suspended for a long period and is not expected to be resumed within three years; the construction project is technically and physically obsolete and its economic benefits to the Company is uncertain; or other evidences can prove the existence of the decline in value of construction project. An impairment loss is recognised individually for the shortfall of the recoverable amount of construction in progress below its carrying amount.

16. Intangible assets

Intangible assets are stated at actual cost at acquisition. The actual cost of the intangible assets injected by the investors is determined by the value having been recognised by each party. The actual cost of acquired intangible assets is determined on the basis of the actual consideration paid. Intangible asset obtained with receivables is recognised at the book value of the receivables plus the cash compensation payable and the related tax expenses which are payable.

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

16. Intangible assets *(continued)*

Intangible assets shall be amortised evenly by installments within the estimated tenure of use from the month of acquisition and shall be stated in the profit and loss. Where the estimated tenure of use exceeds the benefited tenure provided in the relevant contract or the valid tenure required by law, the term of amortisation shall not be longer than the benefited tenure or the valid tenure whichever is the shorter. Where it is impossible to foresee the term for which the intangible asset would generate economic benefits to the Group, the intangible asset is deemed as an intangible asset with indefinite life of use and is subject to review of life of use for each accounting period. When there is evidence that its life of use is definite, it will be reclassified as intangible asset with definite life of use. Intangible assets with indefinite life of use are not amortized.

Provision for impairment of intangible assets

At the end of each period, the Company assesses if there is any indication that intangible assets are suffered from an impairment loss case by case. Where the recoverable amount of any intangible asset is lower than its carrying amount, an impairment loss on intangible assets is recognised for the difference.

17. Long-term deferred expenditures

Unless related to the acquisition or construction of fixed assets, all expenditure incurred during the preoperating period is recognised as an expense in the month in which the enterprise commences operation.

Long-term deferred expenditures are recorded at cost when incurred, and amortised evenly over the expected benefited period.

18. Impairment of assets

Goodwill and intangible assets with indefinite life of use separately set out in the financial statements are tested annually for impairment, notwithstanding whether there is evidence of impairment. Fixed assets, intangible assets, investment properties measured by the cost method and long term equity investments are tested for impairment if there is evidence of impairment at the balance sheet date. When the test result shows that the recoverable value of the asset is lower than its carrying value, provision is made for the difference and accounted for in impairment loss. The recoverable value is calculated as the fair value of the asset minus the higher of the net value after disposal fee and the estimated future cash flow of the asset. Provision for asset impairment is calculated and recognized on an individual basis. Where it is difficult to estimate the recoverable amount of an individual asset, the recoverable amount is determined for the asset group which the asset belongs. An asset group refers to the smallest group of assets capable of generating cash inflow individually.

19. Financial liabilities

Financial liabilities of the Company are categorized into: financial liabilities measured at fair values through profit and loss of the period, and other financial liabilities.

Financial liabilities measured at fair values through profit and loss of the period include transactional financial liabilities, and designated financial liabilities measured at fair values through profit and loss of the period.

Financial liabilities are measured at fair values upon initial recognition. For financial liabilities measured at fair values through profit and loss of the period, the related transactional expenses are directly charged to the profit and loss of the period; whereas for other financial liabilities, the related transactional expenses are charged to the initially recognized amount.

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

19. Financial liabilities *(continued)*

Financial liabilities are subsequently measured at amortized costs using the method of effective interests, with the exception to the followings:

A. Financial liabilities measured at fair values through profit and loss of the period are measured at fair value without taking into account the possible transactional expenses upon future settlement of the financial liabilities.

B. Derivative financial liabilities that are not quoted in an active market and derivative financial liabilities that are linked to equity instruments whose fair value cannot be reliably measured and are cleared by settlement of the equity instruments, are measured at cost.

C. After initial recognition, financial guarantee contracts that are not designated financial liabilities measured at fair values through profit and loss of the period, or loan commitments that are not designated to be measured at fair values through profit and loss of the period and bearing an interest rate lower than market interest rates for loans, are subsequently measured at the higher of the followings:

   a. The amount recognized in accordance with the "Accounting Standards for Business Enterprises No. 13 – Contingent Items";

   b. The balance of the initially recognized amount after deducting the accumulated amortization amount determined in accordance with the "Accounting Standards for Business Enterprises No. 14 – Revenue".

20. Provision

Provision is recognised when obligations related to contingent items satisfy the following conditions: (1) such obligation is a present obligation of the enterprise, (2) it is probable that an outflow of economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation.

To the extent the amount payable for any provision will be compensated partly or wholly by a third party, such compensation will be recognised only when it is reasonably certain that the amount will be received.

21. Borrowing costs

Borrowing costs represent costs incurred in connection with the borrowing of funds, including interest charges, amortisation of discount and premium, auxiliary costs, and exchange differences. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are ready for their intended use. Other borrowing costs are recorded as financial expenses when incurred.

22. Staff remunerations

Staff remunerations mainly include wages, bonus, allowances and compensation, staff benefits, social insurance premiums and housing fund, labour union expenditures and staff education fees, and other expenditures related to receiving the services provided by the staff. Staff remuneration is recognized for the period during which service is provided by the staff, and is included in the related asset costs and expenditures in accordance with the item benefiting from the provision of service by the staff.

IV. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

23. Basis of revenue recognition

Sales revenue: Sales revenue is recognised when the Company and the subsidiaries have transferred the significant risk and rewards of ownership to the buyer; and the Company neither retains the continuous managing rights usually related to the ownership nor control over the goods sold; the economic benefits associated with the transactions will flow into the Company; and relevant revenue and cost can be reliably measured.

Service income: Service income is recognised when the amount of revenue can be measured reliably; the stage of completion can be measured reliably; the economic benefits associated with the transaction will flow to the enterprise and the costs incurred in respect of the transaction can be measured reliably.

Interest income: Interest income is recognised on a time proportion basis at the applicable interest rates.

24. Leases

Finance lease is the lease having actually transferred all the risks and rewards related to the ownership of assets. The leases other than the finance lease are operating leases.

Rental payment for operating leases is recognised as an expense at the straight line method over the lease term.

Rental income from operating leases is recognised as income at the straight line method over the relevant term.

25. Income tax

Income tax is provided under tax payable method.

The Company determines its tax base upon acquisition of assets and liabilities. Where there is a difference between the carrying value of the assets and liabilities and the tax base, the deferred income tax assets or deferred income tax liabilities incurred as such are recognized as required. The Company recognizes deferred income tax assets arising from deductible temporal differences to the extent of the income tax payable probably available to off set the deductible temporal differences. For deductible loss and tax deduction that can be carried forward, the Company recognizes the corresponding deferred income tax assets to the extent of the future income tax payable probably available to off set the deductible loss and tax deduction.

At the balance sheet date, current income tax liabilities (or assets) incurred in the current and previous periods are measured at the anticipated income tax payable (or recoverable) amount calculated in accordance with the requirements of the tax laws. Deferred income tax assets and deferred income tax liabilities are measured at the applicable tax rates of the expected period of recovering the assets or settling the liabilities in accordance with the requirements of the tax laws. At the balance sheet date, the carrying value of the deferred income tax assets is reviewed. Where it is probable that the amount of taxable income in the future periods will not be sufficient to set off the benefits of the deferred income tax assets, the carrying value of the deferred income assets will be reduced. Where it is probable that the taxable income will be sufficient, the reduced amount will be reversed.

V. TAXATION

1. Value-added Tax

Output tax was calculated based on the 17% of sales revenue for products and industrial services sold in the domestic market, and was charged according to the balance after the deduction of input tax. Products sold to foreign countries are subject to the value-added tax ("VAT") rate of 0%, with 13-14% of the VAT included in purchased raw materials refunded.

2. Enterprise Income Tax

In accordance with the Corporate Income Tax Law of the PRC (the "New Tax Law") and the "Circular on the Transitional Preferential EIT Rate" issued by the State Council ("Preferential Rate"), all subsidiaries of the Company established in the PRC are subject to an enterprise income tax rate of 25% with effect on 1 January 2008.

The Company was established in Foshan, Guangdong Province and is located in Shunde High New Technology Development Zone. The Company was classified as a high new technology enterprise by Department of Science and Technology of Guangdong Province in June 2003. As informed by the Guokefahuo (2008) No. 362, high new technology enterprise inside and outside the State's High New Technology Development Zones qualified by the original qualification method and within the effective period shall remain qualified, but are required to pass reassessment under the "Management Method for Qualifying High New Technology Enterprises" and "Guidelines on Managing the Qualification of High New Technology Enterprises" before being qualified for the tax treatment under Article 28 of the New Tax Law: "High New Technology Enterprises under the State's powerful support are subject to enterprise income tax at the preferential rate of 15%".

The Company and its subsidiaries Ronshen Refrigerator and Kelon Mould are classified as high new technology enterprises and are subject to enterprise income tax at the preferential rate of 15% in 2008.

The subsidiaries of the Company Kelon Freezer, Chengdu Kelon, Yangzhou Kelon, Xi'an Kelon are subject to the preferential tax policy of "two-year holiday and three-year 50% reduction" at an applicable tax rate of 0%-12.5%.

Profits tax for the Company's subsidiaries in Hong Kong has been provided for at a rate of 17.5% on the estimated assessable profit earned or derived from Hong Kong.

3. Other taxes

Sales tax is levied at a rate of 5% on the assessable income.

Urban construction tax is levied at a rate of 1%-7% on the assessable circular tax.

Land appreciation tax ("LAT") is levied at a rate of 0.5-1% of assigned land income on the assignment of land use rights in accordance with relevant provisions set out in the document named "Reply Letter on Adjusting taxation rate of LAT of Land Use Rights" (Fo-fu-ban No. [2003]46) issued by the office of People's Government of Foshan on 10 March 2003.

Urban real estate tax is levied at a rate of 18% on rental income if the property is held for lease, or at a rate of 70% of the original value of the property multiplying 1.2%. Property owners are given three years' tax exemption commencing on the purchase date or completion date.

Bank protection fee is levied at a rate of 0.12% of the turnover for the applicable period, according to the relevant provisions set out in the Notice on Bank Protection Fee issued by Shunde Water Bureau and Shunde Municipal Tax Bureau on 17 January 2003.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

V. TAXATION *(continued)*

3. Other taxes *(continued)*

Land use tax is levied pursuant to the related requirements of the Notice of Bureau of Local Taxation of Shunde, Foshan Municipal on Reconfirmation of Land Grading for Land Use Tax and Applicable Tax Amount dated 6 January 2007.

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES, END OF THE PERIOD STANDARD FOR 31 DECEMBER 2008 AND BEGINNING OF THE PERIOD STANDARD FOR 31 DECEMBER 2007.)

1. Bank Balance and cash

Items	Currency	Amount in original currencies	Exchange rate	At the end of the period	At the beginning of the period
Cash	RMB	244,589.83	1.0000	244,589.83	1,299,300.03
	HKD	—	—	—	28,169.97
	JPY	1,200.00	0.0757	90.84	—
	USD	0.75	6.8346	5.13	—
	Others	—	—	—	—
Sub-total				244,685.80	1,327,470.00
Bank deposit	RMB	67,090,980.41	1.0000	67,090,980.41	39,536,311.34
	HKD	4,639,948.26	0.8819	4,091,970.37	17,294,001.99
	JPY	14,573,056.20	0.0757	1,103,180.35	—
	USD	4,381,106.74	6.8346	29,943,112.12	18,157,692.06
	EUR	415,649.27	9.6590	4,014,756.30	79,795.13
	Others			3,727,880.92	—
Sub-total				109,971,880.47	75,067,800.52
Other monetary assets	RMB	23,237,308.48	1.0000	23,237,308.48	70,087,731.60
	EUR	—	—	—	18.87
	USD	295.31	6.8346	2,018.33	44,786.17
Sub-total				23,239,326.81	70,132,536.64
Total				133,455,893.08	146,527,807.16

The bank balance and cash at the end of the period as compared with the beginning of the period decreased by 66.86%, mainly due to a substantial decrease in the amount of note guarantees during the period.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

2. Transactional financial assets

Item	At the end of the period	At the beginning of the period
1. Derivative financial assets:		
Foreign exchange forward contracts*	5,871,420.45	9,479,410.00
Commodity future contracts	147,269.00	—
2. Others	—	—
Total	6,018,689.45	9,479,410.00

The Company has no material restriction for realizing its investments in transactional financial assets.

* It represents mainly the undue foreign exchange forward contracts entered into by the Company and banks, which is recognized as transactional financial assets or liabilities based on the difference between the quotation of the undue foreign exchange contracts and the future foreign exchange rate as at 31 December 2008.

3. Notes receivable

Type	At the end of the period	At the beginning of the period
Bank acceptance notes:		
– discounted	53,599,277.79	—
– pledged	3,600,000.00	—
– non-pledged	2,566,758.34	2,690,000.00
Commercial acceptance notes:		
– discounted	—	—
– pledged	—	—
– non-pledged	2,686,860.38	50,000.00
Total	62,452,896.51	2,740,000.00

The amount of notes receivable at the end of the year increased by 2,179.30% as compared with that at the beginning of the year, mainly attributable to the increase in discounted notes at the end of the period.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

4. Trade receivables

a. The risk analysis of trade receivables is classified as follows:

	At the end of the period			At the beginning of the period		
Category		Percentage of the total	Provisions for bad debts	Amount	Percentage of the total	Provisions for bad debts
	RMB	*%*	*RMB*	*RMB*	*%*	*RMB*
I. Significant single-item amount*	89,536,248.97	10.50	—	—	—	—
II. Receivables not significant on a single-item basis but significant for the risk of the group of items upon grouping according to credit risk characteristics **	151,176,764.58	17.74	151,176,764.58	180,650,669.66	21.78	180,650,669.66
III. Greencool Companies	38,689,983.28	4.54	22,726,941.64	38,689,983.28	4.67	22,726,941.64
IV. Other not significant	573,017,412.15	67.22	9,295,200.17	609,850,753.97	73.55	7,247,782.91
Total	852,420,408.98	100.00	183,198,906.39	829,191,406.91	100.00	210,625,394.21
Total of the 5 largest	208,271,577.55	24.43	22,309,723.02	236,561,930.43	28.53	27,038,712.40
Amount receivable for appropriation by related parties	36,041,699.29	4.23	—	29,265,176.35	3.53	—

* Significant single-item receivables are classified as such when they account for 10% or more of the total amount of trade receivables. Expect the Greencool Companies.

** Receivables not significant on a single-item basis but significant for the risk of the group of items upon grouping according to credit risk characteristics are classified as such when the age analysis is over one year.

(1) There was no amount due from shareholders whose shareholding is no less than 5% at the end of the period.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

4. Trade receivables *(continued)*

a. The risk analysis of trade receivables is classified as follows: (continued)

(2) There were a series of related party transactions and abnormal cash flows between Greencool Companies and the Company during the period between October 2001 and July 2005, and moreover, during the period, the Greencool Companies also had a series of abnormal cash flows with the Company through the specified third-party companies such as Tianjin Lixin Trading Development Company Limited (hereinafter referred to as the "Specified Third Party Companies"). Set out below is the breakdown of the special bad debts provision made to the trade receivable from the Greencool Companies and the aforesaid Specified Third-Party Companies:

	At the end of the period	
Name of companies	**Amount**	**Provisions for bad debts**
Hefei Weixi Electrical Appliance Co., Ltd ("Hefei Weixi")	18,229,589.24	7,805,094.62
Wuhan Changrong Electrical Appliance Company Limited ("Wuhan Changrong")	20,460,394.04	14,921,847.02
Total	38,689,983.28	22,726,941.64

There was no change in the amount at the end of the period from the amount at the beginning of the period.

(3) Particulars of the 5 largest trade receivables and the corresponding provisions for bad debts are as follows:

	At the end of the period	
Name of companies	**Amount**	**Provisions for bad debts**
WHIRLPOOL S.A.	89,536,248.97	—
GOME	48,812,713.18	7,387,876.00
HI GROUP PLC	29,301,286.38	—
Wuhan Changrong	20,460,394.04	14,921,847.02
ELECTROLUX HOME PRODUCTS AUST PTY LTD	20,160,934.98	—
Total	208,271,577.55	22,309,723.02

(4) See Appendix 10.3.(1) and 10.3.(3) for particular of related parties.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

4. Trade receivables *(continued)*

b. *Aging analysis of trade receivables is as follows:*

	At the end of the period			At the beginning of the period		
Age	Amount	Percentage of total amount	Provision for bad debt	Amount total	Percentage of amount	Provision for bad debt
Within three months	614,140,657.33	72.05	—	582,810,692.01	70.28	—
Three months to six months	37,278,254.35	4.37	3,727,825.44	15,680,620.17	1.89	1,568,062.02
Six months to one year	11,134,749.45	1.31	5,567,374.73	11,359,441.79	1.37	5,679,720.89
One to two years	4,594,242.89	0.54	4,594,242.89	18,618,870.65	2.25	13,135,070.46
Two to three years	18,618,870.65	2.18	13,135,070.46	77,033,540.53	9.29	66,554,299.09
Over three years	166,653,634.31	19.55	156,174,392.87	123,688,241.76	14.92	123,688,241.75
Total	852,420,408.98	100.00	183,198,906.39	829,191,406.91	100.00	210,625,394.21

The Company's trade receivables are as follows:

a. *The risk analysis of the Company's trade receivables is as follows:*

	At the end of the period			At the beginning of the period		
Category	Amount	Percentage of the total	Provisions for bad debts	Amount	Percentage of the total	Provisions for bad debts
	RMB	*%*	*RMB*	*RMB*	*%*	*RMB*
I. Significant single-item amount	—	—	—	65,912,961.57	11.34	7,827,718.87
II. Receivables not significant on a single-item basis but significant for the risk of the group of items upon grouping according to credit risk characteristics	144,264,547.90	20.56	144,264,547.90	152,230,097.57	26.18	152,230,097.57
III Greencool Companies	38,689,983.28	5.51	22,726,941.64	38,689,983.28	6.65	22,726,941.64
IV Other not significant	518,820,403.66	73.93	5,894,789.23	324,655,006.95	55.83	10,494,490.68
Total	701,774,934.84	100.00	172,886,278.77	581,488,049.37	100.00	193,279,248.76
Total of the 5 largest	93,764,597.37	13.36	12,013,496.44	198,096,445.91	34.07	7,827,718.87
Amount receivable for appropriation by related parties	3,737,980.86	0.53	—	4,772.00	—	—

(1) There was no amount due from shareholders whose shareholding is no less than 5% at the end of the period.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

4. Trade receivables *(continued)*

a. The risk analysis of the Company's trade receivables is as follows: (continued)

(2) The Company has made provision for the bad debts of trade receivables from Greencool Companies and the Specified Third Party Companies as follows:

	At the end of the period	
Name of companies	**Amount**	**Provisions for bad debts**
Hefei Weixi Electrical Appliance Co., Ltd (“Hefei Weixi”)	18,229,589.24	7,805,094.62
Wuhan Changrong Electrical Appliance Company Limited (“Wuhan Changrong”)	20,460,394.04	14,921,847.02
Total	38,689,983.28	22,726,941.64

b. Aging analysis of the Company's trade receivables is as follows:

	At the end of the period			At the beginning of the period		
Age	Amount	Percentage of total amount	Provision for bad debt	Amount	Percentage of total amount	Provision for bad debt
Within three months	499,097,258.16	71.12	—	349,128,282.89	60.04	—
Three months to six months	7,933,567.04	1.13	—	14,739,716.13	2.54	1,473,971.62
Six months to one year	11,789,578.46	1.68	5,894,789.23	19,703,463.15	3.39	9,851,731.58
One to two years	2,499,939.38	0.36	2,499,939.38	11,995,272.11	2.06	11,995,272.11
Two to three years	11,995,272.11	1.71	11,995,272.11	77,162,230.80	13.27	61,199,189.16
Over three years	168,459,319.69	24.00	152,496,278.05	108,759,084.29	18.70	108,759,084.29
Total	701,774,934.84	100.00	172,886,278.77	581,488,049.37	100.00	193,279,248.76

5. Prepayments

	At the end of the period		At the beginning of the period	
Age	**Amount** *RMB*	**Percentage of total amount** *%*	**Amount** *RMB*	**Percentage of total amount** *%*
Within one year	53,444,537.90	97.59	71,861,982.53	98.65
One to two years	832,668.32	1.52	39,440.93	0.05
Two to three years	39,440.93	0.07	510,284.79	0.70
Over three years	450,429.91	0.82	435,889.75	0.60
Total	54,767,077.06	100.00	72,847,598.00	100.00

The main reason for prepayments over one year was payment for raw materials not yet settled.

There was no prepayment to shareholders whose shareholding is no less than 5% at the end of the period.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

6. Other receivables

a. *The risk analysis of other receivables is as follows:*

	At the end of the period			At the beginning of the period		
Category	Amount	Percentage of the total	Provisions for bad debts	Amount	Percentage of the total	Provisions for bad debts
	RMB	*%*	*RMB*	*RMB*	*%*	*RMB*
I. Significant single-item amount*	—	—	—	—	—	—
II. Receivables not significant on a single-item basis but significant for the risk of the group of items upon grouping according to credit risk characteristics **	50,740,262.70	7.21	25,653,697.06	166,896,682.02	17.35	23,946,725.06
III. Greencool Companies	611,538,997.88	86.95	342,516,669.69	611,538,997.88	63.58	341,516,669.69
IV. Other not significant	41,076,329.62	5.84	1,388,190.37	183,481,581.58	19.07	3,281,088.46
Total	703,355,590.20	100.00	369,558,557.12	961,917,261.48	100.00	368,744,483.21
Total of the 5 largest	406,032,163.45	57.73	256,350,118.20	406,032,163.45	42.21	256,350,118.20
Amount receivable for appropriation by related parties	4,455,375.57	0.63	4,455,375.57	4,455,375.57	0.47	4,455,375.57

* Significant single-item receivables are classified as such when they account for 10% or more of the total amount of other receivables. Expect the Greencool Companies.

** Receivables not significant on a single-item basis but significant for the risk of the group of items upon grouping according to credit risk characteristics are classified as such when the age analysis is one year or more.

(1) There was no amount due from shareholders whose shareholding is no less than 5% at the end of the period.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

6. Other receivables *(continued)*

a. The risk analysis of other receivables is as follows: (continued)

(2) The Company has made provision for the bad debts of other receivables from Greencool Companies and the Specified Third Party Companies as follows:

Name of companies	At the end of the period Amount	At the end of the period Provisions for bad debts	At the beginning of the period Amount	At the beginning of the period Provisions for bad debts
Guangdong Greencool	13,754,600.00	7,962,961.47	13,754,600.00	7,962,961.47
Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool")	12,289,357.71	11,313,119.16	12,289,357.71	11,313,119.16
Jiangxi Kesheng Trading Company Limited ("Jiangxi Kesheng")	27,462,676.72	21,390,370.86	27,462,676.72	21,390,370.86
Jinan San Ai Fu Chemical Co., Ltd. ("Jinan San Ai Fu")	121,496,535.45	64,813,858.20	121,496,535.45	64,813,858.20
Tianjin Xiangrun Trading Development Company Limited ("Tianjin Xiangrun")	96,905,328.00	48,706,110.00	96,905,328.00	48,706,110.00
Tianjin Lixin Trading Development Company Limited ("Tianjin Lixin")	89,600,300.00	44,800,150.00	89,600,300.00	44,800,150.00
Greencool Technology Development (Shenzhen) Company Limited (Shenzhen Greencool Technology)	32,000,000.00	—	32,000,000.00	—
Greencool Environmental Engineering Shenzhen Company Limited (Shenzhen Greencool Environmental)	33,000,000.00	—	33,000,000.00	—
Jiangxi Keda Plastic Technology Co., Ltd ("Jiangxi Keda")	13,000,200.00	6,500,100.00	13,000,200.00	6,500,100.00
Zhuhai Longjia Refrigerating Plant Co., Ltd. ("Zhuhai Longjia")	28,600,000.00	14,300,000.00	28,600,000.00	14,300,000.00
Zhuhai Defa Air-conditioner Fittings Company Limited ("Zhuhai Defa")	21,400,000.00	10,700,000.00	21,400,000.00	10,700,000.00
Wuhan Changrong Electrical Appliance Company Limited ("Wuhan Changrong")	20,000,000.00	10,000,000.00	20,000,000.00	10,000,000.00
Beijing Deheng Solicitors	4,000,000.00	4,000,000.00	4,000,000.00	3,000,000.00
Finance Bureau of Yangzhou Economic Development Zone	40,000,000.00	40,000,000.00	40,000,000.00	40,000,000.00
Shangqiu Bingxiong Freezing Facilities Co., Ltd.	58,030,000.00	58,030,000.00	58,030,000.00	58,030,000.00
Total	611,538,997.88	342,516,669.69	611,538,997.88	341,516,669.69

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

6. Other receivables *(continued)*

a. The risk analysis of other receivables is as follows: (continued)

(3) Particulars of the 5 largest other trade receivables and the corresponding provisions for bad debts are as follows:

	At the end of the period	
Name of companies	**Amount**	**Provisions for bad debts**
Jinan San Ai Fu Chemical Co., Ltd. ("Jinan San Ai Fu")	121,496,535.45	64,813,858.20
Tianjin Xiangrun Trading Development Company Limited ("Tianjin Xiangrun")	96,905,328.00	48,706,110.00
Tianjin Lixin Trading Development Company Limited ("Tianjin Lixin")	89,600,300.00	44,800,150.00
Shangqiu Binxiong Freezing Facilities Co., Ltd.	58,030,000.00	58,030,000.00
Finance Bureau of Yangzhou Economic Development Zone	40,000,000.00	40,000,000.00
Total	406,032,163.45	256,350,118.20

(4) See Appendix 10.3.(3) for particular of related parties

b. Aging analysis of other receivables is as follows:

	At the end of the period			At the beginning of the period		
Age	**Amount total**	**Percentage of amount**	**Provision for Bad Debt**	**Amount total**	**Percentage of amount**	**Provision for Bad Debt**
Within one year	41,076,329.62	5.84	1,388,190.37	183,481,581.58	19.07	3,281,088.46
One to two years	20,052,730.81	2.85	393,767.69	67,802,710.48	7.05	4,066,845.99
Two to three years	12,311,740.73	1.75	6,884,138.21	660,468,257.15	68.66	345,449,747.42
Over three years	629,914,789.04	89.56	360,892,460.85	50,164,712.27	5.22	15,946,801.34
Total	703,355,590.20	100.00	369,558,557.12	961,917,261.48	100.00	368,744,483.21

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

6. Other receivables *(continued)*

Particulars of the Company's other receivables are as follows:

a. *The risk analysis of the Company's other receivables is as follows:*

Category	At the end of the period Amount	Percentage of the total	Provisions for bad debts	At the beginning of the period Amount	Percentage of the total	Provisions for bad debts
	RMB	*%*	*RMB*	*RMB*	*%*	*RMB*
I. Significant single-item amount	574,896,368.62	60.79	—	500,559,716.17	44.08	—
II. Receivables not significant on a single-item basis but significant for the risk of the group of items upon grouping according to credit risk characteristics	27,403,980.61	2.90	13,834,470.80	21,118,075.18	1.86	15,515,125.39
III. Greencool Companies	15,754,600.00	1.67	9,962,961.47	15,754,600.00	1.39	9,962,961.47
IV. Other not significant	327,577,863.36	34.64	1,664,576.89	598,068,320.82	52.67	172,212.70
Total	945,632,812.59	100.00	25,462,009.16	1,135,500,712.17	100.00	25,650,299.56
Total of the 5 largest	707,337,820.35	74.80	—	749,894,446.06	66.04	—
Amount receivable for appropriation by related parties	1,455,375.57	0.15	1,455,375.57	1,455,375.57	0.13	1,455,375.57

(1) There was no amount due from shareholders whose shareholding is no less than 5% at the end of the period.

(2) The Company has made provision for the bad debts of other receivables from Greencool Companies and the Specified Third Party Companies as follows:

Name of companies	At the end of the period Amount	Provisions for bad debts	At the beginning of the period Amount	Provisions for bad debts
Guangdong Greencool	13,754,600.00	7,962,961.47	13,754,600.00	7,962,961.47
Beijing Deheng Solicitors	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00
Total	15,754,600.00	9,962,961.47	15,754,600.00	9,962,961.47

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

6. Other receivables *(continued)*

b. Aging analysis of the Company's other receivables is as follows:

	At the end of the period			At the beginning of the period		
Age	Amount total	Percentage of amount	Provision for bad debt	Amount total	Percentage of amount	Provision for bad debt
Within one year	902,474,231.98	95.43	1,664,576.89	1,098,628,036.99	96.75	172,212.70
One to two years	7,175,417.47	0.76	391,403.38	6,788,994.26	0.60	1,888,323.78
Two to three years	6,145,355.12	0.65	6,145,355.12	17,909,655.75	1.58	11,814,371.09
Over three years	29,837,808.02	3.16	17,260,673.77	12,174,025.17	1.07	11,775,391.99
Total	945,632,812.59	100.00	25,462,009.16	1,135,500,712.17	100.00	25,650,299.56

7. Inventories and provision for inventories

Item	At the beginning of the period	At the end of the period
Raw materials	123,951,629.59	222,739,730.00
Work-in-progress	24,955,485.02	50,577,158.00
Storage goods	417,921,720.32	723,445,503.48
Total	566,828,834.93	996,762,391.48
Consists of: Amount of capitalised borrowing costs	—	—

Inventories at the end of the period decreased by 43.13% as compared to the beginning of the period, which was mainly attributable to a significant decrease in the inventory of raw materials and storage goods as the Company reinforced management of capital input for inventory and accelerated inventory turnover during the year.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

7. Inventories and provision for inventories *(continued)*

Provision for inventories:

Provision for inventories	At the beginning of the period	Increase for the period	Decrease for the period: Reverse on appreciation of asset value	Decrease for the period: Reversal for other reasons	Decrease for the period: Total	Decrease for the period: Percentage to balance at the end of period	Amount at the end of the period
Raw Materials	34,644,653.78	9,865,531.42	—	4,815,866.42	4,815,866.42	12.13	39,694,318.78
Work-in-progress	8,243,673.00	104,633.34	—	104,854.34	104,854.34	1.27	8,243,452.00
Storage goods	13,589,675.00	2,539,960.27	—	2,766,901.27	2,766,901.27	20.71	13,362,734.00
Total	56,478,001.78	12,510,125.03	—	7,687,622.03	7,687,622.03	12.54	61,300,504.78

8. Other current assets

Category	At the end of the period	At the beginning of the period
Deferred rent to be amortised	—	67,944.39
Reconstructuring costs to be transferred*	16,877,049.46	11,683,889.84
Others	2,853,860.75	3,624,647.80
Total	19,730,909.81	15,376,482.03

* Reconstructing costs to be transferred accounted for 85.54% of the balance at the end of the period, which represented agency fees incurred from the seasoned offering to the Company's major shareholder.

9. Long-term equity investments

Item	At the end of the period: Carrying balance	At the end of the period: Provision for impairment	At the end of the period: Carrying value	At the beginning of the period: Carrying balance	At the beginning of the period: Provision for impairment	At the beginning of the period: Carrying value
Long-term equity investments						
Includes: Investments in subsidiaries	11,000,000.00	11,000,000.00	—	39,548,353.44	11,000,000.00	28,548,353.44
Investments in joint ventures and associates	136,655,574.48	—	136,655,574.48	99,155,748.36	—	99,155,748.36
Other equity investment	4,550,000.00	—	4,550,000.00	1,220,000.00	—	1,220,000.00
Total	152,205,574.48	11,000,000.00	141,205,574.48	139,924,101.80	11,000,000.00	128,924,101.80

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

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

Among which, particulars of joint ventures and associates are as follows:

Name of investee	Place of registration	Nature of business	Registered capital	Percentage of shareholding	Percentage of voting rights	Total assets at the end of period	Total operating income for the period	Net profit for the period
I. Associates								
1. Huayi Compressor Holdings Company Limited ("Huayi Compressor")	PRC	Manufacture and sale of compressors	RMB324,581,218	18.26%	18.26%	2,078,785,360.51	3,079,505,251.36	26,231,233.38
2. Guangzhou Antaida Logistic Co., Ltd. ("Antaida")	PRC	Integrated logistic and warehousing	RMB10,000,000	20%	20%	41,446,062.88	28,656,002.52	(3,002,341.14)
II. Joint ventures								
Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd ("Hisense Whirlpool")	PRC	Manufacture and sale of washing machines, refrigerators and parts	RMB450,000,000	50%	50%	67,496,548.30	–	–

a. Investments in subsidiaries

Name of investee	Percentage of registered capital of investee	Initial investment cost	At the beginning of the period	Change in equity during the period	Accumulated changes in equity	At the end of the period
Japan Kelon**	100%	31,716,666.40	28,548,353.44	–	28,548,353.44	–
Combine	55%	11,000,000.00	11,000,000.00	–	–	11,000,000.00
Total		42,716,666.40	39,548,353.44	–	28,548,353.44	11,000,000.00

* Kelon Europe and Combine, controlling subsidiaries of the Company, are not consolidated as they are too small in size.

** Japan Kelon has not been consolidated in the financial statements as the Company planned to dispose of it in the previous years. During the year, Japan Kelon was consolidated as the progress of disposal was slow. Initial investment in Japan Kelon was HK$30,488,000.00, or RMB28,548,353.44 as translated at the exchange rate at the beginning of the period. During the period, the consolidation of the assets on the accounts of Japan Kelon has resulted in a corresponding decrease in the cost of long-term equity investments.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

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

b. Investments in associates and joint ventures

Name of investee	Percentage of registered capital of investee	Initial investment cost	At the beginning of the period	Changes in investment cost for the period	Changes in equity for the period	Changes in accumulated equity	At the end of the period
Chongqing Rongsheng*1	28%	280,000.00	404,695.74	(280,000.00)	(124,695.74)	—	—
Antaida	20%	2,000,000.00	4,255,158.90	—	(600,468.21)	1,654,690.69	3,654,690.69
Huayi Compressor*2	18.26%	118,013,641.00	94,495,893.72	—	4,754,990.07	(18,762,757.22)	99,250,883.79
Hisense Whirlpool*3		33,750,000.00	—	33,750,000.00	—	—	33,750,000.00
Total		154,043,641.00	99,155,748.36	33,470,000.00	4,029,826.12	(17,108,066.53)	136,655,574.48

*1 The investee, Chongqing Rongsheng, ceased operation and completed the procedures of cancellation during the year. The Company received an investment cost and gain of RMB709,291.59 in aggregate;

*2 The investee, Huayi Compressor, completed share reform on 20 December 2006, the Company's original shareholding percentage was 22.725%. After completion of the share reform, the number of shares remained unchanged, and the shareholding percentage was diluted to 18.26%. As the Company still exerted significant influence on Huayi Compressor, the equity method was adopted for accounting purposes;

*3 The investee, Hisense Whirlpool, was established in November 2008 under mutual contribution by the Company and Whirlpool (Hong Kong) Limited, with a registered capital of RMB450,000,000.00, contributed by the Company and Whirlpool (Hong Kong) Limited respectively in the amount of RMB225,000,000.00, and each to hold a 50% shareholding. As at 31 December 2008, the Company has made an actual contribution of RMB33,750,000.00 and Whirlpool (Hong Kong) Limited has made an actual contribution of US$4,937,604.00 (RMB33,746,548.30 as translated by the exchange rate prevalent at the date of contribution). The above contribution has been verified by the capital verification report Jinpingyanbaozi [2009] No. 003 issued by 湖州金平會計師事務所.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

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

c. *Other equity investments accounting for with the cost method:*

Name of investee	Percentage to registered capital of investee	Initial investment cost	At the beginning of the period	Increase for the period	Decrease for the period	At the end of the period
Fujian Kelon Air-condition Sales Co., Ltd	2%	100,000.00	100,000.00	–	–	100,000.00
Foshan Huabao Air-condition Sales Co., Ltd	2%	40,000.00	40,000.00	–	–	40,000.00
Xinjiang Hisense Kelon Electrical Sales Co., Ltd	2%	100,000.00	100,000.00	–	–	100,000.00
Zhibo Hisense Kelon Electrical Sales Co., Ltd	2%	120,000.00	120,000.00	–	120,000.00	–
Hunan Hisense Kelon Electrical Sales Co., Ltd	2%	200,000.00	200,000.00	–	200,000.00	–
Qingdao Hisense Kelon Electrical Sales Co., Ltd	2%	300,000.00	300,000.00	–	300,000.00	–
Yantai Hisense Kelon Electrical Sales Co., Ltd	2%	160,000.00	160,000.00	–	160,000.00	–
Linyi Hisense Kelon Appliances Air-condition Marketing Co., Ltd	2%	200,000.00	200,000.00	–	200,000.00	–
Chengdu Hisense Kelon Sales Co., Ltd	2%	240,000.00	–	240,000.00	–	240,000.00
Chongqing Hisense Kelon Sales Co., Ltd	2%	270,000.00	–	270,000.00	–	270,000.00
Jining Hisense Kelon Sales Co., Ltd	2%	120,000.00	–	120,000.00	120,000.00	–
Jinan Hisense Kelon Sales Co., Ltd	2%	200,000.00	–	200,000.00	200,000.00	–
Wuhan Hisense Kelon Sales Co., Ltd	2%	200,000.00	–	200,000.00	200,000.00	–
Kunming Hisense Kelon Sales Co., Ltd	2%	80,000.00	–	80,000.00	80,000.00	–
Hengyang Hisense Kelon Sales Co., Ltd	2%	100,000.00	–	100,000.00	100,000.00	–
Weifang Hisense Kelon Sales Co., Ltd	2%	100,000.00	–	100,000.00	100,000.00	–
Beijing Hisense Kelon Sales Co., Ltd	2%	240,000.00	–	240,000.00	240,000.00	–
Zhengzhou Hisense Kelon Sales Co., Ltd	2%	140,000.00	–	140,000.00	140,000.00	–
Shanxi Hisense Kelon Sales Co., Ltd	2%	160,000.00	–	160,000.00	160,000.00	–
Shenyang Hisense Kelon Sales Co., Ltd	2%	100,000.00	–	100,000.00	100,000.00	–
Zhejiang Hisense Kelon Sales Co., Ltd	2%	140,000.00	–	140,000.00	140,000.00	–
Xuzhou Hisense Kelon Sales Co., Ltd	2%	100,000.00	–	100,000.00	100,000.00	–
Fuzhou Hisense Kelon Sales Co., Ltd	2%	100,000.00	–	100,000.00	100,000.00	–
Guiyang Hisense Kelon Sales Co., Ltd	2%	80,000.00	–	80,000.00	80,000.00	–
Nanning Hisense Kelon Sales Co., Ltd	2%	80,000.00	–	80,000.00	80,000.00	–
Qingdao Hisense International Marketing Co., Ltd	19%	3,800,000.00	–	3,800,000.00	–	3,800,000.00
Subtotal		7,470,000.00	1,220,000.00	6,250,000.00	2,920,000.00	4,550,000.00

*1. The Company, its distributors and the staff of marketing branches together made capital contributions to establish a series of sales companies. The actual contribution percentage by the Company in these companies is 2%. Given the low shareholding and the lack of control and significant influence of the Company in these companies, the investments in these companies have been accounted for using the cost method;

*2. Qingdao Hisense International Marketing Co., Ltd was established under the mutual capital contribution by the Company, Hisense Electrical Appliances Share Company Ltd., Qingdao Hisense Import and Export Company Limited and 18 natural persons (including Liu Qinghua), with a registered capital of RMB20 million, of which the Company was committed as to RMB3.80 million (representing 19% of the registered capital), Hisense Electrical Appliances Share Company Ltd. was committed as to RMB3.80 million (representing 19% of the registered capital), Qingdao Hisense Import and Export Company Limited was committed as to RMB10.40 million (representing 52% of the registered capital), and 18 natural persons were committed as to RMB2 million (representing 10% of the registered capital). As at 22 January 2008, Qingdao Hisense International Marketing Co., Ltd has received actual capital contribution in the amount of RMB20 million in aggregate from the above shareholders. The above contribution has been verified by the capital verification report Qinghuahuiyanzi (2008) No. 003 issued by Qingdao 華海有限責任會計師事務所.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

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

d. Changes in provision for impairment

Name of investee	At the beginning of the period	Increase during the period	Reversal during the period	At the end of the period
Jiangxi Combine	11,000,000.00	—	—	11,000,000.00

Details of long-term investment companies are as follows:

Item	At the end of the period			At the beginning of the period		
	Carrying balance	Provision for impairment	Carrying value	Carrying balance	Provision for impairment	Carrying value
Long-term equity investments						
Includes: Investments in subsidiaries	1,684,708,656.20	59,381,641.00	1,625,327,015.20	1,860,745,181.00	59,381,641.00	1,801,363,540.00
Investments in joint ventures and associates	136,655,574.48	—	136,655,574.48	98,751,052.62	—	98,751,052.62
Other equity investment	4,550,000.00	—	4,550,000.00	1,220,000.00	—	1,220,000.00
Total	1,825,914,230.68	59,381,641.00	1,766,532,589.68	1,960,716,233.62	59,381,641.00	1,901,334,592.62

Among which, particulars of joint ventures and associates are as follows:

Name of investee	Place of registration	Nature of business	Registered capital	Percentage of shareholding	Percentage of voting rights	Total assets at the end of period	Total operating income for the period	Net profit for the period
I. Associates								
1. Huayi Compressor	PRC	Manufacture and sale of compressors	RMB324,581,218	18.26%	18.26%	2,078,785,360.51	3,079,505,251.36	26,231,233.38
2. Antaida	PRC	Integrated logistic and warehousing	RMB10,000,000	20%	20%	41,446,062.88	28,656,002.52	(3,002,341.14)
II. Joint ventures								
Hisense Whirlpool	PRC	Manufacture and sale of washing machines, refrigerators and parts	RMB450,000,000	50%	50%	67,496,548.30	–	–

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

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

a Investments in subsidiaries

Name of investee	Percentage of registered capital of investee	At the beginning of the period	Increase during the year	Decrease during the year	At the end of the period
Ronshen Refrigerator	70%	155,552,426.00	—	—	155,552,426.00
Kelon Air-conditioner	60%	281,000,000.00	—	—	281,000,000.00
Kelon Fittings	70%	32,634,554.00	—	—	32,634,554.00
Kelon Mould*(1)	40.22%	49,860,000.00	463,475.20	—	50,323,475.20
Rongsheng Plastic	44.92%	53,270,064.00	—	—	53,270,064.00
Chengdu Kelon	45%	171,388,000.00	—	—	171,388,000.00
Yingkou Kelon	42%	84,000,000.00	—	—	84,000,000.00
Beijing Hengsheng	80%	24,000,000.00	—	—	24,000,000.00
Kelon Development	100%	11,200,000.00	—	—	11,200,000.00
Kelon Jiake	70%	42,000,000.00	—	—	42,000,000.00
Sichuan Kelon Sales	76%	1,520,000.00	—	—	1,520,000.00
Kelon Freezer	44%	15,668,880.00	—	—	15,668,880.00
Wangao Company	20%	600,000.00	—	—	600,000.00
Kelon Household Electrical Appliance	25%	2,500,000.00	—	—	2,500,000.00
Jiangxi Kelon	60%	147,763,896.00	—	—	147,763,896.00
Jilin Kelon*(2)	90%	180,000,000.00	—	180,000,000.00	—
Hangzhou Kelon	100%	24,000,000.00	—	—	24,000,000.00
Yangzhou Kelon	74.33%	178,026,998.00	—	—	178,026,998.00
Zhuhai Kelon	75%	189,101,850.00	—	—	189,101,850.00
Xi'an Kelon	60%	107,729,620.00	—	—	107,729,620.00
Shenzhen Kelon	95%	95,000,000.00	—	—	95,000,000.00
Wuhu Motors	40%	12,428,893.00	—	—	12,428,893.00
Weili Electrical Appliances	55%	—	—	—	—
Hisense Chengdu*(3)	100%	1,500,000.00	3,500,000.00	—	5,000,000.00
Total		1,860,745,181.00	3,963,475.20	180,000,000.00	1,684,708,656.20

*(1), *(2) and *(3) Please see Appendix 3 for details;

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

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

b. Investments in associates

Name of investee	Percentage of registered capital of investee	Original cost	At the beginning of the year	Change in investment cost during the period	Change in equity during the period	Accumulated change in equity	At the end of the period
Antaida	20%	2,000,000.00	4,255,158.90	—	(600,468.21)	1,654,690.69	3,654,690.69
Huayi Compressor	18.26%	118,013,641.00	94,495,893.72	—	4,754,990.07	(18,762,757.22)	99,250,883.79
Hisense Whirlpool	50%	33,750,000.00	—	33,750,000.00	—	—	33,750,000.00
Total		153,763,641.00	98,751,052.62	33,750,000.00	4,154,521.86	(17,108,066.53)	136,655,574.48

c. Other equity investments accounting for with the cost method:

Name of investee	Percentage to registered capital of investee	Initial investment cost	At the beginning of the period	Increase for the period	Decrease for the period	At the end of the period
Fujian Kelon Air-Condition Sales Co., Ltd	2%	100,000.00	100,000.00	—	—	100,000.00
Foshan Huabao Air-condition Sales Co., Ltd	2%	40,000.00	40,000.00	—	—	40,000.00
Xinjiang Hisense Kelon Electrical Sales Co., Ltd	2%	100,000.00	100,000.00	—	—	100,000.00
Zhibo Hisense Kelon Electrical Sales Co., Ltd	2%	120,000.00	120,000.00	—	120,000.00	—
Hunan Hisense Kelon Electrical Sales Co., Ltd	2%	200,000.00	200,000.00	—	200,000.00	—
Qingdao Hisense Kelon Electrical Sales Co., Ltd	2%	300,000.00	300,000.00	—	300,000.00	—
Yantai Hisense Kelon Electrical Sales Co., Ltd	2%	160,000.00	160,000.00	—	160,000.00	—
Linyi Hisense Kelon Electrical Sales Co., Ltd	2%	200,000.00	200,000.00	—	200,000.00	—
Chengdu Hisense Kelon Sales Co., Ltd	2%	240,000.00	—	240,000.00	—	240,000.00
Chongqing Hisense Kelon Sales Co., Ltd	2%	270,000.00	—	270,000.00	—	270,000.00
Jining Hisense Kelon Sales Co., Ltd	2%	120,000.00	—	120,000.00	120,000.00	—
Jinan Hisense Kelon Sales Co., Ltd	2%	200,000.00	—	200,000.00	200,000.00	—
Wuhan Hisense Kelon Sales Co., Ltd	2%	200,000.00	—	200,000.00	200,000.00	—
Kunming Hisense Kelon Sales Co., Ltd	2%	80,000.00	—	80,000.00	80,000.00	—
Hengyang Hisense Kelon Sales Co., Ltd	2%	100,000.00	—	100,000.00	100,000.00	—
Weifang Hisense Kelon Sales Co., Ltd	2%	100,000.00	—	100,000.00	100,000.00	—
Beijing Hisense Kelon Sales Co., Ltd	2%	240,000.00	—	240,000.00	240,000.00	—
Zhengzhou Hisense Kelon Sales Co., Ltd	2%	140,000.00	—	140,000.00	140,000.00	—
Shanxi Hisense Kelon Sales Co., Ltd	2%	160,000.00	—	160,000.00	160,000.00	—
Shenyang Hisense Kelon Sales Co., Ltd	2%	100,000.00	—	100,000.00	100,000.00	—
Zhejiang Hisense Kelon Sales Co., Ltd	2%	140,000.00	—	140,000.00	140,000.00	—
Xuzhou Hisense Kelon Sales Co., Ltd	2%	100,000.00	—	100,000.00	100,000.00	—
Fuzhou Hisense Kelon Sales Co., Ltd	2%	100,000.00	—	100,000.00	100,000.00	—
Guiyang Hisense Kelon Sales Co., Ltd	2%	80,000.00	—	80,000.00	80,000.00	—
Nanning Hisense Kelon Sales Co., Ltd	2%	80,000.00	—	80,000.00	80,000.00	—
Qingdao Hisense International Marketing Co., Ltd	19%	3,800,000.00	—	3,800,000.00	—	3,800,000.00
Subtotal		7,470,000.00	1,220,000.00	6,250,000.00	2,920,000.00	4,550,000.00

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

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

d. Changes in provision for impairment of long-term investment

Name of investee	At the beginning of the period	Increase during the period	Decrease during the period	At the end of the period
Kelon Air-conditioner	59,381,641.00	—	—	59,381,641.00
Total	59,381,641.00	—	—	59,381,641.00

10. Investment properties

Items	At the beginning of the year	Increase during the year	Decrease during the year	At the end of the period
1. Total original value	57,355,366.18	—	—	57,355,366.18
Buildings and structures	57,355,366.18	—	—	57,355,366.18
2. Accumulated depreciation or accumulated amortisation	19,163,228.75	2,627,354.57	—	21,790,583.32
Buildings and structures	19,163,228.75	2,627,354.57	—	21,790,583.32
3. Total accumulated amount of provision for impairment of investment properties	—	—	—	—
Buildings and structures	—	—	—	—
4. Total book value of investment properties	38,192,137.43			35,564,782.86
Buildings and structures	38,192,137.43			35,564,782.86

As at 31 December 2008, the Company pledged the property located at No. 13, Ronggang Road, Shunde District for bank loans. The original value of the pledged asset is RMB13,982,230.43, and the net value is RMB1,937,379.00.

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VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

11. Fixed assets and accumulated depreciation

Fixed assets, at cost	At the beginning of the year	Increase during the period	Decrease during the period	At the end of the year
Buildings and structures	1,156,032,135.16	145,938,588.62	102,354,522.06	1,199,616,201.72
Machinery and equipment	1,694,046,773.84	167,404,194.05	141,365,794.25	1,720,085,173.64
Electronic equipment, fixtures and furniture	245,200,106.58	20,364,613.05	49,625,676.18	215,939,043.45
Motor vehicles	37,106,354.07	2,742,197.38	21,948,558.45	17,899,993.00
Moulds	227,795,564.80	69,320,818.64	36,113,917.44	261,002,466.00
Total	3,360,180,934.45	405,770,411.74	351,408,468.38	3,414,542,877.81

Accumulated depreciation	At the beginning of the year	Increase during the period	Decrease during the period	At the end of the year
Buildings and structures	449,645,322.90	76,362,780.20	60,528,360.56	465,479,742.54
Machinery and equipment	1,166,763,603.79	77,763,321.51	96,595,010.64	1,147,931,914.66
Electronic equipment, fixtures and furniture	202,456,721.19	6,016,506.55	44,925,449.11	163,547,778.63
Motor vehicles	31,967,249.38	3,016,587.20	20,635,122.37	14,348,714.21
Moulds	129,308,591.67	59,876,194.16	28,622,069.21	160,562,716.62
Total	1,980,141,488.93	223,035,389.62	251,306,011.89	1,951,870,866.66

Provision for impairment	At the beginning of the year	Increase during the period	Decrease during the period	At the end of the year
Buildings and structures	8,499,578.08	24,447,968.78	—	32,947,546.86
Machinery and equipment	129,351,873.68	12,696,480.90	15,648,575.14	126,399,779.44
Electronic equipment, fixtures and furniture	1,300,190.90	—	164,149.96	1,136,040.94
Motor vehicles	302,915.56	—	106,779.19	196,136.37
Moulds	6,088,885.67	—	1,180,248.82	4,908,636.85
Total	145,543,443.89	37,144,449.68	17,099,753.11	165,588,140.46
Net	1,234,496,001.63			1,297,083,870.69

(1) The increase in fixed assets during the period includes transfer from construction in progress of RMB224,629,872.41.

(2) The decrease in fixed assets with respect to buildings and structures is mainly due to disposal of the property located at No. 120, 129 Ronggui Street, Shunde District, Foshan, No. 1, 2, 6 Huanxin Road, No. 71 Zhenhua Road and No. 22, 24 Rongxin Road;

(3) As of 31 December 2008, the original value of the Company's pledged buildings and structures is RMB564,676,378.69, and the net value is RMB340,362,518.35;

(4) The Company's subsidiary, Japan Kelon, was incorporated within the scope of consolidation during the year. Provision for fixed assets impairment of the company charged was RMB24,447,969.00.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

12. Construction in progress

Project	At the beginning of the period	Increase during the period	Transfer to fixed assets during the period	Decrease during the period	At the end of the period	Source of capital
Project for reconstruction of Yangzhou Kelon factories	45,546,657.45	58,185,975.88	86,042,976.72	12,039,956.85	5,649,699.76	Self-raised
Project for reconstruction of Huabo Complex	246,400.00	38,400.00	—	—	284,800.00	Self-raised
Project for staff quarters of Kelon Electrical Appliances	16,790,050.63	10,567,306.51	27,307,357.14	—	50,000.00	Self-raised
Project for reconstruction of Hisense Chengdu Kelon factories	63,695,303.56	11,930,033.95	71,936,371.51	—	3,688,966.00	Self-raised
Project for Xi'an Power Control Company compressor production line	9,044,256.34	—	—	—	9,044,256.34	Self-raised
Project for Hisense Whirlpool factories	—	32,202,222.21	—	—	32,202,222.21	
Others	30,060,971.43	40,332,657.77	39,343,167.04	3,105,436.76	27,945,025.40	Self-raised
Total	165,383,639.41	153,256,596.32	224,629,872.41	15,145,393.61	78,864,969.71	

(1) There is no capitalisation of borrowing costs in increase of construction in progress during the year.

(2) Provision for impairment of construction in progress is set out below:

Project name	At the beginning of the period	Increase during the period	Decrease for the year: Amount reversed for increase in asset value	Decrease for the year: Amount transferred out for other reasons	Decrease for the year: Total	At the end of the period
Project for Xi'an Power Control Company Compressor Production line	9,044,256.34	—	—	—	—	9,044,256.34
Others	19,233,399.84	—	—	15,347,941.00	15,347,941.00	3,885,458.84
Total	28,277,656.18	—	—	15,347,941.00	15,347,941.00	12,929,715.18

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

13. Fixed assets disposal

Items	At the end of the period	At the beginning of the period
Pre-paid tax expense due to disposal of land	—	5,125,440.00
Others	55,316.40	24,309.16
Total	55,316.40	5,149,749.16

14. Intangible assets

Items	At the beginning of the year	Increase during the year	Decrease during the year	At the end of the period	Remarks
A. Total original value	1,101,345,786.51	7,645,020.01	39,749,632.87	1,069,241,173.65	
1. Land use rights	501,138,077.98	—	38,602,922.00	462,535,155.98	
2. Trademarks	521,857,698.95	2,551,500.00	—	524,409,198.95	
3. Know-how	43,711,180.00	4,288,820.00	—	48,000,000.00	
4. Others	34,638,829.58	804,700.01	1,146,710.87	34,296,818.72	
B. Accumulated amortisation	305,131,008.01	21,203,405.53	25,620,851.03	300,713,562.51	
1. Land use rights	146,782,322.31	13,501,078.22	25,206,140.20	135,077,260.33	
2. Trademarks	134,130,255.55	—	—	134,130,255.55	
3. Know-how	—	4,800,000.00	—	4,800,000.00	
4. Others	24,218,430.15	2,902,327.31	414,710.83	26,706,046.63	
C. Accumulated provision for impairment of intangible assets	331,270,574.83	—	—	331,270,574.83	
1. Land use rights	40,610,868.58	—	—	40,610,868.58	
2. Trademarks	286,061,116.40	—	—	286,061,116.40	
3. Know-how	—	—	—	—	
4. Others	4,598,589.85	—	—	4,598,589.85	
D. Total book value of intangible assets	464,944,203.67			437,257,036.31	
1. Land use rights	313,744,887.09			286,847,027.07	
2. Trademarks	101,666,327.00			104,217,827.00	
3. Know-how	43,711,180.00			43,200,000.00	
4. Others	5,821,809.58			2,992,182.24	

(1) The original value for land use rights pledged for bank loans as at 31 December 2008 was RMB257,629,135.19, while the net value was RMB180,142,400.00.

(2) Owing to uncertainty of the useful lives of the trademarks, they were no longer amortised during the year. No indication of asset impairment was found after an impairment test was conducted at the end of the year.

(3) Through Beijing Guo Tu Lian Real Estate Appraising Center Co., Ltd., it has been verified that three plots of land under Shangqiu Kelon were frozen by the local court as at 31 December 2007. Please see Appendix 14 Note 1 for details.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

15. Long-term deferred expenditures

Classification	Original amount	At the beginning of the period	Increase for the period	Amortisation for the period	Accumulated amortisation	At the end of the period	Remaining term for amortization
Long-term deferred expenses	8,988,736.69	2,222,788.48	2,493,716.59	1,349,008.20	5,621,239.82	3,367,496.87	1-3 year
Total	8,988,736.69	2,222,788.48	2,493,716.59	1,349,008.20	5,621,239.82	3,367,496.87	

16. Deferred income tax assets

Items	At the end of the period	At the beginning of the period	Description
Provision for bad debts	192,404.86	303,078.15	
Provision for inventories	252,297.24	85,343.62	
Provision for impairment of fixed assets	7,046,116.63	8,235,802.68	
Deductible tax loss	4,117,055.67	4,117,055.67	
Other temporary differences	2,038,907.94	(1,441,612.35)	Temporary differences such as accumulated depreciation, amortisation of intangible assets, etc.
Total	13,646,782.34	11,299,667.77	

According to the Company's annual profit forecasts for subsequent years, it was uncertain whether the newly incurred tax deductible loss can be applied against the amount of the profits for the next five years after deducting the temporary differences of other items. Accordingly, the corresponding deferred income tax assets to these deductible losses were not recognized. Temporary differences from fixed assets and intangible assets of RMB58,902,248.69, temporary differences from provision for bad debts, and provision for inventories, maintenance fees provided for but not paid in 2008 and forward foreign exchange transactions of RMB11,106,159.65 were expected to be reversed in 2009 and subsequently.

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VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

16. Deferred income tax assets *(continued)*

Items not recognised as deferred income tax assets	At the end of the period	At the beginning of the period
Deductible temporary differences	709,080,541.51	970,414,104.09
1. Provision for bad debts	352,872,954.31	380,561,871.97
2. Provision for inventories	19,779,483.44	14,118,858.17
3. Provision for impairment of construction in progress	—	29,159,819.93
4. Provision for impairment of long-term equity investments	96,503,462.72	59,381,641.00
5. Fixed assets	20,474,205.77	115,694,069.50
6. Intangible assets	152,312,104.40	370,727,827.20
7. Other temporary differences	67,138,330.87	770,016.32
Deductible loss	2,505,260,287.23	2,170,959,853.79
1. Loss expiring on 31 December 2008	—	7,068,280.99
2. Loss expiring on 31 December 2009	44,748,153.89	44,748,153.89
3. Loss expiring on 31 December 2010	1,129,327,139.37	1,097,025,350.23
4. Loss expiring on 31 December 2011	608,021,767.36	649,153,430.09
5. Loss expiring on 31 December 2012	291,502,425.67	145,267,289.10
6. Loss expiring on 31 December 2013	332,436,404.25	—
7. Loss that can be carried forward indefinitely	99,224,396.69	227,697,349.49
Total	3,214,340,828.74	3,141,373,957.88

These items were not recognised as deferred income tax assets as it was foreseen that the future taxable profit available against which deductible temporary differences could be utilised exceeded the amount of tax payable.

17. Provision for impairment of assets

Items	At the beginning of the year	Amount of the year	Decrease during the year		At the end of the period
			Reversal	Write-off	
1. Provision for bad debts	579,369,877.42	12,273,387.19	1,219,655.91	37,666,145.19	552,757,463.51
2. Provision for inventories	56,478,001.78	12,510,125.03	—	7,687,622.03	61,300,504.78
3. Provision for impairment of long-term equity investments	11,000,000.00	—	—	—	11,000,000.00
4. Provision for impairment of fixed assets	145,543,443.89	37,144,449.68	—	17,099,753.11	165,588,140.46
5. Provision for impairment of construction in progress	28,277,656.18	—	—	15,347,941.00	12,929,715.18
6. Provision for impairment of intangible assets	331,270,574.83	—	—	—	331,270,574.83
Total	1,151,939,554.10	61,927,961.90	1,219,655.91	77,801,461.33	1,134,846,398.76

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

18. Short term loans

		At the end of the year		At the beginning of the year	
Nature of loan	**Currency**	**Original amount**	**RMB equivalent**	**Original amount**	**RMB equivalent**
Guaranteed loan*1	RMB	1,149,780,889.96	1,149,780,889.96	488,000,000.00	488,000,000.00
	USD	2,059,886.39	14,078,499.52	5,497,949.10	40,160,319.00
Secured loan	RMB	464,259,799.02	464,259,799.02	537,865,357.90	537,865,357.90
	USD	16,680,112.90	114,001,899.63	4,951,954.67	36,172,048.05
	GBP	1,063,203.00	10,504,233.00	2,453,534.19	35,774,245.96
Pledged loan	RMB	61,149,277.79	61,149,277.79	168,000,000.00	168,000,000.00
	USD	171,791.50	1,174,126.16	—	—
Credit loan	RMB	—	—	5,000,000.00	5,000,000.00
Total			1,814,948,725.08		1,310,971,970.91

*1. Guaranteed loan of the period included guarantees of approximately RMB29,628,997.87 provided by the Company to banks for banker's acceptances issued by certain distributors (2007: RMB9,000,000.00). Pursuant to the guarantee arrangements, upon utilization of these credit facilities granted by the banks to the distributors, the Company would be responsible for repayment of these acceptances issued by the banks. According to the assessment by the Company, the guarantee arrangements would not incur additional credit risks or financial contingencies in respect of the distributors. However, the guarantee arrangements would result in the reclassification of advance receipts into short-term loans.

Guaranteed loan of the period included a loan from Hisense Group Company Limited in the amount of RMB300,000,000.00. Please see Appendix 10.2.(6) for details.

*2. Balance of short-term loans at the end of the year increased by 38.44% as compared to the beginning of the year, which was mainly attributable to the accelerated payment of amounts due to supplier that has resulted in a decrease in note settlement and therefore an increase in the amount of bank loans.

19. Transactional financial liabilities

Items	**At the end of the period**	**At the beginning of the period**
Derivative financial Liabilities*	13,610,671.47	6,157,782.89
Total	13,610,671.47	6,157,782.89

* It was mainly the undue foreign exchange forward contracts. The amount is calculated based on the difference between the quotation of the undue foreign exchange contracts and the future foreign exchange rate as at 31 December 2008.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

20. Notes payable

Classification	At the end of the period	Amount due within one year
Bank acceptance notes	161,550,000.00	161,550,000.00
Commercial acceptance notes	284,200,000.00	284,200,000.00
Total	445,750,000.00	445,750,000.00

(1) There was no amount due to shareholders holding 5% or more of the voting rights of the Company.

(2) The balance at the end of the period decreased by 42.18% compared to that at the beginning of the year, which was mainly attributable to the increase of bank loans by the Company that has resulted in a decrease in notes financing.

21. Trade payables

	At the end of the period		At the beginning of the period	
Age of account	Amount	Percentage of total amount	Amount	Percentage of total amount
	RMB	*%*	*RMB*	*%*
Within one year	696,423,301.24	79.30	1,208,344,799.78	89.34
One to two years	76,948,136.29	8.76	53,354,398.45	3.95
Two to three years	25,559,660.10	2.91	70,801,361.57	5.23
Over three years	79,335,476.38	9.03	20,023,922.22	1.48
Total	878,266,574.01	100.00	1,352,524,482.02	100.00

(1) There was no amount due to shareholders holding 5% or more of the share capital of the Company.

(2) The balance at the end of the period decreased by 35.06% as compared to the beginning of the period, which was mainly attributable to reinforced management efforts in trade payables by the Company that has resulted in the timely payment of trade payables due.

22. Advance from customers

The balance of advance from customers at the end of the period amounted to RMB381,396,923.93, which did not include amount due to shareholders holding 5% or more of the voting rights of the Company.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

23. Staff remuneration payables

Items	At the beginning of the year	Increase for the period	Decrease for for the period	At the end of the period
1. Salaries, bonuses, allowances and subsidies	86,304,894.14	481,416,073.19	478,547,585.21	89,173,382.12
2. Staff welfare fund	845,690.99	39,815,946.85	38,155,681.00	2,505,956.84
3. Social insurance premium	967,677.56	39,600,599.17	39,724,432.32	843,844.41
4. Housing provident fund employee education expenses	222,075.43	3,179,433.24	2,910,691.25	490,817.42
5. Labor union expenses and	3,311,864.46	6,447,446.49	6,684,748.52	3,074,562.43
6. Others	199,448.15	4,120,108.02	2,719,556.17	1,600,000.00
Total	91,851,650.73	574,579,606.96	568,742,694.47	97,688,563.22

24. Taxes payables

Tax	At the end of the period	At the beginning of the period
Value-added tax (Value-added tax to be credited)	(52,183,799.80)	(124,669,162.92)
Business tax	740,363.89	20,805,127.33
Urban Construction Tax	82,569.03	23,188.79
Education fees additional Charges	14,185.70	938.05
Enterprise Income tax	26,399,076.67	27,258,186.65
Real estate tax	4,093,502.85	2,929,020.22
Individual Income tax	1,552,002.75	1,697,593.46
Land use tax	2,066,662.92	2,965,155.33
Water system construction fund	(1,280,700.03)	1,347,345.40
Other	30,443.67	2,212,067.06
Total	(18,485,692.35)	(65,430,540.63)

Taxes payable at the end of the period increased by 71.75% as compared to the beginning of the period, which was mainly attributable to the higher value-added tax of the Company at the end of the period as compared to the beginning of the period, whereas business tax was lower at the end of the period as compared to the beginning of the period. Since purchase of raw materials at the end of the period has decreased, resulting in a decrease in the corresponding deductible tax credit and an increase in the value-added tax at the end of the period as compared to the beginning of the period. The decrease in business tax at the end of the period as compared to the beginning of the period was attributable to the decrease in the disposal of properties and land during 2008 that has resulted in a corresponding decrease in business tax.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

25. Other payables

Age of account	At the end of the period Amount RMB	At the end of the period Percentage of total amount %	At the beginning of the period Amount RMB	At the beginning of the period Percentage of total amount %
Within one year	365,817,812.48	60.22	556,555,992.29	80.71
One to two years	118,411,734.87	19.49	50,104,789.20	7.27
Two to three years	50,104,789.20	8.25	50,835,300.66	7.37
Over three years	73,144,254.38	12.04	32,040,836.81	4.65
Total	607,478,590.93	100.00	689,536,918.96	100.00

The year-end balance included no amount due to shareholders holding 5% or more of the voting rights of the Company.

26. Deferred income

Items	At the end of the period	At the beginning of the period
State debebture projects capital for technical advancement and industry upgrade	21,450,000.00	21,450,000.00
Production technology reform project for energy-saving household SBS large-size refrigerator	4,175,000.00	—
Others	3,759,048.90	3,522,364.90
Total	29,384,048.90	24,972,364.90

* Please see Appendix 7 “Government subsidy” for details.

27. Other current liabilities

Items	At the end of the period	At the beginning of the period	Reasons for not settled
Installation fee	30,136,617.27	45,311,366.51	Provision made for the unpaid installation cost of sold products
Sales discounts	139,159,560.42	111,935,891.68	Occurred but not paid
Transportation fee	7,110,196.71	4,890,136.24	Occurred but not paid
Audit and listing fee	5,449,843.27	13,735,267.37	Provision made for annual audit fee and listing fee
Marketing fee	22,366,630.55	32,187,877.18	Occurred but not paid
Capital utilization fee	—	28,483,822.05	Occurred but not paid
Others	49,678,172.53	56,138,250.09	Occurred but not paid
Total	253,901,020.75	292,682,611.12	

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

28. Provision

Items	At the end of the period	At the beginning of the period
Litigation costs	31,142,559.40	11,516,899.81
Provision for maintenance*	83,072,884.69	132,488,674.45
Total	114,215,444.09	144,005,574.26

* The provision for maintenance is the estimated product quality guarantee fund. During the warranty period, the Company will offer a free warranty service to the customers concerned. According to the industry's experience and past data, the warranty costs are calculated and provided based on the remaining years of offered warranty and the average repair fee per unit.

29. Share capital

Items	At the beginning of the period	Increase (decrease) during the period: Number of placing share	Number of bonus shares	Capitalized reserve fund	Additional issues	Others	Sub-total	At the end of the period
A. Restricted circulating shares	–	–	–	–	–	–	–	–
1. Promoter shares	–	–	–	–	–	–	–	–
Including: State owned shares	–	–	–	–	–	–	–	–
State legal person shares	–	–	–	–	–	–	–	–
Domestic legal person shares	–	–	–	–	–	–	–	–
Overseas legal person shares	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
2. Non-promoter shares	–	–	–	–	–	–	–	–
Including: Domestic non-state legal person shares	–	–	–	–	–	–	–	–
Domestic state legal person shares	238,872,074.00	–	(9,725,059.00)	–	–	5,228,907.00	–	234,375,922.00
Domestic legal person shares	75,703,561.00	–	–	–	–	(11,779,757.00)	–	63,923,804.00
Overseas legal person shares	–	–	–	–	–	–	–	–
Staff shares	11,592.00	–	517.00	–	–	–	–	12,109.00
Transferred alloted shares	–	–	–	–	–	–	–	–
Securities investment fund allotment	–	–	–	–	–	–	–	–
Strategic investment allotment	–	–	–	–	–	–	–	–
General legal person allotment	–	–	–	–	–	–	–	–
Unlisted individual shares	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
3. Preference stock	–	–	–	–	–	–		–
Total number of restricted circulating shares	314,587,227.00	–	(9,724,542.00)	–	–	(6,550,850.00)		298,311,835.00
B. Non-restricted circulating shares								
1. Domestic listed ordinary shares denominated in RMB	217,829,528.00	–	9,724,542.00	–	–	6,550,850.00	–	234,104,920.00
2. Domestic listed foreign shares	–	–	–	–	–	–	–	–
3. Overseas listed foreign shares	459,589,808.00	–	–	–	–	–	–	459,589,808.00
Total number of non-restricted circulating shares	677,419,336.00							693,694,728.00
C. Total number of shares	992,006,563.00							992,006,563.00

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

29. Share capital *(continued)*

1. The par value of the above shares is RMB1 per share;

2. On 28 March 2008, Qingdao Hisense Air-Conditioning Company Limited did not complete the assets reorganization of the Company during the commitment period and triggered the condition for additional donated shares. On 11 April 2008, Qingdao Hisense Air-Conditioning Company Limited fulfilled the commitment of donated share and distribution 9,725,059.00 shares in aggregate to all holders of non-restricted circulating A shares who are registered on the registration day of donated shares and directors, supervisors and senior management of the Company who were holding circulating shares of the Company;

3. During the year, a shareholder of the Company, Foshan Shunde Dong Heng Information Consultancy Service Company Limited (previously Shunde Dong Heng Development Company Limited), repaid 486,044 shares to the largest shareholder of the Company, Qingdao Hisense Air-Conditioning Company Limited, and completed the share registration procedures on 10 April 2008. The remaining 6,550,850 shares have become non-restricted and were listed for circulation on 20 May 2008;

4. During the year, a shareholder of the Company, Foshan Shunde Economic Consultancy Company, repaid 4,742,863 shares to the largest shareholder of the Company, Qingdao Hisense Air-Conditioning Company Limited.

30. Capital reserve

Items	At the beginning of the period	Increase during the period	Decrease during the period	At the end of the period
Share premium	1,468,501,786.00	—	—	1,468,501,786.00
Other capital reserve	69,854,849.50	—	34,833.13	69,820,016.37
Total	1,538,356,635.50	—	34,833.13	1,538,321,802.37

During the period, the capital reserve decreased, mainly due to a decrease in the capital reserve of an associate Huayi Compressor during the year, and accordingly a lower amount was recognized by the Company based on the equity method.

31. Surplus reserve

Items	At the beginning of the period	Increase during the period	Decrease during the period	At the end of the period
Statutory common reserve	114,580,901.49	—	—	114,580,901.49

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

32. Unappropriated profits

At the beginning of the period	Increase during the period	Decrease during the period	At the end of the period
(3,447,561,785.51)	(226,701,628.18)	—	(3,674,263,413.69)

The increase for the period represented credit of net profit for the period.

33. Revenue

(1) Details of Revenue and cost of sales classified by product segment are as follows

Items	Current period		Preceding period	
	Revenue	Cost	Revenue	Cost
1. Revenue from principal operations				
Refrigerators	**4,190,018,618.25**	**3,310,571,953.90**	4,320,754,737.40	3,485,537,876.16
Air-conditioners	**3,024,339,362.08**	**2,764,353,917.15**	3,215,279,886.83	2,746,967,853.85
Freezer	**397,585,435.37**	**343,579,674.82**	324,226,145.05	277,536,336.39
Small electrical appliances and others	**442,264,899.43**	**394,259,657.54**	461,556,481.18	435,402,273.84
Sub-total:	**8,054,208,315.13**	**6,812,765,203.41**	8,321,817,250.46	6,945,444,340.24
2. Revenue from other operations				
Materials	**490,382,153.60**	**420,233,235.46**	400,548,030.20	335,621,078.99
Others	**90,884,891.02**	**80,027,614.63**	99,981,947.74	87,413,707.86
Sub-total:	**581,267,044.62**	**500,260,850.09**	500,529,977.94	423,034,786.85
Total	**8,635,475,359.75**	**7,313,026,053.50**	8,822,347,228.40	7,368,479,127.09
The aggregate amount of the top five	**1,759,871,680.12**		1,587,832,840.60	
Percentage to the aggregate	**21.85%**		19.08%	

(2) By geographic segment

Analysis of major businesses by geographic segment	Current period		Preceding period	
	Operational revenue	Operational cost	Operational revenue	Operational cost
Domestic	**4,909,775,778.21**	**3,861,815,889.36**	4,898,800,051.46	3,778,811,129.45
Overseas	**3,144,432,536.92**	**2,950,949,314.05**	3,423,017,199.00	3,166,633,210.79
Total	**8,054,208,315.13**	**6,812,765,203.41**	8,321,817,250.46	6,945,444,340.24

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VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

33. Revenue *(continued)*

The company's revenues and costs classified by product segment are as follows:

Items	Current period		Preceding period	
	Revenue	Cost	Revenue	Cost
1. Revenue from principal operations				
Refrigerators	**2,754,297,328.04**	**2,175,126,635.56**	2,664,822,030.53	2,138,729,471.49
Air-conditioners	**1,392,076,644.92**	**1,365,652,716.27**	1,743,781,366.07	1,578,750,129.35
Freezer	**60,956,756.07**	**52,689,241.71**	44,926,641.76	41,270,117.01
Small electrical appliances and others	—	—	4,182,616.47	3,535,797.68
Sub-total:	**4,207,330,729.03**	**3,593,468,593.54**	4,457,712,654.83	3,762,285,515.53
2. Revenue from other operations				
Materials	**340,382,790.14**	**335,483,451.64**	326,848,510.01	325,314,888.63
Others	**166,655,961.66**	**1,060,503.14**	237,350,554.48	1,089,209.80
Sub-total:	**507,038,751.80**	**336,543,954.78**	564,199,064.49	326,404,098.43
Total	**4,714,369,480.83**	**3,930,012,548.32**	5,021,911,719.32	4,088,689,613.96

34. Sales tax and surcharges

Items	Current period	Preceding period
Sales tax	**340,697.48**	744,101.29
Urban Maintenance and Construction Tax	**47,429.37**	269,002.42
Education surcharge	**48,489.77**	152,387.78
Others	**862,258.93**	691,332.27
Total	**1,298,875.55**	1,856,823.76

Sales tax and surcharges of the period decreased by 30.05% as compared to the last period, which was mainly attributable to the decrease in the disposal of properties and land during 2008 that has resulted in a corresponding decrease in business tax.

35. Financial expenses

Items	Current period	Preceding Period
Interest expenses	**61,099,980.10**	69,762,856.42
Less: Interest income	**1,447,193.50**	4,011,408.82
Exchange loss	**61,194,921.65**	41,120,907.23
Others	**30,421,526.42**	12,306,991.84
Total	**151,269,234.67**	119,179,346.67

Financial expenses of the period increased by 26.93% as compared to the last period, which was mainly attributable to the increase in exchange loss from export sales and the increase in the discount charges of notes.

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VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

36. Asset impairment losses

Items	Current period	Preceding period
1. Bad debt loss	**12,273,387.19**	7,426,320.95
2. Impairment loss on inventories	**12,510,125.03**	9,868,866.45
3. Impairment loss on fixed assets	**5,056,039.90**	16,114,306.85
4. Impairment loss on construction in progress	—	10,545,832.80
5. Impairment loss on intangible assets	—	18,470,659.79
Total	**29,839,552.12**	62,425,986.84

Asset impairment losses of the period decreased by 52.20% as compared to the last period as there was no impairment loss on construction in progress and intangible assets for the period.

37. Gain from changes in fair value

Source of gain from changes in fair value	Current period	Preceding period	Note
1. Transactional financial assets			
– Changes in fair value for the year*	**5,871,420.45**	9,479,410.00	
– Transfer upon disposal**	**(9,479,410.00)**	—	
2. Transactional financial liabilities			
– Changes in fair value for the year*	**(13,610,671.47)**	(6,374,828.99)	
– Transfer upon disposal**	**6,160,006.40**	—	
Total	**(11,058,654.62)**	3,104,581.01	

* This mainly represented undue foreign exchange forward contracts entered into by the Company with banks. The amount is calculated based on the difference between the quotation of the undue foreign exchange contracts and the future foreign exchange rate as at 31 December 2008.

** This was mainly due to the delivery forward contract, the transfer of gain or loss from changes in fair values recognized for last year to investment profits.

38. Investment profit

Total

Classification	Current period	Preceding period	Note
Proceeds during the periods:			
Dividend from associates and Joint venture	—	—	
Disposal of transactional financial assets	**(13,655,646.65)**	—	
Disposal of financial assets available for sale	—	—	
Increase or decrease in net profit of investees recognised at the end of the year using the equity method	**4,197,191.95**	2,246,994.93	
Profit on dealing with equity	**(10,271,706.55)**	4,509,461.06	
Total	**(19,730,161.25)**	6,756,455.99	

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VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

38. Investment profit *(continued)*

Details of the Company's investment profit is as follows:

Classification	Current period	Preceding period	Note
Proceeds during the periods:			
Dividend from associates and Joint venture	**138,466,013.70**	—	
Disposal of transactional financial assets	**—**	—	
Disposal of financial assets available for sale	**—**	—	
Increase or decrease in net profit of investees recognised at the end of the year using the equity method	**4,189,354.99**	2,226,963.73	
Profit on dealing with equity	**(171,672,424.92)**	—	
Total	**(29,017,056.23)**	2,226,963.73	

1. Increase or decrease in the net profit of investees recognized by equity method at the end of the year represent paper gain or loss enjoyed by the Company in accordance with the proportion of shares held. There is no major restriction on the inward remittance of investment profits.

2. The Company and its wholly owned subsidiary Hisense Ronshen (Guangdong) Refrigerator Co., Ltd entered into an equity transfer agreement with Jilin Yinqiao Group Co., Ltd ("Yinqiao Group") on 7 January 2008 for transferring its 100% stake in Jilin Kelon Electric Co., Ltd (90% by Hisense Electrical and 10% by Ronshen Refrigerator) to Yinqiao Group for RMB30 million. At the same time, the Company and Hisense Ronshen agreed to take up all carrying debts of Jilin Kelon at the time of execution of the agreement. As at 31 December 2008, the investment loss from the equity transfer was RMB10,568,465.43.

3. Chongqing Ronshen, an investee of the Company's subsidiary Hisense Ronshen, ceased operation and completed the procedures of cancellation during the year. The Company received an investment cost and gain of RMB709,291.59 in aggregate. The disposal generated an investment profit of RMB304,595.84 in aggregate (of which RMB7,836.96 and RMB296,758.88 were recognized in accordance with the equity method as investment profit of the year and investment profit from disposal respectively);

4. Profits from subsidiaries on the Company's account represented the dividend received by the Company in accordance with its shareholding proportion for the profit distribution of 2007 during the year by a subsidiary of the Company, Chengdu Kelon.

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VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

39. Non-operating income/expenses

1. Non-operating income

Items	Current period	Preceding period
1. Gain on disposal of non-current assets	**59,538,096.95**	360,649,383.79
2. Disposal of receivable*	**—**	57,572,433.69
2. Gain from exchange of non-monetary assets	**—**	23,049.00
3. Penalty income	**9,508,584.33**	12,156,440.15
4. Gains of debt restructuring	**1,483,383.30**	—
5. Government subsidy	**22,996,177.02**	6,235,697.37
6. Inventory profit	**118,358.14**	228,369.67
7. Gain on donation	**—**	808,142.04
8. Others*	**12,700,494.52**	26,005,837.31
Total	**106,345,094.26**	463,679,353.02

Non-operating income at the end of the period decreased by 77.06% as compared to the beginning of the period, which was mainly attributable to a significant decrease in the disposal of idle non-current assets during the period.

2. Non-operating expenses

Items	Current period	Preceding period
1. Loss on disposal of non-current assets	**9,625,214.36**	71,211,561.01
2. Penalty outlay	**8,752,210.58**	2,543,895.21
3. Charitable contribution expenses	**2,305,000.00**	220,455.26
4. Extraordinary loss	**536,609.97**	664,549.28
5. Losses on count deficit	**160,931.07**	—
6. Others	**3,905,607.97**	14,658,656.61
Total	**25,285,573.95**	89,299,117.37

Non-operating cost at the end of the period decreased by 71.68% as compared to the beginning of the period, which was mainly attributable to a significant decrease in the disposal of idle non-current assets during the period.

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VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

40. Income tax

a. *Composition of income tax expense*

Items	Current period	Preceding period
Income tax expense of the current period	**6,431,841.83**	780,323.17
Including: income tax expense incurred in the current year	**6,431,841.83**	780,323.17
Yearly income tax amount before current adjustment	**—**	—
Deferred income tax expenses	**(2,347,114.57)**	10,087,064.29
Including: deferred income tax incurred in the current year	**(2,347,114.57)**	581,850.04
Yearly deferred income tax amount before current adjustment	**—**	—
Effect of tax rate changes	**—**	9,505,214.25
Total	**4,084,727.26**	10,867,387.46

Income tax expense of the period decreased by 62.41% as compared to the preceding period, which was mainly attributable to a decrease in deferred income tax assets and a significant decrease in deferred income tax expense for the period. Please see Appendix 6.16 for details.

b. *Relationship between income tax expense and accounting profit*

Items	Current period	Preceding period
Accounting profit	**(228,241,347.72)**	226,207,531.93
Tax at the statutory rate	**(57,060,336.93)**	74,648,485.53
Add:		
1. Expenses not deductible for tax purposes	**2,579,765.20**	25,622,346.37
2. Difference in tax rate between regions or countries	**(1,773,614.92)**	(3,087,384.85)
3. Tax effect of tax losses and deductible temporary differences not recognised	**70,494,769.64**	19,790,517.35
Less:		
1. Revenue not taxable for tax purposes	**8,039,283.84**	9,502,543.05
2. Deductible estimated expenses	**—**	—
3. Effect of exemption granted and preferential tax treatment	**(6,875,049.82)**	60,315,204.75
4. Utilisation of tax losses and deductible temporary differences previously not recognised	**8,991,621.71**	36,288,829.14
Income tax expense	**4,084,727.26**	10,867,387.46

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VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

41. Other cash related to operation activities

Items	Current period	Preceding period
Cash received from other operation activities		
Subsidy income	**27,407,861.02**	5,968,292.49
Penalty income, insurance compensation income	**9,508,584.33**	9,693,417.88
Deposit from suppliers, deposit for freight, etc	**7,065,026.26**	15,753,002.46
Sub-total	**43,981,471.61**	31,414,712.83
Cash paid for other operation activities		
Operation expenses	**871,895,160.90**	863,161,515.96
Administrative expenses	**149,403,894.47**	161,759,253.84
Financial expenses	**5,275,679.50**	1,306,096.25
Non-operating expenses and others	**15,660,359.59**	10,118,407.08
Sub-total	**1,042,235,094.46**	1,036,345,273.13
Total	**(998,253,622.85)**	(1,004,930,560.30)

42. Other cash related to investment activities

Items	Current period	Preceding period
Other cash received from investing activities		
Interest income	**1,447,193.50**	4,011,408.82
Sub-total	**1,447,193.50**	4,011,408.82

43. Other cash related to financing activities

Items	Current period	Preceding period
Cash received from other financing activities		
Recovery of security bank deposit	**46,893,209.83**	178,124,523.59
Other receivables financing	—	142,000,000.00
Sub-total	**46,893,209.83**	320,124,523.59
Cash paid for other financing activities		
Repayment of Hisense capital support fund	—	191,004,000.00
Payment of restructuring agency fee	**11,390,672.06**	5,877,712.79
Sub-total	**11,390,672.06**	196,881,712.79
Total	**35,502,537.77**	123,242,810.80

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VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

44. Cash and cash equivalents

Items		Current period	Preceding period
1.	Cash	**110,216,566.27**	76,395,270.52
	Including: cash on hand	**244,685.80**	1,327,470.00
	Bank deposit always available for payment	**109,971,880.47**	75,067,800.52
2.	Cash equivalents	**—**	—
3.	Cash and cash equivalents at the end of the period	**110,216,566.27**	76,395,270.52

45. Relevant information on acquisition or disposal of subsidiaries and other operation units

I. Acquisition of subsidiaries and other operating units

1. Hisense Whirlpool: Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd was established in November 2008 under mutual contribution by the Company and Whirlpool (Hong Kong) Limited, with a registered capital of RMB450,000,000.00, contributed by the Company and Whirlpool (Hong Kong) Limited respectively in the amount of RMB225,000,000.00, and each to hold a 50% shareholding. As at 31 December 2008, the Company has made an actual contribution of RMB33,750,000.00 and Whirlpool (Hong Kong) Limited has made an actual contribution of US$4,937,604.00 (RMB33,746,548.30 as translated by the exchange rate prevalent at the date of contribution). The company is currently under the stage of preparation.

2. Qingdao Hisense International Marketing: Qingdao Hisense International Marketing Co., Ltd was established under the mutual capital contribution by the Company, Hisense Electrical Appliances Share Company Ltd., Qingdao Hisense Import and Export Company Limited and 18 natural persons (including Liu Qinghua), with a registered capital of RMB20 million, of which the Company was committed as to RMB3.80 million (representing 19% of the registered capital), Hisense Electrical Appliances Share Company Ltd. was committed as to RMB3.80 million (representing 19% of the registered capital), Qingdao Hisense Import and Export Company Limited was committed as to RMB10.40 million (representing 52% of the registered capital), and 18 natural persons were committed as to RMB2 million (representing 10% of the registered capital).

3. Sales companies: During the year, the Company, its distributors and the staff of marketing branches together made capital contributions to establish 17 sales companies, namely Chengdu Hisense Kelon Sales Co., Ltd, Chongqing Hisense Kelon Sales Co., Ltd, Jining Hisense Kelon Sales Co., Ltd, Jinan Hisense Kelon Sales Co., Ltd, Wuhan Hisense Kelon Sales Co., Ltd, Kunming Hisense Kelon Sales Co., Ltd, Hengyang Hisense Kelon Sales Co., Ltd, Weifang Hisense Kelon Sales Co., Ltd, Beijing Hisense Kelon Sales Co., Ltd, Zhengzhou Hisense Kelon Sales Co., Ltd, Shanxi Hisense Kelon Sales Co., Ltd, Shenyang Hisense Kelon Sales Co., Ltd, Zhejiang Hisense Kelon Sales Co., Ltd, Xuzhou Hisense Kelon Sales Co., Ltd, Fuzhou Hisense Kelon Sales Co., Ltd, Guiyang Hisense Kelon Sales Co., Ltd, Nanning Hisense Kelon Sales Co., Ltd, and Qingdao Hisense International Marketing Co., Ltd. The actual contribution percentage by the Company in all these companies is 2%, and the amount of actual capital contribution was RMB2,450,000.00.

VI. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) *(continued)*

45. Relevant information on acquisition or disposal of subsidiaries and other operation units *(continued)*

II. Disposal of subsidiaries and other operating units

1. Jilin Kelon: The Company and its controlling subsidiary, Ronshen Refrigerator, have entered into a equity transfer agreement with Jilin Yinqiao Group Co., Ltd on 7 January 2008, transferring 100% stake in Jilin Kelon (90% by the Company, 10% by Ronshen Refrigerator) to Jilin Yinqiao Group Co., Ltd at a consideration of RMB30 million. At the same time, the Company and Ronshen Refrigerator agreed to take up all the carrying debts of Jilin Kelon as at the date of the agreements. An investment loss of RMB10.57 million was incurred to the Company by the equity transfer;

2. Chongqing Rongsheng: Chongqing Rongsheng was an associate of the Company's subsidiary Ronshen Refrigerator, in which Ronshen Refrigerator held 20% of its equity for an initial investment cost of RMB280,000.00. During the year, Chongqing Rongsheng ceased operation and completed the procedures of cancellation during the year. The Company received an investment cost and gain of RMB709,291.59 in aggregate;

3. Sales companies: During 2007 and 2008, the Company, its distributors and the staff of marketing branches together made capital contributions to establish a number of sales companies. During the year, the Company retreated its investments in 20 of these sales companies, namely Zhibo Hisense Kelon Electrical Sales Co., Ltd, Linyi Hisense Kelon Electrical Sales Co., Ltd, Hunan Hisense Kelon Electrical Sales Co., Ltd, Qingdao Hisense Kelon Electrical Sales Co., Ltd, Yantai Hisense Kelon Electrical Sales Co., Ltd, Jining Hisense Kelon Electrical Sales Co., Ltd, Jinan Hisense Kelon Electrical Sales Co., Ltd, Wuhan Hisense Kelon Electrical Sales Co., Ltd, Kunming Hisense Kelon Electrical Sales Co., Ltd, Hengyang Hisense Kelon Electrical Sales Co., Ltd, Weifang Hisense Kelon Electrical Sales Co., Ltd, Beijing Hisense Kelon Electrical Sales Co., Ltd, Zhengzhou Hisense Kelon Electrical Sales Co., Ltd, Shanxi Hisense Kelon Electrical Sales Co., Ltd, Shenyang Hisense Kelon Electrical Sales Co., Ltd, Zhejiang Hisense Kelon Electrical Sales Co., Ltd, Xuzhou Hisense Kelon Electrical Sales Co., Ltd, Fuzhou Hisense Kelon Electrical Sales Co., Ltd, Guiyang Hisense Kelon Electrical Sales Co., Ltd and Nanning Hisense Kelon Electrical Sales Co., Ltd, receiving an investment return of RMB2,920,000.00 in aggregate.

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VII. GOVERNMENT SUBSIDY

(1) Categories of government subsidies and related amounted included in the profit and loss of the period:

Categories of government subsidies	Amount included in profit and loss of prior years	Amount included in profit and loss of the period	Amount to be deferred	Total	Remark
I. Asset-related government subsidies					
1. National debt capital for enterprise technological advancement and industry upgrade	—	—	22,050,000.00	22,050,000.00	*1
2. Production technology reform project for energy-saving household SBS large-size refrigerator	—	325,000.00	4,175,000.00	4,500,000.00	*2
3. Other government subsidies	—	—	3,159,048.90	3,159,048.90	
Subtotal:	—	325,000.00	29,384,048.90	29,709,048.90	
II. Income-related government subsidies					
1. Capital for international market exploration and export credit insurance	2,969,024.78	647,436.42	—	3,616,461.20	*3
2. Financial support capital	—	10,000,000.00	—	10,000,000.00	*4
3. Land Reserve Centre subsidy	—	10,000,000.00	—	10,000,000.00	*5
4. Project of new energy-saving heat-exchange materials and system for white goods	—	700,000.00	—	700,000.00	*6
5. Other government allowances	4,434,714.62	1,323,740.60	—	5,758,455.22	
Subtotal:	7,403,739.40	22,671,177.02	—	30,074,916.42	
Total	7,403,739.40	22,996,177.02	29,384,048.90	59,783,965.32	

*1 Government subsidies represented the award of RMB7,150,000 of special purposes fund under the national budget and RMB14,300,000 of special purposes fund under the local budget by the Bureau of Finance of Foshan Municipal to Kelon Electrical on 8 September 2004 according to Fojingmao [2004] No. 212 “Circulating the Circular of the Economy and Trade Commission, Development and Reform Commission and Bureau of Finance of the Province of “Circulating the Circular of NDRC and Ministry of Finance on the Release of the First Batch of 2004 National Debt Capital for Enterprise Technology Advancement and Industry Upgrade” under the principal of Fagaitouzi [2004] No. 1248 of National Development and Reform Commission and Department of Finance, in respect of the reform project of the enterprise’s information platform and resources management system for the introduction of hardware (including serves, network equipments), purchase of system software, construction of the enterprise’s information platform and resources management system.

*2 The subsidy represented the project award of RMB3 million granted to the subsidiary of the Company Ronshen Refrigerator by the Financial Bureau of Foshan, Shunde under “Circulating the Circular of Guangdong Provincial Support for Technology Renovation Tender Projects and Supplementary Projects” (Shunfomao [2007] No. 391), and the project award of RMB1.5 million granted to the subsidiary of the Company Ronshen Refrigerator by the Economic and Trade Bureau of Foshan, Shunde under “Reply by the Office of the People’s Government of Shunde, Foshan on Consenting to Grant Regional Subsidy for Science and Technology Outlay to Enterprises Including Guangdong Xinbao Electrical Appliances Holdings Co.,Ltd.” (Shunfubanhan [2008] No. 114).

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

VII. GOVERNMENT SUBSIDY *(continued)*

(1) Categories of government subsidies and related amounted included in the profit and loss of the period: *(continued)*

*3 The capital for international market exploration represented the local funding for exploration of international market provided to Ronshen Refrigerator , Kelon Air-conditioner and Kelon Freezer by the government of Shunde Municipal as an incentive and support for small to medium enterprises.

*4 The government subsidy represented subsidy granted to the subsidiary of the Company Hisense Chengdu by the Administration Committee of Chengdu Economic and Technology Development Zone under “Reply to the Application of Support Capital by Hisense (Chengdu) Refrigerator co., Ltd”.

*5 The government subsidy represented subsidy granted to the Company by the Land Reserve Centre of Foshan, Shunde under “Reply on Resolving the Relocation of Factories inside Kelon Municipal by the Office of the People’s Government of Shunde, Foshan” (Shunfubanhan [2007] No. 814).

*6 The government subsidy represented subsidy granted to the Company by the Department of Science and Technology of Guangdong under the contract in respect of the project of new energy-saving heat-exchange materials and system for white goods entered into between the Department of Science and Technology and the Company.

VIII. SUPPLEMENTARY INFORMATION ON STATEMENT OF CASH FLOW

Supplementary information	Current period	Preceding period	Notes
1. Reconciliation of net profit to cash flows from operating activities:			
Net profit	**(232,326,074.99)**	215,340,144.48	
Add: Provision for impairment of assets	**29,839,552.12**	62,420,178.38	
Depreciation of fixed assets, oil/gas assets and productive biological assets	**193,209,532.67**	249,510,541.99	
Amortisation of intangible assets	**21,203,405.53**	22,892,938.19	
Amortisation of long-term deferred expenditures	**1,349,008.20**	700,983.14	
Loss from disposals of fixed assets, intangible assets and other long-term assets	**(50,435,729.53)**	(289,437,822.78)	
Losses on retirement of fixed assets	**—**	—	
Loss from change in fair value	**11,058,654.62**	(3,104,581.01)	
Financial expenses	**59,652,786.60**	65,751,447.60	
Investment loss	**19,730,161.25**	(6,756,455.99)	
Reduction of deferred income tax assets	**(2,347,114.57)**	10,087,064.29	
Increase of deferred income tax liabilities	**—**	—	
Decrease in inventories	**422,245,934.52**	(30,316,633.52)	
Decrease in operating receivable	**(104,390,389.50)**	(257,455,930.99)	
Increase in operating payable	**(811,130,798.90)**	(44,027,522.53)	
Total:	**(442,341,071.98)**	(4,395,648.75)	
2. Major investing and financing activities not involving cash receipts and payment:			
Liabilities convert into assets equity	**—**	—	
Convertible company bonds due within one year	**—**	—	
Financial lease fixed assets	**—**	—	
3. Net change of cash and cash equivalents:			
Cash at the end of the period	**110,216,566.27**	76,395,270.52	
Less: Cash at the beginning of the period	**76,395,270.52**	142,246,506.14	
Add: Cash equivalents at the end of the period	**—**	—	
Less: Cash equivalent at the beginning of the period	**—**	—	
Net increase of cash and cash equivalents	**33,821,295.75**	(65,851,235.62)	

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IX. LEASES

(1) The Company has no fixed assets rented in or out in the form of financing lease.

(2) Book values of leased assets of the Company as an operating leassor:

Category of operating leased asset	Book value at the end of the period	Book value at the beginning of the year
1. Buildings	**35,564,782.86**	38,192,137.43

(3) Enterprises as operating lessees should disclose the following information with respect to major operating leases:

Remaining lease term	At the end of the period	At the beginning of the period
Within one year	**1,865,252.70**	2,195,616.74
Two to five years	**205,344.01**	456,594.34
Total	**2,070,596.71**	2,652,211.08

X. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The transfer procedure of 26.43% shares of the Company held by Guangdong Greencool was completed on 31 December 2006. Following the share transfer, Hisense Air-conditioner has become the sole substantial shareholder of the Company.

There occurred a series of connected transactions and abnormal cash flow during the period from October 2001 to July 2005 between Guangdong Greencool Enterprise Development Limited (the former controlling shareholder of the Company) and its related parties (hereinafter referred to as the "Greencool Companies"). The above transactions and capital embezzlement was investigated by the relevant authority. In addition, abnormal cash flow occurred also between the Company and Tianjin Lixin (Please refer to note Appendix 10.1(4) for details) during the period from October 2001 to July 2005. These items involved the accounts receivable from and account payable to Greencool and the specified third parties on 31 December 2008.

Please refer to Appendix 10.2 for details of the connected transactions between the Company and Hisense Group in 2008.

1. Related party relationships

(1) Related parties with controlling interests include

Name of related parties	Enterprise category	Legal representative	Registered Capital	Business Scope	Shares or interests held	Relationship with the Company
Hisense Air-conditioner	Sino-foreign joint venture company	Tang Ye Guo	674,790,000	*	25.22%	Controlling shareholder
Hisense Group	Solely State-owned	Zhou Hou Jian	806,170,000	**	—	Ultimate controlling shareholder
Combine	Limited liability company	Fang Zhi Guo	20,000,000	***	55.00%	Unconsolidated subsidiary of the Company

* Manufacture of air-conditioners, moulds and after-sale service.

** Trust Operation of State-Owned Property of manufacture, sale and services of household appliances and communication products.

*** Research, manufacture and sale of air-conditioners, household electrical appliances and after-sale service.

X. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(continued)*

1. Related party relationships *(continued)*

(2) Greencool Companies

Name of related parties	Relationship with the Company
Guangdong Greencool Enterprise Development Company Limited ("Guangdong Greencool")	Former controlling shareholder of the Company
Greencool Environmental Protection Engineering (Shenzhen) Co., Ltd. ("Greencool Technology Environmental Protection (Shenzhen)")	Related party of Guangdong Greencool
Greencool Technology Development (Shenzhen) Company Limited ("Greencool Technology Development (Shenzhen)")	Related party of Guangdong Greencool
Greencool Procurement (Shenzhen) Co., Ltd. ("Greencool Procurement")	Related party of Guangdong Greencool
Hainan Greencool Environmental Protection Engineering Co., Ltd ("Hainan Greencool")	Related party of Guangdong Greencool
Jiangxi Greencool Electrical Appliance Company Limited ("Jiangxi Greencool")	Related party of Guangdong Greencool

(3) Related parties with no controlling interests include:

Name of related parties	Relationship with the Company
Huayi Compressor Holdings Company Limited ("Huayi Compressor")	Associate of the Company
Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd ("Chongqing Kelon")	Associate of the Company
Antaida	Associate of the Company
Chengdu Engine (Group) Company Limited ("Chengdu Engine")	Minority shareholder of Chengdu Kelon
Xi'an Gaoke Group Company	Minority shareholder of Xi'an Kelon
Jiaxibeila Compressor Company Limited ("Jiaxibeila")	Subsidiary of an associate
Shunde Yunlong Consultancy ("Shunde Yunlong")	Minority shareholder of Huaao Electronics
Qingdao Hisense Marketing Co., Ltd ("Hisense Marketing")	Subsidiary of controlling shareholders
Hisense (Zhejiang) Air-Conditioning Co., Ltd ("Hisense Zhejiang")	Subsidiary of controlling shareholders
Hisense (Nanjing) Electrical Appliances Co., Ltd ("Hisense Nanjing")	Subsidiary of controlling shareholders
Hisense (Beijing) Electrical Appliances Co., Ltd ("Hisense Beijing")	Subsidiary of controlling shareholders
Hisense (Shandong) Air-Conditioning Co., Ltd ("Hisense Shandong")	Subsidiary of controlling shareholders
Qingdao Hisense Import & Export Co., Ltd ("Hisense Import & Export")	Subsidiary of ultimate controlling shareholders
Qingdao Hisense Hitachi Air-Conditioning Co., Ltd ("Hisense-Hitachi")	Subsidiary of ultimate controlling shareholders
Hisense International (Hong Kong) Co., Ltd ("Hisense International")	Subsidiary of ultimate controlling shareholders
Guangdong Hisense Multimedia Co., Ltd ("Hisense Multimedia")	Subsidiary of ultimate controlling shareholders
Qingdao Saiwei Household Electric Appliance Service Industry Co., Ltd ("Qingdao Saiwei")	Subsidiary of ultimate controlling shareholders
Qingdao Hisense Moulding Co., Ltd ("Hisense Mould")	Subsidiary of ultimate controlling shareholders
Hisense Group Finance Co., Ltd ("Hisense Finance")	Subsidiary of ultimate controlling shareholders

X. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(continued)*

1. Related party relationships *(continued)*

(4) *The Greencool Companies had a series of transactions or abnormal cash inflow/outflow through the following "Specified Third Party Companies"*

Name of related parties	Relationship with the Company
Jiangxi Kesheng Industry and Trading Co., Limited ("Jiangxi Kesheng")	Specified third party companies
Jinan San Ai Fu Petrochemical Co., Ltd ("Jinan San Ai Fu")	Specified third party companies
Tianjin Xiangrun Commercial Trading Development Co., Ltd ("Tianjin Xiangrun")	Specified third party companies
Tianjin Lixin Trading Development Co., Ltd ("Tianjin Lixin")	Specified third party companies
Jiangxi Keda Plastic Technology Company Limited ("Jiangxi Keda")	Specified third party companies
Hefei Weixi Electrical Appliance Co., Ltd ("Hefei Weixi")	Specified third party companies
Zhuhai Longjia Refrigerating Plant Co., Ltd ("Zhuhai Longjia")	Specified third party companies
Zhuhai Defa Air-conditioner Fittings Co. Ltd ("Zhuhai Defa")	Specified third party companies
Wanhan Changrong Electrical Appliance Co., Ltd ("Wanhan Changrong")	Specified third party companies
Tianjin Taijin Yunye Company Limited ("Tianjin Taijin")	Specified third party companies
Beijing De Heng Solicitors ("Beijing De Heng")	Specified third party companies
Shangqiu Bingxiong Freezing Facilities Company Limited ("Shangqiu Bingxiong")	Specified third party companies

(5) *Movements in the Company's share capital or equity held by related parties with controlling Interest*

Name of related party	At the beginning of the period	Increase during the period	Decrease during the period	At the end of the period
Hisense Air-conditioner	238,872,074.00	21,026,707.00	9,725,059.00	250,173,722.00

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X. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(continued)*

2. Transactions with related parties

(1) Purchases of goods

Items	Name of companies	Current period	Preceding period
Purchases of products from	Huayi Compressor	**85,370,522.55**	67,300,337.07
	Jiaxi Beila	**190,687,495.05**	154,501,449.14
	Hisense Shandong	**119,916,693.96**	120,955,728.40
	Hisense Zhejiang	**485,116,005.27**	334,424,034.91
	Hisense Nanjing	**247,563,081.11**	105,329,153.55
	Hisense Beijing	**88,659,824.44**	34,241.51
Total		**1,217,313,622.38**	782,544,944.58

On 7 January 2008, Kelon Electric ("Party A") and Hisense Group, Qingdao Hisense Marketing, Hisense Beijing, Hisense Nanjing, Hisense Shangdong, Hisense Zhejiang, Hisense Electric, Qingdao Saiwei, Hisense Environmental, Hisense Mould and Hisense Electronics Technological Service ("Party B") entered into a "Business Cooperation Framework Agreement", pursuant to which, during the period from 1 January 2008 to 31 December 2008, Party A and Party B shall negotiate and agree a price for the transaction with Party A being the purchaser/commissioner and the total transaction cap (tax included) being RMB1,371,100,000, in which: Party A shall commission Party B (Hisense Beijing) to manufacture private-label refrigerators with an annual transaction cap being RMB125,000,000; Party A shall commission Party B (Hisense Nanjing) to manufacture private-label refrigerators with an annual transaction cap being RMB240,000,000; Party A shall commission Party B (Hisense Zhejiang) to manufacture private-label air-conditioners with an annual transaction cap being RMB720,000,000; Party A shall commission Party B (Hisense Shandong) to manufacture private-label air-conditioners with an annual transaction cap being RMB240,000,000; Party A shall purchase raw materials from Party B (Hisense Beijing) with an annual transaction cap being RMB10,000,000; Party A shall purchase raw materials from Party B (Hisense Nanjing) with an annual transaction cap being RMB10,000,000; Party A shall purchase raw materials from Party B (Hisense Shandong) with an annual transaction cap being RMB10,000,000; Party A shall purchase raw materials from Party B (Hisense Zhejiang) with an annual transaction cap being RMB4,000,000; Party A shall purchase parts and components from Party B (Hisense Marketing) with an annual transaction cap being RMB1,600,000; Party A shall purchase raw materials from Party B (Hisense Environmental) with an annual transaction cap being RMB5,000,000; and Party A shall purchase moulds from Party B (Hisense Mould) with an annual transaction cap being RMB5,500,000.

Major terms of the "Business Cooperation Framework Agreement" are as follows:

① Party A and Party B, with reference to the market price of refrigerators and air-conditioners, as well as industry OEM product pricing standards, shall negotiate and agree on the purchasing price.

② In accordance to the following standards, Party A and Party B shall agree on the settlement price of single refrigerator and air-conditioner units:

Price for Party A to purchase single refrigerator and air-conditioner units from Party B ≤ Manufacturing cost for Party A to produce single refrigerator and air-conditioner units (Shunde headquarters or other bases) + Management fee + Transportation cost of single refrigerator

Upon full consideration of the above standards and the relevant manufacturing fee and management fee for Party A, with reference to transaction price in the market, both parties hereby negotiate and confirm that the transaction price of various customize refrigerator products are:

Price of a specific refrigerator model ordered by Party A from Party B = Fixed cost of the same refrigerator model of Party A/0.93

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X. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(continued)*

2. Transactions with related parties *(continued)*

(1) Purchases of goods (continued)

Upon full consideration of the above standards and the relevant manufacturing fee and management fee for Party A, with reference to transaction price in the market, both parties hereby negotiate and confirm that the transaction price of various customize air-conditioner products are: Price of a specific air-conditioner model ordered by Party A from Party B = Fixed cost of the same air-conditioner model of Party A/0.95

During the year, Party A purchased refrigerators and air-conditioners from Party B a total amount of RMB941,255,604.78.

On 1 January 2008, Kelon Electrical ("Party A") and Huayi Compressor, Jiaxibeila Compressor, and Huayi Compressor (Jingzhou) Co., Ltd. entered into a "Compressor Purchase and Supply Framework Agreement" with the contract that during the period from 1 January 2008 to 31 December 2008, Party A and Party B negotiated and agreed that Party A shall purchase from Party B in an amount (tax included) of not more than RMB581,710,000, in which the transaction cap for Party A purchasing from Huayi Compressor being RMB182,480,000; and the transaction cap for Party A purchasing from Jiaxibeila Compressor being RMB324,000,000; the transaction cap for purchasing from Huayi Jingzhou neing RMB75,230,000.

This year Party A purchased compressors from Party B in a total amount of RMB276,058,017.60.

(2) Sale of Goods

Item	Company Name	Current period	Preceding period
Sale of goods	Chongqing Kelon	**6,208,042.79**	64,756,401.98
	Hisense Marketing	**351,791.02**	192,254.47
	Hisense Zhejiang	**21,257,628.15**	9,692,607.24
	Hisense Nanjing	**35,356,155.79**	429,021.14
	Hisense Beijing	**165,365,015.51**	110,302,681.64
	Hisense Shandong	**95,458,926.59**	132,725,100.06
	Hisense Import & Export	**—**	5,669.00
	Hisense Multimedia	**293,160.34**	—
	Huayi Compressor	**38,651.26**	17,661.49
	Hisense International	**18,857,003.32**	—
Total		**343,186,374.77**	318,121,397.02
Proportion to total sales		**4.26%**	3.82%

X. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(continued)*

2. Transactions with related parties *(continued)*

(2) Sale of Goods (continued)

On 7 January 2008, Kelon Electric ("Party A") and Hisense Group, Qingdao Hisense Marketing, Hisense Beijing, Hisense Nanjing, Hisense Shangdong, Hisense Electric, Qingdao Saiwei, Hisense Environmental, Hisense Mould and Hisense Electronics Technological Service ("Party B") entered into a "Business Cooperation Framework Agreement", and one 23 June 2008, the parties entered into a supplementary agreement to the "Business Cooperation Framework Agreement", pursuant to which, during the period from 1 January 2008 to 31 December 2008, Party A and Party B shall negotiate and agree a price for the transaction with Party A being the supplier/contractor and the total transaction cap (tax included) being RMB495,300,000, in which: Party A shall be contracted to manufacture private-label refrigerators for Party B (Hisense Beijing) with an annual transaction cap being RMB175,000,000; Party A shall be contracted to manufacture private-label refrigerators for Party B (Hisense Nanjing) with an annual transaction cap being RMB75,000,000; Party A shall be contracted to manufacture private-label refrigerators for Part B (Hisense Shandong) with an annual transaction cap being RMB120,000,000; Party A shall sell parts and components to Party B (Hisense Marketing) with an annual transaction cap being RMB9,600,000; Party A shall sell parts and components to Party B (Hisense Zhejiang) with an annual transaction cap being RMB60,000,000; Party A shall sell raw materials to Party B (Hisense Shandong) with an annual transaction cap being RMB50,500,000; Party A shall sell raw materials to Party B (Hisense Electronics) with an annual transaction cap being RMB1,200,000; Party A shall sell raw materials to Party B (Hisense Multimedia) with an annual transaction cap being RMB4,000,000.

Major terms of the "Business Cooperation Framework Agreement" are as follows:

(1) Party A and Party B, with reference to the market price of refrigerators and air-conditioners, as well as industry OEM product pricing standards, shall negotiate and agree on the purchasing price.

(2) In accordance to the following standards, Party A and Party B shall agree on the settlement price of single refrigerator and air-conditioner units:

Manufacturing cost for Party A to produce single refrigerator and air-conditioner units + Management fee + After-sale cost ≤ Price for Party A to sell single refrigerator and air-conditioner units to Party B

Upon full consideration of the above standards and the relevant manufacturing fee and management fee for Party A, with reference to transaction price in the market, both parties hereby negotiate and confirm that the transaction price of various customized refrigerator products are:

Price of a specific refrigerator model sold by Party A to Party B = Fixed cost of the same refrigerator model of Party A/0.93

Upon full consideration of the above standards and the relevant manufacturing fee and management fee for Party A, with reference to transaction price in the market, both parties hereby negotiate and confirm that the transaction price of various customized air-conditioner products are:

Price of a specific air-conditioner model sold by Party A to Party B = Fixed cost of the same air-conditioner model of Party A/0.95

During the year, Party A sold air-conditioners and refrigerators to Party B in a total amount of RMB318,082,677.40.

On 22 May 2008, Kelon Electrical ("Party A") and Qingdao Hisense International Marketing Co., Ltd ("Party B") entered into an "Overseas Sales Framework Agreement", pursuant to which, during the period from 1 January 2008 to 31 December 2008, the transaction cap for Party A selling products to Party B was RMB406,500,000.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

X. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(continued)*

2. Transactions with related parties *(continued)*

(2) Sale of Goods (continued)

Major terms of the "Overseas Sales Framework Agreement" are as follows:

Price for Party A to sell standalone/kit products = Fixed cost of the same category of product of Party A /(1 – Actual profit margin of Party A for the same category of product in 2007)

During the year, Party A sold air-conditioners and refrigerators to Party B in a total amount of RMB18,857,003.32.

(3) Sales of moulds

Items	Name of related parties	Current period	Preceding period
Sales of moulds	Hisense Shandong	2,723,496.10	—
	Hisense Zhejiang	1,032,000.00	—
	Hisense Beijing	1,294,000.00	—
	Hisense Nanjing	2,172,600.00	—
	Hisense Mould	2,969,800.00	—
Total		10,191,896.10	—

On 7 January 2008, Kelon Electric ("Party A") and Hisense Group, Qingdao Hisense Marketing, Hisense Beijing, Hisense Nanjing, Hisense Shangdong, Hisense Zhejiang, Hisense Electric, Qingdao Saiwei, Hisense Environmental, Hisense Mould and Hisense Electronics Technological Service ("Party B") entered into a "Business Cooperation Framework Agreement", pursuant to which, during the period from 1 January 2008 to 31 December 2008, Party A shall sell moulds to Party B (Hisense Beijing) with an annual transaction cap being RMB10,000,000; Party A shall sell moulds to Party B (Hisense Nanjing) with an annual transaction cap being RMB8,000,000; Party A shall sell moulds to Party B (Hisense Shandong) with an annual transaction cap being RMB10,000,000; Party A shall sell moulds to Party B (Hisense Zhejiang) with an annual transaction cap being RMB10,000,000; Party A shall sell moulds to Party B (Hisense Electric) with an annual transaction cap being RMB4,000,000; and Party A shall sell moulds to Party B (Hisense Mould) with an annual transaction cap being RMB5,500,000.

During the year, Party A sold moulds to Party B in a total amount of RMB10,191,896.10.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

X. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(continued)*

2. Transactions with related parties *(continued)*

(4) *Use of land and buildings*

A subsidiary of the Company, Jiangxi Kelon, has since October 2003 used the land and buildings of Jiangxi Greencool located in Jiangxi Kelon Greencool Industrial Park. Another subsidiary of the Company, Zhuhai Kelon, has established its small refrigerator manufacturing facility in the land and buildings of the Company's substantial shareholder Greencool. As at 31 December 2008, Jiangxi Kelon and Zhuhai Kelon had not signed any asset rent agreement with the counterparty.

(5) *Other transactions*

Items	Current period	Preceding period
Other amounts received from or (paid to) related parties		
— Loan interests paid to Hisense Finance	**358,425.00**	—
— Discount charges paid to Hisense Finance	**4,492,833.35**	—
— Interests paid to Hisense Marketing for capital utilization	**—**	8,683,999.63
— Kogistics management fees paid to Antaida	**5,621,084.45**	29,656,708.96
— Service fee paid to Antaida	**76,160.00**	103,027.32
— Service fee paid to Saiwei	**1,112,548.75**	—

(6) *Guarantees*

In December 2008, Kelon Electric and Hisense Finance entered into a credit contract Haixinshouzi No. 008, pursuant to which Kelon Electric may apply to Hisense Group Finance Co., Ltd for the utilization of the maximum credit amount of RMB500 million. To ensure that the liabilities under the contract will be settled, Hisense Group and Hisense Finance entered into a contract Haixingaobaozi No. 004 to guarantee for the repayment of loan by Kelon Electric on 18 December 2008.

In November 2008, Kelon Refrigerator (a subsidiary of the Company) and Hisense Finance entered into a credit contract Haixinshouzi No. 007, pursuant to which Kelon Refrigerator may apply to Hisense Group Finance Co., Ltd for the utilization of the maximum credit amount of RMB300 million. To ensure that the liabilities under the contract will be settled, Kelon Electric and Hisense Finance entered into a contract Haixingaobaozi No. 003 to guarantee for the repayment of loan by Kelon Refrigerator on 18 November 2008.

As at 31 December 2008, the Company has obtained loans in the amount of RMB300 million and discounted trade acceptance notes in the amount of RMB200 million from Hisense Finance.

3. Transactions with related companies and specified third party companies

(1) *Transactions with the related companies under control of the Company*

Items	Name of related companies	At the end of the period	At the beginning of the period
Trade receivables	Hisense Air-conditioner	—	749,987.71
Other payables	Combine	**5,099,880.00**	5,099,880.00

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

X. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(continued)*

3. Transactions with related companies and specified third party companies *(continued)*

(2) Transactions with Greencool Companies

Items	Name of related companies	At the end of the period	At the beginning of the period
Other receivables	Guangdong Greencool	**13,754,600.00**	13,754,600.00
	Shenzhen Greencool Environmental	**33,000,000.00**	33,000,000.00
	Shenzhen Greencool Technology	**32,000,000.00**	32,000,000.00
	Hainan Greencool	**12,289,357.71**	12,289,357.71
Other payables	Jiangxi Greencool	**13,000,000.00**	13,000,000.00

(3) Transactions with the related companies not controlled by the Company

Items	Name of related companies	At the end of the period	At the beginning of the period
Trade receivables	Chongqing Rongsheng	**—**	424,410.21
	Hisense Electric	**51,411.53**	—
	Hisense Zhejiang	**—**	20,163.00
	Antaida	**4,003,657.21**	—
	Hisense Beijing	**4,772.00**	4,772.00
	Hisense Nanjing	**21,749,353.98**	28,065,843.43
	Chengdu Shangdong	**779,400.00**	—
	Qingdao Saiwei	**1,133,749.82**	—
	Hisense Multimedia	**3,238.42**	—
	Hisense International	**211,757.63**	—
		8,104,358.70	—
Prepayments	Hisense Electric	**48,534.57**	—
Other receivables	Shunde Yunlong	**4,455,375.57**	4,455,375.57
	Hisense Marketing	**—**	27,006.00
	Qingdao Saiwei	**—**	9,990.41
Trade payables	Huayi Compressor	**11,972,682.59**	11,586,357.99
	Jiaxi Beila	**26,793,690.60**	20,208,615.83
	Hisense Marketing	**—**	47,152.00
	Hisense Nanjing	**18,112.78**	2,708.98
	Hisense Zhejiang	**15,350,969.99**	109,236,376.72
	Hisense Shandong	**3,925,463.40**	54,486,956.95

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

X. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(continued)*

3. Transactions with related companies and specified third party companies *(continued)*

(3) Transactions with the related companies not controlled by the Company (continued)

Items	Name of related companies	At the end of the period	At the beginning of the period
Advance from customers	Hisense Marketing	**6,994,243.67**	10,206,688.31
	Hisense Nanjing	**20,008,358.73**	542,576.24
	Hisense Mould	**151,600.00**	—
Other payables	Antaida	**4,555,401.01**	7,612,684.75
	Xi'an Gaoke (Group) Limited	**2,358,041.00**	2,358,041.00
	Huayi Compressor	**200,000.00**	200,000.00
	Qingdao Saiwei	**461,935.97**	2,004,769.33
	Chongqing Kelon	**—**	206,908.08
	Chongqing Rongsheng	**28,487,137.33**	3,134.89
	Hisense Marketing	**4,579,397.00**	—
	Hisense International		

(4) Transactions with specified third party companies

Items	Name of companies	At the end of the period	At the beginning of the period
Trade receivables	Hefei Weixi	**18,229,589.24**	18,229,589.24
	Wuhan Changrong	**20,460,394.04**	20,460,394.04
Prepayment	Hefei Weixi	**465,213.00**	465,213.00
Other receivables	Jiangxi Kesheng	**27,462,676.72**	27,462,676.72
	San Ai Fu	**121,496,535.45**	121,496,535.45
	Tianjin Xiangrun	**96,905,328.00**	96,905,328.00
	Tianjin Lixin	**89,600,300.00**	89,600,300.00
	Jiangxi Keda	**13,000,200.00**	13,000,200.00
	Zhuhai Longjia	**28,600,000.00**	28,600,000.00
	Zhuhai Defa	**21,400,000.00**	21,400,000.00
	Wuhan Changrong	**20,000,000.00**	20,000,000.00
	Beijing De Heng	**4,000,000.00**	4,000,000.00
	Finance Bureau of Yangzhou Economic Development Zone	**40,000,000.00**	40,000,000.00
	Shangqiu Bingxiong	**58,030,000.00**	58,030,000.00
Other payables	Zhuhai Longjia	**28,316,425.03**	28,316,425.03
	Zhuhai Defa	**21,400,000.00**	21,400,000.00
	Tianjin Taijin	**65,000,000.00**	65,000,000.00

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

XI. CONTINGENT MATTER

As at the date of approval of the auditors' report, the pending litigations involving the Company are summarized as follows:

(1) Cases with the Company as the plaintiff

Plaintiff	Defendants	Reason	Total amounts involved
The Company	Greencool and Gu Chujun	Fraud in purchase; capital infringement	246,442,500.00
The Company	Xi'an Kelon Refrigerating Co., Ltd.	Purchase amount not yet settled	*99,984,100.00
The Company	Beijing Diamond Advertising Company Limited	Business advertising fee not yet settled	5,000,000.00
The Company	Zhongshan City Fusha Town Industrial Development Co., Ltd., Zhongshan City Fusha Town Shunchang Industrial Co., Ltd., Kelon Development Co,. Ltd., Zhongshan City Fusha Town Local People's Government	Refund of land sale proceeds	9,398,240.00
The Company	The People's Government of Shangqiu Municipal, Bureau of Land Resources of Shangqiu Municipal	Forfeiture of land by the government at nil-consideration	** Rescission of illegal act
The Company	Others		487,800.00
Total			361,312,640.00

* On 23 March 2009, the Company received the civil judgment (Fo Zhong Fa Min Er Chu Zi No. 88 (2007)) from the Intermediate People's Court of Foshan Municipal, Guangdong Province (the "Foshan Intermediate Court"), pursuant to which the institution of proceedings by the Company against Xi'an Kelon Cooling Co., Ltd was dismissed. The Company is not satisfied with the judgment of the Foshan Intermediate Court and has decided to lodge an appeal. As at the date of the financial statements, the judgment has not come to effect.

** The Company is not satisfied with the forfeiture of land of an area of 200mu by the People's Government of Shangqiu Municipal and has instituted administrative proceedings with the Intermediate People's Court of Shangqiu Municipal. On 23 October 2008, according to the judgment of the Intermediate People's Court of Shangqiu Municipal (2008) Shangxingchuzi No. 18, the plea of the Company was dismissed. The Company is not satisfied with the judgment of first instance and has decided to lodge an appeal.

(2) Cases with the Company as the defendant

Plaintiff	Defendant	Reason	Amount involved (total)
Material supplier	The Company	Disputes in sale contracts and processing contracts	19,485,902.87
201 minority shareholders	The Company	Claims of reimbursement due to false statement	28,924,276.04
CNA/MC Co., Ltd.	The Company	Dispute over product quality	*USD 13,750,719.19
Staff of the Company	The Company	Labor dispute	13,448,701.56
Total			155,839,545.85

* On 31 December 2008, USD1 = RMB6.8346.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

XI. CONTINGENT MATTER *(continued)*

(3) Cases of the Company against Gu Chujun and Greencool Companies and the specified third parties where judgment was in favour of the Company

Plaintiff	Defendant	Reason	Amount involved (total)
The Company	Greencool and Gu Chujun	Fraud in purchase; capital infringement	502,049,400.00
			502,049,400.00

(4) Progress of cases of the Company against Gu Chujun and Greencool Companies and the specified third parties

* On 21 January 2009, the Company received the papers of civil judgment (Yue Gao Fa Li Min Zhong Zi Nos. 206, 319, 318, 396, 439, 440, 441, 465, 466 and 471 (2008)) from the Higher People's Court of Guangdong Province (the "Guangdong Higher Court"). Guangdong Higher Court delivered the final judgments in respect of the litigations instituted by the relevant controlling subsidiaries of the Company against Gu Chu Jun, the Greencool Companies and the specific third parties. According to the final judgment, the civil judgments of first instance (Fo Zhong Fa Min Er Chu Zi Nos. 186, 182, 181, 175, 14, 180, 184, 153, 185 and 154 (2006)) from the Intermediate People's Court of Foshan Municipal, Guangdong Province (the "Foshan Intermediate Court") in favour of the Company shall become effective from the date of delivery of the papers of final civil judgment from the Guangdong Higher Court mentioned above.

** On 3 July 2007, the Company received a civil order (Yue Gao Fa Li Min Zhong Zi No. 190 and No. 191 (2008)) from the Guangdong High Court, which delivered the final judgments in respect of the litigations instituted by the Company against Gu Chu Jun, the Greencool Companies and the specific third parties, stating the civil judgments numbered Fo Zhong Fa Min Er Chu Zi No.93 and No.94 (2006) from the Foshan Intermediate Court in favour of the Company shall become effective from the date of delivery of the papers of final civil judgment from the Guangdong High Court mentioned above.

*** On 15 August 2008, the Company received a notice of Foshan Intermediate Court, stating that as the defendants have not appealed against the judgement of first instance within the prescribed period under the law, the above judgement of first instance made by Foshan Intermediate Court in favour of the Company has become effective.

**** On 23 June 2008, 21 October 2008 and 9 January 2009, the Company received the paper of civil judgment of Foshan Intermediate Court (Fo Zhong Fa Min Er Chu Zi No. 10 (2006)), the paper of civil judgment of Foshan Intermediate Court (Fo Zhong Fa Min Er Chu Zi No. 12 and 13 (2006)), the paper of civil judgment of Foshan Intermediate Court (Fo Zhong Fa Min Er Chu Zi No. 11 (2006)) respectively, which delivered judgments in respect of the litigations instituted by the Company against Gu Chu Jun, the Greencool Companies and the specific third parties. The Company is not able to decide whether the abovementioned judgments have become effective as it does not know whether the counterparty will lodge an appeal.

***** On 9 January 2009, the Company received the papers of civil judgment (Fo Zhong Fa Min Er Chu Zi Nos. 183 (2006)) from the Foshan Intermediate Court, which delivered judgments in respect of the litigations instituted by the Company against Gu Chu Jun, the Greencool Companies and the specific third parties. The institution of proceedings was dismissed due to insufficiency of evidence submitted by the Company.

****** On 2 March 2009, the Company received the paper of civil judgment (Fo Zhong Fa Min Er Chu Zi No.178 (2006)) from the Foshan Intermediate Court, which delivered judgments in respect of the litigations instituted by the Company against Gu Chu Jun, the Greencool Companies and the specific third parties. The Company agreed to withdraw the institution of proceedings due to insufficiency of evidence.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

XII. GUARANTEES, PLEDGE AND IMPAWN

1. Guarantees

(1) As at 31 December 2008, the guaranteed amount provided by the Company for its controlling subsidiaries and by its controlling subsidiaries for the Company was RMB933,645,300 and the actual guaranteed amount was RMB2,679,920,900, among which, the guaranteed amount provided by the Company for entities with a gearing ratio of over 70% was RMB606,877,200 and the actual guaranteed amount provided by the Company for entities with a gearing ratio of over 70% was RMB1,815,509,200.

(2) As at 31 December 2008, balances of loan guarantees provided by Hisense Group Company Limited, being a related party, for the Company and its subsidiary amounted to RMB894,000,000, and the bank acceptance notes with a warranty balance of RMB365,000,000.

(3) According to the resolution of the second meeting of the 6th Board of Director meetings held on 7 January 2008, the Company proposed to provide a loan warranty of RMB442,000,000 to 23 distributors. This year the actual warranty incurred amounted to RMB70,000,000.

Apart from the above warranty matters, the Company has no other warranty matters.

2. Pledge

(1) Fixed asset pledge see Appendix VI Note 11.

(2) Intangible asset pledge see Appendix VI Note 14.

XIII. COMMITMENT

Below is the capitalised pay out commitment with the contract signed and not recognised in the financial statement as at the balance sheet date.

Capitalised commitment	Current period	Preceding period
House, Building and Machine	140,079,791.72	90,831,251.43

XIV. OTHER SIGNIFICANT EVENTS

As at the date of the audit report, there was no other significant event of the Company required to be disclosed.

XV. SUBSEQUENT SIGNIFICANT EVENTS

1. Subsequent guarantee matters

At the first special general meeting of 2009 held on 4 February 2009, it was adopted after discussion: ① the proposal for the Company to provide a loan guarantee limit of RMB1,555,000,000 for its controlling subsidiaries' comprehensive credit line in 2009; ② the proposal for the Company's controlling subsidiaries to provide a loan guarantee limit of RMB1,150,000,000 to the Company in 2009; ③ the proposal for the Company's controlling subsidiaries to provide to each other a loan guarantee limit of RMB752,000,000 in 2009.

At the second special general meeting of 2009 held on 25 March 2009, it was adopted that the proposal for the Company to provide a loan guarantee limit of RMB85,000,000 to four distributors in 2009.

2. Subsequent connected transactions

(1) On 12 February 2009, the Company ("Party A") and the Company's associate Huayi Compressor ("Party B") have entered into the Compressors Purchase and Supply Framework Agreement from the period from 1 January 2009 to 31 December 2009, under which the parties shall determine the pricing after negotiation and the amount of purchase by Party A from Party B shall not exceed RMB453,658,690 (value-added tax included).

(2) On 12 February 2009, the Company ("Party A") and the subsidiaries of Hisense Group ("Party B") have entered into the Business Cooperation Framework Agreement from the period from 1 January 2009 to 31 December 2009, under which the parties shall determine the pricing after negotiation and Party A (being the purchaser) shall purchase goods or accept labour services from Party B of an amount not exceeding RMB962,340,000, and Party A (being the supplier) shall sell and provide goods or accept labour services to Party B of an amount not exceeding RMB1,061,000,000.

(3) As at the date of approval of the financial statements, the Company was negotiating with its controlling shareholders, Qingdao Hisense Air-Conditioning Company Limited in relation to the significant assets reorganization. The actual reorganization proposal is still under discussion.

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

XVI. EXTRAORDINARY LOSS AND PROFIT

Nature or content	Amount before income tax Current period	Amount before income tax Preceding period	Amount after income tax Current period	Amount after income tax Preceding period	Remarks
1. Loss and profit from disposal of non-current assets (including the elimination portion of assets impairment provision)					
(1) Income from disposal of long-term assets					
Including: Income from disposal of fixed asset	6,650,030.55	83,795,226.18	6,630,643.11	83,563,394.60	
Proceeds from transfer of intangible assets	52,888,066.40	276,854,157.61	52,888,066.40	276,854,157.61	
Proceeds from transfer of equity	304,595.84	4,509,461.06	304,595.84	4,509,461.06	
Sub-total	59,842,692.79	365,158,844.85	59,823,305.35	364,927,013.27	
(2) Expense for disposal of long-term assets	9,625,214.36	71,192,138.03	9,622,355.71	70,893,309.31	
Including: Net loss in disposal of fixed assets	—	19,422.98	—	19,422.98	
Net loss in disposal of intangible assets	10,568,465.43	—	10,568,465.43	—	
Sub-total	20,193,679.79	71,211,561.01	20,190,821.14	70,912,732.29	
Net profit or loss from disposal of non-current assets	39,649,013.00	293,947,283.84	39,632,484.21	294,014,280.98	
2. Government subsidy recorded in the profits and losses of the current period (except government subsidy closely related to the Company's business, and of which the amount is determined according to the State's unified standard)	22,996,177.02	—	20,496,177.02	—	
3. Provision for impairment on various assets made because of force majeure such as natural disaster	—	(45,123,028.23)	—	(45,123,028.23)	
4. Gain or loss on debt restructuring	1,483,383.30	10,883,646.16	1,483,383.30	10,883,646.16	
5. Gain or loss from estimated debts not related to the Company's main operation	(20,240,000.00)	(7,304,600.00)	(20,240,000.00)	(5,989,772.00)	
6. Profit or loss from changes in fair values of transactional financial assets and transactional financial liabilities and investment profits from disposal of transactional financial assets, transactional financial liabilities and available-for-sale financial assets (except effective hedging business related to the normal businesses of the Company)	(24,714,301.27)	—	(24,714,301.27)	—	
7. Net non-operating income other than above					
(1) Non-operating income:					
Including: Penalty, default compensation	9,508,584.33	12,156,440.15	9,504,250.93	11,119,652.32	
Inventory profit	118,358.14	228,369.67	118,358.14	220,539.67	
Insurance compensation	651,338.98	2,127,882.60	651,338.98	2,127,882.60	
Others	12,049,155.54	71,397,933.28	11,983,629.62	70,970,574.48	
Sub-total	22,327,436.99	85,910,625.70	22,257,577.67	84,438,649.07	
(2) *Less:* Non-operating expenses:					
Including: Penalty expenses	8,752,210.58	2,543,895.21	8,648,141.57	2,542,995.21	
Donation	2,305,000.00	220,455.26	2,280,000.00	220,455.26	
Extraordinary losses	536,609.97	664,549.28	536,609.97	664,549.28	
Inventory losses	160,931.07	—	160,931.07	—	
Others	3,905,607.97	7,354,056.61	3,878,052.15	7,354,056.61	
Sub-total	15,660,359.59	10,782,956.36	15,503,734.76	10,782,056.36	
Net non-operating income	6,667,077.40	75,127,669.34	6,753,842.91	73,656,592.71	
Total extraordinary loss and profit before deducting minority interests	25,841,349.45	327,530,971.11	23,411,586.17	327,441,719.62	
Less: Effect of minority interests	95,702.87	(11,092,916.83)	116,570.02	(11,174,811.56)	
Total extraordinary loss and profit after deducting minority interests	25,745,646.58	338,623,887.94	23,295,016.15	338,616,531.18	See appendix 5(2) for tax rates

1 January 2008 to 31 December 2008 (Unless otherwise specified, expressed in RMB)

XVII. RETURN ON NET ASSETS

Profit for the period	Return on net assets: Fully diluted: Current period	Fully diluted: Preceding period	Weighted average: Current period	Weighted average: Preceding period
Net profit attributable to equity holders of the Company	N/A	N/A	N/A	N/A
Net profit attributable to equity holders of the Company less of extraordinary items	N/A	N/A	N/A	N/A

XVIII. EARNINGS PER SHARE

Profit for the period	Earnings per share: Basic earnings per share: Current period	Basic earnings per share: Preceding period	Diluted earnings per share: Current period	Diluted earnings per share: Preceding period
Net profit attributable to equity holders of the Company	(0.2285)	0.2524	(0.2285)	0.2524
Net profit attributable to equity holders of the Company less of extraordinary items	(0.2520)	(0.0889)	(0.2520)	(0.0889)

Items	2008	2007
Calculation of basic earnings per share and diluted earnings per share		
(I) Numerator:		
Net profit after tax	(226,701,628.18)	250,395,446.91
Adjustments: Preference stock dividend and other instrumental effects	—	—
Profit and loss attributable to equity holders of the Company in the calculation of earnings per share	(226,701,628.18)	250,395,446.91
Adjustments: Dividend and interest related to dilutive potential ordinary shares		
Change in proceeds or expense arising from conversion of dilutive potential ordinary shares	—	—
Profit and loss attributable to equity holders of the Company in the accounting of diluted earnings per share	—	—
	(226,701,628.18)	250,395,446.91
(II) Denominator:		
Weighted average of outside ordinary shares of the current period in the accounting of basic earnings per share	992,006,563.00	992,006,563.00
Add: Weighted average when all dilutive potential ordinary shares are converted to ordinary shares	—	—
Weighted average of outside ordinary shares of the current period in the accounting of diluted earnings per share	992,006,563.00	992,006,563.00
(III) Earnings per share	—	—
Basic earnings per share		
Net profit attributable to equity holders of the Company	(0.2285)	0.2524
Net profit attributable to equity holders of the Company less of extraordinary items	(0.2520)	(0.0889)
Diluted earnings per share	—	—
Net profit attributable to equity holders of the Company	(0.2285)	0.2524
Net profit attributable to equity holders of the Company less of extraordinary items	(0.2520)	(0.0889)

XIX. DIFFERENCES RECONCILIATION TABLE FOR FINANCIAL REPORT PREPARED ACCORDING TO DOMESTIC AND OVERSEAS ACCOUNTING STANDARDS

As the Company issued B shares (or H shares, N shares or financial listed company or IPO or issue of new shares) , when preparing the financial report according to the Accounting Standards for Business Enterprises, it also followed the International Financial Reporting Standards. The overseas accounting firm hired by the Company is BDO McCabe Lo Limited. Differences in net assets and net profits in the financial report were prepared according to domestic and overseas accounting standards.

Unit: RMB'000

Item	Net asset	Net profit
Based on International Financial Reporting Standards	(1,007,922)	(231,896)
1. Agency fee for corporate restructuring.	16,877	5,194
2. Adjustments on amortization loss on share reform of an associate.	16,317	—
3 Adjustment on amortization of intangible assets.	(16,713)	—
Based on Accounting Standards for Business Enterprises*	(991,441)	(226,702)

* Net assets and net profits based on Accounting Standards for Business Enterprises do not include minority interests or minority profit and loss.

XX. APPROVAL OF THE FINANCIAL STATEMENT

The parent company of the Company is Qingdao Hisense Air-Conditioning Company Limited; the ultimate parent company of the group is Hisense Group Company Limited.

The Company's financial statements are approved by the Board (or senior management department) of the Company on 16 April 2009.