海信科龍電器股份有限公司

Hisense Kelon Electrical Holdings Company Limited

Stock Code: 00921

ANNUAL REPORT 2009

Contents

Company Profile

Hisense Kelon Electrical Holdings Company Limited (the "Company") is one of the largest manufacturers of white household electrical appliances in the People's Republic of China (the "PRC" or "China"), with two brand names, namely "Kelon" and "Ronshen", which were both appraised as "Chinese Well-known Marks". Founded in 1984 and headquartered in Shunde District, Foshan City, Guangdong Province, the PRC, the Company is principally engaged in the production of product series such as refrigerators, air-conditioners, freezers and washing machines. In 1996 and 1999, the shares of the Company were listed on the main boards of The Stock Exchange of Hong Kong Limited and Shenzhen Stock Exchange.

The Company adheres to its core philosophy of "relying on technology and the talents of its people to build up the Company", and considers "technology" as the basic motivation for the Company's development. The production and sales volume of its refrigerators and air-conditioners have been among the highest in China in consecutive years. In particular, its refrigerators have accounted for the biggest market share in China for a decade. Leveraging on the superior refrigeration technology and application of high technology in its products, the Company has won good reputation in the industry, and has been awarded many honors for its technologies and products at a national level. For example, the Company's products are highly praised by both consumers and authoritative organizations for their reliable and notable advantages in quality. In 2006, in recognition of the Company's outstanding contribution in the production and sales of "Energy-saving Stars" refrigerator series, Ronshen was honored with the "United Nations Energy Saving Grand Prix" at a grand award-presentation ceremony jointly organized by the United Nations Development Programme, the Global Environment Facility and the National Environmental Protection Bureau. In 2007, the Company and PepsiCo, 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 IF Design Award China". In 2008, the three products — "FIMS food information management refrigerator", "Polychromatic photoelectric food preservation refrigerator BCD-288WYM" and "Optimize high-efficiency air duct wall air-conditioner" — were confirmed as the Nation's key new products. In 2009, the Company was granted the "Favorite Brand Enterprise of Foshan People" award by Foshan Media Group. Kelon Air-Conditioner was awarded the "Energy Saving Award for Air-Conditioners in China". Kelon inverter double-efficiency air-conditioners were accredited as the "Most Competitive Products 2009"; and Ronshen Refrigerator was awarded the "Best Selling Refrigerator Award of the Year" and "Energy Saving Award". At the "2009 China Summit Forum on Rural Household Electrical Appliance Market", Ronshen Refrigerator was acknowledged as the "Outstanding Brand of Household Electrical Appliance in Rural Subsidy Program", Kelon Air-Conditioner was awarded the "Outstanding Brand of Air-Conditioner in China Rural Subsidy Program 2009", and Kelon "Exquisite Beauty (國色天香)" air-conditioner series was awarded the "Best Design and Innovation Brand of Air-Conditioner in China Rural Subsidy Program 2009". At the "5th China Capital Market Annual Conference", the Company won the 2009 China Securities Market's "Golden Phoenix Award" due to its rapid growth and impressive operating results, achieving "Rebirth after Nirvana of Phoenix" in the global financial crisis.

The Company will continue to adhere to its philosophy of stable, healthy and practical operation, and enhance its overall strengths in technological levels, product grades, market scale and ongoing development, with a view to become a "Leading Household Electrical Appliance Enterprise in China".

2009 Major Events Calendar

MARCH

Kelon Air-Conditioner held the product launch ceremony for its new "China Impression (中國印象)" inverter double-efficiency air-conditioner series in Jinan. The new product series is characterized by its classical Chinese blue and white porcelain pattern design and a maximum energy efficiency ratio of 6.22, which is the first of its kind in the industry.

APRIL

The Company announced to reactivate the significant asset reorganization with Qingdao Hisense Air-Conditioning Company Limited, a substantial shareholder.

At the 2009 (2nd) Air-Conditioner Industry Annual Conference and Latest New Product Trends Release Conference, Kelon Air-Conditioner was awarded the "Energy Saving Award for Air-Conditioners in China", and Kelon inverter double-efficiency air-conditioner was accredited as the "Most Competitive Product 2009".

MAY

The "Energy Saving Star" refrigerators with a daily power consumption of only 0.25 kWh were launched globally. It is the product with the lowest daily power consumption available for consumers in the PRC and overseas.

At the "2009 China Summit Forum on Latest High-End Refrigerator Trends and Industrial Development", Ronshen Refrigerator was awarded the "Best Selling Refrigerator Award of the Year" and "Energy Saving Award".

JUNE

At the "2009 China Summit Forum on Rural Household Electrical Appliance Market", Ronshen Refrigerator was acknowledged as the "Outstanding Brand of Household Electrical Appliance in the Rural Subsidy Program", Kelon Air-Conditioner was awarded the "Outstanding Brand of Air-Conditioner in China's Rural Subsidy Program 2009", and Kelon "Exquisite Beauty (國色天香)" air-conditioner series was awarded the "Best Design and Innovation Brand of Air-Conditioner in China's Rural Subsidy Program 2009".

The project of "Study and Application of Smart Technology in Household Electrical Appliances" was included in the First Batch of Key Science and Technology Projects (Industrial Generic Technology) in Guangdong Province in 2009.

JULY

In the 2009 Customer Satisfaction Survey on Household Electrical Appliances organized by the Organizing Committee of Customer Satisfaction Surveys on Household Electrical Appliances in the PRC, Ronshen Refrigerator was named the "Satisfactory Brand in Usage in Refrigerator Category", while Kelon Air-Conditioner was named the "Satisfactory Brand in After-Sale Service in Air-Conditioner Category"

The Company was recognized as one of the "Fourth Batch of Intellectual Property Model Enterprises in Guangdong Province".

AUGUST

The project of "Study and Application of Micro-Channel Heat Exchanger Technology for Heat Pump Air-Conditioners" was included in the Industrial-Academic-Research Guiding Projects of Guangdong Province, Ministry of Education and Ministry of Science and Technology in 2009 (First Batch).

SEPTEMBER

At the IFA Exhibition (Berlin International Consumer Electronics Trade Fair) held in Germany, the Company won the four highest awards including the awards of technological innovation and product innovation in the refrigerator and air-conditioner industries for 2009.

At the "2009-2010 China Summit Forum on Air-Conditioner Industry", the Company was awarded "Energy Saving Award for 2009 Refrigeration Year" and "Pioneer Brand in the Domestic Market". The double-efficiency cabinet type air-conditioners and split type air-conditioners of Kelon's China Impression series were recognized as "Energy Saving Star".

2009 Major Events Calendar

OCTOBER

The Company was granted the "Favorite Brand Enterprise of Foshan People" award by Foshan Media Group.

The Company was recognized as a model enterprise for the "Top 100 Innovative Enterprises Fostering Project" in Guangdong Province.

NOVEMBER

In the final round of the 3rd China Household Electronic and Electrical Appliance (Air-Conditioner) Repair Service Competition, the representative team of the Company won gold awards in both group and individual categories in three contests, namely theory and knowledge, installation and operation, and repair skills. In the individual contest on repair service skills, the Company's staff members won the first, second and third place. The Company was also awarded the "Special Contribution Award" for its enormous achievements in promoting high-efficiency energy-saving inverter air-conditioners.

At the "5th China Capital Market Annual Conference", the Company won the 2009 China Securities Market's "Golden Phoenix Award" due to its rapid growth and impressive operating results, achieving "Rebirth after Nirvana of Phoenix" in the global financial crisis.

DECEMBER

The application for the non-public issues of shares (A shares) by the Company for acquiring assets and connected transactions was conditionally approved after the review by the Listed Company Merger and Reorganization Review Committee of the China Securities Regulatory Commission.

Chairman's Statement

Dear Shareholders:

I am pleased to present the annual report of the Company for the year ended 31 December 2009 (the "Reporting Period").

With the continued impacts of the global financial crisis in the first half of 2009, export of the industry severely shrinked, the air-conditioning industry was under enormous pressure to dispose of its inventory of low-efficiency machines, and the operating environment of the electrical home appliances industry was not very optimistic. However, the Company successfully overcame numerous difficulties with its proactive responsive actions. Through a number of effective measures, various business segments remained on the track of stable growth and attained improved performance in terms of different operating indices.

During the Reporting Period, the Company realised a revenue of RMB8,673,760,000 from its principal businesses, representing a year-to-year increase of 7.71%. A turnaround was achieved and the net profit attributable to owners of the parent company was RMB136,410,000, with profit per share of RMB0.14. During the Reporting Period, the principal operations of Company sustained stable growth, of which domestic sales business recorded an operating revenue of RMB5,650,730,000 with a year-to-year growth of 15.12%, whereas the overseas sales business achieved an operating revenue of RMB3,023,030,000.

During the Reporting Period and under the impacts of the global financial crisis, the sales of refrigerators and air-conditioners for the first quarter decreased when compared with that of the corresponding period last year. However, the Company has been persistent in its efforts in upholding its operational strategies of "reshaping its edge in quality, focusing on market-orientation, strictly controlling operational risks and reinforcing project management" to capitalize on the State's policies of "Electrical Home Appliances Subsidy Policy for Rural Areas and Villages", "Energy-saving Products Benefiting People Project" and "Subsidized Trade-in of Electrical Home Appliances". Paralleled by stepping up market channel management, further implementing the industrial benchmark projects, enhancing the supplier platform and building a strategic supplier system, the operating situation of the Company showed a substantial improvement since the second quarter with a further increase in its share in the domestic market. As to exports, the Company leveraged on its edge in technology and production costs and implemented targeted product development. All these fortified the strategic cooperation relationship with its major customers which was reflected in a notable increase in the export of refrigerators and a substantial growth in export volumes. On top of these, the Company once again initiated its significant asset restructuring which was approved by the CSRC in March 2010.

The Company also attained outstanding achievements in technological development and innovations during the Reporting Period. It obtained 17 national patent licences, and was named the Fourth Batch of Intellectual Property Model Enterprise in the Guangdong Province and received 26 innovation awards. The Company and three of its subsidiaries (Ronshen Refrigerator, Kelon Mould and Kelon Freezer) were officially recognised as State Hi-tech Enterprises.

Looking forward to 2010, the electrical home appliances industry will remain exposed to an operating environment featured by increasing costs, fluctuations in the regional economy and exchange rates, as well as intensifying competition in both the domestic and overseas markets. The Company will continue to enhance its quality control system to reinforce product quality management; increase the input in research and development to improve product structure; enhance the marketing network to explore in depth the third and fourth tier markets; deepen the comprehensive implementation of the industrial benchmark project to promote innovations of the management system and lower operating costs; increase the weight of export sales to boost its reputation in the international market; explore the businesses of washing machines and small electrical household appliances to create new profit growth points. More importantly, the injection of the related assets by the Hisense Group and the subsequent comprehensive integration and enhancement of the White Goods Assets of the Company and its substantial shareholder will further improve the financial position of the Company, significantly increasing the operational scale of the Company and its efficiency, substantially lowering its various production and operating costs. As a result, the profitability, operational quality and integrated competitiveness of the Company will be comprehensively enhanced.

In 2009, the results of the Company grew steadily under the care and devoted support of its shareholders, financial institutions, partners and the government. It was also built on the outstanding leadership of the board of directors, the supervisory committee and the management, and the continued dedication of out staff. I would like to express my gratitude to all of them and hope to receive your continued support in the coming year.

Chairman's Statement

In 2010, the Company will leverage on the opportunity of the White Goods Assets integration and follow the State's industrial policies to gradually establish its leadership position on the market through its advantages in product quality, technology, brand and scale. We believe, and we are confident that the Company is heading towards a prosperous growth in 2010 as our objectives successively turn into reality under sophisticated planning and the concerted effort of our staff. I also earnestly look forward to sharing a better future of Hisense Kelon with you all.

Tang Ye Guo
Chairman

The PRC, 8 April 2010

BUSINESS REVIEW

The electrical home appliances industry bottomed out during 2009. Afflicted by the aftermath of the global financial crisis during the first half of the year, the electrical home appliances industry faced harsh market conditions under weak export and immense pressure on inventory level. Later, as the global economy gradually started recovering under the stimulus policies adopted by the governments of different countries, the PRC government also promulgated a series of economic stimulus policies. These include supportive measures for the home appliances industry such as “Home Appliances Subsidy Policy for Rural Areas and Villages”, “Energy-saving Products Benefiting People Project” and “Subsidized Trade-in of Home Appliances” which have stimulated the rapid growth in the domestic sales of electrical home appliances in the PRC, and the export volume also started bottoming out during the fourth quarter.

In the face of the complicated operating environment mentioned above during the reporting period, the Company established the operating objectives of “reshaping quality advantages, focusing on market-orientation, strictly controlling operational risks, reinforcing project management” in order to enhance its operational efficiency. Through reinforcing quality awareness, optimizing the “Quality Risk Annual Reward” assessment mechanism and perfecting the after-sale service management system, the control over quality management process was strengthened and the quality level of products was further enhanced. Through stepping up market channel management and effectively monitor changes in the State’s policies, leveraging on the opportunities offered by “Home Appliances Subsidy Policy for Rural Areas and Villages”, “Energy-saving Products Benefiting People Project” and other national policies, the domestic market share was further increased. Through further implementing the industrial benchmark projects, establishing partnership with suppliers based on “equality, cooperation and mutual benefits”, centralising the management, eliminating middle agencies, streamlining the number of suppliers, introducing quality suppliers, building a strategic supplier system, the material costs of the products were lowered effectively. Through “improving the logistic management, enhancing the efficiency, integrating the key resources, reducing segments without added-value in the procedure and operation”, the production efficiency of products was increased and the market competitiveness of the products was enhanced. As to the development of the international market, management of strategic cooperation with the major customers was fortified and a significant year-to-year increase was achieved, especially for the refrigerator products, through targeted product development, continued enhancement of product quality and delivery time, further improvement and lowering of production costs.

During the reporting period, the Company’s revenue from its principal operations was RMB8,673,760,000, representing an increase of 7.71% as compared to the corresponding period in 2008. The net profit attributable to equity holders of the parent company was RMB136, 410,000, which represented a successful turnaround from the previous losses.

ANALYSIS OF OPERATIONAL STRUCTURE

During the reporting period, out of the revenue from the Company’s principal operation, the revenue from the refrigerator business accounted for 60.05% of the total turnover of the Company, representing an increase of 24.34% as compared to the corresponding period last year. The revenue from the air-conditioner business accounted for 28.80% of the total turnover of the Company, representing a decrease of 17.40% as compared to the corresponding period last year. The remaining 11.15% 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 65.15% of the total turnover of the Company, whereas the revenue recorded an increase of 15.12% as compared to the corresponding period last year. The overseas sales business accounted for 34.85% of the total turnover of the Company, whereas the revenue recorded a decrease of 3.86% as compared to the corresponding period last year.

Refrigerator Business

2009 marked a year of strong growth for the refrigerator business of the Company. During the reporting period, the Company leveraged on its advantages in product quality, technological innovations and branding, explored and promoted the Ronshen branding, enhanced its product research and development efforts, continued to improve the sales incentive system, and increased input-output efficiency analysis. While upholding the overall profitability of its products, the Company has also continued to improve its sales structure by means of leveraging on opportunities created by the State’s policies such as “Home Appliances Subsidy Policy for Rural Areas and Villages”, and thereby proactively expanded its marketing channels in a vertical direction and reinforced its efforts in its penetration in the third and fourth tier markets, with an aim to further scramble for and expand its market share in domestic sales and further enhanced the scale and performance of sales.

In respect of the overseas market, the Company implemented different measures such as targeted product development, quality improvement coupled with increased cost control and shortening the product lead-time, with an aim to continuously fortify the strategic cooperation relationship with its major customers and improve the structure of export products, which in turn improved the profitability. At the same time, the Company seized the opportunities created by the adjustments in the State's policy on export tax refund to proactively explore the emerging markets. The overseas sales of the Company's refrigerator products recorded a substantial increase in 2009, and recorded a significant year-to-year increase in its profit margin.

In 2009, the Company continued its efforts in implementing the industrial benchmark projects in different areas such as procurement enhancement, product and design standardisation, staff efficiency improvement, with the aim to deepen the industrial benchmark measures vertically along the product value chain. This was paralleled by the proactive introduction of advanced management concepts such as the TCP management system and the turnaround project management system. Building on the existing quality control system, the Company fully implemented the concept of six-sigma management to further perfect its process management, enhance its technical design, establish and maintain a universal product platform and enhance the level of standardisation. In 2009, the first pass yield of refrigerators was further enhanced with a significant increase in the production efficiency, and a further trimming and reduction in the costs of research and development, technology and production, reflecting notable direct economic benefits. In relation to procurement, the Company commenced vertical supplier management, under which procurement enhancement efforts were continuously made through industrial benchmark comparisons, centralised procurement, forward planning so as to offset the increasing material costs and mitigate the operating pressure.

The above measures have created favourable conditions for the refrigerator business in lowering costs and improving quality, which in turn greatly enhanced the realisation of economies of scale for the refrigerator business of the Company in 2009.

Air-conditioner Business

At the beginning of 2009, the air-conditioner industry faced the combined effects of both internal and external difficulties. In the aftermath of the global financial crisis, the various unfavourable factors which the industry faced included a significant decrease in the export to the international market, a sluggish real estate market and immense pressure on the inventory level of low-efficiency machines which are under grade three. In the second half of 2009, with the government's introduction of a series of policies to expand domestic demand, there was some improvement in the industry .

During the reporting period, the sales of the Company had decreased under the impact of the macroeconomic environment and pressure on the inventory level. In response to industrial hardships, the Company actively adjusted its industrial strategic planning and conducted systemic innovations in the areas of sales policies, channel strategies and branding directions. The Company self-developed key technologies and enhanced the design of the entire machine to effectively reduce the cost of product design; reinforced the development of technologies to further enrich the product portfolio of energy-saving, high-efficiency and environmental-friendly air-conditioners; and fully implemented the project of cost-control through industrial benchmarks to increase the production efficiency and lower the product costs. At the same time, the Company was actively following up on the State's policies. The Company has produced a series of products in response to the State's policy. By means of the above measures, the Company recorded a substantial increase in both domestic and overseas sales during the second half of the year as compared to that of the corresponding period in 2008, but it still could not offset the decline of air-conditioner business in the first half year, and the air-conditioner business recorded a decrease for the entire reporting period as compared to that of the corresponding period in 2008.

Technologies and research and development

During the reporting period, the Company proactively commenced self-development efforts through its close cooperation with colleges and science research institutes, resulting in further strengthening of the Company's research and development capabilities. In 2009, the Company obtained 17 national patent licences and was named the Fourth Batch of Intellectual Property Model Enterprise in the Guangdong Province.

In 2009, the Company received 26 awards in technological innovations, of which: the "research and application of intelligent technologies for electrical home appliances" project was listed as the First Batch of Key Science and Technology Projects in the Guangdong Province 2009. The launch of dual-loop 6A refrigerator and Energy-saving Champion refrigerator with a daily power consumption of only 0.25kW has further consolidated and confirmed the leading position enjoyed by the Company's refrigerator products in terms of domestic technologies. In respect of generalisation of product platform, the Company has formulated the proposal for non-standard body replacement platform and built the new large air-cooler platform and 590 series platform, which laid a foundation for the creation of star products for domestic sales and key export products. Technological leadership in refrigerators undoubtedly created advantages for future competition in the industry.

During the reporting period, the Company actively sought for the State Hi-tech Enterprise Certification. The Company and three of its subsidiaries (Ronshen Refrigerator, Kelon Mould and Kelon Freezer) were officially recognised as State Hi-tech Enterprises.

Analysis of the Impacts on the Results

During the reporting period, the Company upheld its prudent operating directions and started its highly effective work in the areas of production, products, quality and sales. The Company also proactively capitalised on the State's industrial policies to significantly enhance its results. The analysis of the main reasons is as follows:

(1) Fully implemented the industrial benchmark cost reduction project with the deepening of industrial benchmark management vertically along the product value chain. This resulted in the further enhancement of production quality, a significant increase in the efficiency of the production personnel, a further trimming and reduction in the costs of research and development, technology and production, and a significant improvement in manufacturing efficiency, reflecting notable direct economic benefits.

(2) Continued improvement in product quality. The Company reinforced its efforts in enhancing quality through establishing the "Quality Risk Annual Reward" assessment mechanism, which strengthened the control over quality management process from research and development, production, sales to after-sales. This has further improved the standard of quality control at each production segment, further reduced the after-sales failure rate and made a significant improvement in the trend of product sophistication, as reflected in a decrease of more than 30% in the rate of quality loss of the Company in 2009 as compared to that of the corresponding period last year.

(3) The Company accelerated the perfection of its marketing system, proactively expanded its marketing channels in the vertical dimension and reinforced the efforts in its penetration in the third and fourth tier markets, which resulted in a further increase in its share in the refrigerator market, continued improvement in its sales structure and further enhancement in the scale and performance of sales.

(4) Seizing the opportunities arising from the steady recovery of the global economy and the implementation of a series of policies to boost the domestic demand, the Company kept its product design and marketing efforts in line with the direction of the State's policies. Capitalizing on the advantages of its energy conservation technology, the Company timely launched a number of new energy-saving and environmental-friendly products, which in turn strengthened the competitive advantages of its products.

(5) During the reporting period, the Company recorded a much lower exchange loss as compared to that of 2008 as the value and exchange rate of Renminbi remained relatively steady.

Based on the above reasons, the operating quality of the Company showed a significant improvement, but there were still major factors that unfavourably affected the performance of the Company as follows:

(1) With the continued consolidation of the air-conditioning industry, the concentration of brands was intensified. Although the Company's air-conditioning products has advantages in terms of the energy conservation technology, it was difficult for the Company to achieve a rapid expansion of the market share for its air-conditioning products amid intensifying competition in the market;

(2) The increase in sales costs exceeded the increase in the revenue of the Company represented another important factor that impacted on the results of the Company during the reporting period. With the aim to enhance its brand image and presence, the Company has increased its inputs in advertisement and branding promotion as well as channel and sales network building, which in turn would recuperate market confidence and prepare for the long-term development of the Company.

(3) There remained significant risks in the international market, among which, trade protection, exchange rate fluctuations, sluggish global consumption sentiments formed the major sources of pressure on the growth of the Company's export.

OUTLOOK

The management of the Company is of the view that, under the recovery of the global economy and the sustained deepening of various consumption stimulus policies in the PRC, the household appliances industry should be able to maintain a strong momentum in 2010. However, the high price level of raw material bulk-purchases, the intensifying competition in both the domestic and overseas markets, and fluctuations in exchange rate will all pose risks of growth to the household electrical appliances enterprises. In 2010, the operating environment of the household electrical appliances industry will be facing numerous uncertainties.

As a technologically-advanced enterprise in the domestic household electrical appliances industry, the Company adheres to the operating strategy of technological orientation. 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 further enhance the operating conditions of the Company:

(1) Continue to uphold the operating philosophy of “centering on quality” to provide products of the highest quality to its users. The Company will further optimise the “Quality Risk Annual Reward” assessment mechanism to reinforce control over quality management process, enhance the level of quality control at each production segment, perfect the after-sales service management system, and lower quality cost loss.

(2) Further increase the inputs in technology and product development in order to improve its product structure through product upgrade, and to enhance the Company’s brand image and profitability through increasing the market share in the high-end market.

(3) Proactively monitor the State’s industrial policies, deepen the research on and response to the State’s industrial policies, speed up the response to market, fortify channel management, vertically explore the third and fourth tier markets, in order to seize the opportunities and fight for a bigger market share through leveraging on its advantages in product quality, technology and branding.

(4) Explore new opportunities in export business, reinforce the efforts in the export of self-owned brands, further increase the scale of exports, accelerate the progress of internationalisation, and to boost its reputation in the international market.

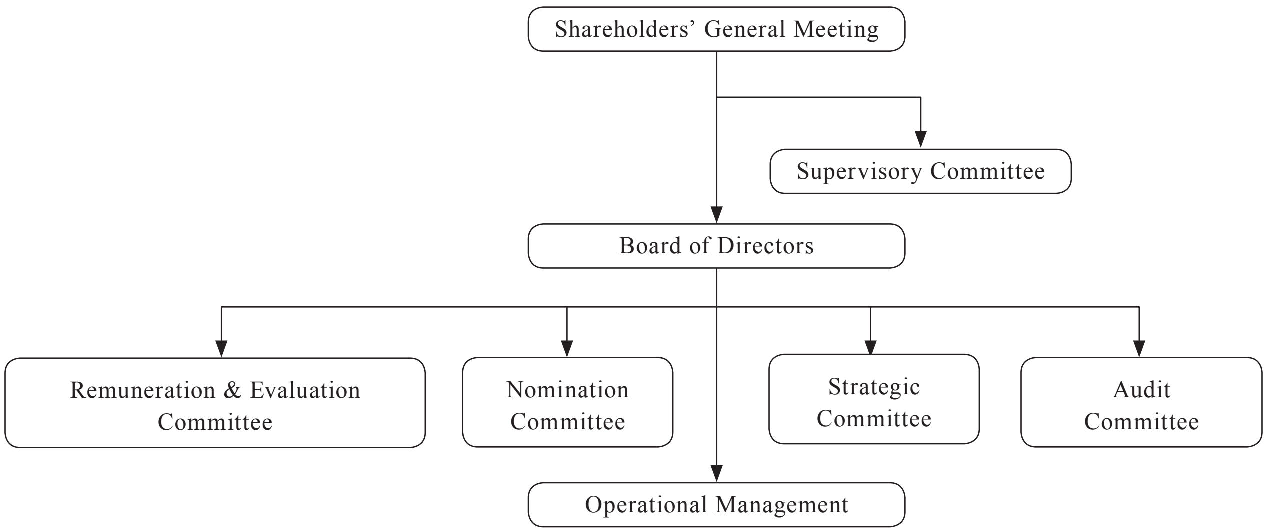
(5) Vertically deepen the implementation of the industrial benchmark project, extend the project to cover all areas of the Company, and improve the innovation, reform and teamwork of the management system. The Company will benefit from lowering its operating cost and boosting staff efficiency.

(6) In addition, the significant assets reorganization of the Company was reviewed and conditionally approved by the China Securities Regulatory Commission in March 2010 and the Company expects to complete the relevant assets transactions by mid 2010, and the Company will undergo in-depth integration of its business and assets after the completion of the reorganization. Upon completion of the integration, the assets quality and financial structure of the Company will be greatly enhanced with a significant strengthening of its financing capability; the coverage and efficiency of its production base and marketing network will be significantly improved. Also, in respect of technological research and development, the technological advantages of White Goods Assets of the Hisense Group will be absorbed by the Company, thereby boosting the Company’s advantages in the area of inverter and energy-saving technologies. The operating scale and market share of the principal products such as refrigerators and air-conditioners will be substantially increased. The injection of the Hisense White Good Assets will also bring new growth points to the Company’s businesses. The comprehensive integration of the Company’s assets will significantly strengthen its ability for sustainable growth.

On the other hand, opportunities co-exist with challenges. The Company will continue to benefit from the continued deepening and promotion of the "Electrical Home Appliances Subsidy Policy for Rural Areas and Villages", the Energy-saving Products Benefiting People Project", and the "Subsidized Trade-in of Home Appliances" and other policies. The continued implementation and perfection of the "Electrical Home Appliances Subsidy Policy for Rural Areas and Villages" will significantly push up the price cap on electrical home appliances for rural areas and villages, which in turn will be favourable to the expansion of the Company in the electrical home appliances market in rural areas and villages and the further improvement in sales structure of its products. The continued implementation and perfection of the "Policy of Subsidized Trade-in of Home Appliances" will be beneficial to the demand for electrical home appliances in urban areas. The "Energy-saving Products Benefiting People Project" will effectively enhance the promotion of high-efficiency energy-saving products, which will in turn stimulate consumption and promote energy-saving and reduce emission.

The foundation for the current economic recovery is still shaky, and there are still uncertainties in the economic operation in the PRC, whereas export is exposed to numerous challenges. The management of the Company firmly believes that, with the care and support of all shareholders, financial institutions, partners and the government, the Company will continue to enhance its quality of operation and management and foster a continuous and healthy growth of the Company.

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 of directors of the 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 Company ("the Directors"), they all confirmed that they had complied with the Model Code during their terms of office.

(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. Due to the resignation of Mr. Wang Shi Lei on 3 December 2008, there were only eight members in the Board from 1 January 2009 to 3 February 2009, comprising Mr. Tang Ye Guo (Chairman), Ms. Yu Shu Min, Mr. Lin Lan, Ms. Liu Chun Xin and Mr. Zhang Ming as the executive directors, and Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren as the independent non-executive directors. Since Mr. Zhou Xiao Tian was elected as a director of the sixth session of the Board of the Company on 4 February 2009, the Board is composed of nine directors until now. Since the term of office of the sixth session of the Board of the Company has expired, the establishment of a new session of the Board was required according to the relevant requirements under the Company Law of the People's Republic of China ("the PRC") and the articles of association of the Company. Upon the nomination from the Board and with reference to the assessment results and recommendations of the Board in relation to the qualifications of the proposed candidates for directorship of the new session of the Board, the seventh session of the Board of the Company was elected and established at the annual general meeting of the Company held on 26 June 2009. The Board comprised nine directors since 6 June 2009, comprising Mr. Tang Ye Guo (Chairman), Mr. Zhou Xiao Tian, Ms. Yu Shu Min, Mr. Lin Lan, Ms. Liu Chun Xin and Mr. Zhang Ming as the executive directors, and Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren as the independent non-executive directors. Members of the Board have different backgrounds with extensive experience in various fields such as science and technology, corporate management and finance and accounting. The biographies and roles of the aforesaid Directors are set out on pages 19 to 20 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, authorised, 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 has established four special committees, namely, the Remuneration and Evaluation Committee, the Nomination Committee, the Strategic Committee and the Audit Committee.

The Directors are also responsible for overseeing the preparation of the accounts for each fiscal period to ensure that such accounts truly and fairly reflect the Company's business operation, results and cash flow performance during that period. The Operational Management of the Company provides proper 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 2009, the Directors:

— selected and consistently applied the appropriate accounting policies;

— approved adoption of all applicable standards as set out in the 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 matters relating to the Company's business operation within the scope of delegation by the Board, which include: overseeing the Company's production and operational management, organizing and implementing the Company's annual operation and investment plans, preparing the proposal for 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 2009, the sixth session of the Board of the Company convened 15 meetings and the seventh session of the Board of the Company convened 18 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**
Mr. Tang Ye Guo	15	15	0	100%
Mr. Zhou Xiao Tian	13	13	0	100%
Ms. Yu Shu Min	15	15	0	100%
Mr. Lin Lan	15	15	0	100%
Ms. Liu Chun Xin	15	15	0	100%
Mr. Zhang Ming	15	15	0	100%
Mr. Zhang Sheng Ping	15	15	0	100%
Mr. Lu Qing	15	15	0	100%
Mr. Cheung Yui Kai, Warren	15	15	0	100%

Name	The attendance of the seventh 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
Mr. Tang Ye Guo	18	18	0	100%
Mr. Zhou Xiao Tian	18	18	0	100%
Ms. Yu Shu Min	18	17	1	100%
Mr. Lin Lan	18	17	1	100%
Ms. Liu Chun Xin	18	18	0	100%
Mr. Zhang Ming	18	18	0	100%
Mr. Zhang Sheng Ping	18	18	0	100%
Mr. Lu Qing	18	18	0	100%
Mr. Cheung Yui Kai, Warren	18	18	0	100%

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

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 has won in all the cases. Although the judgments of the cases have all become effective, the risk of their due and full enforcement still existed as the cases were still in the process of enforcement. This uncertainty may have an impact on the assets of the Company.

(d) Chairman and President

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

POSITION	Chairman	President
NAME	Mr. Tang Ye Guo	Mr. Zhou Xiao Tian
TERM OF OFFICE	26 June 2006 to the date of this Report	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 in effective 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. The president shall take charge of the production and operational management functions of the Company, and is responsible for organizing resources for implementing the Board's resolutions, the Company's annual operational and investment plans and making decisions on other issues within the scope of delegation by the Board.

(e) Independent Non-Executive Directors

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 director is from 26 June 2009 to 25 June 2012.

(f) Remuneration and Evaluation Committee

The Company has established the Remuneration and Evaluation Committee under the seventh 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 by 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 the loss or termination of their office or appointment, and make recommendations on the remuneration of the 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 the relevant contractual terms; and

Reviewing and approving compensation arrangements relating to the 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 or her 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, who are loyal to their responsibilities and help the Company in its successful operation and, accordingly, it is important to the Company.

The Remuneration and Evaluation Committee under the sixth session and seventh session of the Board of the Company held three meetings and two meetings respectively during the Reporting Period. All members of the Committee attended the meetings. Members of the Remuneration and Evaluation Committee confirmed that the remunerations of the directors, supervisors and senior management during Reporting Period are in line with the remuneration evaluation system set up by the Company. Details of the remunerations of the Directors, the supervisors and the senior management of the Company for the year ended 31 December 2009 are set out on page 27 of this annual report.

(g) Nomination Committee

The seventh session of the Board of the Company has established the Nomination Committee. The Nomination Committee comprises three 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. Zhou Xiao Tian. Mr. Zhang Sheng Ping acts as the Chairman of the Committee.

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 elected by the Board. The Nomination Committee shall have one chairman (convener) who should be an independent non-executive Director responsible for presiding over the 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 two meetings during the Reporting Period. All members of the Nomination Committee were present at the meeting. The nomination of the candidates for directorship of the seventh session of the Board of the Company was considered and approved at the meeting.

(h) Strategic Committee

The seventh session of the Board of the Company has established the Strategic Committee. During the Reporting Period, the Strategic Committee under the seventh session of the Board comprised Mr. Tang Ye Guo, Mr. Zhou Xiao Tian, Ms. Yu Shu Min, Mr. Lin Lan and Mr. Zhang Ming, and Mr. Tang Ye Guo was the Chairman.

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 strategies 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 elected 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 with the Board, and members of the committee can be re-elected upon their 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 members of the committee were present at the meeting, during which the initiation of the project in relation to the issue of A shares to Hisense Air-Conditioning for the acquisition of its White Goods Assets was considered and approved.

(i) Audit Committee

The Board takes 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 or change of the external auditors;

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 Audit Committee under the seventh session of the Board 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.

The Audit Committee of the Board of the Company held nine meetings during the Reporting Period. All members of the Audit Committee were present at all meetings. All matters considered and approved at such meetings were recorded in accordance with the relevant requirements and filed for record after being reviewed and signed by all members of the Audit Committee.

In 2009, the Audit Committee 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 supervision 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 medium and minority shareholders' interests;

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

The Audit Committee of the Company had reviewed the Company's internal control system and concluded that the Company's internal control system was effective and adequate, and that the Company had adopted the necessary control mechanisms to monitor and rectify non-compliance throughout 2009. The Audit Committee of the Company also reviewed and was satisfied with the adequacy of resources, qualifications and experience of the employees of the Group's accounting and financial reporting function, and their training programmes and budget.

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 operational management and the reliability of the financial information, prevent and resolve different types of risks, and boost the operational 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 so on.

During the Reporting Period, the Company has further improved the internal control system for the review of the Company's financial, operating and supervisory control procedures to safeguard the shareholders' interests and the Company's assets. The Audit Committee of the Company 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 business operations.

The seventh session of the Board of the Company and the independent non-executive Directors reviewed the effectiveness of the internal control system of the Company during the year. During the course of the review, the Board and the independent non-executive Directors observed that there was an ideal improvement in the internal control system as compared with of last year. The Company has established an appropriate internal control system based on the actual situations, and prepared a comprehensive summary and explanation as to the goals, details, modes and functions of the internal control system.

(j) General Meeting

As the highest authority of the Company, the general meeting exercises its rights in accordance with 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 announcements, the Company's website, as well as bye-mail, telephone and facsimile.

In 2009, the Company convened an Annual General Meeting ("AGM"), four Extraordinary General Meetings ("EGM"), one A shares Extraordinary General Meeting ("A shares EGM") and one H shares Extraordinary General Meeting ("H shares EGM"). The shareholding held by the shareholders attending the AGM and the EGM represented 32.24%; 33.58%; 33.08%; 34.85% and 40.79% respectively, of all the issued shares of the Company. The shareholding held by the shareholders attending the A shares EGM represented 69.11% of all the issued A shares of the Company, while the shareholding held by the shareholders attending the H shares EGM represented 7.85% of all the issued H shares of the Company.

(k) Supervisory Committee

The Supervisory Committee of the Company 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 from infringements of their legal interests. It also reviews the Company's financial positions in accordance with the relevant requirements of the articles of association of the Company, and oversees the discharge of duties of the Directors and the senior management of the Company.

The seventh 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. The biographies of the supervisors' are set out on page 20 of this annual report.

Details of the work performed and the meetings convened by the Supervisory Committee of the Company in 2009 are set out in pages 43 to 44 of this annual report.

(l) Auditors' Remuneration

In 2009, the domestic auditor of the Company, Guangdong Dahua Delu Certified Public Accountants, merged with Beijing Shu Lun Pan CPA Co., Ltd. to form "BDO CHI NA LI XI N DA HUA Certified Public Accountants CO., LTD.". As discussed and approved at the shareholders' general meeting, the Company agreed to appoint BDO CHI NA LI XI N DA HUA Certified Public Accountants CO., LTD. and BDO Limited (formerly known as BDO McCabe Lo Limited) as the Company's domestic and foreign auditors for 2009 respectively, and the Board was authorized to determine their remunerations. 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 2009.

Directors:

Mr. Tang Ye Guo was 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.); the general manager of Qingdao Hisense Electric Co., Ltd. from November 1999 to August 2003; an assistant to the president and the vice president of Hisense Group Company, and the general manager and chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited from August 2003 to September 2005. Mr. Tang was appointed as the chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited and a director of Qingdao Hisense Electric Co., Ltd. and the president of the Company from September 2005 to June 2006. He has acted as chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited and the chairman of the board of directors of the Company since June 2006.

Mr. Zhou Xiao Tian has a doctorate in engineering from Universität Karlsruhe in Germany and served as an engineer of the refrigerant department of BSH Bosch und Siemens Hausgeräte GmbH (德國博世西門子集團), the head of the research and development department of a refrigerator factory (Chuzhou, the PRC) of BSH Bosch und Siemens Hausgeräte GmbH, the general manager of the PRC technology center of BSH Bosch und Siemens Hausgeräte GmbH and the department manager of the refrigerant department and refrigerant system department of BSH Bosch und Siemens Hausgeräte GmbH. From November 2006 to July 2008, Mr. Zhou also served as the Secretary-General (representing Germany) of Refrigeration and Compressor Sub-Committee (SC61C) of the International Electrotechnical Commission (IEC). From March 2008 to December 2008, he served as a vice president of the Company. From December 2008 to date, he has been serving as the president of the Company. He has been an executive director of the Company since February 2009. He has been a director of Qingdao Hisense Air-Conditioning Company Limited since April 2009.

Ms. Yu Shu Min has successively served as the deputy secretary to the party committee 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 Company, the general manager of Qingdao Hisense Electric Co., Ltd., the chief executive officer of Hisense Group Company and the chairman of the board of directors of Qingdao Hisense Electric Co., Ltd. Ms. Yu has been the vice chairman of the board of directors and the president of Hisense Group Company and the chairman of the board of directors of Qingdao Hisense Electric Co., Ltd. since July 2001. She has been a director of the Company since June 2006.

Mr. Lin Lan served as the manager of the power system software development department of 西門子諮詢公司 (Siemens, 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 acted 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 acted as a vice president of the Company from September 2002 to June 2006. Since July 2006, he has served as the vice president of Hisense Group Company. He has served as a director of the Company since June 2006. He has been a director of Qingdao Hisense Electric Co., Ltd. since May 2007.

Mr. Zhang Ming joined Hisense Group Company in July 1995. He has successively served as deputy head of the capital operation department, the deputy chief officer of the strategy study department and chief officer of the strategy development department of Hisense Group Company from August 1998 to February 2004. Mr. Zhang acted as the chief supervisor at the capital operation department of Hisense Group Company from February 2004 to June 2006. He served as a director of the Company from June 2006 to November 2006. From June 2006 to date, Mr. Zhang has been working as a director in Huayi Compressor Holdings Company Limited. He has been a vice president of the Company since June 2006. From August 2007 to April 2009, he has acted as a director of Qingdao Hisense Air-Conditioning Company Limited. He has been a director of the Company since April 2008.

Ms. Liu Chun Xin is a certified public accountant, a registered tax advisor and an economist. She held the positions of 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. She has served as a vice chairman of the Company since November 2006. From June 2007 to December 2009, Ms. Liu has been working as a director of Huayi Compressor Holdings Company Limited. She has been a director of the Company since August 2007.

Mr. Zhang Sheng Ping graduated from Shandong University with a master's degree in 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 assistant, 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 director of Yin Zuo Bohai Group Co., Ltd. He has been an independent non-executive director of the Company since June 2006.

Mr. Lu Qing is a postgraduate of the master's degree in finance, senior accountant, a partner of ShineWing 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. From 2003 to September 2009, he was a partner of 中和正信會計師事務所有限公司 (Zhonghe ZhengXin Certified Public Accountants Ltd.). From October 2009 to date, he has been a partner of ShineWing Certified Public Accountants. He has been an independent non-executive director of the Company 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 more than 17 years of investment banking experience in the Asia Pacific region. He has successively served as a senior manager in Standard Chartered Asia Limited; a senior manager in 渣打澳洲有限公司 (Standard Chartered Australia Limited) and an assistant director in 荷銀融資亞洲有限公司 (ABN AMRO Corporate Finance (Asia) Limited); a director in SB1 E2-Capital (HK) Limited; a director in Hercules Capital Limited, and an independent non-executive director in Mei Ah Entertainment Group Limited. From April 2005 to date, he has been working as a managing director of Polaris Capital (Asia) Limited. He has been an independent non-executive director of the Company since June 2006.

Supervisors:

Mr. Guo Qing Cun attained the qualification of practising lawyer in the national examination in 1986 and acted as a part-time lawyer in the legal advisory office in Shandong and Wenhan Law Firm (文翰律師事務所). He 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 head of the School of Management and the chief officer of the Research Centre of Technology Law and Intellectual Property Rights from 1987 to 2002. Mr. Guo was a visiting scholar of the faculty of law at Peking University in 1995. In 1998, he was nominated as a Professional Technology Talent in Shandong Province. From 2002 to date, he has served as an assistant to the president and vice president of Hisense Group Company. He has served as a supervisor of the Company since December 2006 and a director of Qingdao Hisense Air-Conditioning Company Limited since April 2009.

Mr. Gao Zhong Xiang graduated with a bachelor's degree and is a senior engineer, an economist and a certified assets valuer. He worked at the Zhengzhou Branch of the Fourth Company of the Seventh Construction Bureau (中國建築第七工程局四公司鄭州公司), Guangdong Guangzhou 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 since March 2002. He has been a supervisor of the Company since August 2008. Mr. Gao is currently the manager of the three financial service departments of China Finance Asset Management Corporation.

Mr. Liu Zhan Cheng graduated from Zhongnan University of Finance and Economics (中南財經大學) in 1999. He joined the Company after graduation. He has successively acted as the deputy manager and then manager of the accounting division of the finance department of the Company, deputy head of the operation and management department, head of the material control department, assistant to the general manager and head of the purchase department of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. He was also the head of the supply department, assistant to the general manager and vice general manager of Guangdong Kelon Air-Conditioner Co., Ltd. He has served as a supervisor of the Company from June 2006 to date. Since March 2009, Mr Liu has been a vice general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. He has served as a director of Huayi Compressor Holdings Company Limited since December 2009.

Senior Management Members:

Mr. Jia Shao Qian has served as a legal adviser in the corporate legal department of Hisense Group Company, supervisor of public relations in the president office of Hisense Group Company from January 2000 to January 2003, deputy manager of the president office of Hisense Group Company 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 the chairman of the supervisory committee of Qingdao Hisense Electric Co., Ltd. from June 2006 to date. He has been a vice president of the Company since January 2007.

Mr. Ren Li Ren has served successively as the assistant to the general manager and the vice general manager of Qingdao Hisense Electric Co., Ltd., the assistant to the general manager of Qingdao Hisense Computer Co., Ltd., the general manager of Hisense (Beijing) Electric Co., Ltd. and Hisense (Nanjing) Electric Co., Ltd. From June 2006 to July 2009, he acted as the assistant to the president of the Company. He was the general manager of Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd. and the vice general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. from November 2007 to August 2009. Mr Ren has been a vice president of the Company since June 2009. He has also been the general manager of Guangdong Kelon Air-Conditioner Co., Ltd. since August 2009.

Mr. Zhang Yu Qing is a senior engineer. He was the head of the manufacturing department and chief technology officer of Suzhou Samsung Electronics Co., Ltd. from January 2003 to May 2005. He joined Hisense Group Company in May 2006 and was the vice general manager of Hisense (Beijing) Electric Co., Ltd., the standing vice general manager of Hisense (Nanjing) Electric Co., Ltd., the vice general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. and the general manager of Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd. Since December 2008, Mr. Zhang has served as a director and the general manager of Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd. He has been a vice president of the Company since June 2009.

Ms. Yu Wan Li graduated from Sun Yat-sen University in 2000 and joined the Company in the same year. Ms. Yu has served as a supervisor of securities affairs of the securities department and the deputy head of the president office. She has served as the deputy head of the securities department from November 2008 and the secretary to the board of directors from December 2008.

Mr. Chen Zhen Wen is a PRC certified public accountant with a bachelor's degree in economics, a chartered certified accountant and a member of the Hong Kong Institute of Certified Public Accountant. Mr. Chen has ample experience in the fields of finance and auditing for many years. Mr. Chen has served as the head of the finance department of the Company since October 2007. From May 2008 to June 2009, Mr. Chen served as the company secretary and qualified accountant of the Company. He has served as the company secretary of the Company since June 2009.

Ms. Wang Jiu Cun has worked as the deputy division head, division head and vice head of the manufacturing department, head of the marketing management department and the after-sales service department of Guangdong Kelon Air-Conditioner Co., Ltd. She was the chief of the first plant and the second plant of Guangdong Kelon Air-Conditioner Co., Ltd. from 2000 to July 2002, and the deputy general manager of production and head of the production department of Guangdong Kelon Air-Conditioner Co., Ltd. from August 2002 to August 2004. Ms. Wang had worked as a deputy general manager of production of Guangdong Kelon Air-Conditioner Co., Ltd. from September 2004 to May 2006, the general manager of Guangdong Kelon Air-Conditioner Co., Ltd. from May 2006 to September 2007, and an assistant to the president of the Company from May 2006 to June 2006. She served as a vice president of the Company from June 2006 to January 2009.

Mr. Shi Yong Chang graduated with a bachelor's degree. Mr. Shi has served as the deputy factory manager of a plastic products factory of 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) Electric Co., Ltd. and the deputy general manager of Qingdao Hisense Marketing Co., Ltd. From September 2005 to November 2006, he acted as a vice president of the Company. From November 2006 to January 2008, he acted as the general manager of Qingdao Hisense Communication Company Limited. From January 2008 to June 2009, he was a vice president of the Company.

Note: *Hisense Group Company, Qingdao Hisense Air-Conditioning Company Limited and China Finance Asset Management Corporation mentioned in the above profiles are substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO").*

PRINCIPAL ACTIVITIES

The Group is principally engaged in manufacture and sales of such as refrigerators, air-conditioners, freezers etc.

FINAL DIVIDENDS

The Group recorded a profit of RMB135,009,000 for the year ended 31 December 2009. The Board resolved not to pay any dividend for the year ended 31 December 2009 and not to capitalize any reserve funds (no dividend was paid by the Group for the year ended 31 December 2008). The proposed profit distribution scheme for the Reporting Period is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

LIQUIDITY AND SOURCES OF FUNDS

For the year ended 31 December 2009, net cash generated from operating activities was approximately RMB760,785,000 (2008: net cash used in operating activities amounted to approximately RMB382,802,000).

As at 31 December 2009, the Company had bank deposits and cash (including pledged bank balances) amounting to approximately RMB126,593,000 (2008: RMB133,456,000), and borrowings amounting to approximately RMB1,330,873,000 (2008: RMB1,814,948,000).

Total capital expenditures for the year ended 2009 amounted to approximately RMB245,575,000 (2008: RMB282,147,000).

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 31 December 2009, the Group had approximately 18,132 employees, comprising 2,369 technical staff, 5,377 sales representatives, 325 financial staff, 931 administrative staff and 9,130 production staff. The Company had four employees with a doctorate degree, 78 with a master's degree and 1,461 with a bachelor degree. There were 697 employees bearing an official title of middle rank or above in the Company according to national standards. In addition, there were seven employees who have resigned or retired during the year. The staff costs of the Company for the year ended 31 December 2009 amounted to approximately RMB654,598,000 (2008: RMB641,905,000).

CHARGES ON THE GROUP'S FIXED ASSETS

As at 31 December 2009, the Group's property, plant and equipment (including self-used leasehold land) of approximately RMB503,834,000 (2008: RMB522,442,000) were pledged as security for the Group's bank borrowings.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

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

PUBLIC FLOAT

As at 8 April 2010, the Directors acknowledge that based on publicly available information and to the best of their knowledge, 25% or above of the total issued share capital of the Company are held by the public. Therefore, the public float of the Company satisfies the requirement stipulated under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

MATERIAL LITIGATIONS

As at 8 April 2010, the Company and its subsidiaries were involved in two litigations, which are pending cases, each involving a claim of more than RMB10 million. The total target claim amount was RMB125,645,000.

AUDIT COMMITTEE

The seventh 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 2009.

CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2010 to be approximately RMB180,000,000.

DEPOSIT IN TRUST

As at 31 December 2009, 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 commercial banks in the PRC and Hong Kong.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2009, the Group did not have any long-term bank borrowings and its cash and cash equivalents amounted to RMB119,460,000 (2008: RMB110,216,000), of which more than 78.25% are denominated in Renminbi.

RATIO OF TOTAL ASSETS TO TOTAL LIABILITIES

As at 31 December 2009, the ratio of total assets to total liabilities of the Group was 85.24%.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The seventh Board has received a written confirmation from each of the independent non-executive Directors in respect of their independence in accordance with the requirements provided under Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors of the sixth Board have been in compliance with the relevant requirements under Rule 3.13 of the Listing Rules and have remained independent persons during the Reporting Period.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

None of the Directors of the seventh Board and supervisors has entered into a service contract with the Company.

DIRECTORS AND SUPERVISORS' INTERESTS IN CONTRACTS

The Directors and supervisors of the Board of the Company did not directly or indirectly hold any material interests in any material contracts in the Company or its subsidiaries for the year ended 31 December 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS' REVIEWS OF CONTINUING CONNECTED TRANSACTIONS

The independent non-executive Directors of the seventh session of the Board have reviewed the continuing connected transactions of the Company for the year 2009, 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 was engaged to perform certain agreed-upon factual finding procedures in respect of the continuing connected transactions of the Group in accordance with the 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 of the Company reported that the continuing connected transactions have been approved by the Board of the Company and entered into in accordance with the pricing policies of the Group and the terms of the relevant agreements. Save for the following transaction, the amounts of other transactions have not exceeded the relevant caps:

The transaction amount in relation to the purchase of refrigerators from Hisense Air-conditioning was RMB881,948,000, which exceeded the annual cap of RMB820,000,000, but the approval and ratification have been obtained from the independent shareholders in relation to the exceeded amount of such transaction at the second 2010 extraordinary general meeting held on 29 March 2010.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

SHARE CAPITAL STRUCTURE

As at 31 December 2009, the share capital structure of the Company was as follows:

Class of shares	Number of shares	Percentage of total issued share capital (%)
A Shares	532,416,755	53.67%
H Shares	459,589,808	46.33%
Total	992,006,563	100%

TOP TEN/SUBSTANTIAL SHAREHOLDERS

(1) As at 31 December 2009, the Company has a total of 36,633 shareholders in total. 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 shares capital of the Company	Percentage of the relevant class of issued 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	234,375,922	0
The Hong Kong and Shanghai Banking Corporation Limited	Foreign Shareholder	5.90%	12.74%	58,556,738	0	Unknown
China Huarong Asset Management Corporation	Domestic State-owned Legal Person	5.77%	10.75%	57,224,772	0	0
Guotai Junan Securities (Hong Kong) Limited	Foreign Shareholder	5.21%	11.24%	51,677,000	0	Unknown
Shenyin Wanguo Securities (H.K.) Limited	Foreign Shareholder	5.05%	10.89%	50,068,000	0	Unknown
First Shanghai Securities Limited	Foreign Shareholder	3.89%	8.39%	38,567,000	0	Unknown
Bank of China (Hong Kong) Limited	Foreign Shareholder	3.07%	6.62%	30,416,000	0	Unknown
China Merchants Securities (HK) Co Ltd	Foreign Shareholder	2.12%	4.58%	21,044,000	0	Unknown
Morgan Stanley Hong Kong Securities Ltd	Foreign Shareholder	1.73%	3.72%	17,117,500	0	Unknown
KGI Securities (Hong Kong) Ltd	Foreign Shareholder	1.26%	2.72%	12,505,000	0	Unknown

Notes: As at 31 December 2009, as shown in the register of substantial shareholders kept according to Section 336 under the Securities and Futures Ordinance under the Laws of Hong Kong (the "SFO"), the top seven shareholders among the top 10 shareholders above had short positions in the issued share capital of the Company.

Shareholdings of top ten holders of tradable shares not subject to trading moratorim

Name of Shareholder	Number of listed Shares Held	Class of Shares
The Hong Kong and Shanghai Banking Corporation Limited	58,556,738	H Shares
China Huarong Asset Management Corporation	57,224,772	RMB ordinary shares
Guotai Junan Securities (Hong Kong) Limited	51,677,000	H Shares
Shenyin Wanguo Securities (H.K.) Limited	50,068,000	H Shares
First Shanghai Securities Limited	38,567,000	H Shares
Bank of China (Hong Kong) Limited	30,416,000	H Shares
China Merchants Securities (HK) Co Ltd	21,044,000	H Shares
Morgan Stanley Hong Kong Securities Ltd	17,117,500	H Shares
Qingdao Hisense Air-conditioning Company Limited	15,797,800	RMB ordinary shares
KGI Securities (Hong Kong) Ltd	12,505,000	H Shares

Note: The largest shareholder, Qingdao Hisense Air-conditioning Company Limited ("Hisense Air-conditioning"), is not connected with other shareholders shown in the two tables above. Nor is Hisense Air-Conditioning a party acting in concert within the meaning of the Administrative Measures for Information Disclosure of the Shareholders of Listed Companies (《上市公司股東持股變動信息披露管理辦法》). Save as mentioned above, the Company is not aware whether any of the remaining holders of tradable shares on the top ten list is connected with each other or any of them is a party acting in concert with any of the remaining shareholders on the top ten shareholding list within the meaning of the Administrative Measures for Information Disclosure of the Shareholders of Listed Companies (上市公司股東持股變動信息披露管理辦法》).

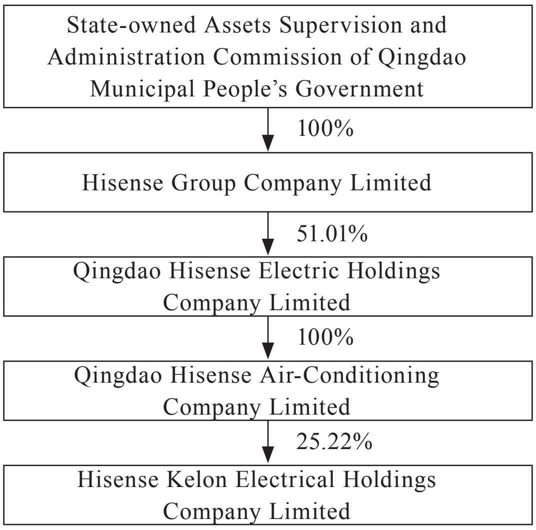
(2) Particulars of the controlling shareholders of the Company

(a) 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.

(b) 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. Mr. 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).

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

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



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

(f) No other shareholders of the Company own more than 10% (including 10%) of its shares as at the end of the Reporting Period.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES

As at 31 December 2009, none of the members of the seventh 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 its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2009, the aggregate amount of the Company's purchases from the top five suppliers was RMB915,000,000, representing 13.13% of total purchase amount of the Company for the year and the aggregate sales amount of the top five customers was RMB2,221,000,000, representing 25.61% of the total sales amount of the Company for the year. As at 31 December 2009, none of the Directors, their associates or shareholders of the Company, who, to the knowledge of the Company, hold 5% or more of the shares in the Company, have any interest in the above suppliers or customers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2009, neither the company nor any of its subsidiaries 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

The Company is not aware of any particulars of tax relief and exemption available to shareholders by reason of their holding of the Company's H shares.

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. 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	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	47	2009.6.26-2012.6.25	77.79	No
Zhou Xiao Tian	Director, President	Male	49	2009.6.26-2012.6.25	63.87	No
Yu Shu Min	Director	Female	58	2009.6.26-2012.6.25	0	Yes
Lin Lan	Director	Male	51	2009.6.26-2012.6.25	0	Yes
Zhang Ming	Director, Vice President	Male	38	2009.6.26-2012.6.25	23.26	No
Liu Chun Xin	Director, Vice President	Female	41	2009.6.26-2012.6.25	34.17	No
Zhang Sheng Ping	Independent Non-executive director	Male	44	2009.6.26-2012.6.25	6.00	No
Lu Qing	Independent Non-executive director	Male	43	2009.6.26-2012.6.25	6.00	No
Cheung Yui Kai, Warren	Independent Non-executive director	Male	42	2009.6.26-2012.6.25	24.00	No
Guo Qing Cun	Supervisor	Male	56	2009.6.26-2012.6.25	0	Yes
Gao Zhong Xiang	Supervisor	Male	42	2009.6.26-2012.6.25	0	Yes
Liu Zhan Cheng	Supervisor	Male	31	2009.5.6-2012.6.25	22.52	No
Jia Shao Qian	Vice President	Male	37	2009.6.26-2012.6.25	21.84	No
Ren Li Ren	Vice President	Male	45	2009.6.26-2012.6.25	31.76	No
Zhang Yu Qing	Vice President	Male	46	2009.6.26-2012.6.25	8.00	Yes
Wang Jiu Cun	Former Vice President	Female	56	2006.6.26-2009.1.12	13.38	No
Shi Yong Chang	Former Vice President	Male	50	2008.1.30-2009.6.25	30.67	No
Yu Wan Li	Secretary to the Board	Female	31	2009.6.26-2012.6.25	15.48	No
Chen Zhen Wen	Company Secretary	Male	33	2009.6.26-2012.6.25	39.57	No
Total	—	—	—	—	418.31	—

Note 1: During the Reporting Period, Mr. Tang Ye Guo received the remuneration of the Chairman, and Mr. Zhou Xiao Tian, Mr. Zhang Ming and Ms. Liu Chun Xin received the remuneration of senior management.

Note 2: During the Reporting Period, the existing Directors, supervisors and senior management did not hold any shares of the Company.

II. Investments of the Company during the Reporting Period.

(I) 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.

(II) Material investment excluding raising of capital during the Reporting Period

On 27 April 2008, the Company and Whirlpool (Hong Kong) Limited entered into the Joint Venture Agreement for the establishment of Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd. ("Hisense Whirlpool"). The registered capital of Hisense Whirlpool amounted to RMB450,000,000.00, of which both the Company and Whirlpool (Hong Kong) Limited were to make capital contribution of RMB225,000,000.00 respectively, and each would have an equity of 50%. As at the end of the Reporting Period, the Company has made a capital contribution of RMB129,530,000, and the remaining funding will be in place in 2010. As at the date of this report, Hisense Whirlpool has been established and formally commenced production.

III. Material litigations and arbitrations of the Company

(I) General information of litigation

As of the date of this report, the Company and its subsidiaries were involved in 108 litigations with a total claim amount of RMB 201,083,000.

Among the aforementioned pending litigations involving the Company and its subsidiaries, the Company and its subsidiaries acted as plaintiffs in 13 cases with a total claim amount of RMB141,525,300 and as defendants in 95 cases involving an amount of RMB59,557,700.

Among the aforementioned litigations involving the Company and its subsidiaries, there were two litigations and arbitrations as disclosed above involving an amount exceeding RMB10,000,000 each (with a total claim amount of RMB125,645,000) and 106 litigations with a claim amount of less than RMB10,000,000 each (with a total claim amount of RMB75,330,000).

(II) New litigations

From 1 January 2009 to the date of this report, the Company and its subsidiaries were involved in 77 new litigations with a total claim amount of RMB34,822,700.

The Company and its subsidiaries acted as plaintiff in eight cases with a total claim amount of RMB8,842,000, among which two cases with a total claim amount of RMB3,522,000 have been closed. The Company and its subsidiaries acted as defendants in 69 cases with a total claim amount of RMB25,980,700, among which 24 cases with a total claim amount of RMB5,679,300 were closed.

All of the aforementioned new litigations involving the Company and its subsidiaries were litigations with a claim amount of less than RMB10,000,000.

(III) Particulars of cases with final judgments or rulings

From 1 January 2009 to the date of this report, the Company and its subsidiaries were involved in 284 litigations of which final judgments or rulings have been given with a total claim amount of RMB893,016,000 and US$13,750,719.19.

The Company and its subsidiaries acted as plaintiffs in 27 cases with a total claim amount of RMB805,423,600 and as defendants in 257 cases involving an amount of RMB87,592,400 and US$13,750,719.19.

Among the aforementioned cases of which final judgments or rulings have been given involving the Company and its subsidiaries, there were 21 litigations involving an amount exceeding RMB10,000,000 with a total claim amount of RMB809,478,000 and US$13,750,719.19, and 263 litigations with a claim amount less than RMB10,000,000 with a total claim amount of RMB83,538,000.

The background information of the litigations of which final judgments or rulings have been given involving the target claim amount of more than RMB10,000,000 is set out below:

Unit: RMB (in ten thousand)

No.	Name of Case	Target Claim Amount	Particulars	Development
1	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun, Hainan Greencool, Tianjin Greencool and Jinan San Ai Fu	8,160.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB81.6 million from the plaintiff.	The court made a judgment in favour of the Company. The judgment has come into force.
2	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Tianjin Greencool, Tianjin Aike and Gu Chu Jun etc	9,000.00	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.
3	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun and Tianjin Greencool	7,500.00	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.
4	Litigation initiated by Yangzhou Kelon against Guangdong Greencool, Gu Chu Jun and Yangzhou Greencool	4,000.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB40 million from the plaintiff.	The court made a judgment in favour of the Company. The judgment has come into force.
5	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun, Jiangxi Keda and Shenzhen Greencool	1,300.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB13 million from the plaintiff.	The court made a judgment in favour of the Company. The judgment has come into force.
6	Litigation initiated by Yangzhou Kelon against Guangdong Greencool, Gu Chu Jun and Yangzhou Greencool	3,500.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB35 million from 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	Particulars	Development
7	Litigation initiated by the Company's Hubei Branch against Guangdong Greencool, Gu Chu Jun and Wuhan Changrong	2,984.37	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB29.8437 million from the plaintiff.	The lawsuit has been withdrawn by the Company.
8	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.
9	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Shenzhen Greencool Environmental	3,300.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB33 million from the plaintiff.	The court made a judgment in favour of the Company. The judgment has come into force.
10	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun and Zhuhai Defa	2,140.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB21.4 million from the plaintiff.	The court made a judgment in favour of the Company. The judgment has come into force.
11	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun and Wuhan Changrong	2,000.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB20 million from 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	Particulars	Development
12	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Hainan Greencool	1,228.94	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB12.2894 million from the plaintiff.	The court dismissed the petition by the Company. And the Company did not lodge any appeal.
13	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Shenzhen Greencool Technology	3,200.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB32 million from the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
14	Litigation initiated by the Company against Guangdong Greencool, Gu Chu Jun, Zhuhai Greencool, Beijing Greencool, and Hainan Greencool	1,375.46	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB13.7546 million from the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
15	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, and Gu Chu Jun ,Zhuhai Longjia	2,860.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB28.6 million from the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
16	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun, Jiangxi Kesheng and Tianjin Greencool	1,863.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB18.63 million from the plaintiff.	The Court made a judgment that the defendants were to pay RMB14.2883 million. The judgment has come into force.
17	Litigation initiated by Kelon Fittings against Guangdong Greencool, Tianjin Xiangrun, Shenzhen Greencool and Gu Chu Jun	9,741.22	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB97.4122 million from the plaintiff.	The Court made a judgment that the defendants were to pay RMB95.7839 million. The judgment has come into force.
18	Litigation initiated by Shenzhen Kelon Purchase Company Limited against Guangdong Greencool, Tianjin Lixin, Shenzhen Greencool and Gu Chu Jun	8,960.03	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB89.6003 million from the plaintiff.	The Court made a judgment that the defendants were to pay RMB89.2035 million. The judgment has come into force.

No.	Name of Case	Target Claim Amount	Particulars	Development
19	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Jinan San Ai Fu, Tianjin Greencool, Hainan Greencool and Gu Chu Jun	4,080.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB40.8 million from the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
20	Litigation on dispute initiated by CNA International.inc./MC Appliance Corporation against the Company/ Kelon International	US$13,750,719	The plaintiff alleged that it entered into a sale and purchase contract with the defendant to purchase refrigerators, but the defendant failed to perform its obligations under the contract on a timely basis, and that the goods delivered were defective. In this case, CNA did not bring the breach of warranty obligation before court. Kelon Electric was entitled to, and initiated, a counterclaim for the trade receivables of more than US$980,000.	It was held in the judgment of first instance that the Company shall pay US$269,020.5 to CNA. Neither party has lodged an appeal.
21	The case of dispute over a construction contract between the Company and Zhejiang Hangzhou Hangxiao Ganggou Holdings Company Limited ("Hangxiao Ganggo")	1,885.30	In September 2003, the Company and Hangxiao Ganggou entered into the Contract of Manufacture and Installation. On 5 August 2005, Hangxiao Ganggou initiated the litigation at the Intermediate People's Court of Foshan City, requesting the Company to pay the construction fee and default payment etc. The plea of Hangxiao Ganggou was dismissed at both the Courts of First Instance and Second Instance. Hangxiao Ganggou applied for re-trial, with the target claim amount of re-trial of RMB18.853 million.	The Supreme People's Court made a judgment of dismissing the plea of Hangxiao Ganggou for a re-trial, which has come into force.

(IV) Litigation by minority shareholders

The Intermediate People's Court of Guangzhou Municipal has filed 202 cases in total for litigations initiated by the medium and minority shareholders against the Company for false statements made in prior years, with the total target claim amount being RMB29,223,665.68. As at the date of this report, 142 cases have been resolved with the amount of settlement being RMB15,753,215.00; the judgment of one case was made that the Company was subject to make a compensation of RMB31,199.00; 15 cases were withdrawn; 31 cases were dismissed by the Court; 13 cases were still heard in the ongoing.

(V) The Progress of other litigations and arbitrations

(1) During the Reporting Period, the Company received from the Higher People's Court of Henan Province ("Henan Higher Court") the administrative judgment (2009) Yue Fa Xing Zhong Zi No. 00062, in which Henan Higher Court made the judgment of final instance on the case initiated by the Company's subsidiary, Shanqiu Kelon (as plaintiff) against the People's Government of Shanqiu Municipal (as defendant) and the Bureau of Land Resources of Shanqiu Municipal (as defendant) for the forfeiture of idle land not in accordance with procedures: the plea of Shanqiu Kelon was dismissed and the original judgment of the Intermediate People's Court of Shanqiu City, Henan Province ("Shanqiu Intermediate Court") was maintained. The litigation fee of second instance in the amount of RMB50 was to be paid by Shanqiu Kelon. For details of the case, please refer to the announcement of the Company dated 17 April 2008.

(2) The Company was involved in the reorganization of Zhongshan Weili Group Corporation in 2004. On 8 August 2004, the Company entered into the Contract of Land Use by Investment Project with the other parties, pursuant to which the Company, Zhongshan City Fusha Town Shunchang Industrial Co., Ltd. ("Shunchang Company") and the Company's subsidiary Kelon Development would co-invest for the establishment of Guangdong Kelon Weili Electrical Appliances Company Limited ("Kelon Weili"), and Zhongshan City Fusha Town Industrial Development Co., Ltd. ("Fusha Company") would sell the land use right of the industrial land with an area of 500 mu located at Road No. 2 Fusha Industrial Park to Kelon Weili at a consideration of RMB30,000 per mu. On 24 November 2004, pursuant to the provisions of the Contract of Land Use by Investment Project, the Company provided to Kelon Weili an amount of RMB7.55 million (of which, RMB50,000 was intended for maintenance of machinery and renovation of equipment) for the payment of the land acquisition amount by Kelon Weili to Fusha Company. Upon receipt of the amount, Kelon Weili accordingly paid the amount to Fusha Company, but since then Fusha Company has not delivered the agreed land use right to Kelon Weili or returned the amount.

Based on the above facts, the Company made an arbitration plea as follows: A judgment is to be made that all parties to terminate the performance of the Contract of Land Use by Investment Project and the relevant documents and minutes of meetings issued by the Zhongshan City Fusha Town Local People's Government, and that Fusha Company is to return the land premium of RMB7.50 million; that Fusha Company is to pay the corresponding interests accrued on RMB7.50 million to the Company; that Shunchang Company is to be responsible for the joint and several liability of the payment of the two aforesaid amounts; that the arbitration fee is to be borne by Fusha Company.

During the Reporting Period, the Company received from the Guangzhou Arbitration Commission the arbitral award (2008) Sui Zhong An Zi No. 52, which made an award on the dispute over the above Contract of Land Use by Investment Project: that the Contract of Land Use by Investment Project signed by all parties to be terminated; that the other arbitration pleas of the Company not to be supported. The Company will continue to take other measures (including but not limited litigation) to recover the above debt from Fusha Company.

IV. Securities investments during the Reporting Period

(I) The Company has no securities investments during the Reporting Period

(II) Shareholdings in other listed companies held by the Company

Unit: RMB in ten thousand

Stock code	Stock abbreviation	Initial investment amount	Shareholding percentage in the Company	Carrying amount at the end of the period	Profit and loss for the Reporting Period	Changes in ownership interests for the Reporting Period
000404	Huayi Compressor	11,801.36	18.26%	11,520.90	1,593.07	1,595.81

The equity in Huayi Compressor held by the Company was accounted as the long-term equity investment. The equity was transferred to the Company in 1999, when Jingdezhen Huayi Compressor Co., Ltd. transferred to the Company a total of 59.28 million shares of Huayi Compressor as part of its state-owned and legal person shares held by it. Currently, all 59.28 million shares of Huayi Compressor held by the Company have been released from sales restrictions. In order to leverage on the shares in Huayi Compressor held by the Company, the board of directors of the Company convened a meeting on 23 March 2010, at which the management of the Company was authorized to dispose up to six million shares of Huayi Compressor held by it at an appropriate time and within a reasonable price range.

V. Funds Embezzled For Non-operating Purposes and the Their Settlement Progress.

(I) 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 2009	31 December 2009	Total amount recovered during this period	Settlement Method	Amount recovered	Time of Settlement
65,514.95	65,514.95	0	—	0	—

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 RMB655,149,500 in aggregate, of which, a total amount of RMB650,694,100 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 RMB4,455,400 was embezzled by other related parties.

(II) Explanation of the Board on the development of the Company's claims for all embezzled amounts during the 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:

The Company has initiated a total of 19 cases of litigation against Greencool Companies and specified third parties, with a target claim amount of RMB791 million. As at the date of this report, one case was withdrawn, involving an amount of RMB29.8437 million; one case was dismissed, involving an amount of RMB12.2894 million, and the Company has not yet lodged an appeal for the case; 1 case received judgment of first instance from the Intermediate Court of Foshan and has come into force as the counterparty did not lodge an appeal, involving an amount of RMB18.6948 million; 16 cases for which the counterparties have lodged an appeal have received judgment from the Higher Court of Guangdong Province that the appeals were dismissed and the judgments of first instance from the Intermediate Court of Foshan were maintained, with a total amount of RMB729.7971 million. For details, please refer to "Material litigations and arbitrations of the Company" in this announcement. The Company has already applied for the execution of the judgments that have come into force to the Intermediate Court of Foshan.

The Company is proactively facilitating the execution of the judgments that have come into force by the relevant judiciary authorities.

VI. Acquisitions and disposals of assets and mergers and takeovers by the Company during the Reporting Period

(I) Acquisitions of assets and mergers and takeovers by the Company during the Reporting Period

During the Reporting Period, the Company acquired from its substantial shareholder, Hisense Air-Conditioning, 100% equity interests in Hisense (Shandong) Air-Conditioning Co., Ltd., 51% equity interests in Hisense (Zhejiang) Air-Condition Co., Ltd., 55% equity interests in Hisense (Beijing) Electric Co., Ltd. (including 60% equity interests in Hisense (Nanjing) Electric Co., Ltd. held by Hisense (Beijing) Electric Co., Ltd.), 49% equity interests in Qingdao Hisense Hitachi Air Conditioning Co., Ltd., 78.7% equity interests in Qingdao Hisense Mould Co., Ltd. and the white goods assets of Qingdao Hisense Marketing Co., Ltd. through non-public issue of shares (A Shares). Such an acquisition of assets through non-public issue of shares constituted a connected transaction. On 28 August 2009, the Company received notification from the Securities and Futures Commission of Hong Kong that its Executive Director of the Corporate Finance Division or its representative has conditionally granted a waiver in respect of the obligation on Hisense Air-Conditioning make a general offer for the shares of the Company as a result of the issue of consideration shares by the Company. On 31 August 2009, the Company convened a shareholders' general meeting and class meetings at which the relevant resolutions on the significant asset restructuring were considered and passed. On 22 December 2009, the above significant asset restructuring of the Company was conditionally approved upon review by the Review Sub-Committee for Mergers, Acquisitions and Restructurings of Listed Companies of China Securities Regulatory Commission. On 26 March 2010, the Company received from the CSRC the following approvals: Letter of Reply Concerning the Approval for the Major Asset Restructuring of Hisense Kelon Electrical Holdings Company Limited and the Acquisition of Assets through Issuance of Shares to Qingdao Hisense Air-Conditioning Company Limited and the Letter of Reply Concerning the Approval for the Announcement by Qingdao Hisense Air-Conditioning Company Limited the Acquisition Report of Hisense Kelon Electrical Holdings Company Limited and the Waiver of its General Offer Obligation.

(II) No disposal of assets of the Company during the Reporting Period

VII. Particulars of the connected transactions related to ordinary operation of the Company during the Reporting Period

During the Reporting Period, the Company and Hisense Group and its relevant subsidiaries, Huayi Compressor and its subsidiaries and Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd. and Hisense Group Finance Co., Ltd. (海信集團財務有限公司) , entered into certain connected transactions related to the ordinary operation, details of which are as follows:

Unit: RMB (in ten thousand)

			Sale of products and provision of services to connected persons		Purchase of goods and receipt of services from connected persons	
Connected Persons	**Particulars of the Connected transaction**	**Pricing policy**	**Transaction amount**	**Percentage of total amount of similar transactions**	**Transaction amount**	**Percentage of total amount of similar transactions**
Hisense Shandong	Purchase of finished air-conditioners	*Note 1*			18,830.17	2.70%
Hisense Zhejiang	Purchase of finished air-conditioners	*Note 1*			11,329.94	1.63%
Hisense Nanjing	Purchase of finished refrigerators	*Note 1*			55,776.55	8.00%
Hisense Beijing	Purchase of finished refrigerators	*Note 1*			19,603.48	2.81%
Hisense Whirlpool	Purchase of finished refrigerators	*Note 2*			4,536.92	0.65%
Total purchase of finished goods					110,077.07	15.79%
Hisense Shandong	Purchase materials for air-conditioners	*Note 1*			356.83	0.05%
Hisense Zhejiang	Purchase materials for air-conditioners	*Note 1*			42.58	0.01%
Hisense Nanjing	Purchase materials for refrigerators	*Note 1*			212.72	0.03%

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 Beijing	Purchase materials for refrigerators	*Note 1*			37.81	0.01%
Huayi Compressor	Purchase of compressors	*Note 3*			10,784.00	1.55%
Jiaxi Beila	Purchase of compressors	*Note 3*			26,356.28	3.78%
Hisense Whirlpool	Purchase materials for refrigerators	*Note 2*			66.28	0.01%
Total purchase of materials					37,856.51	5.44%
Qingdao Savor	Accept services	*Note 1*			229.17	0.37%
Hisense Electronic	Accept services	*Note 1*			206.87	0.33%
Total of services accepted					436.05	0.70%
Hisense Shandong	Sales of finished air-conditioners	*Note 1*	22,623.93	2.61%		
Hisense Zhejiang	Sales of finished air-conditioners	*Note 1*	747.64	0.09%		
Hisense Beijing	Sales of finished refrigerators	*Note 1*	51,832.15	5.97%		
Hisense International	Sales of refrigerators, air-conditioners	*Note 1*	34,211.86	3.94%		
Total sales of finished goods			109,415.58	12.61%		
Hisense Shandong	Sales materials for air-conditioners	*Note 1*	197.73	0.29%		
Hisense Zhejiang	Sales materials for air-conditioners	*Note 1*	304.76	0.45%		
Hisense Beijing	Sales materials for refrigerators	*Note 1*	2,738.87	4.01%		
Hisense Nanjing	Sales materials for refrigerators	*Note 1*	5,933.35	8.68%		

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
Qingdao Savor	Sales materials for refrigerators	*Note 1*	24.36	0.04%		
Hisense Whirlpool	Sales materials for refrigerators	*Note 2*	776.30	1.14%		
Total sales of materials			9,975.36	14.61%		
Hisense Shandong	Sales of moulds	*Note 1*	39.88	0.00%		
Hisense Beijing	Sales of moulds	*Note 1*	108.30	0.01%		
Hisense Nanjing	Sales of moulds	*Note 1*	229.06	0.03%		
Hisense Mould	Sales of moulds	*Note 1*	143.59	0.02%		
Hisense Whirlpool	Sales of moulds	*Note 2*	307.95	0.04%		
Total sales of moulds			828.79	0.10%		
Hisense Multimedia	Provide services	*Note 1*	30.11	0.04%		
Hisense Zhejiang	Provide services	*Note 1*	20.75	0.03%		
Hisense Whirlpool	Provide services	*Note 2*	43.40	0.06%		
Total of services provided			94.26	0.13%		
Hisense Nanjing	Sales of machines	*Note 1*	42.54	0.31%		
Hisense Beijing	Sales of machines	*Note 1*	43.07	0.31%		
Hisense Whirlpool	Sales of machines	*Note 2*	493.20	3.58%		
Total sales of machines			578.81	4.20%		
Hisense Nanjing	Purchase machines	*Note 1*			922.99	12.04%
Hisense Shandong	Purchase machines	*Note 1*			266.68	3.48%
Total purchase of machines					1,189.67	15.52%

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 Finance	Borrowings balance				99,876.00	
Hisense Finance	Payment of loan interest	*Note 4*			2,344.65	

Among which, the connected transactions in relation to the sale of products or provision of labour services by the Company to its controlling shareholders and its subsidiaries amounted to RMB1,192,719,500 in aggregate.

Note 1: During the Reporting Period, the Company and the relevant subsidiaries of Hisense Group entered into “Business Cooperation Framework Agreement”, “Supplemental Business Cooperation Framework Agreement” and “Second Supplemental Business Cooperation Framework Agreement”, pursuant to which, the Company and the relevant subsidiaries of Hisense Group agreed on the pricing principle for connected transactions in the course of ordinary business;

Note 2: During the Reporting Period, the Company and Hisense Whirlpool entered into a “Business Framework Agreement”, pursuant to which the Company and Hisense Whirlpool agreed on the pricing principle for connected transactions in the course of ordinary business;

Note 3: During the Reporting Period, the Company and Huayi Compressor entered into “Compressor Purchase and Supply Framework Agreement”, pursuant to which the Company and Huayi Compressor and its subsidiaries agreed on the pricing principle for connected transactions in the course of ordinary business.

Note 4: During the Reporting Period, the Company and Hisense Finance entered into a “Financial Services Agreement”, pursuant to which the Company and Hisense Finance agreed on the pricing principle for connected transactions in the course of ordinary business;

VIII. External guarantee

Unit: RMB (in ten thousand)

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)
Fujian Kelon Air-conditioners Sales Company Limited	August 2009	2,000.00	Jointly and severally liable	Four months	Yes	No

Total actual guaranteed amount during the Reporting Period	2,000.00
Total balance of the actual guaranteed amount at the end of the Reporting Period	—
Guarantees made by the Company to its subsidiaries	
Total actual guaranteed amount to subsidiaries during the Reporting Period	120,069.45
Total balance of the actual guaranteed amount to subsidiaries at the end of the Reporting Period	11,994.06
Total guarantee made by the Company (including the guarantees to subsidiaries)	
Total guaranteed amount	11,994.06
Percentage of the total guaranteed amount to absolute net assets of the Company	14.14%
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%	10,125.01
Total guaranteed amount over 50% of the net asset	—
Total guarantee amount of the above three guarantees	10,125.01

IX. BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD 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 5.4, 5.6, 6 and 7 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 Hisense Kelon, and its related parties (hereinafter referred to as the "Greencool Companies") and Hisense Kelon during the period from October 2001 to July 2005. In addition, during the period, 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 Hisense Kelon. Hisense Kelon has instituted proceedings for such transactions and unusual cash flows as well as the suspected fund embezzlements. These matters are related to Hisense Kelon's amounts due from or to the Greencool Companies and the specified third party companies mentioned above.

As at 31 December 2009, the balance of amounts due from the Greencool Companies and such specified third party companies amounted to RMB651 million. Hisense Kelon 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 set out in Note 7 to the financial statements, apart from the withdrawal of the case at the Intermediate People's Court of Foshan ((2006) Fo Zhong Fa Min Er Chu Zi No. 178) and the rejection of the petition to the Intermediate People's Court of Foshan ((2006) Fo Zhong Fa Min Er Chu Zi No. 183), Hisense Kelon has won in all other cases mentioned above and the rulings have all come into force. 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 the relevant authorities. As at 31 December 2009, 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 court has not determined the appropriation arrangement for the properties sealed, 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. While the relevant courts have given their final rulings in favour of the Company in respect of 17 cases of litigation out of 19 initiated by the Company against Greencool Companies and specified third parties and the judgments have come into effect, one case with a claim amount of RMB29.8437 million was withdrawn by the Company and another case with a claim amount of RMB12.2894 million was dismissed. The aggregate claim amounts of these two cases accounted for a small proportion of the total claim amount of RMB729.7971 million under the court judgments. However, as the rulings in respect of the abovementioned 17 cases have not yet been enforced so far, the Board of the Company is of the view that there is no material difference in terms of the assessed recoverability of such receivables between that for 2009 and 2008 and therefore this qualified opinion will not affect the fairness in the preparation of the Company's income statement for 2009.

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, 31 December 2008 and 31 December 2009. 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.

X. BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD issued a qualified auditor's report for the 2009 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 seventh 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 seventh session of the Board of the Company.

XI. BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD issued a qualified auditor's report for the 2009 annual report of the company. The detailed explanation given by the supervisory committee 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 seventh session of the Board of the Company, and consented to such explanation on the abovementioned matters from the seventh session of the Board of the Company.

XII. Other important matters

On 29 January 2010, the seventh session of the Board of the Company convened the 2010 first extraordinary meeting by way of written resolution, at which an equity transfer agreement between the Company and a third party in relation to the transfer of 100% equity interest in Wuhu Yingjia Electrical Machinery Co., Ltd. held by the Company to the third party at a consideration of RMB12 million was considered and approved. During the transitional period of such transfer, both parties shall jointly assume the profit or loss. After the equity transfer, the Company will no longer hold any equity interest in Wuhu Yingjia Electrical Machinery Co., Ltd.

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 Group"	Hisense Group Company
"Hisense Finance"	Hisense Group Finance Co., Ltd
"Hisense Multimedia"	Guangdong Hisense Multimedia Company Limited.
"Hisense International"	Qingdao Hisense International Marketing Holdings Co., Ltd.
"Hisense Electronic"	Qingdao Hisense Electronic Technology Service Co., Ltd.
"Qingdao Savor"	Qingdao Savor Electronic Information Service Co., Ltd.
"Hisense Zhejiang"	Hisense (Zhejiang) Air-Condition Co., Ltd.
"Hisense Shandong"	Hisense (Shandong) Air-Conditioning Co., Ltd.
"Hisense Beijing"	Hisense (Beijing) Electric Co., Ltd.
"Hisense Nanjing"	Hisense (Nanjing) Electric Co., Ltd.
"Hisense Mould"	Qingdao Hisense Mould Co., Ltd.
"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.
"Jiangxi Kelon"	Jiangxi Kelon Industrial Development Co., Ltd.

"Ronshen Refrigerator"	Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.
"Yangzhou Kelon"	Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.
"Huayi Compressor"	Huayi Compressor Holdings Company Limited
"Jiaxi Beila"	Jiaxi Beila Compressor Company Limited
"Jiangxi Kesheng"	Jiangxi Kesheng Industry and Trading 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
"Shenzhen Kelon"	Shenzhen Kelon Procurement Co., Ltd.
"Shenzhen Greencool"	Greencool Procurement (Shenzhen) Co., Ltd.
"Tianjin Xiangrun"	Tianjin Xiangrun Trading Development Company Limited
"Yangzhou Greencool"	Yangzhou Greencool Venture Capital Company Limited
"Jiangxi Keda"	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.
"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
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"RMB"	Renminbi

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, the Rules Governing the Listing of Securities on the Stock Exchange and the articles of association of the Company. We would like to report to you the work of the Supervisory Committee during 2009 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 seven meetings:

(1) A meeting of the sixth session of the Supervisory Committee was held in the meeting room at the headquarters of the Company on 16 April 2009. 3 supervisors should be present and 3 supervisors were present at the meeting. The Company's 2008 annual report and the relevant issues were approved at the meeting.

(2) A meeting of the sixth session of the Supervisory Committee was held in the meeting room at the headquarters of the Company on 27 April 2009. 3 supervisors should be present and 3 supervisors were present at the meeting. The Company's 2009 first quarterly report was approved at the meeting.

(3) A meeting of the sixth session of the Supervisory Committee was held by way of written resolutions on 7 May 2009. 3 supervisors should be present and 3 supervisors were present at the meeting. A resolution relating to the nomination of Mr. Guo Qing Cun and Mr. Gao Zhong Xiang as the supervisor candidate of the seventh session of the Supervisory Committee of the Company was approved at the meeting.

(4) A meeting of the seventh session of the Supervisory Committee was held in the meeting room at the headquarters of the Company on 26 June 2009. 3 supervisors should be present and 3 supervisors were present at the meeting. A resolution relating to the nomination of Mr. Guo Qing Cun as the chairman of the seventh session of the Supervisory Committee of the Company was approved at the meeting.

(5) A meeting of the seventh session of the Supervisory Committee was held in the meeting room at the headquarters of the Company on 29 June 2009. 3 supervisors should be present and 3 supervisors were present at the meeting. The resolutions relating to the "non-public issue of Shares (A Shares) by Hisense Kelon Electrical Holdings Company Limited for acquiring assets" and the "draft report on the non-public issue of Shares (A Shares) by Hisense Kelon Electrical Holdings Company Limited for acquiring assets and connected transaction" were approved at the meeting.

(6) A meeting of the seventh session of the Supervisory Committee was held in the meeting room at the headquarters of the Company on 12 August 2009. 3 supervisors should be present and 3 supervisors were present at the meeting. The Company's 2009 interim report and the relevant issues were approved at the meeting.

(7) A meeting of the seventh session of the Supervisory Committee was held by way of written resolutions on 27 October 2009. 3 supervisors should be present and 3 supervisors were present at the meeting. The Company's 2009 third quarterly report was approved at the meeting.

II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2009

According to the relevant requirements under the Company Law of the PRC and the articles of association of the Company, the seventh 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) BDO CHINA LI XIN DA HUA Certified Public Accountants Co., Ltd. has audited the Company's financial statement for the year ended 2009 and issued an Auditor's Report with qualified opinions. In the opinion of the Supervisory Committee, the audit opinion was fair and objective, and the financial statement for the year 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 seventh session of the Board of the Company regarding the issues contained in the audit opinion. The Supervisory Committee has agreed to such specific explanations.

Corporate Information

REGISTERED OFFICE IN CHINA

No. 8 Ronggang Road,
Ronggui, Shunde,
Foshan, Guangdong Province,
The People's Republic of China (the "PRC").

PLACE OF BUSINESS IN HONG KONG

Room 3104-3106,
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
Shops 1712-1716, 17th Floor, Hopewell Center,
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LEGAL ADVISERS

China:

GUANGDONG GUARDIAN LAW FIRM
26th Floor, North of Yuexiu City Square,
445 Dongfengzhong Road, Guangzhou, the PRC.

Hong Kong:

Fried, Frank, Harris, Shriver & Jacobson
9th Floor, Gloucester Tower,
The Landmark, 15 Queen's Road Central, Central, Hong Kong.

BANKERS

China:

The Industrial and Commercial Bank of China
Bank of China
China Construction Bank
China Minsheng Bank
China Everbright Bank
Bank of Communications
China Merchant Bank
Agricultural Bank of China
Guangdong Development Bank
Shenzhen Development Bank
Foshan Shunde Rural Commercial Bank Company Limited

Hong Kong:

Bank of Communications Co. Ltd., Hong Kong Branch

BDO 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 consolidated financial statements of Hisense Kelon Electrical Holdings Company Limited (the "Company") set out on pages 48 to 112, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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, in accordance with our terms of engagement, 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 2009, 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 statement of financial position at 31 December 2009 as "Amounts due from Greencool Enterprise and its affiliates" and "Amounts due from companies suspected to be connected with Mr. Gu" within current assets.

The aggregate amount of payables due to these companies was approximately RMB128 million which was reflected in the consolidated statement of financial position at 31 December 2009 as "Amount due to Greencool Enterprise and its affiliates" and "Amount due to companies suspected to be connected with Mr. Gu" with current liabilities.

During the years ended 31 December 2008 and 2009, legal proceedings which were previously initiated against Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu have reached court judgments which mostly ruled in favour of the Company. However, the enforcement of court judgments has not been completed. Due to the uncertainty on the execution of court judgments, 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 2009, the net liabilities as at 31 December 2009 and the profit 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 consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit 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 Group's current liabilities exceeded its current assets by approximately RMB2,690 million. This condition, 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 Limited
Certified Public Accountants
Chow Tak Sing, Peter
Practising Certificate Number P04659

Hong Kong, 8 April 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Turnover	5	**8,673,761**	8,052,909
Cost of sales		**(6,970,546)**	(6,816,609)
Gross profit		**1,703,215**	1,236,300
Other revenue	7	**95,845**	63,832
Other gains and losses	8	**23,785**	1,283
Distribution costs		**(1,254,513)**	(1,081,498)
Administrative expenses		**(351,022)**	(352,733)
Other expenses		**(13,844)**	(15,045)
Share of results of associates		**16,057**	4,197
Share of results of jointly controlled entity		**(11,701)**	—
Finance costs	10	**(68,621)**	(89,771)
Profit/(loss) before income tax expense	11	**139,201**	(233,435)
Income tax expense	14	**(4,192)**	(4,085)
Profit/(loss) for the year		**135,009**	(237,520)
Other comprehensive income			
Exchange differences on translation of financial statements of foreign operations		**96**	8,780
Share of reserves of associates		**27**	(34)
Reclassification adjustment of exchange reserve included in profit or loss on disposal of a foreign subsidiary		**(7,877)**	—
Other comprehensive income for the year, net of tax		**(7,754)**	8,746
Total comprehensive income for the year		**127,255**	(228,774)
Profit/(loss) attributable to:			
— Owners of the Company		**136,412**	(231,896)
— Minority interests		**(1,403)**	(5,624)
		135,009	(237,520)
Total comprehensive income attributable to:			
— Owners of the Company		**128,658**	(223,150)
— Minority interests		**(1,403)**	(5,624)
		127,255	(228,774)
Earnings/(losses) per share attributable to owners of the Company	15		
— Basic and diluted		**RMB0.14**	RMB(0.23)

Consolidated Statement of Financial Position

As At 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	*16*	**1,275,044**	1,363,074
Investment properties	*17*	**33,762**	35,565
Payments for leasehold land held for own use under operating leases	*18*	**261,794**	286,835
Interests in associates	*20*	**102,673**	86,589
Interests in jointly controlled entity	*21*	**113,712**	33,750
Available-for-sale financial assets	*22*	**4,310**	4,550
Intangible assets	*23*	**154,503**	167,135
Deferred tax assets	*25*	**12,873**	13,647
Total non-current assets		**1,958,671**	1,991,145
Current assets			
Inventories	*26*	**656,536**	505,528
Trade and other receivables	*27*	**1,443,252**	1,050,415
Taxation recoverable		**102**	943
Other financial assets	*28*	**5,597**	6,019
Pledged bank deposits		**7,133**	23,240
Cash and cash equivalents		**119,460**	110,216
		2,232,080	1,696,361
Non-current assets held for sale	*29*	**31,574**	—
Total current assets		**2,263,654**	1,696,361
Total assets		**4,222,325**	3,687,506
Current liabilities			
Trade and other payables	*30*	**2,966,867**	2,192,391
Trade deposits received		**455,933**	354,243
Other financial liabilities	*28*	**1,040**	13,611
Provisions	*31*	**108,419**	114,215
Taxation payable		**28,804**	27,342
Other liabilities	*32*	**30,848**	29,384
Borrowings	*33*	**1,330,873**	1,814,948
		4,922,784	4,546,134
Liabilities directly associated with non-current assets held for sale	*29*	**30,914**	—
Total current liabilities		**4,953,698**	4,546,134

Consolidated Statement of Financial Position

As At 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Net current liabilities		**(2,690,044)**	(2,849,773)
Total assets less current liabilities		**(731,373)**	(858,628)
NET LIABILITIES		**(731,373)**	(858,628)
Capital and reserves attributable to owners of the Company			
Share capital	*34*	**992,007**	992,007
Share premium		**1,195,597**	1,195,597
Statutory reserves	*44(a)*	**114,581**	114,581
Capital reserve		**267,448**	266,638
Foreign exchange reserve		**30,110**	37,891
Accumulated losses		**(3,478,224)**	(3,614,636)
Equity attributable to owners of the Company		**(878,481)**	(1,007,922)
Minority interests		**147,108**	149,294
TOTAL EQUITY		**(731,373)**	(858,628)

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 2009

	Share capital *RMB'000*	Share premium *RMB'000*	Statutory reserves *(Note 44(a))* *RMB'000*	Capital reserve *RMB'000*	Foreign exchange reserve *RMB'000*	Accumulated losses *RMB'000*	Equity attributable to owners of the Company *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
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)
Additional interest acquired in subsidiaries	—	—	—	—	—	—	—	(80)	(80)
Total comprehensive income for the year	—	—	—	(34)	8,780	(231,896)	(223,150)	(5,624)	(228,774)
As at 31 December 2008 and 1 January 2009	992,007	1,195,597	114,581	266,638	37,891	(3,614,636)	(1,007,922)	149,294	(858,628)
Additional interest acquired in a subsidiary	—	—	—	783	—	—	783	(783)	—
Total comprehensive income for the year	—	—	—	27	(7,781)	136,412	128,658	(1,403)	127,255
As at 31 December 2009	992,007	1,195,597	114,581	267,448	30,110	(3,478,224)	(878,481)	147,108	(731,373)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 *RMB'000*	2008 *RMB'000*
Cash flows from operating activities		
Profit/(loss) before income tax expense	**139,201**	(233,435)
Adjustments for:		
Share of results of associates	**(16,057)**	(4,197)
Share of results of jointly controlled entity	**11,701**	—
Interest income	**(1,089)**	(1,447)
Interest expense	**68,621**	89,771
Depreciation of property, plant and equipment	**206,010**	214,386
Depreciation of investment properties	**2,585**	2,627
Amortisation of intangible assets	**5,686**	7,892
Amortisation of payments for leasehold land held for own use under operating leases	**13,042**	13,042
Impairment loss on property, plant and equipment	**16,260**	5,056
Impairment loss on payments for leasehold land held for own use under operating leases	**9,403**	—
Loss/(gain) on disposal of property, plant and equipment, net	**489**	(2,975)
Impairment loss on trade and other receivables	**4,416**	12,274
Write down of inventories to net realisable value, net	**3,873**	17,428
(Gain)/loss on disposal of a subsidiary	**(8,959)**	10,568
(Gain)/loss on fair value change of other financial assets and other financial liabilities, net	**(12,149)**	10,913
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	**443,033**	88,719
(Increase)/decrease in inventories	**(159,958)**	416,018
Increase in trade and other receivables	**(424,974)**	(31,475)
Increase/(decrease) in trade and other payables	**806,441**	(754,744)
Increase/(decrease) in trade deposits received	**101,690**	(52,136)
Decrease in provisions	**(5,796)**	(29,791)
Increase/(decrease) in other liabilities	**1,464**	(12,089)
Cash generated from/(used in) operations	**761,900**	(375,498)
Tax paid, net	**(1,115)**	(7,304)
Net cash flows from/(used in) operating activities	**760,785**	(382,802)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Cash flows from investing activities			
Purchase of property, plant and equipment		**(202,722)**	(276,485)
Payments for addition of investment properties		**(782)**	—
Purchase of intangible assets		**(3,886)**	(7,647)
Payments for leasehold land held for own use under operating leases		**(23,846)**	—
Proceeds from disposal of property, plant and equipment		**2,210**	46,437
Proceeds from disposal of available-for-sale financial assets		**240**	2,920
Proceeds from disposal of intangible assets		**7,503**	—
Decrease in pledged bank deposits		**16,107**	46,893
Proceeds from disposal of investment properties		**—**	5,233
Proceeds from disposal of an associate		**—**	709
Proceeds from disposal of non-current assets held for sale		**—**	10,573
Investment in available-for-sale financial assets		**—**	(6,250)
Disposal of a subsidiary, net of cash acquired	*40*	**—**	415
Interest received		**1,089**	1,447
Proceeds from disposal of payments for leasehold land held for own use under operating leases		**—**	195,258
Investment in a jointly controlled entity		**—**	(33,750)
Net cash used in investing activities		**(204,087)**	(14,247)
Cash flows from financing activities			
Borrowings raised		**2,927,876**	2,448,943
Interest paid		**(68,621)**	(89,771)
Repayment of borrowings		**(3,406,751)**	(1,926,966)
Net cash (used in)/from financing activities		**(547,496)**	432,206
Net increase in cash and cash equivalents		**9,202**	35,157
Cash and cash equivalents at beginning of the year		**110,216**	76,395
Effect of foreign exchange rate changes		**96**	(1,336)
Cash and cash equivalents at end of year representing cash and bank balances	*41*	**119,514**	110,216

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.

As at 31 December 2006, Qingdao Hisense Air-Conditioning Company Limited ("Hisense Air-Conditioning") 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-Conditioning 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-Conditioning 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-Conditioning (the "Acquisition"), for which the details are included in the circular of the Company dated 31 December 2007, 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-Conditioning 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-Conditioning 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-Conditioning. Accordingly, the total number of A shares held by Hisense Air-Conditioning were increased to 234,375,922 shares, representing 23.63% of the Company's total share capital.

Also during 2008, Hisense Air-Conditioning increased its shareholding in the Company by acquiring 15,797,800 A shares in open market. The total number of A shares held by Hisense Air-Conditioning further increased to 250,173,722 shares, representing 25.22% of the Company's total share capital.

As at 31 December 2009, Hisense Air-Conditioning 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. International Financial Reporting Standards 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 2009, the Group had an accumulated losses of approximately RMB3,478 million. Its current liabilities exceeded current assets by approximately RMB2,690 million (2008: RMB2,850 million) in which the Group has outstanding short-term loans in the aggregate of approximately RMB1,331 million (2008: RMB1,815 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 Limited ("Hisense Finance") with the maximum loan amount and service fee payable not exceeding an annual cap of RMB1.5 billion and RMB50 million respectively on a revolving basis; (ii) continuous financial support available from Hisense Group Company Limited ("Hisense Group"), the holding company of Hisense Air-Conditioning 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 2009 comprise the Company and its subsidiaries, the Group's interests in associates and a 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 46.

(d) Functional and presentation currency

Items included in the financial statements of each of the group 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 INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

(a) Application of International Financial Reporting Standards

The Group has adopted the following new/revised IFRSs issued by the IASB and IFRIC that are effective for the current accounting period of the Group. The adoption of the following new/revised standards 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.

IFRSs (Amendments)	Improvements to IFRS Issued in 2008, except for the amendments to IFRS 5 that is effective for annual periods beginning on or after 1 July 2009
IFRSs (Amendments)	Issued in 2009 in relation to the amendment to paragraph 80 of IAS 39
IAS 1 (Revised)	Presentation of Financial Statements
IAS 23 (Revised)	Borrowing Costs
Amendments to IAS 32 and IAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation
Amendments to IFRS 1 and IAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendment to IFRS 2	Share-Based Payment — Vesting Conditions and Cancellations
Amendment to IFRS 7	Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
Amendments to IFRIC – Interpretation 9 and IAS 39	Embedded derivatives
IFRIC – Interpretation 13	Customer Loyalty Programmes
IFRIC – Interpretation 15	Agreements for the Construction of Real Estate
IFRIC – Interpretation 16	Hedges of a Net Investment in a Foreign Operation
IFRIC – Interpretation 18	Transfers of Assets from Customers

As a result of the adoption of IAS 1 (Revised) "Presentation of Financial Statements", details of changes in equity during the period arising from transactions with owners in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in these financial statements and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expenses or net assets for any period presented.

IFRS 8 "Operating Segments" has replaced IAS 14 "Segment Reporting". IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker ("CODM") regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's CODM for the purposes of assessing segment performance and making decisions about operating matters. The CODM has been identified as the board of directors (the "Board") of the Company. The segment identified in accordance with IFRS 8 does not differ materially from that previously disclosed under IAS 14 and thus the adoption of IFRS 8 has no impact on the Group's segment reporting.

The revised IAS 23 eliminates the option of recognising all borrowing costs immediately as an expense. Consequently entities are required to adopt a policy of capitalising borrowing costs, which are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The amendments to IAS 23 have had no material impact on the Group's financial statements.

Except for as stated above the adoption of the new/revised IFRSs did not result in significant changes to the Group's accounting policies.

3. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

(b) Potential impact arising on IFRSs not yet effective

The following new/revised IFRSs, potentially relevant to the Group's operations, have been issued but are not yet effective and have not been early adopted by the Group.

IFRSs (Amendments)	Amendment to IFRS 5 as part of Improvements to IFRSs[1]
IFRSs (Amendments)	Improvements to IFRSs 2009[2]
IAS 24 (Revised)	Related Party Disclosures[3]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
IFRS 3 (Revised)	Business Combinations[1]
IFRS 9	Financial Instruments[4]
IFRIC – Interpretation 17	Distributions of Non-cash Assets to Owners[1]
IFRIC – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 July 2010

The adoption of IFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. IAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in its subsidiaries.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. Thus IFRS 9 improves comparability and makes financial statements easier to understand for investors and other users.

The amendment to IAS 17 made under "Improvements to IFRSs 2009", mandatory for accounting periods beginning on or after 1 January 2010, removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. It provides new guidance which indicates that entity should use judgement to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in IAS 17. The Group will reassess the classification of land elements of unexpired leases at the date it adopts the amendment on the basis of information existing at the inception of the lease and recognise a lease newly classified as a finance lease retrospectively if the criteria of a finance lease is met. If the information necessary to apply the amendment retrospectively is not available, the Group will recognise the related asset and liability at their fair values on the date of adoption and recognise the difference in retained earnings.

The Group is in the process of making an assessment of the potential impact of other new/revised IFRSs and the directors so far concluded that the application of the other new/revised IFRSs will have no material impact on the results and the financial position of the Group.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the "Group"). Inter-company transactions and balances between group companies are 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 statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

Minority interests represent the portion of profit or loss and net assets of subsidiaries attributable to equity 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 statement of financial position within equity, separately from equity attributable to the owners of the Company. Minority interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss for the year attributable to minority interests and the owners of the Company.

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 recognised in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recognised 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

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using the equity method whereby they are initially recognised in the consolidated statement of financial position at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associate's net assets except that losses in excess of the Group's interest 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.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Associates *(continued)*

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 associate and the entire carrying amount of the investment is subject to impairment test by comparing the carrying amount with its recoverable amount, which is higher of value in use and fair value less costs to sell (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.

Jointly controlled entities are accounted for using equity method whereby they are initially recognised at cost and thereafter, their carrying amounts are adjusted for the Group's share of the post-acquisition change in the jointly controlled entities' net assets except that losses in excess of the Group's interest in the jointly controlled entities are not recognised unless there is an obligation to make good those losses.

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 profit or loss.

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

(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 is capitalised as a separate asset with any impairment in carrying value being recognised in profit or loss.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

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 in profit or loss and is not reversed in subsequent periods.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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 items.

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 recognised as an expense in profit or loss during the financial period in which they are incurred.

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 the end of each reporting period. 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

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 stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

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

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 profit or loss.

(g) Investment properties

Investment properties are properties held to earn rentals or for capital appreciation and not occupied by the Group or held for sale in the ordinary course of business. Investment properties are carried at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of investment properties using straight-line method over their useful lives ranging from 20 to 50 years.

(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 as an expense.

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 profit or loss 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

The total rentals payable under the operating leases are recognised in profit or loss 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 the land and building elements, the entire lease payments are included in the cost of land and buildings as a finance lease in property, plant and equipment.

(j) Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately 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 recognised in profit or loss and included in administrative expenses.

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 *(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 recognised in profit or loss and included in administrative expenses.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss 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 (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

(k) Financial instruments

(i) Financial assets

The Group classifies its financial assets, into one of the following categories, at initial recognition, 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.

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.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Financial instruments *(continued)*

(i) Financial assets *(continued)*

Financial assets at fair value through profit or loss (continued)

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.

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 profit or loss 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 receivables), and also incorporate other types of contractual monetary asset. 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. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

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.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- 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;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

4. **PRINCIPAL ACCOUNTING POLICIES** *(continued)*

(k) **Financial instruments** *(continued)*

(ii) Impairment loss on financial assets *(continued)*

For loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as 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 financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

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 profit or loss.

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

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 cost are initially measured at fair value, net of directly attributable costs incurred.

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.

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 profit or loss.

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.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Financial instruments *(continued)*

(iii) Financial liabilities *(continued)*

Financial liabilities at fair value through profit or loss (continued)

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.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost include the following items:

- Trade payables, other short-term monetary liabilities, bank borrowings and the debt element of convertible debt issued by the Group, which are subsequently measured at amortised cost using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

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

(vi) 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.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Financial instruments *(continued)*

(vii) 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 Group has transferred substantially all the risks and rewards of ownership of the financial asset. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continue to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of the ownerships of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(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 and disposal groups

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 profit or loss up to the date of disposal.

(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. Revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Revenue recognition *(continued)*

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

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

Dividend income is recognised when the rights to receive the dividend is 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 end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and 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 end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items directly recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(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 end of reporting period. 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.

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

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(p) Foreign currency *(continued)*

On consolidation, the income and expense items 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 end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss 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 other comprehensive income and accumulated in equity as 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 reclassified to profit or loss 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 end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

(q) Employee benefits

The group entities established in the PRC make 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 entities incorporated in Hong Kong 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 profit or loss as they become payable in accordance with the rules of the MPF scheme.

(r) Capitalisation of 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 profit or loss in the period in which they are incurred.

(s) Impairment of other assets

At the end of each reporting period, 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:

- intangible assets with finite lives;
- property, plant and equipment and investment properties;
- interests in leasehold land held for own use under operating leases;
- interests in associates; and
- interests in jointly controlled entity.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(s) Impairment of other assets *(continued)*

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 they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(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.

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, which is also the revenue, represents the net invoiced value of goods sold net of discounts and sales related taxes during the year. An analysis of the Group's turnover for the year is as follows:

	2009	2008
	RMB'000	*RMB'000*
Sales of refrigerators	**5,208,614**	4,189,049
Sales of air-conditioners	**2,497,832**	3,024,028
Sales of freezers	**594,816**	397,572
Sales of product components	**372,499**	442,260
	8,673,761	8,052,909

6. SEGMENT INFORMATION

The Group manages its business by divisions which are organised by a mixture of both business lines and geography. On the first time adoption of IFRS 8 "Operating Segments" and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has identified the following four reportable segments: Refrigerators, Air-conditioners, Freezers and Product components.

Business Segment

Year ended 31 December 2009

	Refrigerators	**Air-conditioners**	**Freezers**	**Product components**	**Elimination**	**Consolidated**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Turnover						
External sales	**5,208,614**	**2,497,832**	**594,816**	**372,499**	**—**	**8,673,761**
Inter-segment sales	**—**	**—**	**—**	**398,938**	**(398,938)**	**—**
Total turnover	**5,208,614**	**2,497,832**	**594,816**	**771,437**	**(398,938)**	**8,673,761**

Inter-segment sales are charged at prevailing market rates.

Result						
Segment results	**158,541**	**594**	**46,393**	**30,515**	**—**	**236,043**
Unallocated corporate expenses *(Note (a))*						**(33,666)**
						202,377
Share of results of associates	**10,679**	**3,490**	**1,187**	**701**	**—**	**16,057**
Share of results of jointly controlled entity	**(11,701)**	**—**	**—**	**—**	**—**	**(11,701)**
Interest income	**833**	**163**	**47**	**46**	**—**	**1,089**
Finance costs	**(53,800)**	**(13,305)**	**(1,031)**	**(485)**	**—**	**(68,621)**
Profit before income tax expense						**139,201**
Income tax expense	**(2,219)**	**(20)**	**—**	**(1,953)**	**—**	**(4,192)**
Profit for the year						**135,009**

6. SEGMENT INFORMATION *(continued)*

Year ended 31 December 2009 *(continued)*

	Refrigerators *RMB'000*	Air-conditioners *RMB'000*	Freezers *RMB'000*	Product components *RMB'000*	Consolidated *RMB'000*
Assets					
Segment assets	2,168,256	983,548	242,860	360,740	3,755,404
Interests in associates	68,286	22,316	7,587	4,484	102,673
Interests in jointly controlled entity	113,712	—	—	—	113,712
Unallocated corporate assets *(Note (b))*					250,536
Consolidated total assets					4,222,325
Liabilities					
Segment liabilities	3,323,478	1,119,051	145,560	174,613	4,762,702
Unallocated corporate liabilities *(Note (b))*					190,996
Consolidated total liabilities					4,953,698

	Refrigerators *RMB'000*	Air-conditioners *RMB'000*	Freezers *RMB'000*	Product components *RMB'000*	Unallocated *RMB'000*	Consolidated *RMB'000*
Additions of property, plant and equipment	137,032	41,640	19,288	19,101	—	217,061
Additions of intangible assets	3,756	—	—	130	—	3,886
Depreciation of property, plant and equipment	110,744	54,095	12,233	16,124	12,814	206,010
Depreciation of investment properties	2,148	402	35	—	—	2,585
Amortisation of intangible assets	3,697	1,497	233	247	12	5,686
Amortisation of payments for leasehold land held for own use under operating leases	8,748	2,178	773	900	443	13,042
Impairment loss on property, plant and equipment	6,081	3,803	60	3,318	2,998	16,260
Loss/(gain) on disposal of property, plant and equipment	1,518	(642)	505	(892)	—	489
Write down/(reversal of write down) of inventories to net realisable value, net	2,970	(800)	522	1,181	—	3,873
Impairment loss on payments for leasehold land held for own use under operating leases	—	—	—	—	9,403	9,403

6. SEGMENT INFORMATION *(continued)*

Year ended 31 December 2008

	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 turnover	4,189,049	3,024,028	397,572	848,408	(406,148)	8,052,909

Inter-segment sales are charged at prevailing market rates.

	Refrigerators	Air-conditioners	Freezers	Product components	Elimination	Consolidated
Result						
Segment results	(11,095)	(89,945)	2,448	(29,113)	—	(127,705)
Unallocated corporate expenses *(Note (a))*						(21,603)
						(149,308)
Share of results of associates	2,183	1,560	207	247	—	4,197
Interest income	839	375	70	163	—	1,447
Finance costs	(59,709)	(28,820)	(852)	(390)	—	(89,771)
Loss before income tax expense						(233,435)
Income tax expense	(3,889)	(2)	—	(194)	—	(4,085)
Loss for the year						(237,520)

	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 *(Note (b))*					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 *(Note (b))*					1,961,811
Consolidated total liabilities					4,546,134

6. SEGMENT INFORMATION *(continued)*

Year ended 31 December 2008 *(continued)*

	Refrigerators	Air-conditioners	Freezers	Product components	Unallocated	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Additions of property, plant and equipment	187,413	33,026	27,658	26,363	40	274,500
Additions of intangible assets	4,484	2,263	600	300	—	7,647
Depreciation of property, plant and equipment	108,182	66,358	9,490	28,236	2,120	214,386
Depreciation of investment properties	2,003	598	26	—	—	2,627
Amortisation of intangible assets	4,254	3,166	229	201	42	7,892
Amortisation of payments for leasehold land held for own use under operating leases	7,931	2,923	735	1,140	313	13,042
Impairment loss of property, plant and equipment	—	—	—	5,056	—	5,056
(Gain)/loss on disposal of property, plant and equipment, net	277	306	2,662	316	(586)	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

Notes:

(a) Unallocated corporate expenses mainly comprise amortisation of intangible assets and depreciation/impairment loss of property, plant and equipment of dormant group entities.

(b) Unallocated corporate assets and liabilities mainly comprise the amounts due from/to companies suspected to be connected with Mr. Gu, frozen leasehold land and buildings, frozen plant, machinery and equipment and tax recoverable and payable.

Information about major customers

For the year ended 31 December 2009, revenue from group entities under Hisense Group amounting to RMB1,191,353,000 had individually accounted for over 10% of the Group's total revenue. This total revenue was derived from sales of refrigerators, air-conditioners, freezers and product components of RMB807,496,000, RMB334,754,000, RMB26,809,000 and RMB22,294,000 respectively.

For the year ended 31 December 2008, no customer accounted for over 10% of the Group's total revenue.

6. SEGMENT INFORMATION *(continued)*

Geographical information

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

	2009	2008
	RMB'000	*RMB'000*
The PRC		
— Mainland China	**5,650,732**	4,908,477
— Hong Kong	**341,141**	357,652
	5,991,873	5,266,129
Europe	**356,695**	582,678
America	**706,961**	824,377
Others	**1,618,232**	1,379,725
	8,673,761	8,052,909

The Group's operations are principally carried out in the PRC and all of the non-current assets of the Group are located in the PRC.

7. OTHER REVENUE

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

	2009	2008
	RMB'000	*RMB'000*
Interest income	**1,089**	1,447
Penalty income *(Note (a))*	**9,105**	9,509
Rental income and property management income	**13,787**	17,757
Subsidy income *(Note (b))*	**60,741**	23,046
Agency fee income for export services	**2,604**	913
Other income	**8,519**	11,160
	95,845	63,832

Notes:

(a) Penalty income represents 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.

(b) Subsidy income represents mainly subsidies received from relevant authorities in the PRC for encouraging production and business development in Chengdu. The subsidy income also represents the subsidies received in relation to the "Subsidy Programme for Residents' Purchase of Energy-saving Appliance".

8. OTHER GAINS AND LOSSES

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

	2009	2008
	RMB'000	*RMB'000*
Foreign exchange gains/(losses)	**1,326**	(65,733)
Gain on disposal of raw materials	**40,754**	60,669
Loss on disposal of property, plant and equipment	**(489)**	(2,975)
Gain on disposal of non-current assets held for sale *(Note 29)*	**—**	52,888
Gain on waiver of debts from creditors	**6,239**	4,639
Loss on fair value change of foreign currency forward contracts *(Note 28)*	**(2,925)**	(20,307)
Gain/(loss) on disposal of a subsidiary *(Note 40)*	**8,959**	(10,568)
Impairment loss on trade and other receivables, net *(Note 27)*	**(4,416)**	(12,274)
Impairment loss on property, plant and equipment *(Note 16)*	**(16,260)**	(5,056)
Impairment loss on payments for leasehold land held for own use under operating leases *(Note 18)*	**(9,403)**	—
	23,785	1,283

9. DEPRECIATION AND AMORTISATION

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

	2009	2008
	RMB'000	*RMB'000*
Amount charged as cost of sales	**166,231**	176,215
Amount included in distribution costs	**5,319**	6,458
Amount included in administrative expenses	**33,705**	34,340
Amount included in other expenses	**3,340**	—
	208,595	217,013

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:

	2009	2008
	RMB'000	*RMB'000*
Amount included in distribution costs	**2,447**	2,452
Amount included in administrative expenses	**16,281**	18,482
	18,728	20,934

10. FINANCE COSTS

	2009	2008
	RMB'000	*RMB'000*
Interest on:		
— Bank borrowings wholly repayable within five years	**42,203**	66,057
— Discounted note receivables	**2,972**	18,863
— Loan and draft discount financing from Hisense Finance *(Note 37 II (a) (ii), (iii))*	**23,446**	4,851
	68,621	89,771

11. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE

Profit/(loss) before income tax expense is stated after charging:

	2009	2008
	RMB'000	*RMB'000*
Inventories recognised as an expense		
— Upon sales of goods	**6,966,673**	6,799,137
— Upon sales of raw materials/scrap materials	**589,159**	493,479
— Write-down of inventories	**3,873**	17,428
Staff costs (including directors' and supervisors' remuneration)		
— Basic salaries, housing and other allowances and benefits in kind	**605,189**	592,743
— Defined contribution pension costs	**49,409**	49,162
	654,598	641,905
Auditors' remuneration	**3,600**	3,567
Research and development costs included in administrative expenses	**59,910**	64,112
Impairment loss on trade and other receivables, net *(Note 27)*	**4,416**	12,274

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

Year ended 31 December 2009	**Fees**	**Basic salaries, housing and other allowances and benefits in kind**	**Defined contribution pension costs**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Executive directors				
Tang Ye Guo	—	**774**	**4**	**778**
Yu Shu Min	—	—	—	—
Lin Lan	—	—	—	—
Liu Chun Xin	—	**338**	**4**	**342**
Zhang Ming	—	**228**	**4**	**232**
Zhou Xiao Tian *(i)*	—	**639**	—	**639**
Independent non-executive directors				
Zhang Sheng Ping	**60**	—	—	**60**
Lu Qing	**60**	—	—	**60**
Cheung Yui Kai, Warren	**240**	—	—	**240**
Supervisors				
Guo Qing Cun	—	—	—	—
Gao Zhong Xiang	—	—	—	—
Liu Zhan Cheng	—	**221**	**4**	**225**
	360	**2,200**	**16**	**2,576**

(i) Mr. Zhou Xiao Tian was appointed on 4 February 2009.

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

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

Year ended 31 December 2008	Fees	Basic salaries, housing and other allowances and benefits in kind	Defined contribution pension costs	Total
	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 *(ii)*	—	273	4	277
Yang Yun Duo *(iii)*	—	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 *(iv)*	—	—	—	—
Gao Zhong Xiang *(v)*	—	—	—	—
Liu Zhan Cheng	—	183	4	187
	360	2,146	21	2,527

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

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 2009 and 2008.

None of the directors and supervisors received compensation for the loss of office as a director or a supervisor of the Company in connection with the management of the affairs of the Group for the years ended 31 December 2009 and 2008.

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five highest paid individuals of the Group, three (2008: two) are directors of the Group whose emoluments are included in note 12 above. The emoluments of the remaining two individuals (2008: three) are as follows:

	2009	2008
	RMB'000	*RMB'000*
Basic salaries, housing and other allowances and benefits in kind	**742**	1,357

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS *(continued)*

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

	2009	2008
	Number of individual	Number of individual
Nil to RMB880,480 (2008: Nil to RMB909,000) (equivalent to Nil to HKD1,000,000)	**2**	3

14. INCOME TAX EXPENSE

The amount of taxation in the consolidated statement of comprehensive income represents:

	2009	2008
	RMB'000	*RMB'000*
Current tax — PRC Enterprise Income Tax ("EIT")		
— Tax for the year	**2,931**	21
— Under provision in respect of prior years	**487**	6,236
	3,418	6,257
Under provision of current tax in respect of prior years for foreign operations	**—**	175
Deferred tax *(Note 25)*	**774**	(2,347)
Income tax expense	**4,192**	4,085

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

With effect from 1 January 2008, the PRC EIT rate has been unified at 25%.

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. ("Ronshen Refrigerator") and Guangdong Kelon Mould Co., Ltd ("Kelon Mould") are each entitled to a preferential tax rate of 15% as "high technology" company for the years ended 31 December 2008, 2009 and 2010. For the year ended 31 December 2009, Hisense Ronshen (Guangdong) Freezer Co., Ltd. ("Kelon Freezer") which has been recognised as "high technology" company is also entitled to a preferential tax rate of 15% for the years ended 31 December 2009, 2010 and 2011.

Hisense Ronshen Yangzhou Refrigerator Co., Ltd. ("Yangzhou Kelon"), and Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon") 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.

14. INCOME TAX EXPENSE *(continued)*

Other subsidiaries of the Company, which were established and are operating in the PRC are subject to EIT at a standard rate of 25% for the years ended 31 December 2008 and 2009.

Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the year ended 31 December 2009. No Hong Kong Profits tax is provided as no assessable profits have been derived from the group entities operating in Hong Kong.

The income tax expense for the year can be reconciled to the profit/(loss) per the consolidated statement of comprehensive income as follows:

	2009 ***RMB'000***	2008 *RMB'000*
Profit/(loss) before income tax expense	**139,201**	(233,435)
Less: Share of results of associates	**(16,057)**	(4,197)
Less: Share of results of jointly controlled entity	**11,701**	—
	134,845	(237,632)
Tax calculated at the PRC statutory rate of 25% (2008: 25%)	**33,711**	(59,408)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(41)**	(1,774)
Effect of exemption granted and preferential tax treatment	**(37,717)**	6,875
Tax effect of expense not deductible for tax purposes	**1,501**	2,580
Tax effect of revenue not taxable for tax purposes	**(6,207)**	(8,039)
Tax effect of tax losses and other deductible temporary differences not recognised	**40,714**	72,843
Under provision in respect of prior years	**487**	6,411
Utilisation of tax losses previously not recognised	**(28,256)**	(15,403)
Income tax expense	**4,192**	4,085

At the end of reporting period, 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. EARNINGS/(LOSSES) PER SHARE

The calculation of basic and diluted earnings/losses per share attributable to owners of the Company for the year is based on the net profit attributable to owners of the Company for the year of RMB136,412,000 (2008: net loss attributable to owners of the Company of RMB231,896,000) and 992,006,563 shares (2008: 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 2009

	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						
As at 1 January 2009	**1,133,545**	**1,879,991**	**261,003**	**15,718**	**92,677**	**3,382,934**
Exchange differences	—	**(1)**	—	**(2)**	—	**(3)**
Additions at cost	**1,436**	**57,968**	**53,547**	**1,108**	**103,002**	**217,061**
Disposals	—	**(67,614)**	**(22,028)**	**(4,305)**	**(6,271)**	**(100,218)**
Transfer to investment in jointly controlled entity	—	**(49,499)**	**(15,058)**	—	—	**(64,557)**
Reclassified to assets held for sale *(Note 29)*	**(13,488)**	**(2,783)**	—	—	—	**(16,271)**
Reclassification	**12,787**	**21,934**	**11,736**	**717**	**(47,174)**	—
As at 31 December 2009	**1,134,280**	**1,839,996**	**289,200**	**13,236**	**142,234**	**3,418,946**
Accumulated depreciation and impairment						
As at 1 January 2009	**477,863**	**1,339,887**	**164,830**	**10,538**	**26,742**	**2,019,860**
Exchange differences	—	**(1)**	—	**(2)**	—	**(3)**
Depreciation for the year	**68,450**	**81,569**	**54,547**	**1,444**	—	**206,010**
Impairment provided for the year	**1,607**	**5,291**	**2,577**	**201**	**6,584**	**16,260**
Elimination on disposals	—	**(61,280)**	**(21,173)**	**(3,996)**	**(538)**	**(86,987)**
Transfer to investment in jointly controlled entity	—	**(3,468)**	**(3,804)**	—	—	**(7,272)**
Reclassified to assets held for sale *(Note 29)*	**(3,966)**	—	—	—	—	**(3,966)**
As at 31 December 2009	**543,954**	**1,361,998**	**196,977**	**8,185**	**32,788**	**2,143,902**
Net book value						
As at 31 December 2009	**590,326**	**477,998**	**92,223**	**5,051**	**109,446**	**1,275,044**

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

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						
As 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 40)*	(24,408)	(33,717)	—	(180)	—	(58,305)
Reclassification	85,669	126,472	14,559	393	(227,093)	—
As at 31 December 2008	1,133,545	1,879,991	261,003	15,718	92,677	3,382,934
Accumulated depreciation and impairment						
As 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 40)*	(5,845)	(13,060)	—	(129)	(7,708)	(26,742)
Reclassification	—	7,294	14	332	(7,640)	—
As at 31 December 2008	477,863	1,339,887	164,830	10,538	26,742	2,019,860
Net book value						
As at 31 December 2008	655,682	540,104	96,173	5,180	65,935	1,363,074

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

	2009 ***RMB'000***	2008 *RMB'000*
Japan	**20,423**	22,038

Certain of the Group's "leasehold land and buildings" and "plant, machinery and equipment" with an aggregate net book value of approximately RMB33,622,000 (2008: RMB38,998,000) and RMB20,515,000 (2008: RMB29,339,000) have been frozen by relevant local PRC courts which are undergone legal proceedings.

"Leasehold land and buildings" with net book values of approximately RMB319,965,000 (2008: RMB340,363,000) has been pledged as security for the Group's banking facilities.

17. INVESTMENT PROPERTIES

	2009	2008
	RMB'000	*RMB'000*
Cost		
As at 1 January	**57,356**	57,356
Additions at cost	**782**	—
As at 31 December	**58,138**	57,356
Accumulated depreciation and impairment		
As at 1 January	**21,791**	19,164
Depreciation for the year	**2,585**	2,627
As at 31 December	**24,376**	21,791
Carrying amount at 31 December	**33,762**	35,565
Directors' valuation at fair value	**54,460**	53,538

The Group's investment properties are situated in the PRC. The valuation for the investment properties at 31 December 2009 were determined by the directors by reference to the market price for similar properties.

Investment properties with net book value of approximately RMB17,211,000 (2008: RMB1,937,000) have 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:

	2009	2008
	RMB'000	*RMB'000*
Leasehold land in the PRC:		
— Medium-term leases	**261,794**	286,835

(i) As at 31 December 2009, certain pieces of land of the Group with an aggregate net book value of approximately RMB9,580,000 (2008: RMB19,425,000) have their legal titles frozen by relevant local PRC courts which are undergone legal proceedings.

18. PAYMENTS FOR LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES *(continued)*

(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 31 December 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.

Since the consolidated financial statements for the year ended 31 December 2007, the carrying amount of such land use right has been fully impaired for the maximum loss that may arise.

(iii) In July 2004, Shangqiu Kelon also acquired 2 other pieces of land use right with 9.8 acres from Shangqiu Bing Xiong at a consideration of approximately RMB10 million. However, at the date of transfer, Shangqiu Bing Xiong did not obtain the legal entitlement on these 2 pieces of land due to its unsettled purchase transaction with the original owners, Henan Bing Xiong Ice Maker Company Limited ("Bing Xiong Ice Maker") and Henan Bing Xiong Air-Conditioner Company Limited ("Bing Xiong Air-Conditioner"). In 2005, the local court reached its judgment that the transfer agreement signed between Shangqiu Kelon and Shangqiu Bing Xiong was void and the entitlement of the 2 pieces of land use right was owned by Bing Xiong Ice Maker and Bing Xiong Air-Conditioner, but Shangqiu Kelon lodged an appeal against the local court's judgement. In December 2009, the court turned down its appeal and held out that Shangqiu Kelon had to return the 2 pieces of land use right to Bing Xiong Ice Maker and Bing Xiong Air-Conditioner.

As at 31 December 2009, the Group further provided provision of impairment of approximately RMB9,403,000 to fully impair the carrying amount of these 2 pieces of land use right for the maximum loss that may arise.

(iv) As at 31 December 2009, 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 RMB166,658,000 (2008: RMB180,142,000).

19. INTERESTS IN SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2009 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
Kelon Mould	PRC *(i)* 20 July 1994	US$15,056,100	40.22%	29.89%	Manufacture of moulds
Ronshen Refrigerator	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
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

19. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place and date of incorporation/ establishment	Registered capital	Percentage of ownership interest/ profit share Directly	Indirectly	Principal activities
Entities operating in the PRC: *(continued)*					
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 *(ii)* 22 August 2003	RMB24,000,000	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	RMB50,000,000	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.

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

The above table lists the subsidiaries of the Company that, 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

	2009	2008
	RMB'000	*RMB'000*
Share of net assets	**102,673**	86,589
Listed investment	**98,892**	82,934
Unlisted investment	**3,781**	3,655
	102,673	86,589
Fair value of listed investment	**501,412**	197,364

Details of the goodwill are as follows:

	2009	2008
	RMB'000	*RMB'000*
Cost		
As at 1 January and 31 December	**131,207**	131,207
Accumulated impairment		
As at 1 January and 31 December	**131,207**	131,207
Carrying amount as at 31 December	**—**	—

Details of the Group's principal associates as at 31 December 2009 are listed under a table as follows:

Name	Place and date of incorporation/ establishment	Registered capital	Percentage of ownership interest/ 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

Notes:

(i) Huayi was established as a joint stock limited company and its securities have being traded in the Shenzhen Stock Exchange. Notwithstanding the Company's ownership 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 accounts for its interest in Huayi under the equity method.

(ii) Attend Logistics was established as a limited liability company.

20. INTERESTS IN ASSOCIATES *(continued)*

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

	2009	2008
	RMB'000	*RMB'000*
Total assets	**2,729,082**	2,120,231
Total liabilities	**(1,869,547)**	(1,423,711)
Net assets	**859,535**	696,520
Group's share of net assets of associates	**102,673**	86,589
Total revenue	**3,273,268**	3,108,161
Total profit for the year	**87,876**	23,229
Group's share of profits of associates for the year	**16,057**	4,197

The financial statements of Huayi and Attend Logistics have been audited by Sichuan Shinewing Certified Public Accountants and Guangdong Branch of China Regal Certified Public Accountants respectively.

21. INTERESTS IN JOINTLY CONTROLLED ENTITY

	2009	2008
	RMB'000	*RMB'000*
Share of net assets	**113,712**	33,750

Details of the Group's interest in the jointly controlled entity as at 31 December 2009 are as follows:

Name	**Place and date of incorporation/ establishment**	**Registered capital**	**Percentage of ownership interest/ profit sharing Directly**	**Indirectly**	**Principal activities**
Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd. ("Hisense-Whirlpool") *(i)*	PRC *(i)* 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.

As at 31 December 2009, both parties have accumulatively injected approximately RMB129,530,000 (year ended 31 December 2008: RMB33,750,000) each into Hisense-Whirlpool.

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

The summarised financial information in respect of the Group's effective interest in jointly controlled entity is set out below:

	2009	2008
	RMB'000	*RMB'000*
Non-current assets	**117,474**	—
Current assets	**193,975**	33,748
Current liabilities	**(197,737)**	—
Net assets	**113,712**	33,748
Income	**203,564**	—
Expenses	**(215,265)**	—
Profit before income tax expense	**(11,701)**	—
Taxation	**—**	—
Profit after income tax expense	**(11,701)**	—

The Group's share of Hisense-Whirlpool's capital commitments is RMB8,137,000 (2008: RMB Nil).

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2009	2008
	RMB'000	*RMB'000*
Unquoted long-term equity investments in the PRC, at cost *(a)*	**11,559**	11,799
Less: Accumulated impairment *(b)*	**(7,249)**	(7,249)
	4,310	4,550

(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 accumulated impairment losses at the end of reporting period 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 2009				
Cost				
As at 1 January 2009	**524,410**	**48,537**	**36,983**	**609,930**
Additions at cost	—	—	**3,886**	**3,886**
Disposal	—	**(10,935)**	**(6,435)**	**(17,370)**
As at 31 December 2009	**524,410**	**37,602**	**34,434**	**596,446**
Accumulated amortisation and impairment				
As at 1 January 2009	**403,480**	**5,336**	**33,979**	**442,795**
Charge for the year	—	**3,884**	**1,802**	**5,686**
Elimination on write off	—	**(103)**	**(6,435)**	**(6,538)**
As at 31 December 2009	**403,480**	**9,117**	**29,346**	**441,943**
Net book value				
As at 31 December 2009	**120,930**	**28,485**	**5,088**	**154,503**
Year ended 31 December 2008				
Cost				
As 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 40)*	—	—	(8)	(8)
Write off	—	—	(1,139)	(1,139)
As at 31 December 2008	524,410	48,537	36,983	609,930
Accumulated amortisation and impairment				
As 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 40)*	—	—	(4)	(4)
Elimination on write off	—	—	(411)	(411)
As at 31 December 2008	403,480	5,336	33,979	442,795
Net book value				
As at 31 December 2008	120,930	43,201	3,004	167,135

(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 "Intangible Assets", trademarks are assessed to have indefinite useful lives and therefore are not amortised but tested for impairment for each reporting date or whenever there is an indication of impairment.

23. INTANGIBLE ASSETS *(continued)*

(i) Impairment tests for trademarks *(continued)*

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 2009, the management performed assessment and concluded that no further impairment of the trademarks is necessary.

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:

	2009	2008
	RMB'000	*RMB'000*
Air-conditioners	**41,025**	41,025
Refrigerators	**79,905**	79,905
	120,930	120,930

The recoverable amounts of the segments Air-conditioners and 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 2014 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 2009 was higher than their net book values. 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 2009	
Cost	
As at 1 January 2009 and 31 December 2009	**47,033**
Accumulated impairment	
As at 1 January 2009 and 31 December 2009	**47,033**
Net book value	
As at 31 December 2009	—
Year ended 31 December 2008	
Cost	
As at 1 January 2008 and 31 December 2008	47,033
Accumulated impairment	
As at 1 January 2008 and 31 December 2008	47,033
Net book value	
As at 31 December 2008	—

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 deductible temporary differences and unused tax losses can be utilised, based on all available evidence. Net movement for the year is as follows:

	2009	2008
	RMB'000	*RMB'000*
As at 1 January	**13,647**	11,300
(Charge)/credit to profit or loss	**(774)**	2,347
As at 31 December	**12,873**	13,647

The following is the major deferred tax assets and movements thereon for the year:

	Depreciation allowance and provisions	**Tax losses**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
As at 1 January 2009	**9,530**	**4,117**	**13,647**
(Charge)/credit to profit or loss for the year	**(6,851)**	**6,077**	**(774)**
As at 31 December 2009	**2,679**	**10,194**	**12,873**
As at 1 January 2008	7,183	4,117	11,300
Credit to profit or loss for the year	2,347	—	2,347
As at 31 December 2008	9,530	4,117	13,647

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2009	2008
	RMB'000	*RMB'000*
Deferred tax assets	**12,873**	13,647

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:

	2009	2008
	RMB'000	*RMB'000*
Unused tax losses	**2,466,557**	2,505,260
Deductible temporary differences	**633,700**	611,917
	3,100,257	3,117,177

25. DEFERRED TAX ASSETS *(continued)*

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:

	2009	2008
	RMB'000	*RMB'000*
Tax losses will expire in 2009	—	44,748
Tax losses will expire in 2010	**1,027,482**	1,129,327
Tax losses will expire in 2011	**570,952**	608,022
Tax losses will expire in 2012	**279,133**	291,502
Tax losses will expire in 2013	**320,699**	332,436
Tax losses will expire in 2014	**139,228**	—
Tax losses can be carried forward indefinitely	**129,063**	99,225
	2,466,557	2,505,260

26. INVENTORIES

	2009	2008
	RMB'000	*RMB'000*
Raw materials	**124,409**	84,257
Work in progress	**37,078**	16,712
Finished goods	**495,049**	404,559
	656,536	505,528

As at 31 December 2009, there was no inventory pledged for bank borrowings (2008: Nil).

27. TRADE AND OTHER RECEIVABLES

	2009	2008
	RMB'000	*RMB'000*
Trade receivables *(i)*, *(iii)* & *(iv)*	**572,469**	458,947
Notes receivable *(i)*	**54,508**	62,453
Other receivables *(ii)* & *(iii)*	**417,746**	207,646
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**	213,217
Amounts due from group entities under Hisense Group *(Note 37 III a)*	**111,068**	36,086
Amounts due from associates *(Note 37 III b)*	—	5
Amounts due from jointly controlled entity *(Note 37 III c)*	**2,183**	—
	1,443,252	1,050,415

27. TRADE AND OTHER RECEIVABLES *(continued)*

(i) As at 31 December 2009, included in trade and notes receivable was an amount of RMB231,440,000 (2008: RMB179,279,000) being pledged for bank borrowings.

The aging analysis of trade receivables is as follows:

	2009	2008
	RMB'000	*RMB'000*
Within three months	**500,418**	412,441
Three to six months	**62,796**	36,832
Six months to one year	**3,119**	9,541
Over one year	**156,644**	160,500
Less: Provision for impairment of trade receivables	**(150,508)**	(160,367)
As at 31 December	**572,469**	458,947

Normal credit term of 60 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.

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

	2009	2008
	RMB'000	*RMB'000*
Less than three months past due	**47,223**	77,609
More than three months but less than twelve months past due	**3,783**	16,023
More than twelve months past due	**5,244**	2,267
Amount past due at the end of reporting period but not impaired *(Note a)*	**56,250**	95,899

(a) The balances that were 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 2009, other receivables principally comprised value-added tax recoverable and prepayment to suppliers of RMB170,637,000 (2008: RMB88,898,000) and RMB161,079,000 (2008: RMB38,079,000) respectively.

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

27. TRADE AND OTHER RECEIVABLES *(continued)*

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

	2009	2008
	RMB'000	*RMB'000*
As at 1 January	**552,628**	579,160
Impairment loss recognised	**8,142**	14,369
Bad debt written off	**(13,401)**	(38,806)
Reversal of impairment loss previously recognised	**(3,726)**	(2,095)
As at 31 December	**543,643**	552,628

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

(iv) As at 31 December 2009, the Group has trade and other receivables denominated in USD of approximately RMB324,994,000 (2008: RMB300,038,000).

(v) On 13 December 2006, the share transfer transaction between Greencool Enterprise and Hisense Air-Conditioning 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 2009, accumulated impairment losses of approximately RMB345,968,000 (2008: RMB345,968,000) and RMB18,985,000 (2008: 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 contracts to manage its foreign currency risk exposures arising from ordinary course of business. These contracts are primarily denominated in the currencies of the Group's principal markets. At the end of reporting period, the details of outstanding contracts are as follows:

	2009	
	Notional amounts ***RMB'000***	**Forward rates**
— Contracted to sell USD in exchange for RMB	**344,495**	**6.7130 to 6.8250**
— Contracted to sell Euro in exchange for RMB	**40,372**	**8.8570 to 10.2505**
— Contracted to sell AUD in exchange for RMB	**19,236**	**6.0378 to 6.2830**
— Contracted to buy USD	**348,238**	**0.1479 to 0.1510**
— Contracted to buy Euro	**1,126**	**0.1119 to 0.1119**

28. OTHER FINANCIAL ASSETS AND LIABILITIES *(continued)*

	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

The foreign currency forward contracts are required to be settled net in cash on maturity date and were measured at fair value at the end of reporting period. These contracts are mature within one year from the end of reporting period. The net fair value loss of the foreign currency forward contracts for the year ended 31 December 2009 is RMB2,925,000 (2008: net fair value loss of the foreign currency forward exchange contracts RMB20,307,000). The fair values of these contracts are based on market values of equivalent instruments provided by counterparty financial institutions at the end of reporting period.

29. NON-CURRENT ASSETS HELD FOR SALE

(a) In May 2007, the Group entered into a sale and purchase agreement to dispose certain land and buildings to an independent third party. The sales transaction was completed during the year ended 31 December 2008. The Group recognised a gain of RMB52,888,000 during the year ended 31 December 2008 upon the completion of the transaction, which is included in other gains and losses (Note 8) of the consolidated statement of comprehensive income.

(b) During the second half of 2009, the directors proposed to dispose one of the Company's subsidiary, Wuhu Ecan Motors Company Limited ("Wuhu Ecan") and started the negotiation process with potential buyers. In January 2010, the Company signed a share transfer agreement with an independent third party to dispose of its 100% equity interests in Wuhu Ecan for a cash consideration of approximately RMB12 million. The sales transactions have been completed in early 2010. As at 31 December 2009, Wuhu Ecan was classified as a disposal group. All its assets are presented as "Non-current assets classified as held for sale" and all its liabilities are presented as "Liabilities directly associated with non-current assets held for sale" in the consolidated statement of financial position.

The assets and liabilities of Wuhu Ecan comprising the operations classified as held for sale at the end of reporting period are as follows:

	2009 *RMB'000*
Property, plant and equipment	**12,305**
Payments for leasehold land held for own use under operating leases	**2,596**
Inventories	**5,077**
Trade and other receivables	**11,542**
Cash and cash equivalents	**54**
Assets classified as held for sale	**31,574**
Trade and other payables	**25,714**
Borrowings	**5,200**
Liabilities of a disposal group classified as held for sale	**30,914**

30. TRADE AND OTHER PAYABLES

	2009	2008
	RMB'000	*RMB'000*
Trade payables	**1,092,606**	819,919
Notes payable	**648,000**	445,750
Other payables	**492,144**	483,400
Accruals	**277,503**	184,363
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**	114,939
Amounts due to group entities under Hisense Group *(Note 37 III a)*	**216,744**	79,990
Amounts due to associates *(Note 37 III b)*	**81,100**	43,522
Amounts due to a jointly controlled entity *(Note 37 III c)*	**23,323**	—
Amounts due to other related companies *(Note 37 III d)*	**7,458**	7,458
	2,966,867	2,192,391

Included in trade and other payable are trade payables with the following aging analysis at the end of reporting period:

	2009	2008
	RMB'000	*RMB'000*
Within one year	**946,020**	638,531
One to two years	**23,931**	76,948
Two to three years	**41,029**	25,298
Over three years	**81,626**	79,142
	1,092,606	819,919

As at 31 December 2009, the Group has trade and other payables denominated in USD of approximately RMB23,518,000 (2008: RMB29,301,000).

31. PROVISIONS

	Warranty *(i)*	**Legal *(ii)***	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2009	**83,073**	**31,142**	**114,215**
Provision in the year	**91,739**	**6,353**	**98,092**
Utilisation of provision	**(73,190)**	**(30,698)**	**(103,888)**
As at 31 December 2009	**101,622**	**6,797**	**108,419**
As at 1 January 2008	133,420	10,586	144,006
Provision in the year	3,554	20,556	24,110
Utilisation of provision	(53,901)	—	(53,901)
As at 31 December 2008	83,073	31,142	114,215

(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

	2009	2008
	RMB'000	*RMB'000*
Government grants	**30,848**	29,384

The amount represents government grants received for the Group's research and development activities. Government grants recognised as income for the year amounted to approximately RMB60,741,000 (2008: RMB23,046,000).

33. BORROWINGS

	2009	2008
	RMB'000	*RMB'000*
Bank loans *(i)*	**332,113**	1,314,948
Other loans *(ii)*	**998,760**	500,000
Borrowings due within one year	**1,330,873**	1,814,948
Analysed as:		
— Secured	**332,113**	651,089
— Unsecured	**998,760**	1,163,859
	1,330,873	1,814,948

(i) As at 31 December 2009, bank borrowings of approximately RMB332,113,000 (2008: RMB651,089,000) 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), and trade and notes receivable (Note 27).

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

	2009	2008
Fixed-rate borrowings	**3.98% to 7.5%**	4.32% to 8.02%
Variable-rate borrowings	—	PRC National benchmark interest rate (4.78% to 6.12%)

At 31 December 2009, included in bank borrowings were amount of RMB Nil (2008: RMB29,629,000) 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.

At 31 December 2009, included in bank borrowings was an amount of approximately RMB231,440,000 (2008: RMB186,829,000) in respect of notes and trade receivables factored to banks with recourse.

(ii) The other loans represent borrowings from Hisense Finance, which are guaranteed by Hisense Group and bear interest at a rate of 4.779% per annum and are repayable within one year.

34. SHARE CAPITAL

	2009 RMB'000	2008 RMB'000
Share of RMB1 each:		
459,589,808 (2008: 459,589,808) H shares	**459,590**	459,590
234,375,922 (2008: 298,311,835) transferable A shares that are subject to selling restrictions	**234,376**	298,312
298,040,833 (2008: 234,104,920) A shares	**298,041**	234,105
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 last 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 consolidated statement of financial position) less cash and cash equivalents. Adjusted capital comprises all components of equity.

During 2009, the Group's strategy, which was unchanged from 2008 was to substantially finance through debts as the Group has deficiency in equity of RMB731,373,000 (2008: RMB858,628,000). As at 31 December 2009, the total borrowings were approximately RMB1,330,873,000 (2008: RMB1,814,948,000). (Note 33).

35. DIVIDENDS

No dividend was paid or proposed during 2009, nor has any dividend been proposed since the end of reporting period (2008: Nil).

36. 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 2009 was as follows:

	2009	2008
	RMB'000	*RMB'000*
Operating lease charges		
— Leasehold land and buildings	**7,548**	9,368
— Plant and machinery	**622**	54

The total future payments under non-cancellable operating leases at the end of reporting period is due as follows:

	2009	2008
	RMB'000	*RMB'000*
Not later than one year	**1,851**	1,865
Later than one year and not later than five years	**1,029**	205
	2,880	2,070

Operating leases — lessor

The Group's investment properties are also leased to a number of tenants for varying terms. The sub-lease rental income for the year ended 31 December 2009 was RMB13,787,000 (2008: RMB17,757,000).

The minimum rent receivables under non-cancellable operating leases at the end of reporting period is as follows:

	2009	2008
	RMB'000	*RMB'000*
Not later than one year	**2,843**	3,776
Later than one year and not later than five years	**3,434**	4,840
	6,277	8,616

37. 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.

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-Conditioning 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-Conditioning	The substantial shareholder of the Company
Hisense Group	The holding company of Hisense Air-Conditioning
Qingdao Hisense Marketing Co., Ltd. ("Hisense Marketing")	A subsidiary of Hisense Air-Conditioning
Hisense Electric Co., Ltd. ("Hisense Electric")	A fellow subsidiary of Hisense Air-Conditioning
Qingdao Hisense Electronic Technology Service Co., Ltd ("Qingdao Technology")	A fellow subsidiary of Hisense Air-Conditioning
Hisense (Zhejiang) Air-Conditioner Co., Ltd. ("Hisense Zhejiang")	A subsidiary of Hisense Air-Conditioning
Hisense (Shandong) Air-Conditioner Co., Ltd. ("Hisense Shandong")	A subsidiary of Hisense Air-Conditioning
Hisense (Nanjing) Electric Co., Ltd. ("Hisense Nanjing")	A subsidiary of Hisense Air-Conditioning
Hisense (Beijing) Electric Co., Ltd. ("Hisense Beijing")	A subsidiary of Hisense Air-Conditioning
Qingdao Hisense Moulds Co., Ltd. ("Hisense Moulds")	A fellow subsidiary of Hisense Air-Conditioning
Guangdong Hisense Multimedia Co., Ltd. ("Hisense Multimedia")	A fellow subsidiary of Hisense Air-Conditioning
Savor Household Electrical Appliance Service Industry Co., Ltd. ("Savor Service")	A fellow subsidiary of Hisense Air-Conditioning
Hisense International (HK) Co., Ltd. ("Hisense Hong Kong")	A fellow subsidiary of Hisense Air-Conditioning
Hisense Finance	A fellow subsidiary of Hisense Air-Conditioning

37. RELATED PARTY TRANSACTIONS *(continued)*

I. Relationship with related parties *(continued)*

Name of related parties	Relationship
Attend Logistics	An associate of the Company
Huayi	An associate of the Company
Hisense-Whirlpool	A jointly controlled entity of the Company
Jiaxibeila Compressor Company Limited (“Jiaxibeila”)	A subsidiary of Huayi
Chongqing Rongsheng Kelon Refrigerators Co., Ltd. (“Chongqing Rongsheng”)	An associate of the Company before 15 May 2008
Jiangxi Combine	An unconsolidated subsidiary of the Company
Xi’an Gaoke (Group) Limited (“Xi’an Gaoke”)	A minority investor of Xi’an Kelon

II. Transactions with related parties

(a) Transactions with group entities under Hisense Group

The transactions below constitute connected transactions/continuing connected transactions as defined under Chapter 14A “Connected Transactions” of the Listing Rules and are exempted from independent shareholders’ approval requirements. The transactions were reviewed by the independent non-executive directors and it is confirmed that these transactions complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The Group had the following significant transactions with group entities under Hisense Group:

	Notes	**2009** ***RMB’000***	2008 *RMB’000*
Sales of goods/raw materials to			
— Hisense Shandong	*(i)*	**228,216**	95,459
— Hisense Marketing	*(i)*	**—**	352
— Hisense Zhejiang	*(i)*	**10,524**	21,258
— Hisense Beijing	*(i)*	**545,710**	165,365
— Hisense Nanjing	*(i)*	**59,334**	35,356
— Hisense Hong Kong	*(i)*	**342,118**	18,857
— Hisense Multimedia	*(i)*	**—**	293
— Savor Service	*(i)*	**242**	—
Sales of moulds to			
— Hisense Shandong	*(i)*	**399**	2,723
— Hisense Zhejiang	*(i)*	**—**	1,032
— Hisense Beijing	*(i)*	**1,083**	1,294
— Hisense Nanjing	*(i)*	**2,291**	2,173
— Hisense Moulds	*(i)*	**1,436**	2,970

37. RELATED PARTY TRANSACTIONS *(continued)*

II. Transactions with related parties *(continued)*

(a) Transactions with group entities under Hisense Group (continued)

	Notes	**2009** **RMB'000**	2008 RMB'000
Sales of property, plant and equipment to			
— Hisense Nanjing		**425**	—
— Hisense Beijing		**431**	—
Service fee charged to			
— Hisense Multimedia		**301**	—
— Hisense Zhejiang		**208**	—
Loan interest to			
— Hisense Finance	*(ii)*	**23,446**	358
Draft discount services fee to			
— Hisense Finance	*(iii)*	**—**	4,493
Purchases of goods/raw materials from			
— Hisense Shandong	*(i)*	**191,870**	119,917
— Hisense Zhejiang	*(i)*	**113,725**	485,116
— Hisense Nanjing	*(i)*	**559,893**	247,564
— Hisense Beijing	*(i)*	**196,413**	88,660
Purchases of property, plant and equipment from			
— Hisense Shandong		**2,667**	—
— Hisense Beijing		**5**	—
— Hisense Nanjing		**9,230**	—
Repairs and maintenance services provided by			
— Savor Service		**2,292**	1,113
— Qingdao Technology		**2,069**	—
Loan and note payables guarantee provided by Hisense Group Co., Ltd.			
— amount as at 31 December		**1,546,760**	1,259,000
Loan provided by Hisense Finance			
— amount as at 31 December	*(ii)*	**998,760**	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.

37. RELATED PARTY TRANSACTIONS *(continued)*

II. Transactions with related parties *(continued)*

(b) Transactions with associates

The Group had the following significant transactions with associates:

	Notes	**2009**	2008
		RMB'000	*RMB'000*
Sales of goods/raw materials to			
— Chongqing Rongsheng	*(i)*	—	6,208
— Huayi and Jiaxibeila	*(i)*	—	39
Purchases of goods/raw materials from			
— Huayi and Jiaxibeila	*(ii)*	**371,403**	276,058
Service fee charged to			
— Attend Logistics		**60**	76
Logistics management fee/warehouse rental to			
— Attend Logistics	*(iii)*	—	5,621

(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) Transaction with a jointly controlled entity

The Group had the following significant transactions with Hisense-Whirlpool:

	Notes	**2009**	2008
		RMB'000	*RMB'000*
Sales of goods/raw materials to	*(i)*	**7,763**	—
Sales of property, plant and equipment to	*(i)*	**4,932**	—
Sales of moulds to	*(i)*	**3,079**	—
Purchases of goods/raw materials from	*(i)*	**46,032**	—
Services fee charged to		**434**	—

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

37. RELATED PARTY TRANSACTIONS *(continued)*

III. Balances with related parties

(a) Balances with group entities under Hisense Group

	2009	2008
	RMB'000	*RMB'000*
Included in trade and other receivables, net		
— Hisense Zhejiang	**490**	4,004
— Hisense Nanjing	**1,749**	779
— Hisense Beijing	**4,499**	21,749
— Savor Service	**27**	3
— Hisense Electric	**—**	100
— Hisense Hong Kong	**103,105**	8,104
— Hisense Multimedia	**1**	212
— Hisense Shandong	**938**	1,135
— Hisense Moulds	**259**	—
	111,068	36,086
Included in trade and other payables		
— Hisense Shandong	**23,034**	3,925
— Hisense Marketing	**—**	35,481
— Hisense Nanjing	**187,715**	20,026
— Hisense Zhejiang	**5,355**	15,351
— Savor Service	**640**	475
— Hisense Hong Kong	**—**	4,580
— Hisense Moulds	**—**	152
	216,744	79,990

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

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

(b) Balances with associates

	2009	2008
	RMB'000	*RMB'000*
Included in trade and other receivables, net		
— Attend Logistics	**—**	5
Included in trade and other payables		
— Attend Logistics	**—**	4,556
— Huayi and Jiaxibeila	**81,100**	38,966
	81,100	43,522

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

37. RELATED PARTY TRANSACTIONS *(continued)*

III. Balances with related parties *(continued)*

(c) Balances with a jointly controlled entity

	2009	2008
	RMB'000	*RMB'000*
Included in trade and other receivables, net		
— Hisense-Whirlpool	**2,183**	—
Included in trade and other payables		
— Hisense-Whirlpool	**23,323**	—

Amount due to a jointly controlled entity is unsecured, interest-free and is repayable on demand.

(d) Balances with other related companies

	2009	2008
	RMB'000	*RMB'000*
Included in trade and other payables		
— Jiangxi Combine	**5,100**	5,100
— Xi'an Gaoke	**2,358**	2,358
	7,458	7,458

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

IV. Key management personnel emoluments

	2009	2008
	RMB'000	*RMB'000*
Basic salaries, allowances and benefits-in-kind	**4,700**	5,670
Defined contribution pension costs	**44**	63
	4,744	5,733

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 19 individuals (2008: 22 individuals).

38. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost approximate their fair values due to short-term maturities.

The fair values of financial assets and financial liabilities measured at fair value through profit or loss are calculated using quoted prices (unadjusted) in active markets, ranking as Level 1 of fair value hierarchy.

39. 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

Interest rate risk

The Group is exposed to interest rate risk 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 2009, 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 income tax expense in response to reasonably possible changes in an interest rate to which the Company has exposure at the end of reporting period. In determining the effect on profit after tax on the next accounting period until next reporting date, the management assumes that the change in interest rate had occurred at the reporting date and all other variables remain constant. There is no change in the methods and assumptions used in 2008 and 2009.

	2009 Effect on profit after income tax expense *RMB'000*	2008 Effect on profit after income tax expense *RMB'000*
Increase by 100 basis points	**948**	(4,000)
Decrease by 100 basis points	**(948)**	4,000

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 group entities 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 end of reporting period are as follows:

	Liabilities		**Assets**	
	2009 *RMB'000*	2008 *RMB'000*	**2009** *RMB'000*	2008 *RMB'000*
USD	**281,698**	240,796	**343,349**	330,380
GBP	—	10,504	**2**	9,424
Euro	**7,275**	2,337	**20,702**	27,299
JPY	**—**	—	**3,702**	7

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

Foreign exchange risk *(continued)*

The sensitivity analysis on foreign exchange risk includes monetary financial assets and liabilities that are denominated in a foreign currency. The following table indicates the approximate effect on the profit after income tax expense in the next accounting period in response to reasonably possible changes in exchange rates to which the Group has significant exposure at the end of reporting period.

	2009 **Effect on profit after income tax expense** ***RMB'000***	2008 Effect on profit after income tax expense *RMB'000*
USD to RMB		
Appreciates by 4% (2008: 5%)	**1,850**	3,386
Depreciates by 4% (2008: 5%)	**(1,850)**	(3,386)
GBP to RMB		
Appreciates by 13% (2008: 9%)	**—**	(73)
Depreciates by 13% (2008: 9%)	**—**	73
Euro to RMB		
Appreciates by 8% (2008: 6%)	**806**	1,123
Depreciates by 8% (2008: 6%)	**(806)**	(1,123)
JPY to RMB		
Appreciates by 7% (2008: 7%)	**194**	—
Depreciates by 7% (2008: 7%)	**(194)**	—

The following table indicates the approximate effect on the profit after income tax expense in the next accounting period in response to reasonably possible changes in forward rates to which the Company has significant exposure at the end of reporting period.

	2009 **Effect on profit after income tax expense** ***RMB'000***	2008 Effect on profit after income tax expense *RMB'000*
USD to RMB		
Appreciates by 4% (2008: 5%)	**(8,317)**	(6,453)
Depreciates by 4% (2008: 5%)	**8,317**	6,453
Euro to USD		
Appreciates by 10% (2008: 9%)	**—**	(2,561)
Depreciates by 10% (2008: 9%)	**—**	2,561
Euro to RMB		
Appreciates by 8% (2008: 6%)	**(3,086)**	(784)
Depreciates by 8% (2008: 6%)	**3,086**	784
AUD to RMB		
Appreciates by 12% (2008: 8%)	**(2,269)**	—
Depreciates by 12% (2008: 8%)	**2,269**	—

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

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 2009.

The contractual maturities of financial liabilities are shown as below:

	Carrying amount *RMB'000*	**Total contractual undiscounted cash flow** *RMB'000*	**Within 1 year or on demand** *RMB'000*
2009 Non-derivatives:			
Trade and other payables	**2,966,867**	**2,966,867**	**2,966,867**
Other liabilities	**30,848**	**30,848**	**30,848**
Borrowings and interest expenses	**1,330,873**	**1,375,499**	**1,375,499**
	4,328,588	**4,373,214**	**4,373,214**
Derivatives:			
Foreign currency forward exchange contracts	**1,040**	**1,040**	**1,040**
	RMB'000	*RMB'000*	*RMB'000*
2008 Non-derivatives:			
Trade and other payables	2,192,391	2,192,391	2,192,391
Other liabilities	29,384	29,384	29,384
Borrowings and interest expenses	1,814,948	1,872,489	1,872,489
	4,036,723	4,094,264	4,094,264
Derivatives:			
Foreign currency forward exchange contracts	13,611	13,611	13,611

The Group had net current liabilities of approximately RMB2,690,044,000 as at 31 December 2009 (2008: RMB2,849,773,000). 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 borrowing facilities of approximately RMB910,651,000 as at 31 December 2009, which the Group can utilise it to meet its short-term cash demands. As a result, the directors are of the opinion that the Group maintains an adequate liquidity reserve.

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 shown on the consolidated statement of financial position.

40. DISPOSAL OF SUBSIDIARIES

(a) On 28 October 2009, a special resolution was passed for the voluntary winding-up of a wholly-owned subsidiary of the Company, Wetherell Development Limited ("Wetherell Development"). A gain on disposal amounting to RMB8,959,000 was recognised in profit or loss for the year ended 31 December 2009. Details of the identifiable assets and liabilities disposed are as follows:

	2009
	RMB'000
Expiry of financial liabilities	**1,082**
Foreign exchange reserve	**7,877**
Gain on disposal of Wetherell Development	**8,959**
Trade and other payables, representing net book value of net assets disposed of at the date of disposal	**(1,082)**

(b) 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

41. NOTES SUPPORTING THE STATEMENT OF CASH FLOWS

	2009 *RMB'000*	2008 *RMB'000*
Cash and cash equivalents	**119,460**	110,216
Cash and cash equivalents included in a disposal group held for sales *(Note 29)*	**54**	—
	119,514	110,216

Significant non-cash transactions are as follows:

	2009 *RMB'000*	2008 *RMB'000*
Investing activities		
Purchase of property, plant and equipment partially satisfied by trade receivable from Hisense Nanjing	**8,760**	—
Investment made to a jointly controlled entity by transfer of property, plant and equipment and interests in leasehold land held for own use under operating leases	**95,780**	—
Deemed proceeds from disposal of property, plant and equipment	**10,532**	—
Net settlement of other payables through disposal of intangible assets	**1,840**	—
Net settlement of liabilities through partial consideration on disposal of a subsidiary *(Note 40)*	**—**	29,500
	116,912	29,500

42. CAPITAL COMMITMENTS

	2009 *RMB'000*	2008 *RMB'000*
Commitments for the investment in subsidiaries and jointly controlled entity:		
— Authorised but not contracted for	**150,643**	221,209
— Contracted for but not provided	**95,470**	191,250
	246,113	412,459
Commitments for the acquisition of property, plant and equipment in subsidiaries:		
— Contracted for but not provided	**73,708**	116,911
Total	**319,821**	529,370

43. 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 profit or loss of approximately RMB49,409,000 (2008: RMB49,162,000) represents contributions to the scheme by the Group at rates specified in the rules of the scheme.

44. 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 2009, the Company did not have reserve available for distribution to its shareholders (2008: Nil).

45. 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 at the end of reporting period. 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.

46. KEY SOURCES OF ESTIMATION 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.

46. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

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.

47. SUBSEQUENT EVENTS

In January 2010, the Group reached a share transfer agreement to dispose of its 100% equity interests in a subsidiary — Wuhu Ecan Motors Company Limited.

On 26 March 2010, the Company received from the CSRC the following approvals: Letter of Reply Concerning the Approval for the Major Asset Restructuring of Hisense Kelon Electrical Holdings Company Limited and the Acquisition of Assets through Issuance of Shares to Qingdao Hisense Air-Conditioning Company Limited (Zheng Jian Xu Ke [2010] No. 329) and the Letter of Reply Concerning the Approval for the Announcement by Qingdao Hisense Air-Conditioning Company Limited the Acquisition Report of Hisense Kelon Electrical Holdings Company Limited and the Waiver of its General Offer Obligation (Zheng Jian Xu Ke [2010] No. 330). Pursuant to the approvals mentioned above, the CSRC approved the Company to issue 362,048,187 A Shares as consideration for the acquisition of the relevant assets. The CSRC also approved that Qingdao Hisense Air-Conditioning Company Limited, which will increase its shareholding in the Company by 362,048,187 A Shares to a total of 612,221,909 A Shares, be exempted from its obligation to make a general offer as a result of such increase.

48. COMPARATIVE FIGURES

Certain 2008 corresponding comparative figures have been reclassified to conform to current year's presentation:

Employee benefits included in other liabilities, amounting to RMB14,320,000 has been reclassified to trade and other payables.

Gains or losses arising from the disposal of raw materials, non-current assets and financial instruments included in other income and gains, administrative expenses and other operating expenses have been reclassified to other gains and losses.

49. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 8 April 2010.

DIFFERENCES BETWEEN IFRS AND PRC ACCOUNTING STANDARDS AND REGULATIONS ("PRC GAAP") AS APPLICABLE TO THE GROUP

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

	2009	2008
	RMB'000	*RMB'000*
Equity attributable to owners of the Company as per consolidated financial statements prepared under IFRS	**(878,481)**	(1,007,922)
Adjustment on restructuring costs expensed	**30,663**	16,877
Adjustment on dilution loss on share reform of an associate	**16,317**	16,317
Adjustment on amortisation of trademark	**(16,712)**	(16,712)
Equity attributable to owners of the Company as per consolidated financial statements prepared under PRC GAAP	**(848,213)**	(991,440)

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

	2009	2008
	RMB'000	*RMB'000*
Net profit/(loss) attributable to owners of the Company as per consolidated financial statements prepared under IFRS	**136,412**	(231,896)
Adjustment on restructuring costs expensed	**13,786**	5,193
Net profit/(loss) attributable to owners of the Company as per consolidated financial statements prepared under PRC GAAP	**150,198**	(226,703)

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

Five Years Summary

	Year ended 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULT					
Turnover	**8,673,761**	8,052,909	8,319,960	6,564,257	6,978,372
Profit/(loss) before share of results of associates and jointly controlled entity	**134,845**	(237,632)	212,277	24,788	(3,754,514)
Share of results of associates	**16,057**	4,197	2,247	3,590	(31,571)
Share of results of jointly controlled entity	**(11,701)**	—	—	—	—
Profit/(loss) before income tax expense	**139,201**	(233,435)	214,524	28,378	(3,786,085)
Income tax (expense)/credit	**(4,192)**	(4,085)	(10,867)	20,871	(1,021)
Profit/(loss) for the year	**135,009**	(237,520)	203,657	49,249	(3,787,106)
Attributable to:					
Owners of the Company	**136,412**	(231,896)	238,712	69,989	(3,722,565)
Minority interests	**(1,403)**	(5,624)	(35,055)	(20,740)	(64,541)
	135,009	(237,520)	203,657	49,249	(3,787,106)
Dividends	**—**	—	—	—	—

	As at 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES					
Total assets	**4,222,325**	3,687,506	4,414,571	4,668,544	5,493,770
Total liabilities	**(4,953,698)**	(4,546,134)	(5,044,345)	(5,396,475)	(6,283,472)
Net liabilities	**(731,373)**	(858,628)	(629,774)	(727,931)	(789,702)
Capital and reserves attributable to owners of the Company	**(878,481)**	(1,007,922)	(784,772)	(994,578)	(1,074,092)
Minority interests	**147,108**	149,294	154,998	266,647	284,390
Total equity	**(731,373)**	(858,628)	(629,774)	(727,931)	(789,702)