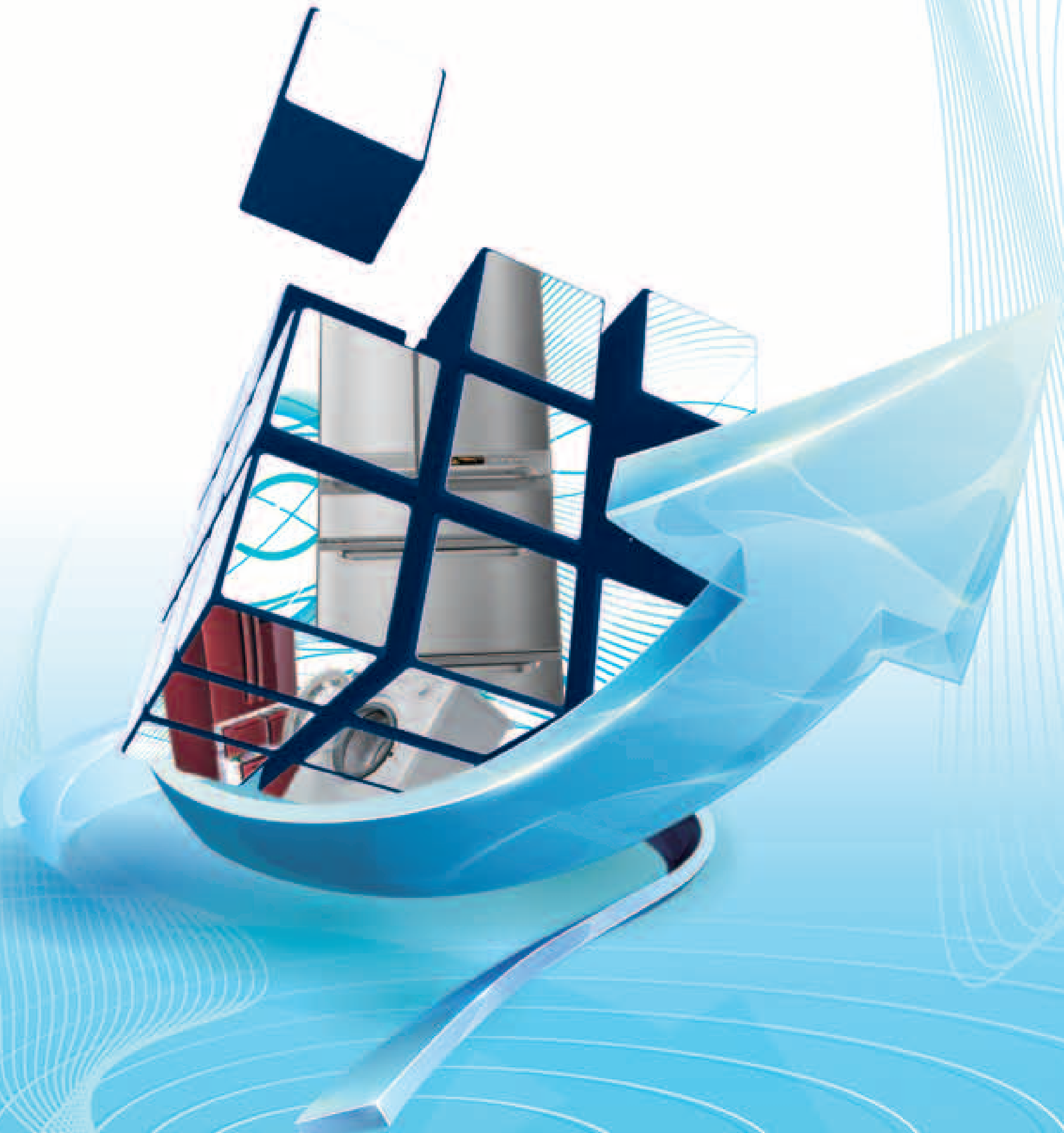
Hisense 海信科龙

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

Stock Code: 00921



Annual Report 2010

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 three brand names, namely “Hisense”, “Kelon” and “Ronshen”, which were 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 white household electrical appliances 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 respectively.

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 driving force 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 institutions for their reliable and notable advantages in quality. In 2010, Hisense’s Apollo Space series refrigerator received two major awards at the third Annual Conference of Chinese Refrigerator Industry, namely the “Most Trust-Worthy Brand” and “Best Food Preserving Technology”; Ronshen successfully developed two leading technologies, namely “0.22 degree energy-saving” and “24/7 food preservation and energy-saving”, of which 0.22 degree Ronshen energy-saving refrigerator once again broke the record of the lowest daily power consumption for refrigerators; Hisense dual-mode chlorine-free inverter air-conditioner received the 2010 China Outstanding Contribution Award for the low-carbon and energy-saving air-conditioner sector; Kelon’s Daqitiancheng series double-high-efficiency inverter air conditioner boosts an energy efficiency ratio of the new international standard 7.2, which broke the world record in energy-saving air-conditioning for the third time; Hisense dual-mode chlorine-free inverter air-conditioner, Kelon inverter double-efficiency air-conditioner, Hisense 360° food preservation refrigerator and Ronshen original ecological food preservation refrigerator have won a total of four major awards at the 50th International Funkausstellung (IFA) at Berlin, Germany, including the China Home Appliance Technology Innovation Award, Product Innovation Award and Industrial Design Award.

The Company will continue to uphold the development philosophy of “technology-based and healthy operation” in the incessant pursuit for profound research and development and continued improvement of self-innovation capability, paralleled by the all-round enhancement of the Company’s integrated capacity in the areas of technology level, product grade, scale, profitability and sustainability etc., with the objective of becoming the leading enterprise in household electrical appliances industry in the PRC.

2010 Major Events Calendar

MARCH

On 29 March, the acquisition of White Goods Assets including refrigerators, air-conditioners and moulds from Qingdao Hisense Air-Conditioning Company Limited ("Hisense Air-conditioning") through the issue of approximately 362,000,000 A Shares by Hisense Kelon to Hisense Air-Conditioning was officially approved by the China Securities Regulatory Commission.

APRIL

On 20 April, Hisense Kelon announced that its newly developed "DaQiTianCheng" series of Kelon double-high-efficiency inverter air conditioner has passed inspection with energy efficiency ratio reaching the new international standard of 7.2, which broke the world record in energy-saving air-conditioning for the third time.

MAY

On 31 May, Hisense Kelon, DigiPower (Hong Kong) Technology INC and Japan-based Ryosan Company Limited set up China's first joint laboratory for state-of-art inverter technology in Qingdao, building a platform for the research and development of world-class state-of-art inverter technology.

JUNE

In June 2010, the Company's wholly-owned subsidiary, Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd, started its second phase capital increase. After the capital increase, the refrigerator production capacity in the Yangzhou base has increased of 2 million.

SEPTEMBER

On 3 September, Hisense Kelon's new products such as Hisense dual-mode chlorine-free inverter air-conditioner, Kelon inverter double-efficiency air-conditioner, Hisense 360° food preservation refrigerator and Ronshen original ecological food preservation refrigerator have won a total of four major awards at the 50th International Funkausstellung (IFA) at Berlin, Germany, including the China Home Appliance Technology Innovation Award, Product Innovation Award and Industrial Design Award.

On 17 September, at the "2010 (The Third) Annual Meeting of China Washing Machine Industry and New Product Trends Conference", Hisense washing machine was named the "Most Competitive Brand in China Washing Machine Market 2010-2011"; Hisense's Apollo Space series was named the "Best Intelligent Technology Product in China Washing Machine Market 2010-2011"; Hisense's Swirling Cubic 360° series was named the "Best Energy-Saving Product in China Washing Machine Market 2010-2011".

In September 2010, Guangdong Kelon Fittings Company Limited (a subsidiary of the Company) was assessed as "National Advanced and New Technology Enterprise" and is entitled to the relevant preferential policies for national advanced and new technology enterprises.

OCTOBER

In October 2010, Hisense Kelon received the "12th China Outstanding Outlook Design Award" from the World Intellectual Property Organization.

NOVEMBER

On 8 November, Hisense Kelon convened the 2011 Air-Conditioning Global Core Suppliers Conference to establish strategic alliance in the areas of research, development and enhancement, strategic procurement, as well as future development of inverter compressor, motor, chip, copper pipe and other core parts for air-conditioners.

On 22 November, Hisense Kelon announced the successful development of two internationally leading technologies, namely "0.22 degree energy-saving" and "24/7 food preservation and energy-saving", of which 0.22 degree Ronshen energy-saving refrigerator once again broke the record of the lowest daily power consumption for refrigerators.

DECEMBER

In December 2010, Hisense Kelon was accredited as a Key Advanced and New Technology Enterprise under the National Torch Program by the State's Ministry of Science and Technology.

Chairman's Statement

Dear Shareholders:

I am pleased to present the annual report of the Company for the year ended 31 December 2010 (the "Reporting Period").

In 2010, with the continual increase of citizens' income, acceleration of urbanization and the continued implementation of a series of supportive policies of "Home Appliances Subsidy Policy for Rural Areas and Villages", "Subsidized Trade-in of Home Appliances" and "Energy-saving Products Benefiting People Project", the demand for changing and replacing of consumer goods have gone up and the popularization rate of home appliances in the third and fourth grade markets has further increased, leading to the rapid development of the home appliances industry. At the same time, the implementation of more stringent energy consumption standard for cooling-system has reinforced the technological input of home appliances enterprises, which promotes transformation towards the direction of more energy-saving and environmental-friendly products. However, the competition in the market price of household appliances industry remains fierce, and the increasing price for bulk transaction of raw materials and the rising cost of human resources result in continuous increase in production costs, which bring about greater profitability pressure. In respect of the international market, with the gradual recovery of the global economy, the demand for home appliances also showed resurgence and the export of home appliances also maintained a trend of continued growth.

The Company leveraged on the opportunity of the White Goods Assets reorganization and implemented the comprehensive integration of the White Goods Assets to significantly enhance its assets quality and financial structure, strengthen its financing ability and substantially enhance the coverage and efficiency of its production bases and marketing network. As the economies of scale after the comprehensive integration started to crystallize, the scale of operation for refrigerators, air-conditioners and other major products of the Company all experienced significant increases, with the growth rate in scale of sales higher than the industrial average. The Company's quality of operation also achieved overall improvement.

During the Reporting Period, the Company seized the favorable opportunities in market development to expand its sales network with its strengths in technological innovations and product quality, and realized a revenue of RMB15,811 million from its principal businesses for the year, representing a year-to-year increase of 32.48%. The net profit attributable to the equity holders of the parent company was RMB632 million, representing a year-to-year increase of 204.27%. Earnings per share was RMB0.47, representing a year-to-year increase of 204.27%. During the Reporting Period, the principal businesses of the Group maintained stable growth, of which the refrigerator segment accounted for 50.48% of the total turnover, recording a year-to-year revenue increase of 21.22%; the air-conditioner segment accounted for 38.07% of the total turnover, recording a year-to-year revenue increase of 48.78%; operating revenue of the domestic sales business amounted to RMB11,097 million, representing a year-to-year increase of 28.51%; operating revenue of the export sales amounted to RMB4,714 million, representing a year-to-year increase of 42.87%.

In respect of core technologies and self-innovations, the Company has always upheld the operating philosophy of technology orientation for the attainment of core competitiveness through persistent technological innovation. During the Reporting Period, the Company has stepped up the technological innovations for green, low-carbon, environmental-friendly and energy-saving products, with the adoption of green and low-carbon concepts from product design, R&D, production to recycling, as well as the reinforced promotion for high-efficiency, energy-saving products. New products launched by the Company namely Hisense dual-mode chlorine-free inverter air-conditioner, Kelon inverter double-efficiency air-conditioner, Hisense 360° food preservation refrigerator and Ronshen original ecological food preservation refrigerator have won a total of four major awards at the 50th International Funkausstellung (IFA) held in September 2010 in Berlin, Germany, including the China Home Appliance Technology Innovation Award, Product Innovation Award, and Industrial Design Award. During the Reporting Period, the Group has applied for 202 patents in total, including 4 PCT (Patent cooperation agreement) patents; possessed 212 authorized patents in total, and has participated in the formulation of 8 national standards. The Group was responsible for leading the formulation of the PRC's national standard for inverter controller, and was one of the main drafters for the 6A Refrigerator National Standard.

Looking forward to 2011, the trend of home appliances industry will move towards higher-end products and increasing level of consumption. Multi-door and large-volume refrigerators, fan-cooling and frost-free refrigerators, inverter air-conditioners and other high-end products will start to rapidly popularize amongst the consumers, whereas green, low-carbon, environmental-friendly and energy-saving technologies and products will become the main direction for the development of the home appliances industry. While the Company is facing favorable opportunities on one hand, the industry in which it operates is also subject to a number of unfavorable factors such as increasing prices for bulk transaction of raw materials, increasing human resources costs and labor shortage, as well as appreciation of Renminbi. The Company will adhere to the operating strategy of "improving the human resources structure, reinforcing technological innovations, reforming marketing model, enhancing the efficiency per head, accelerating the progress of internationalization", and adopt the high-end products as the development strategy of the Company, continue the in-depth implementation of the industry benchmark project and the six-sigma project to achieve improvements in quality, quantity and cost advantages with the objective of making the refrigerators of the Group becoming the qualitative and quantitative benchmarks for the refrigerator industry in the PRC.

The Company recorded steady growth in its performance in 2010. This is attributable to the care and strong support of all shareholders, financial institutions, partners and the government, as well as the outstanding leadership of the board of directors, the supervisory committee and management and the continued dedication of all staff. I would like to express our gratitude to every one of them and hope to receive your continued support in the forthcoming year. We believe, and we are confident that the Company is heading towards a prosperous growth in 2011 as our objectives successively turn into reality under scrupulous planning and the concerted efforts and commitment of our staff. I also earnestly look forward to sharing a better future of Hisense Kelon with you all.

I. INDUSTRY OVERVIEW

In 2010, with the continual increase of citizens' income, acceleration of urbanization and the continued implementation of a series of supportive policies of "Home Appliances Subsidy Policy for Rural Areas and Villages", "Subsidized Trade-in of Home Appliances" and "Energy-saving Products Benefiting People Project", the demand for changing and replacing of consumer goods have gone up and the popularization rate of home appliances in the third and fourth grade markets has further increased, leading to the rapid development of the home appliances industry. At the same time, the implementation of more stringent energy consumption standard for cooling-system has reinforced the technological input of home appliances enterprises, which promotes transformation towards the direction of more energy-saving and environmental-friendly products. However, the competition in the market price of household appliances industry remains fierce, and the increasing price for bulk transaction of raw materials and the rising cost of human resources result in continuous increase in production costs, which bring about greater profitability pressure. In respect of the international market, with the gradual recovery of the global economy, the demand for home appliances also showed resurgence and the export of home appliances also maintained a trend of continued growth.

II. MAJOR INDICES OF THE GROUP

During the Reporting Period, the Company seized the favorable opportunities in market development to expand its sales network with its strengths in technological innovations and product quality, and realized a revenue of RMB15,811 million from its principal businesses for the year, representing a year-to-year increase of 32.48%. The net profit attributable to the equity holders of the parent company was RMB632 million, representing a year-to-year increase of 204.27%. Earnings per share was RMB0.47, representing a year-to-year increase of 204.27%. During the Reporting Period, the principal businesses of the Group maintained stable growth, of which the refrigerator segment accounted for 50.48% of the total turnover, recording a year-to-year revenue increase of 21.22%; the air-conditioner segment accounted for 38.07% of the total turnover, recording a year-to-year revenue increase of 48.78%; operating revenue of the domestic sales business amounted to RMB11,097 million, representing a year-to-year increase of 28.51%; operating revenue of the export sales amounted to RMB4,714 million, representing a year-to-year increase of 42.87%.

III. ANALYSIS OF THE GROUP'S OPERATION

1. Overall situation

During the Reporting Period, the Company upheld its operating strategies of "enhancing product competitiveness, implementing long-term incentive mechanism, perfecting internal control system, increasing market share", continued to further its implementation of industrial benchmark projects and six-sigma and other advanced management methods and enhanced quality improvement in an effort to ensure the quality and cost competitiveness of its products. It also stepped up the technological innovations for green, low-carbon and environmental-friendly products in an effort to facilitate the product structure migration to high-end products. The Company enhanced its marketing network and increased its third and fourth grade market penetration through setting up retail shops and increasing B2C and other sales channels, enabling a growth in the sales scale of the Company's refrigerator and air-conditioner products that was at the industrial leading level. The Company also achieved overall enhancement of its operating quality through accelerating its capital flow, lowering its inventory level and continuously improving its financial condition.

During the Reporting Period, the Group completed the significant assets reorganization, which greatly enhanced its assets quality and financial structure, significantly strengthened its financing ability and substantially enhanced the coverage and efficiency of its production bases and marketing network. As the economies of scale after the comprehensive integration started to crystallize, the scale of operation for refrigerators, air-conditioners and other major products of the Company all experienced significant increases. Near the end of the Reporting Period, the Company has proposed its first share option incentive scheme (draft) as the first step of establishing a long-term incentive mechanism.

2. **The core technologies and self-innovations**

In respect of core technologies and self-innovations, the Group has always upheld the operating philosophy of technology orientation for the attainment of core competitiveness through persistent technological innovation. During the Reporting Period, the Group has stepped up the technological innovations for green, low-carbon, environmental-friendly and energy-saving products, with the adoption of green and low-carbon concepts from product design, R&D, production to recycle, as well as the reinforced promotion for high-efficiency and energy-saving products.

During the Reporting Period, the Group has launched Hisense dual-mode chlorine-free inverter air-conditioner that saves over 20% energy compared to other inverter air-conditioners of the same grade, Kelon Daqitiancheng inverter double-efficiency air-conditioner that complies with the new international standard with an energy-efficiency ratio of 7.2 and breaks the world record in energy-saving air-conditioning for the third time, as well as the newly launched sixth generation of Ronshen Energy-saving Stars and 24/7 food preservation refrigerators that have a daily power consumption of 0.22 degree and once again breaks the record of the lowest daily power consumption for refrigerators. These products have greatly enhanced the brand image and product competitiveness of the Group. At the 50th International Funkausstellung (IFA) held in September 2010 in Berlin, Germany, the Group's new products such as Hisense dual-mode chlorine-free inverter air-conditioner, Kelon inverter double-efficiency air-conditioner, Hisense 360° food preservation refrigerator and Ronshen original ecological food preservation refrigerator have won a total of four major awards, including the China Home Appliance Technology Innovation Award, Product Innovation Award and Industrial Design Award.

In respect of the core technologies for inverter air-conditioners, the Company was one of the first enterprises to introduce and independently research and develop inverter air-conditioners in the PRC. We have focused our efforts in inverter technologies for 15 years and enjoy leading positions in the industry in self-developed intellectual property rights and patents. Meanwhile, the Group also continuously enhanced its industrial design capability and the sophistication of outlook of its high-end products, and its Hisense Royal Enjoyment series of air-conditioners with design patent owned by the Company has been given the 12th China Outstanding Outlook Design Award by the State Intellectual Property Office of the PRC. Furthermore, with the development in intelligence and network of home appliances, the Company has launched the Blue Media refrigerator that has won Korea's "Good Design" award in 2010 for its simple-yet-elegant outlook design and unique "Happy Kitchen" smart control multimedia system.

During the Reporting Period, the Group has applied for 202 patents in total, including 4 PCT (Patent cooperation agreement) patents; possessed 212 authorized patents in total, and has participated in the formulation of 8 national standards. The Group was responsible for leading the formulation of the PRC's national standard for inverter controller, and was one of the main drafters for the 6A Refrigerator National Standard. In December 2010, the Group was recognized as a key enterprise in new and advanced technologies under China's Torch Plan by the State Ministry of Science and Technology.

3. **Refrigerator and freezers business**

During the Reporting Period, the Group's refrigerator business sustained strong growth, achieving rapid growth in marketing channels, especially the number of sales points of the third and fourth grade markets. The economies of scale for the Group's refrigerator business were especially remarkable after the assets reorganization, recording a year-to-year increase in the revenue of 21.22% which further improved our position in the industry. According to the statistics of China Market Monitor Co., LTD (CMM), the Group's refrigerators had a 14.12% market share in 2010, ranking the second top among the PRC brands in the industry.

The Group adheres to the development objective of staying 5% to 10% ahead of the industry and competitors in energy-saving refrigerators to continuously lead the launch of high-efficiency and energy-saving refrigerators, and to gradually increase the weight of high capacity refrigerators with three doors or above in terms of sales. The Group has launched the "i feel" and "Apollo Capsule" series of quality refrigerators successively which were well received by the high-end customers. At the same time, the Group stepped up the implementation of industrial benchmark projects to continuously enhance the efficiency and lower the cost of the products through generalization of products and standardization of design and development as well as standardization and automation of equipment.

In respect of export, the Group actively launched the sale of products under its own brand to exploit new markets and new clients. According to the statistics of the Customs, the export volume of refrigerators of the Group ranked second top amongst the industry.

Freezer business, after rapid growth in 2009, achieved a new breakthrough in 2010, recording a year-to-year increase of 28.74% in sales revenue.

4. **Air-conditioner business**

During the Reporting Period, the Group capitalized the State's supportive policies for the industry and accelerated its transformation to energy-saving, environmental-friendly and low-carbon direction. Measures of stepping up production efficiency, enhancing technologies, integrating procurement resources and others have been adopted to lower the production costs and improve the product quality. The Group responded actively to the adjustments in the State's energy efficiency standards, strengthened its product planning, enriched its product series under the new energy efficiency standards, and leveraging on its advantages in inverter technology built over time, it has launched a series of new models of energy-saving inverter products, which are well-received by consumers. During the Reporting Period, the Group has achieved a growth for its air-conditioner business that outshone the industry average, with the income from the air-conditioner business recording a year-to-year growth of 48.78%.

During the Reporting Period, the Group's self-developed 360-degree full DC inverter technology, dual-inverter technology with environmental-friendly coolant, upgraded heat-exchange technology with high air volume and low air resistance and other technologies have further enhanced its strengths in terms of inverter air-conditioning products and substantially increased its product competitiveness. The popularization of inverter air-conditioners in the industry will also open up new development opportunities for the Group.

IV. OUTLOOK

Looking forward to 2011, the trend of domestic home appliances industry will move towards higher-end products and increasing level of consumption. Multi-door and large-volume refrigerators, fan-cooling and frost-free refrigerators, inverter air-conditioners and other high-end products will start to rapidly popularize amongst consumers, whereas green, low-carbon, environmental-friendly and energy-saving technologies and products will become the main direction for the development of the home appliances industry. While the Group is facing favorable opportunities on one hand, the industry in which it operates is also subject to a number of unfavorable factors such as increasing prices for bulk transaction of raw materials, increasing human resources costs and labor shortage, as well as appreciation of Renminbi.

The Group will adhere to the operating strategy of "improving the human resources structure, reinforcing technological innovations, reforming marketing model, enhancing the efficiency per head, accelerating the progress of internationalization", and use high-end products as the development strategy of the Group, with the objective of focusing on the following:

1. to strengthen the technology roadmap planning and product planning for the next three years, to intensify research for the key technologies, enhance the research capability for high-end products; to improve the structure and work flow of the research unit and the incentive system for the research staff, further increase the input into research and development; and at the same time, continue the in-depth implementation of the industry benchmark project and the six-sigma project to achieve improvements in quality, quantity and cost advantages with the objective of making the refrigerators of the Group becoming the qualitative and quantitative benchmarks for the refrigerator industry in the PRC.

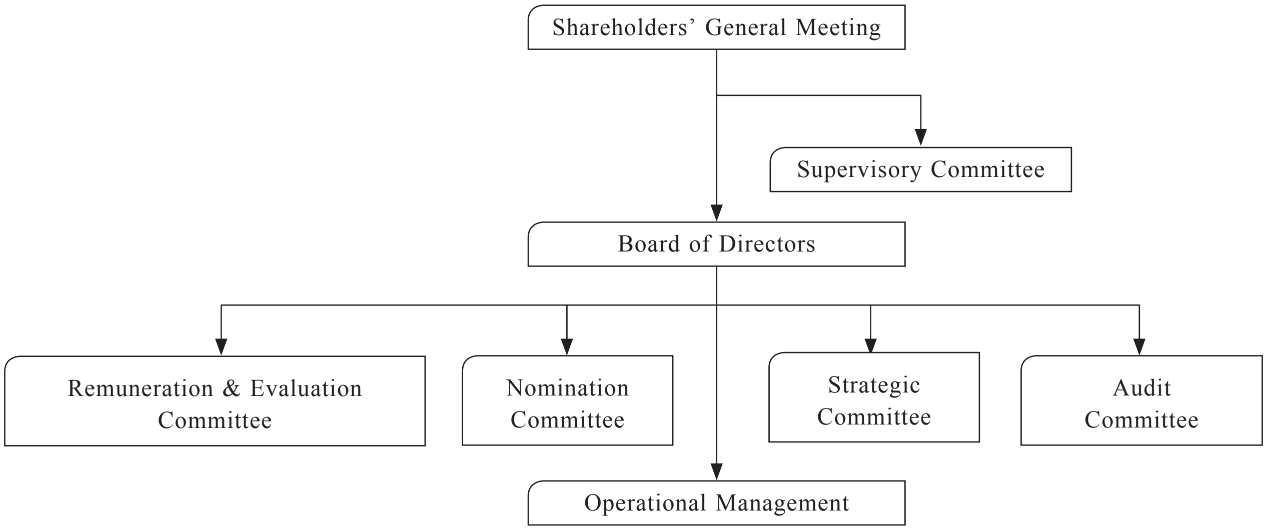
2. to continue to attract domestic and overseas top management and technical talents to improve its personnel structure and establish a core management and technical team; and to strengthen the high-end training of internal backbone staff.

3. to strengthen channel management and expand the third and fourth grade markets in depth with focus on reinforcing the setting up of outlets; and to increase the marketing inputs and strive for a bigger market share.

4. to continue the development of product platform and standardization of parts and components, promote the standardization and automation of equipment and product upgrade at each production facility, facilitate the informatization of the production facilities, and to increase the production efficiency per head; and, at the same time, to perfect the internal control system of the Group, to arouse the awareness for internal control among its staff.

5. to increase the export of products under its own brands, further expand the scale of export and to speed up the pace of internationalization.

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 provisions of 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. After the resignation of the independent non-executive director, Mr. Lu Qing, in order to find an appropriate person with accounting qualification to fill the vacancy, the Company failed to appoint the right person as the new independent non-executive director and a member of the Audit Committee of the Board within three months after Mr. Lu's resignation took effect. After the appointment of Mr. Wang Aiguo as an independent non-executive director and a member of the Audit Committee of the Board at the extraordinary general meeting and at the first board meeting of the year 2011 of the seventh session of the Board with effect from 20 January 2011, the Company has complied with Rule 3.10 and Rule 3.21 of the Listing Rules and code provision A.3 of the Code. Further, Mr. Chen Zhen Wen has resigned as the company secretary of the Company with effect from 11 June 2010. Ms. Wong Tak Fong and Ms. Li Lin have been appointed as the joint company secretaries of the Company with effect from 4 April 2011 to fill the position left vacant by Mr. Chen. Other than the above, to the best knowledge and information of the Company, the Company has complied with the code provisions of 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 term of office.

Structure of Governance

(c) The Board of Directors

The seventh session of the Board was elected and established at the annual general meeting of the Company held on 26 June 2009. The Board comprised nine Directors, being the Executive Directors Mr. Tang Ye Guo (Chairman), Mr. Zhou Xiao Tian, Ms. Yu Shu Min, Mr. Lin Lan, Ms. Liu Chun Xin and Mr. Zhang Ming, and the independent non-executive directors Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren. Due to the resignation of Mr. Lu Qing and Mr. Zhang Ming tendered on 26 July 2010 and on 2 December 2010 respectively (which took effect on 26 September 2010 and 2 December 2010 respectively), there were only eight members in the Board from 26 September 2010 to 1 December 2010, and there were only seven members in the Board from 2 December 2010 to 19 January 2011. After the election of Mr. Xiao Jianlin and Mr. Wang Aiguo as a director and an independent non-executive director of the seventh session of the Board of the Company respectively at the first extraordinary general meeting of the Company held on 20 January 2011, the Board comprises nine 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 Directors are set out on pages 20 to 21 of this annual report.

The primary duties of the Board include: convening shareholders' general meetings and reporting its work at the shareholders' general meetings, and exercising its decision-making powers as delegated by the shareholders at the general meetings with respect to 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 its production and operation is properly planned, approved, conducted and monitored. In addition, the Board is also responsible for the appointment of the members of the Operational Management and the supervision and evaluation of their performance. The Board 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 2010, 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 management of the Company's production and operation, 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 2010, the seventh session of the Board of the Company convened 21 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, by other communication channels or by their proxies, and their attendance records are set out in the following table:

	The attendance of the meetings of the seventh session of the Board			
Name	**Number of meetings which should be attended for the Year**	**Number of attendance in person**	**Number of attendance by proxy**	**Attendance Rate for the Year**
Mr. Tang Ye Guo	21	21	0	100%
Mr. Zhou Xiao Tian	21	21	0	100%
Ms. Yu Shu Min	21	19	2	100%
Mr. Lin Lan	21	19	2	100%
Ms. Liu Chun Xin	21	21	0	100%
Mr. Zhang Ming *(Note 1)*	19	19	0	100%
Mr. Zhang Sheng Ping	21	20	1	100%
Mr. Lu Qing *(Note 2)*	16	15	1	100%
Mr. Cheung Yui Kai, Warren	21	21	0	100%

Notes:

1. Mr. Zhang Ming ceased to be a Director with effect from 2 December 2010.

2. Mr. Lu Qing ceased to be a Director with effect from 26 September 2010.

As stipulated by the articles of association of the Company (the "Articles"), all Directors should be given 14 days' notice prior to the commencement of a regular Board meeting and 3 days' notice prior to the commencement of an interim Board meeting. The secretary to the Board is responsible for providing details of a regular Board meeting (including information in relation to each of the special committees of the Board) not later than 3 days prior to the commencement of the meeting to ensure all Directors are apprised of the matters to be considered in the meeting in advance. As for interim Board meetings which are held by means of telecommunications at the request of the Company's management, information relevant to the meeting would be provided simultaneously to all Directors via email and facsimile and sufficient time would be given to the Directors to consider the matters. The secretary to the Board would respond to any questions raised by the Directors and take appropriate action in a timely manner to assist the Directors to ensure that the procedures of the meetings of the Board are in compliance with the applicable regulations, such as the Company Law of the People's Republic of China, the Articles and the Listing Rules. Minutes of each Board meeting will be signed by the attending Directors and the person taking the minutes, and be kept for a term of 10 years, during which the minutes are available for Directors' inspection from time to time upon their request.

As at the date of this annual report, the Directors of the seventh session of the Board of the Company considered 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. Although judgments of the cases have all become effective, the risk of their due and full enforcement still existed as the cases were in the process of enforcement. This uncertainty may have an impact on the assets of the Company.

(d) Chairman and President

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

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

(e) Independent Non-Executive Directors

The Board of the Company comprised three independent non-executive Directors, accounting for one-third of the total number of Directors. Save as disclosed in the section headed "Corporate Governance Practices" above, the 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 and are not connected with any of the connected persons (as defined in the Listing Rules) of the Company. The Company has received the confirmation of independence from each of the independent non-executive Directors. The term of office of Mr. Lu Qing is from 26 June 2009 to 25 September 2010. The term of office of Mr. Zhang Sheng Ping and Mr. Cheung Yui Kai, Warren is from 26 June 2009 to 25 June 2012, and the term of office of Mr. Wang Aiguo is from 20 January 2011 to 25 June 2012.

(f) Remuneration and Evaluation Committee

The seventh session of the Board has established the Remuneration and Evaluation Committee with specific written terms of reference, which consisted of the executive Directors, namely, Mr. Lin Lan and Ms. Yu Shu Min, and the independent non-executive Directors, namely, Mr. Zhang Sheng Ping, Mr. Lu Qing (whose term ended on 25 September 2010), and Mr. Cheung Yui Kai, Warren. Mr. Zhang Sheng Ping acts as the chairman of the Committee. Due to the resignation of Mr. Lu Qing, Mr. Wang Aiguo was appointed as a member of the Remuneration & Evaluation Committee of the seventh session of the Board with effect from 20 January 2011.

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 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 Directors and senior management who faithfully and diligently discharge their duties, and who help the Company in its successful operation and, accordingly, are important to the Company.

The Remuneration and Evaluation Committee under the seventh session of the Board of the Company held two meetings during the Reporting Period, and the attendance record of the members of the Remuneration and Evaluation Committee is set out below:

	The attendance of the meetings of the Remuneration and Evaluation Committee under the seventh session of the Board			
Name	**Number of meetings which should be attended for the Year**	**Number of attendance in person**	**Number of attendance by proxy**	**Attendance Rate for the Year**
Ms. Yu Shu Min	2	2	0	100%
Mr. Lin Lan	2	2	0	100%
Mr. Zhang Sheng Ping	2	2	0	100%
Mr. Lu Qing *(Note)*	0	0	0	—
Mr. Cheung Yui Kai, Warren	2	2	0	100%

Note: Mr. Lu Qing ceased to be a Director with effect from 26 September 2010.

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

(i) the emoluments of the independent non-executive Director candidate of the seventh session of the Board, Mr. Wang Ai Guo, for the sum of RMB90,000 (before tax);

(ii) adjustment of the emoluments of the independent non-executive Director of the seventh session of the Board, Mr. Zhang Sheng Ping, to RMB90,000 (before tax); and

(iii) the share option incentive scheme of the Company (draft).

Members of the Remuneration and Evaluation Committee confirmed that the remunerations of the Directors, supervisors and senior management during the 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 2010 are set out on pages 29 to 30 of this annual report.

(g) Nomination Committee

The seventh session of the Board of the Company has established the Nomination Committee with specific written terms of reference. The Nomination Committee comprised three independent non-executive Directors, namely, Mr. Zhang Sheng Ping, Mr. Lu Qing (whose term ended on 25 September 2010), 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. Due to the resignation of Mr. Lu Qing, Mr. Wang Aiguo was appointed as a member of the Nomination Committee of the seventh session of the Board with effect from 20 January 2011.

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, and the members of the Nomination Committee 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 by 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 its duties such as selection and nomination of suitable candidates.

The Nomination Committee of the seventh session of the Board of the Company held one meeting during the Reporting Period, and the attendance record of the members of the Nomination Committee is set out below. The nomination of the candidates for directorship of the seventh session of the Board was considered and approved at the meeting.

	The attendance of the meetings of the Nomination Committee under the seventh session of the Board			
Name	**Number of meetings which should be attended for the Year**	**Number of attendance in person**	**Number of attendance by proxy**	**Attendance Rate for the Year**
Mr. Tang Ye Guo	1	1	0	100%
Mr. Zhou Xiao Tian	1	1	0	100%
Mr. Zhang Sheng Ping	1	1	0	100%
Mr. Lu Qing *(Note)*	0	0	0	—
Mr. Cheung Yui Kai, Warren	1	1	0	100%

Note: Mr. Lu Qing ceased to be a Director with effect from 26 September 2010. The Nomination Committee conducts extensive searches for candidates of Directors within the Company, and in the open market after considering the Company's requirements for new Directors. With the consent to nomination from the candidates, the Nomination Committee will convene the Nomination Committee meeting in accordance with relevant laws and regulations, the Articles and the Rules of Nomination Committee in view of the Company's actual situation, examine the qualifications of the initial nominees based on the conditions for appointment of Directors and form a resolution which would be recorded and submitted to the Board for its consideration. One month prior to the election of new Directors, the Nomination Committee will propose candidates for directorship to the Board and furnish the Board with relevant information.

(h) Strategic Committee

The seventh session of the Board of the Company has established the Strategic Committee with specific written terms of reference. During the Reporting Period, the Strategic Committee of 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 (whose term ended on 1 December 2010), and Mr. Tang Ye Guo was the Chairman. Due to the resignation of Mr. Zhang Ming, Mr. Xiao Jianlin was appointed as a member of the Strategic Committee of the seventh session of the Board with effect from 20 January 2011.

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 of the Company.

The Strategic Committee comprises five Directors, who are nominated by the Chairman, the majority of the independent non-executive Directors or one-third 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 by the person elected by the Committee in accordance with the requirements.

(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 the Audit Committee to review the efficiency of the relevant systems. The Audit Committee is a specific work body under the Board with specific written terms of reference, and is responsible for the communication, supervision and inspection of the internal and external audit work of the Company. The Audit Committee reports to the Board and its proposals shall be submitted to the Board for approval.

The 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 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 (whose term ended on 25 September 2010) and Mr. Cheung Yui Kai, Warren, and Mr. Lu Qing (whose term ended on 25 September 2010) is the chairman of the Committee. Due to the resignation of Mr. Lu Qing, Mr. Wang Aiguo was appointed as a member and the chairman of the Audit Committee of the seventh session of the Board with effect from 20 January 2011;

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

Name	Number of meetings which should be attended for the Year	Number of attendance in person	Number of attendance by proxy	Attendance Rate for the Year
	The attendance of the meetings of the Audit Committee under the seventh session of the Board			
Mr. Zhang Sheng Ping	7	7	0	100%
Mr. Lu Qing *(Note)*	6	5	1	100%
Mr. Cheung Yui Kai, Warren	7	7	0	100%

Note: Mr. Lu Qing ceased to be a Director with effect from 26 September 2010.

In 2010, the Audit Committee accomplished the following major 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.

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 operational efficiency and profitability, the Company has established the "System of Internal Control" which mainly standardizes the control procedures in respect of 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 considered that the Company had established an appropriate internal control system based on the actual situations, were not aware of any significant defect in the internal control system, and prepared a comprehensive summary and explanation as to the goals, details, modes and functions of the internal control system of the Company.

(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 by e-mail, telephone and facsimile.

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

(a) the chairman of the meeting; or

(b) at least two shareholders with voting rights or their proxies or

(c) one or more shareholder(s) (including their proxies) representing, individually or in aggregate, 10% or more of all shares carrying the voting rights at the general meeting.

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

In 2010, the Company convened an Annual General Meeting ("AGM") and four Extraordinary General Meetings ("EGM"). The shareholding held by the shareholders attending the AGM and the EGMs represented 35.90%, 33.64%, 35.35%, 55.55% and 58.53% respectively, of all the then issued shares of the Company.

(k) Supervisory Committee

The Supervisory Committee was established in accordance with the PRC laws. It independently performs its supervisory duties to protect the legal interests of shareholders, the Company and its staff from infringements. It also reviews the Company's financial positions in accordance with the relevant requirements of the Articles of 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 Supervisory Committee. Details of the above-mentioned supervisors' biographies are set out on page 21 of this annual report.

Details of the work performed and the meetings convened by the Supervisory Committee of the Company in 2010 are set out on pages 40 to 41 of this annual report.

(l) Auditors' Remuneration

In 2010, as discussed and approved at the shareholders' general meeting, the Company agreed to appoint BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD. and BDO Limited 香港立信德豪會計師事務所有限公司(formerly known as BDO Limited 德豪會計師事務所有限公司) as the Company's domestic and foreign auditors for 2010 respectively, and the Board was authorized to determine their remunerations. The Company agreed to pay a total of approximately RMB4.62 million and Hong Kong dollar 0.5 million to the auditors for the provision of audit services and non-audit services respectively for the year ended 31 December 2010.

Directors:

Mr. Tang Ye Guo has successively held the positions of the chief accountant, the deputy general manager, the general manager and director of 青島海信電器股份有限公司 (Qingdao Hisense Electric Co., Ltd.) ("Hisense Electric") from 1997. From August 2003 to September 2005, he served as an assistant to the president and the vice president of Hisense Group Company Limited ("Hisense Group"), and the general manager and chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited ("Hisense Air-Conditioning"). Mr. Tang was appointed as the chairman of the board of directors of Hisense Air-Conditioning and a director of Hisense Electric and the president of the Company from September 2005 to June 2006. He has acted as chairman of the board of directors of Hisense Air-Conditioning and the chairman of the board of directors of the Company since June 2006. He has acted as a director of Hisense Group since April 2010.

Mr. Zhou Xiao Tian has a doctorate in engineering from University Karlsruhe in Germany, and served as an engineer of the refrigerant department of BSH Bosch und Siemens Hausgeraete GmbH（德國博世西門子集團）, the department head of the research and development department of the refrigerator factory (Chuzhou, the PRC) of BSH Bosch und Siemens Hausgeraete GmbH, the general manager of the PRC technology center of BSH Bosch und Siemens Hausgeraete GmbH and the department manager of the refrigerant department and refrigerant system department of BSH Bosch und Siemens Hausgeraete GmbH. From November 2006 to July 2008, Mr. Zhou also served as the Secretary-General (representing Germany) of Freezer and Compressor Sub-committee (SC61C) of the International Electrotechnical Commission (IEC). From March 2008 to December 2008, he served as the deputy president of 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 and a director of Hisense Air-Conditioning since April 2009. He has acted as a director of Hisense Group since April 2010.

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, the general manager of Hisense Electric, the chief executive officer of Hisense Group and the chairman of the board of directors of Hisense Electric. Ms. Yu has been the vice chairman of the board of directors and the president of Hisense Group and the chairman of the board of directors of Hisense Electric since July 2001. She has been an executive director of the Company since June 2006.

Mr. Lin Lan had been working as the manager of the power system software development department of 西門子諮詢公司 (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 has worked as a senior project manager and senior engineer for GE 動力系統公司 (GE Power Systems), responsible for and participated in the advancement of equipment and technologies of several thermal power plants and atomic power plants. Mr. Lin had acted as the vice president of the Company from September 2002 to June 2006. Since July 2006, he has served as the vice president of Hisense Group. He has been a director of the Company since June 2006 and a director of Hisense Electric since May 2007. He has acted as a director of Hisense Group since April 2010.

Mr. Xiao Jian Lin, has served as the deputy head of Operation Centre, the head of Finance Centre, head of Finance Department and assistant to president of Hisense Group. He has been head of audit department of Hisense Group from August 2007 to January 2009. He has been the vice-president of Hisense Group since January 2008, head of Finance and Operation Management Centre of Hisense Group since January 2009, director of Hisense Group since January 1999, and director of Hisense Electric since June 2008. He has served as a director of the Company since January 2011.

Ms. Liu Chun Xin is a certified public accountant, a registered tax advisor and an economist. She served as project manager, department manager and senior manager in various accountant firms for years. She has years of experience in auditing and consultation on financial management. She has served as a vice chairman of the Company since November 2006. From June 2007 to December 2009, she was 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 and from Nankai University with a doctorate in economics, and was a postdoctoral fellow in finance in Peking University. From July 1987 to June 2000, he had been working as a teaching fellow, lecturer and an associate professor at the School of Economics of Shandong University. Since August 2002, he has been an associate professor at the Guanghua School of Management of Peking University. He has acted as an independent non-executive director of Yin Zuo Bohai Group Co., Ltd. and 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 over 18 years of investment banking experiences in the Asia Pacific Region. He has worked successively as a senior manager in 渣打(亞洲)有限公司 (Standard Chartered (Asia) Limited), a senior manager in 渣打澳洲有限公司 (Standard Chartered Australia Limited) and a vice director in 荷銀融資亞洲有限公司 (ABN AMRO Corporate Finance (Asia) Limited), a director in 軟庫金(香港)有限公司 (SBI E2-Capital (HK) Limited), a director in 凱利融資有限公司 (Hercules Capital Limited), a managing director of 寶來資本(亞洲)有限公司 (Polaris Capital (Asia) Limited), an executive director of 寶來證券(香港)有限公司 (Polaris Securities (Hong Kong) Limited) and an independent non-executive director in 美亞娛樂資訊集團有限公司 (Mei Ah Entertainment Group Limited). He has served as an independent non-executive director of the Company since June 2006.

Mr. Wang Ai Guo holds a master's degree in accountancy from Tianjin Institute of Finance & Economics (天津財經學院) and a doctoral degree from the School of Management of Tianjin University (天津大學管理學院), and is a postdoctoral fellow in accountancy in Tianjin University of Finance & Economics (天津財經大學). He was an associate professor at the Faculty of Accountancy of Shandong Economics College (山東經濟學院) between 1995 and 2000, and has been a professor at the Faculty of Accountancy of Shandong Economics College since 2000. He is currently the dean of the School of Accountancy of Shandong Economics College, executive of China Appraisal Society (中國資產評估協會), council member of Accounting Society of China, and vice-chairman and secretary-general of Accounting Education Committee of Accounting Society of Shandong Province (山東省會計學會會計教育專業委員會). He has been the independent director of Laiwu Steel Co., Ltd (萊蕪鋼鐵股份有限公司) since June 2008, independent director of Shandong Chenming Paper Holdings Co. Ltd (山東晨鳴紙業集團股份有限公司) since April 2010, and independent director of China Corn Oil Company Limited (中國玉米油股份有限公司) since May 2010. He has served as an independent non-executive director of the Company since January 2011.

Supervisors:

Mr. Guo Qing Cun attained the qualification of practicing lawyer in the national examination in 1986 and acted as 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 the head of 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 February 2011, he has successively served as an assistant to the president and vice president of Hisense Group. He has served as a supervisor of the Company since December 2006 and a director of Hisense Air-Conditioning since April 2009.

Mr. Gao Zhong Xiang, graduated with a bachelor degree, is a senior engineer, an economist and a certified assets valuer. He had worked at Zhengzhou Branch of the Fourth Company of the Seventh Construction Bureau China Construction (中國建築第七工程局四公司鄭州公司), Guangdong Guangshou Land Development Company (廣東廣壽房地產開發公司) and Guangzhou Qinling Land Development Company Limited (廣州麒麟房地產開發有限公司). Mr. Gao has been working in the Guangzhou office of China Huarong Asset Management Corporation since March 2002. He has been working as a supervisor of the Company since August 2008. Mr. Gao is currently the manager of the three financial service departments of China Huarong Asset Management Corporation.

Mr. Liu Zhan Cheng graduated from Zhongnan University of Finance and Economics (中南財經大學) in 1999. He has been working in the Company after graduation. He has acted as the deputy manager and then the manager of the accounting division of the finance department of the Company, the deputy department head of the operation and management department and the department head of the material control department of Hisense RonShen (Guangdong) Refrigerator Co., Ltd.. He was also the department head of the supply department, the assistant to general manager and the vice general manager of Guangdong Kelon Air-Conditioner Co., Ltd.. He has served as the supervisor of the Company from June 2006 to date. Since March 2009, Mr Liu has been the 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, supervisor of public relations in the president office of Hisense Group from January 2000 to January 2003, deputy manager of the president office of Hisense Group from January 2003 to July 2005 and manager of the president office of Hisense Group from July 2005 to January 2007. He has also served as the vice president of the Company since January 2007. He has served as chairman of the supervisory committee of Hisense Electric from June 2006 to March 2011.

Mr. Ren Li Ren has served successively as the assistant to the general manager and the vice general manager of Hisense Electric, the assistant to the general manager of Qingdao Hisense Computer Co., Ltd., the general manager of Hisense (Beijing) Electrical Co., Ltd. and Hisense (Nanjing) Electrical 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 the 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 department head of the freezer manufacturing department and the Chief Technology Officer of Suzhou Samsung Electronics Co., Ltd. from January 2003 to May 2005. He joined Hisense Group in May 2006 and had been the vice general manager of Hisense (Beijing) Electrical Co., Ltd., the standing vice general manager of Hisense (Nanjing) Electrical Co., Ltd., the vice general manager of Hisense RonShen (Guangdong) Refrigerator Co., Ltd. and the general manager of Hisense RonShen (Yangzhou) Refrigerator Co., Ltd.. Mr. Zhang has served as a director and the general manager of Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd. from December 2008 to April 2010. He has been the vice president of the Company since June 2009.

Mr. Wang Yunli has been the deputy sales general manager of Hisense Electric from July 2006 to January 2010, deputy executive general manager of the PRC marketing company of the Company from January 2010 to October 2010, and executive general manager of the PRC marketing company of the Company from October 2010 to now. He has been a vice president of the Company from December 2010 to now.

Mr. Xia Feng holds a master degree in management, and has been the chief of the capital operating department of Hisense Group, deputy manager of the marketing department of Hisense Air-Conditioning, and deputy manager, representative of securities affairs, manager of securities department and secretary to the board of directors of Hisense Electric, and obtained the passing certificate of the 25th session of training for the qualification of secretary to the board of directors from the Shanghai Stock Exchange in July 2004. He has been the head of securities department and secretary to the board of directors of the Company from August 2010 to now.

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

PRINCIPAL BUSINESSES

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

FINAL DIVIDENDS

The Group recorded a profit of RMB643 million for the year ended 31 December 2010. The Board resolved not to pay any dividend for the year ended 31 December 2010 and not to capitalize any reserve funds (no dividend was paid by the Group for the year ended 31 December 2009).

RESERVES

Details of changes in reserves of the Group during the reporting period are set out in the consolidated statement of changes in equity and Note 38 to the financial statements.

LIQUIDITY AND SOURCES OF FUNDS

For the year ended 31 December 2010, net cash generated from operating activities of the Group amounted to approximately RMB664 million (2009 (restated): net cash generated from operating activities amounted to approximately RMB801 million).

As at 31 December 2010, the Group had bank deposits and cash (including pledged bank deposits) amounting to approximately RMB429 million (2009 (restated): RMB208 million), and borrowings amounting to approximately RMB1,101 million (2009 (restated): RMB1,451 million).

Total capital expenditures of the Group for the year ended 31 December 2010 amounted to approximately RMB403 million (2009 (restated): RMB310 million).

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 31 December 2010, the Group had approximately 34,135 employees, mainly comprising 3,357 technical staff, 13,165 sales representatives, 602 financial staff, 1,275 administrative staff and 15,736 production staff. The Group had 6 employees with a doctorate degree, 120 with a master's degree and 2,615 with a bachelor's degree. There were 721 employees who occupied mid-level positions or above in the Group according to the national standards. In addition, the Group had to bear the costs for 3 retired employees. For the year ended 31 December 2010, the Group's staff payroll amounted to RMB1,308 million (2009 (restated): RMB1,055 million).

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2010, the Group's property, plant and equipment, leasehold land held for own use under operating leases, investment properties and trade receivables of approximately RMB854 million (2009 (restated): RMB735 million) were pledged as security for the Group's borrowings.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 19 to the financial statements.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

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

PUBLIC FLOAT

As at 22 April 2011, being the latest practicable date prior to the issue of this report, 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").

AUDIT COMMITTEE

The seventh session of the audit committee of the Company has reviewed the final results and report of the final results of the Group for the year ended 31 December 2010.

FINANCIAL STATEMENTS PREPARED UNDER CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES ("CASBE")

The Group's and the Company's financial statements prepared under CASBE can be accessed on the website as designated by the Shenzhen Stock Exchange for release of information: http://www.cninfo.com.cn.

CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2011 to be approximately RMB251 million.

TRUST DEPOSITS

As at 31 December 2010, the Group did not have any trust deposits with any financial institutions in the PRC. All of the Group's deposits have been deposited in commercial banks and other financial institution in the PRC and Hong Kong.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2010, the Group did not have any long-term bank borrowings and its cash and cash equivalents amounted to RMB420 million (2009 (restated): RMB201 million), of which more than RMB337 million are denominated in Renminbi.

TOTAL ASSETS TO TOTAL LIABILITIES RATIO

As at 31 December 2010, the total assets to total liabilities ratio of the Group was 111.91%.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

The Directors of the seventh session of the Board and the supervisors of the Company did not directly or indirectly hold any material interests in any contract of significance of the Company or its subsidiaries for the year ended 31 December 2010.

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the seventh session of the Board have reviewed the continuing connected transactions of the Group for the year 2010, and confirmed that these transactions were conducted in the ordinary course of business of the Group in accordance with the relevant agreements governing them and on normal commercial terms which were fair and reasonable and in the interest of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 110 to 115 of this Annual Report in accordance with Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

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, all Directors of the seventh session of the Board confirmed that they had acted in full compliance with the Model Code during their term of office.

SHARE CAPITAL STRUCTURE

As at 31 December 2010, the share capital structure of the Company was as follows:

Class of Shares	Number of Shares	Percentage to the Total Issued Share Capital
H shares	459,589,808	33.94%
A shares	894,464,942	66.06%
Total	1,354,054,750	100.00%

TOP TEN SHAREHOLDERS

(1) As at 31 December 2010, there were 37,209 shareholders of the Company (the "Shareholders") in total, of which the top ten Shareholders were as follows:

Name of Shareholder	Nature of Shareholder	No. of Shares Held	Percentage to the total issued shares of the Company	Percentage to the relevant class of issued shares of the Company	No. of shares held subject to trading moratorium	No. of Pledged or Frozen Shares
Qingdao Hisense Air-conditioning Company Limited	State-owned Legal Person	612,316,909	45.22%	68.46%	612,316,909	0
HKSCC Nominees Limited *Note*	Foreign Shareholder	457,366,208	33.78%	99.52%	0	Unknown
China Huarong Asset Management Corporation	Unknown	37,420,000	2.76%	4.18%	0	0
China Construction Bank — Penghua Value Advanced Stock Fund	Other	13,046,489	0.96%	1.46%	0	0
Zhang Shaowu	Domestic person	6,080,000	0.45%	0.68%	0	0
The Industrial and Commercial Bank of China — Lion Flexible Allocation Stock Fund	Other	3,780,227	0.28%	0.42%	0	0
Agricultural Bank of China — Bosera New Growth Stock Fund	Other	2,999,951	0.22%	0.34%	0	0
China Construction Bank — Baokang Consumption Products Stock Fund	Other	2,219,929	0.16%	0.25%	0	0
Cheng Jinyang	Domestic person	2,219,149	0.16%	0.25%	0	0
China Trust Company Limited — Rosefinch Phase IX	Other	2,200,600	0.16%	0.25%	0	0

Note: The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants.

Shareholdings of the Top Ten Shareholders of Tradable Shares

Name of Shareholders	Number of Tradable Shares Held	Class of Shares
HKSCC Nominees Limited	457,366,208	Overseas listed foreign shares
China Huarong Asset Management Corporation	37,420,000	RMB ordinary shares
China Construction Bank — Penghua Value Advanced Stock Fund	13,046,489	RMB ordinary shares
Zhang Shaowu	6,080,000	RMB ordinary shares
The Industrial and Commercial Bank of China — Lion Flexible Allocation Stock Fund	3,780,227	RMB ordinary shares
Agricultural Bank of China — Bosera New Growth Stock Fund	2,999,951	RMB ordinary shares
China Construction Bank — Baokang Consumption Products Stock Fund	2,219,929	RMB ordinary shares
Cheng Jinyang	2,219,149	RMB ordinary shares
China Trust Company Limited — Rosefinch Phase IX	2,200,600	RMB ordinary shares
Bank of China — Fortune SGAM Power Portfolio Stock Fund	2,000,000	RMB ordinary shares

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

Interests and Short Positions of Substantial Shareholders in the Shares

So far as is known to any Directors, supervisors and the chief executive of the Company, as at 31 December 2010, the following persons (other than the Directors, supervisors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited:

Name of shareholder	Capacity	Type of shares	Number of shares held	Percentage of the respective type of shares	Percentage of the total number of shares in issue
Qingdao Hisense Air-conditioning Company Limited [Note 1]	Beneficial owner	A shares	612,316,909(L)	68.46%	45.22%
Qingdao Hisense Electric Holdings Company Limited [Note 1]	Interest of controlled corporation	A shares	612,316,909(L)	68.46%	45.22%
Hisense Company Limited [Note 1]	Interest of controlled corporation	A shares	612,316,909(L)	68.46%	45.22%
Hillhouse Capital Management, Ltd. [Note 2]	Investment manager	H shares	46,700,000(L)	10.16%	3.45%

Name of shareholder	Capacity	Type of shares	Number of shares held	Percentage of the respective type of shares	Percentage of the total number of shares in issue
Gaoling Fund, L.P. Note 2	Beneficial owner	H shares	43,076,000(L)	9.37%	3.18%
Cheah Capital Management Limited Note 3	Interest of controlled corporation	H shares	42,829,000(L)	9.31(L)	3.16%
Cheah Company Limited Note 3	Interest of controlled corporation	H shares	42,829,000(L)	9.31(L)	3.16%
Hang Seng Bank Trustee International Limited Note 3	Trustee	H shares	42,829,000(L)	9.31(L)	3.16%
Value Partners Group Limited Note 3	Interest of controlled corporation	H shares	42,829,000(L)	9.31(L)	3.16%
Value Partners Limited Note 3	Investment manager	H shares	42,829,000(L)	9.31(L)	3.16%
To Hau Yin Note 3	Family interest	H shares	42,829,000(L)	9.31(L)	3.16%
Cheah Cheng Hye Note 3	Founder of discretionary trust	H shares	42,829,000(L)	9.31(L)	3.16%
Deutsche Bank Aktiengesellschaft Note 4	Beneficial owner and person having security interests in shares	H shares	32,136,141(L)	6.99%	2.37%

The letter "L" denotes a long position and the letter "S" denotes a short position.

Notes:

1. Qingdao Hisense Air-conditioning Company Limited is a company owned as to 93.33% by Qingdao Hisense Electric Holdings Company Limited, which is in turn owned as to 51.01% by Hisense Company Limited. By virtue of the SFO, Qingdao Hisense Electric Holdings Company Limited and Hisense Company Limited are deemed to be interested in the same parcel of A shares of which Qingdao Hisense Air-conditioning Company Limited is interested.

2. Hillhouse Capital Management, Ltd. was interested in a total of 46,700,000 H shares by virtue of the SFO. Of these shares, Gaoling Fund, L.P. and Gaoling Yali Fund, L.P. were interested in 43,076,000 shares and 3,624,000 shares respectively.

3. Value Partners Limited, Value Partners Group Limited, Cheah Capital Management Limited, Cheah Company Limited, Hang Seng Bank Trustee International Limited, Cheah Cheng Hye and To Hau Yin were interested in the same parcel of these 42,829,000 H shares by virtue of the SFO.

4. Deutsche Bank Aktiengesellschaft was interested in these H shares by virtue of the SFO, in which it was interested as to 641 shares as beneficial owner and 32,135,500 shares as person having security interests.

Save as disclosed above, as at 31 December 2010, in so far as the Directors, supervisors and chief executive of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

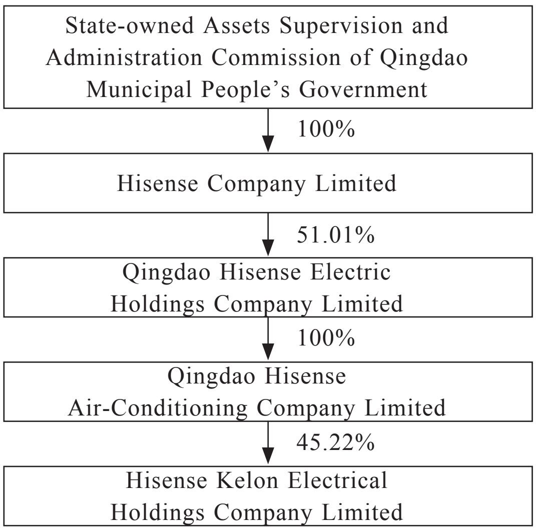
(2) Particulars of the controlling shareholders of the Company

(a) Qingdao Hisense Air-Conditioning Company Limited, the controlling shareholder of the Company, was incorporated on 17 November 1995. Its registered address is Changsha Road, Hi-tech Industrial Zone, Qingdao, the PRC and the legal representative is Mr. Tang Ye Guo and its registered capital is RMB674.79 million. Its business scope is 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 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 Company Limited, 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, disc 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 controllers:



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

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES

As at 31 December 2010, none of the members of the Board, supervisors and the chief executive of the Company and their respective associates held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be maintained by the Group pursuant to section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2010, the aggregate amount of the Group's purchases from the top five suppliers was RMB2,318,000,000, representing 17.77% of total purchase amount of the Group for the year and the aggregate sales amount to the top five customers was RMB4,082,000,000, representing 25.78% of the total sales amount of the Group for the year. As at 31 December 2010, 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 SHARES

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

PRE-EMPTIVE RIGHTS

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

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	Position	Gender	Age	Term of Office	Total remuneration received from the Company during the Reporting Period (including taxation) (RMB ten thousand)	Remuneration received from shareholders' entities or other related companies
Tang Ye Guo	Chairman	Male	48	2009.6.26-2012.6.25	67.50	No
Zhou Xiao Tian	Director, President	Male	50	2009.6.26-2012.6.25	97.95	No
Yu Shu Min	Director	Female	59	2009.6.26-2012.6.25	0	Yes
Lin Lan	Director	Male	52	2009.6.26-2012.6.25	0	Yes
Xiao Jian Lin	Director	Male	43	2011.1.20-2012.6.25	0	Yes
Liu Chun Xin	Director, Vice President	Female	42	2009.6.26-2012.6.25	35.27	No
Zhang Ming	Former Director, Former Vice President	Male	39	2009.6.26-2010.12.1 2009.6.26-2012.8.26	18.82	No
Zhang Sheng Ping	Independent non-executive Director	Male	45	2009.6.26-2012.6.25	6	No
Cheung Yui Kai, Warren	Independent non-executive Director	Male	43	2009.6.26-2012.6.25	24	No
Wang Ai Guo	Independent non-executive Director	Male	46	2011.1.20-2012.6.25	0	No

Name	Position	Gender	Age	Term of Office	Total remuneration received from the Company during the Reporting Period (including taxation) (RMB ten thousand)	Remuneration received from shareholders' entities or other related companies
Lu Qing	Former independent non-executive Director	Male	44	2009.6.26-2010.9.25	4	No
Guo Qing Cun	Supervisor	Male	57	2009.6.26-2012.6.25	0	Yes
Gao Zhong Xiang	Supervisor	Male	43	2009.6.26-2012.6.25	0	Yes
Liu Zhan Cheng	Supervisor	Male	32	2009.5.6-2012.6.25	59	No
Jia Shao Qian	Vice President	Male	38	2009.6.26-2012.6.25	21.97	No
Ren Li Ren	Vice President	Male	46	2009.6.26-2012.6.25	35.89	No
Zhang Yu Qing	Vice President	Male	47	2009.6.26-2012.6.25	17	No
Wang Yun Li	Vice President	Male	37	2010.12.2-2012.6.25	25.87	No
Xia Feng	Secretary to the Board	Male	34	2010.8.27-2012.6.25	5.6	No
Yu Wan Li	Former Secretary to the Board	Female	32	2009.6.26-2010.8.24	14	No
Chen Zhen Wen	Former Company Secretary	Male	34	2009.6.26-2010.6.10	26.28	No
Total	—	—	—	—	459.15	—

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

Note 2: The decision-making procedures and basis of determination of the remuneration of the Directors, supervisors and senior management are as follows:

— the remuneration of the Directors of the Company is determined based on suggestions made to the Board by the remuneration and evaluation committee of the Board on the basis of the duties of the Directors and the remuneration level of other listed companies in the same industry, and is subject to consideration and approval by the Board and the shareholders at general meetings;

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

— the remuneration and evaluation committee of the Board makes remuneration suggestion to the Board based on the experience, responsibilities, pressure and contribution of the senior management, which is determined and approved by the Board. The final remuneration received by the senior management is also linked with his/her annual performance review.

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

Note 3: 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 were used during the Reporting Period.

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

(1) On 27 April 2008, the Company and Whirlpool (Hong Kong) Limited entered into the Joint Venture Agreement for the establishment of Hisense-Whirlpool. The registered capital of Hisense-Whirlpool amounted to RMB450,000,000, of which both the Company and Whirlpool (Hong Kong) Limited were to make capital contribution of RMB225,000,000 respectively, and each would have an equity of 50%. The Company has made a capital contribution of RMB225,000,000, and all funding have been in place. As at the date of this report, Hisense-Whirlpool has formally started production.

(2) On 24 May 2010, the seventh session of the board of directors of the Company convened the eighth extraordinary meeting of 2010 approved the "Resolution in relation to additional capital contribution to Hisense Ronshen (Yangzhou) Refrigerator Company Limited ("Yangzhou Kelon"), a subsidiary of the Company". Due to development needs of Yangzhou Kelon, it is intended the profit distribution to be received by the shareholders from such company in the amount of RMB100 million be injected into the registered capital of such company in accordance with their shareholding proportion (in which the Company will inject RMB74.33 million). The said capital will be used for the construction of the new production line and modification of other production lines of Yangzhou Kelon. The board of directors agreed that the profit distribution in the amount of RMB74.33 million to be received by the Company from Yangzhou Kelon in accordance with its 74.33% shareholding shall be injected into Yangzhou Kelon for increasing its registered capital and other related purposes. Upon completion of the capital increase, the accumulated investment in the registered capital of Yangzhou Kelon by the Company amounted to RMB252.3570 million, representing 74.33% of the equity interests in such company.

III. Material litigations and arbitrations of the Company

There is one outstanding material litigation or arbitrations of the Company and its subsidiaries with the amount in dispute exceeding RMB10,000,000 as at the date of this report, the basic information of which are as follows:

Name of case	Amount in dispute (RMB ten thousand)	Particulars of the case	Status
Ronshen Refrigerator against Xi'an Kelon in relation to a sale and purchase contract	9,998.41	Since February 2004, Ronshen Refrigerator has repeatedly provided Xi'an Kelon fundings and prepayments in an aggregate amount of RMB89,184,085.06 to support the latter's production. The two parties later entered into a repayment agreement, but Xi'an Kelon has failed to perform such agreement. Therefore, Ronshen Refrigerator initiated the proceedings in the Foshan Intermediate Court, demanding Xi'an Kelon to refund the payment for goods and the related expenses.	In December 2008, the Foshan Intermediate Court dismissed the claim due to insufficiency of factual and legal evidence. Ronshen Refrigerator made an appeal. The Guangdong Province Higher Court has revoked the judgment of the Foshan Intermediate Court (Fo Zhong Fa Min Er Chu Zi No. 88 (2007)) and the case was to be re-tried by the Foshan Intermediate Court. The case has been re-opened at the Foshan Intermediate Court for re-trial in February 2011. At present, this case is being heard.

IV. Acquisitions and Disposals of Assets and Mergers and Takeovers by the Company

1. During the Reporting Period, the Company acquired from its controlling 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. at a consideration of RMB1,238,204,800 which was satisfied by non-public issue of shares (A Shares). On 26 March 2010, the Company received from the CSRC the following approvals: the "Letter of Reply Concerning the Approval for the Major Asset Restructuring of Hisense Kelon Electrical Holdings Company Limited and the Acquisition of Assets through Issuance of Shares to Qingdao Hisense Air-Conditioning Company Limited" and the "Letter of Reply Concerning the Approval for the Announcement by Qingdao Hisense Air-Conditioning Company Limited of the Acquisition Report of Hisense Kelon Electrical Holdings Company Limited and the Waiver of its General Offer Obligation". On 19 May 2010, BDO China Li Xin Da Hua CPA Company Limited issued the "Capital Verification Report" (Li Xin Da Hua Yan Zi No.[2010]039). According to such capital verification report, as at 19 May 2010, the Company has received additional registered capital (share capital) of RMB362,048,187 in total from Hisense Air-Conditioning, all contributed in the form of the subject assets. On 21 May 2010, the Company has completed the equity registration procedures with the Shenzhen branch of China Securities Depository and Clearing Corporation Limited in respect of the equity interests of this non-public share issue to Hisense Air-Conditioning, and the Shenzhen branch of China Securities Depository and Clearing Corporation Limited has issued the "Confirmation of Securities Registration". On 10 June 2010, the 362,048,187 A shares issued under this share issue were listed.

2. On 29 January 2010, the seventh session of the board of directors of the Company convened the first extraordinary meeting of 2010 by way of written resolutions and approved the "Equity Transfer Agreement" between the Company and a third party, pursuant to which it was agreed that the Company's 100% shareholding in Wuhu Ecan Motors Company Limited would be transferred to the third party at a consideration of RMB12 million, and the two parties would share the profit and loss during the transition period of the transfer. After this equity transfer, the Company will no longer hold any shareholding in Wuhu Ecan Motors Company Limited. As at the date of this report, the procedures for change in shareholding have been completed.

3. In order to better leverage on the shares of Huayi Compressor held by the Company, the seventh session of 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 of not more than 6 million shares of Huayi Compressor held by it at an appropriate time and within a reasonable price range. On 4 June 2010, the board of directors of the Company was authorized to dispose of not more than 50 million shares of Huayi Compressor held by the Company at the 2009 annual general meeting upon consideration.

V. Securities Investments During the Reporting Period

(I) The Company has not made any 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 during the Reporting Period
000404	Huayi Compressor	5,383.64	8.33%	5,381.74	242.38	—

In order to better leverage on the shares of Huayi Compressor held by it, the Company disposed of part of the shares of Huayi Compressor held by it in a total of 32,249,368 shares during the Reporting Period. The corresponding cost of long-term equity investment of RMB62,636,800 was released and an investment gain of RMB276,763,500 was recognised.

VI. Discussion on Funds Embezzled

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

Unit: RMB (in ten thousand)

Outstanding amount of funds of the Company embezzled by a former substantial shareholder, its subsidiaries, the specific third parties and other related parties for non-operating purpose		Total amount recovered during the Reporting Period	Settlement Method	Amount recovered	Time of Settlement (Month)
1 January 2010	31 December 2010				
65,514.95	65,514.95	—	—	—	—

As at the end of the Reporting Period, the total funds of the Group embezzled by a former substantial shareholder and its subsidiaries, the specific 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 a former substantial shareholder Guangdong Greencool and its associated companies (the "Greencool Companies") and the specific third parties and the remaining balance of RMB4,455,400 was embezzled by other related parties.

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

The Company has initiated a total of 19 cases of legal proceedings against the Greencool Companies and specified third parties, with a target claim amount of RMB791 million. As at the date of this report, 17 of the judgments were in force and entered the execution process, and the amount applied for enforcement was RMB725 million. One case was withdrawn, involving an amount of RMB29.8437 million; one case was rejected due to lack of evidence, involving an amount of RMB12.2894 million.

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

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

During the Reporting Period, the Company and connected parties such as Hisense Group, Hisense Electric, Huayi Compressor and its subsidiaries, Hisense-Whirlpool, Hisense Hitachi, Hisense Finance, Snowflake, Embraco and entered into certain connected transactions, details of which are as follows:

Unit: RMB

Connected parties	Type of connected transaction	Particulars of transaction	Pricing principle of connected transaction	Transaction amount	Percentage of total amount of similar transactions
Hisense-Whirlpool	Purchase	Finished goods	Agreed price	335,100,969.65	2.26%
Hisense Hitachi	Purchase	Finished goods	Agreed price	379,235.19	0.00%
Sub-total of purchase of finished goods				**335,480,204.84**	**2.27%**
Huayi Compressor	Purchase	Materials	Agreed price	669,024,526.40	4.52%
Embraco	Purchase	Materials	Agreed price	54,096,125.32	0.37%
Hisense-Whirlpool	Purchase	Materials	Agreed price	24,613,728.56	0.17%
Hisense Hitachi	Purchase	Materials	Agreed price	2,265,051.93	0.02%
Hisense Group	Purchase	Materials	Agreed price	136,917,906.26	0.93%
Hisense Electric	Purchase	Materials	Agreed price	2,868,671.39	0.02%
Sub-total of purchase of Materials				**889,786,009.86**	**6.01%**
Hisense Group	Purchase	Mould and equipment	Agreed price	3,565,801.85	0.02%
Sub-total of Purchase of mould and equipment				**3,565,801.85**	**0.02%**
Hisense Group	Receipt of services		Agreed price	25,294,947.72	0.17%
Attend Logistics	Receipt of services		Agreed price	5,901.59	0.00%
Snowflake *Note*	Receipt of services		Agreed price	20,099,957.22	0.14%
Sub-total of receipt of services				**45,400,806.53**	**0.31%**
Hisense Electric	sale of finished goods	Finished goods	Agreed price	2,288,444.64	0.01%
Hisense-Whirlpool	sale of finished goods	Finished goods	Agreed price	185,265.25	0.00%
Hisense Hitachi	sale of finished goods	Finished goods	Agreed price	9,763,145.30	0.06%
Hisense Group	sale of finished goods	Finished goods	Agreed price	903,215,764.24	5.11%
Sub-total of sale of finished goods			**Agreed price**	**915,452,619.43**	**5.17%**

Connected parties	Type of connected transaction	Particulars of transaction	Pricing principle of connected transaction	Transaction amount	Percentage of total amount of similar transactions
Hisense-Whirlpool	Sale	Materials	Agreed price	5,612,621.70	0.03%
Huayi Compressor	Sale	Materials	Agreed price	561,305.13	0.00%
Hisense Group	Sale	Materials	Agreed price	31,348,680.41	0.18%
Hisense Hitachi	Sale	Materials	Agreed price	1,782.44	0.00%
Hisense Electric	Sale	Materials	Agreed price	1,249,107.20	0.01%
Sub-total of sale of materials				**38,773,496.87**	**0.22%**
Hisense Group	Sale	Moulds	Market price	104,026,153.73	0.59%
Hisense Hitachi	Sale	Moulds	Market price	87,350.43	0.00%
Hisense-Whirlpool	Sale	Moulds and equipment	Market price	3,355,513.05	0.02%
Hisense Electric	Sale	Moulds	Market price	49,864,734.28	0.28%
Sub-total of sale of moulds				**157,333,751.49**	**0.89%**
Attend Logistics	Receipt of services		Agreed price	65,648.40	0.00%
Hisense Electric	Receipt of services		Agreed price	315,600.00	0.00%
Hisense-Whirlpool	Receipt of services		Agreed price	562,602.00	0.00%
Sub-total of provision of services				**943,850.40**	**0.01%**

As at 31 December, 2010, the Group has loans balance of RMB593 million and deposit balance of RMB184 million in Hisense Finance, interest expenses incurred and interest income recognised from such balances for the year ended 31 December 2010 are RMB40 million and RMB302 thousand respectively.

Note: Since the asset restructuring of the Company was completed on 1 April 2010, the maximum aggregate annual cap disclosed in the previous announcements did not include the amounts incurred by acquired entities prior to the asset restructuring (that is, on or before 31 March 2010).

VIII. Particulars of External Guarantees

Unit: RMB (in ten thousand)

External guarantee given by the Company (excluding guarantees for its subsidiaries)

The guaranteed party	Date (the date of signing of the agreement)	Guaranteed amount	Type of guarantee	Period of guarantee	Completed or not	Whether in favour of any connected party (yes or no)
NIL	—	—	—	—	—	—

Total guaranteed amount during the Reporting Period	—
Total balance of the guaranteed amount at the end of the Reporting Period (A)	—
Guarantees given by the Company for its subsidiaries	
Total guaranteed amount for subsidiaries during the Reporting Period	95,715.88
Total balance of the guaranteed amount for subsidiaries at the end of the Reporting Period (B)	15,583.11
Total guarantee given by the Company (including the guarantees for subsidiaries)	
Total guaranteed amount (A+B)	15,583.11
Percentage of the total guaranteed amount to absolute net assets of the Company	28.79%
Including:	
Guaranteed amount provided to shareholders, beneficial controlling parties and their connected parties (C)	—
Guaranteed amount provided directly or indirectly to the guaranteed party with gearing ratio over 70% (D)	4,400.96
Total guaranteed amount over 50% of the net asset (E)	—
Sum of the above three guarantees (C+D+E)	4,400.96

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 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 substantial 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, were 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 2010, the balance of amounts due to Hisense Kelon 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 2010, the balance of amounts due to Hisense Kelon 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 engaged by the Company in that case. 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 in a pro-rata manner based on the amount of assets available and the amount of debts. Based on the estimated settlement proportion, and taking into consideration that the court has not determined the distribution 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 distribution arrangement for the properties sealed in the abovementioned cases, the law firm is unable to warrant 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 rejected. 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 2010 and 2009 and therefore this qualified opinion will not affect the fairness in the preparation of the Company's income statement for 2010.

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 sheets as at 31 December 2006, 31 December 2007, 31 December 2008, 31 December 2009 and 31 December 2010 respectively. 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 cases 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 2010 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 2010 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. Implementation of the share option incentive scheme of the Company during the Reporting Period

On 2 December 2010, the "first share option incentive scheme of Hisense Kelon Electrical Holdings Company Limited (draft)" was passed at the 2010 fourteenth extraordinary meeting of the seventh session of the Board of the Company. As at the date of this report, the related issues were pending approval and were not implemented.

DEFINITIONS

In this 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 Electric"	Hisense Electric Co., Ltd.
"Hisense Group"	Hisense Company Limited
"Hisense Electronic Holdings"	Qingdao Hisense Electronic Holdings Co., Ltd.
"Hisense Hitachi"	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.
"Hisense-Whirlpool"	Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd.
"Hisense Finance"	Hisense Finance Company Limited
"Attend Logistics"	Attend Logistics Co., Limited
"Embraco"	Beijing Embraco Snowflake Compressor Co., Ltd.
"Snowflake"	Beijing Snowflake Electrical Appliance Group Corporation
"Guangdong Greencool"	Guangdong Greencool Enterprise Development Company Limited
"Greencool Companies"	Guangdong Greencool and other related parties
"Xi'an Kelon"	Xi'an Kelon Cooling Co., Ltd.
"Ronshen Refrigerator"	Hisense Ronshen(Guangdong) Refrigerator Co Ltd.

"Huayi Compressor"	Huayi Compressor Company Limited
"Foshan Intermediate Court"	Intermediate People's Court of Foshan City
"CSRC"	China Securities Regulatory Commission
"RMB"	Renminbi
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

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 Listing Rules of Stock Exchange of Hong Kong Limited and the articles of association of the Company. We would like to report to you the work of the Supervisory Committee during 2010 in accordance with the articles of association of the Company:

I. MEETINGS OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

During the reporting period, the Supervisory Committee held a total of five meetings:

(1) A meeting of the seventh session of the Supervisory Committee was held in the meeting room at the headquarters of the Company on 8 April 2010. 3 supervisors should be present and 3 supervisors were present at the meeting. The Company's 2009 annual report and relevant issues were approved at the meeting.

(2) A meeting of the seventh session of the Supervisory Committee was held by way of written resolutions on 23 April 2010. 3 supervisors should be present and 3 supervisors were present at the meeting. The Company's 2010 first quarterly report was approved at the meeting.

(3) A meeting of the seventh session of the Supervisory Committee was held in the meeting room at the headquarters of the Company on 27 August 2010. 3 supervisors should be present and 3 supervisors were present at the meeting. The Company's 2010 interim report and relevant issues were approved at the meeting.

(4) A meeting of the seventh session of the Supervisory Committee was held by way of written resolutions on 25 October 2010. 3 supervisors should be present and 3 supervisors were present at the meeting. The Company's 2010 third quarterly report 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 and by way of communication on 2 December 2010. 3 supervisors should be present and 3 supervisors were present at the meeting. The Company's First Share Option Incentive Scheme (draft) was approved at the meeting.

II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2010

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 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 the 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 were reasonable. There was 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 which 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 Company.

5. BDO China Li Xin Da Hua Certified Public Accountants Co., Ltd. has audited the Company's financial statement for the year ended 2010 and issued an auditor's report with qualified opinions. In the opinion of the Supervisory Committee, the opinion expressed in the auditor's report was fair and objective, and the current financial statement has truthfully reflected the state of financial condition and operating results of the Company.

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

Corporate Information

REGISTERED OFFICE IN CHINA

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

PLACE OF BUSINESS IN HONG KONG

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

SECRETARY FOR THE BOARD OF DIRECTORS & COMPANY SECRETARY

Secretary for the Board of Directors: Xia Feng
Company Secretary: Wong Tak Fong, Li Lin

AUTHORIZED REPRESENTATIVES

Tang Ye Guo
Liu Chun Xin

SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Rooms 1712-1716, 17th Floor, Hopewell Center,
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LEGAL ADVISERS

China:

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26/F, North Tower, Yuexiu City Plaza,
445 Dongfeng Road Central, Guangzhou

Hong Kong:

Sit, Fung, Kwong & Shum
18/F., Gloucester Tower, The Landmark,
11 Pedder Street, Central, Hong Kong

BANKERS IN 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

BANKERS IN 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") and its subsidiaries (together the "Group") set out on pages 45 to 122, which comprise the consolidated statement of financial position as at 31 December 2010, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our 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.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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 2010, the aggregate carrying amounts 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 2010 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 carrying amounts of payables due to these companies was approximately RMB128 million which were reflected in the consolidated statement of financial position as at 31 December 2010 as "Amount due to Greencool Enterprise and its affiliates" and "Amount due to companies suspected to be connected with Mr. Gu" within current liabilities.

As of 31 December 2010, legal proceedings which were initiated against Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu have ended up with court judgments which mostly ruled in favour of the Group. However, the enforcement of the court judgments has not been completed and the outcome of above amounts to be settled remained outstanding. Due to the uncertainty arising from the execution of the 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 and the net assets as at 1 January 2010, the net assets as at 31 December 2010 and the profit for the year then ended.

QUALIFIED OPINION

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2010 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.

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

Hong Kong, 30 March 2011

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2010

	Notes	**2010** **RMB'000**	2009 *RMB'000* (restated)
Turnover	*8*	**15,810,762**	11,934,255
Cost of sales		**(13,059,159)**	(9,162,064)
Gross profit		**2,751,603**	2,772,191
Other revenue	*9*	**501,614**	152,340
Other gains and losses	*10*	**414,161**	85,562
Distribution costs		**(2,523,510)**	(2,217,430)
Administrative expenses		**(499,410)**	(524,848)
Other operating expenses		**(9,085)**	(10,873)
Share of results of associates	*23*	**2,370**	16,057
Share of results of jointly controlled entities	*24*	**94,406**	53,466
Finance costs	*12*	**(57,365)**	(78,769)
Profit before income tax expense	*13*	**674,784**	247,696
Income tax expense	*16*	**(31,588)**	(23,292)
Profit for the year		**643,196**	224,404
Other comprehensive income			
— Exchange differences on translation of financial statements of foreign operations		**1,471**	96
— Share of reserves of associates		**13**	27
— Release of capital reserve upon partial disposal of an associate		**(15,758)**	—
— Release of reserves upon disposal of subsidiaries		**100**	(7,877)
Other comprehensive income for the year, net of tax		**(14,174)**	(7,754)
Total comprehensive income for the year		**629,022**	216,650
Profit attributable to:			
— Owners of the Company		**632,354**	207,830
— Non-controlling interests		**10,842**	16,574
		643,196	224,404
Total comprehensive income attributable to:			
— Owners of the Company		**618,180**	200,076
— Non-controlling interests		**10,842**	16,574
		629,022	216,650
Earnings per share attributable to the owners of the Company			
— Basic and diluted	*18*	**RMB0.47**	RMB0.15

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	As at 31 December 2010 RMB'000	As at 31 December 2009 RMB'000 (restated)	As at 1 January 2009 RMB'000 (restated)
Non-current assets				
Property, plant and equipment	*19*	**2,019,359**	2,043,050	2,181,828
Investment properties	*20*	**40,600**	33,762	35,565
Payments for leasehold land held for own use under operating leases	*21*	**380,445**	396,192	425,184
Interests in associates	*23*	**50,102**	102,673	86,589
Interests in jointly controlled entities	*24*	**458,545**	293,169	148,041
Available-for-sale financial assets	*25*	**4,040**	4,310	4,550
Intangible assets	*26*	**169,357**	177,687	195,620
Deferred tax assets	*28*	**6,893**	16,435	21,623
Total non-current assets		**3,129,341**	3,067,278	3,099,000
Current assets				
Inventories	*29*	**1,903,097**	1,135,951	881,263
Trade and other receivables	*30*	**2,683,155**	1,653,725	1,719,022
Taxation recoverable		**5,853**	2,554	2,537
Derivative financial instruments	*31*	**28,151**	5,597	6,019
Pledged bank deposits		**9,261**	7,233	23,240
Cash and cash equivalents		**419,921**	201,183	150,276
		5,049,438	3,006,243	2,782,357
Assets of a disposal group classified as held for sale	*32*	**—**	31,574	—
Total current assets		**5,049,438**	3,037,817	2,782,357
Total assets		**8,178,779**	6,105,095	5,881,357
Current liabilities				
Trade and other payables	*33*	**4,707,045**	3,499,924	3,153,784
Trade deposits received		**1,181,585**	597,757	530,625
Derivative financial instruments	*31*	**5,960**	1,040	13,611
Provisions	*34*	**246,800**	197,397	198,652
Taxation payable		**30,761**	32,846	28,058
Other liabilities	*35*	**35,037**	34,385	29,384
Borrowings	*36*	**1,101,262**	1,450,873	1,869,948
		7,308,450	5,814,222	5,824,062
Liabilities directly associated with assets of a disposal group classified as held for sale	*32*	**—**	30,914	—
Total current liabilities		**7,308,450**	5,845,136	5,824,062

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	As at 31 December 2010 RMB'000	2009 RMB'000 (restated)	As at 1 January 2009 RMB'000 (restated)
Net current liabilities		**(2,259,012)**	(2,807,319)	(3,041,705)
Total assets less current liabilities		**870,329**	259,959	57,295
Non-current liabilities				
Borrowings	*36*	—	—	10,000
Total liabilities		**7,308,450**	5,845,136	5,834,062
NET ASSETS		**870,329**	259,959	47,295
Capital and reserves attributable to owners of the Company				
Share capital	*37*	**1,354,055**	1,354,055	1,354,055
Share premium	*38(a)*	**1,195,597**	1,195,597	1,195,597
Statutory reserves	*38(b)*	**114,581**	114,581	114,581
Capital reserve		**250,920**	267,448	266,638
Merger reserve	*38(c)*	**343,270**	343,270	343,270
Foreign exchange reserve	*38(d)*	**32,464**	30,110	37,891
Accumulated losses		**(2,790,264)**	(3,422,618)	(3,630,448)
Equity attributable to owners of the Company		**500,623**	(117,557)	(318,416)
Non-controlling interests		**369,706**	377,516	365,711
TOTAL EQUITY		**870,329**	259,959	47,295

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 2010

	Share capital *RMB'000*	Share premium *(Note 38(a))* *RMB'000*	Statutory reserves *(Note 38(b))* *RMB'000*	Capital reserve *RMB'000*	Merger reserve *(Note 38(c))* *RMB'000*	Foreign exchange reserve *(Note 38(d))* *RMB'000*	Accumulated losses *RMB'000*	Equity attributable to owners of the Company *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
As at 1 January 2009 (previously reported)	992,007	1,195,597	114,581	266,638	—	37,891	(3,614,636)	(1,007,922)	149,294	(858,628)
Merger of the White Goods Business *(Note 2)*	362,048	—	—	—	343,270	—	(15,812)	689,506	216,417	905,923
As at 1 January 2009 (restated)	1,354,055	1,195,597	114,581	266,638	343,270	37,891	(3,630,448)	(318,416)	365,711	47,295
Comprehensive income										
Profit for the year (restated)	—	—	—	—	—	—	207,830	207,830	16,574	224,404
Other comprehensive income										
— Exchange differences on translation of financial statements of foreign operations	—	—	—	—	—	96	—	96	—	96
— Share of reserves of associates	—	—	—	27	—	—	—	27	—	27
— Release of reserves upon disposal of a subsidiary	—	—	—	—	—	(7,877)	—	(7,877)	—	(7,877)
Total comprehensive income for the year (restated)	—	—	—	27	—	(7,781)	207,830	200,076	16,574	216,650
Transactions with owners										
Additional interest acquired in a subsidiary	—	—	—	783	—	—	—	783	(783)	—
Dividend paid out by subsidiaries	—	—	—	—	—	—	—	—	(4,000)	(4,000)
Disposal of subsidiaries *(Note 44(d))*	—	—	—	—	—	—	—	—	14	14
As at 31 December 2009 (restated)	1,354,055	1,195,597	114,581	267,448	343,270	30,110	(3,422,618)	(117,557)	377,516	259,959

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2010

	Share capital *RMB'000*	Share premium *(Note 38(a))* *RMB'000*	Statutory reserves *(Note 38(b))* *RMB'000*	Capital reserve *RMB'000*	Merger reserve *(Note 38(c))* *RMB'000*	Foreign exchange reserve *(Note 38(d))* *RMB'000*	Accumulated losses *RMB'000*	Equity attributable to owners of the Company *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
As at 1 January 2010	1,354,055	1,195,597	114,581	267,448	343,270	30,110	(3,422,618)	(117,557)	377,516	259,959
Comprehensive income										
Profit for the year	—	—	—	—	—	—	632,354	632,354	10,842	643,196
Other comprehensive income										
— Exchange differences on translation of financial statements of foreign operations	—	—	—	—	—	1,471	—	1,471	—	1,471
— Share of reserves of associates	—	—	—	13	—	—	—	13	—	13
— Release of capital reserve upon partial disposal of an associate	—	—	—	(15,758)	—	—	—	(15,758)	—	(15,758)
— Release of reserves upon disposal of subsidiaries *(Note 44(a), (b))*	—	—	—	(783)	—	883	—	100	—	100
Total comprehensive income for the year	—	—	—	(16,528)	—	2,354	632,354	618,180	10,842	629,022
Transactions with owners										
Dividend paid out by subsidiaries	—	—	—	—	—	—	—	—	(12,629)	(12,629)
Deregistration of subsidiaries *(Note 44(c))*	—	—	—	—	—	—	—	—	(6,023)	(6,023)
As at 31 December 2010	1,354,055	1,195,597	114,581	250,920	343,270	32,464	(2,790,264)	500,623	369,706	870,329

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2010

	2010 *RMB'000*	2009 *RMB'000* (restated)
Cash flows from operating activities		
Profit before income tax expense	**674,784**	247,696
Adjustments for:		
Share of results of associates	**(2,370)**	(16,057)
Share of results of jointly controlled entities	**(94,406)**	(53,466)
Dividend income from available-for-sales financial assets	**(2,508)**	—
Interest income	**(1,916)**	(4,695)
Interest expense	**57,365**	78,769
Depreciation of property, plant and equipment	**285,535**	299,919
Depreciation of investment properties	**2,795**	2,585
Amortisation of intangible assets	**12,637**	11,231
Amortisation of payments for leasehold land held for own use under operating leases	**15,747**	16,251
Impairment loss on property, plant and equipment	**15,775**	16,260
Impairment loss on payment for leasehold land held for own use under operating leases	**—**	9,403
Loss on disposal of property, plant and equipment, net	**1,147**	4,117
Gain on disposal of leasehold land held for own use under operating leases	**—**	(19,950)
Impairment loss/(reversal of impairment loss) on trade and other receivables	**12,860**	(3,343)
Write down of/(reversal of write down of) inventories to net realisable value, net	**8,499**	(7,802)
Gain on disposal and deregistration of subsidiaries, net	**(13,440)**	(11,107)
Gain on fair value change of derivative financial instruments, net	**(17,634)**	(12,149)
Gain on partial disposal of an associate	**(285,637)**	—
Operating profit before working capital changes	**669,233**	557,662
Increase in inventories	**(775,645)**	(251,963)
(Increase)/decrease in trade and other receivables	**(1,043,180)**	57,099
Increase in trade and other payables	**1,207,005**	381,055
Increase in trade deposits received	**583,828**	67,132
Increase/(decrease) in provisions	**49,403**	(1,255)
Increase in other liabilities	**652**	5,001
Cash generated from operations	**691,296**	814,731
Tax paid, net	**(27,430)**	(13,333)
Net cash flows from operating activities	**663,866**	801,398

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000 (restated)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(397,023)**	(279,153)
Purchase of investment properties		**(2,096)**	(782)
Payments for leasehold land held for own use under operating leases		**—**	(25,857)
Purchase of intangible assets		**(4,307)**	(4,130)
Dividend paid to non-controlling interests		**(12,629)**	(4,000)
Dividend received from a jointly controlled entity		**24,500**	—
Dividend received from an available-for-sale financial asset	*25(a)*	**2,508**	—
Proceeds on partial disposal of an associate		**324,833**	—
Net proceeds from disposal of a subsidiary	*44(a),(d)*	**11,584**	1,879
Proceeds from disposal of intangible assets		**—**	7,503
Proceeds from disposal of property, plant and equipment		**12,795**	13,006
Proceeds from maturity of pledged bank deposits		**—**	16,007
Investment in pledged bank deposits		**(2,028)**	—
Proceeds from disposal of available-for-sale financial assets		**270**	240
Proceeds from disposal of payments for leasehold land held for own use under operating leases		**—**	22,703
Interest received		**1,916**	4,695
Net cash used in investing activities		**(39,677)**	(247,889)
Cash flows from financing activities			
Borrowings raised		**2,257,598**	3,047,876
Repayment of borrowings		**(2,607,209)**	(3,471,751)
Interest paid		**(57,365)**	(78,769)
Net cash used in financing activities		**(406,976)**	(502,644)
Net increase in cash and cash equivalents		**217,213**	50,865
Cash and cash equivalents at beginning of year		**201,237**	150,276
Effect of foreign exchange rate changes		**1,471**	96
Cash and cash equivalents at end of year representing cash and bank balances	*45*	**419,921**	201,237

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 were listed on The Stock Exchange of Hong Kong Limited on 23 July 1996 and its A shares were listed on the Shenzhen Stock Exchange on 13 July 1999.

In December 2006, a share reform scheme (the "Share Reform Scheme") was set up for converting the Company's non-freely transferable domestic legal person shares into freely transferable A shares ("Transferable Shares") and the scheme was approved and completed in the A shares general meeting on 29 March 2007.

On 28 December 2007, the Company and Hisense Air-Conditioning Company Limited (hereinafter referred to as "Hisense Air-Conditioning") entered into a conditional sale and purchase agreement in which the Company agrees to purchase and Hisense Air-Conditioning agrees to sell the white goods assets and business and the transaction was rejected by the Merger and Reorganisation Review Committee of the PRC's China Securities Regulatory Commission (the "CSRC") on 28 March 2008.

On 29 June 2009, the Company entered into revised conditional sale and purchase agreement regarding the acquisition of the white goods assets and business (the "White Goods Business") of Hisense Air-Conditioning (the "Revised Acquisition"). The Revised Acquisition was approved by the CSRC on 26 March 2010. On 10 June 2010, the Company allotted and issued 362,048,187 A shares to Hisense Air-Conditioning for the Revised Acquisition. The details of the transaction are disclosed in Note 2.

As at 31 December 2010, Hisense Air-Conditioning held 612,316,909 shares representing 45.22% of the Company's total issued share capital and continued to be the controlling shareholder of the Company.

In the opinion of the directors of the Company, as at 31 December 2010, Hisense Company Limited ("Hisense Group"), a state-owned enterprise incorporated in the PRC, is regarded as the ultimate holding 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. BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL

Following the approval from the CSRC of the Revised Acquisition on 26 March 2010, the Company acquired the White Goods Business from Hisense Air-Conditioning, the Company's controlling shareholder, by issuing 362,048,187 A shares.

The White Goods Business comprises the following entities and business:

Name	Principal activities	Percentage of ownership interest acquired by the Company
Hisense (Beijing) Electric Company Limited ("Hisense Beijing")	Manufacture and sale of refrigerators	55%
Hisense (Nanjing) Electric Co., Ltd. ("Hisense Nanjing"), a subsidiary of Hisense Beijing	Manufacture and sale of refrigerators	33%
Qingdao Hisense Mould Company Limited ("Hisense Mould")	Manufacture and sale of injection moulds	78.7%
Qingdao Hisense Plastic Products Limited ("Hisense Plastic"), a subsidiary of Hisense Mould *(Note (a))*	Manufacture and sale of plastic products	74.77%
Qingdao Haiping Electric Parts Limited ("Qingdao Haiping"), a subsidiary of Hisense Plastic *(Note (a))*	Manufacture and sale of electrical appliance components	74.77%
Hisense (Shandong) Air-conditioning Company Limited ("Hisense Shandong")	Manufacture and sale of air-conditioners	100%
Hisense (Zhejiang) Air-condition Co., Ltd. ("Hisense Zhejiang")	Manufacture and sale of air-conditioners	51%
Hisense Marketing Business	Marketing and sale of air-conditioners, refrigerators and other white-coloured household electrical appliances	*Note (b)*
Qingdao Hisense Hitachi Air-conditioning System, Co., Ltd. ("Hisense Hitachi"), a jointly controlled entity	Manufacture and sale of air-conditioning systems	49%

(a) On 31 March 2009, Hisense Mould entered into a sale and purchase agreement with Qingdao Hisense Optical Co., Ltd. to dispose of its 95% equity interests in Hisense Plastic, which includes 100% equity interest of Qingdao Haiping, for an aggregate consideration of RMB1,879,000. Hisense Plastic and Qigndao Haiping were engaged in manufacture and sale of plastic products and electrical appliance components respectively, which have been included under the reportable segment "others". On 26 June 2009, the transaction was completed and a gain on disposal of RMB2,148,000 was recognised in profit or loss for the year ended 31 December 2009.

(b) Hisense Marketing Business is an integrated set of activities, assets and related liabilities that are conducted and managed for the purposes of facilitating sale and marketing of the white goods products produced by Hisense Shandong, Hisense Zhejiang, Hisense Beijing and Hisense Nanjing, a subsidiary of Hisense Beijing, and its functions have been extended to the Group upon the common control business combination on 1 April 2010.

2. BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL *(continued)*

Since the Company and the White Goods Business were controlled by Hisense Air-Conditioning, and were ultimately controlled by Hisense Group, both before and after the business combination and the control is not transitory, the Revised Acquisition is dealt with as business combination under common control. The financial statements of the Group have been prepared based on the principles of merger accounting (Note 5(a)) as if the business combination under common control had occurred from the date when the combining entities and business, which are the Company and its subsidiaries immediately before the common control combinations as of 1 April 2010 and the White Goods Business, first came under the control of Hisense Air-Conditioning.

The following are reconciliations of the effects arising from the Revised Acquisition on the consolidated statement of financial position as at 31 December 2009 and 1 January 2009 and consolidated statement of comprehensive income for the year ended 31 December 2009:

(i) The consolidated statement of financial position as at 31 December 2009:

	Balances as previously reported *RMB'000*	**White Goods Business** *RMB'000*	**Elimination and other adjustments** *RMB'000*	**Balances as restated** *RMB'000*
Non-current assets	1,958,671	1,108,607	—	3,067,278
Current assets	2,263,654	1,085,268	(311,105)	3,037,817
Current liabilities	4,953,698	1,192,582	(301,144)	5,845,136
Total equity	(731,373)	1,001,293	(9,961)	259,959

(ii) The consolidated statement of financial position as at 1 January 2009:

	Balances as previously reported *RMB'000*	**White Goods Business** *RMB'000*	**Elimination and other adjustments** *RMB'000*	**Balances as restated** *RMB'000*
Non-current assets	1,991,145	1,107,855	—	3,099,000
Current assets	1,696,361	1,196,033	(110,037)	2,782,357
Current liabilities	4,546,134	1,380,530	(102,602)	5,824,062
Non-current liabilities	—	10,000	—	10,000
Total equity	(858,628)	913,358	(7,435)	47,295

(iii) The consolidated statement of comprehensive income for the year ended 31 December 2009:

	Amounts as previously reported *RMB'000*	**White Goods Business** *RMB'000*	**Elimination and other adjustments** *RMB'000*	**Amounts as restated** *RMB'000*
Turnover	8,673,761	5,073,049	(1,812,555)	11,934,255
Profit for the year	135,009	99,356	(9,961)	224,404

3. 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

The financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair value as explained in the accounting policies set out below.

As at 31 December 2010, the Group's current liabilities exceeded its current assets by RMB2,259 million, which mainly include trade and other payables and borrowings within one year of approximately RMB5,808 million. In preparing the financial statements, the directors have assessed the Group's sources of liquidity and believed that adequate funding is available to fulfil the Group's short-term obligations and capital expenditure requirements. Accordingly, the financial statements have been prepared on a basis that the Group will be able to continue as a going concern. Further details are set out in Note 43.

(c) Functional and presentation currency

Items included in the financial statements of each of the group entities are measured using the currencies of the primary economic environments in which these entities operate (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

4. ADOPTION OF IFRSs

(a) Adoption of new/revised IFRSs — effective 1 January 2010

IFRSs (Amendments)	Improvements to IFRSs
Amendment to IAS 39	Eligible Hedged Items
Amendments to IFRS 2	Share-based Payment — Group Cash-settled Share-based Payment Transactions
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards
IFRS 3 (Revised)	Business Combinations
IFRIC — Interpretation 17	Distributions of Non-cash Assets to Owners

Except as explained below, the adoption of these new/revised standards and interpretations has no significant impact on the Group's consolidated financial statements.

IFRS 3 (Revised) — Business Combinations and IAS 27 (Revised) — Consolidated and Separate Financial Statements

The revised accounting policies are described in Note 5 to the financial statements, which are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in IFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The adoption of revised IFRS 3 has had no impact to the financial statements as there has been no business combination transaction, except for the business combination involving entities under common control as described in Note 2 to the financial statements, which is outside the scope of the revised standard, during the year.

The revised IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

As a result of the adoption of revised IAS 27, as from 1 January 2010, any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests.

Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses.

In accordance with the transitional provisions in revised IAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated. The adoption of revised IAS 27 had no material impact to the financial statements for the current year.

IAS 17 (Amendments) — Leases

As part of Improvements to IFRSs issued in 2009, IAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to IAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as payments for leasehold land held for own use under operating leases in the statement of financial position. The amendment to IAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in IAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The Group concluded that the classification of such leases as operating leases continues to be appropriate.

4. ADOPTION OF IFRSs *(continued)*

(b) New/revised IFRSs that have been issued but are not yet effective

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

IFRSs (Amendments)	Improvements to IFRSs 2010 [2&3]
Amendments to IAS 32	Classification of Rights Issues [1]
Amendments to IFRIC — Interpretation 14	Prepayments of a Minimum Funding Requirement [3]
IFRIC — Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments [2]
IAS 24 (Revised)	Related Party Disclosures [3]
Amendments to IFRS 7	Disclosures — Transfers of Financial Assets [4]
Amendments to IAS 12	Deferred Tax — Recovery of Underlying Assets [5]
IFRS 9	Financial Instruments [6]

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

The amendments to IFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

The Group is in the process of making an assessment of the potential impact of these new/revised IFRSs and the directors so far concluded that the application of these new/revised IFRSs only affect disclosure and will have no material impact on the Group's financial statements.

5. PRINCIPAL ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired (other than those acquired under business combination involving entities under common control) 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. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

5. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Business combination and basis of consolidation *(continued)*

Business combination from 1 January 2010

Acquisition of subsidiaries or businesses (other than those acquired under business combination involving entities under common control) is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

5. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Business combination and basis of consolidation *(continued)*

Business combination prior to 1 January 2010

On acquisition (other than those acquired under business combination involving entities under common control), 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.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connected with business combinations were capitalised as part of the cost of the acquisition.

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 parties external to the Group. Disposals to minority interests result in gains and losses for the Group are recognised profit or loss. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary.

Business combination involving entities and businesses under common control

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination. The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous date of consolidated statement of financial position or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All inter-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation. Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination is recognised as an expense in the period in which it is incurred.

The difference between the share capital of entities combined and the nominal value of the shares issued by the Company in exchange has been recorded in the merger reserve in consolidated financial statements.

5. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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.

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 5(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.

5. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

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.

Goodwill is measured at cost less impairment losses. 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.

(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 20 years
Moulds	3 years
Motor vehicles	5 years

5. PRINCIPAL ACCOUNTING POLICIES *(continued)*

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

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 its carrying amount of the relevant asset, and is recognised in profit or loss on disposal.

(g) Investment property

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Depreciation is charged so as to write off the cost of investment property net of expected residual value over the estimated useful live using straight-line method over their useful lives ranging from 20 to 50 years. The useful live, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

(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.

(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.

5. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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
Non-patented technologies	4 to 10 years
Software systems	4 years

(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).

5. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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.

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.

5. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Financial instruments *(continued)*

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

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 is not reversed.

5. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Financial instruments *(continued)*

(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.

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 trade payables, other short-term monetary liabilities and bank borrowings. 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.

5. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Financial instruments *(continued)*

(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.

(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.

5. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes. 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.

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.

Property management income is recognised when services are provided.

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 recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

5. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(p) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (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.

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 non-controlling 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 qualifying 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.

5. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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;
- Payments for leasehold land held for own use under operating leases;
- interests in associates; and
- interests in jointly controlled entities.

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.

6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

(a) Critical judgments in applying accounting policies

(i) Classification between investment properties and owner occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgment. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

(ii) Impairment of available-for-sale financial assets

The directors review available-for-sale financial assets at the end of each reporting period to assess whether they are impaired. The Group records impairment charges on available-for-sale financial assets when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the directors evaluate, among other factors, historical share price movements and the duration and extent to which the fair value of a financial asset is less than its cost.

(b) Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have significant risks of resulting material adjustments to the carrying amounts of assets and liabilities within next financial year are as follows:

(i) Warranty provisions

As explained in Note 34(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 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.

(ii) Impairment

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, investment properties, payments for leasehold land held for own use under operating leases, intangible assets, interests in associates and interests in jointly controlled entities, recoverable amounts of these 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.

6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(b) Key sources of estimation uncertainty *(continued)*

(iii) Depreciation and amortisation

Property, plant and equipment are depreciated and intangible assets are amortised 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 and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(iv) Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made by reference to the aging and estimated net realisable value of inventories. The assessment of the write-down amount involves management's judgments and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the inventories and the write-down charge/reversal in the period in which such estimate has been changed.

(v) Taxation

Determining income tax provisions involves judgment 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.

7. SEGMENT INFORMATION

The Group manages its business by divisions which are organised by a mixture of both business lines and geography. The 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 others (including product components and other electrical household appliances).

Segment information for the year is set out below:

Year ended 31 December 2010

(i) Profit or loss

	For the year ended 31 December 2010					
	Refrigerators *RMB'000*	Air-conditioners *RMB'000*	Freezers *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Turnover						
External sales	7,980,778	6,019,149	765,775	1,045,060	—	15,810,762
Inter-segment sales	—	—	—	624,967	(624,967)	—
Total turnover	7,980,778	6,019,149	765,775	1,670,027	(624,967)	15,810,762

Inter-segment sales are charged at prevailing market rates.

	Refrigerators *RMB'000*	Air-conditioners *RMB'000*	Freezers *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Result						
Segment results	259,725	17,861	7,732	46,101	—	331,419
Unallocated corporate income *(Note (a))*						2,961
						334,380
Share of results of associates	2,423	—	—	(53)	—	2,370
Share of results of jointly controlled entities	1,032	93,374	—	—	—	94,406
Gain on partial disposal of an associate						285,637
Gain on disposal and deregistration of subsidiaries, net						13,440
Interest income						1,916
Finance costs						(57,365)
Profit before income tax expense						674,784
Income tax expense						(31,588)
Profit for the year						643,196

7. SEGMENT INFORMATION *(continued)*

(ii) Consolidated statement of financial position

	As 31 December 2010				
	Refrigerators *RMB'000*	Air-conditioners *RMB'000*	Freezers *RMB'000*	Others *RMB'000*	Consolidated *RMB'000*
Assets					
Segment assets	3,477,582	2,817,625	344,624	761,805	7,401,636
Interests in associates	46,374	—	—	3,728	50,102
Interests in jointly controlled entities	210,215	248,330	—	—	458,545
Unallocated corporate assets *(Note (b))*					268,496
Consolidated total assets					8,178,779
Liabilities					
Segment liabilities	3,578,319	2,990,484	242,476	331,869	7,143,148
Unallocated corporate liabilities *(Note (b))*					165,302
Consolidated total liabilities					7,308,450

(iii) Other information

	For the year ended 31 December 2010					
	Refrigerators *RMB'000*	Air-conditioners *RMB'000*	Freezers *RMB'000*	Others *RMB'000*	Unallocated *RMB'000*	Consolidated *RMB'000*
Additions of property, plant and equipment	266,108	75,215	14,477	41,223	—	397,023
Additions of intangible assets	1,317	—	—	2,990	—	4,307
Additions of investment properties	1,502	497	27	70	—	2,096
Depreciation of property, plant and equipment	136,245	92,702	13,537	31,145	11,906	285,535
Depreciation of investment properties	2,263	445	24	63	—	2,795
Amortisation of intangible assets	5,551	5,176	180	1,730	—	12,637
Amortisation of payments for leasehold land held for own use under operating leases	9,712	3,954	722	1,119	240	15,747
Impairment loss on property, plant and equipment	5,538	5,715	—	637	3,885	15,775
Loss/(gain) on disposal of property, plant and equipment, net	399	860	532	(644)	—	1,147
Impairment loss on trade and other receivables, net	6,139	4,591	463	1,244	423	12,860
Write down/(reversal of write down) of inventories to net realisable value, net	20,417	7,647	536	1,294	(21,395)	8,499

7. SEGMENT INFORMATION *(continued)*

Year ended 31 December 2009 (restated)

(i) Profit or loss

	For the year ended 31 December 2009					
	Refrigerators *RMB'000*	Air-conditioners *RMB'000*	Freezers *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Turnover						
External sales	6,583,805	4,045,708	594,816	709,926	—	11,934,255
Inter-segment sales	—	—	—	416,717	(416,717)	—
Total turnover	6,583,805	4,045,708	594,816	1,126,643	(416,717)	11,934,255

Inter-segment sales are charged at prevailing market rates.

	Refrigerators *RMB'000*	Air-conditioners *RMB'000*	Freezers *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Result						
Segment results	159,501	44,136	46,393	33,747	—	283,777
Unallocated corporate expenses *(Note (a))*						(31,530)
						252,247
Share of results of associates	15,931	—	—	126	—	16,057
Share of results of jointly controlled entities	(11,701)	65,167	—	—	—	53,466
Interest income						4,695
Finance costs						(78,769)
Profit before income tax expense						247,696
Income tax expense						(23,292)
Profit for the year						224,404

(ii) Consolidated statement of financial position

	As 31 December 2009				
	Refrigerators *RMB'000*	Air-conditioners *RMB'000*	Freezers *RMB'000*	Others *RMB'000*	Consolidated *RMB'000*
Assets					
Segment assets	2,540,963	2,069,147	242,860	605,747	5,458,717
Interests in associates	98,892	—	—	3,781	102,673
Interests in jointly controlled entities	113,712	179,457	—	—	293,169
Unallocated corporate assets *(Note (b))*					250,536
Consolidated total assets					6,105,095
Liabilities					
Segment liabilities	3,550,650	1,671,873	145,560	286,057	5,654,140
Unallocated corporate liabilities *(Note (b))*					190,996
Consolidated total liabilities					5,845,136

7. SEGMENT INFORMATION *(continued)*

Year ended 31 December 2009 (restated) *(continued)*

(iii) Other information

	For the year ended 31 December 2009					
	Refrigerators *RMB'000*	Air-conditioners *RMB'000*	Freezers *RMB'000*	Others *RMB'000*	Unallocated *RMB'000*	Consolidated *RMB'000*
Additions of property, plant and equipment	189,598	42,536	19,288	27,731	—	279,153
Additions of intangible assets	3,963	4	—	163	—	4,130
Additions of investment properties	628	123	8	23	—	782
Additions of payments for leasehold land for own use under operating lease	21,111	3,823	231	692	—	25,857
Depreciation of property, plant and equipment	184,300	58,609	12,233	33,534	11,243	299,919
Depreciation of investment properties	2,238	278	35	34	—	2,585
Amortisation of intangible assets	7,612	2,912	233	461	13	11,231
Amortisation of payments for leasehold land held for own use under operating leases	11,261	2,627	773	1,147	443	16,251
Impairment loss of property, plant and equipment	6,081	3,803	60	3,318	2,998	16,260
(Gain)/loss on disposal of property, plant and equipment, net	3,640	766	505	(794)	—	4,117
Gain on disposal of leasehold land held for own use under operating lease	—	19,950	—	—	—	19,950
Reversal of impairment loss on trade and other receivables, net	2,062	549	114	466	152	3,343
Write down/(reversal of write down) of inventories to net realisable value, net	(5,082)	(2,851)	552	(421)	—	(7,802)

Notes:

(a) Unallocated corporate expenses mainly comprise impairment loss on payments for leasehold land held for own use under operating leases. Unallocated corporate income mainly comprises gain arising from expiry of trade and other payables.

(b) Unallocated corporate assets and liabilities mainly comprise the amounts due from/to companies suspected to be connected with the Company's former chairman, Mr. Gu Chu Jun ("Mr. Gu"), frozen leasehold land and buildings, frozen plant, machinery and equipment (see Note 19) and tax recoverable and payable.

7. SEGMENT INFORMATION *(continued)*

Geographical information

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

	2010	2009
	RMB'000	*RMB'000*
		(restated)
The PRC		
— Mainland China	**11,096,950**	8,634,872
— Hong Kong	**1,311,016**	617,495
Europe	**1,138,617**	944,960
America	**1,183,271**	706,961
Others	**1,080,908**	1,029,967
	15,810,762	11,934,255

The Group's operations are principally carried out in the PRC. Except for the leasehold land and building situated in Japan as mentioned in Note 19, most of the non-current assets of the Group are located in the PRC.

8. 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. The amounts of each significant category of turnover are as follows:

	2010	2009
	RMB'000	*RMB'000*
		(restated)
Sales of refrigerators	**7,980,778**	6,583,805
Sales of air-conditioners	**6,019,149**	4,045,708
Sales of freezers	**765,775**	594,816
Sales of others	**1,045,060**	709,926
	15,810,762	11,934,255

For the year ended 31 December 2010, no customer accounted for over 10% of the Group's total revenue (2009 (restated): Nil).

Details of concentrations of credit risk are set out in Note 43. Further details regarding the Group's principal activities are disclosed in Note 22.

9. OTHER REVENUE

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

	2010 *RMB'000*	2009 *RMB'000* (restated)
Interest income	**1,916**	4,695
Penalty income *(Note (a))*	**15,223**	13,466
Rental income and property management income	**18,874**	20,363
Subsidy income *(Note (b))*	**458,599**	111,212
Agency fee income for export services	**4,494**	2,604
Dividends income from an available-for-sale financial assets *(Note 25(a))*	**2,508**	—
	501,614	152,340

Notes:

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

10. OTHER GAINS AND LOSSES

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

	2010 *RMB'000*	2009 *RMB'000* (restated)
Foreign exchange (losses)/gains	**(23,313)**	1,385
Gain on disposal of raw materials	**99,580**	76,243
Loss on disposal of property, plant and equipment	**(1,147)**	(4,117)
Gain arising from expiry of trade and other payables	**38,202**	6,239
Gain/(loss) on fair value change of foreign exchange forward contracts, net *(Note 31)*	**30,397**	(2,925)
Gain on disposal and deregistration of subsidiaries, net *(Note 44)*	**13,440**	11,107
Gain on partial disposal of an associate *(Note (i))*	**285,637**	—
(Impairment loss)/reversal of impairment loss on trade and other receivables, net *(Note 30)*	**(12,860)**	3,343
Impairment loss on property, plant and equipment *(Note 19)*	**(15,775)**	(16,260)
Impairment loss on payments for leasehold land held for own use under operating leases *(Note 21)*	—	(9,403)
Gain on disposal of leasehold land held for own use under operating leases	—	19,950
	414,161	85,562

Note:

(i) During the year, the Group disposed of part of its interest in Huayi Compressor Holdings Company Limited ("Huayi"), representing 9.93% of the share capital. The transaction was carried out through open market. A gain of RMB285,637,000, comprising RMB269,879,000 gain arising from sale proceeds less carrying amount at the time of disposal and a release of related portion of capital reserve amounting to RMB15,758,000 previously recognised in other comprehensive income, was recognised.

11. DEPRECIATION AND AMORTISATION

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

	2010	2009
	RMB'000	*RMB'000*
		(restated)
Amounts charged as cost of sales	**246,542**	258,440
Amounts included in distribution costs	**6,674**	7,138
Amounts included in administrative expenses	**31,256**	33,586
Amounts included in other operating expenses	**3,858**	3,340
	288,330	302,504

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:

	2010	2009
	RMB'000	*RMB'000*
		(restated)
Amounts included in distribution costs	**2,521**	2,447
Amounts included in administrative expenses	**25,863**	25,035
	28,384	27,482

12. FINANCE COSTS

	2010	2009
	RMB'000	*RMB'000*
		(restated)
Interest on:		
— Bank borrowings wholly repayable within five years	**11,075**	49,052
— Discounted note receivables	**6,038**	4,805
— Loan and draft discount financing from Hisense Finance Company Limited ("Hisense Finance") *(Note 41 II (iii))*	**40,252**	24,912
	57,365	78,769

13. PROFIT BEFORE INCOME TAX EXPENSE

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

	2010	2009
	RMB'000	*RMB'000*
		(restated)
Inventories recognised as an expense/(income)		
— Upon sales of goods	**13,050,660**	9,169,866
— Upon sales of raw materials/scrap materials	**1,606,831**	760,264
— Write down/(reversal) of write-down of inventories	**8,499**	(7,802)
Staff costs (including directors' remuneration *(Note 14)*)		
— Basic salaries, housing and other allowances and benefits in kind	**1,203,064**	962,425
— Defined contribution pension costs	**105,018**	92,461
	1,308,082	1,054,886
Auditors' remuneration	**5,070**	3,600
Research and development costs included in administrative expenses	**122,439**	107,072

14. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

Year ended 31 December 2010	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	—	671	4	675
Yu Shu Min	—	—	—	—
Lin Lan	—	—	—	—
Liu Chun Xin	—	348	4	352
Zhang Ming *(Note (i))*	—	185	3	188
Zhou Xiao Tian	—	980	—	980
Independent non-executive directors				
Zhang Sheng Ping	60	—	—	60
Lu Qing *(Note (ii))*	60	—	—	60
Cheung Yui Kai, Warren	240	—	—	240
Supervisors				
Guo Qing Cun	—	—	—	—
Gao Zhong Xiang	—	—	—	—
Liu Zhan Cheng	—	587	4	591
	360	2,771	15	3,146

Notes:

(i) Mr. Zhang Ming resigned on 2 December 2010.

(ii) Mr. Lu Qing resigned on 26 September 2010.

(iii) During the year, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived or agreed to waive any emoluments during the year.

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

The 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 *(Note (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

Notes:

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

(ii) During the year, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived or agreed to waive any emoluments during the year.

15. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five highest paid individuals of the Group, three (2009: three) are directors whose emoluments are disclosed in Note 14. The aggregate of the emoluments in respect of the other two individuals (2009: two) are as follows:

	2010	2009
	RMB'000	*RMB'000*
Basic salaries, housing and other allowances and benefits in kind	**950**	742

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

	2010 Number of individual	2009 Number of individual
Nil to RMB865,705 (2009: Nil to RMB880,480) (equivalent to Nil to HKD1,000,000)	**2**	2

16. INCOME TAX EXPENSE

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

	2010	2009
	RMB'000	*RMB'000* (restated)
Current tax — PRC Enterprise Income Tax ("EIT")		
— Provision for the year	**22,340**	17,617
— (Over)/under provision in respect of prior years	**(294)**	487
	22,046	18,104
Deferred tax *(Note 28)*	**9,542**	5,188
Income tax expense	**31,588**	23,292

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

(ii) Certain subsidiaries have been recognised as "high technology" companies and are entitled to a preferential tax rate of 15% (2009: 15%). Other certain subsidiaries of the Company are foreign invested enterprises and are subject to a preferential tax rate of 12.5% (2009: Nil) under the transitional preferential policies of the EIT law.

Except as disclosed above, the Company and other group entities, which were established and operate in the PRC, are subject to EIT at a standard rate of 25% (2009: 25%).

16. INCOME TAX EXPENSE *(continued)*

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

	2010	2009
	RMB'000	*RMB'000*
		(restated)
Profit before income tax expense	**674,784**	247,696
Less: Share of results of associates	**(2,370)**	(16,057)
Less: Share of results of jointly controlled entities	**(94,406)**	(53,466)
	578,008	178,173
Tax calculated at the PRC statutory rate of 25% (2009: 25%)	**144,502**	44,543
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,144)**	(41)
Effect of exemption granted and preferential tax treatment	**(71,042)**	(50,466)
Tax effect of expense not deductible for tax purposes	**3,075**	1,987
Tax effect of revenue not taxable for tax purposes	**(29,029)**	(8,999)
Tax effect of tax losses and other deductible temporary differences not recognised	**72,797**	64,682
(Over)/under provision in respect of prior years	**(294)**	487
Utilisation of tax losses previously not recognised	**(87,277)**	(28,901)
Income tax expense	**31,588**	23,292

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 28).

17. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company includes an amount of RMB560,183,000 (2009: Loss of RMB137,036,000) which has been dealt with in the financial statements of the Company.

18. EARNINGS PER SHARE

The calculation of basic and diluted earnings 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 RMB632,354,000 (2009 (restated): net profit attributable to owners of the Company of RMB207,830,000) and 1,354,054,750 shares (2009 (restated): 1,354,054,750 shares) outstanding during the year.

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

19. PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2010

	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 2010	1,525,545	2,328,543	453,628	20,984	176,401	4,505,101
Exchange differences	—	(27)	—	(33)	—	(60)
Additions at cost	6,358	80,712	82,479	1,935	225,539	397,023
Disposals	(152)	(60,831)	(31,857)	(2,371)	(1,039)	(96,250)
Transfer to interests in jointly controlled entities	—	—	—	—	(97,925)	(97,925)
Reclassification as investment properties *(Note 20)*	—	—	—	—	(7,537)	(7,537)
Reclassification	5,118	60,377	27,125	128	(92,748)	—
As at 31 December 2010	1,536,869	2,408,774	531,375	20,643	202,691	4,700,352
Depreciation and impairment						
As at 1 January 2010	578,721	1,510,959	327,369	12,214	32,788	2,462,051
Exchange differences	—	(23)	—	(32)	—	(55)
Depreciation for the year	81,203	118,684	84,138	1,510	—	285,535
Elimination on disposals	(12)	(53,295)	(26,874)	(2,132)	—	(82,313)
Impairment provided for the year	—	12,388	319	—	3,068	15,775
As at 31 December 2010	659,912	1,588,713	384,952	11,560	35,856	2,680,993
Net book value						
As at 31 December 2010	876,957	820,061	146,423	9,083	166,835	2,019,359

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

Year ended 31 December 2009 (Restated)

	Leasehold land and buildings	Plant, machinery and equipment	Moulds	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
As at 1 January 2009 (restated)	1,516,127	2,335,767	410,934	26,093	158,112	4,447,033
Exchange differences	—	(1)	—	(2)	—	(3)
Additions at cost	1,987	64,471	73,388	1,831	137,476	279,153
Disposals	—	(92,515)	(25,849)	(7,647)	(6,271)	(132,282)
Transfer to interests in jointly controlled entities	—	(49,499)	(15,058)	—	—	(64,557)
Reclassified to assets held for sale *(Note 32)*	(13,488)	(2,783)	—	—	—	(16,271)
Reclassification	20,919	77,111	14,169	717	(112,916)	—
Disposal of a subsidiary *(Note 44)*	—	(4,008)	(3,956)	(8)	—	(7,972)
As at 31 December 2009 (As restated)	1,525,545	2,328,543	453,628	20,984	176,401	4,505,101
Depreciation and impairment						
As at 1 January 2009 (restated)	499,082	1,455,928	267,310	16,143	26,742	2,265,205
Exchange differences	—	(1)	—	(2)	—	(3)
Depreciation for the year	81,998	128,258	87,056	2,607	—	299,919
Impairment provided for the year	1,607	5,291	2,577	201	6,584	16,260
Elimination on disposals	—	(73,137)	(24,222)	(6,730)	(538)	(104,627)
Transfer to interests in jointly controlled entities	—	(3,468)	(3,804)	—	—	(7,272)
Reclassified to assets held for sale *(Note 32)*	(3,966)	—	—	—	—	(3,966)
Disposal of a subsidiary *(Note 44)*	—	(1,912)	(1,548)	(5)	—	(3,465)
As at 31 December 2009 (restated)	578,721	1,510,959	327,369	12,214	32,788	2,462,051
Net book value						
As at 1 January 2009 (restated)	1,017,045	879,839	143,624	9,950	131,370	2,181,828
As at 31 December 2009 (restated)	946,824	817,584	126,259	8,770	143,613	2,043,050

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

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
Japan	**18,807**	20,423	22,038

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

Included in property, plant and equipment, certain buildings and plant, machinery and equipment of the Group were frozen by certain local PRC courts and the relevant legal proceedings are being undergone. The details are set out as follows:

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
Net book value			
Buildings	**31,256**	33,622	38,998
Plant, machinery and equipment	**11,070**	20,515	29,339

Included in property, plant and equipment, certain buildings of the Group were pledged as securities for banking facilities (Note 36) and the net book value are set out as follows:

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Buildings	**298,552**	319,965	422,842

20. INVESTMENT PROPERTIES

	2010	2009
	RMB'000	*RMB'000*
Cost		
As at 1 January	**58,138**	57,356
Additions	**2,096**	782
Reclassification from property, plant and equipment *(Note 19)*	**7,537**	—
As at 31 December	**67,771**	58,138
Depreciation		
As at 1 January	**24,376**	21,791
Depreciation for the year	**2,795**	2,585
As at 31 December	**27,171**	24,376
Net book value at 1 January	**33,762**	35,565
Net book value at 31 December	**40,600**	33,762
Directors' valuation at fair value	**83,753**	54,460

The Group's investment properties are situated in the PRC. The valuation for the investment properties as at 31 December 2010 and 2009 were determined by the directors by reference to the market price for similar properties.

20. INVESTMENT PROPERTIES *(continued)*

The net book value of the Group's investment properties pledged as securities for banking facilities (Note 36) are set out as follows:

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
Investment properties	**15,859**	17,211	1,937

21. 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:

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Leasehold land in PRC:			
— Medium-term lease	**380,445**	396,192	425,184

Notes:

(i) Certain pieces of land of the Group have their legal titles frozen by certain local PRC courts and legal proceedings are being undergone. The net book value are set out as follows:

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
Leasehold land in PRC:			
— Medium-term lease	**9,339**	9,580	19,425

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

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

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

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

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.

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

(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) The net book value of the Group's payments for leasehold land held for own use under operating leases pledged as securities for banking facilities (Note 36) are set out as follows:

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Payments for leasehold land held for own use under operating leases	**158,865**	166,658	250,006

22. INVESTMENTS IN SUBSIDIARIES

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

Name	Place and date of incorporation/ establishment	Issued and paid-up shares/ Paid-in capital	Percentage of ownership Interests/profit share 2010 Directly	2010 Indirectly	2009 Directly	2009 Indirectly	Principal activities
Entities operating in the PRC:							
Shunde Rongsheng Plastic Co., Ltd.	PRC *(Note (i))* 18 October 1991	US$15,827,400	44.92%	25.13%	44.92%	25.13%	Manufacture of plastic parts
Guangdong Kelon Mould Co., Ltd.	PRC *(Note (i))* 20 July 1994	US$15,056,100	40.22%	29.89%	40.22%	29.89%	Manufacture and sale of moulds
Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.	PRC *(Note (i))* 25 December 1995	US$26,800,000	70%	30%	70%	30%	Manufacture and sale of refrigerators
Hisense Ronshen (Guangdong) Freezer Co., Ltd.	PRC *(Note (i))* 25 December 1995	RMB237,000,000	44%	56%	44%	56%	Manufacture and sale of freezers
Guangdong Kelon Air-Conditioner Co., Ltd.	PRC *(Note(i))* 19 March 1996	US$36,150,000	60%	—	60%	—	Manufacture and sale of air-conditioners
Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon")	PRC *(Note (i))* 19 November 1996	RMB200,000,000	75%	25%	75%	25%	Manufacture and sale of refrigerators *(Note (iii))*
Hisense Ronshen Yingkou Refrigerator Co., Ltd.	PRC *(Note (i))* 15 December 1996	RMB200,000,000	42%	36.79%	42%	36.79%	Manufacture and sale of refrigerators

22. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place and date of incorporation/ establishment	Issued and paid-up shares/ Paid-in capital	Percentage of ownership Interests/profit share 2010		2009		Principal activities
			Directly	Indirectly	Directly	Indirectly	
Entities operating in the PRC: *(continued)*							
Hisense Ronshen Yangzhou Refrigerator Co., Ltd.	PRC *(Note (i))* 23 December 1996	US$44,447,900 (2009: US$29,800,000)	74.33%	25.67%	74.33%	25.67%	Manufacture and sale of refrigerators
Guangdong Kelon Fittings Co., Ltd.	PRC *(Note (i))* 24 November 1999	US$5,620,000	70%	30%	70%	30%	Manufacture and sale of spare parts for air-conditioners and refrigerators
Shunde Huaao Electronics Co., Ltd.	PRC *(Note (ii))* 23 November 2000	RMB10,000,000	—	70%	—	70%	Manufacture and sale of electronic products *(Note (iii))*
Shunde Jiake Electronic Company Limited	PRC *(Note (ii))* 12 October 2001	RMB60,000,000	70%	30%	70%	30%	IT and communication technology and micro-electronics technology development
Xi'an Kelon Cooling Co., Ltd.	PRC *(Note (ii))* 20 March 2002	RMB202,000,000	60%	—	60%	—	Manufacture and sale of spare parts for refrigerators *(Note (iii))*
Jiangxi Kelon Industrial Development Co., Ltd.	PRC *(Note (i))* 24 June 2003	US$29,800,000	60%	40%	60%	40%	Manufacture and sale of refrigerators, air-conditioners and other household appliances *(Note (iii))*
Shangqiu Kelon	PRC *(Note (ii))* 23 September 2003	RMB150,000,000	—	100%	—	100%	Manufacture and sale of refrigerators *(Note (iii))*
Hisense (Chengdu) Refrigerator Co., Ltd.	PRC *(Note (i))* 28 March 2007	RMB50,000,000	100%	—	100%	—	Manufacture and sale of refrigerators
Hisense Beijing	PRC *(Note (ii))* 13 June 2002	RMB85,710,000	55%	—	—	—	Manufacture and sale of refrigerators
Hisense Nanjing	PRC *(Note (ii))* 12 January 2005	RMB128,691,500	—	33%	—	—	Manufacture and sale of refrigerators
Hisense Shandong	PRC (Note (ii)) 8 November 2007	RMB500,000,000	100%	—	—	—	Manufacture and sale of air-conditioners

22. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place and date of incorporation/ establishment	Issued and paid-up shares/ Paid-in capital	Percentage of ownership Interests/profit share 2010 Directly	2010 Indirectly	2009 Directly	2009 Indirectly	Principal activities
Entities operating in the PRC: *(continued)*							
Hisense Zhejiang	PRC *(Note (ii))* 22 April 2005	RMB110,000,000	51%	—	—	—	Manufacture and sale of air-conditioners
Hisense Mould	PRC *(Note (ii))* 28 September 1996	RMB27,642,015	78.7%	—	—	—	Manufacture and sale of injection moulds
Shunde Kelon Household Electrical Appliance Company Limited	PRC *(Note (ii))* 16 July 1999	RMB10,000,000	25%	75%	25%	75%	Manufacture and sale of electrical household appliances *(iii)*
Shunde Wangao Import & Export Co., Ltd.	PRC *(Note (ii))* 7 June 2001	RMB3,000,000	20%	80%	20%	80%	Import and export business
Hangzhou Kelon Electrical Co., Ltd. ("Hangzhou Kelon")	PRC *(Note (ii))* 22 August 2003	RMB24,000,000	100%	—	100%	—	Manufacture and sale of refrigerators *(iii)*
Entities operating in Hong Kong:							
Pearl River Electric Refrigerator Company Limited	Hong Kong 26 July 1985	HK$400,000	—	100%	—	100%	Trading in materials and parts for refrigerators and import and export business
Kelon Development Company Limited	Hong Kong 17 August 1993	HK$5,000,000	100%	—	100%	—	Investment holding *(iii)*
Kelon International Inc.	British Virgin Islands 13 January 1999	US$50,000	—	100%	—	100%	Investment holding and sale of refrigerators and air-conditioners
Kelon Electric Appliances Co., Ltd.	Hong Kong 29 August 1991	HK$10,000	—	—	—	100%	Property Investment *(iv)*

Notes:

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

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

(iii) Dormant during the year.

(iv) Dissolved during the year.

(v) The financial statements of Jiangxi Combine Electrical Appliance Co., Ltd. ("Jiangxi Combine") were 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.

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

(vii) 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.

23. INTERESTS IN ASSOCIATES

	As at 31 December **2010** *RMB'000*	As at 31 December 2009 *RMB'000*	As at 1 January 2009 *RMB'000*
Share of net assets	**50,102**	102,673	86,589
Listed investment	**46,374**	98,892	82,934
Unlisted investment	**3,728**	3,781	3,655
	50,102	102,673	86,589
Fair value of listed investment	**245,772**	501,412	197,364

Details of the goodwill are as follows:

	2010 *RMB'000*	2009 *RMB'000*
Cost		
As at 1 January	**131,207**	131,207
Written-off due to partial disposal of an associate	**(71,352)**	—
	59,855	131,207
Impairment		
As at 1 January and 31 December	**131,207**	131,207
Derecognised due to partial disposal of an associate	**(71,352)**	—
	59,855	131,207
As at 31 December	**—**	—

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

Name	Place and date of incorporation/ establishment	Issued and paid-up shares/ Paid-in capital	Percentage of ownership interest 2010 Directly	2010 Indirectly	2009 Directly	2009 Indirectly	Principal activities
Huayi *(Note (i))*	PRC *(Note (ii))* 13 June 1996	RMB324,581,218	8.33%	—	18.26%	—	Manufacture and sale of compressors
Attend Logistics Co., Ltd. ("Attend Logistics")	PRC *(Note (iii))* 11 July 2001	RMB10,000,000	20%	—	20%	—	Provision of logistics and storage services

23. INTERESTS IN ASSOCIATES *(continued)*

Notes:

(i) During the year, the Company partially disposed of its shares in Huayi and as at 31 December 2010, the remaining shareholding in Huayi was 8.33%. The Group had representation on the board of directors of Huayi, participated in its policy-making process and had material transactions with Huayi (Note 41 II). Accordingly, the directors of the Company considered that the Group was able to exercise significant influence over Huayi and continued to account for Huayi as an associate.

(ii) Huayi was established as a joint stock limited company and its securities are trading in the Shenzhen Stock Exchange.

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

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

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
Total assets	**3,627,843**	2,729,082	2,120,231
Total liabilities	**(3,052,496)**	(1,869,547)	(1,423,711)
Net assets	**575,347**	859,535	696,520
Group's share of net assets of associates	**50,102**	102,673	86,589

	2010	2009
	RMB'000	*RMB'000*
Total revenue	**4,648,709**	3,273,268
Total profit for the year	**14,707**	87,876
Group's share of profits of associates for the year	**2,370**	16,057

24. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Share of net assets	**458,545**	293,169	148,041

24. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Details of the Group's interests in the jointly controlled entities are as follows:

Name	Place and date of incorporation/ establishment	Paid-in capital	Percentage of ownership interests/ profit share 2010		2009		Principal Activities
			Directly	Indirectly	Directly	Indirectly	
Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd. ("Hisense — Whirlpool")	PRC *(Note (i))* 4 November 2008	RMB450,000,000 *(Note (ii))*	50%	—	50%	—	Manufacture and sale of washing machines, other electrical appliances and provision of after-sales and related consultation services
Hisense Hitachi	PRC *(Note (i))* 8 January 2003	US$12,100,000	49%	—	49%	—	Manufacture and sale of air-conditioning systems

Notes:

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

(ii) During the year, both the Company and Whirlpool (Hong Kong) Company Limited have injected approximately RMB95 million each into Hisense-Whirlpool. As at 31 December 2010, each party have cumulatively injected RMB225,000,000 (2009: RMB129,530,000) into Hisense-Whirlpool, totalling RMB450,000,000.

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

	As at 31 December 2010	2009	As at 1 January 2009
	RMB'000	*RMB'000* (restated)	*RMB'000* (restated)
Non-current assets	**201,662**	390,257	54,703
Current assets	**696,352**	264,383	178,575
Current liabilities	**(429,045)**	(361,471)	(85,237)
Non-current liabilities	**(10,424)**	—	—
Net assets	**458,545**	293,169	148,041

	2010	2009
	RMB'000	*RMB'000* (restated)
Income	**1,405,134**	749,292
Expenses	**(1,310,728)**	(695,826)
Profit for the year	**94,406**	53,466

As at 31 December 2010, the Group's share of jointly controlled entities' capital commitments is RMB8,386,000 (2009: RMB8,137,000).

25. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
Available-for-sale financial assets, at cost			
Unquoted long-term equity investments in the PRC	**11,289**	11,559	11,799
Less: Accumulated impairment *(Note (b))*	**(7,249)**	(7,249)	(7,249)
	4,040	4,310	4,550

Notes:

(a) During the year, an investee, Qingdao Hisense International Marketing Co., Ltd., in which the Group held 12.67% (2009: 19%) equity interest, distributed dividends of RMB2,508,000 (2009: RMB Nil) to the Group.

(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.

26. INTANGIBLE ASSETS

	Trademarks	**Non-patented technologies**	**Software systems**	**Total**
	(Note (i))	*(Note (ii))*	*(Note (ii))*	
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Year ended 31 December 2010				
Cost				
As at 1 January 2010	**524,410**	**76,743**	**46,380**	**647,533**
Additions at cost	**—**	**—**	**4,307**	**4,307**
As at 31 December 2010	**524,410**	**76,743**	**50,687**	**651,840**
Amortisation and impairment				
As at 1 January 2010	**403,480**	**32,096**	**34,270**	**469,846**
Charge for the year	**—**	**7,475**	**5,162**	**12,637**
As at 31 December 2010	**403,480**	**39,571**	**39,432**	**482,483**
Net book value				
As at 31 December 2010	**120,930**	**37,172**	**11,255**	**169,357**

26. INTANGIBLE ASSETS *(continued)*

	Trademarks *(Note (i))* *RMB'000*	Non-patented technologies *(Note (ii))* *RMB'000*	Software systems *(Note (ii))* *RMB'000*	Total *RMB'000*
Year ended 31 December 2009 (restated)				
Cost				
As at 1 January 2009	524,410	87,678	48,685	660,773
Additions at cost	—	—	4,130	4,130
Disposals	—	(10,935)	(6,435)	(17,370)
As at 31 December 2009	524,410	76,743	46,380	647,533
Amortisation and impairment				
As at 1 January 2009	403,480	24,401	37,272	465,153
Charge for the year	—	7,798	3,433	11,231
Written back on disposals	—	(103)	(6,435)	(6,538)
As at 31 December 2009	403,480	32,096	34,270	469,846
Net book value				
As at 1 January 2009	120,930	63,277	11,413	195,620
As at 31 December 2009	120,930	44,647	12,110	177,687

(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.

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 2010, the management performed assessment and concluded that no further impairment of the trademarks is necessary.

26. INTANGIBLE ASSETS *(continued)*

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

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:

	2010	2009
	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 2015 with a discount rate of 15% (2009: 15%). The cash flows beyond the five-year period are extrapolated using a steady 2% (2009: 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 2010 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% (2009: 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.

27. GOODWILL

	RMB'000
Year ended 31 December 2010	
Cost	
As at 1 January 2010 and 31 December 2010	**47,033**
Accumulated impairment	
As at 1 January 2010 and 31 December 2010	**47,033**
Net book value	
As at 31 December 2010	—
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	—

The goodwill arose on acquisition of certain subsidiaries under the reportable segment "Air-conditioners" and was fully impaired since 2006.

28. DEFERRED TAX ASSETS

Deferred tax assets of the Group arose 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:

	2010	2009
	RMB'000	*RMB'000*
		(restated)
As at 1 January	**16,435**	21,623
Charged to profit or loss	**(9,542)**	(5,188)
As at 31 December	**6,893**	16,435

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

	Depreciation allowance and provision	**Tax losses**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Year ended 31 December 2010			
As at 1 January 2010	**5,823**	**10,612**	**16,435**
Charged to profit or loss for the year	**(1,671)**	**(7,871)**	**(9,542)**
As at 31 December 2010	**4,152**	**2,741**	**6,893**
Year ended 31 December 2009 (restated)			
As at 1 January 2009	11,273	10,350	21,623
(Charged)/credited to profit or loss for the year	(5,450)	262	(5,188)
As at 31 December 2009	5,823	10,612	16,435

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

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Deferred tax assets	**6,893**	16,435	21,623

28. DEFERRED TAX ASSETS *(continued)*

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:

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Unused tax losses	**1,483,600**	2,507,649	2,545,092
Deductible temporary differences	**1,038,280**	632,516	611,917
	2,521,880	3,140,165	3,157,009

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 without time limit. The expiry of unused tax losses for which no deferred tax assets have been recognised is as follows:

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Tax losses expiring in:			
2009	—	—	44,748
2010	—	1,062,735	1,129,327
2011	**571,935**	571,935	608,022
2012	**272,213**	279,133	291,502
2013	**319,643**	321,525	372,268
2014	**143,258**	143,258	—
2015	**71,971**	—	—
	1,379,020	2,378,586	2,445,867
No expiry date	**104,580**	129,063	99,225
	1,483,600	2,507,649	2,545,092

29. INVENTORIES

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Raw materials	**374,970**	181,273	117,457
Work in progress	**95,900**	79,710	48,042
Finished goods	**1,432,227**	874,968	715,764
	1,903,097	1,135,951	881,263

30. TRADE AND OTHER RECEIVABLES

On 13 December 2006, the share transfer transaction on the Company between the preceding controlling shareholder of the Company, Guangdong Greencool Enterprise Development Company Limited ("Greencool Enterprise"), which is owned by the Company's former chairman, Mr. Gu, and Hisense Air-Conditioning was completed. Upon completion of the transaction, 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 disclosures were made in respect of Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu for the year. Details of trade and other receivables, including the balances with Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu, are disclosed as follows:

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Trade receivables *(Notes (i), (iii))*	**1,089,863**	645,004	597,682
Notes receivables *(Note (i))*	**337,864**	113,630	127,174
Other receivables *(Notes (ii), (iii))*	**782,286**	484,837	249,215
Amounts due from Greencool Enterprise and its affiliates *(Note (iv))*	**72,061**	72,061	72,061
Amounts due from companies suspected to be connected with Mr. Gu *(Note (iv))*	**213,217**	213,217	213,217
Amounts due from group entities under Hisense Group *(Note 41 III(a))*	**178,813**	122,777	453,072
Amounts due from associates *(Note 41 III(b))*	**48**	—	5
Amounts due from jointly controlled entities *(Note 41 III(c))*	**6,503**	2,199	—
Amounts due from other related companies *(Note 41 III(d))*	**2,500**	—	6,596
	2,683,155	1,653,725	1,719,022

Notes:

(i) The net book value of the Group's trade and notes receivables pledged as securities for bank borrowings (Note 36) were set out as follows:

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
			(restated)
Trade and notes receivables	**380,391**	231,440	189,829

30. TRADE AND OTHER RECEIVABLES *(continued)*

Notes: (continued)

(i) *(continued)*

Included in trade and other receivables are trade receivables (net of impairment losses) with the following aging analysis as of the end of reporting period:

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Within three months	**872,871**	551,003	419,955
Three to six months	**119,474**	66,043	155,407
Six months to one year	**86,603**	6,003	19,544
Over one year	**169,189**	210,439	176,071
Less: Provision for impairment loss	**(158,274)**	(188,484)	(173,295)
	1,089,863	645,004	597,682

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.

The aging of trade receivables which are past due but not impaired are as follows:

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Less than three months past due	**164,986**	100,202	196,184
More than three months but less than twelve months past due	**6,254**	21,481	28,669
More than twelve months past due	**1,495**	6,709	2,267
Amount past due at the end of reporting period but not impaired *(Note (a))*	**172,735**	128,392	227,120

Note:

(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) Other receivables (net of impairment losses) principally comprise the followings:

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Value-added tax recoverable	**334,387**	181,162	189,829
Prepayment to suppliers	**353,661**	146,257	38,079

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

30. TRADE AND OTHER RECEIVABLES *(continued)*

Notes: (continued)

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

	2010	2009
	RMB'000	*RMB'000*
		(restated)
As at 1 January	**557,123**	565,056
Reversal of impairment loss	**(2,294)**	(12,112)
Impairment loss recognised	**15,154**	8,769
Bad debt written off	**(18,534)**	(4,590)
As at 31 December	**551,449**	557,123

The Group recognised impairment loss on trade and other receivables on individual assessment based on the accounting policy stated in Note 5(k)(ii).

(iv) The gross amount and provision for impairment loss relating to balances with Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu are as follows:

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from Greencool Enterprise and its affiliates			
Gross amount	**91,046**	91,046	91,046
Less: Provision for impairment loss	**(18,985)**	(18,985)	(18,985)
Net book value	**72,061**	72,061	72,061
Amounts due from companies suspected to be connected with Mr. Gu			
Gross amount	**559,185**	559,185	559,185
Less: Provision for impairment loss	**(345,968)**	(345,968)	(345,968)
Net book value	**213,217**	213,217	213,217

31. DERIVATIVE FINANCIAL INSTRUMENTS

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:

	As at 31 December 2010	
	Notional amounts *RMB'000*	**Forward rates**
— Contracted to sell USD in exchange for RMB	**1,249,389**	**6.5350 to 6.7635**
— Contracted to sell Euro in exchange for RMB	**96,230**	**8.5633 to 9.2279**
— Contracted to sell AUD in exchange for RMB	**28,536**	**6.1838 to 6.2181**
— Contracted to sell USD in exchange for EUR	**13,384**	**1.2534 to 1.2546**
— Contracted to buy USD	**596,043**	**0.1496 to 0.1505**

	As at 31 December 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

31. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

	As at 1 January 2009	
	Notional amounts	Forward rates
	RMB'000	
— 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 would mature within one year from the end of reporting period. The net fair value gain of these foreign currency forward contracts for the year ended 31 December 2010 is RMB30,397,000 (2009: net fair value loss of RMB2,925,000). 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.

32. ASSETS AND ASSOCIATED LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

During the second half of 2009, the directors proposed to dispose of one of the Company's subsidiaries, 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 RMB11,638,000. The sales transactions were completed on 30 January 2010.

As at 31 December 2009, Wuhu Ecan was classified as a disposal group. All its assets and liabilities are presented as "Assets of disposal group classified as held for sale" and "Liabilities directly associated with assets of a disposal group classified as held for sale" respectively in the consolidated statement of financial position.

The assets and liabilities of Wuhu Ecan comprising the operations classified as held for sale as at 31 December 2009 are as follows:

	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 of a disposal group classified as held for sale	31,574
Trade and other payables	25,714
Borrowings	5,200
Liabilities directly associated with assets of a disposal group classified as held for sale	30,914

33. TRADE AND OTHER PAYABLES

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Trade payables *(Note (a))*	**2,040,917**	1,489,666	1,143,045
Notes payables	**810,263**	648,000	698,590
Other payables	**895,359**	598,918	645,650
Accruals	**482,715**	407,609	235,029
Amounts due to Greencool Enterprise and its affiliates	**13,050**	13,050	13,050
Amounts due to companies suspected to be connected with Mr. Gu	**114,939**	114,939	114,939
Amounts due to group entities under Hisense Group *(Note 41 III(a))*	**43,134**	51,673	215,186
Amounts due to associates *(Note 41 III(b))*	**137,462**	104,607	62,020
Amounts due to jointly controlled entities *(Note 41 III(c))*	**150,034**	53,140	459
Amounts due to other related companies *(Note 41 III(d))*	**19,172**	18,322	25,816
	4,707,045	3,499,924	3,153,784

Notes:

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

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Within one year	**1,935,242**	1,327,145	955,531
One to two years	**10,266**	36,910	80,618
Two to three years	**13,697**	42,201	27,081
Over three years	**81,712**	83,410	79,815
	2,040,917	1,489,666	1,143,045

34. PROVISIONS

	Warranty	**Legal**	
	(Note (i))	*(Note (ii))*	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Year ended 31 December 2010			
As at 1 January 2010	**190,600**	**6,797**	**197,397**
Provision in the year	**114,734**	**284**	**115,018**
Utilisation of provision	**(63,276)**	**(2,339)**	**(65,615)**
As at 31 December 2010	**242,058**	**4,742**	**246,800**
Year ended 31 December 2009 (Restated)			
As at 1 January 2009	167,510	31,142	198,652
Provision in the year	123,692	6,353	130,045
Utilisation of provision	(100,602)	(30,698)	(131,300)
As at 31 December 2009	190,600	6,797	197,397

34. PROVISIONS *(continued)*

Notes:

(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 sales. 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.

Subsequent to the end of the reporting period, the Group noted that some dehumidifiers, which were manufactured by the Group and sold to the markets in the North America, contained certain defects.

After taking into account all known factors pertaining to event, the directors believed that a future cost of repair and maintenance would be incurred and a provision of approximately RMB18,000,000 was recognised in current year profit or loss.

(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.

35. OTHER LIABILITIES

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Government grants	**35,037**	34,385	29,384

The amount represents government grants received for the Group's research and development activities, for which the attaching conditions have not been fulfilled. Government grants recognised as income for the year amounted to approximately RMB458,599,000 (2009 (restated): RMB111,212,000).

36. BORROWINGS

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Bank loans *(Note (i))*	**508,752**	332,113	1,379,948
Other loans *(Note (ii))*	**592,510**	1,118,760	500,000
	1,101,262	1,450,873	1,879,948
Analysed as:			
— Secured	**508,752**	332,113	713,089
— Unsecured	**592,510**	1,118,760	1,166,859
	1,101,262	1,450,873	1,879,948

36. BORROWINGS *(continued)*

At the end of the reporting period, total current and non-current borrowings were repayable as follows:

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Within one year	**1,101,262**	1,450,873	1,869,948
More than one year, but not exceeding two years	**—**	—	10,000
	1,101,262	1,450,873	1,879,948
Amount due within one year included in current liabilities	**(1,101,262)**	(1,450,873)	(1,869,948)
Amount due after one year included in non-current liabilities	**—**	—	10,000

Notes:

(i) The bank borrowings were secured by pledge of property, plant and equipment (Note 19), investment properties (Note 20), payments for leasehold land held for own use under operating leases (Note 21), and trade and note receivables (Note 30).

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

	As at 31 December		As at 1 January
	2010	2009	2009
	%	%	%
		(restated)	(restated)
Fixed-rate borrowings	**1.55 to 5.00**	3.98 to 7.5	4.78 to 8.75
Variable-rate borrowings:			
PRC National benchmark interest rate	**—**	—	4.78 to 6.12

As at 31 December 2010, included in the Group's bank borrowings were amount of RMB Nil (31 December 2009: RMB Nil and 1 January 2009: 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.

As at 31 December 2010, included in the Group's borrowings was an amount of approximately RMB380,391,000 (31 December 2009: RMB231,440,000 and 1 January 2009 (restated): RMB189,829,000) in respect of trade and notes receivables factored to banks with recourse.

(ii) Other loans represent borrowings from Hisense Finance, which are guaranteed by Hisense Group and bear interest at a rate of 4.779% to 5.004% per annum (31 December 2009: 4.779% and 1 January 2009: 4.779%) and are repayable within one year.

37. SHARE CAPITAL

	As at 31 December				As at 1 January	
	2010		2009		2009	
	Number	***RMB'000***	*Number* (restated)	*RMB'000* (restated)	*Number* (restated)	*RMB'000* (restated)
Share of RMB1 each:						
H shares	**459,589,808**	**459,590**	459,589,808	459,590	459,589,808	459,590
Transferable A shares that are subject to selling restrictions *(Note (i) and (ii))*	**612,316,909**	**612,317**	234,375,922	234,376	298,311,835	298,312
Deemed transferable A shares from the Revised Acquisition *(Note (ii))*	—	—	362,048,187	362,048	362,048,187	362,048
A shares *(Note (ii))*	**282,148,033**	**282,148**	298,040,833	298,041	234,104,920	234,105
Total A shares	**894,464,942**	**894,465**	894,464,942	894,465	894,464,942	894,465
Total H and A shares	**1,354,054,750**	**1,354,055**	1,354,054,750	1,354,055	1,354,054,750	1,354,055

Notes:

(i) Pursuant to the Share Reform Scheme, the selling restrictions on 234,375,922 transferable A shares as at 31 December 2009 (1 January 2009: 298,311,835) was released on 28 March 2010.

(ii) Upon completion of the Revised Acquisition on 1 April 2010, 362,048,187 A shares were allotted and issued to Hisense Air-Conditioning as consideration. By applying the principles of merger accounting, these A Shares has been shown as if it had always been issued at the previous reporting period in the consolidated financial statements. On 10 June 2010, the 362,048,187 A shares were listed on the Shenzhen Stock Exchange and Hisense Air-Conditioning has undertaken that it will not transfer all of the A shares held totalling 612,316,909 A shares, including the aforementioned 234,375,922 A shares and 15,892,800 A shares for which the selling restrictions have been released on 28 March 2010 and before respectively, for a period of 36 months. At 31 December 2010, Hisense Air-Conditioning held 612,316,909 shares of the Company, representing 45.22% of the Company's total issued share capital, and continued to be the major single largest shareholder of the Company.

(iii) 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.

Capital management policy

The Group's objectives when managing capital are:

- to safeguard the Group'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.

37. SHARE CAPITAL *(continued)*

Capital management policy *(continued)*

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 2010, the Group's strategy, which was unchanged from 2009, was to substantially finance through debts as the Group has net current liabilities of RMB2,259,012,000 (2009 (restated): RMB2,807,319,000). As at 31 December 2010, the total borrowings were approximately RMB1,101,262,000 (2009 (restated): RMB1,450,873,000 (Note 36).

38. RESERVES

The following describes the nature and purpose of each reserve within owners' equity:

(a) Share premium

Included in share premium are reserves resulting from the amount subscribed for share capital in excess of nominal value.

(b) 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.

The balance represents statutory reserves of the Company and as at 31 December 2010, accumulated losses of the Group comprise statutory reserves of other group entities totalling to RMB59,716,000 (31 December 2009 (restated): RMB55,284,000).

(c) Merger reserve

Pursuant to the Revised Acquisition, the Company issued 362,048,187 A shares of RMB1.00 each to Hisense Air-Conditioning in consideration of acquiring their equity interests held in the White Goods Businesses. The difference between Hisense Air-Conditioning's total capital contributions to the White Goods Businesses over the nominal value of the shares issued by the Company in exchange thereof was transferred to the merger reserve in the consolidated financial statements as at the completion date of Revised Acquisition.

(d) Foreign exchange reserve

Foreign exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(e) 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 China Accounting Standards for Business Enterprises ("CASBE") and (ii) the amount determined in accordance with IFRS. As at 31 December 2010, the Company did not have reserve available for distribution to its shareholders (2009: Nil).

39. DIVIDENDS

No dividend was paid or proposed during 2010, nor has any dividend been proposed since the end of reporting period (2009: Nil).

40. 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 2010 was as follows:

	2010	2009
	RMB'000	*RMB'000*
		(restated)
Operating lease charges		
— Leasehold land and buildings	**18,955**	17,785
— Plant and machinery	**2,445**	1,499

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

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Not later than one year	**7,346**	9,687	14,455
Later than one year and not later than five years	**14,590**	1,029	10,636
	21,936	10,716	25,091

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 2010 was RMB18,874,000 (2009 (restated): RMB20,363,000).

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

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
Not later than one year	**5,027**	2,843	3,776
Later than one year and not later than five years	**1,160**	3,434	4,840
	6,187	6,277	8,616

41. RELATED PARTY

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

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:

A. Group entities under Hisense Group:

Name of related parties	Relationship
Hisense Air-Conditioning	The substantial shareholder of the Company
Hisense Group	The holding company of Hisense Air-Conditioning
Hisense Electric Co., Ltd.	A subsidiary of Hisense Group
Guangdong Hisense Multimedia Co., Ltd.	A subsidiary of Hisense Group
Hisense (Qingdao) Import & Export Co., Ltd.	A subsidiary of Hisense Group
Savor Household Electrical Appliance Service Industry Co., Ltd.	A subsidiary of Hisense Group
Hisense International (HK) Co., Ltd.	A subsidiary of Hisense Group
Hisense (HK) Co., Ltd.	A subsidiary of Hisense Group
Qingdao Hisense International Marketing Co., Ltd.	A subsidiary of Hisense Group
Hisense Finance	A subsidiary of Hisense Group
Qingdao Hisense Property Corporate Co., Ltd.	A subsidiary of Hisense Group
Qingdao Hisense Real Estate Co., Ltd.	A subsidiary of Hisense Group
Qingdao Hisense Electronic Technology Service Co., Ltd.	A subsidiary of Hisense Group
Qingdao Hisense Electronic Holdings Co., Ltd.	A subsidiary of Hisense Group
Qingdao Hisense Electronic Equipment Co., Ltd.	A subsidiary of Hisense Group
Zibo Hisense Electronic Co., Ltd.	A subsidiary of Hisense Group
Qingdao Hisense Communication Co., Ltd.	A subsidiary of Hisense Group

41. RELATED PARTY *(continued)*

I. Relationship with related parties *(continued)*

B. Associates:

Name of related parties	Relationship
Attend Logistics	An associate of the Company
Huayi	An associate of the Company
Jiaxibeila Compressor Company Limited ("Jiaxibeila")	A subsidiary of Huayi

C. Jointly controlled entities:

Name of related parties	Relationship
Hisense-Whirlpool	A jointly controlled entity of the Company
Hisense Hitachi	A jointly controlled entity of the Company

D. Other related companies:

Name of related parties	Relationship
Jiangxi Combine	An unconsolidated subsidiary of the Company
Xi'an Gaoke (Group) Limited	A non-controlling investor of Xi'an Kelon Cooling Co., Ltd.
Nanjing Aipulaisi High and New Technology Co., Ltd.	A non-controlling investor of Hisense (Nanjing) Electric Co., Ltd.
Beijing Snowflake Electrical Appliance Group Corporation ("Snowflake")	A non-controlling investor of Hisense (Beijing) Electric Co., Ltd.
Beijing Embraco Snowflake Compressor Co., Ltd.	A subsidiary of Snowflake
Zhejiang Xianke Electric Appliance Manufacturing Co., Ltd.	A non-controlling investor of Hisense (Zhejiang) Air-Condition Co., Ltd. before 25 March 2009

41. RELATED PARTY *(continued)*

II. Transactions with related parties

The Group had the following significant transactions with related parties:

	Notes	**2010** **RMB'000**	2009 RMB'000 (restated)
Sales of goods/raw materials to			
— Group entities under Hisense Group	*(i)*	**938,380**	575,756
— Jointly controlled entities	*(i)*	**15,563**	19,422
Sales of moulds to			
— Group entities under Hisense Group	*(i)*	**153,891**	125,018
— Jointly controlled entities	*(i)*	**988**	3,079
Service fee charged to			
— Group entities under Hisense Group		**316**	301
— Associates		**66**	60
— Jointly controlled entities		**563**	434
Sale of property, plant and equipment to			
— Jointly controlled entities	*(i)*	**2,455**	4,932
Purchases of goods/raw materials from			
— Group entities under Hisense Group	*(i)*	**139,787**	82,156
— Associates	*(ii)*	**668,464**	417,933
— Jointly controlled entities	*(i)*	**362,359**	121,525
— Other related companies		**54,096**	55,482
Purchases of property, plant and equipments from			
— Group entities under Hisense Group		**3,549**	—
Purchase of mould from			
— Group entities under Hisense Group		**17**	—
Service fee charged from			
— Group entities under Hisense Group		**25,295**	34,269
— Jointly controlled entities		**—**	1,193
— Other related companies		**20,100**	19,340
— Associates		**6**	—
Loan interest to	*(iii)*		
— Group entities under Hisense Group		**40,252**	24,912
Loan and notes payables guarantee provided by Hisense Group			
— amount as at 31 December		**940,420**	1,666,760
Dividends received from a related party	*25(a)*		
— Group entities under Hisense Group		**2,508**	—
Interest income from			
— Group entities under Hisense Group		**302**	58

41. RELATED PARTY *(continued)*

II. Transactions with related parties *(continued)*

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

(ii) It mainly represented purchase of compressors from Huayi and Jiaxibeila for production of refrigerators.

(iii) 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. Balances with related parties

(a) Balances with group entities under Hisense Group

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Trade and other receivables	**178,813**	122,777	453,072
Trade and other payables	**43,134**	51,673	215,186
Cash and cash equivalents	**184,476**	12,873	—
Borrowings	**592,510**	1,118,760	500,000

Trade receivables and trade payables are unsecured, interest-free and are repayable in accordance with normal commercial terms.

Other receivables and other payables are unsecured, interest-free and repayable on demand.

Cash and cash equivalents are unsecured, interest-bearing and are in accordance with normal commercial terms.

Borrowings are guaranteed by Hisense Group and bear interest at a rate of 4.779% to 5.004% per annum (31 December 2009: 4.779% and 1 January 2009: 4.779%) and are repayable within one year.

(b) Balances with associates

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Trade and other receivables	**48**	—	5
Trade and other payables	**137,462**	104,607	62,020

Trade receivables and trade payables are unsecured, interest-free and are repayable in accordance with normal commercial terms.

Other receivables and other payables are unsecured, interest-free and repayable on demand.

41. RELATED PARTY *(continued)*

III. Balances with related parties *(continued)*

(c) Balances with jointly controlled entities

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Trade and other receivables	**6,503**	2,199	—
Trade and other payables	**150,034**	53,140	459

Trade receivables and trade payables are unsecured, interest-free and are repayable in accordance with normal commercial terms.

Other receivables and other payables are unsecured, interest-free and repayable on demand.

(d) Balances with other related companies

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Trade and other receivables	**2,500**	—	6,596
Trade and other payables	**19,172**	18,322	25,816

Trade receivables and trade payables are unsecured, interest-free and are repayable in accordance with normal commercial terms.

Other receivables and other payables are unsecured, interest-free and repayable on demand.

IV. Transaction with other state-owned entities in the PRC

The Group operates in an economic environment predominated by entities directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organizations (collectively "State-owned Entities"). During the year, the Group had transactions with State-owned Entities including, but not limited to, the sales of goods, purchases of goods, purchases of items of property, plant and equipment and making deposits with financial institutions.

The directors considered that the transactions with other State-owned Entities were conducted in the ordinary course of the Group's business, and that the dealings of the Group were not significantly or unduly affected by the fact that the Group and those State-owned Entities are ultimately controlled or owned by the PRC government. The Group has established pricing policies for products and services, and these pricing policies do not depend on whether or not the customers are State-owned Entities. The directors confirmed that these transactions were carried out on terms similar to those that would be entered into with non-State-owned Entities and have been reflected in the financial statements. Having due regard to the substance of the relationships, the directors of the Company are of the opinion that none of these transactions are material related party transactions that require separate disclosures.

41. RELATED PARTY *(continued)*

V. Key management personnel emoluments

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 (2009: 19 individuals).

	2010	2009
	RMB'000	*RMB'000*
Basic salaries, allowances and benefits-in-kind	**4,507**	4,700
Defined contribution pension costs	**86**	44
	4,593	4,744

These emoluments are included in staff costs (Note 13).

42. FAIR VALUE HIERARCHY

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.

As at 31 December 2010, 2009 and 1 January 2009, the Group's derivative financial instruments (Note 31) are measured at fair value, which is determined by valuation techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly. (i.e. Level 2 fair value hierarchy as defined by IFRS 7).

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Liquidity risk
- Interest rate risk
- Currency risk

Credit risk

It is the risk that a counterparty is unable to pay amount in full when due. It arises primarily from the bank balances, trade and other receivables and derivative financial instruments.

The Group maintains substantially all of its bank balances in several major state-owned financial institutions in the PRC. With strong PRC government support provided to these state-owned financial institutions, the directors of the Company are of the opinion that there is no significant credit risk on such assets being exposed to losses.

The Group mitigates its exposure to risk relating to trade and other receivables 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.

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

Credit risk *(continued)*

During the year, none of the revenue from any single customer or any group of customers had accounted for over 10% of the Group's total revenue. The Group strives to diversify its business base to ensure that there are no significant concentrations of credit risk.

The credit risk on derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

None of the Group's financial assets are secured by collateral or other credit enhancements. 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.

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. As with 2009, all of the debts of the Group would mature in less than one year as at 31 December 2010.

The Group is exposed to liquidity risk as the Group recorded net current liabilities of approximately RMB2,259,000,000 (2009 (restated): RMB2,807,000,000) at the end of reporting period. In order to mitigate the liquidity risk, the directors have carried out a detailed review of the liquidity of the Group, including maturity profile of its trade and other payables, borrowings and availability of loan financing provided by Hisense Finance and future renewal of bank borrowings, it is concluded that adequate funding is available to fulfil the Group's short-term obligations and capital expenditure requirements.

The contractual maturities of financial liabilities are shown as below:

As 31 December 2010	**Carrying amount**	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**
	RMB'000	*RMB'000*	*RMB'000*
Non-derivatives:			
Trade and other payables	**4,707,045**	**4,707,045**	**4,707,045**
Other liabilities	**35,037**	**35,037**	**35,037**
Borrowings and interest expenses	**1,101,262**	**1,130,197**	**1,130,197**
	5,843,344	**5,872,279**	**5,872,279**
Derivatives:			
Other financial liabilities	**5,960**	**5,960**	**5,960**
As at 31 December 2009 (restated)			
Non-derivatives:			
Trade and other payables	3,499,924	3,499,924	3,499,924
Other liabilities	34,385	34,385	34,385
Borrowings and interest expenses	1,450,873	1,501,837	1,501,837
	4,985,182	5,036,146	5,036,146
Derivatives:			
Other financial liabilities	1,040	1,040	1,040

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

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 2010, the Group's short-term bank borrowings were at fixed rate and expose the Group to fair value interest rate risk. As all the Group's borrowings were short term loans, any change in the interest rate from time to time is not considered to have significant impact to the Group's performance.

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 Group 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 2010 and 2009.

	2010	2009
	Effect on profit after income tax expense	Effect on profit after income tax expense
	RMB'000	*RMB'000*
		(restated)
Increase by 100 basis points	**2,000**	1,000
Decrease by 100 basis points	**(2,000)**	(1,000)

Currency risk

Currency 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, JPY and Euro. The exchange rates between RMB, USD, JPY and Euro are not pegged, and there is fluctuation of exchange rates between RMB, USD, JPY and Euro.

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:

	31 December 2010		31 December 2009	
	Asset	**Liabilities**	Asset	Liabilities
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
			(restated)	(restated)
USD	**663,067**	**490,664**	343,349	281,698
Euro	**39,632**	**12,306**	20,702	7,275
JPY	**8**	**—**	3,702	—

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

Currency risk *(continued)*

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

Sensitivity analysis — changes in exchange rate

	2010 Effect on profit after income tax expense *RMB'000*	2009 Effect on profit after income tax expense *RMB'000* (restated)
USD to RMB		
Appreciates by 4% (2009: 4%)	**5,172**	1,850
Depreciates by 4% (2009: 4%)	**(5,172)**	(1,850)
Euro to RMB		
Appreciates by 8% (2009: 8%)	**1,640**	806
Depreciates by 8% (2009: 8%)	**(1,640)**	(806)
JPY to RMB		
Appreciates by 7% (2009: 7%)	**—**	194
Depreciates by 7% (2009: 7%)	**—**	(194)

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

Sensitivity analysis — changes in forward rate

	2010 Effect on profit after income tax expense *RMB'000*	2009 Effect on profit after income tax expense *RMB'000*
USD to RMB		
Appreciates by 4% (2009: 4%)	**(72,823)**	(8,317)
Depreciates by 4% (2009: 4%)	**72,823**	8,317
USD to Euro		
Appreciates by 10% (2009: 10%)	**(1,305)**	—
Depreciates by 10% (2009: 10%)	**1,305**	—
Euro to RMB		
Appreciates by 8% (2009: 8%)	**(7,663)**	(3,086)
Depreciates by 8% (2009: 8%)	**7,663**	3,086
AUD to RMB		
Appreciates by 12% (2009: 12%)	**(7,952)**	(2,269)
Depreciates by 12% (2009: 12%)	**7,952**	2,269

44. DISPOSAL AND DEREGISTRATION OF SUBSIDIARIES

(a) On 30 January 2010, the Group disposed of its 100% shareholding in a subsidiary, Wuhu Ecan, for a cash consideration of approximately RMB11,638,000. A gain on disposal amounting to RMB8,165,000 was recognised in profit or loss for the year ended 31 December 2010.

Details of the identifiable assets and liabilities disposed that are included in a disposal group classified as held for sale (see Note 32) and the sales consideration are as follows:

	2010
	RMB'000
Sales proceeds	**11,638**
Net book value of net assets disposed of	**(3,473)**
Gain on disposal of Wuhu Ecan	**8,165**

Details of the assets and liabilities disposed of are as follows:

	RMB'000
Property, plant and equipment	**12,305**
Payment for leasehold land held for own use under operating lease	**2,596**
Trade and other receivables	**9,241**
Inventories	**5,077**
Cash and cash equivalents	**54**
Trade and other payables	**(25,800)**
	3,473

Net cash inflow arising from disposal	***RMB'000***
— Cash consideration	**11,638**
— Cash and cash equivalents disposed of	**(54)**
	11,584

(b) On 20 April 2010, Kelon Electrical Appliances Co., Ltd., a wholly owned subsidiary of the Group, completed the procedures of voluntary winding-up in accordance with Hong Kong Companies Ordinance. A loss of approximately RMB1,009,000, representing write off of uncollectible debts, was recognised in profit or loss for the year ended 31 December 2010 as a result of the deregistration.

(c) In November and December 2010, three non-wholly owned subsidiaries of the Group, Beijing Hengsheng Xin Chuang Technology Company Limited, Beijing Tiandi IT Network Limited and Beijing Kelon Shikong Information Technology Company Limited were deregistered. As they were dormant up to the date of deregistration, there is no material impact on the Group's financial statements. A gain of approximately RMB6,284,000 were recognised in profit or loss for the year ended 31 December 2010 as a result of the deregistration.

44. DISPOSAL AND DEREGISTRATION OF SUBSIDIARIES *(continued)*

(d) On 26 June 2009, the Group disposed of its 95% and 100% equity interests in Hisense Plastic and Hisense Haiping respectively for an aggregate consideration of RMB1,879,000. A gain on disposal of RMB2,148,000 was recognised in profit or loss for the year ended 31 December 2009.

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

	2009 *RMB'000*
Sales proceeds	1,879
Net book value of net liabilities disposed	269
Gain on disposal of Hisense Plastic and Hisense Haiping	2,148

(e) 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)

45. NOTES SUPPORTING THE CONSOLIDATED STATEMENT OF CASH FLOWS

	2010	2009
	RMB'000	*RMB'000*
		(restated)
Cash and cash equivalents	**419,921**	201,183
Cash and cash equivalents included in a disposal group classified as held for sale *(Note 32)*	—	54
	419,921	201,237

Significant non-cash transactions are as follows:

	2010	2009
	RMB'000	*RMB'000*
		(restated)
Investing activities		
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	**95,470**	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
	95,470	108,152

46. CAPITAL COMMITMENTS

	As at 31 December		As at 1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
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
Commitments for the acquisition of property, plant and equipment in subsidiaries:			
— Contracted for but not provided	**251,821**	101,187	125,826
	251,821	347,300	538,285

47. 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 RMB105,018,000 (2009 (restated): RMB92,461,000) represents contributions to the scheme by the Group at rates specified in the rules of the scheme.

48. CONTINGENT LIABILITIES

The Group is a defendant in certain lawsuits as well as the plaintiff in other proceedings arising in the ordinary course of business. The amounts involved in the litigations against the Group mainly relate to 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.

49. IMMEDIATE HOLDING AND ULTIMATE HOLDING COMPANY

As at 31 December 2010, the directors considered the immediate holding company and ultimate holding company of the Company to be Hisense Air-Conditioning and Hisense Group respectively, which were incorporated in the PRC. These entities do not produce financial statements available for public use.

50. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 March 2011.

DIFFERENCES BETWEEN IFRS AND CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES ("CASBE") AS APPLICABLE TO THE GROUP

The equity attributable to owners of the Company prepared under IFRS and that prepared under CASBE have the following major differences:

	31 December 2010 *RMB'000*	31 December 2009 *RMB'000* (restated)
Equity attributable to owners of the Company as per consolidated financial statements prepared under IFRS	**500,623**	(117,557)
Adjustment on restructuring costs expensed	**—**	30,663
Adjustment on dilution loss on share reform of an associate	**7,444**	16,317
Adjustment on amortisation of trademark	**(16,712)**	(16,712)
Adjustment on acquisition of Hisense Hitachi under acquisition accounting	**49,886**	(179,457)
Equity attributable to owners of the Company as per consolidated financial statements prepared under CASBE	**541,241**	(266,746)

The consolidated net profit attributable to owners of the Company prepared under IFRS and that prepared under CASBE have the following major differences:

	2010 *RMB'000*	2009 *RMB'000* (restated)
Net profit attributable to owners of the Company as per consolidated financial statements prepared under IFRS	**632,354**	207,830
Adjustment on restructuring costs expensed	**(30,663)**	13,786
Adjustment on share of results of Hisense Hitachi under acquisition accounting	**(19,969)**	(65,167)
Adjustment on dilution loss on share reform of an associate upon partial disposal of an associate	**(8,873)**	—
Adjustment on negative goodwill upon disposal of a subsidiary	**12,429**	—
Net profit attributable to owners of the Company as per consolidated financial statements prepared under CASBE	**585,278**	156,449

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

Five Years Summary

	Year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(restated)	(restated)	(restated)	(restated)
			(unaudited)	(unaudited)	(unaudited)
RESULT					
Turnover	**15,810,762**	11,934,255	12,075,508	13,153,892	9,784,731
Profit/(loss) before share of results of associates and jointly controlled entities	**578,008**	178,173	(238,044)	389,640	164,216
Share of results of associates	**2,370**	16,057	4,197	2,247	3,590
Share of results of jointly controlled entities	**94,406**	53,466	43,148	32,643	15,589
Profit/(loss) before income tax	**674,784**	247,696	(190,699)	424,530	183,395
Income tax (expense)/credit	**(31,588)**	(23,292)	2,214	(62,817)	(22,715)
Profit/(loss) for the year	**643,196**	224,404	(188,485)	361,713	160,680
Attributable to:					
Owners of the Company	**632,354**	207,830	(195,357)	355,883	166,629
Non-controlling interests	**10,842**	16,574	6,872	5,830	(5,949)
	643,196	224,404	(188,485)	361,713	160,680
Dividends	**—**	—	—	—	—

	As at 31 December				
	2010	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(restated)	(restated)	(restated)	(restated)
				(unaudited)	(unaudited)
ASSETS AND LIABILITIES					
Total assets	**8,178,779**	6,105,095	5,881,357	6,815,072	6,797,698
Total liabilities	**(7,308,450)**	(5,845,136)	(5,834,062)	(6,575,334)	(6,793,766)
Net assets	**870,329**	259,959	47,295	239,738	3,932
Capital and reserves attributable to owners of the Company	**500,623**	(117,557)	(318,416)	(122,555)	(391,853)
Non-controlling interests	**369,706**	377,516	365,711	362,293	395,785
Total equity	**870,329**	259,959	47,295	239,738	3,932