

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



INTERIM REPORT **2011**

The Board of Directors (the "Board") of Hisense Kelon Electrical Holdings Company Limited (the "Company") hereby announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2011 (the "Reporting Period") together with comparative figures for the corresponding period in 2010 (prepared in accordance with China Accounting Standards for Business Enterprises). This interim report has been reviewed by the Company's Audit Committee.

The Board of Directors of the Company announced on 13 July 2011 that the Company intends to prepare only one set of financial statements for any financial period commencing on or after 1 January 2011 under China Accounting Standards for Business Enterprises ("China Accounting Standards") in light of the acceptance by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") of matters in relation to the adoption of Mainland accounting and auditing standards and the appointment of Mainland audit firms. The following financial report is prepared in accordance with China Accounting Standards.

BALANCE SHEET

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Assets	30 June 2011		31 December 2010	
	Consolidation	Company	Consolidation	Company
Current assets:				
Cash and cash equivalence	321,731,706.56	67,856,576.14	429,182,477.81	163,407,687.61
Financial assets held for trading	15,486,182.72	—	28,150,388.56	—
Notes receivable	756,466,015.18	706,582,316.50	385,982,498.33	311,687,276.84
Accounts receivable	1,980,721,708.88	966,518,064.21	1,354,284,204.38	560,693,424.99
Prepayments	309,732,053.06	447,603,382.53	358,298,915.72	718,774,896.94
Interests receivable	—	—	—	—
Dividends receivable	—	3,919,477.01	—	3,919,477.01
Others receivables	445,080,918.52	1,053,914,106.86	383,163,557.93	938,338,745.24
Inventories	2,074,255,461.63	1,469,975,312.98	1,903,101,598.65	1,052,606,642.74
Non-current assets due within one year	—	—	—	—
Other current assets	6,458,556.11	5,231,816.03	6,554,042.83	6,163,532.08
Total current assets	5,909,932,602.66	4,721,601,052.26	4,848,717,684.21	3,755,591,683.45
Non-current assets:				
Available-for-sale fixed assets	—	—	—	—
Held-to-maturity investments	—	—	—	—
Long-term receivable	—	—	—	—
Long-term equity investments	564,722,692.44	3,108,379,127.47	570,013,226.88	3,113,669,661.91
Investment properties	39,244,815.10	17,331,904.00	40,599,871.77	18,157,786.00
Fixed assets	1,842,005,941.64	230,580,679.99	1,852,388,292.88	250,115,718.90
Construction in progress	213,303,976.32	—	166,835,913.79	—
Construction materials	—	—	—	—
Disposal of fixed assets	231,676.08	—	134,981.60	—
Productive biological assets	—	—	—	—
Intangible assets	528,976,540.75	240,801,107.00	533,088,958.15	246,111,268.00
Development costs	—	—	—	—
Goodwill	—	—	—	—
Long term deferred expenses	785,668.58	—	296,766.66	—
Deferred income tax assets	5,894,309.76	—	6,893,223.90	—
Other non-current assets	—	—	—	—
Total non-current assets	3,195,165,620.67	3,597,092,818.46	3,170,251,235.63	3,628,054,434.81
Total assets	9,105,098,223.33	8,318,693,870.72	8,018,968,919.84	7,383,646,118.26

Company legal representative: Tang Ye Guo

Principal in charge of accounting, Principal of the accounting department: Liu Chun Xin

BALANCE SHEET — Continued

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Liabilities and Shareholders' equity	30 June 2011		31 December 2010	
	Consolidation	Company	Consolidation	Company
Current liabilities:				
Short-term borrowings	1,231,033,498.27	417,500,000.00	1,101,261,835.85	322,510,000.00
Financial liabilities held for trading	—	—	5,960,727.44	—
Notes payable	412,736,800.00	316,856,800.00	810,263,300.00	631,293,300.00
Accounts payable	3,471,428,026.12	2,039,266,741.66	2,385,166,608.32	1,411,380,569.78
Advances from customers	578,779,893.31	462,330,755.24	950,206,943.91	847,068,726.11
Employee remunerations payable	197,270,333.19	92,548,784.03	185,256,825.01	80,869,458.30
Taxes payable	(221,947,239.65)	(85,163,605.04)	(209,997,869.00)	(39,146,016.26)
Interests payable	1,175,140.00	602,575.00	2,065,066.74	487,273.35
Dividends payable	7,098,911.85	—	3,208,911.85	—
Other payables	1,385,225,747.71	2,304,959,045.42	1,109,408,607.20	1,851,337,563.45
Non-current liabilities due within one year	—	—	—	—
Other current liabilities	540,172,131.78	383,462,816.26	483,383,088.08	324,485,898.53
Total Current Liabilities	7,602,973,242.58	5,932,363,912.57	6,826,184,045.40	5,430,286,773.26
Non-current liabilities:				
Long-term loans	—	—	—	—
Bonds payable	—	—	—	—
Long-term payable	—	—	—	—
Specific payables	—	—	—	—
Provisions	275,243,972.27	252,420,863.31	246,800,154.13	222,858,828.35
Deferred income tax liabilities	—	—	—	—
Other non-current liabilities	41,206,492.13	26,427,298.90	35,036,851.38	26,558,788.90
Total Non-current liabilities	316,450,464.40	278,848,162.21	281,837,005.51	249,417,617.25
Total liabilities	7,919,423,706.98	6,211,212,074.78	7,108,021,050.91	5,679,704,390.51
Equity:				
Share capital	1,354,054,750.00	1,354,054,750.00	1,354,054,750.00	1,354,054,750.00
Capital reserve	2,050,701,299.23	2,249,548,756.70	2,053,683,491.30	2,252,530,948.77
Less: Treasury shares	—	—	—	—
Surplus reserves	145,189,526.48	114,580,901.49	145,189,526.48	114,580,901.49
Accumulated losses	(2,758,333,085.09)	(1,610,702,612.25)	(3,044,171,810.12)	(2,017,224,872.51)
Foreign exchange reserve	33,455,619.51	—	32,485,452.41	—
Equity attributable to equity holders				
of company	825,068,110.13	2,107,481,795.94	541,241,410.07	1,703,941,727.75
Minority Interests	360,606,406.22	—	369,706,458.86	—
Total equity	1,185,674,516.35	2,107,481,795.94	910,947,868.93	1,703,941,727.75
Total liabilities and equity	9,105,098,223.33	8,318,693,870.72	8,018,968,919.84	7,383,646,118.26

Company legal representative: Tang Ye Guo

Principal in charge of accounting, Principal of the accounting department: Liu Chun Xin

INCOME STATEMENT

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Items	January to June 2011		January to June 2010	
	Consolidation	Company	Consolidation	Company
1. Total operating income	10,734,908,708.73	6,369,521,242.32	9,517,014,559.29	4,579,882,532.51
Including: Operating income	10,734,908,708.73	6,369,521,242.32	9,517,014,559.29	4,579,882,532.51
2. Total operating costs	10,652,649,458.81	6,164,580,480.44	9,410,941,959.52	4,595,553,601.31
Including: Operating costs	8,910,556,396.46	5,048,080,806.36	7,934,695,517.30	3,859,333,658.99
Business taxes and surcharges	26,603,072.03	19,162,583.18	10,887,638.98	797,468.84
Sales expenses	1,399,644,377.22	1,037,062,926.62	1,177,640,351.63	680,131,971.35
Administrative expenses	275,034,094.98	25,460,035.73	233,332,861.45	21,932,806.06
Financial expenses	28,526,360.55	21,122,321.51	52,681,636.69	15,795,164.55
Impairment losses on assets	12,285,157.57	13,691,807.04	1,703,953.47	17,562,531.52
Add: Gain from Changes in fair value	(6,703,478.40)	—	15,370,486.55	—
Investment profit	99,396,120.11	95,419,511.90	108,563,239.76	106,683,805.99
Including: Investment income from associates and joint ventures	36,258,657.14	36,258,657.14	20,535,484.78	20,535,484.78
Exchange gains	—	—	—	—
3. Operating profits	174,951,891.63	300,360,273.78	230,006,326.08	91,012,737.19
Add: Non-operating revenue	126,379,617.61	108,526,644.95	145,124,377.66	102,127,153.91
Less: Non-operating expenses	8,964,553.03	2,364,658.47	11,078,351.13	6,790,523.77
Including: Losses on disposal of non-current assets	2,641,645.91	—	2,283,221.27	—
4. Total profit	292,366,956.21	406,522,260.26	364,052,352.61	186,349,367.33
Less: Income tax expense	7,688,210.00	—	16,097,373.91	—
5. Net profit	284,678,746.21	406,522,260.26	347,954,978.70	186,349,367.33
Net profit attributable to the holders of the company	285,838,725.03	406,522,260.26	329,391,467.91	186,349,367.33
Minority interests	(1,159,978.82)	—	18,563,510.79	—
6. Earnings per share				
(1) Basic earnings per share	0.2111		0.2481	
(2) Diluted earnings per share	0.2111		0.2481	
7. Other comprehensive income	(2,012,024.97)	(2,982,192.07)	1,175,465.49	(13,518.79)
8. Total comprehensive income	282,666,721.24	403,540,068.19	349,130,444.19	186,335,848.54
Total comprehensive income attributable to the holders of the company	283,826,700.06	403,540,068.19	330,566,933.40	186,335,848.54
Total comprehensive income attributable to minority interests	(1,159,978.82)	—	18,563,510.79	—

Company legal representative: Tang Ye Guo

Principal in charge of accounting, Principal of the accounting department: Liu Chun Xin

CASH FLOW STATEMENT

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Items	January to June 2011		January to June 2010	
	Consolidation	Company	Consolidation	Company
1. Cash flows from operating activities:				
Cash received from sales of goods and rendering of services	4,199,124,881.12	807,229,973.31	3,310,954,078.73	741,257,557.18
Refund of tax and levies	314,179,476.08	8,057.69	220,238,169.98	—
Cash received from other operation activities	200,707,785.42	1,969,316,412.68	244,537,387.66	1,342,701,924.69
Sub-total of cash inflows from operating activities	4,714,012,142.62	2,776,554,443.68	3,775,729,636.37	2,083,959,481.87
Cash paid for purchases of goods and services	2,977,160,818.86	1,708,840,613.90	1,837,824,006.33	851,408,122.01
Cash paid to and on behalf of employees	679,378,431.16	268,807,606.79	581,268,897.82	159,540,893.12
Tax paid	304,128,095.97	176,259,944.14	236,905,602.51	95,707,360.40
Cash paid for other operation activities	888,778,717.03	900,981,122.33	749,822,884.12	995,598,018.16
Sub-total of cash outflows from operating activities	4,849,446,063.02	3,054,889,287.16	3,405,821,390.78	2,102,254,393.69
Net cash flows from operating activities	(135,433,920.40)	(278,334,843.48)	369,908,245.59	(18,294,911.82)
2. Cash flows from investing activities:				
Cash received from investment returns	84,404,301.37	84,404,301.37	93,607,408.14	93,607,408.14
Cash received from investment revenues	3,534,000.00	13,323,552.90	2,508,000.00	2,508,000.00
Net Cash received from disposals of fixed assets, intangible assets and other long-term assets	467,428.73	18,094.00	747,755.98	16,140.00
Net Cash received from disposals of subsidiaries and other operation units	—	—	11,907,879.77	11,907,879.77
Other cash received from investing activities	—	—	24,500,000.00	24,500,000.00
Sub-total of cash inflows from investing activities	88,405,730.10	97,745,948.27	133,271,043.89	132,539,427.91
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	145,554,269.74	1,319,525.10	152,541,240.96	19,025,937.74
Cash paid for investments	—	—	—	—
Cash paid for obtaining subsidiaries and other operation units	—	—	—	—
Cash paid for other investing activities	—	—	—	—
Sub-total of cash outflows from investing activities	145,554,269.74	1,319,525.10	152,541,240.96	19,025,937.74
Net cash flows from investing activities	(57,148,539.64)	96,426,423.17	(19,270,197.07)	113,513,490.17
3. Cash flow from financing activities:				
Cash received from borrowings	—	—	—	—
Including: Cash contribution from minority shareholders' investment by subsidiaries	—	—	—	—
Cash received from borrowings	1,433,524,115.05	350,000,000.00	623,305,532.69	35,010,000.00
Cash received from issue of bonds	—	—	—	—
Increase in policyholder deposits and investments	—	—	—	—
Other cash received from financing activities	8,118,917.24	—	—	—
Sub-total of cash inflows from financing activities	1,441,643,032.29	350,000,000.00	623,305,532.69	35,010,000.00
Cash paid for repayment of borrowings	1,329,845,434.25	255,074,400.00	771,534,666.26	85,010,000.00
Cash paid for distribution of dividends, profit or interest expenses	18,546,992.01	8,568,291.16	29,863,189.05	10,062,310.58
Including: dividend and profit paid to minority shareholders by subsidiaries	—	—	—	—
Cash paid for other financial activities	—	—	258,067.54	—
Sub-total of cash outflows from financing activities	1,348,392,426.26	263,642,691.16	801,655,922.85	95,072,310.58
Net cash flows from financing activities	93,250,606.03	86,357,308.84	(178,350,390.16)	(60,062,310.58)
4. Effects of foreign exchange rate changes on cash	—	—	—	—
5. Net increase in cash and cash equivalents	(99,331,854.01)	(95,551,111.47)	172,287,658.36	35,156,267.77
Add: Balance of cash and cash equivalents at the beginning of the period	419,921,513.93	163,407,687.61	201,236,412.22	42,116,663.45
Balance of cash and cash equivalents at the end of the period	320,589,659.92	67,856,576.14	373,524,070.58	77,272,931.22

Company legal representative: Tang Ye Guo

Principal in charge of accounting, Principal of the accounting department: Liu Chun Xin

CONSOLIDATED STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

January to June 2011

Items	Equity attributable to the shareholders of the company						Others (Exchange difference on foreign currency translation)	Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Less: Treasury share	Surplus reserve	Undistributed profit				
1. Closing Balance of previous year	1,354,054,750.00	2,053,683,491.30	—	145,189,526.48	(3,044,171,810.12)	32,485,452.41	369,706,458.86	910,947,868.93	
Add: Changes of accounting policies	—	—	—	—	—	—	—	—	
Correction for error in previous period	—	—	—	—	—	—	—	—	
Others									
2. Opening balance of the year	1,354,054,750.00	2,053,683,491.30	—	145,189,526.48	(3,044,171,810.12)	32,485,452.41	369,706,458.86	910,947,868.93	
3. Changes in amounts in the year	—	(2,982,192.07)	—	—	285,838,725.03	970,167.10	(9,100,052.64)	274,726,647.42	
(1) Net Profit	—	—	—	—	285,838,725.03	—	(1,159,978.82)	284,678,746.21	
(2) Gains and losses directly accounted for as shareholders' equity	—	(2,982,192.07)	—	—	—	970,167.10	—	(2,012,024.97)	
1. Net changes in fair value of available-for-sale financial assets	—	—	—	—	—	—	—	—	
2. Effect of changes of other owners' equity in investee under equity method	—	—	—	—	—	—	—	—	
3. Income tax effect related to items included in shareholders' equity	—	—	—	—	—	—	—	—	
4. Others	—	(2,982,192.07)	—	—	—	970,167.10	—	(2,012,024.97)	
Sub-total of (1) and (2) above	—	(2,982,192.07)	—	—	285,838,725.03	970,167.10	(1,159,978.82)	282,666,721.24	
(3) Equity holder contributions and capital reductions	—	—	—	—	—	—	—	—	
1. Equity holder contributions	—	—	—	—	—	—	—	—	
2. Amount of share-based payment included in equity	—	—	—	—	—	—	—	—	
3. Others	—	—	—	—	—	—	—	—	
(4) Profit Appropriation	—	—	—	—	—	—	(7,940,073.82)	(7,940,073.82)	
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—	
2. Distribution to shareholders	—	—	—	—	—	—	(7,940,073.82)	(7,940,073.82)	
3. Others	—	—	—	—	—	—	—	—	
(5) Internal transfer of shareholders' equity	—	—	—	—	—	—	—	—	
1. Transfer to share capital from capital reserve	—	—	—	—	—	—	—	—	
2. Transfer to share capital from surplus reserve	—	—	—	—	—	—	—	—	
3. Compensation of losses by surplus reserve	—	—	—	—	—	—	—	—	
4. Others	—	—	—	—	—	—	—	—	
4. Closing balance of the year	1,354,054,750.00	2,050,701,299.23	—	145,189,526.48	(2,758,333,085.09)	33,455,619.51	360,606,406.22	1,185,674,516.35	

Company legal representative: Tang Ye Guo

Principal in charge of accounting, Principal of the accounting department: Liu Chun Xin

CONSOLIDATED STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY — *Continued*

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Items	January to June 2010							
	Equity attributable to the shareholders of the company							
	Share capital	Capital reserve	Less: Treasury share	Surplus reserve	Undistributed profit	Others (Exchange difference on foreign currency translation)	Minority interests	Total shareholders' equity
1. Closing Balance of previous year	992,006,563.00	1,539,131,897.13	—	114,580,901.49	(3,524,065,439.85)	30,131,845.70	147,108,387.17	(701,105,845.36)
Add: Changes of accounting policies	—	—	—	—	—	—	—	—
Correction for error in previous period	—	—	—	—	—	—	—	—
Others	—	629,790,351.05	—	—	(73,534,566.43)	—	230,407,943.23	786,663,727.85
2. Opening balance of the year	992,006,563.00	2,168,922,248.18	—	114,580,901.49	(3,597,600,006.28)	30,131,845.70	377,516,330.40	85,557,882.49
3. Changes in amounts in the year	362,048,187.00	(147,578,528.21)	—	—	329,391,467.91	1,188,984.28	7,195,598.69	552,245,709.67
(1) Net Profit	—	—	—	—	329,391,467.91	—	18,563,510.79	347,954,978.70
(2) Gains and losses directly accounted for as shareholders' equity	—	(13,518.79)	—	—	—	1,188,984.28	—	1,175,465.49
1. Net changes in fair value of available-for-sale financial assets	—	—	—	—	—	—	—	—
2. Effect of changes of other owners' equity in investee under equity method	—	(13,518.79)	—	—	—	—	—	(13,518.79)
3. Income tax effect related to items included in shareholders' equity	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	1,188,984.28	—	1,188,984.28
Sub-total of (1) and (2) above	—	(13,518.79)	—	—	329,391,467.91	1,188,984.28	18,563,510.79	349,130,444.19
(3) Equity holder contributions and capital reductions	362,048,187.00	(147,565,009.42)	—	—	—	—	—	214,483,177.58
1. Equity holder contributions	362,048,187.00	(146,782,284.11)	—	—	—	—	—	215,265,902.89
2. Amount of share-based payment included in equity	—	—	—	—	—	—	—	—
3. Others	—	(782,725.31)	—	—	—	—	—	(782,725.31)
(4) Profit Appropriation	—	—	—	—	—	—	(11,367,912.10)	(11,367,912.10)
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	(11,367,912.10)	(11,367,912.10)
(5) Internal transfer of shareholders' equity	—	—	—	—	—	—	—	—
1. Transfer to share capital from capital reserve	—	—	—	—	—	—	—	—
2. Transfer to share capital from surplus reserve	—	—	—	—	—	—	—	—
3. Compensation of losses by surplus reserve	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
4. Closing balance of the year	1,354,054,750.00	2,021,343,719.97	—	114,580,901.49	(3,268,208,538.37)	31,320,829.98	384,711,929.09	637,803,592.16

Company legal representative: Tang Ye Guo

Principal in charge of accounting, Principal of the accounting department: Liu Chun Xin

STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY (PARENT COMPANY) — Continued

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Items	January to June 2011							Total shareholders' equity
	Equity attributable to the shareholders of the company							
	Share capital	Capital reserve	Less: Treasury share	Surplus reserve	Undistributed profit	Others	Minority interests	
1. Closing Balance of previous year	1,354,054,750.00	2,252,530,948.77	—	114,580,901.49	(2,017,224,872.51)	—	—	1,703,941,727.75
Add: Changes of accounting policies	—	—	—	—	—	—	—	—
Correction for error in previous period	—	—	—	—	—	—	—	—
2. Opening balance of the year	1,354,054,750.00	2,252,530,948.77	—	114,580,901.49	(2,017,224,872.51)	—	—	1,703,941,727.75
3. Changes in amounts in the year	—	(2,982,192.07)	—	—	406,522,260.26	—	—	403,540,068.19
(1) Net Profit	—	—	—	—	406,522,260.26	—	—	406,522,260.26
(2) Gains and losses directly accounted for as shareholders' equity	—	(2,982,192.07)	—	—	—	—	—	(2,982,192.07)
1. Net changes in fair value of available-for-sale financial assets	—	—	—	—	—	—	—	—
2. Effect of changes of other owners' equity in investee under equity method	—	—	—	—	—	—	—	—
3. Income tax effect related to items included in shareholders' equity	—	—	—	—	—	—	—	—
4. Others	—	(2,982,192.07)	—	—	—	—	—	(2,982,192.07)
Sub-total of (1) and (2) above	—	(2,982,192.07)	—	—	406,522,260.26	—	—	403,540,068.19
(3) Equity holder contributions and capital reductions	—	—	—	—	—	—	—	—
1. Equity holder contributions	—	—	—	—	—	—	—	—
2. Amount of share-based payment included in equity	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(4) Profit Appropriation	—	—	—	—	—	—	—	—
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(5) Internal transfer of shareholders' equity	—	—	—	—	—	—	—	—
1. Transfer to share capital from capital reserve	—	—	—	—	—	—	—	—
2. Transfer to share capital from surplus reserve	—	—	—	—	—	—	—	—
3. Compensation of losses by surplus reserve	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
4. Closing balance of the year	1,354,054,750.00	2,249,548,756.70	—	114,580,901.49	(1,610,702,612.25)	—	—	2,107,481,795.94

Company legal representative: Tang Ye Guo

Principal in charge of accounting, Principal of the accounting department: Liu Chun Xin

STATEMENT OF CHANGES OF SHAREHOLDERS' EQUITY (PARENT COMPANY) — Continued

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

January to June 2010

Items	Equity attributable to the shareholders of the company						Total shareholders' equity
	Share capital	Capital reserve	Less: Treasury share	Surplus reserve	Undistributed profit	Others	
1. Closing Balance of previous year	992,006,563.00	1,723,080,890.63	—	114,580,901.49	(2,629,616,262.99)	—	200,052,092.13
Add: Changes of accounting policies	—	—	—	—	—	—	—
Correction for error in previous period	—	—	—	—	—	—	—
2. Opening balance of the year	992,006,563.00	1,723,080,890.63	—	114,580,901.49	(2,629,616,262.99)	—	200,052,092.13
3. Changes in amounts in the year	362,048,187.00	523,561,322.06	—	—	186,349,367.33	—	1,071,958,876.39
(1) Net Profit	—	—	—	—	186,349,367.33	—	186,349,367.33
(2) Gains and losses directly accounted for as shareholders' equity	—	—	—	—	—	—	—
1. Net changes in fair value of available-for-sale financial assets	—	—	—	—	—	—	—
2. Effect of changes of other owners' equity in investee under equity method	—	—	—	—	—	—	—
3. Income tax effect related to items included in shareholders' equity	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
Sub-total of (1) and (2) above	—	—	—	—	186,349,367.33	—	186,349,367.33
(3) Equity holder contributions and capital reductions	362,048,187.00	523,561,322.06	—	—	—	—	885,609,509.06
1. Equity holder contributions	362,048,187.00	523,561,322.06	—	—	—	—	885,609,509.06
2. Amount of share-based payment included in equity	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—
(4) Profit Appropriation	—	—	—	—	—	—	—
1. Appropriations to surplus reserve	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—
(5) Internal transfer of shareholders' equity	—	—	—	—	—	—	—
1. Transfer to share capital from capital reserve	—	—	—	—	—	—	—
2. Transfer to share capital from surplus reserve	—	—	—	—	—	—	—
3. Compensation of losses by surplus reserve	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
4. Closing balance of the year	1,354,054,750.00	2,246,642,212.69	—	114,580,901.49	(2,443,266,895.66)	—	1,272,010,968.52

Company legal representative: Tang Ye Guo

Principal in charge of accounting, Principal of the accounting department: Liu Chun Xin

I. COMPANY PROFILE

Hisense Kelon Electrical Holdings Company Limited (hereinafter referred to as the "Company") is a joint stock limited company incorporated in the PRC on 16 December 1992. The Company's 459,589,808 overseas listed public shares (the "H Shares") were listed on The Stock Exchange of Hong Kong Limited on 23 July 1996. In 1998, the Company obtained approval to issue 110,000,000 domestic shares (the "A Shares"), which were listed on the Shenzhen Stock Exchange on 13 July 1999.

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

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

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

The company's share reform project was approved on the A shareholders' meeting on 29 January 2007 and approved by the National Commerce Department on 22 March 2007. The shareholding of the largest shareholder, Qingdao Hisense Air-Conditioning, in the Company changed to 23.63% after such share reform.

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

In accordance with the resolutions of the fourth extraordinary meeting of the Company held on 31 August 2009, and as approved by the approval of China Securities Regulatory Commission dated 23 March 2010 "Letter of Reply Concerning the Approval for the Major Asset Restructuring of Hisense Kelon Electrical Holdings Company Limited and the Acquisition of Assets through Issuance of Shares to Qingdao Hisense Air-Conditioning Company Limited (Zheng Jian Xu Ke (2010) No. 329)", and the Letter of Reply Concerning the Approval for the Announcement by Qingdao Hisense Air-Conditioning Company Limited of the Acquisition Report of Hisense Kelon Electrical Holdings Company Limited and the Waiver of its General Offer Obligation (Zheng Jian Xu Ke (2010) No. 330), it was approved that the Company was to issue 362,048,187 renminbi ordinary shares (A shares) to Qingdao Hisense Air-conditioning (as a specific object), as consideration for the acquisition of 100% equity interests in Hisense (Shandong) Air-Conditioner Co., Ltd. (hereinafter referred to as "Hisense Shandong"), 51% equity interests in Hisense (Zhejiang) Air-Conditioner Co., Ltd. (hereinafter referred to as "Hisense Zhejiang"), 49% equity interests in Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. (hereinafter referred to as "Hisense Hitachi"), 55% equity interests in Hisense (Beijing) Air-Conditioner Co., Ltd. (hereinafter referred to as "Hisense Beijing"), 78.70% equity interests in Qingdao Hisense Mould Co., Ltd. (hereinafter referred to as "Hisense Mould") and the white goods marketing businesses and assets including refrigerators and air-conditioners of Qingdao Hisense Marketing Co., Ltd. (hereinafter referred to as "Hisense Marketing"); as at 19 May 2010, Qingdao Hisense Air-Conditioning has acquired 362,048,187 renminbi ordinary shares (A shares) from the Company under this seasoned offering and the registered share capital after the issue was changed to RMB1,354,054,750.00.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

I. COMPANY PROFILE — Continued

Since 2008, Qingdao Hisense Air-Conditioning has been overweighting the shares of Company through the secondary market. As at 30 June 2011, the shareholding of the Company held by Qingdao Hisense Air-Conditioning was 45.22%.

As at 30 June 2011, the accumulated total issued share capital of the Company was 1,354,054,750.00 shares and the registered share capital of the Company was RMB1,354,054,750.00.

Scope of operations:	Manufacture and sales businesses of refrigerators, air-conditioners and home appliances.
Place of registration of the Company:	No. 8 Ronggang Road, Ronggui, Shunde, Foshan, Guangdong Province.
Address of headquarters:	No. 8 Ronggang Road, Ronggui, Shunde, Foshan, Guangdong Province.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD

(1) Basis of preparation of financial statements

The financial statements were prepared on the basis that the Company would be operating on an ongoing concern basis and with recognitions and estimations made based on actual transactions and matters that have taken place in accordance the "Accounting Standards for Business Enterprise — Application Guidelines" and other accounting standards and other relevant requirements.

(2) Compliance with accounting standards for business enterprises

The financial statements prepared by the Company comply with the requirements of the Accounting Standards for Business Enterprises and truly and completely reflects the financial state, operating results, cash flow and other related information of the Company during the reporting period.

(3) Accounting period

The accounting year lasts from 1 January to 31 December of a calendar year.

(4) Recording currency

Renminbi was adopted as the recording currency.

(5) Accounting treatment for business combination under common and not under common control

1. Business combination under the common control

The assets and liabilities acquired by the acquirer in business combination shall be measured at the carrying value of the acquiree on the date of combination. The difference between the carrying value of the net assets acquired by the acquirer and the carrying value of the consideration paid for combination (or total nominal value of the issued shares) shall be adjusted in the capital reserve. If such difference cannot be offset against the capital reserve, it shall be adjusted in the retained earnings.

Handling fees, commissions and other expenses paid for issuance of equity securities in relation to business combination shall be offset against the premium income from equity securities and whereas such amount cannot be offset by premium income, it shall be adjusted in retained earnings.

For accounting policies adopted by the acquirees that are inconsistent with the Company, they shall be adjusted in accordance with the accounting policies of the Company on the date of combination and accordingly recognized pursuant to the Accounting Standards for Business Enterprises.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued

(5) Accounting treatment for business combination under common and not under common control — Continued

2. Business combination not under common control

The assets paid and liabilities incurred or committed as a consideration of business combination by the acquirer was measured at fair value on the date of acquisition and the difference between the fair value and its carrying value shall be included in the profit or loss for the period.

The Company shall allocate the cost of combination on the date of combination.

Where the cost of combination is higher than the fair value of the identifiable net assets acquired from the acquiree in business combination, such difference is recognized as goodwill; where the cost of combination is lower than the fair value of the identifiable net assets acquired from the acquiree in business combination, the difference is recognized in the profit or loss for the period.

All the other assets except intangible assets (not limited to assets originally recognized by the acquiree) acquired by the acquirer under business combination, whose economic benefits are likely to flow to the Company and whose fair value can be reliably measured, shall be accounted separately at their fair value; intangible assets whose fair value can be reliably measured shall be recognized separately as intangible assets and accounted at their fair value; all the other liabilities of the acquiree except contingent liabilities acquired, whose fulfillment is likely to lead to outflow of economic benefits of the Company and whose fair value can be reliably measured, shall be accounted separately at their fair value; contingent liabilities of the acquiree acquired, whose fair value can be reliably measured, shall be recognized separately as liabilities and accounted at their fair value.

(6) Preparation of consolidated financial statements

The scope of consolidation of the consolidated financial statements of the Company is based on controlling interests.

The accounting policies and accounting period adopted by all subsidiaries under the scope of consolidation of the consolidated financial statements are consistent with those of the Company. Where the accounting policies and accounting period adopted by the subsidiaries differ from those of the Company, necessary adjustments are made in accordance with the accounting policies and accounting period of the Company in the preparation of the consolidated financial statements.

The consolidated financial statements are prepared by the Company based on the financial statements of the Company and its subsidiaries and in accordance with other information after adjustments to the long-term equity investment in the subsidiaries under the equity method.

In the consolidation of the financial statements, effects of the internal transactions between the Company and the subsidiaries and amongst the subsidiaries on the consolidated balance sheet, consolidated income statement, consolidated cash flow statement and consolidated statement of changes of shareholders' equity are offset.

In case the loss for the current period loss attributable to minority shareholders of a subsidiary exceeds their share of owners' equity in the subsidiary at the beginning of the period, the difference shall be offset against the minority interests.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued**(6) Preparation of consolidated financial statements — Continued**

During the reporting period, for subsidiaries newly absorbed by business combination under common control, the Company shall adjust the balance in the consolidated balance sheet at the beginning of the period; income, expenses and profits of the subsidiaries from the beginning to the end of the current period are consolidated into the consolidated income statement; and cash flow of the subsidiaries from the beginning to the end of the current period are consolidated into the consolidated cash flow statement.

During the reporting period, for subsidiaries newly absorbed by business combination not under common control, the Company shall not adjust the beginning balance of the consolidated balance sheet; income, expenses and profits of the subsidiaries from the acquisition date to the end of the reporting period are consolidated into the consolidated income statement; and cash flow of the subsidiaries from the acquisition date to the end of the reporting period are consolidated into the consolidated cash flow statement.

During the reporting period, on disposal of subsidiaries, the Company shall consolidate the income, expenses and profits of the subsidiaries from the beginning of the period to the disposal date into the consolidated income statement; and consolidate the cash flow of the subsidiaries from the beginning of the period to the disposal date into the consolidated cash flow statement.

(7) Criteria for the recognition of cash and cash equivalent

For the purpose of the cash flow statement, cash on hand and deposits ready for payment of the Company are recognized as cash.

Investments having the four characteristics of short maturity (maturing within three months from the date of acquisition), strong fluidity, readiness to be transferred into cash and low risk of value fluctuation are recognized as cash equivalents.

(8) Foreign currency transactions and translation of financial statements in foreign currency**1. Foreign currency transactions**

Foreign currency transactions are translated into the measurement currency using the spot exchange rate prevailing at the date of the transaction.

The balance of foreign currency monetary items is adjusted and translated into measurement currency at balance sheet date using the spot exchange rate. Regarding the year-end differences of translation in foreign currency, except special borrowing accounts under the acquisition, building or production of assets to be capitalized are capitalized and accounted into related assets cost, all the other differences are accounted into current profits and losses. The foreign currency non-monetary items at historical cost are translated using the spot exchange rate. And the foreign currency non-monetary items at fair value are adjusted and translated into measurement currency at adoption date of fair value using the spot exchange rate. The difference of translation between different currencies is accounted into current profits and losses or capital reserves.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued**(8) Foreign currency transactions and translation of financial statements in foreign currency — Continued****2. Translation of financial statements in foreign currency**

All the assets and liabilities items in the balance sheet adopt for the translation the spot exchange rate at balance sheet date. The items under the owners' equity, except the undistributed profits, are translated at their occurrence at the spot exchange rate. The spot exchange rate at the transaction date or the exchange rate approximate to spot rate defined by a systematic rational method shall be adopted for the income/expense items, and the difference caused by such translations shall be listed separately under the owners' equity in the balance sheet.

On disposal of overseas operations, the corresponding difference of foreign currency translation related to the overseas operations shall be moved from owners' equity to current profits and losses. On partial disposal of overseas operations, the translation difference of the financial statements related to the portion disposed are calculated based on the proportion of disposal and transferred into current profits and losses.

(9) Financial instruments

Financial instruments consist of financial assets, financial liabilities and equity instruments.

1. Classification of financial instruments

The Company classifies the financial assets and liabilities by their purposes: financial assets or liabilities at fair value and accounted into current profits and losses (for example, tradable financial assets or liabilities); held to maturity investments; loans and receivable accounts; financial assets available for sale and other financial liabilities.

2. Recognition and measurement of financial instruments**(1) Financial assets and liabilities at fair value and accounted into current profits and losses**

The fair value (after deduction of cash dividend to be distributed and bonds interest to be received) of the assets on the acquisition shall be adopted as initial recognized value, and related transaction expenses shall be accounted into current profits and losses.

The interests and cash dividend received shall be recognized as investment gain during the period, and the difference of fair value between initial and spot dates shall be accounted into current profits and losses at the end of period.

On the disposal of the assets, the difference between the obtained price and the book value of investment shall be recognized as investment gain, and the accumulated fair value profits and losses shall be accordingly adjusted.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued**(9) Financial instruments — Continued****2. Recognition and measurement of financial instruments — Continued****(2) Held to maturity investments**

The fair value (after deduction of bond interests whose period has matured but not charged yet) plus the related transactions fees represents the initial recognition value.

During the holding period, the interest income shall be calculated as and included into investment gain in accordance with the amortized costs and the actual interest rate. The actual interest rate is determined at the time of acquisition, and shall remain unchanged during the expected renewal period or any shorter period as applicable.

Upon disposal, the difference between the cost of acquisition and the book value of the investment shall be accounted into investment gain.

(3) Receivable accounts

The contract price charged to the buyers shall be recognized as initial value for those receivable accounts which mainly comprise the receivable creditor's right caused by the sale of goods and the providing of labor services to external customers by the Company, and receivables in other companies excluding debt instruments priced in active markets, includes but is not limited to receivable accounts and other receivables. If characterized as of financing nature, the initial recognition shall be priced at the present value.

Upon disposal, the difference between the sale value and the book value of the receivable shall be accounted into current profits and losses on its recovery or disposal.

(4) Financial assets available for sale

The fair value (lower than cash dividend to be distributed and bonds' interest to be received) and relevant transaction expenses of the assets on the acquisition shall be adopted as initial recognized value.

The interests and cash dividend received shall be recognized as investment income during the holding period, and the difference of fair value between initial and spot dates shall be accounted into capital reserve (other capital reserve).

Upon disposal, the difference between fair value and initial value shall be recognized as investment profits and losses, and the accumulated changes in fair value from the disposal shall be at the same time transferred from the shareholders' equity to investment profits and losses.

(5) Other financial liabilities

The sum of the fair value and relevant transaction expenses is recognized as the initial recognition amount. The amortized cost is used for subsequent measurement.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued**(9) Financial instruments — Continued****3. Recognition and measurement of the financial assets transfer**

Upon transfer of financial assets, these assets shall be no longer recognized if almost all the risks and rewards of ownership have been transferred to the transferee; in contrary, they shall be remained recognized as financial assets of the Company.

The principle of "Substance over Form" is adopted in judging the termination or not of recognizing financial assets. The transfer of financial assets is also divided into entire transfer and partial transfer. If the transfer of an entire financial asset satisfies the conditions for stop recognition, the difference between the amounts of the following 2 items shall recorded in the profits and losses of the current period:

- (1) The book value of the transferred financial asset;
- (2) The aggregate consideration received from the transfer, and the accumulative amount of the changes of the fair value originally recorded in the owner's equities (in the event that the financial asset involved in the transfer is a financial asset available for sale).

If the transfer of partial financial asset satisfies the conditions for stopping recognition, the carrying amount of the entire financial asset transferred shall, between the portion whose recognition has stopped and the portion whose recognition has not stopped (under such circumstance, the service asset retained shall be deemed as a portion whose recognition has not stopped), be allocated at their respective relative fair value, and the difference between the amounts of the following 2 items:

- (1) The book value of the portion whose recognition has stopped;
- (2) The aggregate consideration of the portion whose recognition has stopped, and the portion of the accumulative amount of the changes in the fair value originally recorded in the owner's equities which is corresponding to the portion whose recognition has stopped (in the event that the financial asset involved in the transfer is a financial asset available for sale).

The Company shall recognize financial assets and recognize the reception of consideration as financial liabilities in case the transfer of these financial assets does not satisfy the criteria of termination.

4. Conditions for derecognizing financial liabilities

If the current obligations of financial liabilities has been lifted in whole or in part, then the Company shall derecognize the financial liabilities in whole or in part thereof; if the Company signs an agreement with creditors in order to take on new ways to replace the existing financial liabilities, and the new liabilities and the existing financial terms are substantially different, the Company shall terminate recognizing the existing financial liabilities, and begin to recognize the new financial liabilities at the same time.

If the terms of the contract involving the existing financial liabilities have been made with substantive changes in whole or in part, the Company shall terminate recognizing the existing financial liabilities in whole or in part, and at the same time, adopt the modified version of financial liabilities as a new one.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued**(9) Financial instruments — Continued****4. Conditions for derecognizing financial liabilities — Continued**

On derecognizing the financial liabilities in whole or in part, the difference between the book value of these financial liabilities and the payment shall be accounted into current profits and losses.

If buying back part of the financial liabilities, on the date of repurchase and in accordance with the comparative fair value of the part to be continuously recognized and to be derecognized, the Company shall allocate the entire financial liabilities. The difference between the part assigned to the derecognized book value and the payment (including the roll-out of non-cash assets or new financial liabilities to be assumed) shall be included into profits and losses of the current period.

5. Determination of fair value of financial assets and liabilities

The Company adopts the year-end quotations in active markets as fair value of financial assets and liabilities.

6. Depreciation reserves for financial assets (excluding accounts receivable)**(1) Depreciation reserves for financial assets available for sale:**

At end of reporting period, the accumulated loss caused by the fair value decrease shall be reclassified from the original item of owners' equity and recognized as impairment loss in case the fair value of financial assets available for sale has decreased significantly or the decrease trend is considered to be non-temporary under all the related conditions.

(2) Depreciation reserves for held to maturity investments:

The impairment loss of held to maturity investments is calculated in the light of the treatment of accounts receivable's depreciation.

(10) Accounts receivable**1. Recognition and accrual of accounts receivable with individual significance and individually provided for bad debts:****(1) Recognition criteria for provision for bad debt in accounts receivable of individually significant amounts:**

Accounting for 10% or above (including 10%) of the total accounts receivables except the Greencool receivables.

(2) Calculation of provision for bad debt in accounts receivable of individually significant amounts:

Where there is objective evidence of impairment, impairment test on an individual basis is conducted for the recognition of impairment loss and provision of bad debts based on the shortfall between the current value of its future cash flow and the book value. Where there is no impairment on an individual basis, bad debts are included in the group of receivables with similar credit risks to test for impairment.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2011

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — *Continued*

(10) Accounts receivable — *Continued*

2. Accounts receivable provided for bad debts on a group basis:

(1) Determination of group:

- ① Groups of accounts receivables based on aging characteristics.
- ② Greencool receivables.

(2) Provision of bad debts on a group basis:

- ① Bad debts provision based aging analysis.

The actual percentages of provision are as follows:

Age	Provision proportion for accounts receivable (%)
Within 3 months (including 3 months)	—
Over 3 months but within 6 months (including 6 months)	10
Over 6 months but within 1 year (including 1 year)	50
Over 1 year	100

- ② Provision of bad debts in relation to Greencool receivables: impairment test on an individual basis is conducted for the recognition of impairment loss and provision of bad debts based on the shortfall between the current value of its future cash flow and the book value.

3. Accounts receivables not individually significant but provided for on an individual basis:

(1) Determination of accounts receivables not individually significant but provided for on an individual basis:

Accounts receivables not individually significant with an age of one year or above.

(2) Provision for accounts receivables not individually significant but provided for on an individual basis:

If there is objective evidence of impairment, the accounts receivable is separated from its group for individual impairment test, under which impairment loss is recognized and bad debts are provided based on the shortfall between the current value of its future cash flow and the book value.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued**(11) Inventories****1. Classification of inventories**

Inventories are classified into: inventory products, goods in delivery, self-manufactured semi-finished products, construction in progress, raw materials, low-value consumables and material under external processing etc.

2. Inventory pricing method on their delivery

Raw materials are accounted in accordance with the standard cost upon delivery, and amortized at the end of the month according to cost differences in order to adjust the standard cost to actual cost.

Construction in progress is accounted in accordance with the actual cost upon delivery, whereas the actual cost is determined using the weighted average method.

3. Determination of net realizable value of inventories and accrument of stock depreciation delivery

The Company takes inventory checkup at end of each accounting period, and states or adjusts depreciation reserves of inventories at the lower of cost or net realizable value.

During normal production, the cash realizable value of inventories directly for sale, such as products, merchants and materials for sale is accounted according to the estimated price less the estimated sales expenses and taxes. During normal production, the cash realizable value of materials to be processed is accounted according to the estimated price of finished product less the estimated cost, sales expenses and taxes. For inventories with purpose of implementing sales contract or labor contract, the cash realizable value is based on the contract price; if the inventories held exceed the ordered amount specified in the contract, the cash realizable value of surplus part is accounted based on the market price.

At end of the reporting period, the Company accrues separately the provisions for depreciation reserves of the inventories. In case of low-cost and numerous-in-variety inventories, the Company classifies the provision for depreciation of each kind of inventories. And the Company consolidates the provision for depreciation of inventories related to the production and sales of products in the same region, with the same or similar utilization and purpose, and difficult to calculate separately.

In case the factors impacting the write-down of the inventories' value disappear, the write-down amount shall be reversed and the according provision of impairment shall be returned to current profits and losses.

4. Inventory system

The perpetual inventory system is adopted.

5. Amortization of transition materials

(1) One-off amortization is used for low-value consumables;

(2) One-off amortization is used for packaging materials.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued**(12) Long-term equity investments****1. Determination of investment costs****(1) Long-term equity investment arising from the combination of enterprises**

For the combination of enterprises under the same control: if the consideration of the merging enterprise is in the form of payment in cash, transfer of non-cash assets or undertaking of debts, it shall, on the date of combination, regard the share of the book value of the owner's equity of the merged enterprise as the initial cost of the long-term equity investment. The difference between the initial cost of the long-term equity investment and the payment in cash, non-cash assets transferred as well as the book value of the debts borne by the merging party shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. All the directly related expenses, including audit fee, appraisal fee, legal services fee etc, shall be accounted into current profits and losses.

For combination under different control: the combination cost shall be accounted at the fair value of assets paid, liabilities carried and equity bonds issued by the merging party at the combination date, and other direct expenses related to the transaction. For the gradual combination realized by separate procedures, the combination cost shall be the sum of every separate transaction. In case of any future events defined in combination contract whose predictable occurrence could influence the combination cost and the related amount could be reliably calculated at combination date, such amount shall also be included in combination cost.

(2) Long-term equity investment acquired by other methods

The initial cost of a long-term equity investment obtained by making payment in cash shall be the purchase cost which is actually paid.

The initial cost of a long-term equity investment obtained on the basis of issuing equity securities shall be the fair value of the equity securities issued.

The initial cost of a long-term equity investment of an investor shall be the value stipulated in the investment contract or agreement except the unfair value stipulated in the contract or agreement.

Under the conditions that the exchange of non-monetary assets is characterized with business essence, and the fair value of the assets received or surrendered can be accounted in a reliable way, the book value of assets received is defined on basis of the fair value of assets surrendered, except there are conclusive evidences for the stronger reliability of the fair value of assets received. For the exchange of non-monetary assets not meeting the above premises, the book value of assets surrendered and related taxes shall be accounted as cost of assets received and the profits and losses shall not be concluded.

The initial cost of long-term equity investment obtained by recombination of liabilities shall be accounted at fair value.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued**(12) Long-term equity investments — Continued****2. Subsequent measurement and recognition of profits and losses****(1) Subsequent measurement**

For a long term equity investment on the subsidiary company of an investing enterprise, the investing enterprise shall be accounted by employing the cost method, and shall make an adjustment by employing the equity method when it works out consolidated financial statements.

The cost method shall be employed when a long-term equity investment of the investing enterprise that does not do joint control or does not have significant influences on the invested entity, and has no offer in the active market and its fair value cannot be reliably measured.

A long-term equity investment of the investing enterprise that does joint control or significant influences over the invested entity shall be measured by employing the equity method. If the initial cost of a long-term equity investment is more than the investing enterprise's attributable share of the fair value of the invested entity's identifiable net assets for the investment, the initial cost of the long-term equity investment may not be adjusted; if the initial cost of a long-term equity investment is lower than the investing enterprise's attributable share of the fair value of the invested entity's identifiable net assets for the investment, the difference shall be included in the current profits and losses and the cost of the long-term equity investment shall be adjusted at the same time.

Where any change is made to the owner's equity other than the net profits and losses of the invested entity, the book value of the long-term equity investment shall be adjusted and be included in the owner's equity, and the capital reserves (other capital reserves) shall be accordingly adjusted, in accordance with the attributable share of the net profits or losses of the invested entity.

(2) Recognition of profits and losses

Under the cost method, the investment income recognized by the investing enterprise shall be limited to the amount received from the accumulative net profits that arise after the invested entity has accepted the investment. Where the amount of profits or cash dividends obtained by the investing entity exceeds the aforesaid amount, it shall be regarded as recovery of initial investment cost.

Under the equity method, an investing enterprise shall recognize the net losses of the invested enterprise as following process: firstly, it shall dilute the book value of the long-term equity investment; secondly, if the book value of the long-term equity investment is insufficient to dilute, it shall dilute the book value of the long-term receivables under the limit of other long-term rights and interests which substantially form the net investment made to the invested entity; lastly, after the above treatments, it shall recognize the accrued liabilities according to the responsibilities in investment contract or agreement and account them into current profits and losses.

If the invested entity realizes profits in posterior periods, the investing enterprise shall adopt the contrary process, after the unrecognized losses, to write down the balance of the accrued liabilities, recover the book value of other long-term rights and interests which substantially form the net investment made to the invested entity, and recognize the investment profits.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued**(12) Long-term equity investments — Continued****3. Evidences for significant influences and the invested entity under joint control**

Certain control is considered as joint control with other parties over the invested entity when it happens over an economic activity in accordance with the contracts and agreements, which does not exist unless the investing parties of the economic activity with one an assent on sharing the control power over the relevant important financial and operating decisions. Certain case is considered as significant influences when the investing entity owns the power to participate in making decisions on the financial and operating policies of an enterprise, but not to control or do joint control together with other parties over the formulation of these policies.

4. Provision of impairment

For long-term equity investments characterized with significant impact, not quoted in active markets, and whose fair value cannot be reliably measured, the impairment loss is determined on basis of the difference between their book value and the present value of similar financial assets whose market rate of return on future cash flow can be discounted.

Other than goodwill arising from business combination, long-term equity investment with the evidence of impairment is impaired if the recoverable amount of the measurement results shows that the recoverable amount of the long-term equity investment is below its book value, and the difference will be recognized as impairment loss.

For goodwill arising from business combination, regardless of whether there is indication of impairment, annual impairment testing shall be conducted.

The impairment loss of long-term equity investments cannot be reversed once recognized.

(13) Investment properties

Investment property refers to the real estate held with purpose of rent earning, capital gaining or both of them, including land user which has been rented out or is held for transference after capital appreciation, and buildings which has been rented out.

The Company adopts cost calculation mode for measurement of investment property. On calculating the depreciation, the Company adopts the same policy of fixed assets for measurement of investment property and assets for rent, and the same policy of intangible assets for measurement of right of land use for rent.

On appearance of evidence for depreciation, the Company estimates the recoverable value and defines the impairment loss when the recoverable value is lower than its book value.

The impairment loss of investment property cannot be reversed once recognized.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued

(14) Fixed assets

1. Recognition of fixed assets

Fixed assets of the Company refer to tangible assets with useful life more than one accounting year and related to production, labor services, for lease or management. The Company recognizes the fixed assets when they meet the following conditions:

- (1) The economic benefits pertinent to the fixed asset are likely to flow into the enterprise;
- (2) The cost of the fixed asset can be measured reliably.

2. Depreciation of different categories of fixed assets

Fixed assets are depreciated over their useful life at straight-line method. Depreciation rates of fixed assets are determined based on the category, estimated useful life and estimated rate of net residual value of fixed assets.

For fixed assets leased under finance lease, if it can be reasonably determined that the ownership of the leased asset can be acquired upon the expiry of the lease term, depreciation policies in line with the fixed assets will be adopted for depreciation during the remaining useful life of the leased asset. If it cannot be reasonably determined that the ownership of the leased asset can be acquired upon the expiry of the lease term, depreciation policies in line with the fixed assets will be adopted for depreciation during the shorter of the lease term and the remaining useful life of the leased asset.

The useful life and depreciation rate for different categories of fixed assets are as follows:

Category of fixed assets	Useful life (year)	Rate of residual value (%)	Annual depreciation rate (%)
Buildings and structures	20-50	0-5	2-4.75
Machinery and equipment	10-20	5	4.75-9.50
Electronic equipment, appliances and furniture	5	5	19
Motor vehicles	5	5	19
Moulds	3	0	33.33

3. Testing and provision for depreciation of fixed assets

The Company determines whether there is evidence of impairment that may occur upon fixed assets at end of each period.

If there is indication of impairment of fixed assets, the Company shall estimate its recoverable amount. The recoverable amount is to be determined by the higher between the net price of the fair value at the end of assets after subtracting costs of disposal and the present value of expected future cash flow from fixed assets.

When the recoverable amount of fixed assets is below their book value, the book value of fixed assets shall be written down to its recoverable amount, and the amount of write-down shall recognized as impairment loss of fixed assets, and included into current profits and losses. At the same time, the provision for depreciation of fixed assets shall be accrued.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued**(14) Fixed assets — Continued****3. Testing and provision for depreciation of fixed assets — Continued**

After the recognition of impairment losses of fixed assets, the depreciation of fixed assets for impairment shall be accordingly adjusted in future periods so that during the remaining useful life of the fixed assets, the book value of adjusted fixed assets can be systematically amortized (less the estimated net residual value).

After the recognition, the impairment loss of fixed assets shall not be reversed in the subsequent accounting period.

If there are indications showing that a possible impairment of fixed assets could take place, the Company shall estimate its recoverable amount based on individual fixed assets. If difficult to do so, the Company shall determine the recoverable amount of the assets group on basis of the asset groups to which the fixed assets belong.

(15) Construction in progress**1. Categories of construction in progress**

Constructions in progress are classified according to their characteristics in real cost accounting.

2. Standards and date of conversion from construction in progress to fixed assets

The book value of construction in progress is accounted into fixed assets at all the expenses occurred before the build-up of such assets available for intended use. After available for intended use but before the final settlement, the built-up fixed assets are accounted at estimated value and accrued under the depreciation policy of fixed assets based on construction's budget, cost or real cost. After the settlement, the Company shall adjust the provisional estimate by real cost, but not the accrued.

3. Testing and provision for depreciation of construction in progress

The Company determines whether there is evidence of impairment that may occur upon construction in progress at end of each period.

If there is indication of impairment of construction in progress, the Company shall estimate its recoverable amount. The recoverable amount is to be determined by the higher between the net price of the fair value of construction in progress after subtracting costs of disposal and the present value of expected future cash flow from construction in progress.

When the recoverable amount of construction in progress is below their book value, the book value of construction in progress shall be written down to its recoverable amount, and the amount of write-down shall recognized as impairment loss of construction in progress, and included into current profits and losses. At the same time, the provision for depreciation of construction in progress shall be accrued.

After the recognition, the impairment loss of construction in progress shall not be reversed in subsequent accounting period.

If there are indications showing that impairment of certain construction in progress is possible, the Company shall estimate its recoverable amount based on individual construction. If difficult to do so, the Company shall determine the recoverable amount of the assets group on basis of the asset groups to which the construction in progress belongs.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued**(16) Borrowing costs****1. Principles of recognition for capitalization of the borrowing costs**

Where the borrowing costs incurred to the Company can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it shall be capitalized and recorded into the costs of relevant assets. Other borrowing costs shall be recognized as expenses on the basis of the actual amount incurred, and shall be recorded into the current profits and losses.

The term "assets eligible for capitalization" shall refer to the fixed assets, investment real estate, inventories and other assets, of which the acquisition and construction or production may take quite a long time to get ready for its intended use or for sale.

The borrowing costs shall not be capitalized unless they meet the following requirements at the same time:

- (1) The asset disbursements have already incurred, which shall include the cash, transferred non-cash assets or interest bearing debts paid for the acquisition and construction or production activities for preparing assets eligible for capitalization;
- (2) The borrowing costs has already incurred;
- (3) The acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.

2. Period of capitalization of the borrowing costs

The capitalization period shall refer to the period from the commencement to the cessation of capitalization of the borrowing costs, excluding the period of suspension of capitalization of the borrowing costs.

When the assets of acquisition and construction or production are available for their intended use or marketable condition, the capitalization of loans ceases.

When certain part of the assets of acquisition and construction or production is separately completed and available for its intended use, the capitalization of loans for this part of assets ceases.

If different parts of the assets of acquisition and construction or production are separately completed, but they could be available for their intended use or marketable condition only after the completion of the construction in entirety, the capitalization of loans ceases after the entire completion.

3. Suspension of capitalization period

Where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended. Where the interrupted acquisition and construction or production of the qualified asset is available for intended use or marketable condition, the capitalization of loans shall reinitiate. The borrowings occurred during the suspension period shall be determined as profits and losses of the current period, and the capitalization will not reinitiate until the reactivation of the interrupted acquisition and construction or production of the qualified asset.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued**(16) Borrowing costs — Continued****4. Calculation of capitalized borrowing costs**

The to-be-capitalized amount of interests of the specially borrowed loans (minus the income of the interests earned on the unused borrowing loans as a deposit in the bank or as a temporary investment) and the ancillary expense incurred to the specifically borrowed loans incurred before a qualified asset under acquisition, construction or production is ready for the intended use or sale, shall be capitalized at the incurred amount when they are incurred.

The Company shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

Where there is any discount or premium, the amount of discounts or premiums that shall be amortized during each accounting period shall be determined by the real interest rate method, and an adjustment shall be made to the amount of interests in each period.

(17) Intangible assets**1. Pricing of intangible assets****(1) Initial measurement at cost upon acquisition of intangible assets by the Company**

The cost of outsourcing intangible assets shall include the purchase price, relevant taxes and other necessary expenditures directly attributable to intangible assets for the expected purpose. Where the payment of purchase price for intangible assets is delayed beyond the normal credit conditions, which is of financing intention, the cost of intangible assets shall be determined on the basis of the current value of the purchase price.

The book value of the intangible assets acquired as debt assets through the recombination of liabilities shall be accounted on basis of the fair value of the intangible assets, and the difference between the book value of recombined liabilities and the fair value of debt assets shall be accounted into current profits and losses.

Under the conditions that the exchange of non-monetary assets is characterized with business essence, and the fair value of the assets received or surrendered can be accounted in a reliable way, the book value of assets received is defined on basis of the fair value of assets surrendered, except there are conclusive evidences for the stronger reliability of the fair value of assets received. For the exchange of those non-monetary assets not meeting the above premises, the book value of assets surrendered and related taxes shall be accounted as cost of assets received and the profits and losses shall not be concluded.

The book value of the intangible assets acquired through merger of enterprises under the same control shall be accounted at the book value of the merged enterprise. The book value of the intangible assets acquired through merger of enterprise not under the same control shall be accounted at the fair value of the acquired assets.

The cost of intangible assets developed internally includes: material and labor expenses, register fee, amortization of other patent and franchise fee, interest expense eligible for capitalization during development process, and other direct expenses for making the intangible assets available to its intended use.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued

(17) Intangible assets — Continued

1. Pricing of intangible assets — Continued

(2) Subsequent measurement

The useful life of the acquired intangible assets is determined upon acquisition.

For the intangible assets with limited useful life, the economic benefits shall be amortized using the straight-line method; the intangible assets whose useful life of economic benefits cannot be predicted are deemed as intangible assets with indefinite useful life and are not amortized.

2. Estimate of useful life for the intangible assets with limited useful life:

Intangible assets with limited useful life are amortized using the straight line method over its expected useful life based on its cost after deducting the expected residual value, with the period of amortization as follows:

- (1) Rights of land use are amortized based on the remaining useful life at the time of acquisition;
- (2) Other intangible assets are amortized based on the expected useful life.

The useful life of an intangible asset is determined according to the following procedures:

- (1) For intangible assets arising from contractual rights or other legal rights, their useful lives shall not exceed the term of the contractual rights or other legal rights;
- (2) For contractual rights or other legal rights being extended at expiry due to renewal of contract and when there is evidence that the enterprise does not require to pay significant cost in renewal of the control, the renewal term shall be accounted as useful life. When there is no requirement on the useful life in the contract or law, the Company takes into account various factors in determining the term in which the intangible assets will be able to bring economic benefits to the Company.

The service life and amortization method of intangible assets with limited useful life are reviewed at the end of each period.

After review, the service life and amortization method of intangible assets at the end of the year remain the same as the previous period.

3. Basis for determining intangible assets with uncertain useful life:

The service life method of intangible assets with uncertain useful life is reviewed at the end of each period.

After review, the service life of these intangible assets remains uncertain.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued**(17) Intangible assets — Continued****4. Provision for depreciation of intangible assets**

Intangible assets with definite service life are subject to impairment testing at the end of period when there is obvious indications of impairment.

Intangible assets with uncertain service life are subject to impairment testing at the end of each period.

Impairment testing of intangible assets is used to estimate their recoverable amount. The recoverable amount of intangible assets represents the higher between the net fair value of intangible assets less disposal fees and the present value of estimated future cash flow of intangible assets.

When the recoverable amount of intangible assets is lower than their book value, the book value of intangible assets shall be written down to its recoverable amount, and the amount of write-down is recognized as an intangible asset impairment losses, included in current profits and losses, and the corresponding provision for depreciation shall be accrued at the same time.

After the recognition of impairment losses of intangible assets, the Company shall adjust accordingly the depletion or amortization costs in future periods, so that during the remaining useful life, the adjusted book value of intangible assets (less estimated net residual value) can be systematically amortized.

The impairment losses of intangible assets will not be recovered in subsequent accounting periods after the recognition.

If there are indications of a possible impairment of intangible assets, the Company shall estimate the recoverable amount based on the individual intangible assets. In case that it is difficult to estimate the recoverable amount of the individual intangible assets, the Company determines their recoverable amount based on the assets group to which the individual intangible assets belong.

5. Criteria for the division of research stage and development stage during internal R&D

Research stage: the stage during which original and planned investigation and research is carried out with purpose of obtaining and understanding new scientific or technical knowledge.

Development stage: the stage before the commercial production and utilization, during which the research achievement or other knowledge is applied to a particular project or design in order to produce new or substantially improved materials, devices, products, etc.

The expenses occurred during the research stage of internal R&D projects are accounted into profits and losses of the current period.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued**(17) Intangible assets — Continued****6. Criteria for the capitalization of R&D expenses**

The expenses for the development stage of internal R&D projects are defined as intangible assets satisfying the following conditions at the same time:

- (1) The completion of such intangible assets for use or sale is technically feasible;
- (2) The Company has the intention to use or sell the intangible assets upon completion;
- (3) The method in which the intangible assets bring economic benefits shows that there exists consumption market for the products with use of these intangible assets or the intangible assets themselves, or that they are useful in case of internal utilization;
- (4) The Company has sufficient technological, financial and other resources to complete the R&D of the intangible assets and the ability to make them available for use or sale;
- (5) The expense of such intangible assets can be measured reliably at the development stage.

(18) Long-term deferred expenses**1. Method of amortization**

Long-term deferred expenses are amortized evenly over the benefited period.

2. Term of amortization

- (1) Expenditure incurred during the preoperating period is recognized as an expense in the month it incurs.
- (2) Other long-term deferred expenditures are amortized evenly over the benefited period.

(19) Provisions

Litigation, debt guarantees, loss of contracts and reconstruction in which the Company is involved are recognized as contingent liabilities when they are likely to require the Company to deliver assets or provide services in future, and the amount of which can be reliably measured.

1. Recognition of contingent liabilities

The obligations related to contingent items are defined as contingent liabilities when satisfying the following conditions:

This obligation means a present obligation for the Company;

The fulfillment of this obligation is likely to lead to outflow of economic benefits of the Company;

The amount of this obligation can be reliably measured.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued**(19) Provisions — Continued****2. Measurement of provisions**

Contingent liabilities of the Company are initially measured based on the best estimated amount of the expenditure required to fulfill the related current obligations.

On determining the best estimated amount, the Company considers integrally the factors of risk, uncertainty and currency related to contingent items. For the significant influence of currency's time value, the Company determines the best estimated amount through the discount of future cash outflow.

The best estimated amount is treated separately under the following circumstances:

There is a continuous range (or scope) of required expenditure among which the possibility for occurring different results maintains the same, the best estimated amount shall be defined by the median, which means the average amount of upper and lower limits of the continuous range.

If there is no continuous range (or scope), or if the possibility for different results to occur within the range differs despite the existence of a continuous range, or if an event involves an individual project, the best estimated amount shall be determined based on the most probable amount; or if the contingent item is related to a number of individual projects, the best estimated amount shall be determined based on the different possible results and their probabilities.

In the event that the amount payable for a contingent liability is compensated partly or wholly by a third party, such compensation will be recognized when it is reasonably certain that the amount will be received, to the extent that the recognized amount of compensation does not exceed the book value of the contingent liability.

(20) Income**1. Determination of the time of recognition for income from the sale of goods**

Revenue from the sale of goods is recognized when the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods; the enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow to the enterprise; the associated costs incurred or to be incurred can be measured reliably.

2. Basis for determining the income from transferring the right to use assets

When the economic benefits related to the transaction is likely to flow to the Company and the income amount can be reliably calculated. The treatment will be different under the following conditions:

(1) The income of interests is determined on basis of the time and real interest rate of the Company's cash funds which is utilized by other persons.

(2) The income of royalties is determined on basis of the chargeable time and method fixed under relevant agreement or contract.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued**(20) Income — Continued****3. Basis and method to define the progress of contracted construction on determining the income from rendering of labor services through percentage-of-completion method**

If the Company can, on the date of the balance sheet, reliably estimate the outcome of a transaction concerning the labor services it provides, it shall recognize the revenue from providing services employing the percentage-of-completion method. An enterprise may adopt the measurement of the work completed to ascertain the schedule of completion under the transaction concerning the providing of labor services.

The Company determines the total revenue from labor services in accordance with the received or receivable purchase price fixed by contract or agreement, except when the price is unfair. On the balance sheet date, the Company confirms the labor services income of the current period according to the total revenue of labor services multiplied by the percentage of completion and less the accumulated determined services revenues in previous periods. At the same time, the Company confirms the labor services expenditure of the current period according to the total cost of labor services multiplied by the percentage of completion and less the accumulated determined services expenditure in previous periods.

If an enterprise cannot, on the date of the balance sheet, measure the result of a transaction concerning the providing of labor services in a reliable way, it shall be conducted in accordance with the following circumstances, respectively:

- (1) If the cost of labor services incurred is expected to be compensated, the revenue from the providing of labor services shall be recognized in accordance with the amount of the cost of labor services incurred, and the cost of labor services shall be carried forward at the same amount;
- (2) If the cost of labor services incurred is not expected to compensate, the cost incurred shall be included in the current profits and losses, and no revenue from the providing of labor services may be recognized.

(21) Government subsidies**1. Categories**

Government subsidies refer to the monetary and non-monetary assets that the Company obtains free-of-charge from the Government. They are divided into asset-related government subsidies and benefit-related government subsidies.

2. Accounting treatment

Government subsidies related to long-term assets such as acquisition and construction of fixed assets and intangible assets are determined as deferred income, and accounted into corresponding-period non-operating income according to the service life of the acquisition & construction assets;

Government subsidies related to economic benefits, if for covering the relevant expenses or losses in future periods, are determined as deferred income and accounted into non-operating income of the current period; if for covering the occurred expenses or losses in the past, are included directly into non-operating income of the current period.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS IN PREVIOUS PERIOD — Continued**(22) Deferred income tax assets and liabilities****1. Basis for determination of deferred income tax assets**

The Company recognizes the deferred income tax assets caused by deductible temporary differences to the extent of taxable income which is likely to obtain for deducting the deductible temporary differences.

2. Basis for determination of deferred income tax liabilities

The Company recognizes taxable temporary differences in current and previous periods as deferred income tax liabilities. However, goodwill, transactions not arising from business combination and whose occurrence will not impact accounting profits nor the taxable income or temporary differences of deductible losses shall not be included.

(23) Major changes in accounting policies and estimates

There are no changes in accounting policies and estimates as at the end of the reporting period.

(24) Correction of accounting errors in previous period

The Company has not noticed any accounting errors in previous period during the current reporting period.

3. TAXATION

Categories of tax applicable to the Company include: value-added tax, business tax, enterprise income tax, city construction tax, education surcharges, bank protection fee, urban real estate tax, land use tax etc., and the major types of tax and tax rates are as follows:

(1) Value-added tax

Goods and industrial services sold in the PRC are subject to value-added tax at a rate of 17% on the sales income, and is payable after deduction of tax credits. Goods sold to overseas is subject to value-added tax at a rate of 0%, with 13%-17% of the VAT included in purchased raw materials refunded.

(2) Business tax

Business tax is payable at 5% of the taxable income.

(3) City construction tax and education surcharges

City construction tax is payable at 1%-7% of the turnover tax, whereas education surcharges is payable at 1%-5% of the turnover tax.

3. TAXATION — Continued**(4) Enterprise income tax**

The rate of enterprise income tax is 25%.

Tax preference for the Company:

Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. ("Ronshen Refrigerator") has received the High-and-New Technological Enterprise Certificate (Number: GR200844000626) dated 16 December 2008 jointly issued by the Guangdong Science and Technology Department, Guangdong Provincial Finance Department, Guangdong Provincial Office of State Administration of Taxation and Guangdong Provincial Local Taxation Bureau, with an effective period of three years (2008, 2009 and 2010). According to the relevant tax concessions for high-and-new technological enterprises, the effective enterprise income tax rate for the company in 2008, 2009 and 2010 was 15%. The re-assessment of high-and-new technological enterprise status for Ronshen Refrigerator in 2011 is under progress, and according to the relevant requirements on State tax, the preferential rate of 15% is effective temporarily during the re-assessment period.

Guangdong Kelon Mould Co., Ltd. ("Kelon Mould") has received the High-and-New Technological Enterprise Certificate (Number: GR200844001173) dated 29 December 2008 jointly issued by the Guangdong Science and Technology Department, Guangdong Provincial Finance Department, Guangdong Provincial Office of State Administration of Taxation and Guangdong Provincial Local Taxation Bureau, with an effective period of three years (2008, 2009 and 2010). According to the relevant tax concessions for high-and-new technological enterprises, the effective enterprise income tax rate for the company in 2008, 2009 and 2010 was 15%. The re-assessment of high-and-new technological enterprise status for Kelon Mould in 2011 is under progress, and according to the relevant requirements on State tax, the preferential rate of 15% is effective temporarily during the re-assessment period.

Hisense Ronshen (Guangdong) Freezer Co., Ltd. ("Ronshen Freezer") has received the High-and-New Technological Enterprise Certificate (Number: GR200944000796) dated 14 December 2009 jointly issued by the Guangdong Science and Technology Department, Guangdong Provincial Finance Department, Guangdong Provincial Office of State Administration of Taxation and Guangdong Provincial Local Taxation Bureau, with an effective period of three years (2009, 2010 and 2011). According to the relevant tax concessions for high-and-new technological enterprises, the effective enterprise income tax rate for the company in 2009, 2010 and 2011 is 15%.

Guangdong Kelon Fittings Co., Ltd. ("Kelon Fittings") has received the High-and-New Technological Enterprise Certificate (Number: GR201044000174) dated 26 September 2010 jointly issued by the Guangdong Science and Technology Department, Guangdong Provincial Finance Department, Guangdong Provincial Office of State Administration of Taxation and Guangdong Provincial Local Taxation Bureau, with an effective period of three years (2010, 2011 and 2012). According to the relevant tax concessions for high-and-new technological enterprises, the effective enterprise income tax rate for the company in 2010, 2011 and 2012 is 15%.

Hisense (Shandong) Air-conditioning Co., Ltd. ("Hisense Shandong") has received the High-and-New Technological Enterprise Certificate (Number: GR200837100005) dated 23 December 2008 jointly issued by the Qingdao Municipal Science and Technology Department, Qingdao Municipal Finance Bureau, Qingdao Municipal Office of State Administration of Taxation and Qingdao Municipal Local Taxation Bureau, with an effective period of three years (2008, 2009 and 2010). According to the relevant tax concessions for high-and-new technological enterprises, the effective enterprise income tax rate for the company in 2008, 2009 and 2010 was 15%. The re-assessment of high-and-new technological enterprise status for Hisense Shandong in 2011 is under progress, and according to the relevant requirements on State tax, the preferential rate of 15% is effective temporarily during the re-assessment period.

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2011

3. TAXATION — *Continued*

(4) Enterprise income tax — *Continued*

Tax preference for the Company: — *Continued*

Hisense (Beijing) Electric Co., Ltd. ("Hisense Beijing") has received the High-and-New Technological Enterprise Certificate (Number: GR200811000602) dated 18 December 2008 jointly issued by the Beijing Municipal Science and Technology Commission, Beijing Municipal Finance Bureau, Beijing Municipal Office of State Administration of Taxation and Beijing Municipal Local Taxation Bureau, with an effective period of three years (2008, 2009 and 2010). According to the relevant tax concessions for high-and-new technological enterprises, the effective enterprise income tax rate for the company in 2008, 2009 and 2010 was 15%. The re-assessment of high-and-new technological enterprise status for Hisense Beijing in 2011 is under progress, and according to the relevant requirements on State tax, the preferential rate of 15% is effective temporarily during the re-assessment period.

Qingdao Hisense Mould Co., Ltd. ("Hisense Mould") has received the High-and-New Technological Enterprise Certificate (Number: GR200837100036) dated 23 December 2008 jointly issued by the Qingdao Municipal Science and Technology Department, Qingdao Municipal Finance Bureau, Qingdao Municipal Office of State Administration of Taxation and Qingdao Municipal Local Taxation Bureau, with an effective period of three years (2008, 2009 and 2010). According to the relevant tax concessions for high-and-new technological enterprises, the effective enterprise income tax rate for the company in 2008, 2009 and 2010 was 15%. The re-assessment of high-and-new technological enterprise status for Hisense Mould in 2011 is under progress, and according to the relevant requirements on State tax, the preferential rate of 15% is effective temporarily during the re-assessment period.

Hisense (Nanjing) Electric Co., Ltd. ("Hisense Nanjing") has received the High-and-New Technological Enterprise Certificate (Number: GR201032000380) dated 13 December 2010 jointly issued by the Jiangsu Science and Technology Department, Jiangsu Provincial Finance Department, Jiangsu Provincial Office of State Administration of Taxation and Jiangsu Provincial Local Taxation Bureau, with an effective period of three years (2010, 2011 and 2012). According to the relevant tax concessions for high-and-new technological enterprises, the effective enterprise income tax rate for the company in 2010, 2011 and 2012 is 15%.

Subsidiaries of the Company namely Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon"), Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd. ("Yangzhou Kelon") and Xi'an Kelon Cooling Co., Ltd. ("Xi'an Kelon") are entitled to the preferential tax policy of "two-year holiday and three-year 50% reduction" at an applicable tax rate of 0%-12.5%.

Profits tax for the Company's subsidiaries in Hong Kong has been provided for at a rate of 16.5% on the estimated assessable profit earned or derived from Hong Kong.

- (5) **Other taxes, including real estate tax, land use tax, vehicle and vessel tax, stamp duty, withholding personal income tax etc., are calculated and payable in accordance with the relevant requirements of the State tax laws.**

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

4. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise stated, all amounts shown in the following table are denominated in RMB'0000.

(1) Major subsidiaries

1. Subsidiaries acquired from establishment or investment

Name of subsidiary	Type of subsidiary	Place of registration	Nature of business	Registered capital	Scope of business	Actual investment amount of the end of the Period	Shareholding (%)	Percentage of voting rights (%)	Consolidated in financial statements
Hisense Ronshen ("Guangdong) Refrigerator Co., Ltd. ("Ronshen Refrigerator")	Wholly-owned subsidiary	Foshan	Industrial	US\$26,800,000	Manufacture and sale of refrigerators	20,726.83	100.00	100.00	Yes
Guangdong Kelon Air-conditioner Co., Ltd. ("Kelon Air-conditioner") ¹	Controlled subsidiary	Foshan	Industrial	US\$36,150,000	Manufacture and sale of air-conditioners	28,100.00	60.00	100.00	Yes
Hisense Ronshen ("Guangdong) Freezer Co., Ltd. ("Ronshen Freezer")	Wholly-owned subsidiary	Foshan	Industrial	23,700.00	Manufacture and sale of freezers	3,635.51	100.00	100.00	Yes
Shunde Kelon Household Electrical Appliance Co., Ltd. ("Kelon HEA")	Wholly-owned subsidiary	Foshan	Industrial	1,000.00	Manufacture and sale of household appliances	250.00	100.00	100.00	Yes
Guangdong Kelon Fittings Co., Ltd. ("Kelon Fittings")	Wholly-owned subsidiary	Foshan	Industrial	US\$5,620,000	Manufacture and sale of spare parts for refrigerators and air-conditioners	4,347.71	100.00	100.00	Yes
Foshan Shunde Rongsheng Plastic Co., Ltd. ("Rongsheng Plastic")	Controlled subsidiary	Foshan	Industrial	US\$15,827,400	Manufacture of plastic parts	8,337.26	70.05	70.05	Yes
Guangdong Kelon Mould Co., Ltd. ("Kelon Mould")	Controlled subsidiary	Foshan	Industrial	US\$15,056,100	Manufacture of mould	7,926.89	70.11	70.11	Yes
Guangdong Huobao Electronics Co., Ltd. ("Huobao Electronics") ¹	Controlled subsidiary	Foshan	Industrial	1,000.00	Research and development, production and sale of electronic products	700.00	70.00	100.00	Yes
Guangdong Foshan Shunde Kelon Property Service Co., Ltd. ("Kelon Property")	Wholly-owned subsidiary	Foshan	Service	500	Corporate consultancy management, catering, household decoration design	492.78	100.00	100.00	Yes
Foshan Shunde Wanggao Import & Export Co., Ltd. ("Wanggao I&E")	Wholly-owned subsidiary	Foshan	Commercial	300	Import and export	300.00	100.00	100.00	Yes
Foshan Shunde Kelon Jiake Electronics Co., Ltd. ("Kelon Jiake")	Wholly-owned subsidiary	Foshan	Industrial	6,000.00	IT and communication technology, and micro-electronics technology development	6,000.00	100.00	100.00	Yes
Guangdong Kelon Weil Electrical Appliances Co., Ltd. ("Kelon Weil")	Controlled subsidiary	Zhongshan	Industrial	20,000.00	Production of intelligent washing machines, intelligent air-conditioners and after-sale maintenance services and technology consultation for other products, 70% products for domestic sale	—	80.00	80.00	Yes
Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon")	Wholly-owned subsidiary	Chengdu	Industrial	20,000.00	Manufacture and sale of refrigerators	21,024.64	100.00	100.00	Yes
Hisense Ronshen ("Yingkou) Refrigerator Co., Ltd. ("Yingkou Kelon")	Controlled subsidiary	Yingkou	Industrial	20,000.00	Manufacture and sale of refrigerators	14,411.16	78.79	78.79	Yes
Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon")	Wholly-owned subsidiary	Nanchang	Industrial	US\$29,800,000	Manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small household appliances	24,431.55	100.00	100.00	Yes
Jiangxi Kelon Combine Electrical Appliances Co., Ltd. ("Jiangxi Combine") ²	Controlled subsidiary	Nanchang	Industrial	2,000.00	Research and development, production and sale of household and commercial air-conditioners, refrigerators, freezers and small household appliances	1,100.00	55.00	55.00	No
Hangzhou Kelon Electrical Co., Ltd. ("Hangzhou Kelon")	Wholly-owned subsidiary	Hangzhou	Industrial	2,400.00	Research and development and production of high efficiency, energy saving and environmental friendly refrigerators, technology for environmental friendly refrigerators, information consultation, warehousing and sale of the Company's products	2,400.00	100.00	100.00	Yes
Hisense Ronshen ("Yangzhou) Refrigerator Co., Ltd. ("Yangzhou Kelon")	Wholly-owned subsidiary	Yangzhou	Industrial	US\$44,447,900	Production and sale of energy saving, environmental friendly refrigerators and other energy saving cooling electrical appliances	32,629.38	100.00	100.00	Yes
Shangqiu Kelon Electrical Co., Ltd. ("Shangqiu Kelon")	Wholly-owned subsidiary	Shangqiu	Industrial	15,000.00	Research and development, manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small household appliances and parts and accessories, and provision of relevant information and technical consultancy services	15,000.00	100.00	100.00	Yes

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

4. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS — Continued

(1) Major subsidiaries — Continued

1. Subsidiaries acquired from establishment or investment — Continued

Name of subsidiary	Type of subsidiary	Place of registration	Nature of business	Registered capital	Scope of business	Actual investment amount at the end of the Period	Shareholding (%)	Percentage of voting rights (%)	Consolidated in financial statements
Zhuhai Kelon Electrical Industrial Development Co., Ltd. ("Zhuhai Kelon")	Wholly-owned subsidiary	Zhuhai	Industrial	US\$29,980,000	Research and development and manufacture of refrigerators, air-conditioners, freezers, small household appliances and related accessories	23,831.21	100.00	100.00	Yes
Xi'an Kelon Cooling Co., Ltd. ("Xi'an Kelon")	Controlled subsidiary	Xi'an	Industrial	20,200.00	Development, manufacture, design and production of chlorofluorocarbon-free refrigerator (freezer) cooling compressor products; sales of products and conducting after-sale maintenance services, research, manufacture, development and production of new cooling compressor products subject to market demands	10,772.96	60.00	60.00	Yes
Shenzhen Kelon Purchase Co., Ltd. ("Shenzhen Kelon")	Wholly-owned subsidiary	Shenzhen	Commercial	10,000.00	Domestic business, material supply and marketing (excluding franchise, control and monopoly of goods); import and export; provision of warehousing, information consultation and technology services (excluding restricted items)	10,000.00	100.00	100.00	Yes
Pearl River Electric Refrigerator Co., Ltd. ("Pearl River")	Wholly-owned subsidiary	Hong Kong	Commercial	HK\$400,000	Sale of raw materials and accessories	33.24	100.00	100.00	Yes
Kelon Development Co., Ltd. ("Kelon Development")	Wholly-owned subsidiary	Hong Kong	Investment	HK\$5,000,000	Investment holding	1,120.00	100.00	100.00	Yes
Kelon (Japan) Limited ("Kelon Japan")	Wholly-owned subsidiary	Japan	Commercial	JPY1,100,000,000	Technical research and trading in electrical household appliances	2,533.71	100.00	100.00	Yes
Kelon (USA) Inc. ("Kelon USA")	Wholly-owned subsidiary	USA	Service	US\$100	Business liaison	194.03	100.00	100.00	Yes
Kelon International Incorporation ("KI")	Wholly-owned subsidiary	British Virgin Islands	Commercial	US\$50,000	Investment holding and sale of household appliances	0.00	100.00	100.00	Yes
Sichuan Rongshen Kelon Refrigerator Sales Co., Ltd. ("Sichuan Kelon Sales")	Controlled subsidiary	Chengdu	Commercial	200	Sale of refrigerators	152.00	76.00	76.00	Yes
Hisense (Chengdu) Refrigerator Co., Ltd. ("Hisense Chengdu")	Wholly-owned subsidiary	Chengdu	Industrial	5,000.00	Manufacture of household appliances and refrigeration equipment, sale of the Company's products, and provision of related after-sale services	5,000.00	100.00	100.00	Yes

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

4. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS — Continued

(1) Major subsidiaries — Continued

2. Subsidiaries acquired from business combination under common control

Name of subsidiary	Type of subsidiary	Place of registration	Nature of business	Registered capital	Scope of business	Actual investment amount at the end of the Period	Shareholding (%)	Percentage of voting rights (%)	Consolidated in financial statements
Hisense (Beijing) Electric Co., Ltd. ("Hisense Beijing")	Controlled subsidiary	Beijing	Industrial	8,571.00	Manufacture of refrigerator products and other household appliances; sale of self-produced products; import and export of goods and technologies, and provision of import and export agency services	9,210.12	55.00	55.00	Yes
Hisense (Shandong) Air-conditioning Co., Ltd. ("Hisense Shandong")	Wholly-owned subsidiary	Qingdao	Industrial	50,000.00	Research and development, manufacture and sale of air-conditioning products and injection moulds, and provision of after-sale maintenance services	56,717.55	100.00	100.00	Yes
Hisense (Zhejiang) Air-conditioning Co., Ltd. ("Hisense Zhejiang")	Controlled subsidiary	Huzhou	Industrial	11,000.00	Production of air-conditioners, manufacture and sale of other household appliances, provision of related technical services, and import and export of goods and technologies	5,452.36	51.00	51.00	Yes
Qingdao Hisense Mould Co., Ltd. ("Hisense Mould")	Controlled subsidiary	Qingdao	Industrial	2,764.20	Design and manufacture of moulds, machine processing, design and manufacture of jigs, plastic injection, painting/brushing and processing etc.	12,162.80	78.70	78.70	Yes
Hisense (Nanjing) Electric Co., Ltd. ("Hisense Nanjing")	Controlled subsidiary	Nanjing	Industrial	12,869.15	Research and development, manufacture and sale of fluorine-free refrigeration products and other household appliances. Import and export of various goods and technologies self-manufactured and distributed	7,721.49	60.00	60.00	Yes

*1 The Company holds 60% equity interests in Kelon Air-conditioner and 70% equity interests in Huaao Electronics, but as the Company has committed to provide financial support to these companies and bear 100% of their losses, the long-term equity investment was accounted for based on 100% shareholding.

*2 The Company holds 55% equity interests in Jiangxi Combine. As Jiangxi Combine is smaller in size, and has been declared placed in liquidation and reorganization, it has not been consolidated in the financial statements.

(2) Subsidiaries disposed of during the reporting period

The Company held 100% equity interests in Kelon Europe, which has been disposed of due to its relatively small size, and as a result was not consolidated into the consolidated financial statements. During the reporting period, the Company has completed the disposal and settlement of Kelon Europe.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

4. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS — Continued**(3) Monrity interests in major subsidiaries**

Item	At the beginning of the period	At the end of the period
Rongsheng Plastic	8,102.85	8,079.93
Kelon Mould	4,380.37	4,373.49
Kelon Weili	(388.17)	(391.77)
YingKou Kelon	1,838.53	1,878.29
Sichuan Kelon Sales	26.38	26.38
Hisense Beijing	7,692.11	8,224.95
Hisense Nanjing	6,598.16	6,309.25
Hisense Zhejiang	4,942.78	3,705.29
Hisense Mould	3,777.64	3,854.83
Total	36,970.65	36,060.64

(4) Currency rate for translation of major items in the financial statements of entities operating overseas

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

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Unless otherwise specified, all amounts below are denominated in RMB)

(1) Bank balances and cash

Item	Balance at the end of the period			Balance at the beginning of the period		
	Monetary accounts denominated in foreign currency	Rate of exchange	Amount in RMB	Monetary accounts denominated in foreign currency	Rate of exchange	Amount in RMB
Cash						
RMB	109,653.39	1.0000	109,653.39	171,914.42	1.0000	171,914.42
USD				0.75	6.6227	4.97
JPY				816.36	0.0813	66.37
Other			69.74			0.06
Subtotal			109,723.13			171,985.82
Bank deposit						
RMB	146,708,391.17	1.0000	146,708,391.17	336,633,953.39	1.0000	336,633,953.39
HKD	1,818,049.25	0.8311	1,510,889.83	3,272,181.30	0.8509	2,784,397.22
USD	24,935,977.92	6.4685	161,298,373.14	9,699,617.55	6.6227	64,237,657.07
JPY	96,483.85	0.0801	7,724.11	96,442.80	0.0813	7,840.80
EUR	1,108,088.47	9.3644	10,376,583.71	1,766,697.19	8.8065	15,558,418.82
Other			577,974.83			527,260.81
Subtotal			320,479,936.79			419,749,528.11
Other bank balances and cash*						
RMB	594,583.26	1.0000	594,583.26	6,657,267.46	1.0000	6,657,267.46
USD	84,455.98	6.4685	546,303.51	393,147.27	6.6227	2,603,696.42
EUR	123.86	9.3644	1,159.87	—	—	—
Subtotal			1,142,046.64			9,260,963.88
Total			321,731,706.56			429,182,477.81

* Other bank balances and cash mainly represented security for letter of credit.

Of which, restricted bank balances and cash are detailed as follows:

Item	Balance at the end of the period	Balance at the beginning of the period
Security for letter of credit	1,142,046.64	9,260,963.88
Total	1,142,046.64	9,260,963.88

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**(2) Transactional financial assets**

Item	Balance at the end of the period	Balance at the beginning of the period
Derivative financial assets (Foreign exchange forward contracts)	15,486,182.72	28,150,388.56
Total	15,486,182.72	28,150,388.56

1. There was no material restriction for realizing the investments in transactional financial assets as at the end of the period.
2. It represented mainly the undue foreign exchange forward contracts entered into by the Company's subsidiaries and banks, which was recognized as transactional financial assets or liabilities based on the difference between the quotation of the undue foreign exchange contracts and the future foreign exchange rate as at 30 June 2011.

(3) Notes receivable**1. Classification of notes receivable**

Category	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance notes	714,573,331.49	340,693,497.45
Commercial acceptance notes	41,892,683.69	45,289,000.88
Total	756,466,015.18	385,982,498.33

2. *As at the end of the period, there was no secured notes receivable.*
3. *As at the end of the period, there was no discounted notes receivable.*
4. *As at the end of the period, there was no notes being transferred to accounts receivables due to the failure of the note issuer.*
5. *As at the end of the period, there was no notes issued by shareholder units that holds 5% or more (including 5%) interests in the Company among the notes receivable.*

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(4) Accounts receivable

1. Accounts receivable by category

Category	Balance at the end of the period				Balance at the beginning of the period			
	Carrying balance		Provision for bad debts		Carrying balance		Provision for bad debts	
	Percentage		Percentage		Percentage		Percentage	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Significant single-item accounts receivable provided for bad debts	—	—	—	—	—	—	—	—
Accounts receivable provided for bad debts as a group								
Age analysis	2,122,805,949.20	98.21	158,047,281.96	7.45	1,497,560,729.25	97.48	159,239,566.51	10.63
Greencool Companies	38,689,983.28	1.79	22,726,941.64	58.74	38,689,983.28	2.52	22,726,941.64	58.74
Subtotal of the category	2,161,495,932.48	100.00	180,774,223.60	8.36	1,536,250,712.53	100.00	181,966,508.15	11.84
Single-item accounts receivable not significant but provided for bad debts	—	—	—	—	—	—	—	—
Total	2,161,495,932.48	100.00	180,774,223.60	8.36	1,536,250,712.53	100.00	181,966,508.15	11.84

① Accounts receivable provided for bad debts in the group by age analysis:

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying balance	Provision for bad debts		Carrying balance	Provision for bad debts	
	Percentage			Percentage		
	Amount	(%)		Amount	(%)	
Within three months	1,957,858,044.41	90.58	—	1,336,582,155.73	87.00	—
Over three months but within six months	7,039,302.07	0.33	703,930.21	1,843,470.19	0.12	184,347.02
Over six months but within one year	1,130,501.94	0.05	565,250.97	159,767.69	0.01	79,883.85
Over one year	156,778,100.78	7.25	156,778,100.78	158,975,335.64	10.35	158,975,335.64
Total	2,122,805,949.20	98.21	158,047,281.96	1,497,560,729.25	97.48	159,239,566.51

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**(4) Accounts receivable — Continued****1. Accounts receivable by category — Continued**

② Accounts receivable provided for bad debts as Greencool Companies in the group:

Company name	Balance at the end of the period		Balance at the beginning of the period	
	Amount	Provision for bad debts	Amount	Provision for bad debts
Hefei Weixi Electrical Appliance Co., Ltd. ("Hefei Weixi")	18,229,589.24	7,805,094.62	18,229,589.24	7,805,094.62
Wuhan Changrong	20,460,394.04	14,921,847.02	20,460,394.04	14,921,847.02
Total	38,689,983.28	22,726,941.64	38,689,983.28	22,726,941.64

2. *During the period, the Company had no accounts receivable that was fully or substantially provided for bad debts but has been fully or substantially recovered or reversed during the period.*

3. *As at the end of the period, there was no accounts receivable from shareholder units that holds 5% or more (including 5%) shares with voting rights of the Company.*

4. *Five largest trade receivables:*

Name of unit	Relationship with the Company	Amount	Term	Percentage of the total account receivables amount (%)
Top 1	Third party	331,216,063.35	Within one year	15.32
Top 2	Third party	268,844,179.29	Within one year	12.44
Top 3	Related party	213,141,570.67	Within one year	9.86
Top 4	Third party	99,331,282.94	Within one year	4.60
Top 5	Third party	80,261,060.67	Within one year	3.71

5. *Please see note 6(2).5 for details of receivables from related parties.*

6. *As at the end of the period, balance of accounts receivable used for factoring and securing borrowings was RMB370,389,460.80.*

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(5) Prepayments

1. Prepayments analysis by age:

Age	Balance at the end of the period		Balance at the beginning of the period	
	Amount	Percentage (%)	Amount	Percentage (%)
Within one year	308,836,362.59	99.71	357,586,147.28	99.80
One to two years	254,115.06	0.08	53,605.57	0.01
Two to three years	101,880.00	0.03	205,527.47	0.06
Over three years	539,695.41	0.18	453,635.40	0.13
Total	309,732,053.06	100.00	358,298,915.72	100.00

2. Five largest prepayment amount units

Name of unit	Relationship with the Company	Amount	Time	Reason for not being settled
Top 1	Third party	40,978,138.39	Within one year	Settled normally
Top 2	Third party	40,746,360.03	Within one year	Settled normally
Top 3	Third party	34,607,750.00	Within one year	Settled normally
Top 4	Third party	20,313,413.93	Within one year	Settled normally
Top 5	Third party	19,228,455.72	Within one year	Settled normally

3. As at the end of the period, there was no prepayment due from shareholder unit that holds 5% or more (including 5%) shares with voting rights of the Company.

4. Please see note 6(2).5 for details of amounts prepaid to related parties at the end of the period.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(6) Other receivables

1. Other receivables by category:

Category	Balance at the end of the period				Balance at the beginning of the period			
	Carrying balance		Provision for bad debts		Carrying balance		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Significant single-item other receivables provided for bad debts	—	—	—	—	—	—	—	—
Other receivables provided for bad debts as a group								
Age analysis	204,729,965.27	25.08	28,671,374.94	14.00	143,756,171.18	19.03	29,614,941.44	20.60
Greencool Companies	611,538,997.88	74.92	342,516,669.69	56.01	611,538,997.88	80.97	342,516,669.69	56.01
Subtotal of the category	816,268,963.15	100.00	371,188,044.63	45.47	755,295,169.06	100.00	372,131,611.13	49.27
Significant single-item other receivables not provided for bad debts	—	—	—	—	—	—	—	—
Total	816,268,963.15	100.00	371,188,044.63	45.47	755,295,169.06	100.00	372,131,611.13	49.27

① Other account receivables provided for bad debts in the group by age analysis:

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying balance		Provision for bad debts	Carrying balance		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within three months	171,213,392.18	20.98	—	111,047,007.61	14.70	—
Over three months but within six months	3,865,265.37	0.47	386,526.54	2,503,030.00	0.33	250,303.00
Over six months but within one year	2,732,918.65	0.33	1,366,459.33	1,682,990.25	0.22	841,495.12
Over one year	26,918,389.07	3.30	26,918,389.07	28,523,143.32	3.78	28,523,143.32
Total	204,729,965.27	25.08	28,671,374.94	143,756,171.18	19.03	29,614,941.44

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued
(6) Other receivables — Continued
1. Other receivables by category: — Continued

② Other account receivables provided for bad debts as Greencool Companies in the group:

Company name	Balance at the end of the period		Balance at the beginning of the period	
	Amount	Provision for bad debts	Amount	Provision for bad debts
Guangdong Greencool	13,754,600.00	7,962,961.47	13,754,600.00	7,962,961.47
Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool")	12,289,357.71	11,313,119.16	12,289,357.71	11,313,119.16
Jiangxi Kesheng Trading Co., Ltd. ("Jiangxi Kesheng")	27,462,676.72	21,390,370.86	27,462,676.72	21,390,370.86
Jinan San Ai Fu Chemical Co., Ltd. ("Jinan San Ai Fu")	121,496,535.45	64,813,858.20	121,496,535.45	64,813,858.20
Tianjin Xiangrun Trading Development Co., Ltd. ("Tianjin Xiangrun")	96,905,328.00	48,706,110.00	96,905,328.00	48,706,110.00
Tianjin Lixin	89,600,300.00	44,800,150.00	89,600,300.00	44,800,150.00
Greencool Technology Development (Shenzhen) Co., Ltd. ("Shenzhen Greencool Technology")	32,000,000.00	—	32,000,000.00	—
Greencool Environmental Engineering Shenzhen Co., Ltd. ("Shenzhen Greencool Environmental")	33,000,000.00	—	33,000,000.00	—
Jiangxi Keda Plastic Technology Co., Ltd. ("Jiangxi Keda")	13,000,200.00	6,500,100.00	13,000,200.00	6,500,100.00
Zhuhai Longjia Refrigerating Plant Co., Ltd. ("Zhuhai Longjia")	28,600,000.00	14,300,000.00	28,600,000.00	14,300,000.00
Zhuhai Defa Air-conditioner Fittings Co., Ltd. ("Zhuhai Defa")	21,400,000.00	10,700,000.00	21,400,000.00	10,700,000.00
Wuhan Changrong Electrical Appliance Co., Ltd. ("Wuhan Changrong")	20,000,000.00	10,000,000.00	20,000,000.00	10,000,000.00
Beijing Deheng Solicitors ("Deheng Solicitors")	4,000,000.00	4,000,000.00	4,000,000.00	4,000,000.00
Finance Bureau of Yangzhou Economic Development Zone	40,000,000.00	40,000,000.00	40,000,000.00	40,000,000.00
Shangqiu Bingxiong Freezing Facilities Co., Ltd. ("Shangqiu Bingxiong")	58,030,000.00	58,030,000.00	58,030,000.00	58,030,000.00
Total	611,538,997.88	342,516,669.69	611,538,997.88	342,516,669.69

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(6) Other receivables — Continued

2. During the period, the Company had no other receivables that was fully or substantially provided for bad debts but has been fully or substantially recovered or reversed during the period.

3. As at the end of the period, there was no other receivables from shareholder units that holds 5% or more (including 5%) shares with voting rights of the Company.

4. Five largest other receivables

Name of unit	Relationship with the Company	Amount	Term	Percentage to other receivables (%)	Nature or content
Top 1	"Specific third party"	121,496,535.45	Over three years	14.88	Current account
Top 2	Third party	100,568,334.94	Within one year	12.32	Current account
Top 3	"Specific third party"	96,905,328.00	Over three years	11.87	Current account
Top 4	"Specific third party"	89,600,300.00	Over three years	10.98	Current account
Top 5	"Specific third party"	58,030,000.00	Over three years	7.11	Current account

5. Please see note 6(2).5 for details of other receivables from related parties as at the end of the period.

(7) Inventory

1. Classification of inventory

Item	Balance at the end of the period			Balance at the beginning of the period		
	Carrying balance	Impairment provision	Carrying value	Carrying balance	Impairment provision	Carrying value
Raw materials	407,281,417.24	36,482,599.01	370,798,818.23	424,840,195.21	37,166,911.65	387,673,283.56
Work in progress	122,336,533.86	8,798,789.93	113,537,743.93	104,147,093.65	8,643,831.77	95,503,261.88
Storage goods	1,628,472,020.04	38,553,120.57	1,589,918,899.47	1,444,988,754.29	25,063,701.08	1,419,925,053.21
Total	2,158,089,971.14	83,834,509.51	2,074,255,461.63	1,973,976,043.15	70,874,444.50	1,903,101,598.65

2. Impairment provision for inventory

Inventory Category	Balance at the beginning of the period	Provision for the period	Decrease for the period		Balance at the end of the period
			Reversal	Transfer	
Raw materials	37,166,911.65	461,042.50	974,872.79	170,482.35	36,482,599.01
Work in progress	8,643,831.77	154,958.16	—	—	8,798,789.93
Storage goods	25,063,701.08	14,775,085.91	—	1,285,666.42	38,553,120.57
Total	70,874,444.50	15,391,086.57	974,872.79	1,456,148.77	83,834,509.51

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(7) Inventory — Continued

3. Particulars of impairment provision for inventory

Item	Basis for provision for inventory impairment	Reason for reversal of inventory impairment provision for the period	Percentage of reversal during the period amount to the balance of the inventory at the end of the period (%)
Raw materials	Comparison of realizable value and carrying cost	Increase in value	0.24

4. The Company had no capitalized borrowing cost included in the inventory cost.

(8) Other current assets

Item	Balance at the end of the period	Balance at the beginning of the period
Rent	385,940.74	319,803.08
Advertising fee	3,160,481.00	5,038,376.00
Other	2,912,134.37	1,195,863.75
Total	6,458,556.11	6,554,042.83

(9) Long-term equity investment

(1) Investments in joint ventures and associates

(Unit: RMB'0000)

Name of investee	Category of enterprise	Place of incorporation	Legal representative	Business nature	Registered capital	Percentage of the Company's shareholding (%)	Percentage of voting rights of the Company in the investee (%)	Total assets as at the end of the period	Total liabilities as at the end of the period	Total net assets as at the end of the period	Total operating income for the period	Net profit for the period
1. Joint ventures												
Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd. ("Hisense Whirlpool")	Limited company	Zhejiang	Li Yan	Industrial	45,000.00	50.00	50.00	75,299.49	34,001.78	41,297.71	58,958.55	(1,325.13)
Qingdao Hisense Hitachi Air-Conditioning Co., Ltd. ("Hisense Hitachi")	Limited company	Shandong	Xi Geng Yi	Industrial	USD12.10 million	49.00	49.00	103,759.52	50,025.75	53,733.77	92,856.59	9,054.52
2. Associates												
Huayii Compressor Holdings Co., Ltd. ("Huayii Compressor")	Joint stock company	Jiangxi	Liu Ti in	Industrial	32,458.12	6.45	6.45	431,242.37	340,184.49	91,057.88	301,358.76	3,985.79
Aftend Logistics Co., Ltd. ("Aftend")	Limited company	Guangzhou	Ye Wei Long	Logistics	1,000.00	20.00	20.00	2,879.45	1,095.03	1,784.42	755.06	(79.47)

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(9) Long-term equity investment — Continued

(2) Particulars of long-term equity investment

Investee	Audit method	Investment cost	Balance at the beginning of the period	Change	Balance at the end of the period	Percentage of shareholding in the investee	Percentage of voting rights in the investee	Discrepancy between		Cash bonus of the period
								voting rights in the investee	Impairment provision	
						(%)	(%)			
Hisense Whirlpool	Equity method	225,000,000.00	210,215,263.49	(6,213,971.50)	204,001,291.99	50.00	50.00	—	—	—
Hisense Hitachi	Equity method	195,408,569.95	298,212,815.13	12,241,884.23	310,454,699.36	49.00	49.00	—	—	29,400,000.00
Huayi Compressor ¹	Equity method	41,686,088.96	53,817,362.47	(11,159,510.73)	42,657,851.74	6.45	6.45	—	—	—
Attend	Equity method	2,000,000.00	3,727,785.79	(1,689,936.44)	3,568,849.35	20.00	20.00	—	—	—
Subtotal by equity method		464,094,658.91	565,973,226.88	(5,290,534.44)	560,682,692.44			—	—	29,400,000.00
Combine ²	Cost method	11,000,000.00	11,000,000.00	—	11,000,000.00	55.00	55.00	11,000,000.00		
Xinjiang Hisense Kelon Electrical Sales Co., Ltd. ("Xinjiang Kelon")	Cost method	100,000.00	100,000.00	—	100,000.00	2.00	2.00			
Fujian Kelon Air-condition Sales Co., Ltd. ("Fujian Kelon")	Cost method	100,000.00	100,000.00	—	100,000.00	2.00	2.00			
Foshan Huabao Air-condition Sales Co., Ltd. ("Foshan Huabao")	Cost method	40,000.00	40,000.00	—	40,000.00	2.00	2.00			
Qingdao Hisense International Marketing Co., Ltd. ("Hisense International Marketing")	Cost method	3,800,000.00	3,800,000.00	—	3,800,000.00	12.67	12.67			3,534,000.00
Subtotal by cost method		15,040,000.00	15,040,000.00	—	15,040,000.00			11,000,000.00	—	3,534,000.00
Total		479,134,658.91	581,013,226.88	(5,290,534.44)	575,722,692.44			11,000,000.00	—	32,934,000.00

¹ At the seventh extraordinary meeting of the Company's seventh session of board of director in 2010, the Resolution on the Authorization of the Company's Board of Directors to Dispose of Not More Than 50,000,000 Shares of Huayi Compressor Company Limited Held by the Company at the General Meeting" was considered and passed. The resolution was considered and passed at the general meeting convened on 4 June 2010. During the reporting period, the Company has disposed of 6,102,126 shares in Huayi Compressor through the secondary market, and as at 30 June 2011, the Company's shareholding in Huayi Compressor was 6.45%.

² Combine, a controlling subsidiary in which the Company held a comparatively small shareholding, has announced to wind up and was not included in the scope of the Company's consolidated financial statements. The investment cost in the company was fully provided for impairment.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(10) Investment properties

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
1. Original total carrying value	67,771,137.18	—	—	67,771,137.18
Buildings and construction	67,771,137.18	—	—	67,771,137.18
2. Total accumulated depreciation and accumulated amortization	27,171,265.41	1,355,056.67	—	28,526,322.08
Buildings and construction	27,171,265.41	1,355,056.67	—	28,526,322.08
3. Total net amount	40,599,871.77	—	—	39,244,815.10
Buildings and construction	40,599,871.77	—	—	39,244,815.10
4. Total accumulated impairment provision	—	—	—	—
Buildings and construction	—	—	—	—
5. Total carrying value	40,599,871.77	—	—	39,244,815.10
Buildings and construction	40,599,871.77	—	—	39,244,815.10

1. *As at 30 June 2011, the Company had investment properties used as security or guarantee with an original value of RMB32,197,530.43 and a net value of RMB15,321,785.39. Please see note 8 for details.*

2. *Investment properties that have not obtained ownership certificate as at the end of the period*

Category	Original carrying value	Accumulated depreciation	Impairment provision	Net carrying value
Buildings and construction	13,794,517.38	5,595,545.03	—	8,198,972.35
Total	13,794,517.38	5,595,545.03	—	8,198,972.35

3. *As at 30 June 2011, the Company has not identified any investment property with the recoverable amount lower than its carrying value and therefore has not made any impairment provision.*

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(11) Original value and accumulated depreciation of fixed assets

1. Particulars of fixed assets

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
1. Total original carrying value:	4,592,611,672.05	156,812,695.72	45,164,680.46	4,704,259,687.31
Of which: Buildings and construction	1,593,450,675.55	865,094.08	1,049,169.94	1,593,266,599.69
Machinery and equipment	2,217,350,835.17	75,295,009.42	31,487,652.04	2,261,158,192.55
Furniture, fixtures and office equipment	323,606,307.06	5,678,452.30	2,987,349.64	326,297,409.72
Motor vehicles	23,840,951.27	2,376,541.47	1,119,168.83	25,098,323.91
Moulds	434,362,903.00	72,597,598.45	8,521,340.01	498,439,161.44
2. Accumulated depreciation Total:	2,565,107,258.83	153,370,181.75	24,694,628.29	2,693,782,812.29
Of which: Buildings and construction	624,915,023.57	39,793,172.51	—	664,708,196.08
Machinery and equipment	1,393,639,740.64	48,465,898.53	13,842,601.03	1,428,263,038.14
Furniture, fixtures and office equipment	220,590,032.59	8,266,405.19	2,132,236.41	226,724,201.37
Motor vehicles	16,314,622.30	1,225,392.66	944,356.28	16,595,658.68
Moulds	309,647,839.73	55,619,312.86	7,775,434.57	357,491,718.02
3. Total net carrying value of fixed assets	2,027,504,413.22			2,010,476,875.02
Of which: Buildings and construction	968,535,651.98			928,558,403.61
Machinery and equipment	823,711,094.53			832,895,154.41
Furniture, fixtures and office equipment	103,016,274.47			99,573,208.35
Motor vehicles	7,526,328.97			8,502,665.23
Moulds	124,715,063.27			140,947,443.42
4. Total impairment provision	175,116,120.34	—	6,645,186.96	168,470,933.38
Of which: Buildings and construction	35,635,046.78	—	—	35,635,046.78
Machinery and equipment	131,118,504.83	—	6,524,803.18	124,593,701.65
Furniture, fixtures and office equipment	1,275,978.62	—	108,722.99	1,167,255.63
Motor vehicles	123,593.74	—	6,064.80	117,528.94
Moulds	6,962,996.37	—	5,595.99	6,957,400.38
5. Total carrying value of fixed assets	1,852,388,292.88			1,842,005,941.64
Of which: Buildings and construction	932,900,605.20			893,595,128.34
Machinery and equipment	692,592,589.70			707,629,681.25
Furniture, fixtures and office equipment	101,740,295.85			98,405,952.72
Motor vehicles	7,402,735.23			8,385,136.29
Moulds	117,752,066.90			133,990,043.04

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(11) Original value and accumulated depreciation of fixed assets — Continued

2. *The original value of work in progress transferred to fixed assets during the period was RMB51,838,360.77.*
3. *As at the end of the period, there was no fixed asset that was temporarily idle.*
4. *As at the end of the period, there was no fixed asset that was leased on a finance lease.*
5. *As at the end of the period, there was no fixed asset that was leased out on an operating lease.*
6. *As at the end of the period, there was no fixed asset that was held for sale.*
7. *As at the end of the period, there was no fixed asset that has not obtained the ownership certificate.*
8. *As at the end of the period, the original value of building and construction assets used as security or guarantee was RMB631,408,440.36 and the net value was RMB285,073,129.22. Please see note 8 for details.*

(12) Work in progress

Item	Balance at the end of the period			Balance at the beginning of the period		
	Carrying balance	Impairment provision	Carrying value	Carrying balance	Impairment provision	Carrying value
Yangzhou Kelon production line	151,315,931.41		151,315,931.41	107,391,773.90	—	107,391,773.90
Hisense Chengdu factories	14,484,082.02	—	14,484,082.02	13,341,082.45	—	13,341,082.45
Xi'an Power Control Company compressor production line	9,044,256.34	9,044,256.34	—	9,044,256.34	9,044,256.34	—
Other	59,411,764.50	11,907,801.61	47,503,962.89	58,445,237.18	12,342,179.74	46,103,057.44
Total	234,256,034.27	20,952,057.95	213,303,976.32	188,222,349.87	21,386,436.08	166,835,913.79

1. Changes in significant works in progress

Name of project	Budget	Balance		Transferred to fixed assets	Other decreases	Percentage of project investment to budget (%)	Progress of project	Source of fund	Balance at the end of the period
		at the beginning of the period	Increase for the period						
Yangzhou Kelon production line	—	107,391,773.90	47,798,943.71	3,874,786.20	—	—	—	Internal fund	151,315,931.41

2. There was no capitalization of interests for work in progress.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued
(13) Settlement of fixed assets

Item	Balance at the end of the period	Balance at the beginning of the period
Machinery and equipment	231,676.08	134,981.60
Total	231,676.08	134,981.60

(14) Intangible assets
1. Particulars of intangible assets

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
1. Total original carrying value	1,259,026,231.42	11,960,086.02	—	1,270,986,317.44
(1). Land use right	611,168,835.89	11,481,086.02	—	622,649,921.91
(2). Trademark	524,409,198.95	—	—	524,409,198.95
(3). Know-how	76,207,763.30	—	—	76,207,763.30
(4). Other	47,240,433.28	479,000.00	—	47,719,433.28
2. Total accumulated amortization	385,264,723.83	16,072,503.42	—	401,337,227.25
(1). Land use right	178,127,677.29	8,301,197.42	—	186,428,874.71
(2). Trademark	134,130,255.55	—	—	134,130,255.55
(3). Know-how	37,379,054.01	5,829,149.24	—	43,208,203.25
(4). Other	35,627,736.98	1,942,156.76	—	37,569,893.74
3. Total net carrying value of intangible assets	873,761,507.59			869,649,090.19
(1). Land use right	433,041,158.60			436,221,047.20
(2). Trademark	390,278,943.40			390,278,943.40
(3). Know-how	38,828,709.29			32,999,560.05
(4). Other	11,612,696.30			10,149,539.54
4. Total impairment provision	340,672,549.44	—	—	340,672,549.44
(1). Land use right	50,012,843.19	—	—	50,012,843.19
(2). Trademark	286,061,116.40	—	—	286,061,116.40
(3). Know-how	—	—	—	—
(4). Other	4,598,589.85	—	—	4,598,589.85
5. Total carrying value of intangible assets	533,088,958.15			528,976,540.75
(1). Land use right	383,028,315.41			386,208,204.01
(2). Trademark	104,217,827.00			104,217,827.00
(3). Know-how	38,828,709.29			32,999,560.05
(4). Other	7,014,106.45			5,550,949.69

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(14) Intangible assets — Continued

2. As at the end of the period, the original carrying value of land use rights used as security or guarantee was RMB256,557,998.57 and the net value was RMB155,010,473.31. Please see note 8 for details.
3. Owing to uncertainty of the useful lives of the trademarks, they were not amortized and impairment provision was no longer required for the carrying value of trademarks as at end of period after an impairment test.

(15) Long-term deferred expenditure

Item	Balance at the beginning of the period	Increase for the period	Amortization amount for the period	Other decreases	Balance at the end of the period
Renovation fee	254,216.64		254,216.64		—
Other	42,550.02	1,312,756.33	569,637.77		785,668.58
Total	296,766.66	1,312,756.33	823,854.41	—	785,668.58

(16) Deferred income tax assets and deferred income tax liabilities

Net value of deferred income tax assets and deferred income tax liabilities after setting off

Composition of deferred income tax assets and liabilities after setting off

Item	Deferred income tax assets or liabilities before setting off during the reporting period	Deductible or payable temporary differences before setting off during the reporting period	Deferred income tax assets or liabilities after initial setting off during the reporting period	Deductible or payable temporary differences after initial setting off during the reporting period
Deferred income tax assets:				
Impairment provision for assets	4,488,242.98	29,921,619.85	4,489,077.98	29,927,186.60
Deductible loss	816,532.12	5,443,547.44	1,745,622.13	11,637,480.86
Transactional financial liabilities			336,633.63	2,244,224.20
Transactional financial assets	(851,796.27)	(5,678,641.82)	(2,316,440.78)	(15,442,938.56)
Other	1,441,330.93	5,011,790.51	2,638,330.94	12,991,790.48
Subtotal	5,894,309.76	34,698,315.98	6,893,223.90	41,357,743.58

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(17) Impairment provision for assets

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period		Balance at the end of the period
			Reversal	Transfer	
Provision for bad debts	554,098,119.28		2,131,056.21	4,794.84	551,962,268.23
Impairment provision for inventory	70,874,444.50	15,391,086.57	974,872.79	1,456,148.77	83,834,509.51
Impairment provision for long-term equity investment	11,000,000.00	—	—	—	11,000,000.00
Impairment provision for fixed assets	175,116,120.34	—	—	6,645,186.96	168,470,933.38
Impairment provision for work in progress	21,386,436.08	—	—	434,378.13	20,952,057.95
Impairment provision for intangible assets	340,672,549.44	—	—	—	340,672,549.44
Total	1,173,147,669.64	15,391,086.57	3,105,929.00	8,540,508.70	1,176,892,318.51

(18) Short-term borrowings

1. Classification of short-term loans

Item	Balance at the end of the period	Balance at the beginning of the period
Credit borrowings*1	88,100,970.00	91,658,168.00
Guaranteed borrowings*2	772,543,067.47	629,212,847.60
Secured borrowings*3	370,389,460.80	380,390,820.25
Total	1,231,033,498.27	1,101,261,835.85

*1 The credit borrowings represented the borrowings in US dollars of the Company's subsidiaries from the Ronggui, Shunde Branch of The Bank of Agriculture.

*2 Among the guaranteed borrowings: RMB747,500,000 were borrowings of the Company and its subsidiaries from Hisense Finance Company Ltd. ("Hisense Finance") that were secured by guarantees provided by Hisense Group Company Limited ("Hisense Group"); RMB25,040,000 were financing borrowings for import/export documentary bills of the Company's subsidiaries and were secured by guarantees provided by the Company.

*3 The secured borrowings represented secured borrowings from the account receivables factoring business.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**(18) Short-term borrowings — Continued**

2. *As at the end of the period, the Company had no due but outstanding Short-term borrowings.*

(19) Transactional financial liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Derivative financial liabilities	—	5,960,727.44
Total	—	5,960,727.44

These mainly represented undue foreign exchange forward contracts between the Company's subsidiaries and the bank. Decrease for the period represented transfer of transactional financial liabilities that have become due.

(20) Notes payable

Category	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance notes	412,736,800.00	810,263,300.00
Total	412,736,800.00	810,263,300.00

- Among the balance at the end of the period, there was no amount due to shareholder units holding 5% or more (including 5%) of the share capital of the Company.*
- Among the balance at the end of the period, there was no amount due to related parties.*
- Among the balance at the end of the period, RMB212,400,000 was secured by guarantees provided by Hisense Group. Please see note 6(2).4 for details.*

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**(21) Accounts payable**

Item	Balance at the end of the period	Balance at the beginning of the period
Within one year (including one year)	3,333,153,596.55	2,242,016,720.89
Over one year to two years (including two years)	21,824,830.29	6,249,890.07
Over two years to three years (including three years)	11,756,338.62	56,508,756.39
Over three years	104,693,260.66	80,391,240.97
Total	3,471,428,026.12	2,385,166,608.32

1. *Among the balance at the end of the period, there was no amount due to shareholder units holding 5% (including 5%) or more of the share capital of the Company.*
2. *Among the balance at the end of the period, please see note 6(2).5 for details of amounts due to related parties.*

(22) Advances from customers

Item	Balance at the end of the period	Balance at the beginning of the period
Within one year (including one year)	543,282,002.67	919,777,370.53
Over one year to two years (including two years)	6,311,701.74	6,344,616.16
Over two years to three years (including three years)	8,517,043.16	6,046,854.90
Over three years	20,669,145.74	18,038,102.32
Total	578,779,893.31	950,206,943.91

1. *Among the balance at the end of the period, there was no prepayments received from shareholder units holding 5% (including 5%) or more of the share capital of the Company.*
2. *Among the balance at the end of the period, please see note 6(2).5 for details of amounts received from related parties.*

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued
(23) Staff remuneration payables

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
(1) Salaries, bonuses, allowances and subsidies	175,863,340.30	569,943,381.78	561,404,712.23	184,402,009.85
(2) Staff welfare fund	892,452.48	25,992,610.91	22,821,705.39	4,063,358.00
(3) Social insurance premium	5,641,738.50	41,328,299.36	43,287,310.62	3,682,727.24
(4) Housing provident fund	10,199.62	9,466,517.13	8,969,497.09	507,219.66
(5) Labor union expenses and employee education expenses	2,823,058.75	6,041,134.51	4,524,232.82	4,339,960.44
(6) Other	26,035.36	696,589.56	447,566.92	275,058.00
Total	185,256,825.01	653,468,533.25	641,455,025.07	197,270,333.19

1. *There was no outstanding amount among the staff remuneration payables.*
2. *Arrangements in respect of expected payout time and amount for staff remuneration were calculated in the current month and paid in the following month.*

(24) Interests payable

Item	Balance at the end of the period	Balance at the beginning of the period
Interests payable for loans	1,175,140.00	2,065,066.74
Total	1,175,140.00	2,065,066.74

(25) Dividends payable

Name of unit	Balance at the end of the period	Balance at the beginning of the period
Yinglang (Group) Co., Ltd.	2,067.02	2,067.02
Beijing Xuehua Group Company Limited ("Xuehua Group")	2,096,844.83	3,206,844.83
Nanjing Aipulaisi High and New Technology Co., Ltd.	5,000,000.00	—
Total	7,098,911.85	3,208,911.85

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(26) Tax payable

Tax item	Balance at the end of the period	Balance at the beginning of the period
Value-added tax	(268,408,919.47)	(260,746,991.71)
Business tax	100,189.30	1,577,693.43
Enterprise income tax	24,235,010.09	24,908,364.43
Personal income tax	7,171,319.42	4,663,849.78
Urban construction tax	2,646,728.52	956,230.25
Real estate tax	5,039,148.92	10,746,629.95
Land use tax	4,083,730.20	4,512,047.59
Education surcharges	1,701,897.09	431,661.54
Bank protection fee	838,420.63	2,674,033.43
Other	645,235.65	278,612.31
Total	(221,947,239.65)	(209,997,869.00)

(27) Other payables

Item	Balance at the end of the period	Balance at the beginning of the period
Within one year (including one year)	1,097,309,172.20	832,391,921.28
Over one year to two years (including two years)	49,734,085.64	51,053,558.19
Over two years to three years (including three years)	32,857,731.65	34,530,759.20
Over three years	205,324,758.22	191,432,368.53
Total	1,385,225,747.71	1,109,408,607.20

1. Among the balance at the end of the period, there was no amount due to shareholder units holding 5% or more (including 5%) of the share capital of the Company.
2. Among the balance at the end of the period, please see note 6(2).5 for details on amounts due to related parties.
3. Particulars of other payables of significant amount and with an age of over one year

Name of unit	Amount	Reason for being outstanding	Remark
Tianjin Taijin Yunye Company Limited ("Tianjin Taijin")	65,000,000.00	Current account	Specific third party amount
Zhuhai Longjia	28,316,425.03	Current account	Specific third party amount
Zhuhai Defa	21,400,000.00	Current account	Specific third party amount

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued
(27) Other payables — Continued
4. Other payables with significant amount

Name of unit	Amount	Nature or content	Remark
Top 1	65,000,000.00	Current account	—
Top 2	28,316,425.03	Current account	—
Top 3	21,400,000.00	Current account	—
Top 4	13,000,000.00	Current account	—
Top 5	5,005,043.87	Current account	—

(28) Other current liabilities

Item	Balance at the end of the period	Balance at the beginning of the period	Reason for the balance
Installation fee	79,648,427.21	82,714,203.00	Installation fee provided for but not yet paid in relation to goods sold
Sales discounts	295,699,223.04	312,447,006.49	Incurred but not yet settled
Transportation fee	6,211,523.74	11,420,198.79	Incurred but not yet settled
Audit and reorganization fees	3,210,219.37	6,362,873.32	Annual audit fee and reorganization fee
Marketing fee	33,248,259.79	9,993,808.64	Incurred but not yet settled
Other	122,154,478.63	60,444,997.84	Incurred but not yet settled
Total	540,172,131.78	483,383,088.08	

(29) Provisions

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Pending litigation	4,458,055.26	591,361.54	—	5,049,416.80
Provision for maintenance*	242,342,098.87	28,970,673.42	1,118,216.82	270,194,555.47
Total	246,800,154.13	29,562,034.96	1,118,216.82	275,243,972.27

* Provision for maintenance represented the estimated product quality guarantee fund. During the warranty period, the Company will offer a free warranty service to the customers concerned. According to the industry's experience and past data, the warranty costs were calculated and provided based on the remaining years of offered warranty and the average repair fee per unit.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**(30) Other non-current liabilities**

Item	Balance at the end of the period	Balance at the beginning of the period
Deferred income	41,206,492.13	35,036,851.38

Particulars of deferred income are as follows:

Item	Balance at the end of the period	Balance at the beginning of the period
State debenture projects capital for technical advancement and industry upgrade	21,450,000.00	21,450,000.00
Production technology reform project for energy-saving household SBS large-size refrigerator	3,050,000.00	3,275,000.00
2008 Guangdong-Hong Kong projects of major breakthroughs in key areas (Foshan projects)	1,470,000.00	1,470,000.00
2010 Funding for Guangdong-Hong Kong key projects	2,000,000.00	—
2010 Government subsidies for reconstruction of power room of Meijing Mansion	1,095,750.00	1,227,240.00
Acceptance of equipment donation from the United Nation in December 2006	2,780,307.26	3,033,062.48
Other	9,360,434.87	4,581,548.90
Total	41,206,492.13	35,036,851.38

Please see note 5(41) for details.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(31) Share capital

Item	Balance at the beginning of the period	Increase(+) Decrease(-) for the period					Balance at the end of the period
		Issue of new shares	Bonus shares	Capitalized reserve fund	Other	Subtotal	
1. Restricted circulating shares							
(1). State owned shares	—	—	—	—	—	—	—
(2). Domestic legal person shares	612,316,909.00	—	—	—	—	—	612,316,909.00
(3). Other domestic shares	—	—	—	—	—	—	—
Of which:							
Domestic state legal person shares	—	—	—	—	—	—	—
Domestic natural person shares	—	—	—	—	—	—	—
(4). Overseas shares	—	—	—	—	—	—	—
Of which:							
Overseas state legal person shares	—	—	—	—	—	—	—
Overseas natural person shares	—	—	—	—	—	—	—
Total restricted circulating shares	612,316,909.00	—	—	—	—	—	612,316,909.00
2. Non-restricted circulating shares							
(1). Ordinary shares denominated in RMB	282,148,033.00	—	—	—	—	—	282,148,033.00
(2). Domestic listed foreign shares	—	—	—	—	—	—	—
(3). Overseas listed foreign shares	459,589,808.00	—	—	—	—	—	459,589,808.00
(4). Other	—	—	—	—	—	—	—
Total non-restricted circulating shares	741,737,841.00	—	—	—	—	—	741,737,841.00
Total	1,354,054,750.00	—	—	—	—	—	1,354,054,750.00

(32) Capital reserve

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
1.Share capital premium	1,968,114,175.93	—	—	1,968,114,175.93
2.Other capital reserve*	85,569,315.37	—	2,982,192.07	82,587,123.30
Total	2,053,683,491.30	0.00	2,982,192.07	2,050,701,299.23

* Decrease for the period represented the transfer of corresponding capital reserve due to disposal of part of the shares in Huayi Compressor by the Company.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**(33) Surplus reserve**

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Statutory common reserve	145,189,526.48	—	—	145,189,526.48
Total	145,189,526.48	—	—	145,189,526.48

(34) Undistributed profits

Item	Amount
Undistributed profits of the previous year before adjustment	(3,044,171,810.12)
Adjustment of total undistributed profits at the beginning of the year (increase +; decrease -)	—
Undistributed profits at the beginning of the year after adjustment	(3,044,171,810.12)
Add: Net profits of the period attributable to the holders of ordinary shares of the parent	285,838,725.03
Less: Drawing down of statutory common reserve	—
Dividends payable for ordinary shares	—
As at the end of the period Undistributed profits	(2,758,333,085.09)

(35) Operating income and operating cost**1. Operating income**

Item	Amount for current period	Amount for previous period
Revenue from principal operations	9,681,132,355.15	8,503,280,399.20
Revenue from other operations	1,053,776,353.58	1,013,734,160.09
Subtotal	10,734,908,708.73	9,517,014,559.29
Cost of principal operations	7,915,305,150.41	6,961,920,551.78
Cost of other operations	995,251,246.05	972,774,965.52
Subtotal	8,910,556,396.46	7,934,695,517.30

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued
(35) Operating income and operating cost — Continued
2. Principal operations (by product categories)

Industry	Amount for current period		Amount for previous period	
	Income from principal operations	Operating cost of principal operations	Income from principal operations	Operating cost of principal operations
1. Refrigerators	4,395,137,626.65	3,422,851,222.02	4,434,832,971.66	3,377,203,986.32
2. Air-conditioners	4,269,848,859.91	3,674,644,718.46	3,139,564,566.31	2,857,652,671.20
3. Freezers	435,819,728.51	376,472,763.94	463,822,374.58	382,361,257.92
4. Small electrical appliances and others	580,326,140.08	441,336,445.99	465,060,486.65	344,702,636.34
Subtotal	9,681,132,355.15	7,915,305,150.41	8,503,280,399.20	6,961,920,551.78

3. Principal operations (by region)

Region	Amount for current period Income from principal operations	Amount for previous period Income from principal operations
Domestic	6,837,559,628.68	6,055,891,865.79
Overseas	2,843,572,726.47	2,447,388,533.42
Total	9,681,132,355.15	8,503,280,399.20

4. Operating income from the top 5 customers of the Company

Name or ranking of customer	Total revenue from principal operations	Percentage to the total revenue from principal operations of the Company %
Top 1	712,403,626.59	7.36
Top 2	709,076,181.53	7.32
Top 3	575,451,284.82	5.94
Top 4	195,896,254.92	2.02
Top 5	167,704,305.30	1.73

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**(36) Business tax and surcharges**

Item	Amount for current period	Amount for previous period	Basis of calculation
Business tax	1,557,822.82	883,903.32	Please see note 3 for details
Urban construction tax	15,006,792.76	5,848,424.52	Please see note 3 for details
Education surcharges	9,704,372.17	3,028,018.78	Please see note 3 for details
Other	334,084.28	1,127,292.36	
Total	26,603,072.03	10,887,638.98	

(37) Financial expenses

Item	Amount for current period	Amount for previous period
Interest expenses	18,258,747.67	24,958,591.30
Less: Interest incomes	611,649.41	737,127.56
Exchange gains and losses	6,971,946.32	15,507,990.29
Other	3,907,315.97	12,952,182.66
Total	28,526,360.55	52,681,636.69

(38) Assets impairment losses

Item	Amount for current period	Amount for previous period
Bad debt loss	(2,131,056.21)	(1,406,971.32)
Impairment loss on inventory	14,416,213.78	3,110,924.79
Impairment loss on fixed assets	—	—
Impairment loss on work in progress	—	—
Impairment loss on intangible assets	—	—
Total	12,285,157.57	1,703,953.47

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(39) Gain from changes in fair value

Source of gain from changes in fair value	Amount for current period	Amount for previous period
Transactional financial assets	(12,664,205.84)	15,976,557.10
Of which: Gain from changes in fair value of derivative financial instruments	(12,664,205.84)	15,976,557.10
Transactional financial liabilities	5,960,727.44	(606,070.55)
Total	(6,703,478.40)	15,370,486.55

This mainly represented undue foreign exchange forward contracts entered into by the Company with banks. The amount is calculated based on the difference between the quotation of the undue foreign exchange contracts and the future foreign exchange rate as at 30 June 2011.

(40) Investment gains

1. Particulars of investment gains

Item	Amount for current period	Amount for previous period
Gain from long-term equity investment using the cost method	3,534,000.00	2,508,000.00
Gain from long-term equity investment using the equity method	36,258,657.14	20,535,484.78
Investment gains from disposal of long-term equity investment*	45,837,301.86	84,746,188.34
Investment gains from disposal of transactional financial assets	13,766,161.11	773,566.64
Total	99,396,120.11	108,563,239.76

* Investment gains from disposal of long-term equity investment for the period represented investment gains recognized for the disposal of part of the shares in Huayi Compressor by the Company through the secondary market.

2. Gain from long-term equity investment using the cost method

Investee unit	Amount for current period	Amount for previous period	Reason for changes from the previous period
Hisense International Marketing	3,534,000.00	2,508,000.00	Changes in dividends actually received
Total	3,534,000.00	2,508,000.00	

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued**(40) Investment gains — Continued****3. Gain from long-term equity investment using the equity method:**

Investee unit	Amount for current period	Amount for previous period	Reason for changes from the previous period
Hisense Whirlpool	(6,213,971.50)	(3,834,763.95)	Changes in net profits of investee unit
Huayi Compressor	989,680.85	3,350,748.94	Changes in net profits of investee unit
Attend	(158,936.44)	69,861.99	Changes in net profits of investee unit
Hisense Hitachi	41,641,884.23	20,949,637.80	Changes in net profits of investee unit
Total	36,258,657.14	20,535,484.78	

There was no significant restrictions on the recovery of investment gains of the Company for the period.

(41) Non-operating income

Item	Amount for current period	Amount for previous period
Gain on disposal of non-current assets	1,695,241.48	1,274,838.26
Income from fines and default penalties	4,705,065.01	4,837,896.03
Gain from restructuring of debts	30,000.00	40,171.72
Government subsidies	114,584,108.95	133,013,370.21
Other	5,365,202.17	5,958,101.44
Total	126,379,617.61	145,124,377.66

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(41) Non-operating income — Continued

1. Government subsidies incurred during the year are as follows:

Item	Amount for current period	Amount for previous period	Remark
1. Asset-related government subsidies received			
Production technology reform project for energy-saving household SBS large-size refrigerator	225,000.00	225,000.00	*1
2010 Government subsidies for reconstruction of power room of Meijing Mansion	131,490.00	—	*2
Donation from the United Nation	252,755.22	252,755.22	*3
Subtotal	609,245.22	477,755.22	
2. Income-related government subsidies received			
Financial subsidies for promotion of high efficiency and energy saving air-conditioners	105,430,000.00	126,170,000.00	*4
Other government subsidies	8,544,863.73	6,365,614.99	
Subtotal	113,974,863.73	132,535,614.99	
Total	114,584,108.95	133,013,370.21	

*1 The government subsidies represented the project award of RMB3 million granted to the subsidiary of the Company Ronshen Refrigerator by the Financial Bureau of Foshan, Shunde under "Circulating the Circular of Guangdong Provincial Support for Technology Renovation Tender Projects and Supplementary Projects in 2007" (Shunfomao (2007) No. 391), and the project award of RMB1.5 million granted to the subsidiary of the Company Ronshen Refrigerator by the Economic and Trade Bureau of Foshan, Shunde under "Reply by the Office of the People's Government of Shunde, Foshan on Consenting to Grant Regional Subsidy for Science and Technology Outlay to Enterprises Including Guangdong Xinbao Electrical Appliances Holdings Co.,Ltd. in 2007" (Shunfubanhan (2008) No. 114). The project commenced from October 2007 and ended in October 2009. In April and May 2008, Ronshen Refrigerator has recognized deferred income after receiving the project government grants in the amount of RMB3 million and RMB1.5 million respectively from the Company, and the amounts received were accounted for in the books of Ronshen Refrigerator as deferred non-operating income over a period of 10 years.

*2 Pursuant to Ronguijiebanhan (2010) No. 73, subsidies for reconstruction of power room of Meijing Mansion in the amount of RMB1,314,900.00 was received and recognized as non-operating income over a period of 10 years.

*3 The amount represented equipment donated made by United Nations Industrial Development Organization on 11 May 2005 to Hisense Beijing pursuant to Montreal Protocol. The amount has been recognized by the Company as deferred income and recognized as non-operating income over a period of 10 years.

*4 The government subsidies represented government subsidies received according to the Temporary Regulations for the Government Subsidy Management for Promotion of High Efficiency and Energy-Saving Products (Finance Ministry Document Caijian (2009) No. 213).

(42) Non-operating expenses

Item	Amount for current period	Amount for previous period
Loss from the disposal of non-current assets	2,641,645.91	2,283,221.27
Expenses for fines, delinquency charges, default penalty	896,779.51	29,863.98
Other	5,426,127.61	8,765,265.88
Total	8,964,553.03	11,078,351.13

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(43) Income tax expenses

Item	Amount for current period	Amount for previous period
Income tax expenses of the year	6,689,295.86	9,655,919.01
Deferred income tax expenses	998,914.14	6,441,454.90
Total	7,688,210.00	16,097,373.91

(44) Calculation of basic and diluted earnings per share

Item	Amount for current period	Amount for previous period
Calculation of basic earnings per share and diluted earnings per share		
1. Numerator:		
Net profit after tax	285,838,725.03	329,391,467.91
Adjustments: Preference stock dividend and other instrumental effects	—	—
Profit and loss attributable to holders of ordinary shares of the parent used in the calculation of earnings per share	285,838,725.03	329,391,467.91
Adjustment:		
Dividend and interest related to dilutive potential ordinary shares	—	—
Change in proceeds or expense arising from conversion of dilutive potential ordinary shares	—	—
Profit and loss attributable to equity holders of the Company in the accounting of diluted earnings per share	285,838,725.03	329,391,467.91
2. Denominator:		
Weighted average of outside ordinary shares of the current period in the accounting of basic earnings per share	1,354,054,750.00	1,327,632,115.00
Add: Weighted average when all dilutive potential ordinary shares are converted to ordinary shares	—	—
Weighted average of outside ordinary shares of the current period in the accounting of diluted earnings per share	1,354,054,750.00	1,327,632,115.00
3. Earnings per share		
Basic earnings per share		
Net profit attributable to holders of ordinary shares of the Company	0.2111	0.2481
Net profit attributable to holders of ordinary shares of the Company after extraordinary items	0.1701	0.1559
Diluted earnings per share		
Net profit attributable to holders of ordinary shares of the Company	0.2111	0.2481
Net profit attributable to holders of ordinary shares of the Company after extraordinary items	0.1701	0.1559

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(45) Other consolidated incomes

Item	Amount for current period	Amount for previous period
1. Share of other consolidated incomes in investee units according to equity method	—	(13,518.79)
Less: Income tax effect arising from share of other consolidated incomes in investee units according to equity method	—	—
Net amount accounted for as other consolidated incomes in the previous period and transferred to profit and loss in the current period	(2,982,192.07)	—
Subtotal	(2,982,192.07)	(13,518.79)
2. Exchange differences on translation of foreign currency financial statements	970,167.10	1,188,984.28
Less: Net amount transferred to profit and loss upon disposal of foreign operations in the current period	—	—
Subtotal	970,167.10	1,188,984.28
Total	(2,012,024.97)	1,175,465.49

(46) Notes to cash flow statement

1. Other cash received in relation to operating activities

Item	Amount for current period
Interest incomes	611,649.41
Government subsidies	113,974,863.73
Other	86,121,272.28
Total	200,707,785.42

2. Other cash paid in relation to operating activities

Item	Amount for current period
Management fees paid in cash	150,283,897.75
Sales expenses paid in cash	572,978,406.64
Bank handling fees	4,930,161.76
Other	160,586,250.88
Total	888,778,717.03

NOTES TO THE FINANCIAL STATEMENTS — *Continued*

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — *Continued*

(46) Notes to cash flow statement — *Continued*

3. Other cash received in relation to financing activities

Item	Amount for current period
Margin deposit for security received	8,118,917.24
Total	8,118,917.24

(47) Supplementary information on cash flow statement

1. Supplementary information on cash flow statement

Item	Amount for current period	Amount for previous period
1. Reconciliation of net profit to cash flows from operating activities		
Net profit	284,678,746.21	347,954,978.70
Add: Impairment provision for assets	12,285,157.57	1,703,953.47
Depreciation of fixed assets and depreciation of investment properties	154,725,238.42	150,377,712.18
Amortization of intangible assets	16,072,503.42	14,738,406.56
Amortization of long-term deferred expenditure	823,854.41	911,552.88
Loss from disposals of fixed assets, intangible and other long-term assets (Gain denoted by “—”)	946,404.43	1,008,383.01
Loss on retirement of fixed assets (Gain denoted by “—”)	—	—
Loss from change in fair value (Gain denoted by “—”)	6,703,478.40	(15,370,486.55)
Financial expenses (Gain denoted by “—”)	18,258,747.67	24,958,591.30
Investment loss (Gain denoted by “—”)	(99,396,120.11)	(108,563,239.76)
Decrease in deferred income tax assets (Increase denoted by “—”)	998,914.14	3,011,343.74
Increase in deferred income tax liabilities (Decrease denoted by “—”)		
Decrease in inventory (Increase denoted by “—”)	(171,153,862.98)	(697,972,595.05)
Decrease in operating receivable (Gain denoted by “—”)	(1,010,271,519.28)	(1,191,276,977.91)
Increase in operating payable (Decrease denoted by “—”)	649,894,537.30	1,838,426,623.02
Other		
Net cash flow from operating activities	(135,433,920.40)	369,908,245.59
2. Major investing and financing activities not involving cash receipts and payment		
Liabilities convert into assets equity		
— Convertible company bonds due during the period		
Fixed assets under finance leases		
3. Net changes in cash and cash equivalents		
Cash at the end of the period	320,589,659.92	373,524,070.58
Less: Cash at the beginning of the period	419,921,513.93	201,236,412.22
Add: Cash equivalents at the end of the period	—	
Less: Cash equivalents at the beginning of the period	—	
Net increase in cash and cash equivalents	(99,331,854.01)	172,287,658.36

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

5. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

(47) Supplementary information on cash flow statement — Continued

2. Composition of cash and cash equivalents

Item	Balance at the end of the period	Balance at the beginning of the period
1. Cash		
Of which: capital reserve	109,723.13	171,985.82
Bank deposit readily available for making payment	320,479,936.79	419,749,528.11
Other bank balances and cash readily available for making payment	—	—
Central bank deposit available for making payment	—	—
Deposit with other banks	—	—
Loans to other banks	—	—
2. Cash equivalents	—	—
Of which: Bond investments due within three months	—	—
3. Cash and cash equivalents as at the end of the period	320,589,659.92	419,921,513.93

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Particulars of related parties

1. Related parties with controlling interests in the Company

(Unit: RMB'0000)

Name of parent	Related party relationship	Category of enterprise	Place of incorporation	Legal representative	Business nature	Registered capital	Registered capital	Percentage of voting rights of parent in the Company	Ultimate controlling party of the Company	Institution code
Hisense Air-Conditioner	Controlling shareholder	Sino-foreign joint venture enterprise	Qingdao	Tang Ye Guo	Manufacture of air-conditioners, moulds and after-sale service	67,479	45.22%	45.22%	SASAC	614306514
Hisense Group	Beneficiary controlling shareholder	Solely State-owned	Qingdao	Zhou Hou Jian	Trust Operation of State-Owned Property of manufacture, sale and services of household appliances and communication products	80,617	—	—	SASAC	163578771

2. Please see note 4 and note 5(9) for related information on the Company's subsidiaries, associates and joint ventures.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued**(1) Particulars of related parties — Continued****3. Greencool Companies**

<u>Name of related parties of Greencool Companies</u>	<u>Relationship with the Company</u>
Guangdong Greencool	Former controlling shareholder of the Company
Shenzhen Greencool Environmental	Related party of Guangdong Greencool
Shenzhen Greencool Technology	Related party of Guangdong Greencool
Greencool Procurement (Shenzhen) Co., Ltd. ("Greencool Procurement")	Related party of Guangdong Greencool
Hainan Greencool	Related party of Guangdong Greencool
Jiangxi Greencool Electrical Appliance Co., Ltd. ("Jiangxi Greencool")	Related party of Guangdong Greencool

4. Other related parties of the Company

<u>Name of other related parties</u>	<u>Other related parties Relationship with the Company</u>	<u>Institution code</u>
Huayi Compressor	Associate of the Company	70562223-X
Attend	Associate of the Company	72993557-2
Hisense Whirlpool	Joint venture of the Company	68165825-3
Hisense Hitachi	Joint venture of the Company	743975941
Hisense Finance	Subsidiary of beneficiary controlling shareholder	71788291x
Qingdao Hisense Electric Co., Ltd. ("Hisense Electrical Appliances")	Subsidiary of beneficiary controlling shareholder	26462882-x
Xi'an Gaoke (Group) Limited ("Xi'an Gaoke")	Minority shareholder of Xi'an Kelon	—
Shunde Yunlong Consultancy Service Limited ("Shunde Yunlong Consultancy")	Minority shareholder of Huao Electronics	—
Xuehua Group	Minority shareholder of Hisense Beijing	—
Beijing Embraco Snowflake compressor Co., Ltd. ("Embraco")	Subsidiary of Xuehua Group	—
Combine	Subsidiary not consolidated in the Company	—
Hisense International (HK) Co., Ltd. ("Hisense Hong Kong")	Subsidiary of beneficiary controlling shareholder	—

NOTES TO THE FINANCIAL STATEMENTS — Continued*Half year of 2011***6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued****(1) Particulars of related parties — Continued****5. *The Greencool Companies had a series of transactions or abnormal cash inflow/outflow through the following “Specified Third Party Companies”***

Name of related party	Relationship with the Company
Jiangxi Kesheng	Specified Third Party Company
Jinan San Ai Fu	Specified Third Party Company
Tianjin Xiangrun	Specified Third Party Company
Tianjin Lixin	Specified Third Party Company
Jiangxi Keda	Specified Third Party Company
Hefei Weixi	Specified Third Party Company
Zhuhai Longjia	Specified Third Party Company
Zhuhai Defa	Specified Third Party Company
Wuhan Changrong	Specified Third Party Company
Tianjin Taijin	Specified Third Party Company
Deheng Solicitors	Specified Third Party Company
Shangqiu Bingxiong	Specified Third Party Company
Finance Bureau of Yangzhou Economic Development Zone	Specified Third Party Company

(2) Related party transactions**1. *Transactions among subsidiaries with controlling relationship and included in the scope of the Company’s consolidated financial statements and between the parents and subsidiaries have been set off.***

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued

(2) Related party transactions — Continued

2. Related parties transactions for purchase of goods and receipt of services from connected persons (exclusive of tax)

Name of related party	Category of related parties transactions	Content of related parties transactions	Pricing of related parties transactions	Amount for current period		Amount for previous period	
				Amount (RMB)	Percentage to similar transaction for the period (%)	Amount (RMB)	Percentage to similar transaction for the period (%)
Hisense Group and its subsidiaries	Purchase	Finished product	Agreed price	15,871.23	0.00	—	—
Hisense Whirlpool	Purchase	Finished product	Agreed price	213,907,721.58	2.40	62,669,169.98	0.79
Hisense Hitachi	Purchase	Finished product	Agreed price	—	—	144,554.07	—
Subtotal of purchase of finished product				213,923,592.81	2.40	62,813,724.05	0.79
Hisense Electrical Appliances and its subsidiaries	Purchase	Raw materials	Agreed price	8,852,270.91	0.10	1,436,092.46	0.02
Hisense Group and its subsidiaries	Purchase	Raw materials	Agreed price	4,834,205.00	0.05	72,471,351.97	0.90
Hisense Whirlpool	Purchase	Raw materials	Agreed price	1,204,453.43	0.01	24,634,113.94	0.31
Hisense Hitachi	Purchase	Raw materials	Agreed price	3,456,347.59	0.04	—	—
Huayi Compressor and its subsidiaries	Purchase	Raw materials	Agreed price	395,318,041.56	4.44	333,159,769.43	4.20
Embraco	Purchase	Raw materials	Agreed price	26,203,094.02	0.29	38,209,089.96	0.48
Subtotal of purchase of Raw materials				439,868,412.51	4.93	469,910,417.76	5.91
Hisense Electrical Appliances and its subsidiaries	Purchase	Moulds and equipment	Agreed price	71,922.74	0.00	—	—
Hisense Group and its subsidiaries	Purchase	Moulds and equipment	Agreed price	686,018.97	0.01	—	—
Hisense Whirlpool	Purchase	Moulds and equipment	Agreed price	1,085,407.74	0.01	—	—
Subtotal of purchase of Moulds and equipment				1,843,349.45	0.02	—	—
Hisense Electrical Appliances and its subsidiaries	Receipt of services		Agreed price	2,797,824.32	0.03	—	—
Hisense Group and its subsidiaries	Receipt of services		Agreed price	79,756,144.98	0.90	8,537,586.83	0.10
Xuehua Group	Receipt of services		Agreed price	8,859,642.05	0.10	10,556,749.25	0.13
Subtotal of receipt of services				91,413,611.35	1.03	19,094,336.08	0.23

In addition: During the reporting period, the Company has engaged Hisense International (HK) Co., Ltd. for factoring the purchase of raw materials in the amount of RMB23,655,574.00.

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued**(2) Related party transactions — Continued****2. Related parties transactions for purchase of goods and receipt of services from connected persons (exclusive of tax) — Continued**

- (1) Hisense Kelon and the related subsidiaries of Hisense Group have entered into a Business Cooperation Framework Agreement on 3 December 2010, pursuant to which, the transaction with Hisense Kelon being the purchaser and recipient of services was subject to a total limit (inclusive of tax) of RMB498,900,000.
- (2) Hisense Kelon and Hisense Whirlpool have entered into a Business Framework Agreement on 9 June 2011, pursuant to which, the transaction with Hisense Kelon being the purchaser and recipient of services was subject to a total limit (inclusive of tax) of RMB873,180,000.
- (3) Hisense Kelon and Hisense Hitachi have entered into a Business Framework Agreement on 3 December 2010, pursuant to which, the transaction with Hisense Kelon being the purchaser and recipient of services was subject to a total limit (inclusive of tax) of RMB19,000,000.
- (4) Hisense Kelon and Huayi Compressor have entered into a Purchase and Supply of Compressors Framework Agreement on 3 December 2010, pursuant to which, the transaction with Hisense Kelon being the purchaser and recipient of services was subject to a total limit (inclusive of tax) of RMB1,260,000,000.
- (5) Hisense Kelon and Embraco have entered into a Purchase and Supply of Compressors Framework Agreement on 3 December 2010, pursuant to which, the transaction with Hisense Kelon being the purchaser and recipient of services was subject to a total limit (inclusive of tax) of RMB250,000,000.
- (6) Hisense Kelon and Beijing Xuehua Group have entered into a Property Service Framework Agreement on 3 December 2010, pursuant to which, the transaction in which Hisense Kelon engaged Xuehua Group to provide property services was subject to a total limit (inclusive of tax) of RMB27,750,000.
- (7) Hisense Kelon and Hisense Hong Kong has entered into a Factoring Purchase Framework Agreement on 16 March 2011, pursuant to which, the transaction in which Hisense Kelon shall perform factoring purchase through Hisense Hong Kong was subject to a limit of USD150,000,000.

The above agreements were considered and approved at the fifteenth extraordinary meeting of the Company's seventh session of board of director in 2010 convened on 3 December 2010, the third extraordinary meeting in 2011 convened on 16 March 2011 and the fifth extraordinary meeting in 2011 convened on 9 June 2011, and were considered and approved at the first extraordinary general meeting of the Company in 2011 and the annual general meeting of 2010.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued

(2) Related party transactions — Continued

3. Related parties transactions for sale of goods and provision of service

Name of related party	Category of related parties transactions	Content of related parties transactions	Pricing of related parties transactions	Amount for current period		Amount for previous period	
				Amount (RMB)	Percentage to transaction under the category during the period (%)	Amount (RMB)	Percentage to transaction under the category during the period (%)
Hisense Electrical Appliances and its subsidiaries	Sale of finished goods	Finished product	Agreed price	3,456,284.36	0.03	450,810.36	—
Hisense Group and its subsidiaries	Sale of finished goods	Finished product	Agreed price	818,377,063.78	7.62	544,728,987.86	5.72
Hisense Whirlpool	Sale of finished goods	Finished product	Agreed price	116,801.97	0.00	—	—
Hisense Hitachi	Sale of finished goods	Finished product	Agreed price	17,185,873.41	0.16	6,074,340.00	0.06
Subtotal of sales amount of finished product				839,136,023.52	7.81	551,254,138.22	5.78
Hisense Electrical Appliances and its subsidiaries	Sale	Raw materials	Agreed price	—	—	514,762.92	0.01
Hisense Group and its subsidiaries	Sale	Raw materials	Agreed price	23,399,585.88	0.22	1,203,453.26	0.01
Hisense Whirlpool	Sale	Raw materials	Agreed price	5,701,404.26	0.05	1,707,831.57	0.02
Hisense Hitachi	Sale	Raw materials	Agreed price	14,393.97	0.00	—	—
Subtotal of sales amount of raw materials				29,115,384.11	0.27	3,426,047.75	0.04
Hisense Electrical Appliances and its subsidiaries	Sale	Moulds	Market price	18,664,999.99	0.17	36,040,045.14	0.38
Hisense Group and its subsidiaries	Sale	Moulds	Market price	53,945,629.00	0.50	59,303,777.01	0.62
Hisense Whirlpool	Sale	Moulds	Market price	—	—	973,000.00	0.01
Hisense Hitachi	Sale	Moulds	Market price	—	—	146,000.00	—
Subtotal of sales amount of moulds				72,610,628.99	0.67	96,462,822.15	1.01
Hisense Group and its subsidiaries	Provision of services		Agreed price	245,495.64	0.00	365,366.87	—
Hisense Whirlpool	Provision of services		Agreed price	—	—	481,800.00	0.01
Attend	Provision of services		Agreed price	8,282.05	0.00	—	—
Subtotal of provision of services				253,777.69	0.00	847,166.87	0.01

(1) Hisense Kelon and related subsidiaries of Hisense Group have entered into a Business Cooperation Framework Agreement on 3 December 2010. During the effective period of the agreement, the transaction with Hisense Kelon being the supplier and service provider was subject to an upper limit (tax inclusive) of RMB2,271,700,000.

(2) Hisense Kelon and Hisense Whirlpool have entered into a Business Framework Agreement on 9 June 2011. During the effective period of the agreement, the transaction with Hisense Kelon being the supplier was subject to an upper limit (tax inclusive) of RMB58,000,000.

(3) Hisense Kelon and Hisense Hitachi have entered into a Business Framework Agreement on 3 December 2010. During the effective period of the agreement, the transaction with Hisense Kelon being the supplier was subject to an upper limit (tax inclusive) of RMB71,000,000.

The above agreements were considered and passed at the fifteenth extraordinary meeting of the Company's seventh session of board of director in 2010 convened on 3 December 2010 and the fifth extraordinary meeting in 2011 convened on 9 June 2011 respectively, and were considered and approved at the first extraordinary general meeting of the Company in 2011 and the annual general meeting of 2010 respectively.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued

(2) Related party transactions — Continued

4. Connected guarantees

Borrowing of funds from related parties

Guarantor	Guaranteed party	Amount	Effective date of guarantee	Expiry date of guarantee	Content of guarantee	Whether the guarantee was completed
Hisense Group	The Company	85,000,000.00	2010.10.26	2011.10.25	Borrowings	No
Hisense Group	The Company	60,000,000.00	2010.10.28	2011.10.27	Borrowings	No
Hisense Group	The Company	50,000,000.00	2010.10.29	2011.10.28	Borrowings	No
Hisense Group	The Company	42,500,000.00	2010.11.29	2011.11.28	Borrowings	No
Hisense Group	The Company	50,000,000.00	2011.5.18	2011.10.25	Borrowings	No
Hisense Group	The Company	50,000,000.00	2011.5.20	2011.11.3	Borrowings	No
Hisense Group	The Company	80,000,000.00	2011.5.24	2012.5.23	Borrowings	No
Hisense Group	Ronshen Refrigerator	70,000,000.00	2010.9.25	2011.9.23	Borrowings	No
Hisense Group	Ronshen Refrigerator	80,000,000.00	2010.9.28	2011.9.27	Borrowings	No
Hisense Group	Ronshen Refrigerator	30,000,000.00	2010.10.21	2011.10.17	Borrowings	No
Hisense Group	Ronshen Refrigerator	50,000,000.00	2010.10.21	2011.10.19	Borrowings	No
Hisense Group	Ronshen Refrigerator	75,000,000.00	2011.5.20	2012.5.18	Borrowings	No
Hisense Group	Yangzhou Kelon	25,000,000.00	2010.9.26	2011.9.26	Borrowings	No
Subtotal of borrowings		<u>747,500,000.00</u>				
Hisense Group	The Company	8,000,000.00	2011.2.25	2011.8.25	Bank acceptance notes	No
Hisense Group	The Company	30,000,000.00	2011.04.27	2011.10.27	Bank acceptance notes	No
Hisense Group	The Company	78,360,000.00	2011.2.28	2011.8.28	Bank acceptance notes	No
Hisense Group	Hisense Shandong	95,880,000.00	2011.3.31	2011.9.30	Bank acceptance notes	No
Subtotal of bank acceptance notes		<u>212,240,000.00</u>				

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued**(2) Related party transactions — Continued****4. Connected guarantees — Continued***Borrowing of funds from related parties — Continued*

- (1) In February 2011, the Company and Hisense Finance have entered into Haixinshouxinzi No. 025 Consolidated Credit Contract, pursuant to which, the Company might apply to Hisense Finance for the utilization of a maximum credit amount of RMB500,000,000 from 25 February 2011 to 24 February 2012. To ensure the settlement of the liabilities under the credit contract, Hisense Group and Hisense Finance have entered into a contract Haixingaobaozi No. 013 to guarantee for the repayment of loan by the Company on 28 February 2011.
- (2) In December 2010, Ronshen Refrigerator and Hisense Finance have entered into Haixinshouxinzi No. 024 Consolidated Credit Contract, pursuant to which, Ronshen Refrigerator might apply to Hisense Finance for the utilization of a maximum credit amount of RMB400,000,000 from 14 January 2011 to 27 December 2011. To ensure the settlement of the liabilities under the credit contract, Hisense Group and Hisense Finance have entered into a contract Haixingaobaozi No. 012 to guarantee for the repayment of loan by Ronshen Refrigerator on 30 December 2010.
- (3) In October 2009, Yangzhou Kelon and Hisense Finance have entered into Haixinshouxinzi No. 014 Consolidated Credit Contract, pursuant to which, Yangzhou Kelon might apply to Hisense Finance for the utilization of a maximum credit amount of RMB150,000,000 from 23 October 2009 to 22 October 2010. To ensure the settlement of the liabilities under the credit contract, Hisense Group and Hisense Finance have entered into Haixingaobaozi No. 009 to guarantee for the repayment of loan by Yangzhou Kelon 23 October 2009.
- (4) In March 2011, Hisense Group and the Shandong, Qingdao Branch of Industrial and Commercial Bank of China Limited have entered into 3803001-2011 Yingye(bao)zi No. 0012 Maximum Guarantee Contract, pursuant to which, Hisense Shandong Air-Conditioner might apply to the Shandong, Qingdao Branch of Industrial and Commercial Bank of China Limited for the utilization of a maximum credit amount of RMB196,000,000 from 31 December 2010 to 21 October 2011. To ensure the settlement of the liabilities under the credit contract, Hisense Group and the Shandong, Qingdao Branch of Industrial and Commercial Bank of China Limited have entered into 803001-2011 Yingye(bao)zi No. 0012 to guarantee for the repayment of loan by Hisense Shandong Air-Conditioner on 25 March 2011.
- (5) As at 30 June 2011, the Company and its subsidiaries had a balance of credit with Hisense Finance in the amount of RMB747,500,000 and a balance of deposit of 27,215,200. For the year, the credit interests payable to Hisense Finance by the Company amounted to RMB16,043,400, and the interest income received from Hisense Finance amount to RMB88,900.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued
(2) Related party transactions — Continued
5. Transactions with other related companies and specified third party companies
(1) Transactions with other related companies

Item	Related parties	Balance at the end of the period (RMB)			Balance at the beginning of the period (RMB)		
		Carrying balance	Percentage to the total under the category (%)	Provision for bad debts	Carrying balance	Percentage to the total under the category (%)	Provision for bad debts
Accounts receivable	Hisense Electrical Appliances and its subsidiaries	6,068,933.93	0.28	—	2,477,547.69	0.16	—
Accounts receivable	Hisense Group and its subsidiaries	229,953,788.92	10.64	—	126,459,466.69	8.23	863,752.76
Accounts receivable	Hisense Whirlpool	2,348,707.23	0.11	—	6,488,959.73	0.42	—
Accounts receivable	Hisense Hitachi	—	—	—	14,600.00	—	—
Accounts receivable	Attend	3,511.20	0.00	—	—	—	—
Accounts receivable	Huayi Compressor and its subsidiaries	33,904.00	0.00	—	44,603.55	—	—
Subtotal of account receivables		238,408,845.28	11.03	—	135,485,177.66	8.81	863,752.76
Other receivables	Hisense Electrical Appliances and its subsidiaries	200,000.00	0.02	—	200,000.00	0.03	—
Other receivables	Hisense Group and its subsidiaries	24,707.00	0.00	—	—	—	—
Other receivables	Hisense Whirlpool	20,000.00	0.00	—	2,454,755.40	0.33	—
Other receivables	Shunde Yunlong Consultancy	4,455,375.57	0.55	4,455,375.57	4,455,375.57	0.59	4,455,375.57
Subtotal of other receivables		4,700,082.57	0.57	4,455,375.57	7,110,130.97	0.95	4,455,375.57
Prepayments	Hisense Group and its subsidiaries	7,402,051.99	2.39	—	2,396,955.42	0.67	—
Prepayments	Attend	—	—	—	3,364.00	—	—
Subtotal of Prepayments		7,402,051.99	2.39	—	2,400,319.42	0.67	—
Accounts payable	Hisense Electrical Appliances and its subsidiaries	117,416.48	0.00	—	33,266.88	—	—
Accounts payable	Hisense Group and its subsidiaries	3,634,878.45	0.10	—	35,984,693.93	1.51	—
Accounts payable	Hisense Whirlpool	142,488,857.92	4.10	—	149,099,763.78	6.25	—
Accounts payable	Huayi Compressor and its subsidiaries	182,236,036.57	5.25	—	137,261,716.73	5.75	—
Accounts payable	Embraco	17,206,086.14	0.50	—	8,407,027.00	0.35	—
Subtotal of trade payables		345,683,275.56	9.95	—	330,786,468.32	13.86	—
Other payables	Hisense Group and its subsidiaries	4,623,585.00	0.33	—	3,997,381.52	0.36	—
Other payables	Huayi Compressor and its subsidiaries	200,000.00	0.01	—	200,000.00	0.02	—
Other payables	Embraco	100,000.00	0.01	—	100,000.00	0.01	—
Other payables	Xi'an Gaoke	2,358,041.00	0.17	—	2,358,041.00	0.21	—
Other payables	Combine	5,099,880.00	0.37	—	5,099,880.00	0.46	—
Subtotal		12,381,506.00	0.89	—	11,755,302.52	1.06	—
Advances from customers	Hisense Group and its subsidiaries	2,135,350.33	0.37	—	2,630,421.51	0.28	—
Advances from customers	Hisense Whirlpool	282,754.43	0.05	—	—	—	—
Advances from customers	Hisense Hitachi	3,317,841.06	0.57	—	933,827.22	0.10	—
Subtotal		5,735,945.82	0.99	—	3,564,248.73	0.38	—
Notes receivable	Hisense Electrical Appliances and its subsidiaries	—	—	—	3,520,000.00	0.91	—
Notes receivable	Hisense Group and its subsidiaries	39,642,683.69	5.24	—	44,598,266.66	11.55	—
Subtotal		39,642,683.69	5.24	—	48,118,266.66	12.46	—

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued

(2) Related party transactions — Continued

5. Transactions with other related companies and specified third party companies — Continued

(2) Transactions with "Specified Third Party Companies"

Item	Related parties	Balance at the end of the period	Balance at the beginning of the period
Accounts receivable	Hefei Weixi	18,229,589.24	18,229,589.24
Accounts receivable	Wuhan Changrong	20,460,394.04	20,460,394.04
Subtotal of accounts receivable		38,689,983.28	38,689,983.28
Prepayments	Hefei Weixi	465,213.00	465,213.00
Subtotal of prepayments		465,213.00	465,213.00
Other receivables	Jiangxi Kesheng	27,462,676.72	27,462,676.72
Other receivables	Jinan San Ai Fu	121,496,535.45	121,496,535.45
Other receivables	Tianjin Xiangrun	96,905,328.00	96,905,328.00
Other receivables	Tianjin Lixin	89,600,300.00	89,600,300.00
Other receivables	Jiangxi Keda	13,000,200.00	13,000,200.00
Other receivables	Zhuhai Longjia	28,600,000.00	28,600,000.00
Other receivables	Zhuhai Defa	21,400,000.00	21,400,000.00
Other receivables	Wuhan Changrong	20,000,000.00	20,000,000.00
Other receivables	Deheng Solicitors	4,000,000.00	4,000,000.00
Other receivables	Finance Bureau of Yangzhou Economic Development Zone	40,000,000.00	40,000,000.00
Other receivables	Shangqiu Bingxiong	58,030,000.00	58,030,000.00
Subtotal of other receivables		520,495,040.17	520,495,040.17
Other payables	Zhuhai Longjia	28,316,425.03	28,316,425.03
Other payables	Zhuhai Defa	21,400,000.00	21,400,000.00
Other payables	Tianjin Taijin	65,000,000.00	65,000,000.00
Other payables Subtotal		114,716,425.03	114,716,425.03

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS — Continued**(2) Related party transactions — Continued****5. Transactions with other related companies and specified third party companies — Continued****(3) Transactions with Greencool Companies**

Item	Related parties	Balance at the end of the period	Balance at the beginning of the period
Other receivables	Guangdong Greencool	13,754,600.00	13,754,600.00
Other receivables	Shenzhen Greencool Environmental	33,000,000.00	33,000,000.00
Other receivables	Shenzhen Greencool Technology	32,000,000.00	32,000,000.00
Other receivables	Hainan Greencool	12,289,357.71	12,289,357.71
Subtotal of other receivables		91,043,957.71	91,043,957.71
Other payables	Jiangxi Greencool	13,000,000.00	13,000,000.00
Subtotal of other payables		13,000,000.00	13,000,000.00

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

7. CONTINGENT MATTERS**1. Liabilities arising from pending litigation or arbitrations and their financial effects**

As at the approval date of the financial report, the pending litigations involving the Company are summarized as follows:

(1) Cases with the Company as the plaintiff

<u>Plaintiff</u>	<u>Defendant</u>	<u>Cause</u>	<u>Total amount involved</u>
Ronshen Refrigerator*1	Xi'an Kelon	Delinquency of purchase amount	99,984,100.00
The Company*2	Shangqiu Kelon	Purchase amount not settled	25,660,900.00
The Company	Beijing Diamond Advertising Co., Ltd.	Dispute over advertising contract	5,000,000.00
Kelon Jiake	Shunde Yunlong Consultancy	Dispute over debts	4,455,375.57
Rongsheng Plastic	Shenzhen Fudong Industrial Equipment Co., Ltd., Zhang Yong, Yang Lanruo, Shenzhen Yonghecheng Blower Industry Co., Ltd.	Dispute over processing and outsourcing contract	4,287,600.00
The Company and its subsidiaries	Other		1,280,430.00
Total			<u><u>140,668,405.57</u></u>

*1 In December 2008, the Foshan Intermediate Court has dismissed the case instituted by Ronshen Refrigerator on grounds of lack of facts and legal basis and Ronshen Refrigerator lodged an appeal to the Guangdong Higher Court. Civil judgment Fozhongfaminerchuzi No. 88 (2007) of the Foshan Intermediate Court was dismissed by the Guangdong Higher Court and the case was remanded to the Foshan Intermediate Court. In February 2011, the case has re-opened at the Foshan Intermediate Court for re-trial and re-calculation of the purchase amount and other liabilities against the original defendant were requested. In June 2011, the Foshan Intermediate Court has determined the two auditing firms to conduct the judicial audit through drawing of balls. Currently, judicial audit is in progress.

*2 The Company has requested the defendants to reimburse the purchase amount for goods and the related interests and bear all the litigation fees. The civil judgment is now in effect.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

7. CONTINGENT MATTERS — Continued**1. Liabilities arising from pending litigation or arbitrations and their financial effects — Continued****(2) Cases with the Company as the defendant**

<u>Plaintiff</u>	<u>Defendant</u>	<u>Cause</u>	<u>Total amount involved</u>
Supplier of aw materials	The Company	Dispute over sale and purchase contract and processing contract	33,202,508.85
Staff of the Company	The Company	Labor dispute	5,898,562.78
Total			<u>39,101,071.63</u>

(3) Case for which the judgment was in favour of the Company but was not yet executed

<u>Plaintiff</u>	<u>Defendant</u>	<u>Cause</u>	<u>Total amount involved</u>
The Company*	Greencool and Gu Chu Jun	Fraud in purchase; capital infringement	732,386,050.00
Total			<u>732,386,050.00</u>

As at 12 August 2009, the Company has received the papers of civil judgment, namely (2009) Yuegaofaliminzhongzi Nos. 238, 171, 172 and 116 and (2008) Yuegaofaliminzhongzi Nos. 439, 465, 441, 466, 440, 471, 396, 318, 319 and 206 from the Higher People's Court of Guangdong Province (the "Guangdong Higher Court"), which delivered the final judgments in respect of the litigations instituted by the relevant controlling subsidiaries of the Company against Gu Chu Jun, the Greencool Companies and the specific third parties. It was judged that civil judgments of first instance, namely Fozhongfaminerchuzi Nos. 11, 12, 13, 10, 14, 153, 184, 185, 180, 154, 175, 181, 182 and 186 (2006)) from the Foshan Intermediate Court shall become effective from the date of delivery of the papers of final civil judgment from the Guangdong Higher Court mentioned above, and the judgments were in favor of the Company.

On 9 June 2008, the Company received a papers of civil judgment, , namely (2008) Yuegaofaliminzhongzi No. 190 and No. 191 from the Guangdong High Court, which delivered the final judgments in respect of the litigations instituted by the Company against Gu Chu Jun, the Greencool Companies and the specific third parties, stating the civil judgments numbered Fozhongfaminerchuzi No.93 and No.94 (2006) from the Foshan Intermediate Court in favour of the Company shall become effective from the date of delivery of the papers of final civil judgment from the Guangdong High Court mentioned above, and the judgments were in favor of the Company.

On 15 August 2008, the Company received a notice of Foshan Intermediate Court, stating that as the defendants have not appealed against the judgement of first instance within the prescribed period under the law, the paper of civil judgment, namely (2006) Fozhongfaminerchuzi No. 179 from the Foshan Intermediate Court has become effective, and the judgments were in favor of the Company.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

7. CONTINGENT MATTERS — Continued

1. Liabilities arising from pending litigation or arbitrations and their financial effects — Continued

(3) Case for which the judgment was in favour of the Company but was not yet executed — Continued

On 9 January 2009, the Company received the paper of civil judgment, namely (2006) Fozhongfaminerchuzi No. 183 from the Foshan Intermediate Court, which delivered judgments in respect of the litigations instituted by the Company against Gu Chu Jun, the Greencool Companies and the specific third parties. The institution of proceedings was dismissed due to insufficiency of evidence submitted by the Company.

On 2 March 2009, the Company received the paper of civil judgment, the namely (2006) Fozhongfaminerchuzi No. 178 from the Foshan Intermediate Court, which delivered judgments in respect of the litigations instituted by the Company against Gu Chu Jun, the Greencool Companies and the specific third parties. The Company agreed to withdraw the institution of proceedings due to insufficiency of evidence.

8. COMMITMENT

As at 30 June 2011, assets of the Company and its subsidiaries used as securities for borrowings are as follows:

Mortgagor	Mortgagee	Balance of finance (RMB'0000)	Name of security	Pledge/security contract	Evaluation (RMB'0000)	Net carrying value of security (RMB'0000)
Yangzhou Kelon	Shunde, Foshan Branch of The Bank of China Limited	21,894.49	Buildings at Nos. 9 and 19 Hungyang Road	GDY476400120100007	17,702.02	11,083.67
Yangzhou Kelon			Land use right of the west side of Yangzijiang South Road Yangzhou, No. 9 Hungyang Road and Fuyang Road North	GDY476400120100008	26,685.03	4,231.91
The Company			No. 8 Ronggang Road, No. 13 Ronggang Road, No. 11 Ronggang Road and No. 29 Neighborhood Committee of Wenfeng North Road	GDY476400120100005	32,727.60	15,751.54
Kelon Fittings			Buildings at the side of Rongji Bridge, Buildings at the side of Rongji Bridge	GDY476400120100006	5,566.00	3,910.72
Kelon Air- Conditioner			No. 1 Rongji Road, side of Rongji Bridge	GDY476400120100009	25,751.00	10,562.70
Total		21,894.49			108,431.65	45,540.54

9. SUBSEQUENT EVENTS

On 26 July 2011, the Company and its subsidiaries Pearl River Refrigerator have entered into share transfer agreements with third parties in relation to the transfer of 75% and 25% equity interests in Chengdu Kelon respectively. The Company is expected to record a gain of approximately RMB8,000,000 from this equity transfer.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

10. OTHER SIGNIFICANT EVENTS

(1) Particulars of different categories of leased assets are as follows:

Category of leased assets under operating leases	Carrying value as at the end of the period	Carrying value at the beginning of the period
Buildings and construction	39,244,815.10	40,599,871.77
Total	39,244,815.10	40,599,871.77

(2) Assets and liabilities measured at fair value:

Item	Balance at the beginning of the period	Gain and loss from changes in fair value for the period	Accumulated changes in fair value accounted in equity	Provision made during the period	Balance at the end of the period
Financial assets					
Derivative financial assets	28,150,388.56	(12,664,205.84)	—	—	15,486,182.72
Subtotal of financial assets	28,150,388.56	(12,664,205.84)	—	—	15,486,182.72
Derivative financial liabilities	(5,960,727.44)	5,960,727.44	—	—	—
Subtotal of financial liabilities	(5,960,727.44)	5,960,727.44	—	—	—

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

10. OTHER SIGNIFICANT EVENTS — Continued

(3) Other discloseable significant events

- On 10 June 2011, the seventh session of the board of directors of the Company considered and passed “the First Share Option Incentive Scheme of Hisense Kelon Electrical Holdings Company Limited (Revised Draft)”, under which the Company intended to grant 20,610,000 share options to the incentive subjects. The share option scheme has been examined and approved by the SASAC of Qingdao, filed with the SASAC of the State Council and filed with the CSRC with no objection, and was considered and passed at the 2011 second extraordinary general meeting of the Company. As at the date of the report, this share option scheme of the Company have been completed the relevant approval procedures and was pending for the completion of the subsequent related matters by the board of the directors of the Company. Please see the relevant announcements of the Company for details.
- Pursuant to the “Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong” published by the Stock Exchange in December 2010 and the relevant amendments to the Rules Governing the Listing of Securities on the Stock Exchange (“Amended Listing Rules”), Mainland incorporated issuers are allowed to prepare their financial statements using Mainland accounting standards in meeting the regular financial reporting requirements under the Amended Listing Rules. On 27 June 2011, it was considered and passed at the 2010 annual general meeting of the Company that the relevant provisions of the Articles of Association should be amended so that the financial statements and financial reports of the Company might be prepared using Mainland accounting standards. On 13 July 2011, the board of directors of the Company announced that the Company would only prepare one set of financial statements for financial periods beginning on 1 January 2011 or after. Please see the relevant announcements of the Company for details.

11. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY

(1) Accounts receivable

1. Disclosure of trade receivables by category

Category	Balance at the end of the period				Balance at the beginning of the period			
	Carrying balance		Provision for bad debts		Carrying balance		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Significant single-item trade receivables provided for bad debts	—	—	—	—	—	—	—	—
Trade receivables provided for bad debts as a group								
Age analysis	1,105,630,902.31	96.62	155,075,879.74	14.03	700,705,852.86	94.77	155,975,469.50	22.26
Greencool Companies	38,689,983.28	3.38	22,726,941.64	58.74	38,689,983.28	5.23	22,726,941.64	58.74
Subtotal of the group	1,144,320,885.59	100.00	177,802,821.38	15.54	739,395,836.14	100.00	178,702,411.14	24.17
Single-item trade receivables not significant but provided for bad debts	—	—	—	—	—	—	—	—
Total	1,144,320,885.59	100.00	177,802,821.38	15.54	739,395,836.14	100.00	178,702,411.14	24.17

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

11. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT — Continued

(1) Accounts receivable — Continued

1. Disclosure of accounts receivable by category — Continued

(1) Trade receivables provided for bad debts in the group by age analysis:

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying balance		Provision for bad debts	Carrying balance		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within three months	946,741,876.48	82.73	—	543,060,439.06	73.45	—
Over three months but within six months	4,045,708.74	0.35	404,570.87	1,762,548.64	0.24	176,254.86
Over six months but within one year	344,016.44	0.03	172,008.22	167,301.04	0.02	83,650.52
Over one year	154,499,300.65	13.50	154,499,300.65	155,715,564.12	21.06	155,715,564.12
Total	1,105,630,902.31	96.62	155,075,879.74	700,705,852.86	94.77	155,975,469.50

(2) Accounts receivable provided for bad debts as Greencool Companies in the group:

Company name	Balance at the end of the period		Balance at the beginning of the period	
	Amount	Provision for bad debts	Amount	Provision for bad debts
Hefei Weixi	18,229,589.24	7,805,094.62	18,229,589.24	7,805,094.62
Wuhan Changrong	20,460,394.04	14,921,847.02	20,460,394.04	14,921,847.02
Total	38,689,983.28	22,726,941.64	38,689,983.28	22,726,941.64

2. During the period, the Company had no accounts receivable that was fully or substantially provided for bad debts but has been fully or substantially recovered or reversed during the period.

3. As at the end of the period, there was no accounts receivable from shareholder units that holds 5% or more (including 5%) shares with voting rights of the Company.

4. Five largest accounts receivable

Name of unit	Relationship with the Company	Amount	Term	Percentage of the total trade receivables amount (%)
Top 1	Third party	331,216,063.35	Within one year	28.94
Top 2	Third party	268,844,179.29	Within one year	23.49
Top 3	Third party	26,689,118.30	Within one year	2.33
Top 4	Third party	20,460,394.04	Within one year	1.79
Top 5	Third party	18,229,589.24	Within one year	1.59

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

11. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT — Continued

(2) Other receivables

1. Disclosure of other receivables by category:

Category	Balance at the end of the period				Balance at the beginning of the period			
	Carrying balance		Provision for bad debts		Carrying balance		Provision for bad debts	
	Percentage		Percentage		Percentage		Percentage	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Significant single-item other receivables provided for bad debts	704,848,548.60	65.17	—	—	674,088,463.42	69.71	—	—
Other receivables provided for bad debts as a group								
Age analysis	361,031,937.52	33.38	17,758,017.79	4.92	277,160,227.58	28.66	18,701,584.29	6.75
Greencool Companies	15,754,600.00	1.46	9,962,961.47	63.24	15,754,600.00	1.63	9,962,961.47	63.24
Subtotal of the group	376,786,537.52	34.83	27,720,979.26	7.36	292,914,827.58	30.29	28,664,545.76	9.79
Single-item other receivables not significant but provided for bad debts	—	—	—	—	—	—	—	—
Total	1,081,635,086.12	100.00	27,720,979.26	2.56	967,003,291.00	100.00	28,664,545.76	2.96

(1) Trade receivables provided for bad debts in the group by age analysis:

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying balance		Provision for bad debts	Carrying balance		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within three months	340,894,857.37	31.52	—	256,973,093.17	26.57	—
Over three months but within six months	1,783,089.50	0.16	178,308.95	1,564,800.00	0.16	156,480.00
Over six months but within one year	1,548,563.62	0.14	774,281.81	154,460.25	0.02	77,230.13
Over one year	16,805,427.03	1.55	16,805,427.03	18,467,874.16	1.91	18,467,874.16
Total	361,031,937.52	33.38	17,758,017.79	277,160,227.58	28.66	18,701,584.29

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

11. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT — Continued

(2) Other receivables — Continued

1. Disclosure of other receivables by category: — Continued

(2) Other trade receivables provided for bad debts as Greencool Companies in the group:

Company name	Balance at the end of the period		Balance at the beginning of the period	
	Amount	Provision for bad debts	Amount	Provision for bad debts
Guangdong				
Greencool	13,754,600.00	7,962,961.47	13,754,600.00	7,962,961.47
Deheng Solicitors	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00
Total	15,754,600.00	9,962,961.47	15,754,600.00	9,962,961.47

2. During the period, the Company had no other receivables that was fully or substantially provided for bad debts but has been fully or substantially recovered or reversed during the period.

3. As at the end of the period, there was no other receivables from shareholder units that holds 5% or more (including 5%) shares with voting rights of the Company.

4. Five largest other receivables

Name of unit	Relationship with the Company	Amount	Term	Percentage of the total amount of other receivables (%)	Nature or content
Top 1	subsidiaries	268,580,796.13	Within one year	24.83	Current account
Top 2	subsidiaries	174,265,595.77	Within one year	16.11	Current account
Top 3	subsidiaries	145,382,781.26	Within one year	13.44	Current account
Top 4	subsidiaries	116,619,375.44	Within one year	10.78	Current account
Top 5	subsidiaries	84,188,133.83	Within one year	7.78	Current account

5. No other trade receivable have been derecognized during the period.

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

11. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT — Continued

(3) Long-term equity investments

Investee	Audit method	Investment cost	Balance		Percentage of shareholding (%)	Percentage of voting rights (%)	Discrepancy between shareholding and voting rights in the investee	Impairment provision	Impairment provision for the period	Cash Dividend for the period
			at the beginning of the period	Changes						
Hisense Whirpool*1	Equity method	225,000,000.00	210,215,263.49	(6,213,971.50)	204,001,291.99	50.00	50.00	—	—	—
Hisense Hitachi*2	Equity method	195,408,569.95	298,212,815.13	12,241,884.23	310,454,699.36	49.00	49.00	—	—	29,400,000.00
Huayi Compressor*3	Equity method	41,686,088.96	53,817,362.47	(11,159,510.73)	42,657,851.74	6.45	6.45	—	—	—
Attend	Equity method	2,000,000.00	3,727,785.79	(158,936.44)	3,568,849.35	20.00	20.00	—	—	—
Equity method Subtotal		464,094,658.91	565,973,226.88	(5,290,534.44)	560,682,692.44	—	—	—	—	29,400,000.00
Ronshen Refrigerator	Cost method	155,552,425.85	155,552,425.85	—	155,552,425.85	70.00	70.00	—	—	—
Kelon Air-Conditioner	Cost method	281,000,000.00	281,000,000.00	—	281,000,000.00	60.00	60.00	—	59,381,641.00	—
Kelon Freezer	Cost method	15,668,880.00	15,668,880.00	—	15,668,880.00	44.00	44.00	—	—	—
Kelon Household Electrical Appliance	Cost method	2,500,000.00	2,500,000.00	—	2,500,000.00	25.00	25.00	—	—	—
Kelon Fittings	Cost method	32,634,553.70	32,634,553.70	—	32,634,553.70	70.00	70.00	—	—	—
Rongsheng Plastic	Cost method	53,270,064.00	53,270,064.00	—	53,270,064.00	44.92	44.92	—	—	—
Kelon Mould	Cost method	50,323,475.20	50,323,475.20	—	50,323,475.20	40.22	40.22	—	—	—
Wangao I&E	Cost method	600,000.00	600,000.00	—	600,000.00	20.00	20.00	—	—	—
Kelon Jiake	Cost method	42,000,000.00	42,000,000.00	—	42,000,000.00	70.00	70.00	—	—	—
Kelon Weili	Cost method	—	—	—	—	55.00	55.00	—	—	—
Chengdu Kelon	Cost method	171,388,000.00	171,388,000.00	—	171,388,000.00	75.00	75.00	—	—	—
Yingkou Kelon	Cost method	84,000,000.00	84,000,000.00	—	84,000,000.00	42.00	42.00	—	—	—
Jiangxi Kelon	Cost method	147,763,896.00	147,763,896.00	—	147,763,896.00	60.00	60.00	—	—	—
Hangzhou Kelon	Cost method	24,000,000.00	24,000,000.00	—	24,000,000.00	100.00	100.00	—	—	—
Yangzhou Kelon	Cost method	252,356,998.00	252,356,998.00	—	252,356,998.00	74.33	74.33	—	—	—
Zhuhai Kelon	Cost method	189,101,850.00	189,101,850.00	—	189,101,850.00	75.00	75.00	—	—	—
Xi'an Kelon	Cost method	107,729,620.45	107,729,620.45	—	107,729,620.45	60.00	60.00	—	—	—
Shenzhen Kelon	Cost method	95,000,000.00	95,000,000.00	—	95,000,000.00	95.00	95.00	—	—	—
Kelon Development	Cost method	11,200,000.00	11,200,000.00	—	11,200,000.00	100.00	100.00	—	—	—
Sichuan Kelon Sales	Cost method	1,520,000.00	1,520,000.00	—	1,520,000.00	76.00	76.00	—	—	—
Hisense Chengdu	Cost method	50,000,000.00	50,000,000.00	—	50,000,000.00	100.00	100.00	—	—	—
Hisense Beijing	Cost method	92,101,178.17	92,101,178.17	—	92,101,178.17	55.00	55.00	—	—	—
Hisense Shandong	Cost method	567,175,477.74	567,175,477.74	—	567,175,477.74	100.00	100.00	—	—	—
Hisense Zhejiang	Cost method	54,523,643.83	54,523,643.83	—	54,523,643.83	51.00	51.00	—	—	—
Hisense Mould	Cost method	121,628,013.09	121,628,013.09	—	121,628,013.09	78.70	78.70	—	—	9,789,552.90
Xinjiang Kelon	Cost method	100,000.00	100,000.00	—	100,000.00	2.00	2.00	—	—	—
Fujian Kelon	Cost method	100,000.00	100,000.00	—	100,000.00	2.00	2.00	—	—	—
Foshan Huobao	Cost method	40,000.00	40,000.00	—	40,000.00	2.00	2.00	—	—	—
Hisense International Marketing	Cost method	3,800,000.00	3,800,000.00	—	3,800,000.00	12.67	12.67	—	—	3,534,000.00
Subtotal by cost method		2,607,078,076.03	2,607,078,076.03	—	2,607,078,076.03	—	—	59,381,641.00	—	13,323,552.90
Total		3,071,172,734.94	3,173,051,302.91	(5,290,534.44)	3,167,760,768.47	—	—	59,381,641.00	—	42,723,552.90

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

11. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT — Continued

(4) Operating income and operating cost

1. Operating income

Item	Amount for current period	Amount for previous period
Revenue from principal operations	6,220,961,530.07	4,532,788,299.25
Revenue from other operations	148,559,712.25	47,094,233.26
Subtotal	<u>6,369,521,242.32</u>	<u>4,579,882,532.51</u>
Cost of principal operations	5,026,848,302.79	3,837,231,160.44
Cost of other operations	21,232,503.57	22,102,498.55
Subtotal	<u>5,048,080,806.36</u>	<u>3,859,333,658.99</u>

2. Principal operations (by product categories)

Industry	Amount for current period		Amount for previous period	
	Income from principal operations	Operating cost of principal operations	Income from principal operations	Operating cost of principal operations
Refrigerators	3,242,383,022.36	2,524,765,868.03	2,882,159,806.60	2,214,736,922.01
Air-conditioners	2,722,012,772.97	2,294,901,948.82	1,506,259,646.26	1,506,063,362.00
Freezers	90,473,756.63	73,647,237.84	83,788,348.57	70,727,015.10
Small electrical appliances and others	166,091,978.11	133,533,248.10	60,580,497.82	45,703,861.33
Total	<u>6,220,961,530.07</u>	<u>5,026,848,302.79</u>	<u>4,532,788,299.25</u>	<u>3,837,231,160.44</u>

3. Principal operations (by region)

Region	Amount for current period		Amount for previous period	
	Operating income	Operating cost	Operating income	Operating cost
Domestic	6,220,961,530.07	5,026,848,302.79	4,532,788,299.25	3,837,231,160.44
Overseas	—	—	—	—
Total	<u>6,220,961,530.07</u>	<u>5,026,848,302.79</u>	<u>4,532,788,299.25</u>	<u>3,837,231,160.44</u>

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

11. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT — Continued**(4) Operating income and operating cost — Continued****4. Operating income from five largest customers of the Company**

Name of customer	Total operating income	Percentage to revenue from principal operations of the Company (%)
Top 1	712,403,626.59	11.45
Top 2	575,451,284.82	9.25
Top 3	106,756,602.69	1.72
Top 4	97,023,134.87	1.56
Top 5	66,153,641.94	1.06

(5) Investment gains**1. Particulars of investment gains**

Item	Amount for current period	Amount for previous period
Gain from long-term equity investments using the cost method	13,323,552.90	10,321,427.30
Gain from long-term equity investments using the equity method	36,258,657.14	20,535,484.78
Investment gains from disposal of long-term equity investments	45,837,301.86	75,826,893.91
Total	95,419,511.90	106,683,805.99

2. Gain from long-term equity investments using the cost method

Investee	Amount for current period	Amount for previous period	Reason for changes from the previous period
Hisense International Marketing	3,534,000.00	2,508,000.00	Changes in dividends actually received
Hisense Mould	9,789,552.90	—	Changes in dividends actually received
Hisense Beijing	—	7,813,427.30	Changes in dividends actually received
Total	13,323,552.90	10,321,427.30	

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

11. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT — Continued

(5) Investment gains — Continued

3. Gain from long-term equity investment using the equity method

Investee	Amount for current period	Amount for previous period	Reason for changes from the previous period
Hisense Whirlpool	(6,213,971.50)	(3,834,763.95)	Changes in net profits of Investee
Huayi Compressor	989,680.85	3,350,748.94	Changes in net profits of Investee
Attend	(158,936.44)	69,861.99	Changes in net profits of Investee
Hisense Hitachi	41,641,884.23	20,949,637.80	Changes in net profits of Investee
Total	36,258,657.14	20,535,484.78	

4. There was no significant restrictions on the recovery of investment gains of the Company for the period.

(6) Supplementary information on cash flow statement

Item	Amount for current period	Amount for previous period
1. Reconciliation of net profit to cash flows from operating activities		
Net profit	406,522,260.26	186,349,367.33
Add: Impairment provision for assets	13,691,807.04	17,562,531.52
Depreciation of fixed assets and depreciation of investment properties	4,239,851.66	4,797,116.01
Amortization of intangible assets	3,156,280.00	3,247,110.22
Amortization of long-term deferred expenditure	—	—
Loss from disposals of fixed assets, intangible and other long-term assets (Gain denoted by “—”)	857.64	60,692.77
Loss on retirement of fixed assets (Gain denoted by “—”)	—	—
Loss from change in fair value (Gain denoted by “—”)	—	—
Financial expenses (Gain denoted by “—”)	8,450,845.39	9,920,821.52
Investment loss (Gain denoted by “—”)	(95,419,511.90)	(106,683,805.99)
Decrease in deferred income tax assets (Increase denoted by “—”)	—	—
Increase in deferred income tax liabilities (Decrease denoted by “—”)	—	—
Decrease in inventory (Increase denoted by “—”)	(417,368,670.24)	(958,738,620.22)
Decrease in operating receivable (Gain denoted by “—”)	(645,123,526.09)	(426,116,427.37)
Increase in operating payable (Decrease denoted by “—”)	443,514,962.76	1,251,306,302.39
Other	—	—
Net cash flow from operating activities	(278,334,843.48)	(18,294,911.82)
2. Major investing and financing activities not involving cash receipts and payment		
Liabilities convert into assets equity	—	—
Convertible company bonds due within one year	—	—
Fixed assets under finance leases	—	—
3. Net changes in cash and cash equivalents		
Cash at the end of the period	67,856,576.14	77,272,931.22
Less: Cash at the beginning of the period	163,407,687.61	42,116,663.45
Add: Cash equivalents at the end of the period	—	—
Less: Cash equivalents at the beginning of the period	—	—
Net increase in cash and cash equivalents	(95,551,111.47)	35,156,267.77

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

12. SUPPLEMENTARY INFORMATION**(1) Statement of extraordinary loss and profit for current period**

<u>Item</u>	<u>Amount</u>	<u>Description</u>
Loss and profit from disposal of non-current assets		Loss and profit from disposal of long-term assets and gain from transfer of investments
	44,890,897.43	
Tax refund, reduction or exemption with approval exceeding authority or without official approval	—	
Government subsidy recorded in the profits and losses of the current period (except government subsidy closely related to the Company's business, and of which the amount is determined according to the State's unified standard)	9,154,108.95	
Capital occupation fee from non-financial enterprise recorded into current gains and losses	—	
Gain arising from cost of investment below the fair value of the net identifiable assets of the investee at the time of acquisition of subsidiaries, associates and joint ventures	—	
Gain or loss from exchange of non-monetary assets	—	
Gain or loss of assets entrusted for investment or management	—	
Provision for impairment on various assets made due to force majeure such as natural disaster	—	
Gain or loss on debt restructuring	30,000.00	
Enterprise restructuring expenses, such as such as expenses for resettling employees and integration expenses	—	
Gain or loss arising from obviously unfair transaction price over fair value of transactions	—	
Net gain or loss of subsidiaries for the period created by mergers of enterprises under the same control from beginning of the fiscal year to the date of the merger	—	
Gain or loss from estimated debts not related to the Company's principal operations	—	
Gain or loss from changes in fair values of transactional financial assets and transactional financial liabilities and investment profits from disposal of transactional financial assets, transactional financial liabilities and available-for-sale financial assets (except effective hedging business related to the normal businesses of the Company)	—	
Reversal of impairment provision for account receivables subject to individual impairment test	—	
Gain or loss from commissioned external loans	—	
Gain or loss from changes in the fair value of investment properties from subsequent measurement using the fair value model	—	
Effect on gain or loss for the period due to one-time adjustment to the gain or loss for the period in accordance with the requirements of tax and accounting laws and regulations	—	
Trustee fee from entrusted operations	—	
Net non-operating income and expense other than the above	3,747,360.06	
Other items of gain or loss meeting the definition of non-recurring gain or loss	—	
Effect on taxation	(1,337,602.47)	
Effect on minority interests (after tax)	(1,019,754.29)	
Total	55,465,009.68	

NOTES TO THE FINANCIAL STATEMENTS — Continued

Half year of 2011

12. SUPPLEMENTARY INFORMATION — Continued

(2) Return on net asset and earnings per share:

Profit for the reporting period	Weighted average of return on net profit (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary share holders of the Company	41.84	0.2111	0.2111
Net profit attributable to ordinary share holders of the Company after deducting non- recurring gain or loss	33.72	0.1701	0.1701

(3) Particulars of abnormal condition and the reasons on main financial statement items

Financial statement items with abnormal amounts or unusual changes in the corresponding period

Item	Balance at the end of the period (or amount for the period)	Balance at the beginning of the period (or amount for the previous period)	Percentage change (%)	Cause for changes
Financial assets held for trading	15,486,182.72	28,150,388.56	(44.99)	Draw down upon maturity of forward contract
Notes receivable	756,466,015.18	385,982,498.33	95.98	Increase with increases in sales
Accounts receivable	1,980,721,708.88	1,354,284,204.38	46.26	Increase with increases in sales
Notes payable	412,736,800.00	810,263,300.00	(49.06)	Repayment at maturity of notes
Accounts receivable	3,471,428,026.12	2,385,166,608.32	45.54	Increase with increases in sales
Advances from customers	578,779,893.31	950,206,943.91	(39.09)	Decrease in advanced goods payment from distributors with increases in delivery of goods to distributors
Business tax and surcharges	26,603,072.03	10,887,638.98	144.34	Mainly represented increases in city construction tax and education surcharges
Financial expenses	28,526,360.55	52,681,636.69	(45.85)	Improved finance structure and decrease in interest expenses
Refund of tax and levies	314,179,476.08	220,238,169.98	42.65	Mainly represented increases in refund of export tax received
Cash paid for purchases of goods and services	2,977,160,818.86	1,837,824,006.33	61.99	Corresponding increase in purchase with increases in sales and payment of notes payable upon maturity
Cash received from borrowings	1,433,524,115.05	623,305,532.69	129.99	Increases in financing businesses arising from increases in export sales and factoring businesses
Cash paid for repayment of debts	1,329,845,434.25	771,534,666.26	72.36	Increases in financing businesses arising from increases in export sales and factoring businesses
Cash paid for distribution of dividends, profits or payment of interests	18,546,992.01	29,863,189.05	(37.89)	Improved finance structure and decrease in interest expenses

13. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the board of directors of the Company on 24 August 2011.

INTERIM DIVIDEND

Pursuant to the resolution passed at the meeting of the Board of the Company held on 24 August 2011, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011. No interim dividend was paid for the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

I. OVERALL OPERATION

During the Reporting Period, the domestic refrigerator market has experienced a significant slow down in the growth momentum, whereas the air-conditioner market has maintained a relatively rapid growth and the overall export of home appliances has been stable. However, the operation of companies in the industry was exposed to more difficult macro environment, which was characterized by increasing costs of raw materials and human resources, appreciation of Renminbi and tightening monetary policies that have repressed the profitability of companies. Upholding 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” devised at the beginning of the year, the Company has successfully realized further enhancement in its operating scale despite the unfavorable macro-economic environment. During the Reporting Period, the Company’s revenue from principal operation was RMB9.681 billion, representing an increase of 13.85% as compared to the corresponding period last year. The net profit attributable to the equity holders of the parent company was RMB286 million, representing a decrease of 13.22% as compared to the corresponding period last year, and the net profit attributable to the equity holders of the parent company (after deduction of extraordinary gains and losses) was RMB230 million, representing an increase of 25.94% as compared to the corresponding period last year.

During the Reporting Period, the Group’s revenue from the refrigerator business amounted to RMB4.395 billion and accounted for 45.40% of the total turnover of the Company, representing a decrease of 0.9% as compared to the corresponding period last year, and the revenue from the air-conditioner business amounted to RMB4.269 billion and accounted for 44.10% of the total turnover of the Company, representing an increase of 36.00% as compared to the corresponding period last year. The operating revenue from the domestic sales business was RMB6.838 billion, representing an increase of 12.91% as compared to the corresponding period last year. The operating revenue from the overseas sales business was RMB2.843 billion, representing an increase of 16.19% as compared to the corresponding period last year.

REFRIGERATOR BUSINESS

In view of the slowing down in the overall demand in the refrigerator market as well as pressure from increasing costs and price competition, the Company has proactively adjusted its product structure by launching new high-end refrigerators such as French-style multi-door and European-style three-door refrigerators. According to the statistics of China Market Monitor Co., LTD (CMM), during the Reporting Period, the growth in the scale of Ronshen refrigerators was above the industry average and the market share of the refrigerator products of the Company was still among the forefront of the industry. Meanwhile, through the six-sigma project, the Company enhanced the quality of refrigerator products and improved product quality costs in pursuance of excellence in quality. At “The Third Summit of Refrigerator Industry of the PRC”, the Company was awarded with the “Outstanding Quality in the Refrigerator Industry of the year 2010 to 2011”.

In addition, the Company has been devoted to expanding the export business for freezers and the export of freezers has recorded an increase of over 30% during the Reporting Period as compared to the corresponding period last year.

I. OVERALL OPERATION — Continued**AIR-CONDITIONER BUSINESS**

Leveraging on the leading edges in terms of core inverter air-conditioning technologies built throughout the years, the Company has proactively adjusted its product structure and timely launched differentiated and cost-competitive products such as the “Lotus in the Moonlight” series of dual-mode, chlorine-free, high-end, inverter air-conditioners (荷塘月色雙模無氟高端變頻空調). With more than 70% growth in the scale of Hisense’s inverter air-conditioners, the profit margins of inverter air-conditioners had further increased, improving the profit margins and profitability for air-conditioner business. Up to now, the Company has already obtained over 400 patents for its inverter and other technologies and over 120 registration items for software. In addition to the self-developed comprehensive inverter air-conditioning solutions, it has also a number of core technologies such as 360-degree full DC inverter technology, IDM dual-mode control, dehumidification at constant temperature and electronic expansion control valve. At “The 2011 (Fourth) Air-Conditioner Industry Annual Conference of the PRC”, with the Company’s advantages in inverter technology innovations and market influence, the Company has won the major award of “2011 Leading Inverter Air-conditioner Brand of the PRC”.

OUTLOOK

In the second half of 2011, the Company will be exposed to even higher operating pressure under the unfavorable backdrop of withdrawal of State’s industrial subsidy policies, continuous increase in prices of raw materials and costs of human resources, appreciation of Renminbi and the tightening of monetary policies. In the second half of 2011, the Company will continue to uphold the operating strategy devised at the beginning of the year and adhere to implementing the Group’s “Strategy of Intelligence Enhancement” which is centered on the differentiation of products and enhancement of user experience through strengthening of technological innovations; highlighting its high-end products such as large capacity refrigerators and inverter air-conditioners so as to enhance the competitiveness of the products and the brand; incessantly improving the sales structure for realization of accelerated growth of scale; reforming the marketing model to increase the professionalism of the marketing force, accelerate the construction pace of specialty shops in the third- and four-tier markets, and further speed up the deepening of the focuses of sales channels; controlling the costs strictly so as to achieve further cost reduction; accelerating the capital turnaround and reducing capital hold-up, improving the efficiency through process optimization, with the objective to ameliorate the operational quality and profitability of the Company gradually.

II. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD

(i) Analysis of revenue and profit from principal operations of the Company

Revenue, costs and gross profit margin of principal operations by product

Unit: RMB

Product	Operating revenue	Operating costs	Gross profit margin	Increase or decrease in operating revenue as compared to same period last year (%)	Increase or decrease in operating costs as compared to same period last year (%)	Increase or decrease in gross profit margin as compared to same period last year (%)
Refrigerators	4,395,137,626.65	3,422,851,222.02	22.12%	(0.90)	1.35	(1.73)
Air-conditioners	4,269,848,859.91	3,674,644,718.46	13.94%	36.00	28.59	4.96
Others	1,016,145,868.59	817,809,209.92	19.52%	9.39	12.48	(2.21)
Total	9,681,132,355.15	7,915,305,150.40	18.24%	13.85	13.69	0.11

Revenue from principal operations by geographic location

Unit: RMB

Geographic location	Operating revenue	Increase or decrease in operating revenue as compared to same period last year (%)
Domestic market	6,837,559,628.68	12.91
Overseas market	2,843,572,726.47	16.19
Total	9,681,132,355.15	13.85

(ii) During the Reporting Period, there were no significant changes in the principal operations of the Company and their structure, profit components and profitability of principal operations as compared to same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS — Continued
II. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD — Continued
(iii) Analysis of changes in major statement items in the Reporting Period
Unit: RMB

Statement item	Closing balance (or amount for the period)	Opening balance (or amount for the corresponding period last year)	Percentage change %	Reason for change
Financial assets held for trading	15,486,182.72	28,150,388.56	(44.99)	Transfer out of forward contracts upon expiry
Notes receivable	756,466,015.18	385,982,498.33	95.98	Increase in line with growth in sales
Accounts receivable	1,980,721,708.88	1,354,284,204.38	46.26	Increase in line with growth in sales
Notes payable	412,736,800.00	810,263,300.00	(49.06)	Notes due for repayment
Accounts payable	3,471,428,026.12	2,385,166,608.32	45.54	Increased in line with growth in sales
Advances from customers	578,779,893.31	950,206,943.91	(39.09)	Decrease in receipts in advance from distributors with increase in goods picked up by distributors
Business taxes and surcharges	26,603,072.03	10,887,638.98	144.34	Mainly increase in urban construction and maintenance tax and education surcharges
Finance costs	28,526,360.55	52,681,636.69	(45.85)	Decrease in interest expenses with improvement in financing structure
Tax refund received	314,179,476.08	220,238,169.98	42.65	Mainly increase in export tax refund received
Cash paid for purchase of goods and procurement of services	2,977,160,818.86	1,837,824,006.33	61.99	Due to increase in purchases in line with growth in sales, and notes payable due for payment
Cash received from borrowings	1,433,524,115.05	623,305,532.69	129.99	Increase in financing activities from factoring in line with growth in export sales
Cash paid for debt repayment	1,329,845,434.25	771,534,666.26	72.36	Increase in financing activities from factoring in line with growth in export sales
Cash paid for dividend or profit distribution or payment of interests	18,546,992.01	29,863,189.05	(37.89)	Decrease in Interest expenses with improvement in financing structure

MANAGEMENT DISCUSSION AND ANALYSIS — *Continued*

II. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD — *Continued*

(iv) Share-holding company having more than 10% impact on net profit of the Company during the Reporting Period

Name of company	Shareholding ratio of the Company	Business nature	Principal products or services	Registered capital	Total operating revenue (RMB'0000)	Net profit (RMB'0000)
Hisense Hitachi	49%	Manufacture	Production and sale of commercial air-conditioners	US\$12.10 million	92,856.59	9,054.52

LIQUIDITY AND SOURCES OF CAPITAL

Net cash generated from operating activities of the Group was approximately RMB(135,434,000) for the six months ended 30 June 2011.

As at 30 June 2011, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB321,731,000 and borrowings amounting to approximately RMB1,231,033,000.

Total capital expenditures of the Group for the six months ended 30 June 2011 amounted to approximately RMB145,554,000.

TOTAL ASSETS TO TOTAL LIABILITIES RATIO

As at 30 June 2011, the total assets to total liabilities ratio of the Group was 114.97%.

TRUST DEPOSITS

As at 30 June 2011, 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.

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 30 June 2011, the Group had approximately 35,683 employees, mainly comprising 4,053 technical staff, 14,170 sales representatives, 605 financial staff, 1,227 administrative staff and 15,562 production staff. The Group had 5 employees with a doctorate degree, 130 with a master's degree and 2,769 with a bachelor's degree. There were 501 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 10 retired employees. For the six months ended 30 June 2011, the Group's staff payroll amounted to RMB679,378,000 (corresponding period in 2010 amounting to RMB581,269,000).

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2011, the Group's property, plant and equipment (including leasehold land held for own use) and investment properties and trade receivables of approximately RMB825,795,000 (31 December 2010: RMB853,667,000) were pledged as security for the Group's borrowings.

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 the 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its code for securities transactions by the Directors. After making specific enquiries to the Directors of the Board, all of them confirmed that they had acted in compliance with the Model Code during the Reporting Period.

SHARE CAPITAL STRUCTURE

As at 30 June 2011, 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	<u>1,354,054,750</u>	<u>100.00%</u>

TOP TEN SHAREHOLDERS

As at 30 June 2011, there were 36,841 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	457,543,208	33.79%	99.55%	0	Unknown
China Huarong Asset Management Corporation	Unknown	30,400,000	2.25%	3.40%	0	0
China Construction Bank — Penghua Value Advanced Stock Fund	Other	11,000,000	0.81%	1.23%	0	0

TOP TEN SHAREHOLDERS — Continued

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
China Construction Bank — Boserat Tactic Assets Allocation Mixed Type Fund	Other	6,999,733	0.52%	0.78%	0	0
Yuyang Securities Investment Fund	Other	6,199,673	0.46%	0.69%	0	0
Zhang Shao Wu	Domestic person	6,110,200	0.45%	0.68%	0	0
Agricultural Bank of China — Boserat New Growth Stock Fund	Other	4,982,521	0.37%	0.56%	0	0
The Industrial and Commercial Bank of China — Lion Flexible Allocation Stock Fund	Other	3,780,227	0.28%	0.42%	0	0
Xian Zhuoqun Investment Management Limited	Unknown	3,000,000	0.22%	0.34%	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	457,543,208	H shares
China Huarong Asset Management Corporation	30,400,000	RMB ordinary shares
China Construction Bank — Penghua Value Advanced Stock Fund	11,000,000	RMB ordinary shares
China Construction Bank — Boserat Tactic Assets Allocation Mixed Type Fund	6,999,733	RMB ordinary shares
Yuyang Securities Investment Fund	6,199,673	RMB ordinary shares
Zhang Shao Wu	6,110,200	RMB ordinary shares
Agricultural Bank of China — Boserat New Growth Stock Fund	4,982,521	RMB ordinary shares
The Industrial and Commercial Bank of China — Lion Flexible Allocation Stock Fund	3,780,227	RMB ordinary shares
Xian Zhuoqun Investment Management Limited	3,000,000	RMB ordinary shares
Bank of China — Fortune SGAM Power Portfolio Stock Fund	2,388,098	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 《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 30 June 2011, 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:

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	50,612,000(L)	11.01%	3.74%
Gaoling Fund, L.P. ^{Note 2}	Beneficial owner	H shares	46,900,000(L)	10.20%	3.46%
Cheah Capital Management Limited ^{Note 3}	Interest of controlled corporation	H shares	40,574,000(L)	8.82%	3.00%
Cheah Company Limited ^{Note 3}	Interest of controlled corporation	H shares	40,574,000(L)	8.82%	3.00%
Hang Seng Bank Trustee International Limited ^{Note 3}	Trustee	H shares	40,574,000(L)	8.82%	3.00%
Value Partners Group Limited ^{Note 3}	Interest of controlled corporation	H shares	40,574,000(L)	8.82%	3.00%
Value Partners Limited ^{Note 3}	Investment manager	H shares	40,574,000(L)	8.82%	3.00%
To Hau Yin ^{Note 3}	Family interest	H shares	40,574,000(L)	8.82%	3.00%

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES

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
Cheah Cheng Hye ^{Note 3}	Founder of discretionary trust	H shares	40,574,000(L)	8.82%	3.00%
Deutsche Bank Aktiengesellschaft ^{Note 4}	Beneficial owner and person having security interests in shares	H shares	28,046,194(L) 53(S)	6.10% 0.00%	2.07% 0.00%

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 directly owned as to 93.33% and indirectly owned as to 6.67% 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 were deemed to be interested in the same parcel of A shares of which Qingdao Hisense Air-conditioning Company Limited was interested.
2. Hillhouse Capital Management, Ltd. was interested in a total of 50,612,000 H shares by virtue of the SFO. Of these shares, Gaoling Fund, L.P. and Gaoling Yali Fund, L.P. were interested in 46,900,000 H shares and 3,712,000 H 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 40,574,000 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 3,694 H shares as beneficial owner and 28,042,500 H shares as person having security interests. In addition, it held a short position in 53 H shares by virtue of the SFO.

Save as disclosed above, as at 30 June 2011, 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.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES

As at 30 June 2011, 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 pursuant to the Model Code.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the interim results announcement and interim report for the period ended 30 June 2011.

CODE ON CORPORATE GOVERNANCE PRACTICES

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 was not able to appoint the right person as 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 Ai Guo 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 on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (the "CG Code"). Further, Mr. Chen Zhen Wen has resigned as the company secretary of the Company with effect from 11 June 2010 and during the period when the Company was in the process of identifying suitable candidate, the position was left vacant until the appointment of Ms. Wong Tak Fong and Ms. Li Lin as the joint company secretaries of the Company on 4 April 2011. Besides, in respect of the annual general meeting of the Company held on 27 June 2011, after the dispatch of the initial notice of annual general meeting on 11 May 2011, the supplemental and further notice of annual general meeting dated 9 June 2011 in relation to two additional proposed resolutions was dispatched by the Company on 9 June 2011. As such, such notice was sent less than 20 clear business days before the meeting as required under Code Provision E.1.3 of the CG Code. In order to keep pace with and to avoid any interruptions to the Company's normal business development, the Board was of the view that it is in the interest of the Company and its shareholders as a whole to have such additional resolutions tabled at the annual general meeting despite the fact that the Company was unable to comply with the notice requirement under the CG Code. Other than the above, to the best knowledge and information of the Company, during the Reporting Period, the Company has complied with the code provisions of the CG Code.

MATTERS REGARDING CANCELLATION OF PREPARATION OF FINANCIAL REPORTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Board of Directors of the Company announced on 13 July 2011 that the Company intends to prepare only one set of financial statements for any financial period commencing on or after 1 January 2011 under China Accounting Standards in light of the acceptance by the Stock Exchange of matters in relation to the adoption of Mainland accounting and auditing standards and the appointment of Mainland audit firms, details of which can be found in announcement published on the website of the Stock Exchange (<http://www.hkex.com.hk>) on 13 July 2011.

SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARES INTERIM RESULTS ANNOUNCEMENT

I. EXPLANATION GIVEN BY THE BOARD OF THE COMPANY OF THE CHANGES AND TREATMENT OF THE MATTERS RELATING TO THE QUALIFIED OPINIONS IN THE AUDITOR'S REPORT FOR THE 2010 ANNUAL REPORT

BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD issued an auditor's report with qualified opinion for the 2010 financial report of the Company. The Board of the Company has given detailed explanation on the matters relating to the auditor's opinion in the 2010 annual report, details of which can be found in 2010 annual results announcement published on the website of the Stock Exchange (<http://www.hkex.com.hk>) on 30 March 2011. As at the date of this announcement, there was no real progress in relation to such matters.

II. INVESTMENTS OF THE COMPANY DURING THE REPORTING PERIOD

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 and there was no material investment which did not involve raising of capital.

III. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY DURING THE REPORTING PERIOD

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

Name of case	Amount in dispute RMB (in 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 RMB89,184,100 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 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. Foshan Intermediate Court requested audit to be conducted on the payment for goods and other debt of the defendant. In June 2011, Foshan Intermediate Court determined by ballot two accounting firms for conducting the judicial audit. The judicial audit is in progress.

SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARES INTERIM RESULTS ANNOUNCEMENT — Continued

IV. 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

Stock code	Stock abbreviation	Initial investment amount	Shareholding percentage in the company	Carrying amount at the end of the period	Profit and loss for the Reporting Period	Changes in ownership interests for the Reporting Period
000404	Huayi Compressor	41,686,088.96	6.45%	42,657,851.74	989,680.85	—

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 6,102,126 shares during the Reporting Period. The corresponding cost of long-term equity investment of RMB12,149,200 was released and an investment gain of RMB45,837,300 was recognised.

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

During the Reporting Period, the Company and connected parties such as Hisense Group, Hisense Electric, Huayi Compressor, Hisense-Whirlpool, Hisense Hitachi, Hisense Finance, Snowflake and Embraco have entered into certain connected transactions in relation to ordinary operation, 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 Group	Purchase	Finished goods	Agreed price	15,871.23	0.00
Hisense — Whirlpool	Purchase	Finished goods	Agreed price	213,907,721.58	2.40
Sub-total of purchase of finished goods				213,923,592.81	2.40
Hisense Electric	Purchase	Materials	Agreed price	8,852,270.91	0.10
Hisense Group	Purchase	Materials	Agreed price	4,834,205.00	0.05
Hisense — Whirlpool	Purchase	Materials	Agreed price	1,204,453.43	0.01
Hisense Hitachi	Purchase	Materials	Agreed price	3,456,347.59	0.04
Huayi Compressor	Purchase	Materials	Agreed price	395,318,041.56	4.44
Embraco	Purchase	Materials	Agreed price	26,203,094.02	0.29
Sub-total of purchase of materials	—	—	—	439,868,412.51	4.93

SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARES INTERIM RESULTS ANNOUNCEMENT — Continued

V. PARTICULARS OF MATERIAL CONNECTED TRANSACTIONS OF THE COMPANY DURING THE REPORTING PERIOD — Continued

Connected parties	Type of connected transaction	Particulars of transaction	Pricing principle of connected transaction	Transaction amount	Unit: RMB
					Percentage of total amount of similar transactions (%)
Hisense Electric	Purchase	Mould and equipment	Agreed price	71,922.74	0.00
Hisense Group	Purchase	Mould and equipment	Agreed price	686,018.97	0.01
Hisense — Whirlpool	Purchase	Mould and equipment	Agreed price	1,085,407.74	0.01
Sub-total of purchase of mould and equipment	—	—	—	1,843,349.45	0.02
Hisense Electric	Receipt of services	—	Agreed price	2,797,824.32	0.03
Hisense Group	Receipt of services	—	Agreed price	79,756,144.98	0.90
Snowflake	Receipt of services	—	Agreed price	8,859,642.05	0.10
Sub-total of receipt of services	—	—	—	91,413,611.35	1.03
Hisense Electric	Sale of finished goods	Finished goods	Agreed price	3,456,284.36	0.03
Hisense Group	Sale of finished goods	Finished goods	Agreed price	818,377,063.78	7.62
Hisense — Whirlpool	Sale of finished goods	Finished goods	Agreed price	116,801.97	0.00
Hisense Hitachi	Sale of finished goods	Finished goods	Agreed price	17,185,873.41	0.16
Sub-total of sale of finished goods	—	—	—	839,136,023.52	7.81
Hisense Group	Sale	Materials	Agreed price	23,399,585.88	0.22
Hisense — Whirlpool	Sale	Materials	Agreed price	5,701,404.26	0.05
Hisense Hitachi	Sale	Materials	Agreed price	14,393.97	0.00
Sub-total of sale of materials	—	—	—	29,115,384.11	0.27
Hisense Electric	Sale	Moulds	Market price	18,664,999.99	0.17
Hisense Group	Sale	Moulds	Market price	53,945,629.00	0.50
Sub-total of sale of moulds	—	—	—	72,610,628.99	0.67
Hisense Group	Provision of services	—	Agreed price	245,495.64	0.00
Sub-total of provision of services	—	—	—	245,495.64	0.00

During the Reporting Period, the Company entrust Hisense (Hong Kong) Company Limited provide financing agency to purchase raw materials amounting to RMB 23,655,574.As at 30 June 2011, the Group has borrowings of RMB747.5 million and deposit balance of RMB27.2152 million in Hisense Finance, interest expenses incurred and interest income recognised from such balances are RMB16.0434 million and RMB88.9 thousand respectively.

SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARES INTERIM RESULTS ANNOUNCEMENT — *Continued*

VI. EXTERNAL GUARANTEES GIVEN BY THE COMPANY DURING THE REPORTING PERIOD OR EXTERNAL GUARANTEES WHICH SUBSISTED FROM THE PREVIOUS PERIOD TO THE REPORTING PERIOD

Unit: RMB (in ten thousand)

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

<u>The guaranteed party</u>	<u>Date (the day of signing the agreement)</u>	<u>Guaranteed amount</u>	<u>Type of guarantee</u>	<u>Period of guarantee</u>	<u>Completed or not</u>	<u>Whether in favour of any connected party (yes or no)</u>
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	44,669.84
Total balance of the guaranteed amount for subsidiaries at the end of the Reporting Period (B)	8,099.03

Total guarantee given by the Company (including the guarantees for subsidiaries)

Total guaranteed amount (A+B)	8,099.03
Percentage of the total guaranteed amount to absolute net assets of the Company	9.82%

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)	3,029.33
Total guaranteed amount over 50% of the net asset (E)	—
Sum of the above three guarantees (C+D+E)	3,029.33

SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARES INTERIM RESULTS ANNOUNCEMENT — *Continued*

VII. FUNDS EMBEZZLED FOR NON-OPERATING PURPOSES AND THE SETTLEMENT PROGRESS

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 2011	30 June 2011				
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 announcement, 17 judgments were in force and entered the execution process, and the amount applied for enforcement was RMB 725 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.

VIII. THE FIRST SHARE OPTION INCENTIVE SCHEME OF THE COMPANY DURING THE REPORTING PERIOD

On 10 June 2011, the Board passed a resolution to approve "the First Share Option Incentive Scheme of Hisense Kelon Electrical Holdings Company Limited (Revised Draft)". The same has been examined and approved by the SASAC of Qingdao, filed with the SASAC of the State Council and filed with the CSRC with no objection, and was approved at the general meeting of the Company on 1 August 2011, details of which can be found in the announcements dated 10 June 2011 and 1 August 2011 and the circular dated 7 July 2011 which were published on the website of the Stock Exchange (<http://www.hkex.com.hk>).

IX. EXPLANATION OF THE CHANGES IN AUDITORS OF THE COMPANY DURING THE REPORTING PERIOD

In light of the acceptance by the Stock Exchange of matters in relation to the adoption of Mainland accounting and auditing standards and the appointment of Mainland audit firms, the Board of Directors of the Company has announced that the Company intends to prepare only one set of financial statements for any financial period commencing on or after 1 January 2011 under China Accounting Standards and has removed BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD. and BDO Limited respectively as the domestic auditors and overseas auditors of the Company and has appointed Crowe Horwath China Certified Public Accountants (LLP) as the auditors of the Company for the year 2011 at the extraordinary general meeting of the Company held on 1 August 2011, details of which can be found in the announcements dated 13 July 2011 and 1 August 2011 and the supplemental circular dated 13 July 2011 published on the website of the Stock Exchange (<http://www.hkex.com.hk>).

X. DERIVATIVES INVESTMENT

(I) Situations of derivatives investment

Risk analysis of positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)

The derivatives business of the Company mainly represents the foreign exchange derivatives business used to avoid the risk of foreign exchange fluctuations related to the overseas sales receivables. The Company determines a reasonable range of foreign exchange rates to achieve the hedging purpose.

The Company has formulated the "Management Measures for the Foreign Exchange Capital Business". The measures specifically regulate the basic principles, operation rules, risk control measures and internal controls that shall be followed when engaging in the business of the foreign exchange derivatives. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.

Changes in market price or product fair value of invested derivatives during the Reporting Period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of derivatives' fair value

The assessment of the fair value of the derivatives carried out by the Company mainly represents the outstanding foreign exchange forward contracts entered into by the Company and banks, which are recognized as transactional financial assets or liabilities based on the difference between the quotation of the outstanding foreign exchange forward contracts and the forward exchange rate as at the end of the period. During the Reporting Period, the Company recognized a gain of fair value changes of the derivatives of RMB-6.7035 million.

Explanations of any significant changes in the Company's accounting policies and specific accounting and auditing principles on derivatives between the Reporting Period and the last reporting period

During the Reporting Period, there were no material changes in the accounting policy and specific accounting and auditing principles for the Company's derivatives business as compared to last reporting period.

Specific opinions of independent Directors, sponsor or financial advisor on the derivatives investment and risk control of the Company

The opinion of the independent directors: Starting the foreign exchange derivatives business by the Company enables the Company to avoid the risk of foreign exchange fluctuations. The Company has formulated the "Management Measures for the Foreign Exchange Capital Business", which have adopted targeted risk control measures that are practicable.

SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK EXCHANGE OF HONG KONG LIMITED IN RELATION TO THE COMPANY'S A SHARES INTERIM RESULTS ANNOUNCEMENT — Continued

X. DERIVATIVES INVESTMENT — Continued

(II) POSITIONS IN DERIVATIVES INVESTMENT AT THE END OF THE REPORTING PERIOD

Unit: RMB (in ten thousand)

<u>Type of contract</u>	<u>Contract amount at the beginning of the period</u>	<u>Contract amount at the end of the period</u>	<u>Gain or loss during the Reporting Period</u>	<u>Percentage of contract amount at the end of the period to net assets of the Company at the end of the Reporting Period (%)</u>
Foreign exchange derivatives contracts	138,989.87	219,384.18	706.27	265.90
Commodity derivatives contracts	—	—	—	—
Total	<u>138,989.87</u>	<u>219,384.18</u>	<u>706.27</u>	<u>265.90</u>

DEFINITIONS

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

"Company", "the Company"	Hisense Kelon Electrical Holdings Company Limited
"Hisense Electric"	Hisense Electric Co., Ltd.
"Hisense Group"	Hisense Company Limited
"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
"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
"RMB"	Renminbi
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SASAC of Qingdao"	the State-owned Assets Supervision and Administration
"SASAC of the State Council"	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC
"CSRC"	China Securities Regulatory Commission

The English version of this interim report is for reference only and if there is any conflict between the English and the Chinese versions, the Chinese version shall prevail.