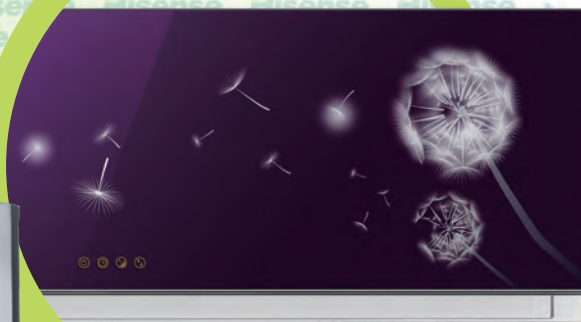


# Hisense 海信科龙

海信科龍電器股份有限公司

Hisense Kelon Electrical Holdings Company Limited

Stock Code: 00921



## Contents

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Company Profile .....	2
2011 Major Events Calendar .....	3
Chairman's Statement .....	4
Management Discussion and Analysis .....	6
Corporate Governance Report .....	13
Profiles of Directors, Supervisors & Members of the Senior Management .....	26
Report of the Directors .....	29
Report of the Supervisory Committee .....	57
Corporate Information .....	59
Financial Statements Prepared in accordance with China Accounting Standards for Business Enterprise .....	60

## Company Profile

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

The Company adheres to its core philosophy of “relying on technology and the talents of its people to build up the Company”, and considers “technology” as the primary driving force for the Company’s development, the production and sales volume of its refrigerators and air-conditioners have been among the highest in China in consecutive years. Leveraging on its superior refrigeration technology in the industry and the application of high technology in its products, the Company has won good reputation in the industry, and has been awarded many honors for its technologies and products at the national level. For example, the Company’s products are highly praised by both consumers and authoritative institutions for their reliable and notable advantages in quality. In 2011, Ronshen refrigerators exclusively won the 2010-2011 Energy-saving Benchmark Award of the Refrigerator Industry for another consecutive year, while Hisense refrigerators received the 2010-2011 Outstanding Quality Award of the Refrigerator Industry at the 2011 China Refrigerator Industry Summit; at the 2011-2012 China Air-conditioning Industry Development Summit, Hisense “Lotus in the Moonlight” series won the grand prize of Star of Inverter Air-conditioners of 2011 Refrigeration Year, whereas Hisense Air-Conditioning was awarded the Air-conditioning Industry Contribution Award of 2011 Refrigeration Year, and Kelon Daqitiancheng series received the grand prize of High-efficiency Flagship Air-conditioning Products (Floor-standing Type) of 2011 Refrigeration Year; at the 2011 International Funkausstellung (IFA) held in Berlin, Germany, Ronshen refrigerators won the China Household Electric Appliances Technology Innovation Award with the “24/7 food preservation and energy-saving technology” which was self-developed and Hisense “Lotus in the Moonlight” air-conditioner series was proudly awarded the China Household Electric Appliances Innovative Industrial Design Award.

The Company will adhere to the operating direction of “building product advantages, reforming marketing model, enhancing per capita efficiency, accelerating the progress of internationalization and realizing sound and rapid growth”, in the incessant pursuit for profound research and development and continuous improvement of self-innovation capability, and further perfecting the high-end product line and enhancing the product sales structure, paralleled by the all-round enhancement of the Company’s integrated capability in the areas of technology level, product grade, market scale and sustainability etc., in order to realize steady growth in scale and performance.

## 2011 Major Events Calendar

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### MARCH

On 9 March, Hisense launched high-end new refrigerator, washing machine and air-conditioning products for 2011 in Qingdao and kicked off the “Technologies Benefiting China” activity, which announced the new strategy for white goods in 2011: to bring fashion in technology products.

On 17 March 2011, at the prize awarding ceremony of the Appliance World Expo, Hisense “Lotus in the Moonlight” series of air-conditioning products and Hisense Apollo Space front-load washing machines received the Upcoming Vogue Award. Ronshen “i feel” refrigerator series was awarded the Diamond Elite Award. Kelon Daqitiancheng series air-conditioners received the Technology Innovation Gold Award, whereas Hisense Apollo Space European-style three-door refrigerators were honored with the Low-carbon Pioneer Award.

### MAY

On 25 May, at the 2011 China Refrigerator Industry Summit jointly held by China Household Electrical Appliances Association, Department of Information Resources Development of State Information Center and the cheAa website, Ronshen refrigerators exclusively won the 2010-2011 Energy-saving Benchmark Award of the Refrigerator Industry for another consecutive year, while Hisense refrigerators received the 2010-2011 Outstanding Quality Award of the Refrigerator Industry.

### JULY

In July 2011, Hisense Kelon donated RMB1 million to Shunde Education Fund to support the development of education sector in Shunde.

### AUGUST

On 30 August, at the 2011-2012 China Air-conditioning Industry Development Summit, Hisense “Lotus in the Moonlight” series won the grand prize of Star of Inverter Air-conditioners of 2011 Refrigeration Year, whereas Hisense Air-conditioning was awarded Air-conditioning Industry Contribution Award of 2011 Refrigeration Year and Kelon Daqitiancheng series received the grand prize of High-efficiency Flagship Air-conditioning Products (Floor-standing Type) of 2011 Refrigeration Year.

### SEPTEMBER

On 2 September, at 2011 International Funkausstellung (IFA) held in Berlin, Germany, Ronshen refrigerators won the China Household Electrical Appliances Technology Innovation Award with the “24/7 food preservation and energy-saving technology” self-developed in 2010. Hisense “Lotus in the Moonlight” air-conditioner series was proudly awarded the China Household Electrical Appliances Innovative Industrial Design Award.

On 7 September, Hisense Kelon announced the simultaneous global market launch of the Hisense “Fully Purified Air (FPA)” healthy inverter air-conditioners jointly developed with the Environmental Institute of Chinese Center For Disease Control And Prevention.

### OCTOBER

In October 2011, Hisense Ronshen (Guangdong) Refrigerator Company Limited and Guangdong Kelon Mould Company Limited, being the Company’s subsidiaries, both passed the review on their status as “National Advanced and New Technology Enterprise” and continue to enjoy the preferential tax policies for national advanced and new technology enterprises.

### NOVEMBER

From 2 to 4 November 2011, the China Household Electrical Appliances Technology Conference was held in Hangzhou by China Household Electrical Appliances Association. Hisense Kelon was honored to receive 3 China Household Electrical Appliances Technology Advancement Awards in total.

## Chairman's Statement

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Dear Shareholders,

I am pleased to present the annual report of the Company for the year ended 31 December 2011 (the "Reporting Period").

During the Reporting Period, the growth rate of the PRC refrigerator and air-conditioner markets has significantly decelerated, with the overall export market being sluggish. On the one hand, the demand in the PRC market was restrained by the tightening of the real estate policies, and the PRC market experienced a lack of growth drivers with the gradual withdrawal of the Energy-saving Products Benefiting People and the Subsidies policies in the second half of the year. On the other hand, demand from the export market was also affected by the macro-environment of the global economic turmoil and the increasing pressure on exchange rates, leading to poor performance of the export market as a whole. Simultaneously, increases in raw material costs and manpower costs led to increase in production costs. All these factors substantially intensified the operating pressure of the entire home electrical appliances industry.

During the Reporting Period, the Company upheld the operating strategies of "improving talent structure, reinforcing technological innovations, reforming marketing model, increasing per capita efficiency, accelerating the progress of internationalization" and successfully realized the basic stability in the scale of operation and performance amidst unfavorable macro-economic environment. During the Reporting Period, the Company recorded a revenue of RMB18.489 billion from its operating businesses, representing a year-to-year increase of 4.51%. The net profit attributable to shareholders of the listed company was RMB227 million, representing earnings per share of RMB0.1677. The net profit after exceptional items amounted to RMB196 million, representing a year-to-year increase of 6.16%. During the Reporting Period, the Company's principal operating businesses maintained steady growth, of which the revenue from the refrigerator business accounted for 49.24% of the principal operating businesses revenue, representing a year-to-year increase of 3.22%; the revenue from the air-conditioner business accounted for 38.91% of the principal operating businesses revenue, representing a year-to-year increase of 8.98%; domestic sales generated an operating revenue of RMB11.764 billion, representing a year-to-year increase of 5.83%; whereas the operating revenue from export sales was RMB4.984 billion, representing a year-to-year increase of 5.72%.

During the Reporting Period, the Company accelerated its capital flow, lowered its inventory level, enhanced its capital utilization, and continuously improved its financial condition, leading to a 15.37% decrease in the outstanding balance of facility of the Group at the end of the period as compared to the beginning of the period, paralleled by a substantial decrease in financial expenses by 24.92% and a remarkable improvement in the gearing ratio of the Company which dropped by 3.84 percentage points at the end of the period when compared to the beginning of the period. Concurrently, based on its anticipation in advance of a slowdown in the market during the second half of the year, the Company has stepped up the control over inventories and trade receivables to lower the inventory level. This has led to greater improvement in the inventory level and balance of trade receivables at the end of the period when compared to the beginning of the period, showing a drop of 18.70% and 11.85% respectively, and effectively minimized the risk of inventory depreciation and the capital risk of the Company, and established a sound market foundation for market competition in 2012.

In respect of core technologies and self-innovations, the Company has always upheld the operating philosophy of "technology orientation" for the enhancement of core competitiveness by the Company through persistent technological innovation. Based on its industry-leading 360-degree vector inverter technology and double-cooling and double-cycle technology, the Company has again launched a new generation of intelligent frost-free technology. The Company has built on its technological advantages in inverter air-conditioning technologies to promote the comprehensive enhancement in respect of three critical technological areas: energy-saving, well-being and comfort. The Company has launched the "Fully Purified Air (FPA)" healthy inverter air-conditioner jointly developed with the Environmental Institute of Chinese Center For Disease Control And Prevention. The Company further strengthened its industrial design capability and pioneered the industry with the launch of the large-size frameless glass panel 3D pattern outlook design. In September 2011, at the International Funkausstellung (IFA) held in Berlin, Ronshen refrigerators won the China Household Electrical Appliances Technology Innovation Award with the "24/7 food preservation and energy-saving technology" which was self-developed, and Hisense's "Lotus in the Moonlight" air-conditioner series was awarded the China Household Electrical Appliances Innovative Industrial Design Award. During the Reporting Period, the Company has applied for 260 patents in total, including 15 PCT (patent cooperation agreement) international patents and 47 invention patents. The Company has been granted 218 patents over the years, including 13 invention patents. At the 2011 China Household Electrical Appliances Technology Conference held by China Household Electrical Appliances Association, the Company was honored to receive 3 China Household Electrical Appliances Technology Advancement Awards in total.

## Chairman's Statement

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Looking forward to 2012, insufficient demand from the domestic market and high inventory level within the industry will pose difficulties for enterprises, whereas the unclear outlook of the global economy will also cause uncertainties on the export. At the same time, enterprises are facing ever-increasing operating pressure as there is no obvious improvement in the external operating environment of enterprises. But on the other hand, a number of factors including increasing income of the population, construction of indemnificatory housing, as well as product update and upgrade under technology advancement will continue to fuel the development of the household electrical appliance industry. Simultaneously, integration of the industry will further deepen, bringing more development opportunities for enterprises that value technology and product innovation and brand building. The Company will adhere to the operating strategies of “building product advantages, reforming marketing model, enhancing per capita efficiency, accelerating the progress of internationalization and realizing sound and rapid growth”, to promote the application and development of intelligent technologies, to enhance the level of product sophistication, to strengthen the product competitiveness through increasing the customer perceived value, to further perfect the high-end product line and to enhance the product sales structure, to excel in network upgrade and channel infiltration, to accelerate the establishment of outlets, to refine the marketing management system, to reinforce capital management, to perfect plan management system, to accelerate capital flow, and to achieve steady increases in its scale, performance and market share.

The Company recorded steady growth in its performance in 2011. This is attributable to the care and wholehearted support of different sectors of society, including all shareholders, financial institutions, working partners and the government, as well as the outstanding leadership of the board of directors, the supervisory committee and the management and the persistent dedication of all staff. I would like to express my heartfelt gratitude to every one of them and hope to receive your continued support in the forthcoming year. We believe, and we are confident, in the Company's development in 2012 as our objectives successively turn into reality under scrupulous planning and the concerted efforts and commitment of our staff. I also earnestly look forward to sharing a better future of Hisense Kelon with you all.

# Management Discussion and Analysis

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## I. INDUSTRY OVERVIEW

During the Reporting Period, the growth rate of the PRC refrigerator and air-conditioner markets has significantly decelerated, with the overall export market being sluggish. On the one hand, the demand in the PRC market was restrained by the tightening of the real estate policies, and the PRC market experienced a lack of growth drivers with the gradual withdrawal of the Energy-saving Products Benefiting People and the Subsidies policies in the second half of the year. On the other hand, demand from the export market was also affected by the macro-environment of the global economic turmoil and the increasing pressure on exchange rates, leading to poor performance of the export market as a whole. Simultaneously, increases in raw material costs and manpower costs led to increase in production costs. All these factors substantially intensified the operating pressure of the entire home electrical appliances industry.

## II. ANALYSIS OF THE COMPANY'S OPERATION

### 1. Overall situation

During the Reporting Period, the Company upheld the operating strategies of “improving talent structure, reinforcing technological innovations, reforming marketing model, increasing per capita efficiency, accelerating the progress of internationalization” and successfully realized basic stability in the scale of operation and performance amidst unfavorable macro-economic environment. During the Reporting Period, the Company recorded a revenue of RMB18.489 billion from its operating businesses, representing a year-to-year increase of 4.51%. The net profit attributable to shareholders of the listed company was RMB227 million, representing earnings per share of RMB0.1677. The net profit after exceptional items amounted to RMB196 million, representing a year-to-year increase of 6.16%. During the Reporting Period, the Company's principal operating businesses maintained steady growth, of which the revenue from the refrigerator business accounted for 49.24% of the principal operating businesses revenue, representing a year-to-year increase of 3.22%; the revenue from the air-conditioner business accounted for 38.91% of the principal operating businesses revenue of the Company, representing a year-to-year increase of 8.98%; domestic sales generated an operating revenue of RMB11.764 billion, representing a year-to-year increase of 5.83%; whereas the operating revenue from export sales was RMB4.984 billion, representing a year-to-year growth of 5.72%.

During the Reporting Period, the Company accelerated its capital flow, lowered its inventory level, enhanced its capital utilization, and continuously improved its financial condition, leading to a 15.37% decrease in the outstanding balance of facility of the Company at the end of the period as compared to the beginning of the period, paralleled by a substantial decrease in financial expenses by 24.92% and a remarkable improvement in the gearing ratio of the Company which dropped by 3.84 percentage points at the end of the period when compared to the beginning of the period. Concurrently, based on its anticipation in advance of a slowdown in the market during the second half of the year, the Company has stepped up the control over inventories and trade receivables to lower the inventory level. This has led to greater improvement in the inventory level and balance of trade receivables at the end of the period when compared to the beginning of the period, showing a drop of 18.70% and 11.85% respectively, and effectively minimized the risk of inventory depreciation and the capital risk of the Company, and established a sound market foundation for market competition in 2012.

### 2. Technology orientation

In respect of core technologies and self-innovation, the Company has always upheld the operating philosophy of “technology orientation” for the enhancement of core competitiveness by the Company through persistent technological innovation.

Based on its industry-leading 360-degree vector inverter technology and double-cooling and double-cycle technology, the Company has again launched a new generation of intelligent frost-free technology and completed the initial consolidation of the development platform for products for the domestic market during the Reporting Period. In May 2011, at the 2011 China Refrigerator Industry Summit, Ronshen refrigerators exclusively won the 2010-2011 Energy-saving Benchmark Award of the Refrigerator Industry for another consecutive year, while Hisense refrigerators received the 2010-2011 Outstanding Quality Award of the Refrigerator Industry. In September 2011, at the International Funkausstellung (IFA) held in Berlin, Germany, Ronshen refrigerators won the seventh session of China Household Electrical Appliances “Technology Innovation Award for the year 2011” with the “24/7 food preservation and energy-saving technology” which was self-developed.

## Management Discussion and Analysis

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During the Reporting Period, the Company has built on its technological advantages in inverter air-conditioning technologies to promote the comprehensive enhancement in respect of three critical technological areas: energy-saving, well-being and comfort. The Company has launched the “Fully Purified Air (FPA)” healthy inverter air-conditioner jointly developed with the Environmental Institute of Chinese Center For Disease Control And Prevention, which stepped up air-conditioning from the idea of “regulation of interior temperature” to “regulation of air quality”, as well as the DDF double-core double-control system to meet the customer demand for quick cooling and quick heating.

During the Reporting Period, the Company further strengthened its industrial design capability and pioneered the industry with the launch of the large-size frameless glass panel 3D pattern outlook design, which had been applied to the Company’s high-end air-conditioner and refrigerator products successively. At the IFA Berlin held in September 2011, Hisense’s “Lotus in the Moonlight” air-conditioner series was awarded the seventh session of China Household Electrical Appliances “Innovative Industrial Design Award for the year 2011”.

During the Reporting Period, the Company has applied for 260 patents in total, including 15 PCT (patent cooperation agreement) international patents and 47 invention patents. The Company has been granted 218 patents over the years, including 13 invention patents. At the 2011 China Household Electrical Appliances Technology Conference held by China Household Electrical Appliances Association, the Company was honored to receive 3 China Household Electrical Appliances Technology Advancement Awards in total.

### **3. Refrigerator business**

During the Reporting Period, the domestic refrigerator market experienced a declining demand, whereas the industry was exposed to dual pressure from price competition and increasing costs under extensive surplus in the overall production capacity. On the other hand, the refrigerator industry showed a trend of high-end development for products, as reflected by the rapid growth in the market share of three-door and multi-door refrigerators. The Company has adjusted its product portfolio proactively by launching high-end new French-style multi-door and European-style three-door refrigerators and the weight of sales of high-end products has increased significantly when compared with the same period last year. According to the statistics of China Market Monitor Company Limited (CMM), the Company’s refrigerators enjoyed a 14.19% market share in 2011, ranking the second position in the industry. At the same time, the Company has tightened its inventory control and lowered its inventory level, and hence successfully attained a proactivity for competition in 2012 against the background of an overall high inventory level within the industry. According to the statistics of CMM for December 2011 and January 2012, the Company attained notable increases in the market share for its refrigerators, being a market share of 14.81% and 15% respectively.

### **4. Air-conditioner business**

During the Reporting Period, oligopolistic competition continued to intensify within the domestic air-conditioner industry, with inverter air-conditioners gradually becoming the mainstream of the domestic air-conditioner market. Leveraging on its leading edge in inverter air-conditioner technologies accumulated over the years, the Company has successfully developed a platform for new generation of products which epitomized new design concepts. At the same time, the successful development of the household inverter multi-split air-conditioner represented a breakthrough for subsequent development of the industry. The Company has proactively adjusted its product portfolio, contributing to the rapid growth in the sales of inverter air-conditioners with the weight of sales of inverter air-conditioner exceeding 63%, which led to improvement in the profitability of the air-conditioner business. However, with the scale of the air-conditioner business remaining minimal, the Company was unable to realize a gain from its air-conditioner business.



## Management Discussion and Analysis

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### III. OUTLOOK

Looking forward to 2012, insufficient demand from the domestic market and high inventory level within the industry will pose difficulties for enterprises, whereas the unclear outlook of the global economy will also cause uncertainties on the export. At the same time, enterprises are facing ever-increasing operating pressure as there is no obvious improvement in the external operating environment of enterprises and there are circumstances of credit squeeze, rise in raw material prices and increase in costs like manpower costs, logistics and selling costs. But on the other hand, a number of factors including increasing income of the population, construction of indemnificatory housing, as well as product update and upgrade under technology advancement will continue to fuel the development of the household electrical appliance industry. Simultaneously, integration of the industry will further deepen, bringing more development opportunities for enterprises that value technology and product innovation and brand building.

The Company will adhere to the operating strategy of “building product advantages, reforming marketing model, enhancing per capita efficiency, accelerating the progress of internationalization and realizing sound and rapid growth” to achieve steady increase in its scale, performance and market share, with the objective of focusing on the following:

1. to promote the application and development of intelligent technologies, to enhance the level of product sophistication and product quality, to strengthen the product competitiveness through increasing customer perceived value, to further perfect the high-end product line and to enhance the product sales structure, as well as to further perfect its technologies and development management system, improve the product development flow, and shorten the new product development cycle at the same time.
2. to revolutionize the sales channel and business models, to excel in network upgrade and channel infiltration, to infiltrate into the grade three and grade four markets, to accelerate the establishment of outlets, to proactively explore emerging channels for network sales and to refine the marketing management system.
3. to establish enhanced management system, to stringently intensify cost control measures and to vigorously carry out in-depth measures to reduce costs, to continue the enhancement of workflow integration and the automation of equipment, to further informatization efforts and to continue efficiency enhancement works.
4. to focus more on self-owned brands in respect of export to international markets, and to strengthen the support for export to key export markets.
5. to perfect plan management system, to reinforce capital management and to accelerate capital flow.

## Management Discussion and Analysis

### IV. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD

#### (i) Analysis of the Company's revenue from principal businesses and profits by region and product

##### 1. Principal businesses by region

Region	Revenue from principal businesses	Unit: RMB ten thousand	
		Increase or decrease in revenue from principal businesses as compared to same period last year	
Revenue from external customers — Mainland	1,176,376.80		5.83%
Revenues from external customers — Overseas	498,468.13		5.72%
Total	1,674,844.93		5.80%

##### 2. Principal businesses by product

Major products	Revenue from principal businesses	Cost of principal businesses	Gross profit margin	Unit: RMB ten thousand		
				Increase or decrease in revenue from principal businesses as compared to same period last year	Increase or decrease in cost of principal businesses as compared to same period last year	Increase or decrease in gross profit margin as compared to same period last year
Refrigerators	824,615.45	645,538.32	21.72%	3.22%	3.78%	-0.43%
Air-conditioners	651,677.46	546,328.65	16.17%	8.98%	3.44%	4.49%
Others	198,552.02	164,269.51	17.27%	6.61%	6.43%	0.15%
Total	1,674,844.93	1,356,136.48	19.03%	5.80%	3.96%	1.43%

*Note:* Other products include freezers, washing machines, small household appliances and fittings, etc.

## Management Discussion and Analysis

### (ii) Analysis of the changes in composition of the Company's assets and liabilities, expenses and cash flow for the Reporting Period

#### 1. Composition of the Company's assets and liabilities for the Reporting Period

Unit: RMB

Assets and liabilities item	End of Reporting Period		Same period last year		Increase/Decrease in weight
	Amount	Weight to total assets	Amount	Weight to total assets	
Cash at bank and on hand	398,532,682.30	5.22%	429,182,477.81	5.35%	(0.13%)
Notes receivable	502,919,307.39	6.59%	385,982,498.33	4.81%	1.78%
Trade receivables	1,193,767,494.97	15.63%	1,354,284,204.38	16.89%	(1.26%)
Prepayments	315,474,246.14	4.13%	358,298,915.72	4.47%	(0.34%)
Others receivables	439,873,135.47	5.76%	383,163,557.93	4.78%	0.98%
Inventories	1,547,277,865.07	20.26%	1,903,101,598.65	23.73%	(3.47%)
Long-term equity investments	610,755,845.36	8.00%	570,013,226.88	7.11%	0.89%
Fixed assets	1,947,070,154.12	25.50%	1,852,388,292.88	23.10%	2.40%
Intangible assets	520,066,256.26	6.81%	533,088,958.15	6.65%	0.16%
Short-term borrowings	1,004,998,894.20	13.16%	1,101,261,835.85	13.73%	(0.57%)
Notes payable	612,667,073.33	8.02%	810,263,300.00	10.10%	(2.08%)
Trade payables	2,054,610,132.81	26.91%	2,385,166,608.32	29.74%	(2.83%)
Advances from customers	758,206,285.15	9.93%	950,206,943.91	11.85%	(1.92%)
Employee remunerations payable	190,026,739.08	2.49%	185,256,825.01	2.31%	0.18%
Taxes payable	(90,090,833.72)	(1.18%)	(209,997,869.00)	(2.62%)	1.44%
Other payables	1,156,195,947.88	15.14%	1,109,408,607.20	13.83%	1.31%
Other current liabilities	467,458,815.86	6.12%	483,383,088.08	6.03%	0.09%
Provisions	271,488,354.42	3.56%	246,800,154.13	3.08%	0.48%

#### 2. Expenses of the Company during the Reporting Period

Unit: RMB ten thousand

Item of expense	Reporting Period	Same period last year	Amount of increase or decrease	Percentage change
Selling and distribution expenses	263,621.19	252,371.91	11,249.28	4.46%
General and administrative expenses	54,764.99	52,934.38	1,830.61	3.46%
Financial expenses	5,600.40	7,459.57	(1,859.17)	(24.92%)

## Management Discussion and Analysis

### 3. Analysis of items under the cash flow statement during the Reporting Period

*Unit: RMB ten thousand*

Item	Reporting Period	Same period last year	Amount of increase or decrease	Percentage change
Net cash flow from operating activities	36,626.52	63,756.96	(27,130.44)	(42.55%)
Net cash flow from investing activities	(11,690.21)	(881.04)	(10,809.17)	1226.86%
Net cash flow from financing activities	(27,292.78)	(41,242.77)	13,949.99	(33.82%)

### 4. Analysis of changes in major financial statement items for the Reporting Period

*Unit: RMB*

Item	Balance at the end of the year (or amount for the year)	Balance at the beginning of the year (or amount for last year)	Percentage change	Cause for changes
Notes receivable	502,919,307.39	385,982,498.33	30.30%	Mainly due to increased reimbursement at the end of the period leading to increases in notes receivable
Construction in progress	80,702,425.28	166,835,913.79	(51.63%)	Mainly due to transfer of Yangzhou production line upon completion
Deferred income tax assets	3,623,816.22	6,893,223.90	(47.43%)	Due to changes in deductible losses of certain subsidiaries
Taxes payable	(90,090,833.72)	(209,997,869.00)	(57.10%)	Mainly due to changes in value-added tax payable
Business tax and surcharges	63,151,069.49	19,940,225.46	216.70%	Mainly because the Company and its major subsidiaries ceased to enjoy tax preference for sino-foreign joint venture enterprises for the period according to the requirements of the PRC
Gain from changes in fair value	4,961,913.35	17,632,914.80	(71.86%)	Mainly due to changes in foreign currency forward contracts
Investment income	138,560,585.23	394,879,283.61	(64.91%)	Mainly due to decreases in investment income from disposal of equity interests in Huayi Compressor
Non-operating income	158,721,726.61	518,757,089.73	(69.40%)	Mainly due to decreases in subsidies benefiting people
Refund of tax and levies	588,434,666.49	447,117,467.37	31.61%	Mainly due to increases in refund of export tax received
Cash received from other operation activities	364,870,216.30	708,913,641.71	(48.53%)	Mainly due to decreases in subsidies benefiting people received
Cash received from realization of investment	96,405,748.87	321,536,178.74	(70.02%)	Mainly due to decreases in disposal of equity interests in Huayi Compressor

## Management Discussion and Analysis

### (iii) Items accounted by fair values

*Unit: RMB ten thousand*

Items	At the beginning of the period	Gain or loss in fair value during the period	Accumulated changes in fair value accounted in equity	Impairment provided during the period	At the end of the period
<b>Financial assets</b>					
Of which: 1. Financial assets measured at fair value where changes in fair value are accounted for as gain or loss of the period	2,815.04	563.73	—	—	3,378.77
Of which: Derivative financial assets	2,815.04	563.73	—	—	3,378.77
2. Financial assets available for sale					
Subtotal of financial assets	2,815.04	563.73	—	—	3,378.77
Financial liabilities	(596.07)	(67.54)	—	—	(663.61)
Real estate for investment	—	—	—	—	—
Productive biological assets	—	—	—	—	—
Other	—	—	—	—	—
Total	2,218.97	496.19	—	—	2,715.16

### (iv) Financial assets denominated in foreign currency

*Unit: RMB ten thousand*

Items	At the beginning of the period	Gain or loss in fair value during the period	Accumulated changes in fair value accounted in equity	Impairment provided during the period	At the end of the period
<b>Financial assets</b>					
Of which: 1. Financial assets measured at fair value where changes in fair value are accounted for as gain or loss of the period	2,815.04	563.73	—	—	3,378.77
Of which: Derivative financial assets	2,815.04	563.73	—	—	3,378.77
2. Loans and receivables	—	—	—	—	—
3. Financial assets available for sale	—	—	—	—	—
4. Held to maturity investments	—	—	—	—	—
Subtotal of financial assets	2,815.04	563.73	—	—	3,378.77
Financial liabilities	(596.07)	(67.54)	—	—	(663.61)
Total	2,218.97	496.19	—	—	2,715.16

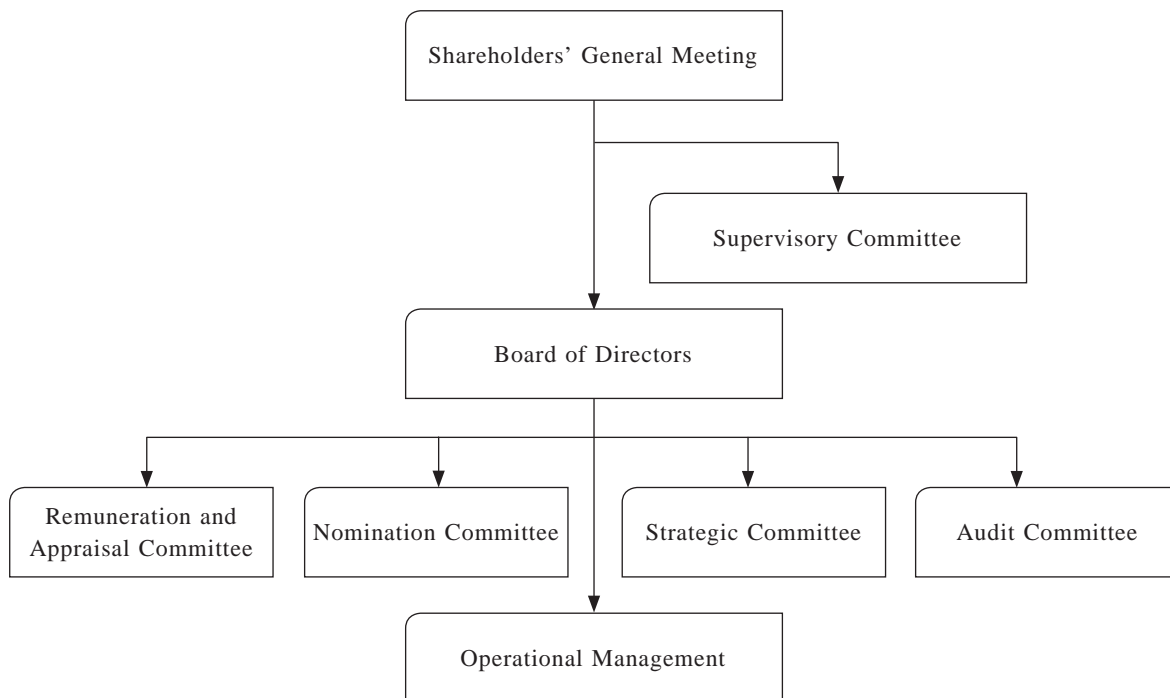
### (v) Operation and results of major subsidiaries and companies in which the Company has equity interest

Name of company	Interest	Nature of business	Major product or service	Registered capital	Total assets (RMB ten thousand)	Net assets (RMB ten thousand)	Operating income (RMB ten thousand)	Operating profit (RMB ten thousand)	Net profit (RMB ten thousand)
Hisense Mould	78.7%	Manufacture	Manufacture and sale of mould	RMB27.642 million	27,352.22	20,100.02	20,966.61	3,476.85	3,608.59
Hisense Hitachi	49%	Manufacture	Production and sale of commercial air-conditioner	US\$46 million	113,706.78	63,034.10	205,944.95	23,969.63	20,804.13

# Corporate Governance Report

Sound corporate governance is the basic assurance to the long-term healthy and stable development of a corporation, whereas continued enhancement of the governance level is a necessary measure to maintain the healthy development of the company. During the Reporting Period, the Company has further amended the Articles of Association and the Working Rules of the General Manager, and also established a number of regulatory systems including The System for Use and Management of Fund Raised and the Implementation Rules for Cumulative Voting System. The shareholders' general meetings, meetings of the board of directors and its various dedicated committees and the supervisory committee performed their functions, coordinated with each other and maintained effective check and balance in accordance with the laws, regulations and the relevant systems, which continuously enhanced the level of corporate governance of the Company.

## I. Corporate governance structure:



### (a) Shareholders' General Meeting

As the highest authority of the Company, the shareholders' general meeting exercises its functions and powers in accordance with the laws to make decisions on significant events of the Company. The Company has established and maintained different communication channels with its shareholders through the publication of announcements, the Company's website, as well as by e-mail, telephone and facsimile.

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

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

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

In 2011, one Annual General Meeting ("AGM"), three Extraordinary General Meetings ("EGM"), one A Shareholders' Class Meeting and one H Shareholders' Class Meeting have been held by the Company. The shareholding held by the shareholders attending the AGM, the EGMs, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting represented 56.52%, 57.54%, 53.37%, 52.22%, 45.46% and 7.90% respectively, of all the then issued shares of the Company.

## Corporate Governance Report

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### (b) The Board of Directors

The Nomination Committee has been established under the Board. The Nomination Committee will select and make suggestions on the candidates for the positions of directors and the selection criteria and procedures and the same will be submitted to the Board for consideration and approval, and Directors will be elected at the shareholders' general meetings. The seventh session of the Board was elected and established at the annual general meeting of the Company held on 26 June 2009 with a term of office of 3 years. The Board currently comprises nine Directors, being the executive Directors Mr. Tang Ye Guo (Chairman), Mr. Ren Li Ren, Ms. Yu Shu Min, Mr. Lin Lan, Mr. Xiao Jian Lin and Mr. Gan Yong He, and the independent non-executive Directors Mr. Zhang Sheng Ping, Mr. Wang Xin Yu and Mr. Wang Ai Guo.

As at 1 January 2011, the Board was composed of the executive Directors Mr. Tang Ye Guo (Chairman), Ms. Yu Shu Min, Mr. Lin Lan, Mr. Zhou Xiao Tian and Ms. Liu Chun Xin and the independent non-executive Directors Mr. Zhang Sheng Ping and Mr. Cheung Yui Kai, Warren. The following movements in the composition of the Board took place during the Reporting Period up to the date of this report:

- (i) the election of Mr. Xiao Jian Lin and Mr. Wang Ai Guo as a Director and an independent non-executive Director respectively of the seventh session of the Board of the Company at the 2011 first extraordinary general meeting of the Company held on 20 January 2011;
- (ii) the resignation of Mr. Zhou Xiao Tian as a Director which was tendered on 27 June 2011 (which took effect on 27 June 2011);
- (iii) the resignation of Mr. Cheung Yui Kai, Warren as an independent non-executive Director which was tendered on 29 July 2011 (which took effect on 26 September 2011);
- (iv) the election of Mr. Ren Li Ren as a Director of the seventh session of the Board of the Company at the 2011 second extraordinary general meeting of the Company held on 1 August 2011;
- (v) the resignation of Ms. Liu Chun Xin as a Director which was tendered on 15 September 2011 (which took effect on 15 September 2011);
- (vi) the election of Mr. Wang Xin Yu as an independent non-executive Director of the seventh session of the Board of the Company at the 2011 third extraordinary general meeting of the Company held on 26 September 2011;
- (vii) the election of Mr. Gan Yong He as a Director of the seventh session of the Board of the Company at the 2012 first extraordinary general meeting of the Company held on 16 January 2012.

Members of the Board have different backgrounds with extensive experience in various fields such as science and technology, corporate management and finance and accounting. The biographies and roles of the Directors are set out on pages 26 to 27 of this annual report.

The primary duties of the Board include: convening shareholders' general meetings and reporting its work at the shareholders' general meetings, and exercising its decision-making powers as delegated by the shareholders at the general meetings with respect to matters such as the strategic development plans of the Company, establishment of the management structure, investment and financial controls, disposal of material assets, material transactions and human resources. The Board is responsible for formulating the Company's overall strategy and annual business plans, and ensuring that its production and operation is properly planned, approved, conducted and monitored. In addition, the Board is also responsible for the appointment of the members of the Operational Management and the supervision and evaluation of their performance.

## Corporate Governance Report

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The Board is also responsible for overseeing the preparation of the accounts for each fiscal period to ensure that such accounts truly and fairly reflect the Company's business operation, results and cash flow performance during that period. The Operational Management of the Company provides proper explanation and sufficient information to the Board so as to enable it to make an informed assessment of the financial information and other information submitted to it for approval. In preparing the accounts for the year ended 31 December 2011, the Directors:

- selected the appropriate accounting policies;
- approved adoption of all applicable standards as set out in the China Accounting Standards for Business Enterprises; and
- made prudent and reasonable judgments and estimates, and prepared the accounts on a going concern basis.

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

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

In 2011, the seventh session of the Board of the Company has held 20 meetings to discuss the Company's operating results, overall strategies, investment proposals as well as operating and financial performance. The Directors attended the meetings in person or by their proxies, and their attendance records are set out in the following table:

**The attendance of the meetings of the seventh session of the Board**

<b>Name</b>	<b>Number of meetings which should be attended for the Year</b>	<b>Number of attendance in person</b>	<b>Number of attendance by proxy</b>	<b>Attendance rate for the Year</b>
Mr. Tang Ye Guo	20	20	0	100%
Mr. Ren Li Ren ( <i>Note 1</i> )	9	9	0	100%
Ms. Yu Shu Min	20	20	0	100%
Mr. Lin Lan	20	20	0	100%
Mr. Xiao Jian Lin ( <i>Note 2</i> )	20	20	0	100%
Mr. Zhang Sheng Ping	20	20	0	100%
Mr. Wang Xin Yu ( <i>Note 3</i> )	5	5	0	100%
Mr. Wang Ai Guo ( <i>Note 4</i> )	20	20	0	100%
Mr. Zhou Xiao Tian ( <i>Note 5</i> )	8	8	0	100%
Mr. Cheung Yui Kai, Warren ( <i>Note 6</i> )	15	15	0	100%
Ms. Liu Chun Xin ( <i>Note 7</i> )	14	14	0	100%



## Corporate Governance Report

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### *Notes:*

1. Mr. Ren Li Ren was appointed a Director on 1 August 2011.
2. Mr. Xiao Jian Lin was appointed a Director on 20 January 2011.
3. Mr. Wang Xin Yu was appointed an independent non-executive Director on 26 September 2011.
4. Mr. Wang Ai Guo was appointed an independent non-executive Director on 20 January 2011.
5. Mr. Zhou Xiao Tian ceased to be a Director with effect from 27 June 2011.
6. Mr. Cheung Yui Kai, Warren ceased to be an independent non-executive Director with effect from 26 September 2011.
7. Ms. Liu Chun Xin ceased to be a Director with effect from 15 September 2011.

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

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

The Group has taken legal actions against Guangdong Greencool and its related companies (the "Greencool Companies") for their misappropriation of the funds of the Group. Although judgments of the cases have all become effective, as the cases were in the process of enforcement, there is uncertainty in the enforcement results. This uncertainty may have an impact on the assets of the Company.

### **Independent Non-Executive Directors**

The Board of the Company comprises three independent non-executive Directors, accounting for one-third of the total number of Directors. Save as disclosed in the section headed "Corporate Governance Practices" above, the independent non-executive Directors of the Company have complied with Rules 3.10(1) and (2) and Rule 3.13 of the Listing Rules and all of them are independent of and are not connected with any of the connected persons (as defined in the Listing Rules) of the Company. The Company has received a confirmation of independence from each of the independent non-executive Directors. The term of office of Mr. Cheung Yui Kai, Warren is from 26 June 2009 to 25 September 2011, the term of office of Mr. Zhang Sheng Ping is from 26 June 2009 to 25 June 2012, the term of office of Mr. Wang Ai Guo is from 20 January 2011 to 25 June 2012, and the term of office of Mr. Wang Xin Yu is from 26 September 2011 to 25 June 2012.

In compliance with the relevant laws, regulations and the requirements of the Working System of Independent Non-executive Directors, the independent non-executive Directors of the Company attended the meetings of the Board and the dedicated committees in a meticulous, responsible, enthusiastic and conscientious manner and brought their professionalism and expertise to a full play in the independent performance of their duties, contributing professional advice and independent judgment for significant issues under discussion for decision making.

## Corporate Governance Report

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### Dedicated committees of the board of directors

The Board has established four dedicated committees, namely, the Remuneration and Appraisal Committee, the Nomination Committee, the Strategic Committee and the Audit Committee. Each committee has devised its own working rules to define its terms of reference and the procedures of performance, which have been approved by the board of directors.

### Remuneration and Appraisal Committee

The seventh session of the Board has established the Remuneration and Appraisal Committee with specific written terms of reference. During the Reporting Period and up to the date hereof, the Remuneration and Appraisal Committee consisted of the Directors, namely, Mr. Lin Lan and Ms. Yu Shu Min, and the independent non-executive Directors, namely, Mr. Zhang Sheng Ping, Mr. Wang Ai Guo (since 20 January 2011), and Mr. Cheung Yui Kai, Warren (whose term ended on 25 September 2011) and Mr. Wang Xin Yu (since 26 September 2011). Mr. Zhang Sheng Ping acts as the chairman of the committee. Due to the resignation of Mr. Cheung Yui Kai, Warren, Mr. Wang Xin Yu was appointed as a member of the Remuneration and Appraisal Committee of the seventh session of the Board with effect from 26 September 2011.

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

- (A) to analyze the appraisal standard of the directors and senior management and to carry out the appraisal and make recommendations based on the actual conditions of the Company;
- (B) to make recommendations to the Board on the Company's policy and structure for all directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- (C) to review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- (D) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- (E) to make recommendations to the Board for the remuneration of non-executive directors;
- (F) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- (G) to make recommendations to the Board on the remuneration packages of individual executive directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- (H) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;
- (I) to ensure that no director or any of his associates is involved in deciding his own remuneration;
- (J) other duties provided under applicable regulatory rules and other matters authorized by the Board.

The Remuneration and Appraisal Committee may seek professional advice when necessary. No Director or any member of the senior management shall be involved in deciding his or her own remuneration. The main purpose of the remuneration policies formulated by the Remuneration and Appraisal Committee is to attract and retain Directors and senior management who faithfully and diligently discharge their duties, and who help the Company in its successful operation and is therefore important to the Company.

## Corporate Governance Report

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

<b>The attendance of the meetings of the Remuneration and Appraisal Committee under the seventh session of the Board</b>				
<b>Name</b>	<b>Number of meetings which should be attended for the Year</b>	<b>Number of attendance in person</b>	<b>Number of attendance by proxy</b>	<b>Attendance rate for the Year</b>
Ms. Yu Shu Min	5	5	0	100%
Mr. Lin Lan	5	5	0	100%
Mr. Zhang Sheng Ping	5	5	0	100%
Mr. Wang Xin Yu ( <i>Note 1</i> )	2	2	0	100%
Mr. Wang Ai Guo ( <i>Note 2</i> )	5	5	0	100%
Mr. Cheung Yui Kai, Warren ( <i>Note 3</i> )	3	3	0	100%

*Note:*

1. Mr. Wang Xin Yu was appointed an independent non-executive Director and became a member of the committee on 26 September 2011.
2. Mr. Wang Ai Guo was appointed an independent non-executive Director and became a member of the committee on 20 January 2011.
3. Mr. Cheung Yui Kai, Warren ceased to be an independent non-executive Director and a member of the committee with effect from 26 September 2011.

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

- (i) the First Share Option Incentive Scheme of Hisense Kelon Electrical Holdings Company Limited (Revised Draft);
- (ii) the basic annual emoluments of Mr. Ren Li Ren, the president of the Company, in the sum of not exceeding RMB800,000 (before taxation);
- (iii) the annual emolument of Mr. Wang Xin Yu, the independent non-executive Director candidate of the seventh session of the Board, in the sum of RMB240,000 (before taxation);
- (iv) the basic annual emoluments of Mr. Gan Yong He, the vice president of the Company, in the sum of not exceeding RMB640,000 (before taxation).

Members of the Remuneration and Appraisal Committee confirmed that the remunerations of the Directors, supervisors and senior management during the Reporting Period are in line with the remuneration appraisal system set up by the Company. Details of the remunerations of the Directors, the supervisors and the senior management of the Company for the year ended 31 December 2011 are set out on pages 40 to 41 of this annual report.

## Corporate Governance Report

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### Nomination Committee

The seventh session of the Board of the Company has established the Nomination Committee with specific written terms of reference. During the Reporting Period and up to the date hereof, the Nomination Committee comprised three independent non-executive Directors, namely, Mr. Zhang Sheng Ping, Mr. Cheung Yui Kai, Warren (whose term ended on 25 September 2011), Mr. Wang Xin Yu (since 26 September 2011) and Mr. Wang Ai Guo (since 20 January 2011), and Directors, namely, Mr. Tang Ye Guo, Mr. Zhou Xiao Tian (whose term ended on 26 June 2011) and Mr. Ren Li Ren (since 1 August 2011). Mr. Zhang Sheng Ping acts as the chairman of the committee. Due to the resignation of Mr. Zhou Xiao Tian, Mr. Ren Li Ren was appointed as a member of the Nomination Committee of the seventh session of the Board with effect from 1 August 2011. Due to the resignation of Mr. Cheung Yui Kai, Warren, Mr. Wang Xin Yu was appointed as a member of the Nomination Committee of the seventh session of the Board with effect from 26 September 2011.

The major duties and authority of the Nomination Committee are:

- (A) to analyze the standard and process for selection of candidates for the positions of director and senior management and make recommendations to the Board;
- (B) to extensively identify individuals qualified to become directors and senior management;
- (C) to examine the candidate for the positions of director and senior management and make recommendations to the Board;
- (D) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategies;
- (E) to assess the independence of the independent non-executive directors;
- (F) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive;
- (G) other matters authorized by the Board.

The Nomination Committee comprises five Directors, including three independent non-executive Directors, and the members of the Nomination Committee are nominated by the Chairman of the Board, one-half or more of the independent non-executive Directors or one-third or more of Directors, and are elected by the Board. The Nomination Committee shall have one chairman (convener) who should be an independent non-executive Director responsible for presiding over the work of the committee. The convener shall be elected among the committee members, and shall be reported to the Board for approval. The term of office of each member of the Nomination Committee is consistent with the term he or she served in the Board. During the term of office, if any member of the committee ceases to be a Director, he or she shall be disqualified as a member of the committee accordingly, and the vacancy should be filled by the person elected by the Board in accordance with the requirements. The human resources department of the Company will assist the Nomination Committee in carrying out its daily work such as selection and nomination of suitable candidates.

## Corporate Governance Report

The Nomination Committee of the seventh session of the Board of the Company held four meeting during the Reporting Period, and the attendance record of the members of the Nomination Committee is set out below:

### The attendance of the meetings of the Nomination Committee under the seventh session of the Board

Name	Number of meetings which should be attended for the Year	Number of attendance in person	Number of attendance by proxy	Attendance Rate for the Year
Mr. Tang Ye Guo	4	4	0	100%
Mr. Ren Li Ren ( <i>Note 1</i> )	2	2	0	100%
Mr. Zhang Sheng Ping	4	4	0	100%
Mr. Wang Xin Yu ( <i>Note 2</i> )	1	1	0	100%
Mr. Wang Ai Guo ( <i>Note 3</i> )	4	4	0	100%
Mr. Zhou Xiao Tian ( <i>Note 4</i> )	0	0	0	—
Mr. Cheung Yui Kai, Warren ( <i>Note 5</i> )	3	3	0	100%

*Note:*

1. Mr. Ren Li Ren was appointed a Director and became a member of the committee on 1 August 2011.
2. Mr. Wang Xin Yu was appointed an independent non-executive Director and became a member of the committee on 26 September 2011.
3. Mr. Wang Ai Guo was appointed an independent non-executive Director and became a member of the committee on 20 January 2011.
4. Mr. Zhou Xiao Tian ceased to be a Director and a member of the committee with effect from 27 June 2011.
5. Mr. Cheung Yui Kai, Warren ceased to be an independent non-executive Director and a member of the committee with effect from 26 September 2011.

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

- (i) the nomination of Mr. Ren Li Ren as the candidate for the positions of the president and a Director of the Company, the nomination of Mr. Liu Wen Zhong as the candidate for the position of the vice president of the Company and the nomination of Mr. Gan Yong He as the candidate for the position of the vice president of the Company;
- (ii) the nomination of Mr. Wang Xin Yu as the candidate for the position of an independent non-executive Director of the seventh session of the Board of the Company;
- (iii) the nomination of Mr. Wang Hao as the person in charge of finance of the Company;
- (iv) the nomination of Mr. Gan Yong He as the candidate for the position of a Director of the seventh session of the Board of the Company.

The Nomination Committee conducts extensive searches for candidates of Directors within the Company and in the open market, etc. after considering the Company's requirements for new Directors. With the consent to nomination from the candidates, the Nomination Committee will convene the Nomination Committee meeting in accordance with relevant laws and regulations, the Articles of Association and the Terms of Reference for Nomination Committee in view of the Company's actual situation, examine the qualifications of the initial nominees according to the requirements for the position of Directors and form a resolution which would be recorded and submitted to the Board for its consideration. The Nomination Committee will provide the Board with its recommendation on the candidates for directorship together with relevant information two months before the nomination.

## Corporate Governance Report

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### Strategic Committee

The seventh session of the Board of the Company has established the Strategic Committee with specific written terms of reference. During the Reporting Period and up to the date hereof, the Strategic Committee of the seventh session of the Board comprised Mr. Tang Ye Guo, Mr. Zhou Xiao Tian (whose term ended on 26 June 2011), Mr. Ren Li Ren (since 1 August 2011), Ms. Yu Shu Min, Mr. Lin Lan and Mr. Xiao Jian Lin (since 20 January 2011). Mr. Tang Ye Guo is the chairman of the committee. Due to the resignation of Mr. Zhou Xiao Tian, Mr. Ren Li Ren was appointed as a member of the Strategic Committee of the seventh session of the Board with effect from 1 August 2011.

The Strategic Committee of the Board is a specialized working organ under the Board, primarily responsible for studying and making recommendations on the long-term development strategies and the decision-making on significant investments of the Company.

The Strategic Committee comprises five Directors, who are nominated by the Chairman of the Board, one-half or more of the independent non-executive Directors or one-third or more of all the Directors, and are elected by the Board. The committee shall have one chairman (convener), who shall be the Chairman of the Board of the Company. The term of office of each member of the Strategic Committee shall be consistent with his or her term of office with the Board, and members of the committee can be re-elected upon their retirement. During the term of office, if any member of the committee ceases to be a Director of the Company, he or she shall be disqualified as a member of the committee accordingly, and the vacancy should be filled by the person elected by the Committee in accordance with the requirements.

### Audit Committee

The Board takes ultimate responsibility for the Company's internal control system. To achieve the best corporate governance practices, the Company has set up the Audit Committee to review the efficiency of the relevant systems. The Audit Committee is a specialized working organ under the Board with specific written terms of reference, and is responsible for the communication, supervision and inspection of the internal and external audit work of the Company. The Audit Committee reports to the Board and its proposals shall be submitted to the Board for approval.

The major duties and authority of the Audit Committee are:

- (A) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditing body, and to approve the remuneration and terms of engagement of the external auditing body, and any questions of its resignation or dismissal;
- (B) to review and monitor the independence and objectivity of the external auditing body and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditing body the nature and scope of the audit and reporting obligations before the audit commences;
- (C) to develop and implement policy on engaging an external auditing body to supply non-audit services. For this purpose, "external auditing body" includes any entity that is under common control, ownership or management with the auditing body or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

## Corporate Governance Report

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- (D) to monitor the integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the committee should focus particularly on:
1. any changes in accounting policies and practices;
  2. major judgmental areas;
  3. significant adjustments resulting from the audit;
  4. the going concern assumptions and any qualifications;
  5. compliance with accounting standards; and
  6. compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (E) Regarding item (D) above:
1. members of the committee should liaise with the Board and senior management and the committee must meet, at least twice a year, with the Company's auditing body; and
  2. the committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, and it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditing body.
- (F) to examine and review the Company's financial controls, internal control and risk management systems;
- (G) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (H) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (I) where an internal audit function exists, to ensure co-ordination between the internal and external auditing bodies, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to examine, review and monitor its effectiveness;
- (J) to examine and review the Group's financial and accounting policies and practices;
- (K) to review the explanatory letter on audit work provided to the management by the external auditing body, any material queries raised by the auditing body to management about the accounting records, financial accounts or systems of control and management's response;
- (L) to ensure that the Board will provide a timely response to the issues raised in the explanatory letter on audit work provided to the management by the external auditing body;
- (M) to report to the Board on the matters in the terms of reference;
- (N) to audit and review arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

## Corporate Governance Report

(O) to act as the key representative body for overseeing the Company's relationship with the external auditing body; and

(P) to consider such other matters as the Board may authorize.

All members of the Audit Committee under the seventh session of the Board of the Company are independent non-executive Directors, namely, Mr. Zhang Sheng Ping, Mr. Cheung Yui Kai, Warren (whose term ended on 25 September 2011), Mr. Wang Xin Yu (since 26 September 2011) and Mr. Wang Ai Guo (since 20 January 2011). Mr. Wang Ai Guo is the chairman of the committee. Due to the resignation of Mr. Cheung Yui Kai, Warren, Mr. Wang Xin Yu was appointed as a member of the Audit Committee of the seventh session of the Board with effect from 26 September 2011;

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

### The attendance of the meetings of the Audit Committee under the seventh session of the Board

Name	Number of meetings which should be attended for the Year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the Year
Mr. Zhang Sheng Ping	5	5	0	100%
Mr. Wang Xin Yu ( <i>Note 1</i> )	0	0	0	—
Mr. Wang Ai Guo ( <i>Note 2</i> )	5	5	0	100%
Mr. Cheung Yui Kai, Warren ( <i>Note 3</i> )	5	5	0	100%

*Note:*

1. Mr. Wang Xin Yu was appointed an independent non-executive Director and became a member of the committee on 26 September 2011.
2. Mr. Wang Ai Guo was appointed an independent non-executive Director and became a member and the chairman of the committee on 20 January 2011.
3. Mr. Cheung Yui Kai, Warren ceased to be an independent non-executive Director and a member of the committee with effect from 26 September 2011.

In 2011, the Audit Committee accomplished the following major tasks:

1. Having reviewed the annual, interim and quarterly financial reports;
2. Having made recommendations on the removal of 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 for the financial year of 2011, and the appointment of Crowe Horwath China Certified Public Accountants (LLP) as the auditors of the Company for the financial year of 2011;
3. Appointment of the independent non-executive Director Mr. Wang Ai Guo as the chairman of the Audit Committee of the seventh session of the Board;
4. Having reviewed the connected transactions of the Company to ensure that the connected transactions were in compliance with the principles of fairness, impartiality and transparency with sufficient protection of the medium and minority shareholders' interests;
5. Having made recommendations on significant events of the Company and reminded the senior management of the Company of the relevant risks.



## Corporate Governance Report

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### (c) Supervisory Committee

The Supervisory Committee was established in accordance with the PRC laws. It independently performs its supervisory duties to protect the legal interests of shareholders, the Company and its staff from infringements. It also reviews the Company's financial positions in accordance with the relevant requirements of the Articles of Association of the Company, and oversees the discharge of duties of the Directors and the senior management of the Company.

The seventh session of the Supervisory Committee of the Company is composed of two shareholders' representatives, namely Mr. Guo Qing Cun and Mr. Gao Zhong Xiang and one staff representative of the Company, Mr. Liu Zhan Cheng, with Mr. Guo Qing Cun acting as the chairman of the Supervisory Committee. Details of the above-mentioned supervisors' biographies are set out on pages 27 of this annual report.

Details of the work performed and the meetings convened by the Supervisory Committee of the Company in 2011 are set out on pages 57 to 58 of this annual report.

### II. Compliance with the 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.

#### Chairman and President

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

POSITION	Chairman	President	
NAME	Mr. Tang Ye Guo	Mr. Zhou Xiao Tian	Mr. Ren Li Ren
TERM OF OFFICE	26 June 2006 to the date of this report	4 December 2008 to 26 June 2011	27 June 2011 to the date of this report

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

# Corporate Governance Report

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## Internal Control

During the Reporting Period, pursuant to the provisions and requirements of the Basic Norms for Enterprise Internal Control and its ancillary guidelines, the Company has established the Work Plan on the Implementation of Internal Control Standards that was considered and approved by the Board on 30 March 2011, with the objectives of enhancing the level of corporate operation and management and risk management ability, as well as reasonably ensuring the compliance of the Company's operation with law and regulation, the safety of assets, the truthfulness and reliability of the financial reports and relevant information, optimizing the efficiency and efficacy of operation and promoting the implementation of strategies for sustainable development by the Company.

During the Reporting Period, the Company strongly promoted the establishment of internal control system, and after taking into account the Company's internal control system and assessment method and on the basis of daily supervision and specific supervision of internal control, the Company has determined the main risks in internal control that require emphasis, including development strategies, talent portfolio, efficiency per capita, establishment of corporate culture, management and control of material procurement, management and control of sales policies, marketing model, information system and leadership in terms of technological development, and has carried out self-assessment on the effectiveness of the Company's internal control. Conclusions were drawn in respect of the effectiveness of internal control: during the Reporting Period, the Company has established internal control for all businesses and matters included in the scope of assessment, and internal control has been effectively executed to achieve the objectives of the Company's internal control without significant shortfalls. The Board has reviewed the effectiveness of the internal control system during the year. During the course of the review, the Board considered that the Company had established an appropriate internal control system based on the actual situations and was not aware of any significant defect in the internal control system. In addition, the Company has engaged Crowe Horwath China Certified Public Accountants (LLP) to perform independent audit on the effectiveness of the Company's internal control and an audit report on internal control has been issued. The auditor is of the view that as at 31 December 2011, the Company has maintained effective internal control related to financial reporting in accordance with Basic Norms for Enterprise Internal Control and the relevant requirements in all material aspects.

## III. Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its code for securities transactions by the Directors. After making specific enquiries to the directors of the Company (the "Directors"), they all confirmed that they had complied with the Model Code during their term of office.

## IV. Auditor

On 1 August 2011, as considered and approved at the shareholders' general meeting, BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD. and BDO Limited were respectively removed as the domestic auditors and overseas auditors of the Company for the financial year of 2011, and Crowe Horwath China Certified Public Accountants (LLP) were appointed as the auditors of the Company for the financial year of 2011, and the Board was authorized to fix their remuneration. The Company agreed to pay a remuneration of approximately RMB2,400,000 to the auditors for the provision of audit services for financial reporting and internal control for the year ended 31 December 2011 and bear the corresponding travel expenses.

## Profiles of Directors, Supervisors & Members of the Senior Management

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### Directors:

**Mr. Tang Ye Guo** has successively held the positions of the chief accountant, the deputy general manager, the general manager and director of 青島海信電器股份有限公司 (Hisense Electric Co., Ltd.) (“Hisense Electric”) from 1997. From August 2003 to September 2005, he served as an assistant to the president of Hisense Group Company Limited (“Hisense Group”), and the general manager and chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited (“Hisense Air-Conditioning”). Mr. Tang was appointed as the chairman of the board of directors of Hisense Air-Conditioning and a director of Hisense Electric and the president of the Company from September 2005 to June 2006. He has acted as the vice president of Hisense Group since January 2004. He has acted as chairman of the board of directors of Hisense Air-Conditioning and the chairman of the board of directors of the Company since June 2006. He has acted as a director of Hisense Group since April 2010.

**Mr. Ren Li Ren** has served successively as the assistant to the general manager and the vice general manager of Hisense Electric, the assistant to the general manager of Qingdao Hisense Computer Co., Ltd., the general manager of Hisense (Beijing) Electrical Co., Ltd. and Hisense (Nanjing) Electrical Co., Ltd.. From June 2006 to July 2009, he acted as the assistant to the president of the Company. He was the general manager of Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd. and the vice general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. from November 2007 to August 2009. Mr. Ren has been a director of Hisense Air-Conditioning since August 2011. Mr. Ren has been the vice president of the Company from June 2009 to June 2011. He has acted as the president of the Company since June 2011. He has acted as a director of the Company since August 2011.

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

**Mr. Lin Lan** had been working as the manager of the power system software development department of 西門子諮詢公司 (Siemens, currently known as “AMEC Limited” in the UK), the senior project manager and senior engineer for GE 動力系統公司 (GE Power Systems). Mr. Lin had acted as the vice president of the Company from September 2002 to June 2006. Since July 2006, he has served as the vice president of Hisense Group. He has been a director of Hisense Electric since May 2007 and a director of Hisense Group since December 2009. He has acted as a director of the Company since June 2006.

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

**Mr. Gan Yong He** was previously the head of manufacturing quality department and the head of central quality department of Anhui Boxihua Household Electric Appliance Co., Ltd., and the quality manager and the quality director of Electrolux (China) Home Appliances Co., Ltd. He has been the deputy general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. from June 2008 to June 2011, and has served as the vice-president of the Company since June 2011. He has served as a director of the Company since January 2012.

**Mr. Zhang Sheng Ping** graduated from Shandong University with a master’s degree in science and from Nankai University with a doctorate in economics, and was a postdoctoral fellow in finance in Peking University. From July 1987 to June 2000, he had been working as a teaching fellow, lecturer and an associate professor at the School of Economics of Shandong University. Since August 2002, he has been an associate professor at the Guanghua School of Management of Peking University. He has acted as an independent director of Silver Plaza Group Co., Ltd. since June 2006. He has acted as an independent director of Guangdong Golden Horse Tourism Group Stock Co., Ltd. since August 2011. He has acted as an independent non-executive director of the Company since June 2006.

## Profiles of Directors, Supervisors & Members of the Senior Management

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**Mr. Wang Xinyu** graduated from the University of International Business and Economics with a bachelor degree in international finance and obtained a M.B.A from the University of Chicago Booth School of Business. He served as the director of MBK Partners from October 2005 to February 2010 and he has acted as the managing director of JP Capital Investment Limited since September 2010. He was a director of Luye Pharma Group Ltd. (listed on the Singapore Stock Exchange) from August 2008 to February 2010. He has acted as an independent non-executive director of the Company since September 2011.

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

### Supervisors:

**Mr. Guo Qing Cun** acted as a part-time lawyer in the legal advisory office in Shandong and Wenhan Law Firm (文翰律師事務所), a lecturer, associate professor and professor of Shandong University, and held various positions at the university, including the deputy president of the Institute of Science, an assistant to the head of School of Management and the chief officer of the Research Centre of Technology Law and Intellectual Property Rights from 1986 to 2002. Mr. Guo was a visiting scholar of the faculty of law at Peking University in 1995. In 1998, he was nominated as a Professional Technology Talent in Shandong Province. From April 2003 to January 2004, he served as an assistant to the president of Hisense Group. From January 2004 to February 2011 he served as vice-president of Hisense Group. Mr. Guo is currently the secretary of the discipline inspection commission and the chairman of the labour union of Hisense Group. He has served as a supervisor of the Company since December 2006.

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

**Mr. Liu Zhan Cheng** graduated from Zhongnan University of Finance and Economics (中南財經大學) in 1999. He has been working in the Company after graduation. He has acted as the deputy manager and then the manager of the accounting division of the finance department of the Company, the deputy department head of the operation and management department and the department head of the material control department of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.. He was also the department head of the supply department, the assistant to general manager and the vice general manager of Guangdong Kelon Air-Conditioner Co., Ltd.. He has served as the supervisor of the Company from June 2006 to date. Since March 2009, Mr Liu has been the vice general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.. He served as a director of Huayi Compressor Holdings Company Limited from December 2009 to March 2012.

## Profiles of Directors, Supervisors & Members of the Senior Management

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### Senior Management Members:

**Mr. Jia Shao Qian** has served as a legal adviser in the corporate legal department of Hisense Group, the supervisor of public relations in the president office of Hisense Group from January 2000 to January 2003, the deputy manager of the president office of Hisense Group from January 2003 to July 2005 and the manager of the president office of Hisense Group from July 2005 to January 2007. He has also served as the vice-president of the Company since January 2007. He has served as the chairman of the supervisory committee of Hisense Electric from June 2006 to March 2011.

**Mr. Zhang Yu Qing** is a senior engineer. He was the department head of the freezer manufacturing department and the Chief Technology Officer of Suzhou Samsung Electronics Co., Ltd. from January 2003 to May 2005. He joined Hisense Group in May 2006 and had been the vice general manager of Hisense (Beijing) Electrical Co., Ltd., the standing vice general manager of Hisense (Nanjing) Electrical Co., Ltd., the vice general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. and the general manager of Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.. Mr. Zhang served as a director and the general manager of Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd. from December 2008 to April 2010. He has been the vice-president of the Company since June 2009.

**Mr. Wang Yunli** had been the deputy sales general manager of Hisense Electric from July 2006 to January 2010, the standing deputy executive general manager of the PRC marketing company of the Company from January 2010 to October 2010, and executive general manager of the PRC marketing company of the Company from November 2010 to February 2012. He has been a vice-president of the Company from December 2010 to now.

**Mr. Wang Hao** has served successively as the head of Finance Department of Hisense Electric, the deputy chief accountant of Liaoning Hisense Electronics Co., Ltd., and the deputy head of International Marketing and Finance Department of the Company. From May 2006 to January 2008, he was the deputy head of Finance Department of the Company. He has been the deputy general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. since January 2008. He has acted as the person in charge of finance and the chief accountant of the Company since September 2011. He has served as a director of Huayi Compressor Holdings Company Limited since March 2012.

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

**Ms. Wong Tak Fong** holds a master degree in Business Administration from the University of Bradford (UK), and is an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom and the Hong Kong Institute of Chartered Secretaries, a certified tax adviser and an associate member of the Taxation Institute of Hong Kong. She has acted as the managing director of General Bright Consultants Ltd. since November 1994. She has acted as the chief financial controller of STAR TEAM ASIA LTD. (星薈亞洲有限公司) since December 2010. She has acted as the joint company secretary of the Company since April 2011.

**Ms. Li Lin** graduated from Huazhong University of Science and Technology (華中科技大學) and obtained a bachelor degree in Economic Law. Ms. Li had been an investor relations representative, a H-share securities affairs representative of the Company and the H-share securities affairs supervisor of the Company. She has acted as the joint company secretary of the Company since April 2011.

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

## Report of the Directors

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### PRINCIPAL BUSINESSES

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

### FINAL DIVIDENDS

The Group recorded the net profit attributable to shareholders of the listed company of RMB 227 million for the year ended 31 December 2011. The Board resolved not to pay any dividends for the year ended 31 December 2011 and not to capitalize any reserve funds (no dividends was paid by the Group for the year ended 31 December 2010).

### RESERVES

Movements in the reserves of the Group during the Reporting Period are set out in Note 5(32-34) to the financial statements.

### DISTRIBUTABLE RESERVES

There was no distributable reserves of the Company as at 31 December 2011.

### LIQUIDITY AND SOURCES OF FUNDS

For the year ended 31 December 2011, net cash generated from operating activities of the Group amounted to approximately RMB366 million (2010: net cash generated from operating activities amounted to approximately RMB637 million).

As at 31 December 2011, the Group had cash at bank and on hand (including pledged bank balances) amounting to approximately RMB398 million (2010: RMB429 million), and bank loans amounting to approximately RMB1,005 million (2010: RMB1,101 million).

Total capital expenditures of the Group for the year ended 31 December 2011 amounted to approximately RMB230 million (2010: RMB346 million).

### HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 31 December 2011, the Group had approximately 31,010 employees, mainly comprising 4,273 technical staff, 13,262 sales representatives, 638 financial staff, 1,281 administrative staff and 11,556 production staff. The Group had 5 employees with a doctorate degree, 152 with a master's degree and 2,828 with a bachelor's degree. There were 506 employees who occupied mid-level positions or above in the Group according to the national standards. For the year ended 31 December 2011, the Group's staff payroll amounted to RMB1,485 million (corresponding period in 2010 amounting to RMB1,247 million).

### EMPLOYEES' TRAINING AND REMUNERATION POLICY

Employees and people are the basis for corporate development. Leveraging on the platform provided by Hisense College, the Company has established a training course system and facilitated the building of a team of reserved talents in the management and technical areas for value-added human resources. The Company develops training programs every year based on its annual work plan and human resources development needs. In 2011, the Company organized 23 classes and 44 courses, with 971 participants ranging from supporting staff to senior management.

The Company adopts a position-based remuneration policy for its staff. Staff remuneration is determined by reference to the relative importance of and responsibility assumed by the position and other performance factors.

### CHARGE ON THE GROUP'S ASSETS

As at 31 December 2011, the Group's property, plant and equipment (including leasehold land held for own use), investment properties and trade receivables of approximately RMB569 million (31 December 2010: RMB854 million) were pledged as security for the Group's borrowings.

## **Report of the Directors**

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### **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in property, plant and equipment of the Group are set out in Note 5(12) to the financial statements.

### **PENSION SCHEMES**

Details of the Group's pension schemes for the year ended 31 December 2011 are set out in note 11 to the financial statements.

### **EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE**

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

### **PUBLIC FLOAT**

As at 20 April 2012, being the latest practicable date prior to the issue of this report, the Directors acknowledge that based on publicly available information and to the best of their knowledge, 25% or above of the total issued share capital of the Company are held by the public. Therefore, the public float of the Company satisfies the requirement stipulated under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

### **AUDIT COMMITTEE**

The seventh session of the audit committee of the Company has reviewed the final results announcement and report of the final results of the Group for the year ended 31 December 2011.

### **CAPITAL EXPENDITURE**

The Group expects that the capital expenditure for 2012 will be approximately RMB79.69 million. The Group has sufficient funds to meet the funding requirement for capital expenditure plans and daily operations.

### **TRUST DEPOSITS**

As at 31 December 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.

### **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 31 December 2011, the Group did not have any long-term bank borrowings and its cash and cash equivalents amounted to RMB397 million (2010: RMB420 million), of which more than RMB260 million are denominated in Renminbi.

As at 31 December 2011, the Group's current liabilities amounted to RMB6,162 million, non-current liabilities amounted to RMB312 million, and shareholders' equity attributable to the shareholders of the Company amounted to RMB805 million. Details of the Group's capital structure are set out in Note 11(3) to in the financial statements.

### **GEARING RATIO**

As at 31 December 2011, the Group's debt to asset ratio (calculated according to the formula: total liabilities/total assets was 84.80%.

### **INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS**

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

## Report of the Directors

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### SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

### DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

The Directors of the seventh session of the Board and the supervisors of the Company did not directly or indirectly hold any material interests in any contract of significance of the Company or its subsidiaries subsisting during or at the end of the year 2011.

### REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the seventh session of the Board have reviewed the continuing connected transactions of the Group for the year 2011, and confirmed that these transactions were conducted in the ordinary course of business of the Group in accordance with the relevant agreements governing them and on normal commercial terms which were fair and reasonable and in the interest of the shareholders of the Company as a whole.

### REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY AUDITORS

After auditing the continuing connected transactions of the Group, the auditors of the Company confirmed that the relevant continuing connected transactions of the Group have been approved by the Board, were carried out in accordance with the Company's pricing policies pursuant to the terms of the agreements of the relevant transactions, and have not exceeded the caps disclosed in the previous announcements.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

### SHARE CAPITAL STRUCTURE

As at 31 December 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	1,354,054,750	100.00%



## Report of the Directors

### TOP TEN SHAREHOLDERS

(1) As at 31 December 2011, there were 38,300 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 <sup>Note</sup>	Foreign shareholder	457,552,208	33.79%	99.56%	0	Unknown
China Huarong Asset Management Corporation	State-owned legal person	30,292,800	2.24%	3.39%	0	0
Zhang Shaowu	Domestic natural person	6,110,200	0.45%	0.68%	0	0
The Industrial and Commercial Bank of China — Lion Flexible Allocation Stock Fund	Other	3,780,227	0.28%	0.42%	0	0
China Construction Bank — Penghua Value Advanced Stock Fund	Other	3,026,227	0.22%	0.34%	0	0
Xian Zhuoqun Investment Management Limited	Domestic general legal person	2,000,000	0.15%	0.22%	0	0
Zhong Juanwei	Domestic natural person	1,954,955	0.14%	0.22%	0	0
Yan Xinyao	Domestic natural person	1,885,739	0.14%	0.21%	0	0
Song Chenghai	Domestic natural person	1,663,438	0.12%	0.19%	0	0

*Note:* The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, among which, Hisense (Hong Kong) Company Limited, a party acting in concert with the controlling shareholder of the Company, increased its holding of H shares of the Company during the Reporting Period and became holder of 27 million H shares in total, representing 1.99% of the total number of shares of the Company.

## Report of the Directors

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### Shareholdings of the Top Ten Shareholders of Tradable Shares

<b>Name of Shareholders</b>	<b>Number of tradable shares held</b>	<b>Class of shares</b>
HKSCC Nominees Limited	457,552,208	Overseas listed foreign shares
China Huarong Asset Management Corporation	30,292,800	RMB ordinary shares
Zhang Shaowu	6,110,200	RMB ordinary shares
The Industrial and Commercial Bank of China — Lion Flexible Allocation Stock Fund	3,780,227	RMB ordinary shares
China Construction Bank — Penghua Value Advanced Stock Fund	3,026,227	RMB ordinary shares
Xian Zhuoqun Investment Management Limited	2,000,000	RMB ordinary shares
Zhong Juanwei	1,954,955	RMB ordinary shares
Yan Xinyao	1,885,739	RMB ordinary shares
Song Chenghai	1,663,438	RMB ordinary shares
Yan Yongsheng	1,600,000	RMB ordinary shares

*Note:* The Company is not aware whether any of the top ten holders of tradable shares is connected with each other or any of them is a party acting in concert with any of the other nine shareholders within the meaning of《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).

## Report of the Directors

### Interests and Short Positions of Substantial Shareholders in the Shares and Underlying Shares

So far as is known to the Directors, supervisors and the chief executive of the Company, as at 31 December 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 Hong Kong Stock Exchange:

#### *Long position or short position in the shares of the Company*

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 <sup>Note 1</sup>	Beneficial owner	A shares	612,316,909(L)	68.46%	45.22%
Qingdao Hisense Electric Holdings Company Limited <sup>Note 1</sup>	Interest of controlled corporation	A shares	612,316,909(L)	68.46%	45.22%
Hisense Company Limited <sup>Note 1</sup>	Interest of controlled corporation	A shares	612,316,909(L)	68.46%	45.22%
Hisense (Hong Kong) Company Limited <sup>Note 1</sup>	Beneficial owner	H shares	27,000,000(L)	5.87%	1.99%
Qingdao Hisense Electric Holdings Company Limited <sup>Note 1</sup>	Interest of controlled corporation	H shares	27,000,000(L)	5.87%	1.99%
Hisense Company Limited <sup>Note 1</sup>	Interest of controlled corporation	H shares	27,000,000(L)	5.87%	1.99%
Hillhouse Capital Management, Ltd. <sup>Note 3</sup>	Investment manager	H shares	50,612,000(L)	11.01%	3.74%
Gaoling Fund, L.P. <sup>Note 3</sup>	Beneficial owner	H shares	46,900,000(L)	10.20%	3.46%
Citigroup Inc. <sup>Note 4</sup>	Person having security interests in shares and custodian corporation/ approved lending agent	H shares	25,771,274(L) 434,774(P)	5.61% 0.09%	1.90% 0.03%

#### *Long position in the underlying shares of the Company*

Name of shareholder	Capacity	Type of shares	Number of underlying shares	Percentage of the respective type of issued shares	Percentage of the total number of shares in issue
Hisense Company Limited <sup>Note 2</sup>	Interest of controlled corporation	H shares	27,000,000(L) <sup>Note 2</sup>	5.87%	1.99%

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

## Report of the Directors

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### 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, whereas Hisense (Hong Kong) Company Limited is a company directly owned as to 100% by Qingdao Hisense Electric Holdings Company Limited. Qingdao Hisense Electric Holdings Company Limited 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 and in the same parcel of H shares of which Hisense (Hong Kong) Company Limited was interested.
2. Hisense Company Limited was deemed to be interested in an option which might be acquired by Hisense (Hong Kong) Company Limited for the purchase of up to 27,000,000 H shares. By virtue of the SFO, Hisense (Hong Kong) Company Limited and Qingdao Hisense Electric Holdings Company Limited were deemed to be interested in the same parcel of underlying H shares.
3. 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 VHG Investment, L.P. were interested in 46,900,000 H shares and 3,712,000 H shares respectively.
4. Citigroup Inc. was interested in these H shares by virtue of the SFO, in which it was interested as to 25,336,500 H shares as person having security interests and as to 434,774 H shares as custodian corporation or approved lending agent.

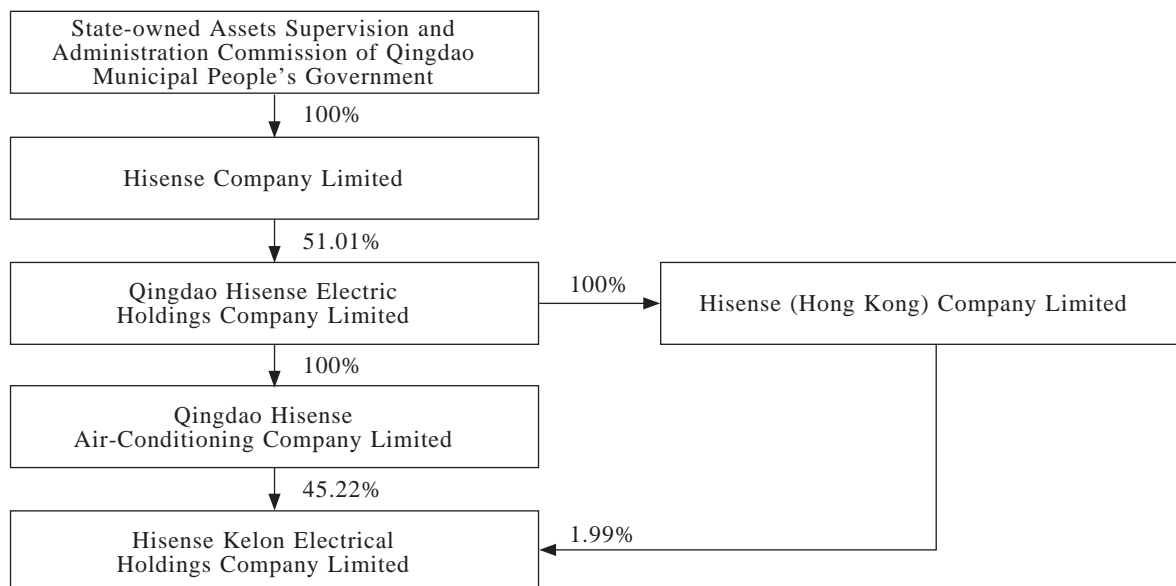
Save as disclosed above, as at 31 December 2011, in so far as the Directors, supervisors and chief executive of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

### (2) Particulars of the controlling shareholders of the Company

- (a) Qingdao Hisense Air-Conditioning Company Limited, the controlling shareholder of the Company, was incorporated on 17 November 1995. Its registered address is Changsha Road, Hi-tech Industrial Zone, Qingdao, the PRC and the legal representative is Mr. Tang Ye Guo and its registered capital is RMB674.79 million. Its business scope is the development and manufacture of air-conditioners and injection moulds and the provision of after-sale repairing services for its products (Permit/licence shall be obtained for the operation of the businesses above if they fall into the requirements of licensure).
- (b) The beneficial controller of the Company is Hisense Company Limited, which was incorporated in August 1979 with its registered address at No. 17 Donghai West Road, Shinan, Qingdao. Mr. Zhou Houjian is the legal representative of Hisense Company Limited, a registered capital of RMB806,170,000. The scope of business includes: the entrusted operation of state-owned assets; the manufacture and sales of TV sets, refrigerators, freezers, washing machines, small household appliances, disc players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products and the provision of related services; the development of software and the provision of internet services; the technological development and the provision of consultation services; the self-operated import and export business (with its operation subject to the list of projects as approved by the MOFTEC); the foreign economic and technical cooperation (with its operation subject to the list of projects as approved by the MOFTEC); operation of property rights transaction and provision of brokerage and information services; provision of industrial travel agency services; provision of relevant business trainings and property management (Permit/licence shall be obtained for the operation of the businesses above if they fall into the requirements of licensure).
- (c) The ultimate beneficial controller of the Company is the State-owned Assets Supervision and Administration Commission of Qingdao Municipal People's Government.

## Report of the Directors

(d) Relationship between the Company and its beneficial controllers:



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

### INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, save as disclosed in sub-section "Allocation of the share options under the grant and movements of the share options granted during the year" under the section headed "Summary on adoption of first share option incentive scheme and the grant thereunder" below, 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 Hong Kong Stock Exchange pursuant to the Model Code.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2011, the aggregate amount of the Group's purchases from the top five suppliers was RMB1,929,000,000, representing 14.22% of the total purchase amount of the Group for the year and the aggregate sales amount to the top five customers was RMB4,249,000,000, representing 25.38% of the total sales amount of the Group for the year. As at 31 December 2011, none of the Directors, their associates or shareholders of the Company who, to the knowledge of the Directors, held more than 5% of the shares in the Company, had any interest in the above suppliers or customers.

### DONATION

In July 2011, the Company donated RMB1 million to Shunde Education Fund to support the development of education sector in Shunde.

### PURCHASE, SALE OR REDEMPTION OF SHARES

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

### PRE-EMPTIVE RIGHTS

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

### TAXATION

Pursuant to the relevant tax regulations, the Company is required to withhold and pay corporate income tax at the rate of 10% when distributing dividends to non-resident enterprise shareholders whose name appears on the H-share register of members.

## Report of the Directors

### SUMMARY ON ADOPTION OF FIRST SHARE OPTION INCENTIVE SCHEME AND THE GRANT THEREUNDER

#### (1) Purpose of the Scheme

The first share option incentive scheme (the “Scheme”) was adopted by the Company on 1 August 2011. The Scheme is formulated to further refine the management structure of the Company, provide long-term rewards and retention incentives for the senior and mid-level management, key technical, sales and management personnel of the Company, fully motivate their pro-activeness and creativity, closely correlate their interests with the long term development of the Company, and allow sustainable development of the Company.

The participants include the directors of the Company (exclusive of the independent directors and external directors who are not officers of the Hisense Group and its subsidiaries (other than the Company and its subsidiaries), senior management (including president, vice president, financial controller, secretary to the Board, company secretary and other officers which are regarded as senior management under the Articles of Association) of the Company, mid-level management staff of the Company and its subsidiaries, and such key technical personnel of the Company and its subsidiaries as determined by the Board.

#### (2) Allocation of the share options under the grant and movements of the share options granted during the year

No.	Name	Position	Number of share options granted during the year ('0000 shares)	Number of share options exercised or cancelled during the year ('0000 shares)	Number of share options lapsed during the year ('0000 shares)	Outstanding share options as at 31 December 2011 ('0000 shares)	As a percentage of the total share capital	As a percentage of share capital of the same class (A shares)
1	Tang Ye Guo	Chairman	126	—	—	126	0.093%	0.141%
2	Xiao Jian Lin	Director	82.8	—	—	82.8	0.061%	0.093%
3	Jia Shao Qian	Vice-President	82.8	—	—	82.8	0.061%	0.093%
4	Ren Li Ren	Director, President	72	—	—	72	0.053%	0.080%
5	Zhang Yu Qing	Vice-President	82.8	—	—	82.8	0.061%	0.093%
6	Wang Yun Li	Vice-President	82.8	—	—	82.8	0.061%	0.093%
7	Gan Yong He	Director, Vice-President	18.1	—	—	18.1	0.013%	0.020%
8	Liu Chun Xin *	Former Director, Former Vice-President, Former Head of Finance Department	90	—	90	—	—	—
9	Mid level management staff and key personnel		1,407.7	—	4	1,403.7	1.040%	1.57%
Total			2,045	—	94	1,951	1.440%	2.181%

\* Ms. Liu Chun Xin resigned from these positions with effect from 15 September 2011.

## Report of the Directors

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### Notes:

1. Prior to the date of grant of the share options on 31 August 2011, 8 participants have resigned. Therefore, the Board of the Company decided to cancel their eligibility as participants and decided not to grant to them 160,000 share options which were proposed to be granted to them originally. Subsequent to the grant of the share options, 3 participants (including Ms. Liu Chun Xin) have resigned and 940,000 share options which had been granted to them lapsed pursuant to the terms of the Scheme. After such adjustment, the number of outstanding share options granted under the Scheme is 19,510,000, representing approximately 1.44% of the total issued share capital of the Company and approximately 2.18% of the share capital of the same class. All share options available for issue under the Scheme have been granted.
2. Prior to the grant of the above share options, the Company has not granted any share options pursuant to any share option incentive scheme.

Unless approved by the general meeting, the aggregate number of underlying shares which may be acquired by any participant through the Scheme or other effective share option incentive schemes of the Company (if any) at any time shall not exceed 1% of the Company's total share capital of the same class, and the maximum entitlement which may be granted to a participant (including exercised, cancelled and outstanding share options) within any 12-month period shall not exceed 1% of the Company's total share capital of the same class.

### (3) Determination method of exercise price

The exercise price of the grant is the higher of the following two prices: (i) the closing price of the A shares on the last trading day immediately preceding the date of the announcement of the summary of the Scheme (that is, 29 November 2010), which was RMB7.65 per share; and (ii) the average closing price of the A shares during the last 30 trading days immediately preceding the date of announcement of the summary of the Scheme, which was RMB7.37 per share. Therefore, the exercise price is RMB7.65 per share. For reference only, the closing price of A shares was RMB5.63 and the closing price of H shares was HK\$1.87 on the grant date of the share options, which was on 31 August 2011, whereas the closing price of A shares was RMB 5.7 and the closing price of H shares was HK\$1.92 on 30 August 2011, being the date immediately before the grant date of the share options.

### (4) Validity period of the share options

The validity period of the share options under the grant shall be a term of 5 years commencing from the grant date.

### (5) Exercise Arrangement

The exercise of the share options under the grant is subject to a restriction period of 2 years, during which period the rights are not exercisable.

Subject to the fulfillment of the exercise conditions, the share options under the grant can be exercised in batches after the expiry of the 2-year period from the grant date according to the following exercise arrangement:

- i. 33% of the share options granted to each participant shall become exercisable on the trading day immediately after the second anniversary of the grant date (2 September 2013) until the trading day falling on the fifth anniversary of the grant date (31 August 2016);
- ii. Another 33% of the share options granted to each participant shall become exercisable on the trading day immediately after the third anniversary of the grant date (1 September 2014) until the trading day falling on the fifth anniversary of the grant date (31 August 2016); and
- iii. The remaining 34% of the share options granted to each participant shall become exercisable on the trading day immediately after the fourth anniversary of the grant date (1 September 2015) until the trading day falling on the fifth anniversary of the grant date (31 August 2016).

Where the participant is a director or member of the senior management, share options of not less than 20% of the total share options granted to such participant can only be exercised after the participant has reached a pass grade or above in the performance appraisal for his/ her employment (or office).

## Report of the Directors

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In addition, during the validity period of the share options, the maximum gain which the participants can obtain from the share option incentives shall not exceed 40% of their remuneration level (inclusive of the gain from the share option incentives) when the share options were granted. In the event that the gain from the share option incentive exceeds the above proportion, share options which have not been exercised will not be exercised.

The Scheme became effective for a term of 5 years upon the approval at the general meeting and no share options will be granted under the Scheme thereafter, but the provisions of the Scheme will be in full force in all aspects for the share options granted during the effective period of the Scheme.

### (6) Value of the share options

The Company used the Black-Scholes model to calculate the value of the share options, taking the grant date as the measurement date. The estimated value of the share options is RMB0.66 per A share, representing 11.72% of the market price of the A share as at the grant date. Data used in and results of the calculation are as follows:

<b>Factors</b>	<b>Amount of factors and description</b>
Exercise price	RMB7.65. The exercise price was determined in accordance with the relevant provisions stated in the Scheme, being the higher of:  (1) the closing price of the A shares on the last trading day immediately preceding the date of the announcement of the summary of the Scheme (that is, 29 November 2010), which was RMB7.65; and  (2) the average closing price of the A shares during the last 30 trading days immediately preceding the date of announcement of the summary of the Scheme, which was RMB7.37 per share.
Market price	RMB5.63, being the closing price of the A shares on the grant date
Expected life	the exercisable periods of the share options being 3 years, 2 years and 1 year respectively
Expected price volatility rate	price volatility rates of the Company's shares being 38.89%, 34.47% and 29.88% in respect of the exercisable periods of the share options of 3 years, 2 years and 1 year respectively
Risk-free interest rate	Continuous compound interest calculated based on the rate of interest on RMB fixed deposits in the PRC for the corresponding period as announced by the People's Bank of China, being 4.88%, 4.31% and 3.44% for the exercisable periods of the share options of 3 years, 2 years and 1 year respectively
Value of options per A Share	RMB0.66 Calculation rate of the Black-Scholes model = 11.72%



## Report of the Directors

### Notes:

1. The calculation results of the value of the share options are subject to a number of assumptions of the parameters used herein and the limitation of the model adopted, therefore the estimated value of the Share Options may be subjective and uncertain.
2. The exercise price was determined in accordance with the relevant provisions stated in the Scheme, being the higher of:
  - (1) the closing price of the A shares on the last trading day immediately preceding the date of the announcement of the summary of the Scheme (that is, 29 November 2010), which was RMB7.65; and
  - (2) the average closing price of the A shares during the last 30 trading days immediately preceding the date of announcement of the summary of the Scheme, which was RMB7.37 per share.

Therefore, the exercise price for calculating the value of the share option is RMB7.65.

### (7) Effect of the Company's share option incentive scheme on the financial position for the Reporting Period

In accordance with the requirements of the First Share Option Incentive Scheme of Hisense Kelon Electrical Holdings Company Limited (Revised Draft), the Company has elected to use the Black-Scholes option pricing model to calculate the fair value of the share options granted under the Scheme. According to the calculation by such pricing model, the Company recognized an expense of RMB1.56 million in total in relation to this share option incentive scheme. For the accounting policy and treatment on options, please refer to Note 2(21) to the financial statements.

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

The Board 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 Hong Kong 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 the announcement published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 13 July 2011.

**Note: Supplementary information as required by The Stock Exchange of Hong Kong Limited in relation to the Company's A share annual results announcement**

### I. Particulars of the remuneration of, and grant of Share Options to, Directors, supervisors and senior management of the Company

Name	Position	Gender	Age	Term of Office	Total remuneration received from the Company during the Reporting Period (including taxation) (RMB ten thousand)	Remuneration received from shareholders' entities or other related entities	Number of share options granted during the Reporting Period (ten thousand shares)
Tang Ye Guo	Chairman	Male	49	2009.6.26-2012.6.25	91.04	No	126
Yu Shu Min	Director	Female	60	2009.6.26-2012.6.25	0	Yes	0
Lin Lan	Director	Male	53	2009.6.26-2012.6.25	0	Yes	0
Xiao Jian Lin	Director	Male	44	2011.1.20-2012.6.25	0	Yes	82.8
Ren Li Ren	Director, President	Male	47	2011.8.1-2012.6.25 2011.6.27-2012.6.25	63.16	No	72
Gan Yong He	Director, Vice President	Male	44	2012.1.16-2012.6.25 2011.6.27-2012.6.25	58.29	No	18.1

## Report of the Directors

Name	Position	Gender	Age	Term of Office	Total remuneration received from the Company during the Reporting Period (including taxation) (RMB ten thousand)	Remuneration received from shareholders' entities or other related entities	Number of share options granted during the Reporting Period (ten thousand shares)
Zhang Sheng Ping	Independent non-executive Director	Male	46	2009.6.26-2012.6.25	9.00	No	0
Wang Ai Guo	Independent non-executive Director	Male	47	2011.1.20-2012.6.25	9.00	No	0
Wang Xin Yu	Independent non-executive Director	Male	41	2011.9.26-2012.6.25	6.00	No	0
Guo Qing Cun	Supervisor	Male	58	2009.6.26-2012.6.25	0	Yes	0
Gao Zhong Xiang	Supervisor	Male	44	2009.6.26-2012.6.25	0	Yes	0
Liu Zhan Cheng	Supervisor	Male	33	2009.5.6-2012.6.25	42.03	No	0
Jia Shao Qian	Vice President	Male	39	2009.6.26-2012.6.25	58.34	No	82.8
Zhang Yu Qing	Vice President	Male	48	2009.6.26-2012.6.25	46.23	No	82.8
Wang Yun Li	Vice President	Male	38	2010.12.2-2012.6.25	55.77	No	82.8
Wang Hao	Person in charge of finance	Male	33	2011.9.15--2012.6.25	54.28	No	54
Xia Feng	Secretary to the Board	Male	35	2010.8.27-2012.6.25	30.11	No	0
Wong Tak Fong	Joint Company Secretary	Female	44	2011.4.4--2012.6.25	12.34	No	0
Li Lin	Joint Company Secretary	Female	33	2011.4.4--2012.6.25	13.70	No	3
Zhou Xiao Tian	Former director, Former president	Male	51	2009.6.26-2011.6.26	34.67	No	0
Liu Chun Xin	Former director, Former vice President	Female	43	2009.6.26-2011.9.14	36.25	No	0*
Cheung Yui Kai, Warren	Former independent non-executive Director	Male	44	2009.6.26-2011.9.25	16.00	No	0
Liu Wen Zhong	Former Vice President	Male	44	2011.6.27-2012.2.2	49.48	No	55
Total	—	—	—	—	685.69	—	659.30

\* Due to the resignation of Ms. Liu Chun Xin from the relevant positions, 900,000 share options which had originally been granted to her lapsed.

*Note 1:* During the Reporting Period, Mr. Tang Ye Guo received the remuneration as the Chairman, and Mr. Ren Li Ren and Mr. Gan Yong He received the remuneration as senior management.

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

## Report of the Directors

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- the remuneration of the Directors of the Company is determined based on suggestions made to the Board by the remuneration and appraisal committee of the Board on the basis of the duties of the Directors and the remuneration level of other listed companies in the same industry, and is subject to consideration and approval by the Board and the shareholders at general meetings;
- the remuneration of the supervisors is determined based on suggestions made by the supervisory committee on the basis of the duties of the supervisors and the remuneration level of other listed companies in the same industry and is subject to consideration and approval by the shareholders at general meetings;
- the remuneration and appraisal committee of the Board makes remuneration suggestion to the Board based on the senior management's experience, responsibilities undertaken for operation under his/ her management, risk, pressure and his/ her contribution to the Company, which is determined and approved by the Board. The final remuneration received by the senior management is also linked with his/her annual performance review.

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

### 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

Progress in relation to material litigation or arbitration of the Company and its subsidiaries with the amount in dispute exceeding RMB10,000,000 during the Reporting Period is set out as follows:

Name of case	Amount in dispute (RMB ten thousand)	Particulars of the case	Status
Ronshen Refrigerator against Xi'an Kelon in relation to a sale and purchase contract	9,998.41	Since February 2004, Ronshen Refrigerator has repeatedly provided Xi'an Kelon fundings and prepayments in an aggregate amount of RMB89,184,085.06 to support the latter's production. The two parties later entered into a repayment agreement, but Xi'an Kelon has failed to perform such agreement. Therefore, Ronshen Refrigerator initiated the proceedings in the Foshan Intermediate Court, demanding Xi'an Kelon to refund the payment for goods and the related expenses.	In December 2008, the Foshan Intermediate Court dismissed the claim of Ronshen Refrigerator due to insufficiency of factual and legal evidence. Ronshen Refrigerator made an appeal to the Guangdong Province Higher Court. The Guangdong Province Higher Court has revoked the judgment of the Foshan Intermediate Court (Fo Zhong Fa Min Er Chu Zi No. 88 (2007)) and the case was to be re-tried by the Foshan Intermediate Court. On 23 December 2011, the Company received the civil judgment (Fo Zhong Fa Min Er Chong Zi No. 2 (2010)) from the Foshan Intermediate Court. The Foshan Intermediate Court made the first instance judgment for the retrial, according to which Xi'an Kelon shall pay to Ronshen Refrigerator for the debt in the amount of RMB87,314,200 together with relevant interests.

## Report of the Directors

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

On 12 January 2012, the seventh session of the Board convened the first extraordinary meeting in 2012, at which the Resolution in relation to the Transfer of 60% of the Equity Interests in Xi'an Kelon Refrigeration Co., Ltd. and Relevant Debt was considered and passed. On the same day, the Company and Shanxi Qidi Science and Technology Park Development Co., Ltd. entered into the equity transfer contract in relation to the transfer of the 60% equity interests in Xi'an Kelon held by the Company and the relevant debt (being the debt owed by Xi'an Kelon to the Company in the sum of RMB10,580,000 and the debt owed by Xi'an Kelon to Ronshen Refrigerator in the sum of RMB87,314,216.54, together with interests, as well as the case acceptance fee, property preservation fee and assessment costs in the sum of RMB872,733) by the Group to Shanxi Qidi Science and Technology Park Development Co., Ltd. for a total consideration of RMB110,580,000. For details, please see announcement published by the Company on 12 January 2012 on the webpage of Hong Kong Stock Exchange (<http://www.hkex.com.hk>). Subsequent to this transfer of equity interests, the Company will no longer hold any equity interests in Xi'an Kelon. The procedures for the transfer of equity interests are in the process.

### V. Securities Investments During the Reporting Period

(I) *The Company has not made any securities investments during the Reporting Period*

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

*Unit: RMB ten thousand*

Stock code	Stock abbreviation	Initial investment amount	Shareholding percentage in the company	Carrying amount at the end of the period	Profit and loss for the Reporting Period	Changes in ownership interests for the Reporting Period
000404	Huayi Compressor	4,168.60	6.45%	4,363.78	197.40	196.97

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.

### VI. Discussion on Funds Embezzled

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

*Unit: RMB 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	1 January 2011	31 December 2011	Total amount recovered during the Reporting Period	Settlement Method	Amount recovered	Time of Settlement (Month)
65,514.95	65,514.95	—	—	—	—	—

As at the end of the Reporting Period, the total funds of the Company embezzled by a former substantial shareholder and its subsidiaries, the specific third parties and other related parties for non-operating purposes 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.

## Report of the Directors

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### 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 of the 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.

### VII. Particulars of material connected transactions of the Company during the Reporting Period

- (I) On 3 December 2010, the Company entered into the Compressors Purchase Framework Agreement, the Compressors Purchase and Supply Framework Agreement, the Business Co-operation Framework Agreement, the Property Services Framework Agreement and Business Framework Agreement with Embraco, Huayi Compressor, Hisense Group and Hisense Electric, Snowflake and Hisense Hitachi respectively.

Embraco is held as to 30.82% by Snowflake, a substantial shareholder which holds 45% of the equity interests in Hisense (Beijing) Electric Company Limited (being a non wholly owned subsidiary of the Company) and therefore Embraco is a connected person of the Company according to the Hong Kong Listing Rules. Huayi Compressor is a substantial shareholder holding 29.95% of Ronshen Plastic and 29.89% of Kelon Mould (both being non-wholly owned subsidiaries of the Company) and therefore Huayi Compressor is a connected person of the Company according to the Hong Kong Listing Rules. Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding 45.22% of the issued shares of the Company. As Hisense Group is the indirect holding shareholder of Hisense Air-conditioning and Hisense Electric is owned as to 41.36% by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries are associates of Hisense Air-conditioning and are therefore connected persons of the Company according to the Hong Kong Listing Rules. Snowflake is a substantial shareholder which holds 45% of the equity interests in Hisense (Beijing) Electric Company Limited (being a non-wholly owned subsidiary of the Company), and is therefore a connected person of the Company according to the Hong Kong Listing Rules. As the transactions contemplated under the Property Services Framework Agreement are connected transactions only because they involve a person who is a connected person of the Company by virtue of its relationship with the Company's subsidiary and the applicable percentage ratios for such transactions are less than 1% on an annual basis, the Property Services Framework Agreement, the transactions contemplated thereunder and the annual cap in relation thereto are exempt from the reporting, announcement, annual review and independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules. As connected persons of the Company are also directors of Hisense Hitachi, Hisense Hitachi is a connected person of the Company according to the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange. Details of the agreement can be found in the announcement and the circular published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 3 December 2010 and 31 December 2010 respectively.

On 9 June 2011, the Company entered into the Business Framework Agreement with Hisense-Whirlpool. As connected persons of the Company are also directors of Hisense-Whirlpool, Hisense-Whirlpool is a connected person of the Company according to the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange. Details of the agreement can be found in the supplemental and further notice of annual general meeting published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 9 June 2011.

On 16 March 2011, the Company entered into the Purchase Financing Agency Framework Agreement with Hisense Hong Kong. As Hisense Group is the beneficial controller of both Hisense Hong Kong and the Company, Hisense Hong Kong is a connected person of the Company under the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange. Hisense Hong Kong is also a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. Since the financial assistance arrangement under the Purchase Financing Agency Framework Agreement would be for the benefit of the Company on normal commercial terms where no security over the assets of the Company was to be granted in respect of the financial assistance, such arrangement was exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules. Details of the agreement can be found in the announcement published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 17 March 2011.

## Report of the Directors

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On 6 November 2009, the Company entered into the Financial Services Agreement with Hisense Finance. Hisense Air-conditioning is a substantial shareholder of the Company, holding approximately 45.22% of the issued share capital of the Company (holding approximately 25.22% of the issued share capital of the Company when the Financial Services Agreement was entered into). As Hisense Group is an indirect holding shareholder of Hisense Air-conditioning and Hisense Finance is a subsidiary of Hisense Group, Hisense Finance is an associate of Hisense Air-conditioning. Therefore, Hisense Finance is a connected person of the Company. Details of the agreement can be found in the announcement and circular published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 6 November 2009 and 26 November 2009 respectively.

The above transactions (other than the Business Framework Agreements with Hisense Hitachi and Hisense-Whirlpool) constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. The Company confirmed that it had complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules for the relevant connected transactions (other than the Purchase Financing Agency Framework Agreement and the Property Services Framework Agreement with Snowflake which are exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules). Specific information is set out as follows:

1. *The Compressors Purchase Framework Agreement with Embraco*

The Group is engaged in the manufacture of home electrical appliances, including but not limited to refrigerators and freezers, which requires compressors as a component for its products. After considering a range of factors including the quality, the price and the compatibility of the compressors manufactured by Embraco and/or its subsidiaries with the current facilities used by and the refrigerators and freezers manufactured by the Group as well as the level of services provided by Embraco and/or its subsidiaries, the Group considers that Embraco and/or its subsidiaries are in a good position to supply compressors to the Group. As such, the Company entered into the Compressors Purchase Framework Agreement with Embraco, the principal terms of which are as follows:

- (1) The Compressors Purchase Framework Agreement shall commence from the date of approval of the Compressors Purchase Framework Agreement by the independent shareholders (that is, 20 January 2011) until 31 December 2011, which can be terminated before its expiration by mutual agreement of the parties.
- (2) Pricing for the purchase of compressors is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of compressors from time to time. Such transactions will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable to the parties than terms available to or from (as appropriate) independent third parties.
- (3) Payment term(s) for the purchase of compressors shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto.
- (4) The transactions contemplated under the Compressors Purchase Framework Agreement are subject to the annual cap of RMB250,000,000 (inclusive of value-added tax).

## Report of the Directors

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### 2. *The Compressors Purchase and Supply Framework Agreement with Huayi Compressor*

The Group is engaged in the manufacture of home electrical appliances, including but not limited to refrigerators and freezers, which requires compressors as a component for its products. After considering a range of factors including the quality, the price and the compatibility of the compressors manufactured by Huayi Compressor and/or its subsidiaries with the current facilities used by and the refrigerators and freezers manufactured by the Group as well as the level of services provided by Huayi Compressor and/or its subsidiaries, the Company considers that Huayi Compressor and/or its subsidiaries are in a good position to supply compressors to the Group. As such, the Company entered into the Compressors Purchase and Supply Framework Agreement with Huayi Compressor, the principal terms of which are as follows:

- (1) The Compressors Purchase and Supply Framework Agreement shall commence from the date of approval of the Compressors Purchase and Supply Framework Agreement by the independent shareholders (that is, 20 January 2011) until 31 December 2011, which can be terminated before its expiration by mutual agreement of the parties.
- (2) Pricing for the purchase of compressors is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of compressors from time to time. Such transactions will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable to the parties than terms available to or from (as appropriate) independent third parties.
- (3) Payment for the purchase of compressors should be made by the Group by telegraphic transfer or bills within 90 days from the first day of the following month after the compressors had passed the inspection tests and the relevant invoice(s) have been accounted for in the accounts.
- (4) The transactions contemplated under the Compressors Purchase and Supply Framework Agreement are subject to the annual cap of RMB1,260,000,000 (inclusive of value-added tax).

### 3. *The Business Co-operation Framework Agreement with Hisense Group and Hisense Electric*

On the one hand, the production and supply of home electrical appliances and raw materials by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries can help to lower the production costs of the Group as a result of the increase in production level, which in turn enhance the market competitiveness of the Group's products. At the same time, the Group can continue to develop overseas market and enhance brand competitiveness and awareness. The Group can also increase market share by selling products through the online platform of Hisense Group and Hisense Electric which reduces the product circulation links. Provision of services to Hisense Group, Hisense Electric and/or their respective subsidiaries will increase the income of the Group. On the other hand, taking into account the product quality, prices and services provided by Hisense Group, Hisense Electric and/or their respective subsidiaries, purchases of home electrical appliances, equipment, raw materials and parts and components from Hisense Group, Hisense Electric and/or their respective subsidiaries and engagement of their services can meet the manufacture needs of the Company and the development of related business, and can also help reduce costs at the same time. As such, the Company entered into the Business Co-operation Framework Agreement with Hisense Group and Hisense Electric, the principal terms of which are as follows:

- (1) The Business Co-operation Framework Agreement shall commence from the date of approval of the Business Co-operation Framework Agreement by the independent shareholders (that is, 20 January 2011) until 31 December 2011, which can be terminated before its expiration by mutual agreement of the parties.

## Report of the Directors

- (2) Pricing for the purchase of home electrical appliances between the Company on the one hand and Hisense Group and Hisense Electric on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances from time to time. Pricing for the purchase of raw materials, equipments, parts and components between the Company on the one hand and Hisense Group and Hisense Electric on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness. Pricing for the supply of moulds by the Company to Hisense Group and Hisense Electric is the market price determined by the open bidding process. Pricing for the provision of services between the Company on the one hand and Hisense Group and Hisense Electric on the other hand (other than agency services for export) is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services in the industry. The fees payable by the Group for the engagement of the agency services for export of Hisense Group and Hisense Electric is calculated by multiplying the Group's turnover from overseas sales for the relevant products with an export agency fee percentage. Such export agency fee percentage is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties mainly with reference to the level of the rate of the charges actually incurred by the Group for overseas sales in previous years.
- (3) Payment for the purchase of home electrical appliances between the Company on the one hand and Hisense Group and Hisense Electric on the other hand should be made by the buyer by telegraphic transfer or bills within 60 days after the receipt of the home electrical appliances. Payment for the sale and purchase of equipment, raw materials, parts and components should be made by the buyer within 60 days after the receipt of the equipment, raw materials, parts and components. Payment for the sale and purchase of moulds is determined according to the payment terms agreed between the parties as set out in the relevant contract(s) as agreed in the open bidding process. The fees for the engagement of the services will be calculated on a monthly basis and payment for such monthly fee should be made by the party which engages such services by telegraphic transfer or bills within from the following month.
- (4) The annual caps under the Business Co-operation Framework Agreement are shown in the table below:

*Unit: RMB ('0000) (including value-added tax)*

<b>Types of transactions</b>	<b>Division by products or services</b>	<b>Connected person</b>	<b>Proposed annual cap</b>
Sale of products and materials	Sale of home electrical appliances products by the Company	Hisense Group	177,785
		Hisense Electric	600
	Sale of moulds by the Company	Hisense Group	18,250
		Hisense Electric	9,250
	Sale of raw materials, parts and components by the Company	Hisense Group	19,793
		Hisense Electric	1,100
Provision of services	Provision of design, loading and unloading services, equipment rental services and property services by the Company	Hisense Group	356
		Hisense Electric	36



## Report of the Directors

Types of transactions	Division by products or services	Connected person	Proposed annual cap
Purchase of products and materials	Purchase of home electrical appliances products by the Company	Hisense Group	793
		Hisense Electric	500
	Purchase of raw materials, parts and components by the Company	Hisense Group	863
		Hisense Electric	6,000
	Purchase of equipment by the Company	Hisense Group	1,892
		Hisense Electric	200
Receipt of services	Receipt of property service, medical service, installation and maintenance, material inspection services, management consultancy, information system maintenance, leasing, design, advertising, agency services for import and material processing services by the Company	Hisense Group	15,028
	Receipt of agency services for export by the Company	Hisense Group	22,200
	Receipt of property service and material processing services by the Company	Hisense Electric	2,414

#### 4. *The Financial Services Agreement with Hisense Finance*

The Group is expected to benefit from Hisense Finance's better understanding of the operations of the Group which should allow more expedient and efficient service provision than those offered by PRC commercial banks. The primary customers of Hisense Finance are the companies within the Hisense Group. In general, as the risks exposed to Hisense Finance are lesser than those exposed to the financial institutions with a broad and unrestricted customer base, Hisense Finance is able to safeguard the customers' funds more effectively. As such, the Company entered into the Financial Services Agreement with Hisense Finance, the principal terms of which are as follows:

- (1) The term of the Financial Services Agreement shall be two years with effect from obtaining the approval by the independent shareholders at the extraordinary general meeting (that is, 15 January 2010).
- (2) The services to be provided by Hisense Finance to the Group include deposit services, loan services and draft discount services.
- (3) The interest rate payable for the Group's deposits with Hisense Finance shall not be lower than the rate payable by normal commercial banks in the PRC for comparable deposits. The terms for the provision of the deposit services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions. The interest rate charged for the loans provided to the Group by Hisense Finance shall not be higher than the rate charged by normal commercial banks in the PRC for comparable loans. The terms for the provision of the loans by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions. Under the Financial Services Agreement, the service fee payable by the Company for the draft discount services to be provided by Hisense Finance shall not be less favourable than the service fee charged by normal commercial banks in the PRC for providing comparable draft discount services.

## Report of the Directors

- (4) The maximum daily balance of the deposits placed by the Group with Hisense Finance at any time during the life of the Financial Services Agreement shall not exceed the cap of RMB400,000,000 (inclusive of interest) on any given day. The maximum balance of loan to be provided by Hisense Finance to the Group shall not exceed the cap of RMB1.5 billion (inclusive of interest) during the term of the Financial Services Agreement. The annual service fee payable by the Company to Hisense Finance for the provision of draft discount services shall not exceed the cap of RMB25,000,000 during the term of the Financial Services Agreement.

- (II) 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 — Whirlpool	Purchase	Finished goods	Agreed price	437,593,469.15	2.88%
Hisense Electric	Purchase	Finished goods	Agreed price	120,098.36	0.00%
<b>Sub-total of purchase of finished goods</b>				<b>437,713,567.51</b>	<b>2.88%</b>
Huayi Compressor	Purchase	Materials	Agreed price	687,695,484.32	4.52%
Embraco	Purchase	Materials	Agreed price	40,512,368.84	0.27%
Hisense — Whirlpool	Purchase	Materials	Agreed price	4,262,261.63	0.03%
Hisense Hitachi	Purchase	Materials	Agreed price	4,778,686.37	0.03%
Hisense Group	Purchase	Materials	Agreed price	6,613,394.86	0.04%
Hisense Electric	Purchase	Materials	Agreed price	13,177,430.14	0.09%
<b>Sub-total of purchase of materials</b>				<b>757,039,626.16</b>	<b>4.98%</b>
Hisense Group	Purchase	Mould and equipment	Agreed price	728,754.01	0.00%
Hisense Electric	Purchase	Mould and equipment	Agreed price	82,632.14	0.00%
Hisense — Whirlpool	Purchase	Mould and equipment	Agreed price	1,110,062.58	0.01%
<b>Sub-total of purchase of mould and equipment</b>				<b>1,921,448.73</b>	<b>0.01%</b>
Hisense Group	Receipt of services			154,899,089.57	1.02%
Snowflake	Receipt of services			18,284,617.50	0.12%
Hisense Electric	Receipt of services			8,000,920.86	0.05%
<b>Sub-total of receipt of services</b>				<b>181,184,627.93</b>	<b>1.19%</b>

## Report of the Directors

Connected parties	Type of connected transaction	Particulars of transaction	Pricing principle of connected transaction	Transaction amount	Percentage of total amount of similar transactions
Hisense Hong Kong	Purchase financing agency			156,524,642.03	1.03%
<b>Sub-total of purchase financing agency</b>				<b>156,524,642.03</b>	<b>1.03%</b>
Hisense Electric	Sale	Finished goods	Agreed price	2,154,249.57	0.01%
Hisense — Whirlpool	Sale	Finished goods	Agreed price	359,940.53	0.00%
Hisense Hitachi	Sale	Finished goods	Agreed price	31,502,205.89	0.17%
Hisense Group	Sale	Finished goods	Market price	1,544,072,482.85	8.35%
<b>Sub-total of sale of finished goods</b>				<b>1,578,088,878.84</b>	<b>8.53%</b>
Hisense — Whirlpool	Sale	Materials	Agreed price	6,635,647.13	0.04%
Hisense Group	Sale	Materials	Agreed price	34,645,035.85	0.19%
Hisense Hitachi	Sale	Materials	Agreed price	746,503.14	0.00%
Hisense Electric	Sale	Materials	Agreed price	80,117.74	0.00%
<b>Sub-total of sale of materials</b>				<b>42,107,303.86</b>	<b>0.23%</b>
Hisense Group	Sale	Mould	Market price	119,115,888.69	0.64%
Hisense — Whirlpool	Sale	Mould and equipment	Market price	854,700.85	0.00%
Hisense Electric	Sale	Mould	Market price	47,754,580.06	0.26%
<b>Sub-total of sale of moulds</b>				<b>167,725,169.60</b>	<b>0.90%</b>
Hisense Electric	Provision of services		Agreed price	307,692.31	0.00%
Hisense — Whirlpool	Provision of services		Agreed price	625,111.97	0.00%
Hisense Group	Provision of services		Agreed price	153,393.26	0.00%
<b>Sub-total of provision of services</b>				<b>1,086,197.54</b>	<b>0.00%</b>

As at 31 December 2011, the Company and its subsidiaries had a balance of loan in the amount of RMB702,500,000 with Hisense Finance, reclassification of notes payable to short-term borrowings of RMB110,321,900, and a balance of deposit of RMB177,369,500. For the year, the loan interests paid to Hisense Finance by the Company amounted to RMB35,728,400, discount interest for the draft discount paid was RMB4,718,700, the bank charges amounted to RMB36,000 and the interest income received from Hisense Finance for the deposits amount to RMB901,600.

## Report of the Directors

### VIII. Particulars of External Guarantees During the Reporting Period Are as Follows:

Unit: RMB ten thousand

The guaranteed party	External guarantee given by the Company (excluding guarantees for its subsidiaries)						Completed or not	Whether the guarantee is given for any connected party
	Date of disclosure and number of relevant announcement in relation to the limit on the guaranteed amount	Limit on guaranteed amount	Actual effective date (date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee		
NIL	—	—	—	—	—	—	—	—
Total limit on the amount of external guarantees approved during the Reporting Period (A1)				6,200		Actual amount of external guarantees during the Reporting Period (A2)		—
Total limit on the amount of external guarantees which has been approved at the end of the Reporting Period (A3)				15,000		Total balance of actual amount of external guarantees at the end of the Reporting Period (A4)		—

#### Guarantees given by the Company for its subsidiaries

The guaranteed party	Date of disclosure and number of relevant announcement in relation to the limit on the guaranteed amount	Guaranteed amount	Actual effective date (date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee	Completed or not	Whether the guarantee is given for any connected party
Ronshen Refrigerator	Date of announcement: 16 July 2009 Number of announcement:	90,000	2011.09.30	718.07	Joint and several liability guarantee/ secured guarantee	2011.09.30-2012.08.30	No	No
Kelon Air-conditioner	2009-062	47,000	2011.09.30	6,821.15	Joint and several liability guarantee	2011.09.30-2012.08.30	No	No
Kelon Fittings		5,000	2011.09.30	334.50	Joint and several liability guarantee/ secured guarantee	2011.09.30-2012.08.30	No	No
Ronshen Freezer		5,000	2011.12.28	51.70	Joint and several liability guarantee/ secured guarantee	2011.12.28-2012.01.27	No	No
Yangzhou Refrigerator		10,000	2010.07.23	1,298.96	Joint and several liability guarantee	2010.07.23-2012.02.25	No	No
Ronshen Plastic		4,000	2011.10.31	845.68	Joint and several liability guarantee	2011.10.31-2012.02.28	No	No
Kelon International Incorporation	Date of announcement: 18 March 2011 Number of announcement: 2011-007	40,000	2011.07.29	6,468.50	Joint and several liability guarantee	2011.07.29-2012.07.29	No	No

## Report of the Directors

Total limit on the amount of guarantees for subsidiaries approved during the Reporting Period (B1)	40,000	Actual amount of guarantees for subsidiaries during the Reporting Period (B2)	71,106.58
Total limit on the amount of guarantees for subsidiaries which has been approved at the end of the Reporting Period (B3)	212,000	Total balance of actual amount of guarantees for subsidiaries at the end of the Reporting Period (B4)	16,538.56
<b>Total guaranteed amount of the Company (being the sum of the previous two major items)</b>			
Total limit on the amount of guarantees approved during the Reporting Period (A1+B1)	46,200	Actual amount of guarantees during the Reporting Period (A2+B2)	71,106.58
Total limit on the amount of guarantees which has been approved at the end of the Reporting Period (A3+B3)	227,000	Total balance of actual amount of guarantees at the end of the Reporting Period (A4+B4)	16,538.56
Percentage of actual amount of guarantees (being A4+B4) to the net assets of the Company			20.54%
Including:			
Guaranteed amount provided for shareholders, beneficial controlling parties and their connected parties (C)			—
Guaranteed amount provided directly or indirectly for the guaranteed party with gearing ratio over 70% (D)			13,624.15
Total guaranteed amount over 50% of the net asset (E)			—
Sum of the above three guarantees (C+D+E)			13,624.15
Statement on possibility to assume joint liabilities for guarantees which have not expired			Nil

**IV. Crowe Horwath China Certified Public Accountants (LLP) issued a qualified auditor's report for the Company. The detailed explanation given by the Board on the matters relating to the audit opinion is as follows:**

As described in Notes 5.4, 5.6, 6 and 8 to the financial statements, a series of related party transactions and unusual cash flows occurred between Guangdong Greencool Enterprise Development Limited, the former substantial shareholder of Hisense Kelon, and its related parties (hereinafter referred to as the "Greencool Companies") and Hisense Kelon during the period from October 2001 to July 2005. In addition, during the period, the Greencool Companies, through certain specified third party companies such as Tianjin Lixin Commercial Trading Development Company Limited, were involved in a series of unusual cash flows with Hisense Kelon. Hisense Kelon has instituted proceedings for such transactions and unusual cash flows as well as the suspected fund embezzlements. These matters are related to Hisense Kelon's amounts due from or to the Greencool Companies and the specified third party companies mentioned above.

As at 31 December 2011, the balance of amounts due to Hisense Kelon from the Greencool Companies and such specified third party companies amounted to RMB651 million. Hisense Kelon has made a provision for bad debts of RMB365 million in respect of the amounts due from the Greencool Companies and such third party companies. As set out in Note 8 to the financial statements, apart from the withdrawal of the case at the Intermediate People's Court of Foshan ((2006) Fo Zhong Fa Min Er Chu Zi No. 178) and the rejection of the petition to the Intermediate People's Court of Foshan ((2006) Fo Zhong Fa Min Er Chu Zi No. 183), Hisense Kelon has won in all other cases mentioned above and the rulings have all come into force. However, we are unable to adopt appropriate audit procedures to obtain sufficient and appropriate audit evidence to ascertain whether or not the estimated provision for bad debts based on such amount and the assessment and calculation of the receivables are reasonable.

Explanation: A series of related party transactions and unusual cash flows occurred between the Company and Guangdong Greencool Enterprise Development Limited, the former largest shareholder of the Company, and its related parties, or through its third party companies, from 2001 to 2005. Such transactions and unusual cash flows as well as the suspected fund embezzlements have been formally investigated by the relevant authorities. As at 31 December 2011, the balance of amounts due to Hisense Kelon from the Greencool Companies and the abovementioned specified third party companies amounted to RMB651 million.

## Report of the Directors

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

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

The Board of the Company considers that the provision for bad debts is an accounting estimate. The accounting method applied to such receivables does not breach the relevant requirements of the Accounting rule for Business Enterprises. While the relevant courts have given their final rulings in favour of the Company in respect of 17 cases of litigation out of 19 initiated by the Company against Greencool Companies and specified third parties and the judgments have come into effect, one case with a claim amount of RMB29.8437 million was withdrawn by the Company and another case with a claim amount of RMB12.2894 million was rejected. The aggregate claim amounts of these two cases accounted for a small proportion of the total claim amount of RMB725 million under the court judgments. However, as the rulings in respect of the abovementioned 17 cases have not yet been enforced so far, the Board of the Company is of the view that there is no material difference in terms of the assessed recoverability of such receivables between that for 2011 and 2010 and therefore this qualified opinion will not affect the fairness in the preparation of the Company's income statement for 2011.

After the determination of the abovementioned debt settlement proportion, the Company will, based on the confirmed recoverable proportion, adjust retrospectively the 2005 balance sheet and income statement, and adjust the relevant items in the balance sheets as at 31 December 2006, 31 December 2007, 31 December 2008, 31 December 2009, 31 December 2010 and 31 December 2011 respectively. The Company has taken measures to sequester the properties of the Greencool Companies which are available for settlement. Application has been made to the Foshan Intermediate Court for enforcement of judgments which have come into effect in respect of the abovementioned cases. To drive the enforcement of the judgments, the Company has reported to the relevant authorities such as Supreme People's Court and General Office of the State Council for various times in these 3 years in order that the amount subject to the judgments can be recovered as soon as possible. The Company will also pay attention to the progress of the cases and make its best efforts to ensure its rights as a creditor.

### **X. Implementation of the share option incentive scheme of the Company during the Reporting Period**

The related examination and approval procedures for the Company's first share option incentive scheme have been completed. During the Reporting Period, the Board has arranged and completed on 28 September 2011 the registration for the grant of share options under the First Share Option Incentive Scheme of Hisense Kelon Electrical Holdings Company Limited, which has been reviewed by the Shenzhen Stock Exchange with no objection, and reviewed and confirmed by the Shenzhen branch of China Securities Depository and Clearing Corporation Limited.

## Report of the Directors

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### XI. Explanation of the changes in auditors of the Company during the Reporting Period

In light of the acceptance by the Hong Kong 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 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 Hong Kong Stock Exchange (<http://www.hkex.com.hk>).

### XII. 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” and “the Internal Control System for Forward Foreign Exchange Capital Transactions” 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 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 RMB4.9619 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

Opinion of independent directors: Commencement of foreign exchange derivatives business by the Company was beneficial to the Company in the prevention of exchange rate fluctuation risks. The Company has devised the Internal Control System for Forward Foreign Exchange Capital Transactions to strengthen internal control and enhance the management of foreign exchange risks, and the targeted risk control measures adopted were practicable.

## Report of the Directors

### (ii) Positions in derivatives investment at the end of the Reporting Period

Unit: RMB ten thousand

Type of contract	Contract amount at the beginning of the period	Contract amount at the end of the period	Gain or loss during the Reporting Period	Percentage of contract amount at the end of the period to net assets of the Company at the end of the Reporting Period (%)
Foreign exchange derivatives contracts	138,989.87	159,732.21	496.19	198.39
Commodity derivatives contracts	—	—	—	—
Total	138,989.87	159,732.21	496.19	198.39

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

### DEFINITIONS

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

“Company”, “the Company”	Hisense Kelon Electrical Holdings Company Limited
“Hisense Air-Conditioning”	Qingdao Hisense Air-Conditioning Company Limited
“Hisense Electric”	Hisense Electric Co., Ltd.
“Hisense Group”	Hisense Company Limited
“Hisense 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
“Hisense Hong Kong”	Hisense (Hong Kong) Company Limited
“Guangdong Greencool”	Guangdong Greencool Enterprise Development Company Limited
“Greencool Companies”	Guangdong Greencool and other related parties
“Xi’an Kelon”	Xi’an Kelon Refrigeration Co., Ltd.
“Ronshen Refrigerator”	Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.
“Kelon Air-Conditioner”	Guangdong Kelon Air-Conditioner Co., Ltd.



## Report of the Directors

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“Kelon Fittings”	Guangdong Kelon Fittings Co., Ltd.
“Ronshen Freezer”	Hisense Ronshen (Guangdong) Freezer Co., Ltd.
“Yangzhou Refrigerator”	Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.
“Kelon Mould”	Guangdong Kelon Mould Company Limited
“Ronshen Plastic”	Foshan Shunde District Ronshen Plastic Co., Ltd.
“Hisense Mould”	Qingdao Hisense Mould Co., Ltd.
“Huayi Compressor”	Huayi Compressor Company Limited
“Foshan Intermediate Court”	Intermediate People’s Court of Foshan City
“RMB”	Renminbi
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

## Report of the Supervisory Committee

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Dear Shareholders:

During the reporting period, the Supervisory Committee of Hisense Kelon Electrical Holdings Company Limited has faithfully discharged its duties to protect the lawful interests of the Company, its staff and shareholders in compliance with the relevant requirements of the Company Law of the PRC, the Listing Rules of Shenzhen Stock Exchange, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the articles of association of the Company. We would like to report to you the work of the Supervisory Committee during 2011 in accordance with the articles of association of the Company:

### **I. WORK OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD**

During the reporting period, the Supervisory Committee held a total of 7 meetings, summarized as follows:

- (1) The first meeting of the seventh session of the Supervisory Committee in 2011 was held on 30 March 2011, at which the 2010 annual report of the Company and related issues were considered and passed;
- (2) The second meeting of the seventh session of the Supervisory Committee in 2011 was held on 28 April 2011, at which the 2011 first quarterly report of the Company was considered and passed;
- (3) The third meeting of the seventh session of the Supervisory Committee in 2011 was held on 10 June 2011, at which the First Share Option Incentive Scheme of Hisense Kelon Electrical Holdings Company Limited (Revised Draft) was considered and passed;
- (4) The fourth meeting of the seventh session of the Supervisory Committee in 2011 was held on 24 August 2011, at which the 2011 interim report of the Company and related issues were considered and passed;
- (5) The fifth meeting of the seventh session of the Supervisory Committee in 2011 was held on 31 August 2011, at which the grantees of share options under the First Share Option Incentive Scheme of Hisense Kelon Electrical Holdings Company Limited were adjusted, reviewed and passed;
- (6) A meeting of the seventh session of the Supervisory Committee was held on 27 September 2011, at which the grantees of share options under the First Share Option Incentive Scheme of Hisense Kelon Electrical Holdings Company Limited were adjusted, reviewed and passed;
- (7) The sixth meeting of the seventh session of the Supervisory Committee in 2011 was held on 27 October 2011, at which the 2011 third quarterly report of the Company was considered and passed.

### **II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2011**

- (1) Operation of the Company in compliance with law

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

- (2) Examination of the Company's financial situation

Crowe Horwath China Certified Public Accountants (LLP) has audited the Company's financial statement for the year 2011 and issued an auditor's report with qualified opinion. In the opinion of the Supervisory Committee, the opinion expressed in the auditor's report was fair and objective, and the current financial statement has truthfully reflected the state of financial condition and operating results of the Company.

## Report of the Supervisory Committee

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- (3) During the reporting period, the Company had no capital raising activity.
- (4) During the reporting period, the prices for disposal of the Company's assets were reasonable. There was neither any insider dealing nor any prejudice to the shareholders' interests or any loss of the assets of the Company.
- (5) During the reporting period, the connected transactions which the Company entered into with the connected parties were fair and reasonable and the prices were fairly determined without prejudicing the interests of any non-connected shareholders and the Company.
- (6) Opinion of the Company's Supervisory Committee on the Company's internal control self-assessment report

After reviewing the Company's 2011 Internal Control Self-assessment Report, the Company's Supervisory Committee was of the view that:

With reference to the relevant requirements of Basic Norms for Enterprise Internal Control and the Guidelines of the Shenzhen Stock Exchange for the Standardized Operation of Companies Listed on the Main Board, the Company's existing internal control systems are basically sound and cover all levels and segments of the Company's operation, are in compliance with the requirements of the relevant laws and regulations, and suit the actual needs of the Company's operating activities. Each of the internal control systems is able to exert relatively effective control of the different segments in the Company's operation, and is capable of preventing, timely discovering and rectifying possible errors in the Company's operation process, controlling the relevant risks, protecting the safety and completeness of the Company's assets, ensuring the truthfulness, accuracy and timeliness of the accounting records and accounting information. The Company's 2011 Internal Control Self-assessment Report has fully, objectively and truly reflected the actual internal control situation of the Company, and we agree to the issue of the 2011 Internal Control Self-assessment Report by the board of directors of the Company.

- (7) Establishment and Implementation by the Company of the Management System for Insider Information and Insiders

To set the standard for the management of the Company's insider information, reinforce the protection of insider information, maintain the principle of fairness in respect of information disclosure and protect the lawful interests of the public investors, the Company has formulated the Management System for Insider Information and Insiders pursuant to the Company Law of the People's Republic of China, the Securities Laws of the People's Republic of China, the Administrative Measures on Information Disclosure by Listed Companies issued by China Securities Regulatory Commission, the Listing Rules of Shenzhen Stock Exchange, and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and other relevant laws and regulations, and the relevant provisions of the Articles of Association and the Management Measures on Information Disclosure by the Company, after taking into account the actual situation of the Company.

During the reporting period, the Company has strictly complied with the requirements of the Company's Management System for Insider Information and Insiders in recording the insiders who are in possession of the insider information when announcements of significant events such as regular reports, performance forecasts and share option incentives are issued, and has submitted the Return on Insider Information and Insiders to the regulatory body in strict compliance with the regulatory requirements.

## Corporate Information

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### REGISTERED OFFICE IN CHINA

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

### PLACE OF BUSINESS IN HONG KONG

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

### SECRETARY FOR THE BOARD OF DIRECTORS & COMPANY SECRETARY

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

### AUTHORIZED REPRESENTATIVES

Tang Ye Guo  
Xiao Jian Lin

### SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited  
Rooms 1712-1716, 17th Floor, Hopewell Center,  
183 Queen's Road East, Wanchai, Hong Kong.

### TELEPHONE

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### EMAIL ADDRESS

kelon@gdkelon.com.hk  
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### INTERNET WEBSITE

<http://www.kelon.com>

### AUDITORS

Crowe Horwath China Certified Public Accountants (LLP)  
4/F, Tower 2,  
No.16 Xi Sihuan Zhong Lu,  
Haidian District,  
Beijing

### LEGAL ADVISERS

#### China:

Guangdong Guardian Law Firm  
26/F, North Tower, Yuexiu City Plaza,  
445 Dongfeng Road Central, Guangzhou

#### Hong Kong:

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

### BANKERS

#### China:

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

#### Hong Kong:

Australia & New Zealand Bank, Hong Kong Branch  
Bank of Communications Co. Ltd.,  
Hong Kong Branch  
The Hongkong and Shanghai Banking Corporation Limited



Crowe Horwath China Certified Public Accountants (LLP)  
Tower 2, 16 XiSihuanZhongLu, Haidian District, Beijing, P.R.C.  
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Fax: 0086-10-88210558

Guo Hao Shen Zi [2012] No. 407A847

### **To the shareholders of Hisense Kelon Electrical Holdings Company Limited:**

We have audited the accompanying financial statements of Hisense Kelon Electrical Holdings Company Limited (the "Company" or "Hisense Kelon"), which comprise the Company's and consolidated balance sheets as at 31 December 2011, and the Company's and consolidated income statements, the Company's and consolidated cash flow statements and the Company's and consolidated statements of changes in equity for the year then ended and the notes to the financial statements.

### **I. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

Management of the Company is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing the financial statements in accordance with Accounting Standards for Business Enterprises to achieve fair presentation of the financial statements; (2) designing, implementing and maintaining internal control that is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

### **II. AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an audit opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. China Standards on Auditing require that we comply with the Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **III. MATTERS LEADING TO QUALIFIED OPINIONS**

As set out in notes 5(4), 5(6), 6 and 8 to the financial statements, a series of related party transactions and unusual cash flows occurred between Guangdong Greencool Enterprise Development Limited, the former substantial shareholder of the Company, and its related parties (hereinafter referred to as the "Greencool Companies") and Hisense Kelon during the period from October 2001 to July 2005 (the "Period"). In addition, during the Period, the Greencool Companies, through certain specified third party companies such as Tianjin Lixin Commercial Trading Development Company Limited, were involved in a series of unusual cash flows with Hisense Kelon. Hisense Kelon has instituted proceedings for such transactions and unusual cash flows as well as the suspected fund embezzlements. These matters are related to Hisense Kelon's amounts due from or to the Greencool Companies and the specified third party companies mentioned above.

## Auditor's Report

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As at 31 December 2011, the balance of amounts due to Hisense Kelon from the Greencool Companies and such specified third party companies amounted to RMB651 million. Hisense Kelon has made a provision for bad debts of RMB365 million in respect of the amounts due from the Greencool Companies and such third party companies. As set out in Note 8 to the financial statements, apart from the withdrawal of the case at the Intermediate People's Court of Foshan ((2006) Fo Zhong Fa Min Er Chu Zi No. 178) and the rejection of the petition to the Intermediate People's Court of Foshan ((2006) Fo Zhong Fa Min Er Chu Zi No. 183), Hisense Kelon has won in all other cases mentioned above and the rulings have all come into force. However, we are unable to adopt appropriate audit procedures to obtain sufficient and appropriate audit evidence to ascertain whether or not the estimated provision for bad debts based on such amount and the assessment and calculation of the receivables are reasonable.

#### IV. AUDIT OPINION

In our opinion, apart from the possible effects of the above matters, the financial statements of the Company present fairly, in all material aspects, the Company's and consolidated financial position as at 31 December 2011 and the Company's and consolidated results of operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

**Crowe Horwath China Certified Public Accountants (LLP)**

Beijing, the People's Republic of China

29 March 2012

Chinese Certified Public Accountant: **Hu Jia Qing**

Chinese Certified Public Accountant: **Ma Li**

## Consolidated and Company Balance Sheets

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Assets	31 December 2011		31 December 2010	
	Consolidated	Company	Consolidated	Company
<b>Current assets:</b>				
Cash at bank and on hand	398,532,682.30	98,869,779.84	429,182,477.81	163,407,687.61
Financial assets held for trading	33,787,696.24	—	28,150,388.56	—
Notes receivable	502,919,307.39	437,663,532.61	385,982,498.33	311,687,276.84
Trade receivables	1,193,767,494.97	808,512,974.99	1,354,284,204.38	560,693,424.99
Prepayments	315,474,246.14	756,622,872.10	358,298,915.72	718,774,896.94
Interests receivable	—	—	—	—
Dividends receivable	—	—	—	3,919,477.01
Others receivables	439,873,135.47	934,852,209.18	383,163,557.93	938,338,745.24
Inventories	1,547,277,865.07	984,923,528.87	1,903,101,598.65	1,052,606,642.74
Non-current assets due within one year	—	—	—	—
Other current assets	3,568,803.11	3,082,829.08	6,554,042.83	6,163,532.08
<b>Total current assets</b>	<b>4,435,201,230.69</b>	<b>4,024,527,726.67</b>	4,848,717,684.21	3,755,591,683.45
<b>Non-current assets:</b>				
Available-for-sale fixed assets	—	—	—	—
Held-to-maturity investments	—	—	—	—
Long-term receivable	—	—	—	—
Long-term equity investments	610,755,845.36	2,981,504,280.39	570,013,226.88	3,113,669,661.91
Investment properties	38,019,850.43	16,605,766.00	40,599,871.77	18,157,786.00
Fixed assets	1,947,070,154.12	211,015,835.20	1,852,388,292.88	250,115,718.90
Construction in progress	80,702,425.28	—	166,835,913.79	—
Construction materials	—	—	—	—
Fixed assets pending for disposal	—	—	134,981.60	—
Productive biological assets	—	—	—	—
Intangible assets	520,066,256.26	235,490,945.00	533,088,958.15	246,111,268.00
Development costs	—	—	—	—
Goodwill	—	—	—	—
Long term prepaid expenses	—	—	296,766.66	—
Deferred tax assets	3,623,816.22	—	6,893,223.90	—
Other non-current assets	—	—	—	—
<b>Total non-current assets</b>	<b>3,200,238,347.67</b>	<b>3,444,616,826.59</b>	3,170,251,235.63	3,628,054,434.81
<b>Total assets</b>	<b>7,635,439,578.36</b>	<b>7,469,144,553.26</b>	8,018,968,919.84	7,383,646,118.26

Legal representative: **Tang Ye Guo**

Person in charge of finance: **Wang Hao**

## Consolidated and Company Balance Sheets

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Liabilities and Shareholders' equity	31 December 2011		31 December 2010	
	Consolidated	Company	Consolidated	Company
<b>Current liabilities:</b>				
Short-term borrowings	1,004,998,894.20	350,000,000.00	1,101,261,835.85	322,510,000.00
Financial liabilities held for trading	6,636,121.77	—	5,960,727.44	—
Notes payable	612,667,073.33	641,592,857.89	810,263,300.00	631,293,300.00
Trade payables	2,054,610,132.81	2,078,189,683.49	2,385,166,608.32	1,411,380,569.78
Advances from customers	758,206,285.15	609,092,217.78	950,206,943.91	847,068,726.11
Employee remunerations payable	190,026,739.08	90,224,591.92	185,256,825.01	80,869,458.30
Taxes payable	(90,090,833.72)	6,431,126.07	(209,997,869.00)	(39,146,016.26)
Interests payable	1,447,530.16	258,875.78	2,065,066.74	487,273.35
Dividends payable	2,067.02	—	3,208,911.85	—
Other payables	1,156,195,947.88	1,084,806,857.61	1,109,408,607.20	1,851,337,563.45
Non-current liabilities due within one year	—	—	—	—
Deferred income	—	—	—	—
Other current liabilities	467,458,815.86	366,496,222.69	483,383,088.08	324,485,898.53
<b>Total current liabilities</b>	<b>6,162,158,773.54</b>	<b>5,227,092,433.23</b>	<b>6,826,184,045.40</b>	<b>5,430,286,773.26</b>
<b>Non-current liabilities:</b>				
Long-term loans	—	—	—	—
Bonds payable	—	—	—	—
Long-term payable	—	—	—	—
Specific payables	—	—	—	—
Provisions	271,488,354.42	267,088,764.47	246,800,154.13	222,858,828.35
Deferred income tax liabilities	—	—	—	—
Other non-current liabilities	40,977,575.97	26,427,298.90	35,036,851.38	26,558,788.90
<b>Total non-current liabilities</b>	<b>312,465,930.39</b>	<b>293,516,063.37</b>	<b>281,837,005.51</b>	<b>249,417,617.25</b>
<b>Total liabilities</b>	<b>6,474,624,703.93</b>	<b>5,520,608,496.60</b>	<b>7,108,021,050.91</b>	<b>5,679,704,390.51</b>
<b>Shareholders' Equity:</b>				
Share capital	1,354,054,750.00	1,354,054,750.00	1,354,054,750.00	1,354,054,750.00
Capital reserve	2,096,929,058.26	2,251,104,411.10	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	(2,817,156,683.25)	(1,771,204,005.93)	(3,044,171,810.12)	(2,017,224,872.51)
Difference on translation of foreign currency financial statements	26,106,945.84	—	32,485,452.41	—
Total equity attributable to shareholders of the Company	805,123,597.33	—	541,241,410.07	—
Minority interests	355,691,277.10	—	369,706,458.86	—
<b>Total shareholders' equity</b>	<b>1,160,814,874.43</b>	<b>1,948,536,056.66</b>	<b>910,947,868.93</b>	<b>1,703,941,727.75</b>
<b>Total liabilities and shareholders' equity</b>	<b>7,635,439,578.36</b>	<b>7,469,144,553.26</b>	<b>8,018,968,919.84</b>	<b>7,383,646,118.26</b>

Legal representative: **Tang Ye Guo**

Person in charge of finance: **Wang Hao**



## Consolidated and Company Income Statements

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Items	2011		2010	
	Consolidated	Company	Consolidated	Company
<b>1. Total revenue from operations</b>	<b>18,488,663,163.12</b>	<b>11,847,731,695.62</b>	17,690,323,631.83	9,740,882,133.86
Including: Operating revenue	18,488,663,163.12	11,847,731,695.62	17,690,323,631.83	9,740,882,133.86
<b>2. Total cost of operations</b>	<b>18,530,787,771.28</b>	<b>11,869,277,582.75</b>	17,973,885,493.17	9,970,398,504.87
Including: Operating costs	15,202,894,118.35	9,503,853,713.77	14,796,731,809.19	8,100,978,997.74
Business taxes and surcharges	63,151,069.49	42,618,391.80	19,940,225.46	5,747,107.53
Selling and distribution expenses	2,636,211,941.70	2,232,312,327.06	2,523,719,106.60	1,731,238,055.91
General and administrative expenses	547,649,947.84	32,096,123.53	529,343,841.24	73,308,196.20
Financial expenses	56,004,041.79	45,015,094.49	74,595,738.49	35,922,548.23
Impairment losses on assets	24,876,652.11	13,381,932.10	29,554,772.19	23,203,599.26
Add: Gain from changes in fair value	4,961,913.35	—	17,632,914.80	—
Investment income	138,560,585.23	141,512,781.42	394,879,283.61	451,824,256.26
Including: Share of profit of associates and jointly controlled entities	94,337,603.16	94,337,603.16	76,807,695.58	76,807,695.58
<b>3. Operating profits</b>	<b>101,397,890.42</b>	<b>119,966,894.29</b>	128,950,337.07	222,307,885.25
Add: Non-operating income	158,721,726.61	131,138,218.79	518,757,089.73	398,811,142.04
Less: Non-operating expenses	13,420,036.77	5,084,246.50	19,998,863.10	8,727,636.81
Including: Losses on disposal of non-current assets	7,324,104.26	443,418.68	5,039,033.44	29,806.36
<b>4. Total profit</b>	<b>246,699,580.26</b>	<b>246,020,866.58</b>	627,708,563.70	612,391,390.48
Less: Income tax expenses	21,250,352.26	—	31,588,286.91	—
<b>5. Net profit</b>	<b>225,449,228.00</b>	<b>246,020,866.58</b>	596,120,276.79	612,391,390.48
Profits realized by consolidated parties prior to consolidation	—	—	55,835,331.39	—
Net profit attributable to shareholders of the Company	227,015,126.87	—	585,277,671.92	—
Minority interests	(1,565,898.87)	—	10,842,604.87	—
<b>6. Earnings per share</b>				
(1) Basic earnings per share	0.1677	—	0.4365	—
(2) Diluted earnings per share	0.1677	—	0.4365	—
<b>7. Other comprehensive income</b>	<b>(9,365,044.24)</b>	<b>(2,986,537.67)</b>	(26,596,568.37)	(28,167,449.76)
<b>8. Total comprehensive income</b>	<b>216,084,183.76</b>	<b>243,034,328.91</b>	569,523,708.42	584,223,940.72
(1) Total comprehensive income attributable to the shareholders of the Company	217,650,082.63	—	558,681,103.55	—
(2) Total comprehensive income attributable to minority interests	(1,565,898.87)	—	10,842,604.87	—

Legal representative: **Tang Ye Guo**

Person in charge of finance: **Wang Hao**

## Consolidated and Company Cash Flow Statements

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Items	2011		2010	
	Consolidated	Company	Consolidated	Company
<b>1. Cash flows from operating activities:</b>				
Cash received from sales of goods and rendering of services	8,217,879,262.84	1,736,188,330.75	7,263,378,829.99	1,749,784,603.10
Refund of tax and levies	588,434,666.49	—	447,117,467.37	—
Cash received relating to other operating activities	364,870,216.30	1,571,577,525.29	708,913,641.71	1,255,397,214.52
<b>Sub-total of cash inflows from operating activities</b>	<b>9,171,184,145.63</b>	<b>3,307,765,856.04</b>	<b>8,419,409,939.07</b>	<b>3,005,181,817.62</b>
Cash paid for purchases of goods and services	4,805,387,039.52	2,219,639,628.15	4,282,586,869.50	1,926,117,849.58
Cash paid to and on behalf of employees	1,485,346,868.11	554,122,792.77	1,246,763,089.85	429,027,800.39
Tax paid	590,690,046.54	375,343,054.97	508,590,098.60	241,861,151.21
Cash paid relating to other operating activities	1,923,494,998.97	356,245,253.23	1,743,900,293.03	430,332,178.19
<b>Sub-total of cash outflows from operating activities</b>	<b>8,804,918,953.14</b>	<b>3,505,350,729.12</b>	<b>7,781,840,350.98</b>	<b>3,027,338,979.37</b>
<b>Net cash flows from operating activities</b>	<b>366,265,192.49</b>	<b>(197,584,873.08)</b>	<b>637,569,588.09</b>	<b>(22,157,161.75)</b>
<b>2. Cash flows from investing activities:</b>				
Cash received from returns on investments	96,405,748.87	96,405,748.87	321,536,178.74	321,536,178.74
Cash received from investment revenues	3,534,000.00	22,743,029.91	2,508,000.00	8,462,408.31
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	4,559,784.59	51,554.00	1,384,920.83	44,911.00
Net cash received from disposals of subsidiaries and other operation units	8,650,000.00	8,650,000.00	11,907,879.77	11,907,879.77
Cash received relating to other investing activities	—	—	—	—
<b>Sub-total of cash inflows from investing activities</b>	<b>113,149,533.46</b>	<b>127,850,332.78</b>	<b>337,336,979.34</b>	<b>341,951,377.82</b>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	230,051,652.60	2,088,638.91	346,147,385.96	20,910,919.09
Cash paid for investments	—	—	—	—
Net increase in pledged amount	—	—	—	—
Cash paid for obtaining subsidiaries and other operation units	—	—	—	—
Cash paid relating to other investing activities	—	—	—	—
<b>Sub-total of cash outflows from investing activities</b>	<b>230,051,652.60</b>	<b>2,088,638.91</b>	<b>346,147,385.96</b>	<b>20,910,919.09</b>
<b>Net cash flows from investing activities</b>	<b>(116,902,119.14)</b>	<b>125,761,693.87</b>	<b>(8,810,406.62)</b>	<b>321,040,458.73</b>
<b>3. Cash flows from financing activities:</b>				
Cash received from borrowings	—	—	—	—
Including: Cash contribution from minority shareholders' investment by subsidiaries	—	—	—	—
Cash received from borrowings	2,447,491,015.73	620,000,000.00	2,165,425,616.73	272,510,000.00
Cash received from issue of bonds	—	—	—	—
Increase in policyholder deposits and investments	—	—	—	—
Cash received relating to other financing activities	7,543,201.56	—	—	—
<b>Sub-total of cash inflows from financing activities</b>	<b>2,455,034,217.29</b>	<b>620,000,000.00</b>	<b>2,165,425,616.73</b>	<b>272,510,000.00</b>
Cash paid for repayment of borrowings	2,676,809,232.85	592,844,737.40	2,520,236,250.80	432,680,000.00
Cash paid for distribution of dividends, profit or interest expenses	51,152,753.63	19,869,991.16	55,589,551.45	17,422,272.82
Including: dividend and profit paid to minority shareholders by subsidiaries	—	—	—	—
Cash paid relating to other financing activities	—	—	2,027,500.95	—
<b>Sub-total of cash outflows from financing activities</b>	<b>2,727,961,986.48</b>	<b>612,714,728.56</b>	<b>2,577,853,303.20</b>	<b>450,102,272.82</b>
<b>Net cash flows from financing activities</b>	<b>(272,927,769.19)</b>	<b>7,285,271.44</b>	<b>(412,427,686.47)</b>	<b>(177,592,272.82)</b>
<b>4. Effects of foreign exchange rate changes on cash and cash equivalents</b>	<b>458,101.89</b>	<b>—</b>	<b>2,353,606.71</b>	<b>—</b>
<b>5. Net increase in cash and cash equivalents</b>	<b>(23,106,593.95)</b>	<b>(64,537,907.77)</b>	<b>218,685,101.71</b>	<b>121,291,024.16</b>
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	396,814,919.98	98,869,779.84	419,921,513.93	163,407,687.61

Legal representative: **Tang Ye Guo**

Person in charge of finance: **Wang Hao**

## Consolidated Statement of Changes of Shareholders' Equity

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Items	2011							
	Attributable to the shareholders of the Company							
	Share capital	Capital reserve	Less: Treasury share	Surplus reserve	Accumulated losses	Difference on translation of foreign currency financial statements	Minority interests	Total shareholders' equity
1. Balance at 31 December 2010	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. Balance at 1 January 2011	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. Movements in the current year								
(Decreases denoted in "bracket")	—	43,245,566.96	—	—	227,015,126.87	(6,378,506.57)	(14,015,181.76)	249,867,005.50
(1) Net Profit	—	—	—	—	227,015,126.87	—	(1,565,898.87)	225,449,228.00
(2) Other comprehensive income	—	(2,986,537.67)	—	—	—	(6,378,506.57)	—	(9,365,044.24)
Sub-total of (1) and (2) above	—	(2,986,537.67)	—	—	227,015,126.87	(6,378,506.57)	(1,565,898.87)	216,084,183.76
(3) Equity holder contributions and capital reductions	—	1,560,000.00	—	—	—	—	—	1,560,000.00
1. Equity holder contributions	—	—	—	—	—	—	—	—
2. Amount of share-based payment included in equity	—	1,560,000.00	—	—	—	—	—	1,560,000.00
3. Others	—	—	—	—	—	—	—	—
(4) Profit Distribution	—	—	—	—	—	—	(12,449,282.89)	(12,449,282.89)
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—
2. General risk provisions	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	(12,449,282.89)	(12,449,282.89)
4. Others	—	—	—	—	—	—	—	—
(5) 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	—	—	—	—	—	—	—	—
(6) Special reserves	—	—	—	—	—	—	—	—
1. Provided during the period	—	—	—	—	—	—	—	—
2. Used during the period	—	—	—	—	—	—	—	—
(7) Others	—	44,672,104.63	—	—	—	—	—	44,672,104.63
4. Balance at 31 December 2011	1,354,054,750.00	2,096,929,058.26	—	145,189,526.48	(2,817,156,683.25)	26,106,945.84	355,691,277.10	1,160,814,874.43

Legal representative: **Tang Ye Guo**

Person in charge of finance: **Wang Hao**

# Consolidated Statement of Changes of Shareholders' Equity

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Items	2010 Attributable to the shareholders of the Company					Difference on translation of foreign currency financial statements	Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Less: Treasury share	Surplus reserve	Accumulated losses			
1. Balance at 31 December 2009	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	—	656,241,386.30	—	30,608,624.99	(105,384,042.19)	—	230,407,943.23	811,873,912.33
2. Balance at 1 January 2010	992,006,563.00	2,195,373,283.43	—	145,189,526.48	(3,629,449,482.04)	30,131,845.70	377,516,330.40	110,768,066.97
3. Movement in the current year (Decreases denoted in "bracket")								
(1) Net Profit	362,048,187.00	(141,689,792.13)	—	—	585,277,671.92	2,353,606.71	(7,809,871.54)	800,179,801.96
(2) Other comprehensive income	—	—	—	—	585,277,671.92	—	10,842,604.87	596,120,276.79
Sub-total of (1) and (2) above	—	(28,950,175.08)	—	—	—	2,353,606.71	—	(26,596,568.37)
(3) Equity holder contributions and capital reductions	—	(28,950,175.08)	—	—	585,277,671.92	2,353,606.71	10,842,604.87	569,523,708.42
1. Equity holder contributions	362,048,187.00	(112,739,617.05)	—	—	—	—	(6,023,244.93)	243,285,325.02
2. Amount of share-based payment included in equity	362,048,187.00	557,590,138.45	—	—	—	—	—	919,638,325.45
3. Others	—	—	—	—	—	—	—	—
(4) Profit Distribution	—	(670,329,755.50)	—	—	—	—	(6,023,244.93)	(676,353,000.43)
1. Appropriations to surplus reserve	—	—	—	—	—	—	(12,629,231.48)	(12,629,231.48)
2. General risk provisions	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	(12,629,231.48)	(12,629,231.48)
(5) 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	—	—	—	—	—	—	—	—
(6) Special reserves	—	—	—	—	—	—	—	—
1. Provided during the period	—	—	—	—	—	—	—	—
2. Used during the period	—	—	—	—	—	—	—	—
4. Balance at 31 December 2010	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

Legal representative: **Tang Ye Guo**

Person in charge of finance: **Wang Hao**

## Consolidated Statement of Changes of Shareholders' Equity (Parent company)

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Items	2011								Total shareholders' equity
	Equity attributable to the shareholders of the company								
	Share capital	Capital reserve	Less: Treasury share	Special provisions	Surplus reserve	General provision	Accumulated losses	Others	
1. Balance at 31 December 2010	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. Balance at 1 January 2011	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. Movements in the current year	—	(1,426,537.67)	—	—	—	—	246,020,866.58	—	244,594,328.91
(1) Net Profit	—	—	—	—	—	—	246,020,866.58	—	246,020,866.58
(2) Other comprehensive income	—	(2,986,537.67)	—	—	—	—	—	—	(2,986,537.67)
Sub-total of (1) and (2) above	—	(2,986,537.67)	—	—	—	—	246,020,866.58	—	243,034,328.91
(3) Equity holder contributions and capital reductions	—	1,560,000.00	—	—	—	—	—	—	1,560,000.00
1. Equity holder contributions	—	—	—	—	—	—	—	—	—
2. Amount of share-based payment included in equity	—	1,560,000.00	—	—	—	—	—	—	1,560,000.00
3. Others	—	—	—	—	—	—	—	—	—
(4) Profit Distribution	—	—	—	—	—	—	—	—	—
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—
(5) 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. Balance at 31 December 2011	1,354,054,750.00	2,251,104,411.10	—	—	114,580,901.49	—	(1,771,204,005.93)	—	1,948,536,056.66

Legal representative: **Tang Ye Guo**

Person in charge of finance: **Wang Hao**

## Consolidated Statement of Changes of Shareholders' Equity (Parent company)

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Items	2010								Total shareholders' equity
	Equity attributable to the shareholders of the company								
	Share capital	Capital reserve	Less: Treasury share	Special provisions	Surplus reserve	General provision	Accumulated losses	Others	
1. Balance at 31 December 2009	992,006,563.00	1,723,108,260.08	—	—	114,580,901.49	—	(2,629,616,262.99)	—	200,079,461.58
Add: Changes of accounting policies	—	—	—	—	—	—	—	—	—
Correction for error in previous period	—	—	—	—	—	—	—	—	—
2. Balance at 1 January 2010	992,006,563.00	1,723,108,260.08	—	—	114,580,901.49	—	(2,629,616,262.99)	—	200,079,461.58
3. Movements in the current year									
(1) Net Profit	362,048,187.00	529,422,688.69	—	—	—	—	612,391,390.48	—	1,503,862,266.17
(2) Other comprehensive income	—	—	—	—	—	—	612,391,390.48	—	612,391,390.48
Sub-total of (1) and (2) above	—	(28,167,449.76)	—	—	—	—	—	—	(28,167,449.76)
(3) Equity holder contributions and capital reductions	—	(28,167,449.76)	—	—	—	—	612,391,390.48	—	584,223,940.72
1. Equity holder contributions	362,048,187.00	557,590,138.45	—	—	—	—	—	—	919,638,325.45
2. Amount of share-based payment included in equity	362,048,187.00	557,590,138.45	—	—	—	—	—	—	919,638,325.45
3. Others	—	—	—	—	—	—	—	—	—
(4) Profit Distribution	—	—	—	—	—	—	—	—	—
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—
(5) 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. Balance at 31 December 2010	1,354,054,750.00	2,252,530,948.77	—	—	114,580,901.49	—	(2,017,224,872.51)	—	1,703,941,727.75

Legal representative: **Tang Ye Guo**

Person in charge of finance: **Wang Hao**

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 1. COMPANY PROFILE

Hisense Kelon Electrical Holdings Company Limited (hereinafter referred to as the “Company”) was formerly Guangdong Shunde Pearl River factory (廣東順德珠江冰箱廠) established in 1984. After the restructuring into a joint stock limited company in December 1992, the Company was named Guangdong Kelon Electrical Holdings Company Limited. 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 by Rongsheng Group. 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 shares of the Company.

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

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

The Company’s share reform scheme was approved on the A shareholders’ meeting on 29 January 2007 and approved by the Ministry of Commerce PRC on 22 March 2007. The shareholding of the largest shareholder, Qingdao Hisense Air-Conditioning, in the Company changed to 23.63% after the scheme. Since 2008, Qingdao Hisense Air Conditioning has successively increased the shareholding of the Company through secondary market. At the end of 2009, Qingdao Hisense Air Conditioning held 25.22% of the total share capital of the Company.

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 interim 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., 51% equity interests in Hisense (Zhejiang) Air-Conditioner Co., Ltd., 49% equity interests in Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. (“Hisense Hitachi”), 55% equity interests in Hisense (Beijing) Air-Conditioner Co., Ltd., 78.70% equity interests in Qingdao Hisense Mould Co., Ltd. and the white goods marketing businesses and assets including refrigerators and airconditioners of Qingdao Hisense Marketing Co., Ltd. (“Hisense Marketing”);

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 1. COMPANY PROFILE *(continued)*

In 2010, the connected transaction in relation to the acquisition of assets by way of share (A share) issue by the Company from a specific object was completed, and the Company issued an additional of 362,048,187 A shares to Qingdao Hisense Air-conditioning under seasoned offering. The new shares were listed on 10 June 2010. On 30 June 2010, the registered capital of the Company changed from RMB992,006,563.00 to RMB1,354,054,750.00.

As at 31 December 2011, the total 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, of which, the shareholding of the Company held by Qingdao Hisense Air-Conditioning was 45.22%.

Scope of operations of the Company:      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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS

#### 1. Basis of preparation

These financial statements were prepared in accordance with the Basic Standards and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006, and Application Guidance for the Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter, (hereafter referred to as “Accounting Standards for Business Enterprises”, or “CAS”), and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15-General Provisions on Financial Reporting (revised 2010) issued by the China Securities Regulatory Commission).

As the Company is listed on both Mainland and Hong Kong stock exchanges, apart from the relevant regulations mentioned above, the financial statements also comply with applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance.

#### 2. Statement of compliance with the 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, changes in shareholders’ equity, cash flow and other related information of the Company.

#### 3. Accounting period

The accounting period is based on the calendar year, starts on 1 January and ends on 31 December.

#### 4. Reporting currency

Renminbi (RMB) was adopted by the Company as the reporting currency.



## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 5. Accounting treatments for business combinations involving entities under common and not under common control

##### *(1) Business combinations involving entities under common control*

Business combination under common control is accounted for by the Polling of Interest method by the Company. Apart from adjustments necessary due to differences in accounting policies, 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 absorbed in the capital reserve, the remaining balance is adjusted against retained earnings.

For business combinations in which the Company is the acquirer, the incurred auditing, legal, appraisal and consulting and other agency fees and related management fees are charged to the profit or loss during the period in which they are incurred. Handling fees, commissions and other expenses paid for issuance of bonds or other liabilities committed in relation to business combination shall be charged to the initial measuring value of the bonds and other liabilities issued. 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.

##### *(2) Business combination involving entities not under common control*

Business combination not under common control is accounted for by the acquisition method by the Company. The cost of acquisition represents the fair value of the cash or non-cash assets paid, liabilities issued or committed and equity securities issued by the Company as at the date of acquisition in consideration for acquiring the controlling power in the acquiree. For business combinations in which the Company is the acquirer, the incurred auditing, legal, appraisal and consulting and other agency fees and related management fees are charged to the profit or loss during the period in which they are incurred; the transaction fees related to the issuance of equity shares or bond securities as the consideration of business combination are charged to the initial measuring value of equity shares or bond securities issued.

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's identifiable net assets, the difference is recognized as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized in profit or loss for the current year.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 6. Preparation of consolidated financial statements

##### *(1) Criteria for the recognition of scope of consolidation*

Based on controlling interests, the consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

For a subsidiary acquired through business combination under common control during the reporting period, the Company consolidates the subsidiary from the beginning of the year of consolidation to the end of this reporting year; for a subsidiary acquired through business combination not under common control, the Company consolidates the subsidiary from the date of acquisition to the end of this reporting year. For a subsidiary disposed during the reporting period, the Company ceases to consolidate the subsidiary from the date of disposal.

##### *(2) Preparation of consolidated financial statements*

The consolidated financial statements are prepared by the Company based on the separate 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; where the accounting policies and accounting period adopted by the subsidiaries differ from those of the Company, necessary adjustments are made, and transactions or matters between companies within the scope of consolidation and internal liabilities are offset in the preparation of the consolidated financial statements; shareholders' equity in a subsidiary no longer held by the parent is separately set out as minority interests under the shareholders' equity of the consolidated financial statements; 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.

#### 7. Criteria for the recognition of cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with bank and short-term (maturing within 3-months from the date of acquisition) an highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### 8. Foreign currency transactions and translation of financial statements in foreign currency

##### *(1) Foreign currency transactions*

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

As at the balance sheet date, foreign currency monetary items are translated into the denominating currency using the spot exchange rate prevailing at the balance sheet date, translation difference arising from a difference between the spot exchange rate prevailing at the balance sheet date and the spot exchange rate prevailing at initial recognition or the previous balance sheet date is charged to finance costs; foreign currency non-monetary items at historical cost are translated using the spot exchange rate prevailing at the transaction date; foreign currency non-monetary items at fair value are translated at adoption date of fair value using the spot exchange rate, and any difference between the translated amount in the measurement currency and the original amount in the measurement currency is charged to the profit or loss for the period as changes in fair value, except that the relevant translation difference of foreign currency non-monetary items available for sale is charged to the capital reserve.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

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

##### (2) *Translation of financial statements in foreign currency*

For the translation of financial statements of a subsidiary denominated in foreign currency, all the assets and liabilities items in the balance sheet are translated at the spot exchange rates on the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statement are translated using the spot exchange rate prevailing at the transaction date; all items in the cash flow statement are translated using the spot exchange rate prevailing at the date on which the relevant cash flow is incurred or a rate approximating the spot exchange rate. The effect of changes in the exchange rate on cash is separately presented as an adjustment as "Effect of foreign exchanges rate changes on cash and cash equivalents" in the cash flow statements.

Differences arising from the translation of foreign currency financial statements are separately set out as "Difference on translation of foreign currency financial statements" under "Shareholders' equity" in the consolidated balance sheet.

On disposal of overseas operations, the corresponding difference of foreign currency translation related to the overseas operations shall be transferred from shareholders' equity to the profit or loss for the current period. For partially disposed overseas operations, the translation difference of the financial statements are calculated based on the proportion of disposal and recognized in the profit or loss for the current period.

#### 9. Financial instruments

Financial instrument represents contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments consist of financial assets, financial liabilities and equity instruments.

##### (1) *Recognition and derecognition of financial assets and financial liabilities*

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

The Group derecognizes a financial asset when the following conditions are met:

- 1 *The rights to receive cash flows from the asset have expired;*
- 2 *The financial asset has been transferred and the following conditions for the derecognition of financial assets are met.*

A financial asset or part of it is derecognized when the existing obligation of the financial asset are fully or partially derecognized.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 9. Financial instruments *(continued)*

##### (2) *Classification and measurement of financial assets and financial liabilities*

Financial assets and financial liabilities of the Company are, at initial recognition, classified into the following five categories: financial assets or financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading and those designated upon initial recognition as financial assets at fair value through profit or loss; held-to-maturity investments, trade receivables, available-for-sale financial assets and other financial liabilities. A financial asset or financial liability is recognized initially at fair value. In the case of financial assets or financial liabilities at fair value through profit or loss, the relevant transaction costs are directly recognized in the profit or loss for the current period; transaction costs relating to financial assets or financial liabilities of other categories are included in their initial recognized amount.

##### 1 *Financial assets or financial liabilities at fair value through profit or loss for the current period*

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition as financial assets at fair value through profit or loss. Financial assets held for trading mainly refer to shares, bonds, funds and non-hedging derivatives held for disposal in the short-term or financial liabilities assumed for re-purchase in the short-term; financial assets or financial liabilities designated as ones at fair value through the profit or loss for the current period mainly refer to those so designated by the Company for risk management, strategic investment and other purposes.

Such kind of financial assets or financial liabilities are measured at fair value. Except when they are used as effective derivatives, all realized and unrealized gains or losses on these financial assets are recognized in the profit or loss for the current period.

##### 2 *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets such as sovereignty bonds at fixed rate and company bonds at floating rates that has fixed or determinable payments and fixed maturity and for which the Company has the positive intention and ability to hold to maturity.

Held-to-maturity investments are initially recognized at the sum of the fair value (after deduction of bond interests whose period has matured but not charged yet) and the related transactions fees by the Company.

During the holding period, held-to-maturity investments are measured at amortized cost using the effective interest rate method. Gains or losses arising from amortization or impairment and derecognition are recognized in the profit or loss for the current period.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 9. Financial instruments *(continued)*

##### (2) Classification and measurement of financial assets and financial liabilities *(continued)*

###### 3 Trade receivables

Trade receivables refer to 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 quoted in active markets, including trade receivables, other receivables and long-term receivables. Trade receivables are initially recognized at the contract price charged to the buyers or the agreed consideration. During the holding period, trade receivables are measured at amortized cost using the effective interest rate method. Upon disposal, the difference between the sale value and the book value of the receivables shall be accounted into profits or losses of the current period on its recovery or disposal.

###### 4 Available-for-sale financial assets

Available-for-sale financial assets refer to non-derivative financial assets that are designated as available for sale upon initial recognition and financial assets not classified as the above three categories of financial assets.

Available-for-sale financial assets are initially recognized at the sum of the fair value (after deduction of cash dividends which has been declared but not distributed yet bond interests whose period has matured but not charged yet) and the related transactions fees by the Company.

Available-for-sale financial assets are subsequently measured at fair value. The premium or discount is amortized using effective interest rate method and recognized as interest income or expense. A gain or loss arising from a change in the fair value of an available-for-sale financial asset is recognized as other comprehensive income in capital reserve, except for impairment losses and foreign exchange gains or losses resulted from monetary financial assets, until the financial asset is derecognized or determined to be impaired, at which time the accumulated gain or loss previously recognized is transferred to the profit or loss for the current period. Interests and dividends relating to an available-for-sale financial asset are recognized in the profit or loss for the current period.

Upon disposal, the difference between acquisition consideration and the carrying value of financial assets 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

Other financial liabilities refer to financial liabilities not measured at their fair values and the variation of which is not accounted into the profits or losses of the current period.

Other financial liabilities are initially recognized at the sum of the fair value and relevant transaction expenses. During the holding period, other financial liabilities are measured at amortized cost using the effective interest rate method. Gains or losses upon amortization or derecognition are accounted into profits and losses of the current period.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 9. Financial instruments *(continued)*

##### (3) *Transfer of financial assets*

- 1 Financial assets are derecognized when the Group has transferred substantially all the risks and rewards of their ownership to the transferee or when the risks and rewards of their ownership are neither transferred nor retained upon loss of control of the financial assets.
- 2 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 stopping recognition, the difference between the amounts of the following 2 items shall be recorded in the profits and losses of the current period:
  - A. The book value of the transferred financial asset;
  - B. The aggregate consideration received from the transfer, and the accumulative amount of the changes of the fair value originally recorded in the shareholders’ equities (in the event that the financial asset involved in the transfer is a financial asset available for sale).
- 3 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 that has been derecognized and the portion that has not been derecognized (under such circumstance, the service asset retained shall be deemed as a portion that has not been derecognized), be allocated at their respective relative fair value, and the difference between the amounts of the following 2 items shall be recorded in the profits and losses of the current period:
  - A. The book value of the portion that has been derecognized;
  - B. The aggregate consideration of the portion that has been derecognized, and the portion of the accumulative amount of the changes in the fair value originally recorded in the shareholders’ equities which is corresponding to the portion that has been derecognized (in the event that the financial asset involved in the transfer is a financial asset available for sale).
- 4 Financial assets continue to be recognized when their transfer does not fulfill the derecognition conditions, and considerations received are recognized as financial liabilities.
- 5 For a financial asset transferred by the method of continuous involvement, the Company continues to recognize the financial asset being transferred by the method of continuous involvement as a financial asset as to the extent of transfer, and recognizes a financial liability at the same time.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 9. Financial instruments *(continued)*

##### *(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.

On derecognizing the financial liabilities in whole or in part, the difference between the book value of these financial liabilities and the payment (including the roll-out of non-cash assets and new financial liabilities to be assumed) shall be accounted into the profit or loss for the current period.

If repurchasing part of the financial liabilities, 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 on the date of repurchasing. 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*

- 1 If there is an active market for a financial asset or financial liability, the quoted price in the active market is used to establish the fair value of the financial asset or financial liability.
- 2 If no active market exists for a financial instrument, its fair value is determined using appropriate valuation techniques.

##### *(6) Impairment of financial assets (excluding trade receivables)*

The Group assesses at the balance sheet date the carrying amount of every financial asset (excluding trade receivables) at the balance sheet date. If there is objective evidence indicating a financial asset may be impaired, a provision is made for the impairment.

- 1 Impairment provision of held-to-maturity investments:

Impairment provisions are measured at the difference between the carrying amount and the present value of the estimated future cash flows. Detailed reference to methods of measurement for impairment provision of receivables is carried out.

If there is objective evidence of a recovery in value of the financial assets and the recovery can be related to an event occurring after the impairment was recognized (such as an increase in the credit grade of the debtor), the previously recognized impairment loss is reversed and recognized in profit or loss. However, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment loss not been recognized at the date the impairment is reversed.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 9. Financial instruments *(continued)*

##### (6) *Impairment of financial assets (excluding receivables) (continued)*

###### 2 Impairment provision of available-for-sale financial assets:

If there is objective evidence of a significant decrease in the fair value of an available-for-sale financial asset that is expected to form a trend and not transient, it can be ascertained that the available-for-sale financial assets has impaired and impairment provision shall be made. Upon impairment provision is made in respect of impaired available-for-sale financial assets, the accumulated loss from the decline in fair value originally recognized directly in shareholder's equity is removed. The accumulated loss so removed equals the balance of the initial acquisition cost of the available-for-sale financial asset (net of deducting principal payment and amortized amount) and current fair value less impairment losses originally recognized in the profit or loss.

If, after an impairment loss has been recognized on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed and recognized in profit or loss. For the impairment loss recognized on an investment in an equity instrument classified as available-for-sale any increase of fair value that occurs after the impairment is reversed in shareholder's equity, not in profit or loss.

#### 10. Trade receivables

##### (1) *Trade receivables that are individually significant and subject to separate provision:*

###### 1 The criteria and amount for individually significant receivables.

Accounts for 10% or above (including 10%) of the total trade receivables except the Greencool receivables.

###### 2 Method of provision for bad debt in individually significant receivables:

Individually significant receivables are subject to separate impairment assessment, where there is clear evidence of impairment, the amount of the present value of the future cash flows expected to be derived from the receivables is less than the carrying amount shall be treated as impairment loss and accounted for as provision for bad debts. Where there is no impairment on according to the separate impairment assessment, shall be combined into certain groups with similar credit risk characteristics and subject to impairment assessment by groups.



## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 10. Trade receivable *(continued)*

##### (2) *Receivables that are combined into certain groups and subject to provision by groups:*

Basis for determination of groups is as follows

Group 1                      Groups of trade receivables based on ageing characteristics

Group 2                      Greencool receivables.

Method for provision for bad debts by groups

Group 1                      Based on ageing analysis method.

Group 2                      Individual impairment assessment, where the amount of the present value of the future cash flows expected to be derived from the receivables is less than the carrying amount shall be treated as impairment loss and accounted for as provision for bad debts.

For group 1, Receivables which are provided for bad debts using age analysis:

Ageing	Ratio for provision for bad debts (%)
Within 3 months (including 3 months)	0
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

##### (3) *Receivables which are individually insignificant but subject to separate provision:*

Reason for individual provision:                      Receivables which are individually insignificant in one year or above.

Method for provision for bad debts                      Receivables which shall be separated from groups for individual assessment, where there is clear evidence of impairment. The amount of the present value of the future cash flows expected to be derived from the receivables is less than the carrying amount shall be treated as impairment loss and accounted for as provision for bad debts.

#### 11. Inventories

##### (1) *Classification of inventories*

Inventories are classified into: raw materials, goods in processing contract, low-value consumables, packaging materials, self-manufactured semi-finished goods, construction in progress, goods in transit, commodity stocks and etc.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 11. Inventory *(continued)*

##### (2) *Cost of inventories*

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

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

##### (3) *Basis for the determination of net realizable value and the method of provision for declines in value of inventories*

The net realizable value of finished goods, commodity stocks, materials ready for sale, and commodity inventories on immediate sales, is determined based on the estimated selling price in the ordinary course of business, less the estimated selling and distribution costs and related taxes.

The net realizable value of raw material is determined based on the estimated selling price of finished goods in the ordinary course of business less the estimated costs to completion and estimated costs necessary to make the sale, and related taxes;

For inventories held for fulfilling sales contract or labor contract, the net realizable value is based on the contract price; if the amounts of inventories held exceed the amounts of sales ordered specified in the contract, the exceeding amount is determined based on the market price.

The Company takes inventory checkup at end of each accounting period, and states or adjusts impairment loss on inventories at the lower of cost or net realizable value. The provision for impairment loss on inventories is made on an individual basis in principle; for inventories in large quantity and with relatively low unit prices, provision for impairment loss on inventories shall be determined on an aggregated basis. In case of low-cost and numerous-in-variety inventories, the Company classifies the provision for impairment loss on inventories. And the Company consolidates the provision for impairment loss on 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 the profit or loss for the current period.

##### (4) *Inventories system*

The group adopts the perpetual inventories system.

##### (5) *Amortization of low-value consumables and packaging materials*

Low-value consumables are expensed upon issuance.

Packaging materials are expensed upon issuance.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 12. Long-term equity investments

##### (1) *Initial recognition*

##### 1 *Long-term equity investments acquired from business combination involving entities under common control*

For long-term equity investments acquired from business combination involving entities under common control, the share of the book value of the shareholders' equity of the merged enterprise as at the date of combination after adjustments in accordance with the Company's accounting policies shall be taken as the initial investment cost.

##### 2 *Long-term equity investments acquired from business combination involving entities not under common control*

For long-term equity investments acquired from business combination involving entities not under common control, the cost of combination as at the date of acquisition shall be taken as the initial investment cost.

For the gradual combination realized by separate procedures, the sum of book value shareholders' equity in the acquiree prior to the date of acquisition and the additional acquisition cost as at the date of acquisition shall be taken as the initial investment cost.

##### 3 *Long-term equity investment acquired by other methods*

The initial investment cost of a long-term equity investment obtained by making payment in cash shall be accounted for its actual cash paid.

The initial investment 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 (excluding declared but not yet paid cash dividends or profits received from the investee).

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

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 12. Long-term equity investments *(continued)*

##### (2) *Subsequent measurement and recognition of profits and losses*

Long-term equity investments on the subsidiary company of an investing enterprise, investees not under common control or significant influence, and long-term equity investments not quoted in an active market and where its fair value cannot be measured reliably shall be accounted by the cost method. Long-term equity investments under common control or significant influence shall be accounted by the equity method.

Upon accounting of long-term equity investments by the cost method:

Apart from the actual consideration paid upon investment or cash dividends or profits already declared but not yet paid included in the consideration, the Company recognizes investment returns according to cash dividends or profits declared for payment by the investee to which it is entitled.

Upon accounting of long-term equity investments by the equity method:

- 1 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 investee'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' attributable share of the fair value of the investee's identifiable net assets for the investment, the difference shall be included in the profit or loss for the current period and the cost of the long-term equity investment shall be adjusted at the same time.
- 2 The Group recognizes its share of the net profit or loss made by the investee as investment income or losses, and adjusts the carrying amount of the investment accordingly. The Group recognizes its share of the investee's net profit or loss after making appropriate adjustments to the investee's net profit or loss based on the fair value of the investee's identifiable assets at the acquisition date, using the Group's accounting policies and periods, and eliminating the portion of the profit or loss arising from internal transactions with its joint ventures and associates attributable to the investor according to its share ratio (but impairment losses for assets arising from internal transactions shall be recognized in full).
- 3 The Group's share of net losses of the investee is recognized to the extent that the carrying amount of the long-term equity investment, together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero, except that the Group has incurred obligations to assume additional losses. Subsequent net profits realized by the investee are re-recognized as share of profits after setting off un-recognized losses in its share of profits.
- 4 Entitlements to profits or cash dividends declared by the investee are calculated to write down the carrying value of the long-term investments.
- 5 Where any change is made to the shareholders' equity other than the net profits and losses of the investee, the book value of the long-term equity investment shall be adjusted and be included in the shareholders' equity, and the capital reserves shall be accordingly adjusted, in accordance with the attributable share of the net profits or losses of the investee.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 12. Long-term equity investments *(continued)*

##### (3) *Definition of joint control and significant influence over the investees.*

###### 1 *Evidences for common control:*

Joint control is the contractually agreed sharing of control over an economic activity. Generally upon the establishment of a joint venture, significant financial and production, operating and decision-making procedures of the joint venture being established by the joint venture parties to the investment contract or agreement are subject to the agreement by all the joint venture parties. Common control is evidenced by the following three bases:

- A. None of the parties shall be controlling the production and operating activities of the joint venture on a sole basis.
- B. Decision-making related to the fundamental operation of the joint venture requires the unanimous consent of the joint venture parties.
- C. The joint venture parties may by way of contract or agreement appoint one of the joint venture parties to carry out management of the ordinary activities of the joint venture, given that the management power shall be exercised within the financial, operating and policy-making scope unanimously agreed upon by the joint venture parties.

###### 2 *Evidences for significant influence:*

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an entity, but not the power to control or jointly control over the formulation of such policies with other parties. When the Company directly or indirectly through a subsidiary owns more than 20% (including 20%) but less than 50% of the voting rights of an investee, significant influence over the investee is established unless there is clear evidence that the situation constitutes no significant influence as the Company is unable to participate in making decisions on the financial and operating policies of the investee. When the Company owns less than 20% of the voting rights of an investee, significant influence over the investee is generally not established unless there is clear evidence that the situation constitutes significant influence as the Company is able to participate in making decisions on the financial and operating policies of the investee.

##### (4) *Test of impairment and recognition of provision for impairment*

Please see note 2.25 for the test for impairment and recognition of provision for impairment for long-term equity investments in subsidiaries, joint ventures or associates.

For an investee not under common control or significant influence and long-term equity investment not quoted in an active market and where its fair value cannot be measured reliably, please see note 2.9(6) for the test for impairment and recognition of provision for impairment.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 13. Investment properties

Investment properties refer to properties held to earn rental or capital appreciation or both of them, and represents buildings which have been leased out in the Company.

Investment properties are recognized at the cost of initial acquisition, and are provided for depreciation or amortization for the period in accordance with the relevant requirements for fixed assets and intangible assets.

Please see note 2.25 for recognition of asset impairment for investment properties subsequently measured by the cost method.

#### 14. Fixed assets

##### (1) *Recognition of fixed assets*

Fixed assets are tangible assets that are held for producing goods, rendering of services, leasing out to other parties or administrative purposes, with useful life more than one year. Fixed assets are recognized when they meet the following conditions:

- 1 When it is probable that the economic benefits associated with the fixed asset are likely to flow into the Company, and
- 2 The cost of the fixed asset can be reliably measured.

##### (2) *Depreciation of fixed assets*

Fixed assets are depreciated by categories using the straight-line method over their useful life. Fixed assets are initially depreciated when they are available for intended use, and are derecognized when they are derecognized or categorized as non-current assets available for sale (except fixed assets that are fully provided and are under continuous use, and lands accounted separately). When no impairment provision is made, the annual depreciation rates for different fixed assets are determined by residual value, asset category, and estimated useful life as follows:

Category	Useful life (year)	Rate of residual value (%)	Annual depreciation rates (%)
Buildings	20-50	0-5	2-4.75
Machinery and equipment	10-20	5	4.75-9.5
Electronic equipment, appliances and furniture	5	5	19
Motor vehicles	5	5	19
Moulds	3	0	33.33

##### (3) *Test of impairment and provision for impairment loss of fixed assets*

Please see note 2.25 for recognition of impairment of fixed assets.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 15. Construction in progress

##### (1) *Categories of construction in progress*

Constructions in progress are measured at actual cost and are accounted for by individual projects.

##### (2) *Time-point of transfer from construction in progress to fixed assets*

Constructions in progress are transferred to fixed assets when all the actual expenses incurred and are ready for their intended use. When construction in progress is ready for its intended use but has not completed the final accounts, it is transferred to fixed assets using an estimated cost on the day when it is ready for intended use and depreciation is made accordingly pursuant to the Company's depreciation policy, the estimated cost can be based on project budget, project price or actual construction cost. The estimated cost is adjusted by the actual cost after the completion of the final accounts without adjustments to the depreciation already provided.

##### (3) *Impairment construction in progress*

Please see note 2.25 for recognition of impairment of construction in progress.

#### 16. Borrowing costs

##### (1) *Principles of recognition for capitalization of the borrowing costs*

Assets eligible for capitalization refer to the fixed assets, investment real estate, inventories and other assets that require a substantially long period of time of acquisition and construction or production to become available for its intended use commence or for sale. Borrowing costs include interest on borrowings, amortization of discounts or premiums, ancillary costs, and exchange differences arising from foreign currency borrowings.

Where the borrowing costs incurred to the Company can be directly attributed 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 profit or loss for the current period.

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

- 1 The asset expenses are already incurred, which shall include expenses in form of cash, transfer of non-cash assets or interest bearing debts paid for the acquisition and construction or production of preparing assets eligible for capitalization;
- 2 The borrowing costs are already incurred;
- 3 The acquisition and construction or production activities necessary to prepare the asset for its intended use or sale have already commenced.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 16. Borrowing costs *(continued)*

##### (2) *Period of capitalization of the borrowing costs*

Borrowing costs are capitalized as a cost of the qualifying assets being acquired, constructed or produced before they become ready for its intended use or sale; and the capitalization of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognized in profit or loss for the current year.

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 part of the acquisition and construction or production of asset qualified for capitalization is completed and available for individual use, the borrowing cost for that part of asset capitalization of loans shall cease capitalization.

##### (3) *Calculation of capitalized borrowing costs*

For the specific borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of interest which is eligible for capitalization (deducting any interest earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowing) and the ancillary expense incurred to the specific borrowings 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.

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of interest which is eligible for capitalization is determined by applying the weighted average effective interest rate of general borrowings used, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. 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.

During the capitalization period, translation differences form principal and interest of amount in foreign exchange borrowed for a specific purpose are capitalized as a cost of the qualifying assets.

#### 17. Intangible asset

##### (1) *Initial recognition of intangible assets*

Intangible assets are initially recognized based on the actual cost. 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.



## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 17. Intangible asset *(continued)*

##### (1) *Initial recognition of intangible assets (continued)*

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; 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 but not recognized in the profits and losses.

##### (2) *Subsequent measurement*

###### 1 *Useful life of intangible assets*

The useful life of the acquired intangible assets is determined upon acquisition. For intangible asset with a finite useful life, the useful life or similar measuring unit or quantity that constitutes the useful life is estimated. Intangible assets with unforeseeable economic benefits to the Company are deemed to be intangible assets with indefinite useful life.

###### 2 *Amortization of intangible assets*

Intangible asset with a finite useful life are amortized over the estimated useful life from the month of acquisition using the straight-line method. Intangible assets with indefinite useful life are not amortized but a test for impairment at the end of the year.

The useful life and method of amortization for intangible assets are reviewed and adjusted at least annually at the end of each year.

###### 3 When a certain asset is expected to no longer generate any future economic benefits to the Company, the carrying value of the intangible asset is entirely transferred into the profit or loss for the period.

###### 4 *Impairment of intangible assets*

Please see note 2.25 for the recognition of provision for impairment of intangible assets.

#### 18. Development costs

- (1) The Group classifies the costs of an internal research and development project into expenditure on the research phase and expenditure on the development phase.
- (2) Specific criteria for the classification of research phase and development phase during internal research and development projects:

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

Development phase: the phase 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. before commercial production and utilization.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 18. Development costs *(continued)*

- (3) Expenditure on the research phase of internal research and development projects are accounted into profit or loss for the current period.
- (4) Expenditure on the development phase of internal R&D projects is capitalized only if all of the following conditions are satisfied at the same time:
  - 1 It is technically feasible to complete the intangible asset so that it will be available for use;
  - 2 Management intends to complete the intangible asset, and use or sell;
  - 3 The method in which the intangible assets bring economic benefits can be demonstrated how the intangible asset will generate economic benefits or the intangible assets has its own market, or that they can be used in case of internal utilization;
  - 4 The Company has adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible assets;
  - 5 The expenditure attributable to intangible assets during its development phase can be reliably measured.

#### 19. Long-term prepaid expenses

- (1) Long-term prepayments include expenditures incurred but should be recognized as expenses over more than one year in the current and subsequent periods. Long-term prepayments are amortized on a straight-line basis over the expected beneficial period.
- (2) Organization cost during preparatory period should be recognized in profit or loss in the month as incurred.

#### 20. Provisions and Contingency Liabilities

- (1) Provision for pending litigation, product warranties, onerous contracts etc, are recognized when the Company has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of obligation can be measured reliably.
- (2) A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

#### 21. Share-based payments and equity instruments

##### (1) *Share-based payments*

Equity-settled share incentives granted to senior management by the Company. Equity instruments used for share incentives are measured by their fair value as at the date of grant.

##### (2) *Accounting of share-based payments*

Equity-settled share payments to employees are charged to costs and capital reserve (other capital reserve) at fair value, and subsequent changes in fair value are not accounted. Cash-settled share payments to employees are re-valuated at the fair value of the equity instruments as at each balance sheet date and are recognized as costs and staff remuneration payables. 89

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 21. Share-based payments and equity instruments *(continued)*

##### (3) *Determination of fair value of equity instruments*

If there is an active market for an equity instrument granted such as share option, the quoted price in the active market is used to establish the fair value of the equity instrument. If there is no active market for the equity instrument granted such as share option, the option pricing model is used to determine the fair value.

##### (4) *Recognition basis for the best estimate of fair value of exercisable equity instruments*

On each balance sheet date within the vesting period, the estimated number of exercisable equity instruments is amended based on the latest subsequent information as to changes in the number of employees with exercisable rights. As at the exercise date, the final number of exercisable equity instruments should equal the actual number of exercisable equity instruments.

##### (5) *Accounting for implementation, amendment and termination of share-based payments*

The accumulated cost recognizable for the period is calculated based on the above fair value of equity instruments and estimated number of exercisable equity instruments, after deducting the recognized amount for the previous period, as the cost recognizable for the period.

#### 22. Income

##### (1) *Sale of goods*

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

##### (2) *Rendering of services*

On the date of the balance sheet, outcome of a transaction on rendering of services that could be reliably estimated shall be recognized using percentage-of-completion method. The Company determines the total revenue from rendering of services in accordance with the received or receivable purchase price fixed by contract or agreement, except when the price is unfair.

On the date of the balance sheet, outcome of a transaction on rendering of services that could be reliably estimated shall be conducted in accordance with the following circumstances, respectively:

- 1 If the cost of rendering of services incurred is expected to be compensated, the revenue from the such services shall be recognized in accordance with the amount of the cost of rendering of services incurred, and the cost shall be carried forward at the same amount;
- 2 If the cost of rendering of services incurred is not expected to be compensated, the cost incurred shall be included in the profit or loss for the current period, and no revenue from such services may be recognized.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 22. Income *(continued)*

##### (3) *Abalienating the right to use assets*

When the economic benefits related to the transaction is likely to flow to the Company and the relevant income can be reliably measured. 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.

#### 23. Government grants

Government grants are divided into asset-related government grants and income related government grants.

##### (1) *Recognition and measurement of government grants*

Government grants are recognized when all attaching conditions will be complied with and the grants can be received.

If a government grants is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grants is in the form of a transfer of a non-monetary asset, it is measured at fair value; if fair value is not reliably determinable, it is measured at a nominal amount.

##### (2) *Accounting treatment of government grants*

A government grant related to an asset shall be recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset.

A government grant measured at a nominal amount is recognized immediately in profit or loss for the current period.

A government grant related to income, where the grant is a compensation for related expenses or losses to be incurred by the enterprise in subsequent periods, the grant shall be recognized as deferred income; where the grant is a compensation for related expenses or losses already incurred by the enterprise, the grant shall be recognized immediately in profit or loss in the current period.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 24. Deferred tax assets/deferred tax liabilities

Deferred tax is recognized using the balance sheet liability method based on the temporary difference between the carrying value and the tax base of the assets and liabilities as at the balance sheet date. Deferred tax shall all be treated as income tax and is recognized in profit or loss for the current period, or shall be recognized directly in shareholders' equity if it arises from the adjusted goodwill on a business combination or relates to a transaction or event which is recognized directly in shareholders' equity.

(1) A deferred tax liability is recognized for all taxable temporary differences, except where the taxable temporary differences arise from the following transactions:

- 1 The initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, it affects neither accounting profit nor taxable profit or loss;
- 2 Recognition of assets or liabilities arising from transactions with the following characteristics: a transaction that is not a business combination and, at the time of the transaction, neither affects the accounting profit nor taxable profit or loss; or
- 3 In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

(2) Deferred tax assets are only recognized for deductible temporary differences, deductible losses and tax credits, to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilized, except where the deferred tax asset arises from the following transactions:

- 1 A transaction that is not a business combination and, at the time of the transaction, neither affects the accounting profit nor taxable profit or loss; or
- 2 In respect of the deductible temporary differences associated with investments in subsidiaries, jointly controlled entities and associates, a deferred tax asset is only recognized to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized in the future.

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, meanwhile reflects the tax consequences that would follow from the manner in which the Company expects, at the balance sheet date, to recover the assets or settle the liabilities.

(3) The carrying amount of deferred tax assets shall be reviewed at the balance sheet date. If it is unlikely to obtain sufficient taxable income to offset against the benefit of the deferred income tax asset, the carrying amount of the deferred income tax assets shall be written down, the amount of writing down shall be accounted for income tax expense in the current period, and derecognize from deferred tax assets previously recognized in shareholders' equity. Any such write-down should be subsequently reversed where it becomes probable that sufficient taxable income will be available.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 25. Impairment of assets

Impairment of long-term equity investments, investment properties subsequently measured by the cost method, fixed assets, construction in progress, intangible assets, goodwill (except inventories, investment properties measured by the fair value method, deferred tax assets, financial assets) of subsidiaries, associates and jointly controlled entities of the Company are determined as follows:

- (1) Fixed assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. Any indication as a result of above test should trigger the Company to estimate its recoverable amount. Goodwill arising from a business combination, an intangible asset with an indefinite useful life and intangible assets that have not been ready for intended use are tested for impairment at least once a year, irrespective of whether or not there is any indication that those assets may be impaired.
- (2) The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows estimated to be derived from the asset. Provision for asset impairment is determined and recognized on individual asset basis. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of a group of assets to which the asset belongs is determined.
- (3) Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. When the recoverable amount of an asset or an asset group is less than its carrying amount, the carrying amount is reduced to the recoverable amount. The reduction in carrying amount is treated as impairment loss and recognized in profit or loss for the current period.
- (4) Once the above asset impairment loss is recognized, it cannot be reversed for the value recovered in subsequent periods.

#### 26. Employee benefits

Employee benefits include wages or salaries, bonuses, allowances, subsidies, welfare fund, social security contributions, housing funds and other expenditures incurred in exchange for service rendered by employees and are recognized for the period during which they are rendered.

#### 27. Segment information

The Group identifies operating segments based on the internal organization structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all the following conditions:

- (1) The component is able to earn revenues and incur expenses from its ordinary activities;
- (2) Whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance; and
- (3) For which the information on financial position, operating results and cash flows is available to the Group. The accounting policies of operating segments are the same as the main accounting policies of the Company.

An operating segment's revenue, expenses, operating results, assets and liabilities include those directly attributable to a segment and those allocated to the segment on a reasonable basis. Revenue, expenses, assets and liabilities of operating segment are determined at the amounts before the elimination of inter-group transactions and inter-group current account balances. Transfer price between operating segments is calculated on terms similar to those in arm's length transactions.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(continued)*

#### 28. Changes in significant accounting policies and accounting estimates

There are no changes in significant accounting policies and accounting estimates of the Company in the current year.

#### 29. Correction of prior period's accounting errors.

There is no corrections of significant accounting errors in the current year.

### 3. TAXATION

#### 1. The types and rates of taxes applicable to the Group

Type of taxes	Tax basis	Tax rate
Value-added tax	Sales of goods	17%
Business tax	Taxable business turnover	5%
City maintenance and construction tax	Taxable turnover tax	1%-7%
Education surcharge	Taxable turnover tax	3%
Corporate income tax	Taxable income	25%

#### 2. Tax preferences and approvals

According to the Notice of the first Tentative List of recognised High/New Technology Enterprises in Guangdong Province in 2011 (Yuekehangaozi [2011] No. 1219), one subsidiary of the Company, Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. (a subsidiary of the Company, and with an income tax rate of 15% in 2010) was certified as a High/New Technology Enterprise, with an effective period of three years (2011, 2012 and 2013). Pursuant to the tax preference regulation on High/New Technology Enterprises, the effective enterprise is entitled to the preferential enterprise income tax rate of 15% in 2011, 2012 and 2013.

According to the Notice of the first Tentative List of recognised High/New Technology Enterprises in Guangdong Province in 2011 (Yuekehangaozi [2011] No. 1437), one subsidiary of the Company, Guangdong Kelon Mould Co., Ltd. (with an income tax rate of 15% in 2010) was certified as a High/New Technology Enterprise, with an effective period of three years (2011, 2012 and 2013). Pursuant to the tax preference regulation on High/New Technology Enterprises, the effective enterprise is entitled to the preferential enterprise income tax rate of 15% in 2011, 2012 and 2013.

A subsidiary of the Company, Hisense Ronshen (Guangdong) Freezer Co., Ltd. (a subsidiary of the Company) received Certificate of High/New Technology Enterprise (Number: GR200944000796) dated 14 December 2009 jointly issued by the Guangdong Science and Technology Department, Guangdong Provincial Finance Department, Guangdong Provincial State Tax Bureau and Guangdong Provincial Local Taxation Bureau, with an effective period of three years (2009, 2010 and 2011). According to the relevant tax preference regulation on High/New Technology Enterprises, the applicable enterprise income tax rate for the subsidiary in 2009, 2010 and 2011 is 15%.

A subsidiary of the Company, Guangdong Kelon Fittings Co., Ltd. (a subsidiary of the Company) received the Certificate of High/New Technology Enterprise (Number: GR201044000174) dated 26 September 2010 jointly issued by the Guangdong Science and Technology Department, Guangdong Provincial Finance Department, Guangdong Provincial State Tax Bureau and Guangdong Provincial Local Taxation Bureau, with an effective period of three years (2010, 2011 and 2012). According to the relevant tax preference regulation on High/New Technology Enterprises, the applicable enterprise income tax rate for the subsidiary in 2010, 2011 and 2012 is 15%.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 3. TAXATION *(continued)*

#### 2. Tax preferences and approvals *(continued)*

A subsidiary of the Company, Hisense (Chengdu) Refrigerator Co., Ltd. (a subsidiary of the Company) received Certificate of High/New Technology Enterprise (Number: GR200951000315) dated 28 December 2009 jointly issued by the Sichuan Science and Technology Department, Sichuan Provincial State Tax Bureau, Sichuan Provincial Office of State Administration of Taxation and Sichuan Provincial Local Taxation Bureau, with an effective period of three years (2009, 2010 and 2011). According to the relevant tax preference regulation on High/New Technology Enterprises, the applicable enterprise income tax rate for the subsidiary in 2009, 2010 and 2011 is 15%.

A subsidiary of the Company Hisense (Beijing) Electric Co., Ltd. (with an income tax rate of 15% in 2010) received Certificate of High/New Technology Enterprise (Number: GR201111002104) dated 28 October 2011 jointly issued by the Beijing Science and Technology Department, Beijing Finance Department, Beijing State Taxation Bureau and Beijing Local Taxation Bureau, with an effective period of three years (2011, 2012 and 2013). According to the relevant tax preference regulation on High/New Technology Enterprises, the applicable enterprise income tax rate for the subsidiary in 2011, 2012 and 2013 is 15%.

A subsidiary of the Company, Hisense (Nanjing) Electric Co., Ltd. (a subsidiary of the Company) received the Certificate of High/New Technology Enterprise (Number: GR201032000380) dated 13 December 2010 jointly issued by the Jiangsu Science and Technology Department, Jiangsu Provincial Finance Department, Jiangsu Provincial State Taxation Bureau and Jiangsu Provincial Local Taxation Bureau, with an effective period of three years (2010, 2011 and 2012). According to the relevant tax preference regulation on High/New Technology Enterprises, income applicable enterprise tax rate for the company in 2010, 2011 and 2012 is 15%.

A subsidiary of the Company, Hisense (Shandong) Air-conditioning Co., Ltd. (with an income tax rate of 15% in 2010) received the Certificate of High/New Technology Enterprise (Number: GR201137100040) dated 6 September 2011 jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, Shandong Provincial State Taxation Bureau and Qingdao Local Taxation Bureau, with an effective period of three years (2011, 2012 and 2013). According to the relevant tax preference regulation on High/New Technology Enterprises, the applicable enterprise income tax rate for the subsidiary in 2011, 2012 and 2013 is 15%.

A subsidiary of the Company, Qingdao Hisense Mould Co., Ltd. (with an income tax rate of 15% in 2010) received the Certificate of High/New Technology Enterprise (Number: GR201137100073) dated 6 September 2011 jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, Shandong Provincial State Taxation Bureau and Qingdao Local Taxation Bureau, with an effective period of three years (2011, 2012 and 2013). According to the relevant tax preference regulation on High/New Technology Enterprises, the applicable enterprise income tax rate for the subsidiary in 2011, 2012 and 2013 is 15%.

Subsidiaries of the Company namely Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd. and Xi'an Kelon Cooling Co., Ltd. (with an income tax rate of 12.5% in 2010) are entitled to the preferential tax policy of “two-year holiday and three-year 50% reduction” at an applicable tax rate of 12.5%.

The subsidiaries of the Company in Hong Kong (with a income tax rate of 16.5% in 2010) are taxed on the earned or estimated profits from Hongkong at a rate of 16.5%



## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 3. TAXATION (continued)

#### 3. Other illustrations

- (1) Other taxes, including real estate tax, land use tax, local education surcharge, vehicle and vessel tax, stamp duty, withholding individual income tax etc., are calculated and payable in accordance with the relevant regulations of the State tax laws.
- (2) Jiangxi Kelon Combine Electrical Appliances Co., Ltd. (a subsidiary of the Company) is a legal representative in Japan and is involved in all major categories of taxations (including legal representative tax, resident legal representative tax and legal representative enterprise tax), consumption tax and fixed asset tax. The bases and rate of each type of taxes are as follows:

Type of taxes	Tax Basis	Tax rate
Corporation tax	Based on the audited profits for the period	In accordance with the applicable local tax rate
Corporate inhabitant tax (local tax)	A fixed tax rate on the legal representative himself and proportional tax rate on the it's earned income	In accordance with the applicable local tax rate
Corporate business tax (local tax)	The total amount of income, value surcharge and capital for the period	In accordance with the applicable local tax rate
Consumption tax	The difference between the total sales amount and the total purchase amount of the tax payer	In accordance with the applicable local tax rate
Fixed asset tax	Net Value of lands, buildings and depreciable assets	In accordance with the applicable local tax rate

- (3) A subsidiary of the Company, Kelon (USA) Inc is a legal representative in the United States and is subject to income tax, sales tax, property tax and other types of taxes. The bases and tax rate of each type of taxes are as follows:

1 *Income tax (including federal income tax and state income tax)*

Of which, the bases and tax rate of federal income tax are as follows:

Level	Annual taxable income	Tax rate (%)
1	Portion not over US\$50,000	15
2	Portion over US\$50,000 to US\$75,000	25
3	Portion over US\$75,000 to US\$100,000	34
4	Portion over US\$100,000 to US\$335,000	39
5	Portion over US\$335,000 to US\$10,000,000	34
6	Portion over US\$10,000,000 to US\$15,000,000	35
7	Portion over US\$15,000,000 to US\$18,333,333	38
8	Portion over US\$18,333,333	35

State income tax rate: at 6% in the State of Georgia.

- 2 Sales tax: levied by the State of Georgia. As Kelon USA is not engaged in retailing, it is only required to submit its sale information and is not subject to sales tax.
- 3 Property tax: covers fixed assets and inventories. Property tax is based on the amount of estimated value, while the county tax rates are determined by many factors and are adjusted yearly.

# Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

## 4. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

All amounts are in Renminbi yuan (RMB'0000), unless otherwise stated.

### (1) Major subsidiaries

#### 1. Subsidiaries acquired from establishment or investment

Name of subsidiary	Type of subsidiary	Place of registration	Nature of Business and principal activities	Registered capital	Entity type	Scope of business	Actual investment at the end of the Period	Shareholding (%)		% of voting rights held	Consolidated or not	Minority interest
								Direct	Indirectly			
Hisense Ronshen ("Guangdong Refrigerator Co., Ltd. ("Ronshen Refrigerator")	Wholly-owned subsidiary	Foshan	Industrial	US\$26,800,000	Limited liability company	Manufacture and sale of refrigerators	20,600.20	70%	30%	100.00%	Yes	
Guangdong Kelon Air-conditioner Co., Ltd. ("Kelon Air-conditioner") <sup>1</sup>	Subsidiary	Foshan	Industrial	US\$36,150,000	Limited liability company	Manufacture and sale of air-conditioners	28,100.00	60%		100.00%	Yes	
Hisense Ronshen ("Guangdong Freezer Co., Ltd. ("Ronshen Freezer")	Wholly-owned subsidiary	Foshan	Industrial	23,700.00	Limited liability company	Manufacture and sale of freezers	3,584.85	44%	56%	100.00%	Yes	
Shunde Kelon Household Electrical Appliance Co., Ltd. ("Kelon HEA")	Wholly-owned subsidiary	Foshan	Industrial	1,000.00	Limited liability company	Manufacture and sale of household appliances	250.00	25%	75%	100.00%	Yes	
Guangdong Kelon Fittings Co., Ltd. ("Kelon Fittings")	Wholly-owned subsidiary	Foshan	Industrial	US\$5,620,000	Limited liability company	Manufacture and sale of spare parts for refrigerators and air-conditioners	4,321.16	70%	30%	100.00%	Yes	
Foshan Shunde Rongsheng Plastic Co., Ltd. ("Rongsheng Plastic")	Subsidiary	Foshan	Industrial	US\$15,827,400	Limited liability company	Manufacture of plastic parts	8,263.55	44.92%	25.13%	70.05%	Yes	8,074.45
Guangdong Kelon Mould Co., Ltd. ("Kelon Mould")	Subsidiary	Foshan	Industrial	US\$15,056,100	Limited liability company	Manufacture of mould	7,856.02	40.22%	29.89%	70.11%	Yes	4,272.86
Guangdong Huaao Electronics Co., Ltd. ("Huaao Electronics") <sup>1</sup>	Subsidiary	Foshan	Industrial	1,000.00	Limited liability company	Research and development, production and sale of electronic products	700.00		70%	100.00%	Yes	
Guangdong Foshan Shunde Kelon Property Service Co., Ltd. ("Kelon Property")	Wholly-owned subsidiary	Foshan	Service	500.00	Limited liability company	Corporate consultancy management, catering, household decoration design	492.78		100.00%	100.00%	Yes	
Foshan Shunde Wangao Import & Export Co., Ltd. ("Wangao I&E")	Wholly-owned subsidiary	Foshan	Commercial	300.00	Limited liability company	Import and export	300.00	20%	80%	100%	Yes	
Foshan Shunde Kelon Jiake Electronics Co., Ltd. ("Kelon Jiake")	Wholly-owned subsidiary	Foshan	Industrial	6,000.00	Limited liability company	IT and communication technology, and micro-electronics technology development	6,000.00	70%	30%	100%	Yes	
Guangdong Kelon Weili Electrical Appliances Co., Ltd. ("Kelon Weili")	Subsidiary	Zhongshan	Industrial	20,000.00	Limited liability company	Production of intelligent washing machines, intelligent air-conditioners and after-sale maintenance services and technology consultation for other products, 70% products for domestic sale		55%	25%	80%	Yes	(391.77)
Hisense Ronshen ("Yingkou Refrigerator Co., Ltd. ("Yingkou Kelon")	Subsidiary	Yingkou	Industrial	20,000.00	Limited liability company	Manufacture and sale of refrigerators	14,316.15	42%	36.79%	78.79%	Yes	1,777.12
Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon")	Wholly-owned subsidiary	Nanchang	Industrial	US\$29,800,000	Limited liability company	Manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small household appliances	24,195.12	60%	40%	100%	Yes	
Jiangxi Kelon Combine Electrical Appliances Co., Ltd. ("Jiangxi Combine") <sup>1</sup>	Subsidiary	Nanchang	Industrial	2,000.00	Limited liability company	Research and development, production and sale of household and commercial air-conditioners, refrigerators, freezers and small household appliances	1,100.00		55%	55%	No	
Hangzhou Kelon Electrical Co., Ltd. ("Hangzhou Kelon")	Wholly-owned subsidiary	Hangzhou	Industrial	2,400.00	Limited liability company	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%		100%	Yes	
Hisense Ronshen ("Yangzhou Refrigerator Co., Ltd. ("Yangzhou Kelon")	Wholly-owned subsidiary	Yangzhou	Industrial	US\$44,447,900	Limited liability company	Production and sale of energy saving, environmental friendly refrigerators and other energy saving cooling electrical appliances	32,448.33	74.33%	25.67%	100%	Yes	
Shangqiu Kelon Electrical Co., Ltd. ("Shangqiu Kelon")	Wholly-owned subsidiary	Shangqiu	Industrial	15,000.00	Limited liability company	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%	100%	Yes	

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 4. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### (1) Major subsidiaries (continued)

##### 1. Subsidiaries acquired from establishment or investment (continued)

Name of subsidiary	Type of subsidiary	Place of registration	Nature of Business and principal activities	Registered capital	Entity type	Scope of business	Actual investment at the end of the Period	Shareholding (%)		% of voting rights held	Consolidated or not	Minority interest
								Direct	Indirectly			
Zhuhai Kelon Electrical Industrial Development Co., Ltd. ("Zhuhai Kelon")	Wholly-owned subsidiary	Zhuhai	Industrial	US\$29,980,000	Limited liability company	Research and development and manufacture of refrigerators, air-conditioners, freezers, small household appliances and related accessories	23,710.71	75%	25%	100%	Yes	
Xi'an Kelon Cooling Co., Ltd. ("Xi'an Kelon")	Subsidiary	Xi'an	Industrial	20,200.00	Limited liability company	Development, manufacture, design and production of chlorofluorocarbon-free refrigerator (freezer) cooling compressor products; sales of products and conducting after-sale maintenance services	10,772.96	60%		60%	Yes	
Shenzhen Kelon Purchase Co., Ltd. ("Shenzhen Kelon")	Wholly-owned subsidiary	Shenzhen	Commercial	10,000.00	Limited liability company	Domestic business, material supply and marketing (excluding franchise, control and monopoly of goods); import and export; provision of warehousing, information consultation	10,000.00	95%	5%	100%	Yes	
Pearl River Electric Refrigerator Co., Ltd. ("Pearl River")	Wholly-owned subsidiary	Hong Kong	Commercial	HK\$400,000	Limited liability company	Sale of raw materials and accessories	32.43		100%	100%	Yes	
Kelon Development Co., Ltd. ("Kelon Development")	Wholly-owned subsidiary	Hong Kong	Investment	HK\$5,000,000	Limited liability company	Investment holding	1,120.00	100%		100%	Yes	
Kelon (Japan) Limited ("Kelon Japan")	Wholly-owned subsidiary	Japan	Commercial	JPY1,100,000,000	Limited liability company	Technical research and trading in electrical household appliances	2,471.66		100%	100%	Yes	
Kelon (USA) Inc. ("Kelon USA")	Wholly-owned subsidiary	USA	Service	US\$100	Limited liability company	Business liaison	189.28		100%	100%	Yes	
Kelon International Incorporation ("KII")	Wholly-owned subsidiary	British Virgin Islands	Commercial	US\$50,000	Limited liability company	Investment holding and sale of household appliances	0.0006		100%	100%	Yes	
Hisense (Chengdu) Refrigerator Co., Ltd. ("Hisense Chengdu")	Wholly-owned subsidiary	Chengdu	Industrial	5,000.00	Limited liability company	Manufacture of household appliances and refrigeration equipment, sale of the Company's products, and provision of related after-sale services	5,000.00	100%		100%	Yes	

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 4. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### (1) Major subsidiaries (continued)

##### 2. Subsidiaries acquired from business combination involving entities under common control

Name of subsidiary	Type of subsidiary	Registered place	Nature of Business and principal activities	Registered capital	Entity type	Scope of business	Actual investment at the end of the Period		% of voting rights held	Consolidated or not	Minority interest
							Direct	Indirectly			
Hisense (Beijing) Electric Co., Ltd. ("Hisense Beijing")	Subsidiary	Beijing	Industrial	8,571.00	Limited liability company	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%	55%	Yes	7,864.65
Hisense (Shandong) Air-conditioning Co., Ltd. ("Hisense Shandong")	Wholly-owned subsidiary	Qingdao	Industrial	50,000.00	Limited liability company	Research and development, manufacture and sale of air-conditioning products and injection moulds, and provision of after-sale maintenance services	56,717.55	100%	100%	Yes	
Hisense (Zhejiang) Air-conditioning Co., Ltd. ("Hisense Zhejiang")	Subsidiary	Huzhou	Industrial	11,000.00	Limited liability company	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%	51%	Yes	3,251.02
Qingdao Hisense Mould Co., Ltd. ("Hisense Mould")	Subsidiary	Qingdao	Industrial	2,764.20	Limited liability company	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	4,281.30
Hisense (Nanjing) Electric Co., Ltd. ("Hisense Nanjing")	Subsidiary	Nanjing	Industrial	12,869.15	Limited liability company	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%	60%	Yes	6,439.49

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

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

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 4. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### (1) Major subsidiaries (continued)

##### 3. Changes in scope of business combination

Subsidiaries that have ceased to be consolidated for the period

Name	Net assets as at the date of disposal	Net profits from the beginning of the year to the date of disposal	Remark
Chengdu Kelon Refrigerator Co., Ltd. (“Chengdu Kelon”)*	197,319,054.54	(92,517.56)	Disposal
Sichuan Rongshen Kelon Refrigerator Sales Co., Ltd. (“Sichuan Rongshen”)	1,099,149.00		Cancelled

\* In July 2011, the Company and its subsidiary Pearl River transferred 100% of the equity interests in Chengdu Kelon to third parties.

#### 4. Exchange rate for major items in the financial statements of overseas operating entities

Major items in the financial statements	Currency	Balances in foreign exchange	Exchange rate	Balances in RMB
Cash at bank and on hand	USD	234,842.32	6.3009	1,479,717.97
	HKD	50,920,719.46	0.8107	41,281,427.27
Net trade receivables	USD	1,152,316.83	6.3009	7,260,633.11
	HKD	324,338,830.79	0.8107	262,941,490.12
Trade payables	USD	12,237,740.14	6.3009	77,108,776.85
	HKD	298,413,790.20	0.8107	241,924,059.72
Other payables	HKD	658,805,671.34	0.8107	534,093,757.76
Total operating revenue	USD	34,061.10	6.4618	220,096.02
	HKD	3,200,636,956.10	0.8308	2,659,089,183.13
General and Administrative expenses	HKD	3,016,663.74	0.8308	2,506,244.24

Note to the exchange rate:

Within the scope of consolidation, overseas operating entities that are accounted 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 using spot exchange rate for assets and liabilities on the balance sheet date, whereas items under equity (except unallocated profits) were translated using historic exchange rate, and items under profit and loss were translated using average exchange rate. The difference between assets and liabilities and net assets was reflected in “Difference on translation of foreign currency financial statement” and was stated separately under “equity” in the balance sheet.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Opening balances refer to balances as at 1 January 2011, whereas ending balances refer to balances as at 31 December 2011, and the current period refers to 2011, whereas the previous period refers to 2010)

#### 1. Cash at bank and on hand

Item	Ending balance			Opening balance		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
Cash:						
RMB	166,089.31	1.0000	166,089.31	171,914.42	1.0000	171,914.42
USD	0.75	6.3009	4.73	0.75	6.6227	4.97
JPY	779.65	0.0811	63.23	816.36	0.0813	66.37
Others			0.06			0.06
Subtotal:			<b>166,157.33</b>			<b>171,985.82</b>
Bank deposits:						
RMB	260,094,504.27	1.0000	260,094,504.27	336,633,953.39	1.0000	336,633,953.39
HKD	2,905,900.88	0.8107	2,355,813.84	3,272,181.30	0.85093	2,784,397.22
USD	18,696,226.35	6.3009	117,803,052.63	9,699,617.55	6.6227	64,237,657.07
JPY	96,487.92	0.0811	7,825.17	96,442.80	0.0813	7,840.80
EUR	1,453,843.52	8.1625	11,866,997.70	1,766,697.19	8.8065	15,558,418.82
Others			4,520,569.04			527,260.81
Subtotal of bank deposits:			<b>396,648,762.65</b>			<b>419,749,528.11</b>
Other cash at bank and on hand:						
RMB	371,433.45	1.0000	371,433.45	6,657,267.46	1.0000	6,657,267.46
USD	45,332.13	6.3009	285,633.22	393,147.27	6.6227	2,603,696.42
EUR	129,947.40	8.1625	1,060,695.65			
Subtotal of other cash at bank and on hand:			<b>1,717,762.32</b>			<b>9,260,963.88</b>
<b>Total</b>			<b>398,532,682.30</b>			<b>429,182,477.81</b>

Particulars of cash at bank and on hand:

Other cash at bank and on hand mainly represented guarantee deposits for letter of credit.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 1. Cash at bank and on hand (continued)

Details of restricted cash are listed as follows:

Item	Ending balance	Opening balance
Guarantee deposits for letter of credit	1,717,762.32	9,260,963.88
<b>Total</b>	<b>1,717,762.32</b>	<b>9,260,963.88</b>

#### 2. Financial assets held for trading

##### (1) Financial assets held for trading

Item	Ending balance	Opening balance
Derivative financial assets	33,787,696.24	28,150,388.56
<b>Total</b>	<b>33,787,696.24</b>	<b>28,150,388.56</b>

##### (2) Particulars of financial assets held for trading

- 1 There was no material restriction for realizing the financial assets held for trading as at the end of the period.
- 2 It mainly represented the undue foreign exchange forward contracts entered into by the Company's held for trading and banks, which was recognized as the financial assets or liabilities based on the difference between the quotation of the undue foreign exchange contracts and the future foreign exchange rate as at 31 December 2011.

#### 3. Notes receivable

##### (1) Classification of notes receivable

Category	Ending balance	Opening balance
Bank acceptance notes	468,377,887.77	340,693,497.45
Trade acceptance notes	34,541,419.62	45,289,000.88
<b>Total</b>	<b>502,919,307.39</b>	<b>385,982,498.33</b>

- (2) As at the end of the period, there was no pledged 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 were no notes receivable that are reclassified to trade receivable due to inability of the companies of issuance.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 3. Notes receivable (continued)

- (5) As at the end of the period, notes endorsed to other parties but not mature amounted to RMB2,887,110,721.24 (31 December 2010: RMB4,157,176,754.60), with the particulars of the top five amounts as follows:

Company of issuance	Date of issuance	Due date	Amount
Nanjing procurement center of Suning Appliance Co., Ltd.	28 October 2011	28 April 2012	10,000,000.00
Nanjing procurement center of Suning Appliance Co., Ltd.	29 September 2011	28 March 2012	10,000,000.00
Nanjing procurement center of Suning Appliance Co., Ltd.	29 September 2011	28 March 2012	10,000,000.00
Nanjing procurement center of Suning Appliance Co., Ltd.	29 September 2011	28 March 2012	10,000,000.00
Nanjing procurement center of Suning Appliance Co., Ltd.	29 September 2011	28 March 2012	10,000,000.00

- (6) Please see note 6 for details of notes receivables from related parties as at the end of the period.

#### 4. Trade receivables

- (1) Trade receivables by category:

Category	Ending balance			
	Carrying amount		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance
Individually significant and subject to separate provision				
Ageing analysis	1,343,347,381.18	97.20	165,542,927.85	12.32
Greencool Companies	38,689,983.28	2.80	22,726,941.64	58.74
Subtotal of the category	<b>1,382,037,364.46</b>	<b>100.00</b>	<b>188,269,869.49</b>	<b>13.62</b>
Individually insignificant but subject to separate provision				
<b>Total</b>	<b>1,382,037,364.46</b>	<b>100.00</b>	<b>188,269,869.49</b>	<b>13.62</b>



## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### (4) Trade receivables (continued)

##### (1) Trade receivables by category: (continued)

Continued from above table

Category	Opening balance			
	Carrying amount		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance
Individually significant and subject to separate provision				
Aging analysis	1,497,560,729.25	97.49	159,239,566.51	10.63
Greencool Companies	38,689,983.28	2.51	22,726,941.64	58.74
Subtotal of the category	<b>1,536,250,712.53</b>	<b>100.00</b>	<b>181,966,508.15</b>	<b>11.84</b>
Individually insignificant but subject to separate provision				
<b>Total</b>	<b>1,536,250,712.53</b>	<b>100.00</b>	<b>181,966,508.15</b>	<b>11.84</b>

Trade receivables in the category provided bad debts by using ageing method:

Age	Ending balance			Opening balance		
	Carrying amount		Provision for bad debts	Carrying amount		Provision for bad debts
	Amount	% of total balance		Amount	% of total balance	
Within three months	1,174,482,507.39	84.98		1,336,582,155.73	87.00	
Over three months but within six months	3,594,295.40	0.26	359,429.54	1,843,470.19	0.12	184,347.02
Over six months but within one year	174,160.16	0.01	87,080.08	159,767.69	0.01	79,883.85
Over one year	165,096,418.23	11.95	165,096,418.23	158,975,335.64	10.36	158,975,335.64
<b>Total</b>	<b>1,343,347,381.18</b>	<b>97.20</b>	<b>165,542,927.85</b>	<b>1,497,560,729.25</b>	<b>97.49</b>	<b>159,239,566.51</b>

Trade receivables in the category provided bad debts as for Greencool Companies:

Company name	Ending balance		Opening balance	
	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 Electrical Appliance Co., Ltd. ("Wuhan Changrong")	20,460,394.04	14,921,847.02	20,460,394.04	14,921,847.02
<b>Total</b>	<b>38,689,983.28</b>	<b>22,726,941.64</b>	<b>38,689,983.28</b>	<b>22,726,941.64</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### 4. Trade receivables *(continued)*

##### (2) *Movements in provision for trade receivables*

Year	Opening balance	Provision for the year	Decrease for the year		Ending balance
			Reversal	Write-off	
2011	181,966,508.15	11,012,717.94	387,318.53	4,322,038.07	188,269,869.49

##### (3) *Trade receivables that are written off*

Company	Nature of trade receivable	Amount written off	Reason for write off	Arising from related party transactions or not
Unrelated parties	Loans	4,322,038.07	Not recoverable due to long outstanding	No
<b>Total</b>		<b>4,322,038.07</b>	—	—

(4) As at 31 December 2011, there was no trade receivable from shareholder that holds 5% or more (including 5%) shares of the voting rights of the Company. As at 31 December 2010, there was no trade receivables from shareholder that holds 5% or more (including 5%) shares of the voting rights of the Company.

##### (5) *Top five of trade receivables*

2011

No.	Relationship with the Company	Amount	Ageing	Percentage of the total trade receivables amount (%)
Top 1	Related party	251,595,071.56	Within three months	18.20
Top 2	Unrelated party	178,737,705.00	Within three months	12.93
Top 3	Unrelated party	162,914,960.00	Within three months	11.79
Top 4	Unrelated party	58,579,061.81	Within three months	4.24
Top 5	Unrelated party	26,022,947.44	Within three months	1.88
<b>Total</b>		<b>677,849,745.81</b>	—	<b>49.04</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### 4. Trade receivables *(continued)*

##### (5) *Five largest trade receivables (continued)*

2010

No.	Relationship with the Company	Amount	Ageing	Percentage of the total trade receivables amount (%)
Top 1	Unrelated party	305,705,837.74	Within three months	19.90
Top 2	Related party	105,287,254.01	Within three months	6.85
Top 3	Unrelated party	44,399,706.36	Within three months	2.89
Top 4	Unrelated party	44,396,691.12	Within three months	2.89
Top 5	Unrelated party	28,824,917.60	Within three months	1.88
<b>Total</b>		<b>528,614,406.83</b>	<b>—</b>	<b>34.41</b>

(6) Please see note 6 for details of trade receivables from related parties at the end of the period.

(7) As at the end of the period, amount of trade receivable used for factoring and securing borrowings was RMB128,790,564.42 (not provided for bad debts) to secure borrowings of RMB128,790,564.42.

#### 5. Prepayments

##### (1) *The ageing of prepayments is analyzed as follows*

Age	Ending balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within one year	314,927,960.62	99.83	357,586,147.28	99.80
One to two years	39,080.91	0.01	53,605.57	0.01
Two to three years	41,991.61	0.01	205,527.47	0.06
Over three years	465,213.00	0.15	453,635.40	0.13
<b>Total</b>	<b>315,474,246.14</b>	<b>100.00</b>	<b>358,298,915.72</b>	<b>100.00</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 5. Prepayments (continued)

##### (2) Top five prepayment

2011

No.	Relationship with the Company	Amount	Ageing	Reason of unsettlement
Top 1	Unrelated party	127,530,771.74	Within one year	Normal settlement
Top 2	Unrelated party	43,421,698.60	Within one year	Normal settlement
Top 3	Unrelated party	43,080,130.39	Within one year	Normal settlement
Top 4	Unrelated party	24,021,300.04	Within one year	Normal settlement
Top 5	Unrelated party	10,748,569.33	Within one year	Normal settlement
<b>Total</b>		<b>248,802,470.10</b>	—	

2010

No.	Relationship with the Company	Amount	Ageing	Reason of unsettlement
Top 1	Unrelated party	136,116,066.78	Within one year	Normal settlement
Top 2	Unrelated party	46,572,964.51	Within one year	Normal settlement
Top 3	Unrelated party	36,052,060.23	Within one year	Normal settlement
Top 4	Unrelated party	16,666,376.20	Within one year	Normal settlement
Top 5	Unrelated party	5,971,482.60	Within one year	Normal settlement
<b>Total</b>		<b>241,378,950.32</b>	—	

- (3) As at 31 December 2011, there was no prepayments due from shareholder that holds 5% or more (including 5%) shares of the voting rights of the Company. As at 31 December 2010, there was no prepayments due from shareholder that holds 5% or more (including 5%) shares of the voting rights of the Company.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### 6. Other receivables

##### *(1) Other receivables by categories:*

Category	Ending balance			
	Carrying amount		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance
Individually significant and subject to separate provision				
Ageing analysis	199,609,592.89	24.61	28,758,785.61	14.41
Greencool Companies	611,538,997.88	75.39	342,516,669.69	56.01
Subtotal of the category	<b>811,148,590.77</b>	<b>100.00</b>	<b>371,275,455.30</b>	<b>45.77</b>
Individually insignificant but subject to separate provision				
<b>Total</b>	<b>811,148,590.77</b>	<b>100.00</b>	<b>371,275,455.30</b>	<b>45.77</b>

Continued from above table

Category	Opening balance			
	Carrying amount		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance
Individually significant and subject to separate provision				
Ageing analysis	143,756,171.18	19.03	29,614,941.44	20.6
Greencool Companies	611,538,997.88	80.97	342,516,669.69	56.01
Subtotal of the category	<b>755,295,169.06</b>	<b>100.00</b>	<b>372,131,611.13</b>	<b>49.27</b>
Individually insignificant but subject to separate provision				
<b>Total</b>	<b>755,295,169.06</b>	<b>100.00</b>	<b>372,131,611.13</b>	<b>49.27</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 6. Other receivables (continued)

##### (1) Other receivables by category: (continued)

Other receivables in the category provided bad debts by using ageing analysis:

Age	Ending balance			Opening balance		
	Carrying amount		Provision for bad debts	Carrying amount		Provision for bad debts
	Amount	% of total balance		Amount	% of total balance	
Within three months	159,597,609.34	19.68		111,047,007.62	14.70	
Over three months but within six months	11,668,759.58	1.44	1,166,875.96	2,503,030.00	0.33	250,303.00
Over six months but within one year	1,502,628.64	0.18	751,314.32	1,682,990.25	0.22	841,495.12
Over one year	26,840,595.33	3.31	26,840,595.33	28,523,143.32	3.78	28,523,143.32
<b>Total</b>	<b>199,609,592.89</b>	<b>24.61</b>	<b>28,758,785.61</b>	<b>143,756,171.18</b>	<b>19.03</b>	<b>29,614,941.44</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 6. Other receivables (continued)

##### (1) Other receivables by category: (continued)

Other receivables in the category provided bad debts as for Greencool Companies:

Company name	Ending balance		Opening balance	
	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
<b>Total</b>	<b>611,538,997.88</b>	<b>342,516,669.69</b>	<b>611,538,997.88</b>	<b>342,516,669.69</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 6. Other receivables (continued)

##### (2) Movements in provision for other receivables

Year	Opening balance	Provision for the year	Decrease for the year		Ending balance
			Reversal	Write-off	
2011	372,131,611.13	124,517.29	980,673.12		371,275,455.30

(3) As at 31 December 2011, there was no other receivables from shareholder that holds 5% or more (including 5%) shares of the voting rights of the Company. As at 31 December 2010, there was no other receivable from shareholder that holds 5% or more (including 5%) shares of the voting rights of the Company.

##### (4) Top five of the other receivables (no changes from the end of 2010)

No.	Relationship with the Company	Amount	Ageing	Percentage of the total amount (%)
Top 1	“Specific third parties”	121,496,535.45	Over three years	14.98
Top 2	“Specific third parties”	96,905,328.00	Over three years	11.95
Top 3	“Specific third parties”	89,600,300.00	Over three years	11.05
Top 4	“Specific third parties”	58,030,000.00	Over three years	7.15
Top 5	“Specific third parties”	40,000,000.00	Over three years	4.93
<b>Total</b>		<b>406,032,163.45</b>	<b>—</b>	<b>50.06</b>

The term “specific third parties” is the abbreviation of the Greencool Companies controlled by the former beneficiary controller, Guangdong Greencool, through the above companies, with whom the Company had a series of unusual cash flow.

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

#### 7. Inventories

##### (1) Classification of inventories

Item	Ending balance			Opening balance		
	Carrying amount	Provision for declines in value of inventories	Carrying value	Carrying amount	Provision for declines in value of inventories	Carrying amount
Raw materials	267,061,592.26	34,094,906.33	232,966,685.93	424,840,195.21	37,166,911.65	387,673,283.56
Work in progress	107,356,608.71	8,643,831.77	98,712,776.94	104,147,093.65	8,643,831.77	95,503,261.88
Commodity stocks	1,254,821,071.36	39,222,669.16	1,215,598,402.20	1,444,988,754.29	25,063,701.08	1,419,925,053.21
<b>Total</b>	<b>1,629,239,272.33</b>	<b>81,961,407.26</b>	<b>1,547,277,865.07</b>	<b>1,973,976,043.15</b>	<b>70,874,444.50</b>	<b>1,903,101,598.65</b>



## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 7. Inventory (continued)

##### (2) Provision for declines in value of inventories

Inventory Category	Opening balance	Current year addition	Decrease for the period		Ending balance
			Reversal	Write-off	
Raw materials	37,166,911.65	480,227.53		3,552,232.85	34,094,906.33
Work in progress	8,643,831.77				8,643,831.77
Commodity stocks	25,063,701.08	14,627,181.00		468,212.92	39,222,669.16
<b>Total</b>	<b>70,874,444.50</b>	<b>15,107,408.53</b>		<b>4,020,445.77</b>	<b>81,961,407.26</b>

#### 8. Other current assets

Item	Ending balance	Opening balance
Rent		319,803.08
Advertising fees		5,038,376.00
Others	3,568,803.11	1,195,863.75
<b>Total</b>	<b>3,568,803.11</b>	<b>6,554,042.83</b>

Particulars of other current assets: other current assets mainly represented prepaid repair and maintenance costs.

#### 9. Investments in jointly controlled entities and associates

##### (1) Investments in jointly controlled entities

Unit: RMB'0000

Entity	Entity type	Registered place	Legal representative	Business nature	Registered capital	% of shareholding	% of voting rights	Total assets at end of the period	Total liabilities at end of the period	Total net assets at end of the period	Total operating revenue for the current year	Net profit for the current year
Hisense Whirlpool (Zhejiang) Electric Appliances Co., Ltd. ("Hisense Whirlpool")	Limited company	Zhejiang	BORRA BARBARA	Industrial	45,000.00	50.00	50.00	82,026.00	40,333.27	41,692.74	131,711.83	(930.11)
Hisense Hitachi	Limited company	Shandong	Qing Shan Gong	Industrial	USD46.00 million	49.00	49.00	113,706.78	50,672.67	63,034.10	205,944.95	20,804.13

##### (2) Investments in associates

Unit: RMB'0000

Entity	Entity type	Registered place	Legal representative	Business nature	Registered capital	% of shareholding	% of voting rights	Total assets at end of the period	Total liabilities at end of the period	Total net assets at end of the period	Total operating revenue for current year	Net profit for current year
Huayi Compressor Holdings Co., Ltd. ("Huayi Compressor") <sup>3</sup>	Joint stock company	Jiangxi	Liu Ti Pin	Industrial	32,458.12	6.45	6.45	421,661.02	327,388.60	94,272.42	536,795.27	7,200.34
Attend Logistics Co., Ltd. ("Attend")	Limited company	Guangzhou	Ye Wei Long	Logistics	1,000.00	20.00	20.00	2,652.35	937.93	1,714.43	1,136.69	(149.47)

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### 9. Investments in joint controlled entities and associates *(continued)*

Particulars of investments in jointly controlled entities and associates:

1. There was no significant difference between the significant accounting policies and accounting estimates of the jointly controlled entities and associates and the significant accounting policies and accounting estimations of the Company.
2. Evidence for joint control in jointly controlled entities as required in the articles of associations of the joint venture that the production and operation of the enterprise shall be under joint management by the parties.
3. The Company has assigned representatives in the board of directors of Huayi Compressor to participate in its decision making processes and has major transactions with Huayi Compressor. Accordingly, the Board of the Company is of the opinion that the Company has significant influence over Huayi Compressor and continued to recognize Huayi Compressor as an associate.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 10. Long-term equity investment

Entity	Accounting treatment	Investment cost	Opening balance	Increase for the period	Decrease for the period	Ending balance	% Equity interest held	% Voting rights held	Provision for impairment	Impairment provided in the current year	Cash dividend in current year
1. Investment in jointly controlled entities											
Hisense Whirlpool <sup>*1</sup>	Equity method	225,000,000.00	210,215,263.49		3,827,145.17	206,388,118.32	50.00	50.00			
Hisense Hitachi <sup>*2</sup>	Equity method	332,821,597.45	298,212,815.13	96,489,725.57	41,401,447.50	353,301,093.20	49.00	49.00			41,401,447.50
2. Investment in associates											
Huayi Compressor <sup>*3</sup>	Equity method	41,686,088.96	53,817,362.47	1,973,956.79	12,153,537.18	43,637,782.08	6.45	6.45			
Attend	Equity method	2,000,000.00	3,727,785.79		298,934.03	3,428,851.76	20.00	20.00			
3. Other long-term equity investment											
Combine <sup>*4</sup>	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	2.00	2.00			
Fujian Kelon Air-condition Sales Co., Ltd. ("Fujian Kelon")	Cost method		100,000.00			100,000.00	2.00	2.00			
Foshan Huabao Air-condition Sales Co., Ltd. ("Foshan Huabao") <sup>*5</sup>	Cost method		40,000.00		40,000.00	0.00					
Qingdao Hisense International Marketing Co., Ltd. ("Hisense International Marketing")	Cost method		3,800,000.00			3,800,000.00	12.67	12.67			3,534,000.00
<b>Total</b>		<b>616,547,686.41</b>	<b>581,013,226.88</b>	<b>98,463,682.36</b>	<b>57,721,063.88</b>	<b>621,755,845.36</b>			<b>11,000,000.00</b>		<b>44,935,447.50</b>

\*1 Hisense Whirlpool was established by the Company and Whirlpool (Hong Kong) Limited (hereinafter abbreviated as "Whirlpool HK") on 31 December 2008 with a registered capital of RMB450,000,000.00. The Company and Whirlpool HK made a 50% capital contribution and holds 50% of the shareholding, respectively. As at 31 December 2011, the Company has made an accumulated capital contribution of RMB225,000,000.00.

\*2 In 2010, the related party transaction in relation to the acquisition of assets by way of share (A share) issued by the Company was completed, under which 49% shareholding in Hisense Hitachi held by Qingdao Hisense Air-conditioning was acquired from the specific target Company, Qingdao Hisense Air-conditioning. In 2011, Hisense Hitachi increased its share capital through undistributed profit, resulting in an increase of the Company's investment cost with no changes in its shareholding percentage.

\*3 At the seventh interim meeting of the Company's seventh session of the board of directors 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 passed. The resolution was passed at the general meeting convened on 4 June 2010. In 2011, the Company disposed of 6,102,126 shares in Huayi Compressor through the secondary market, and as at 31 December 2011, the Company's shareholding in Huayi Compressor was 6.45%.

\*4 As Jiangxi Combine, a subsidiary of the Company, has declared in liquidation and reorganization, it has not been consolidated in the financial statements and the investment cost in the company has been fully impaired.

\*5 The loss of investment in Foshan Huabao has been fully recognized by the Company during the period.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### 11. Investment properties

##### *(1) Investment properties by cost-method*

Item	Opening balance	Additions	Disposals	Ending balance
1. Total cost	67,771,137.18	30,650.00		67,801,787.18
1. Buildings	67,771,137.18	30,650.00		67,801,787.18
2. Total accumulated depreciation and amortization	27,171,265.41	2,610,671.34		29,781,936.75
1. Buildings	27,171,265.41	2,610,671.34		29,781,936.75
3. Total net book value	40,599,871.77			38,019,850.43
1. Buildings	40,599,871.77			38,019,850.43
4. Total accumulated provision for impairment				
1. Buildings				
5. Total carrying amount	40,599,871.77			38,019,850.43
1. Buildings	40,599,871.77			38,019,850.43

##### *(2) Particulars of investment properties*

- 1 The depreciation expense charged for 2011 was RMB2,610,671.34, and the depreciation expense charged for 2010 was RMB2,796,009.23.
- 2 As at 31 December 2011, the investment properties were pledged with cost of RMB32,228,200.00, and carrying amount of RMB14,914,600.00. Please see note 9 for details.
- 3 As at 31 December 2011, investment properties with cost of RMD13,794,500.00, have not obtained ownership certificate accumulated depreciation of RMB5,939,900.00, and net carrying amount RMB7,854,600.00.
- 4 As at 31 December 2011, the Company has not identified any investment properties with the recoverable amount lower than its carrying amount and therefore has not made any provision for impairment.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 12. Fixed assets

##### (1) Particulars of fixed assets

Item	Opening balance	Additions	Disposals	Ending balance
<b>1. Total cost:</b>	<b>4,592,611,672.05</b>	<b>429,734,747.87</b>	<b>165,475,593.73</b>	<b>4,856,870,826.19</b>
Buildings	1,552,833,352.52	19,299,571.35	2,463,747.37	1,569,669,176.50
Machinery and equipment	2,179,423,669.20	270,877,450.77	55,142,328.74	2,395,158,791.23
Furniture, fixtures and office equipment	293,828,724.93	22,470,455.02	16,106,781.47	300,192,398.48
Motor vehicles	22,720,280.75	6,046,253.34	4,896,521.72	23,870,012.37
Moulds	543,805,644.65	111,041,017.39	86,866,214.43	567,980,447.61
<b>2. Total accumulated depreciation</b>	<b>2,565,107,258.83</b>	<b>328,822,121.78</b>	<b>150,074,175.99</b>	<b>2,743,855,204.62</b>
Buildings	615,779,109.32	85,354,651.79	635,064.93	700,498,696.18
Machinery and equipment	1,344,003,172.50	116,833,823.76	48,231,104.61	1,412,605,891.65
Furniture, fixtures and office equipment	198,379,086.14	23,242,100.90	15,411,882.73	206,209,304.31
Motor vehicles	15,357,860.30	2,028,338.84	4,681,388.09	12,704,811.05
Moulds	391,588,030.57	101,363,206.49	81,114,735.63	411,836,501.43
<b>3. Total net amount of fixed assets</b>	<b>2,027,504,413.22</b>			<b>2,113,015,621.57</b>
Buildings	937,054,243.20			869,170,480.32
Machinery and equipment	835,420,496.70			982,552,899.58
Furniture, fixtures and office equipment	95,449,638.79			93,983,094.17
Motor vehicles	7,362,420.45			11,165,201.32
Moulds	152,217,614.08			156,143,946.18
<b>4. Total provision for impairment</b>	<b>175,116,120.34</b>	<b>1,016,344.07</b>	<b>10,186,996.96</b>	<b>165,945,467.45</b>
Buildings	34,175,618.43			34,175,618.43
Machinery and equipment	128,911,250.04	1,016,344.07	7,829,053.20	122,098,540.91
Furniture, fixtures and office equipment	1,638,924.50		244,784.16	1,394,140.34
Motor vehicles	1,067,189.86		6,064.80	1,061,125.06
Moulds	9,323,137.51		2,107,094.80	7,216,042.71
<b>5. Total carrying amount fixed assets</b>	<b>1,852,388,292.88</b>			<b>1,947,070,154.12</b>
Buildings	902,878,624.77			834,994,861.89
Machinery and equipment	706,509,246.66			860,454,358.67
Furniture, fixtures and office equipment	93,810,714.29			92,588,953.83
Motor vehicles	6,295,230.59			10,104,076.26
Moulds	142,894,476.57			148,927,903.47

For 2011, the fixed asset transferred from construction in progress amounted to RMB259,793,869.60 (2010: RMB164,203,491.34).

- (2) Depreciation expenses for the year ended 31 December 2011 amounted to RMB328,822,121.78, and RMB336,743,568.87 in 2010.
- (3) As at the end of the period, there was no fixed asset was idle transitorily.
- (4) As at the end of the period, there was no fixed asset held under finance lease.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 12. Fixed assets (continued)

- (5) As at the end of the period, there was no fixed asset rent out through operating lease.
- (6) As at the end of the period, there was no fixed asset 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 buildings were pledged with cost of RMB632,841,700.00 and the net carrying amount of RMB273,730,600.00 (please see note 9 for details).

#### 13. Constructions in progress

##### (1) Summary of constructions in progress

Item	Ending balance			Opening balance		
	Ending balance	Provision for Impairment	Carrying amount	Ending balance	Provision for Impairment	Carrying amount
Yangzhou Kelon	57,594,245.52		57,594,245.52	107,391,773.90		107,391,773.90
Hisense Chengdu				13,341,082.45		13,341,082.45
Xi'an Kelon	9,044,256.34	9,044,256.34		9,044,256.34	9,044,256.34	
Other	34,434,015.43	11,325,835.67	23,108,179.76	58,445,237.18	12,342,179.74	46,103,057.44
<b>Total</b>	<b>101,072,517.29</b>	<b>20,370,092.01</b>	<b>80,702,425.28</b>	<b>188,222,349.87</b>	<b>21,386,436.08</b>	<b>166,835,913.79</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 13. Constructions in progress (continued)

##### (2) Movements in significant construction in progress

Item	Budget	Opening balance	Additions in the current year	Transferred to fixed assets	Other reductions	% contribution in budget	Progress	Source of fund	Ending balance
Utility works for production and training building, canteen and factory D of Yangzhou Kelon	25,355,000.00	12,005,173.58	12,706,254.00			97.46	Not yet completed	Self-funding	24,711,427.58
Installation of addition capacity at electricity room of factory D of Yangzhou Kelon	1,920,000.00	734,748.00	1,138,100.00			97.54	Not yet completed	Self-funding	1,872,848.00
Steel platform of expansion project of factory D of Yangzhou Kelon	3,704,605.67	1,384,615.38	1,972,725.33			90.63	Not yet completed	Self-funding	3,357,340.71
30-worker, door foaming production line of Yangzhou Kelon	4,972,500.00	5,008,950.00	1,186.00	1,462,545.00		100.76	Not yet completed	Self-funding	3,547,591.00
Low voltage switchgear of Yangzhou Kelon	2,365,252.00		1,609,138.46			68.03	Not yet completed	Self-funding	1,609,138.46
High voltage foaming machine of Yangzhou Kelon	1,113,576.18		1,184,407.00			106.36	Not yet completed	Self-funding	1,184,407.00
Hydraulic machine and punch press of Yangzhou Kelon	3,870,000.00		3,307,692.30			85.47	Not yet completed	Self-funding	3,307,692.30
Refrigerator foaming production line of Yangzhou Kelon	900,000.00		1,043,427.70			115.94	Not yet completed	Self-funding	1,043,427.70
Flow line of D production line of Yangzhou Kelon	5,250,000.00		1,346,153.85			25.64	Not yet completed	Self-funding	1,346,153.85
New south entrance and dormitory reconstruction of Yangzhou Kelon	1,600,000.00		1,600,000.00			100.00	Not yet completed	Self-funding	1,600,000.00
Spray painting line and natural gas pipeline works of Rongsheng Plastic		3,647,228.00					To be scrapped	Self-funding	3,647,228.00
Production line of Shangqiu Kelon		7,770,917.67					To be scrapped	Self-funding	7,770,917.67
Production line of Xi'an Kelon		9,044,256.34					To be scrapped	Self-funding	9,044,256.34
Phase 2 work of Hisense Chengdu	16,095,973.59	13,341,082.45	1,243,201.12	14,584,283.57		90.61	Almost completed	Self-funding	
Additional sheet decoiler/ flattener of Hisense Chengdu	1,800,000.00	540,000.00	500,000.00			57.78	Not yet completed	Self-funding	1,040,000.00
Other		134,745,378.45	145,602,770.11	243,747,041.03	611,018.85				35,990,088.68
<b>Total</b>		<b>188,222,349.87</b>	<b>173,255,055.87</b>	<b>259,793,869.60</b>	<b>611,018.85</b>				<b>101,072,517.29</b>

Particulars of movements in constructions in progress:

- 1 During the period, movements in constructions in progress mainly represented increase and decrease in the production lines of the Company's subsidiaries.
- 2 During the period, there was no capitalization of interests for constructions in progress.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 13. Constructions in progress (continued)

##### (3) Provision for impairment of constructions in progress

Item	Opening balance	Additions in the current year	Decreases in the current year	Ending balance	Reasons for provision
Spray painting line and natural gas pipeline works of Rongsheng Plastic	3,554,918.00			3,554,918.00	
Production line of Shangqiu Kelon	7,770,917.67			7,770,917.67	
Project of Xi'an Kelon	9,044,256.34			9,044,256.34	
Other	1,016,344.07		1,016,344.07		
<b>Total</b>	<b>21,386,436.08</b>		<b>1,016,344.07</b>	<b>20,370,092.01</b>	

During the period, decreases in provision for impairment of constructions in progress were attributable to transfer of constructions in progress of the Company's subsidiaries into fixed assets.

#### 14. Intangible assets

##### (1) Particulars of intangible assets

Item	Opening balance	Additions in the current year	Reductions in the current year	Ending balance
<b>1. Total cost</b>	<b>1,259,026,231.42</b>	<b>15,440,405.48</b>	<b>3,600,339.00</b>	<b>1,270,866,297.90</b>
(1) Land use rights	611,168,835.89	11,816,986.18	3,600,339.00	619,385,483.07
(2) Trademarks	524,409,198.95			524,409,198.95
(3) Know-how	76,207,763.30			76,207,763.30
(4) Others	47,240,433.28	3,623,419.30		50,863,852.58
<b>2. Total accumulated amortization</b>	<b>385,264,723.83</b>	<b>27,264,417.59</b>	<b>2,401,649.22</b>	<b>410,127,492.20</b>
(1) Land use rights	178,127,677.29	16,268,752.45	2,401,649.22	191,994,780.52
(2) Trademarks	134,130,255.55			134,130,255.55
(3) Know-how	37,379,054.01	6,447,488.36		43,826,542.37
(4) Others	35,627,736.98	4,548,176.78		40,175,913.76
<b>3. Total net amount</b>	<b>873,761,507.59</b>			<b>860,738,805.70</b>
(1) Land use rights	433,041,158.60			427,390,702.55
(2) Trademarks	390,278,943.40			390,278,943.40
(3) Know-how	38,828,709.29			32,381,220.93
(4) Others	11,612,696.30			10,687,938.82
<b>4. Total provision for impairment</b>	<b>340,672,549.44</b>			<b>340,672,549.44</b>
(1) Land use rights	50,012,843.19			50,012,843.19
(2) Trademarks	286,061,116.40			286,061,116.40
(3) Know-how				
(4) Others	4,598,589.85			4,598,589.85
<b>5. Total carrying amount of intangible assets</b>	<b>533,088,958.15</b>			<b>520,066,256.26</b>
(1) Land use rights	383,028,315.41			377,377,859.36
(2) Trademarks	104,217,827.00			104,217,827.00
(3) Know-how	38,828,709.29			32,381,220.93
(4) Others	7,014,106.45			6,089,348.97



## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 14. Intangible assets (continued)

##### (2) Particulars of intangible assets:

- 1 For 2011, amortization of intangible assets amounted to RMB27,264,417.59, (for 2010, RMB26,668,763.90).
- 2 As at the end of the period, the land use rights were pledged with cost of RMB256,558,000.00 and the net carrying amount of RMB151,155,900.00 (please see note 9 for details).
- 3 Owing to uncertainty of the useful lives of the trademarks, they were not amortized and no provision for impairment was provided for trademarks after an impairment test.

#### 15. Long-term prepaid expenditure

Item	Opening balance	Additions in the current year	Amortization in current year	Other reductions	Ending balance	Reasons of other reductions
Other	296,766.66		296,766.66			
<b>Total</b>	<b>296,766.66</b>		<b>296,766.66</b>			

#### 16. Deferred tax assets and deferred tax liabilities

Net amount of deferred tax assets and deferred tax liabilities after offsetting is as follows:

##### (1) Deferred tax assets or tax liabilities after offsetting and corresponding deductible or taxable temporary differences after offsetting

Item	Deferred tax assets or liabilities after offsetting at the end of the reporting period	Deductible or taxable temporary differences after offsetting at the end of the reporting period	Deferred tax assets or liabilities after offsetting at the beginning of the reporting period	Deductible or taxable temporary differences after offsetting at the beginning of the reporting period
<b>Deferred tax assets:</b>				
Provision for assets impairment	5,009,705.46	33,398,036.43	4,489,077.98	29,927,186.60
Deductible tax losses			1,745,622.13	11,637,480.86
Financial liabilities held for trading			336,633.63	2,244,224.20
Financial assets held for trading	(2,810,784.05)	(18,738,560.35)	(2,316,440.78)	(15,442,938.56)
Others	1,424,894.81	9,499,298.76	2,638,330.94	12,991,790.48
<b>Subtotal</b>	<b>3,623,816.22</b>	<b>24,158,774.84</b>	<b>6,893,223.90</b>	<b>41,357,743.58</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### 16. Deferred tax assets and deferred tax liabilities *(continued)*

##### (2) Summary for offsetting of deferred tax assets and deferred tax liabilities

Item	Amount set off for current period	Amount set off for previous period
Financial assets held for trading	(2,810,784.05)	(2,316,440.78)

##### (3) Deductible tax losses that are not recognized as of deferred tax assets will be overdue in the following years

Year	Ending balance	Opening balance	Remark
2012	260,129,828.77	272,212,640.55	
2013	245,359,766.32	319,643,103.97	
2014	111,696,812.16	124,861,727.65	
2015	90,062,311.18	71,747,991.41	
2016	103,304,565.54		
Infinite	99,012,458.23	104,580,213.22	
<b>Total</b>	<b>909,565,742.20</b>	<b>893,045,676.80</b>	

##### (4) Summary of taxable temporary differences and deductible temporary differences

Item	Amount
Financial assets held for trading	(18,738,560.35)
Provision for bad debts on trade receivables	1,780,642.31
Provision for bad debts on other receivables	5,000.00
Impairment provision for inventory	316,975.43
Impairment provision for fixed assets	31,295,418.69
Other	9,499,298.76
<b>Total</b>	<b>24,158,774.84</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 17. Provision for asset impairment

Item	Opening balance	Addition in the current year	Current year reduction		Ending balance
			Reversal	Write-off	
1. Provision for bad debts	554,098,119.28	11,137,235.23	1,367,991.65	4,322,038.07	559,545,324.79
2. Provision for decline in value of inventory	70,874,444.50	15,107,408.53		4,020,445.77	81,961,407.26
3. Provision for impairment of long-term equity investments	11,000,000.00				11,000,000.00
4. Provision for impairment of fixed assets	175,116,120.34	1,016,344.07		10,186,996.96	165,945,467.45
5. Provision for impairment of construction in progress	21,386,436.08			1,016,344.07	20,370,092.01
6. Provision for impairment of intangible assets	340,672,549.44				340,672,549.44
<b>Total</b>	<b>1,173,147,669.64</b>	<b>27,260,987.83</b>	<b>1,367,991.65</b>	<b>19,545,824.87</b>	<b>1,179,494,840.95</b>

#### 18. Short-term borrowings

##### (1) Classification of short-term borrowings:

Item	Ending balance	Opening balance
Unsecured borrowings		91,658,168.00
Guaranteed borrowings <sup>*1</sup>	876,208,329.78	629,212,847.60
Secured borrowings <sup>*2</sup>	128,790,564.42	380,390,820.25
<b>Total</b>	<b>1,004,998,894.20</b>	<b>1,101,261,835.85</b>

##### Particulars of classification of short-term borrowings

<sup>\*1</sup> Among the guaranteed borrowings, an amount of RMB702,500,000.00 was borrowings by 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"); an amount of RMB63,009,000.00 was borrowings by subsidiaries of the Company in USD that were secured by guarantees provided by the Company and at the same time secured by guarantee letters issued by Hisense Group to the Company; an amount of RMB110,321,900.00 were discounted note borrowings by the Company in Hisense Finance; and an amount of RMB377,400.00 were financing borrowings for inward/outward documentary bills by the Company's subsidiaries and were secured by guarantees provided by the Company. Please see note 6 for details.

<sup>\*2</sup> The secured borrowings represented secured borrowings from the trade receivables factoring business of the Company's subsidiaries.

As at the end of the period, the Company had no short-term borrowings that are due but have not been repaid.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### 19. Financial liabilities held for trading

Item	Ending balance	Opening balance
Derivative financial liabilities	6,636,121.77	5,960,727.44
<b>Total</b>	<b>6,636,121.77</b>	<b>5,960,727.44</b>

Particulars of financial liabilities held for trading:

This mainly represented undue foreign exchange forward contracts entered into by the Company with banks that were recognized as financial assets or liabilities held for trading based on the difference between the quotation of the undue foreign exchange contracts and the future foreign exchange rate as at 31 December 2011.

#### 20. Notes payable

Category	Ending balance	Opening balance
Bank acceptance notes	574,089,894.79	810,263,300.00
Trade acceptance notes	38,577,178.54	
<b>Total</b>	<b>612,667,073.33</b>	<b>810,263,300.00</b>

Particulars of notes payable:

- 1 At 31 December 2011, there was no amount due to shareholders holding 5% or more (including 5%) of the voting rights of the Company. As at 31 December 2010, there was no amount due to shareholders holding 5% or more (including 5%) of the voting rights of the Company.
- 2 Among the balance of notes payable as at the end of the period, there was no amount due to related parties.

#### 21. Trade payables

##### *(1) Ageing analysis of trade payables*

Ageing	Ending balance	Opening balance
Within one year	1,896,440,466.81	2,242,016,720.89
Over one year	158,169,666.00	143,149,887.43
<b>Total</b>	<b>2,054,610,132.81</b>	<b>2,385,166,608.32</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 21. Trade payables (continued)

- (2) As at 31 December 2011, there was no amount due to shareholders holding 5% (including 5%) or more of the voting rights of the Company. As at 31 December 2010, there was no amount due to shareholders holding 5% (including 5%) or more of the voting rights of the Company.
- (3) Among the balance of trade payables at the end of the period, please see note 6 for details of amounts due to related parties.

#### 22. Advances from customers

##### (1) Age analysis of advances from customers

Ageing	Ending balance	Opening balance
Within one year	724,328,844.60	919,777,370.53
Over one year	33,877,440.55	30,429,573.38
<b>Total</b>	<b>758,206,285.15</b>	<b>950,206,943.91</b>

- (2) As at 31 December 2011, there was no amount due to shareholders holding 5% (including 5%) or more of the voting rights of the Company. As at 31 December 2010, there was no amount due to shareholders holding 5% (including 5%) or more of the voting rights of the Company.
- (3) Among the balance of advances from customers at the end of the period, please see note 6 for details of amounts due to related parties.

#### 23. Employee benefits payables

Item	Opening balance	Additions in the current year	Reductions in the current year	Ending balance
1. Wages and salaries, bonuses, allowances and subsidies	175,863,340.30	1,227,642,832.12	1,224,304,831.48	179,201,340.94
2. Staff welfare	892,452.48	81,701,990.25	79,715,062.50	2,879,380.23
3. Social insurance	5,641,738.50	135,101,247.28	135,363,981.44	5,379,004.34
4. Housing provident funds	10,199.62	31,425,535.66	31,001,525.72	434,209.56
5. Labor union funds and employee education funds	2,823,058.75	13,321,264.75	14,011,519.49	2,132,804.01
6. Others	26,035.36	923,912.12	949,947.48	
<b>Total</b>	<b>185,256,825.01</b>	<b>1,490,116,782.18</b>	<b>1,485,346,868.11</b>	<b>190,026,739.08</b>

Particulars of employee benefits payables:

- (1) There were no defaulted payables included in employee benefits payables.
- (2) Arrangements in respect of expected payout time and amount for employee benefits: calculated in the current month and paid in the following month.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 24. Taxes payable

Tax item	Ending balance	Opening balance
Value-added tax	(123,225,211.20)	(260,746,991.71)
Business tax	495,763.32	1,577,693.43
Enterprise income tax	9,465,576.15	24,908,364.43
Individual income tax	2,435,405.10	4,663,849.78
City maintenance and construction tax	3,316,311.19	956,230.25
Real estate tax	7,763,959.35	10,746,629.95
Land use tax	3,869,787.80	4,512,047.59
Education surcharges	1,707,928.35	431,661.54
Urban area embankment maintenance fee	3,118,821.60	2,674,033.43
Others	960,824.62	278,612.31
<b>Total</b>	<b>(90,090,833.72)</b>	<b>(209,997,869.00)</b>

#### 25. Interests payable

Item	Ending balance	Opening balance
Interests payable for short-term borrowings	1,447,530.16	2,065,066.74
<b>Total</b>	<b>1,447,530.16</b>	<b>2,065,066.74</b>

#### 26. Dividends payable

Name	Ending balance	Opening balance
Yinglang (Group) Co., Ltd.	2,067.02	2,067.02
Beijing Xuehua Group Company Limited ("Xuehua Group")		3,206,844.83
<b>Total</b>	<b>2,067.02</b>	<b>3,208,911.85</b>

#### 27. Other payables

##### (1) Ageing analysis of other payables

Ageing	Ending balance	Opening balance
Within one year	880,233,889.90	832,391,921.28
Over one year	275,962,057.98	277,016,685.92
<b>Total</b>	<b>1,156,195,947.88</b>	<b>1,109,408,607.20</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 27. Other payables (continued)

- (2) As at 31 December 2011, there was no amount due to shareholders holding 5% (including 5%) or more of the voting rights of the Company. As at 31 December 2010, there was no amount due to shareholders holding 5% (including 5%) or more of the voting rights of the Company.
- (3) Among the balance of other payables at the end of the period, please see note 6 for details of amounts due to related parties.
- (4) *Particulars of significant other payables with aged of over one year*

Name	Amount	Reasons 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
Jiangxi Greencool	13,000,000.00	Current account	Greencool Companies

#### 28. Other current liabilities

Item	Ending balance	Opening balance	Reasons for the balance
Installation fees	81,761,415.36	82,714,203.00	Installation fee provided for but not yet paid in relation to goods sold
Sales discounts	237,048,057.80	312,447,006.49	Incurred but not yet settled
Transportation fees	6,434,368.43	22,327,646.44	Incurred but not yet settled
Audit and reorganization fees	1,245,067.00	6,362,873.32	Annual audit fee and reorganization fee
Marketing fees	33,105,041.92	9,993,808.64	Incurred but not yet settled
Amounts payable	11,013,977.35	3,344,174.06	Incurred but not yet settled
Power fees	7,858,495.82	6,056,687.08	Incurred but not yet settled
Agency fees	4,082,785.25	512,835.95	Incurred but not yet settled
Others	84,909,606.93	39,623,853.10	Incurred but not yet settled
<b>Total</b>	<b>467,458,815.86</b>	<b>483,383,088.08</b>	

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 29. Provisions

Item	Opening balance	Additions in the current year	Reductions in the current year	Ending balance
Pending litigation	4,458,055.26	1,527,142.45		5,985,197.71
Provision for warranties*	242,342,098.87	42,702,793.67	19,541,735.83	265,503,156.71
<b>Total</b>	<b>246,800,154.13</b>	<b>44,229,936.12</b>	<b>19,541,735.83</b>	<b>271,488,354.42</b>

\* Provision for warranties 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.

#### 30. Other non-current liabilities

Item	Ending balance	Opening balance
Deferred income	40,977,575.97	35,036,851.38
<b>Total</b>	<b>40,977,575.97</b>	<b>35,036,851.38</b>

Particulars of deferred income are as follows:

Item	Ending balance	Opening balance
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	2,825,000.00	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 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	2,527,552.07	3,033,062.48
Others	11,609,273.90	4,581,548.90
<b>Total</b>	<b>40,977,575.97</b>	<b>35,036,851.38</b>

Particulars of other non-current liabilities, please see note 5.41 for details.



## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### 31. Share capital

##### 2011

Categories of shares	Opening balance	Additions in the current year	Reductions in the current year	Ending balance
Shares with restriction of trading	612,316,909.00			612,316,909.00
Including: state-owned legal person shares	612,316,909.00			612,316,909.00
Shares without restriction of trading	741,737,841.00			741,737,841.00
Including: RMB Ordinary shares	282,148,033.00			282,148,033.00
Foreign shares listed out of PRC	459,589,808.00			459,589,808.00
<b>Total shares capital</b>	<b>1,354,054,750.00</b>			<b>1,354,054,750.00</b>

##### 2010

Categories of shares	Opening balance	Additions in the current year	Reductions in the current year	Ending balance
Shares with restriction of trading	234,375,922.00	612,316,909.00	234,375,922.00	612,316,909.00
Including: state-owned legal person shares		612,316,909.00		612,316,909.00
Other domestic shares	234,375,922.00		234,375,922.00	
Shares without restriction of trading	757,630,641.00		15,892,800.00	741,737,841.00
Including: RMB Ordinary shares denominated in RMB	298,040,833.00		15,892,800.00	282,148,033.00
Foreign shares listed out of PRC	459,589,808.00			459,589,808.00
<b>Total shares capital</b>	<b>992,006,563.00</b>	<b>612,316,909.00</b>	<b>250,268,722.00</b>	<b>1,354,054,750.00</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 32. Capital reserve

##### (1) Changes in capital reserve

2011

Item	Opening balance	Additions in the current year	Reductions in the current year	Ending balance
Share premium	1,968,114,175.93			1,968,114,175.93
Other capital surplus	85,569,315.37	46,232,104.63	2,986,537.67	128,814,882.33
<b>Total</b>	<b>2,053,683,491.30</b>	<b>46,232,104.63</b>	<b>2,986,537.67</b>	<b>2,096,929,058.26</b>

2010

Item	Opening balance	Additions in the current year	Reductions in the current year	Ending balance
Share premium <sup>*1</sup>	2,080,853,792.98	557,590,138.45	670,329,755.50	1,968,114,175.93
Other capital surplus <sup>*2</sup>	114,519,490.45		28,950,175.08	85,569,315.37
<b>Total</b>	<b>2,195,373,283.43</b>	<b>557,590,138.45</b>	<b>699,279,930.58</b>	<b>2,053,683,491.30</b>

##### (2) Particulars of capital reserve:

Increase for the period represented the corresponding transfer of capital surplus of RMB44,672,104.63 due to the disposal of a subsidiary, Chengdu Kelon; and transfer of equity incentive of RMB1,560,000.00 into the capital reserve.

Decrease for the period represented the transfer of corresponding capital surplus of RMB2,982,192.07 due to disposal of part of the shares in Huayi Compressor; and decrease in capital surplus of RMB4,345.60 due to other changes in the equity of Huayi Compressor.

<sup>\*1</sup> The amount represented the share premium arising from the share (A share) issue to special target by the Company and related party transaction; and the effect of business combination involving entities under common control for the year.

<sup>\*2</sup> Decrease for the period represented the transfer of corresponding capital surplus due to disposal of 100% equity in the subsidiary, Wuhu Ecan and the disposal of part of the shares in Huayi Compressor by the Company.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 33. Surplus reserve

##### 2011

Item	Opening balance	Additions in the current year	Reductions in the current year	Ending balance
Statutory surplus reserve	145,189,526.48			145,189,526.48
<b>Total</b>	<b>145,189,526.48</b>			<b>145,189,526.48</b>

##### 2010

Item	Opening balance	Additions in the current year	Reductions in the current year	Ending balance
Statutory surplus reserve	145,189,526.48			145,189,526.48
<b>Total</b>	<b>145,189,526.48</b>			<b>145,189,526.48</b>

#### 34. Undistributed profits

##### 2011

Item	Ratio for appropriation or distribution	Amount for current period	Amount for previous period
Undistributed profits of the end of previous period		(3,044,171,810.12)	(3,524,065,439.85)
Add: Adjustment of undistributed profits at the beginning of the year			(105,384,042.19)
Undistributed profits of the beginning of the period		(3,044,171,810.12)	(3,629,449,482.04)
Add: Net profits of the period attributable to the shareholders of Company		227,015,126.87	585,277,671.92
Less: Appropriation of statutory surplus reserve Ordinary shares dividends payable			
Undistributed profits at the end of the period		(2,817,156,683.25)	(3,044,171,810.12)

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 34. Undistributed profits (continued)

2010

Item	Ratio for appropriation or distribution	Amount for current period	Amount for previous period
Undistributed profits of the end of previous period		(3,524,065,439.85)	(3,674,263,413.69)
Add: Adjustment of undistributed profits at the beginning of the year		(105,384,042.19)	(102,775,454.45)
Undistributed profits of the beginning of the period		(3,629,449,482.04)	(3,777,038,868.14)
Add: Net profits of the period attributable to the shareholders of Company		585,277,671.92	156,449,455.25
Less: Appropriation of statutory surplus reserve			8,860,069.15
Ordinary shares dividends payable			
Undistributed profits at the end of the period		(3,044,171,810.12)	(3,629,449,482.04)

#### 35. Revenue and cost of sale

##### (1) Revenue and cost of sale

Item	Amount for current period	Amount for previous period
Revenue from main operations	16,748,449,276.13	15,830,961,488.89
Revenue from other operations	1,740,213,886.99	1,859,362,142.94
<b>Total operating revenue</b>	<b>18,488,663,163.12</b>	<b>17,690,323,631.83</b>
Cost of main operations	13,561,364,782.89	13,045,175,706.33
Cost of other operations	1,641,529,335.46	1,751,556,102.86
<b>Total operating cost</b>	<b>15,202,894,118.35</b>	<b>14,796,731,809.19</b>

##### (2) Main operations (by products)

Products	Amount for current period		Amount for previous period	
	Revenue	Cost of sale	Revenue	Cost of sale
1. Refrigerators	8,246,154,462.25	6,455,383,210.76	7,989,072,423.25	6,220,016,341.34
2. Air-conditioners	6,516,774,558.25	5,463,286,512.79	5,979,521,256.25	5,281,638,591.44
3. Freezers	669,210,867.37	577,139,651.82	765,864,732.82	648,219,667.02
4. Small electrical appliances and others	1,316,309,388.26	1,065,555,407.52	1,096,503,076.57	895,301,106.53
<b>Total</b>	<b>16,748,449,276.13</b>	<b>13,561,364,782.89</b>	<b>15,830,961,488.89</b>	<b>13,045,175,706.33</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 35. Revenue and cost of sale (continued)

##### (3) Main operations (by regions)

Region	Amount for current period		Amount for previous period	
	Revenue	Cost of sale	Revenue	Cost of sale
Domestic	11,763,768,033.18	8,906,846,167.76	11,115,920,225.15	8,728,083,925.25
Overseas	4,984,681,242.95	4,654,518,615.13	4,715,041,263.74	4,317,091,781.08
<b>Total</b>	<b>16,748,449,276.13</b>	<b>13,561,364,782.89</b>	<b>15,830,961,488.89</b>	<b>13,045,175,706.33</b>

##### (4) Revenue from the top five customers of the Company

###### 2011

No.	Amount for current period	Percentage of the total revenue from main operations of the Company (%)
Top 1	1,344,174,672.35	8.03
Top 2	1,207,391,797.41	7.21
Top 3	1,200,296,700.51	7.17
Top 4	249,870,141.88	1.49
Top 5	247,332,627.65	1.48
<b>Total</b>	<b>4,249,065,939.80</b>	<b>25.38</b>

###### 2010

No.	Amount for current period	Percentage of the total revenue from main operations of the Company (%)
Top 1	1,372,280,871.11	8.67
Top 2	1,123,132,309.52	7.09
Top 3	804,237,677.53	5.08
Top 4	495,379,048.09	3.13
Top 5	287,154,854.20	1.81
<b>Total</b>	<b>4,082,184,760.45</b>	<b>25.78</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 36. Business tax and surcharges

Item	Basis of calculation	Amount for current period	Amount for previous period
Business tax	5%	5,626,810.69	5,582,455.71
City maintenance and construction tax	1%-7%	32,552,458.64	8,802,440.91
Education surcharges	3%	17,530,082.85	3,922,211.09
Others		7,441,717.31	1,633,117.75
<b>Total</b>		<b>63,151,069.49</b>	<b>19,940,225.46</b>

#### 37. Financial expenses

Item	Amount for current period	Amount for previous period
Interest expenses	39,264,507.45	42,229,349.81
Less: Interest incomes	1,941,417.40	1,915,985.40
Discounted notes	4,718,744.46	
Loss on foreign exchange	7,363,879.23	23,768,834.19
Others	6,598,328.05	10,513,539.89
<b>Total</b>	<b>56,004,041.79</b>	<b>74,595,738.49</b>

#### 38. Asset impairment losses

Item	Amount for current period	Amount for previous period
1. Bad debt loss	9,769,243.58	(729,762.69)
2. Decline in value of inventories	15,107,408.53	14,506,693.41
3. Impairment loss on fixed assets		11,255,247.04
4. Impairment loss on construction in progress		4,522,594.43
<b>Total</b>	<b>24,876,652.11</b>	<b>29,554,772.19</b>

#### 39. Gain/(loss) arising from changes in fair value

Sources of gain/(loss)	Amount for current period	Amount for previous period
Financial assets held for trading	5,637,307.68	22,553,612.97
including: Gain from changes in fair value of derivative financial instruments	5,637,307.68	22,553,612.97
Financial liabilities held for trading	(675,394.33)	(4,920,698.17)
<b>Total</b>	<b>4,961,913.35</b>	<b>17,632,914.80</b>

Particulars of gain/(loss) arising from changes in fair value:

This mainly represented undue foreign exchange forward contracts entered into by the Company with banks. The amount is calculated based on the difference between the quotation of the undue foreign exchange contracts and the future foreign exchange rate as at 31 December 2011.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### 40. Investment income

##### (1) *Summary of investment income*

Item	Amount for current period	Amount for previous period
Income from long-term equity investment — the cost method	3,534,000.00	2,508,000.00
Income from long-term equity investment — the equity method	94,337,603.16	76,807,695.58
Income from disposal of long-term equity investment*	18,499,320.95	302,630,939.96
Income from disposal of financial assets held for trading	22,189,661.12	12,932,648.07
<b>Total</b>	<b>138,560,585.23</b>	<b>394,879,283.61</b>

\* Investment income from disposal of long-term equity investment for the period represented investment income recognized for the disposal of shares in Huayi Compressor, disposal of equity in Chengdu Kelon and deregistration of Sichuan Rongshen and Foshan Huabao by the Company.

##### (2) *Income from long-term equity investment — the cost method*

Investee	Amount for current period	Amount for previous period
Hisense International Marketing	3,534,000.00	2,508,000.00
<b>Total</b>	<b>3,534,000.00</b>	<b>2,508,000.00</b>

##### (3) *Income from long-term equity investment — the equity method:*

Investee	Amount for current period	Amount for previous period
Huayi Compressor	1,973,956.79	2,423,768.16
Hisense Whirlpool	(3,827,145.17)	1,032,940.51
Attend	(298,934.03)	(53,258.27)
Hisense Hitachi	96,489,725.57	73,404,245.18
<b>Total</b>	<b>94,337,603.16</b>	<b>76,807,695.58</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 41. Non-operating income and non-operating expenses

##### *Non-operating income*

Item	Amount for current period	Amount for previous period
Total gain from disposal of non-current assets	5,353,721.78	4,382,416.28
Including: Gain from disposal of fixed assets	5,353,721.78	4,382,416.28
Government grants	150,739,804.78	458,540,125.49
Others	2,628,200.05	55,834,547.96
<b>Total</b>	<b>158,721,726.61</b>	<b>518,757,089.73</b>

Details of government grants during the year are as follows:

Item	Amount for current period	Amount for previous period
1. Government grants related to assets		
Production technology reform project for energy-saving household SBS large-size refrigerator* <sup>1</sup>	(450,000.00)	(450,000.00)
Special funds for high-and-new technologies* <sup>2</sup>	(505,510.41)	(505,510.41)
Government grants for reconstruction of power room of Meijing Mansion* <sup>3</sup>	(131,490.00)	1,227,240.00
Government supportive fund for technology reform assets* <sup>4</sup>	4,778,886.00	
Government grants related to other assets	3,878,009.00	379,700.00
<b>Subtotal</b>	<b>7,569,894.59</b>	<b>651,429.59</b>
2. Government grants related to income		
Production technology reform project for energy-saving household SBS large-size refrigerator	450,000.00	450,000.00
Special funds for high-and-new technologies	505,510.41	505,510.41
Government grants for reconstruction of power room of Meijing Mansion	131,490.00	87,660.00
Government supportive fund for technology reform assets	221,114.00	
Financial subsidies for promotion of high efficiency air-conditioners* <sup>5</sup>	129,035,637.00	414,690,000.00
Other government grants	20,396,053.37	42,806,955.08
<b>Subtotal</b>	<b>150,739,804.78</b>	<b>458,540,125.49</b>
<b>Total</b>	<b>158,309,699.37</b>	<b>459,191,555.08</b>



## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 41. Non-operating income and non-operating expenses (continued)

##### *Non-operating income (continued)*

- \*1 The government grants represented the project award of RMB3,000,000.00 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" (Fo Jing Mao [2007] No. 391), and the project award of RMB1,500,000.00 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" (Shun Fu Ban Han [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 of RMB3,000,000.00 and RMB1,500,000.00 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. In 2008, Ronshen Refrigerator has recognized income in the amount of RMB325,000.00. In 2009, income in the amount of RMB450,000.00 was recognized. In 2010, income in the amount of RMB450,000.00 was recognized. In 2011, remaining amount of RMB2,825,000.00 was recognized as deferred income.
- \*2 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. As at 31 December 2011, the balance of RMB2,527,552.07 was pending to be recognized as deferred income.
- \*3 Pursuant to Ron Gui Jie Ban Han [2010] No. 73, grants 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. During the period, income of RMB131,490.00 was recognized, and remaining amount of RMB1,095,750.00 was recognized as deferred income.
- \*4 Pursuant to Yue Jing Xin Ji Gai (2010) No. 1092 issued by Guangdong Provincial Department of Finance and Shunfubanhan (2010) No. 1023 issued by the Office of People's Government of Shunde District, Foshan City, a subsidiary of the Company, Rongshen Refrigerator has received the relevant grants in the amount of RMB5,000,000.00. An amount of RMB221,114.00 was recognized for the period, and remaining amount of RMB4,778,886.00 was recognized as deferred income.
- \*5 The government grants represented grants to the Company according to the Notice on Financial Subsidy Budget Benchmark for June-September 2010 to the Ministry of Finance in Relation to Promotion of High Efficiency and Energy Saving Air-Conditioners (Yue Cai Gong (2011) No. 35), Notice on Financial Subsidy Budget Benchmark for January-March 2011 to the Ministry of Finance in Relation to Promotion of High Efficiency and Energy Saving Air-Conditioners (Yue Cai Gong (2011) No. 234) and Notice on Financial Subsidy Budget Benchmark for April 2011 to the Ministry of Finance in Relation to Promotion of High Efficiency and Energy Saving Air-Conditioners (Yue Cai Gong (2011) No. 306) issued by the Guangdong Provincial Department of Finance, and Notice on Central Financial Subsidy Budget Benchmark for June-December 2010 in Relation to Promotion of High Efficiency and Energy Saving Air-Conditioners (Qing Cai Jian Zhi (2011) No. 28) and Notice on Central Financial Subsidy Budget Benchmark for January-March 2011 in Relation to Promotion of High Efficiency and Energy Saving Air-Conditioners (Qing Cai Jian Zhi (2011) No. 104) issued by the Qingdao Bureau of Finance in accordance with the requirements of the Temporary Regulations for the Government Subsidy Management for Promotion of High Efficiency and Energy-Saving Products (Finance Ministry Document Cai Jian [2009] No. 213), Implementation Rules for Promotion of High Efficiency Room Air-Conditioners (Finance Ministry Document Cai Jian [2009] No. 214, Cai Jian [2010] No. 149, Cai Jian [2010] No.539).

##### *Non-operating expenses*

Item	Amount for current period	Amount for previous period
Total loss on disposal of non-current assets	7,324,104.26	5,039,033.44
Including: Loss on disposal of fixed assets	7,324,104.26	5,039,033.44
Others	6,095,932.51	14,959,829.66
<b>Total</b>	<b>13,420,036.77</b>	<b>19,998,863.10</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 42. Income tax expenses

Item	Amount for current period	Amount for previous period
Current income tax	17,980,944.58	22,046,312.04
Including: current income tax calculated according to tax law and related regulations in Mainland China.	16,402,424.58	22,046,312.04
current income tax calculated according to tax law and related regulations in Hong Kong	1,578,520.00	
Deferred tax expenses	3,269,407.68	9,541,974.87
<b>Total</b>	<b>21,250,352.26</b>	<b>31,588,286.91</b>

Reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

Item	Amount for current period	Amount for previous period
Total profits	246,699,580.26	627,708,563.70
Income tax expense calculated at applicable tax rates	61,674,895.07	156,927,140.93
Tax effect of different rate applicable to subsidiaries	(6,963,570.45)	(11,607,261.78)
Adjustment of prior year income tax in the current year	3,269,407.68	9,541,974.87
Gain/(loss) attributable to jointly controlled entities and associates	(23,584,400.79)	(19,201,923.90)
Income not subject to tax	(5,981,608.71)	(2,332,993.57)
Non-deductible expense	33,935,932.72	41,910,684.40
Utilization of tax loss of previous periods	(65,720,607.51)	(178,101,542.87)
Unused tax losses not recognized as deferred tax assets	24,620,304.25	34,452,208.83
Others		
Income tax expense	21,250,352.26	31,588,286.91

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 43. Calculation of basic and diluted earnings per share

Item		Amount for current period	Amount for previous period
Net profits attributable to ordinary shareholders of the Company of the reporting period	P1	227,015,126.87	585,277,671.92
Non-recurring item attributable to ordinary shareholders of the Company of the reporting period	F	30,641,834.51	400,298,587.80
Net profits after non-recurring item attributable to ordinary shareholders of the Company of the reporting period	P2=P1-F	196,373,292.36	184,979,084.12
Effect of dilutive events on net profits attributable to ordinary shareholders of the Company	P3		
Effect of dilutive events on net profits after non-recurring item attributable to ordinary shareholders of the Company	P4		
Weighted average number of ordinary shares	S	1,354,054,750.00	1,340,843,434.25
Add: Additional weighted average number of ordinary shares assuming conversion of all dilutive potential ordinary shares to ordinary shares	X1		
Weighted average number of ordinary shares in the calculation of diluted earnings per share	X2=S+X1	1,354,054,750.00	1,340,843,434.25
Basic earnings per share attributable to ordinary shareholders of the Company	Y1=P1/S	0.1677	0.4365
Basic earnings per share attributable to ordinary shareholders of the Company after non-recurring items	Y2=P2/S	0.1450	0.1464
Diluted earnings per share attributable to ordinary shareholders of the Company	Y3=(P1 + P3)/X2	0.1677	0.4365
Diluted earnings per share attributable to ordinary shareholders of the Company after non-recurring items	Y4=(P2 + P4)/X2	0.1450	0.1464

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### 44. Other comprehensive incomes

Item	Amount for current period	Amount for previous period
1. Recognition of share of other comprehensive incomes of the investee based on equity method	(4,345.60)	
Less: Income tax effect arising from recognition of share of other comprehensive incomes of the investee based on equity method		
Add: Net amount accounted for as other comprehensive incomes in the previous period and transferred to profit and loss in the current period	(2,982,192.07)	(28,950,175.08)
<b>Subtotal</b>	<b>(2,986,537.67)</b>	<b>(28,950,175.08)</b>
2. Difference on translation of foreign currency financial statements	(6,378,506.57)	2,353,606.71
Less: Net amount transferred to gain/(loss) upon disposal of foreign operations in the current period		
<b>Subtotal</b>	<b>(6,378,506.57)</b>	<b>2,353,606.71</b>
3. Other		
Less: Income tax effect arising from other items under other comprehensive income		
Net amount of other items under other comprehensive income of previous period transferred in the current period		
<b>Subtotal</b>		
<b>Total</b>	<b>(9,365,044.24)</b>	<b>(26,596,568.37)</b>

#### 45. Notes to cash flow statements

##### *(1) Cash received relating to other operating activities*

Item	Amount for current period	Amount for previous period
Current accounts	172,650,948.02	191,971,553.27
Interest incomes	1,941,417.40	1,915,985.40
Government grants	158,309,699.37	459,191,555.08
Others	31,968,151.51	55,834,547.96
<b>Total</b>	<b>364,870,216.30</b>	<b>708,913,641.71</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### 45. Notes to cash flow statement *(continued)*

##### (2) *Cash paid relating to other operating activities*

<b>Item</b>	<b>Amount for current period</b>	<b>Amount for previous period</b>
Cash payments of general and administrative expenses	271,995,466.52	277,150,309.07
Cash payments of selling and distribution expenses	1,558,429,152.72	1,359,211,156.87
Bank charges	6,777,538.05	9,112,549.22
Others	86,292,841.68	98,426,277.87
<b>Total</b>	<b>1,923,494,998.97</b>	<b>1,743,900,293.03</b>

##### (3) *Cash received relating to financing activities*

<b>Item</b>	<b>Amount for current period</b>	<b>Amount for previous period</b>
Receipt of guarantee deposits	7,543,201.56	
<b>Total</b>	<b>7,543,201.56</b>	

##### (4) *Cash paid relating to financing activities*

<b>Item</b>	<b>Amount for current period</b>	<b>Amount for previous period</b>
Payment for guarantee deposits		2,027,500.95
<b>Total</b>		<b>2,027,500.95</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### 46. Supplementary information on cash flow statement

##### *(1) Supplementary information on cash flow statement*

Supplementary information	Amount for current period	Amount for previous period
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	225,449,228.00	596,120,276.79
Add: Provision for assets impairment	24,876,652.11	29,554,772.19
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets	331,432,793.12	339,539,578.10
Amortization of intangible assets	27,264,417.59	26,688,763.90
Amortization of long-term prepaid expenses	296,766.66	5,763,216.73
Loss on disposals of fixed assets, intangible and other long-term assets (Gain denoted in "bracket")	1,970,382.48	656,617.16
Loss on scrapping of fixed assets (Gain denoted in "bracket")		
Loss on change in fair value (Gain denoted in "bracket")	(4,961,913.35)	(17,632,914.80)
Financial expenses (Gain denoted in "bracket")	43,983,251.91	42,229,349.81
Investment loss (Gain denoted in "bracket")	(138,560,585.23)	(394,879,283.61)
Decrease in deferred tax assets (Increase denoted in "bracket")	3,269,407.68	9,541,974.87
Increase in deferred tax liabilities (Decrease denoted in "bracket")		
Decrease in inventory (Increase denoted in "bracket")	344,736,770.82	(776,580,040.33)
Decrease in operating receivables (Gain denoted in "bracket")	27,213,026.61	(619,022,319.52)
Increase in operating payables (Decrease denoted in "bracket")	(520,705,005.91)	1,395,589,596.80
Others		
Net cash flows from operating activities	366,265,192.49	637,569,588.09
<b>2. Significant investing and financing activities not involving cash receipts and payment:</b>		
Liabilities converted into assets equity		
Convertible company debentures due within one year		
Fixed assets under finance leases		
<b>3. Net movement in cash and cash equivalents:</b>		
Cash at the end of the period	396,814,919.98	419,921,513.93
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/(decrease) in cash and cash equivalents	(23,106,593.95)	218,685,101.71

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### 46. Supplementary information on cash flow statement *(continued)*

##### (2) *Information on disposal of subsidiaries and other operating units during the reporting period*

Item	<i>Unit: RMB'0000</i>	
	Amount for current period	Amount for previous period
Information on disposal of subsidiaries and other operating companies		
1. Consideration of disposal of subsidiaries and other operating companies	910.37	1,190.79
2. Cash and cash equivalents received from disposal of subsidiaries and other operating companies	865.00	1,190.79
Less: Cash and cash equivalents held by subsidiaries and other operating companies		
3. Net cash received from disposal of subsidiaries and other operating companies	865.00	1,190.79
4. Net assets of subsidiaries disposed	19,731.91	347.34
Current assets	19,619.64	1,957.19
Non-current assets	111.64	1,490.11
Current liabilities	(0.63)	3,099.96
Non-current liabilities		

##### (3) *Details of cash and cash equivalents*

Item	Ending balance	Opening balance
1. Cash		
Including: Cash on hand	166,157.33	171,985.82
Bank deposit that are readily available for payment	396,648,762.65	419,749,528.11
Other cash that are readily available for payment		
2. Cash equivalents		
Including: Bond investments due within three months		
3. Cash and cash equivalents as at the end of the period	396,814,919.98	419,921,513.93

#### 47. Net current assets

Item	Amount for current period	Amount for previous period
Current Assets (Consolidated)	4,435,201,230.69	4,848,717,684.21
Less: Current Liabilities (Consolidated)	6,162,158,773.54	6,826,184,045.40
Net Current Assets (Consolidated)	(1,726,957,542.85)	(1,977,466,361.19)
Current Assets (Parent Company)	4,024,527,726.67	3,755,591,683.45
Less: Current Liabilities (Parent Company)	5,227,092,433.23	5,430,286,773.26
Net Current Assets (Parent Company)	(1,202,564,706.56)	(1,674,695,089.81)

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 48. Total assets less current liabilities

Item	Amount for current period	Amount for previous period
Total Assets (Consolidated)	7,635,439,578.36	8,018,968,919.84
Less: Current Liabilities (Consolidated)	6,162,158,773.54	6,826,184,045.40
Total Assets less Current Liabilities (Consolidated)	1,473,280,804.82	1,192,784,874.44
Total Assets (Parent Company)	7,469,144,553.26	7,383,646,118.26
Less: Current Liabilities (Parent Company)	5,227,092,433.23	5,430,286,773.26
Total Assets Less Current Liabilities (Parent Company)	2,242,052,120.03	1,953,359,345.00

#### 49. Segment information

The Group manages its business by divisions which are organized by a mixture of both business lines and geographical locations. For the purpose of resource allocation and performance assessment, the management manages the operating results of each business segment separately, and the segment results are assessed based on the profits of the reporting segments.

##### (1) Segmental profit or loss and assets and liabilities

Amount for current period	Refrigerators	Air-conditioners	Freezers	Others	Elimination	Total
1. Revenue from external sales	8,246,154,462.25	6,516,774,558.25	669,210,867.37	1,316,309,388.26		16,748,449,276.13
2. Revenue from Inter-segment				491,507,674.29	(491,507,674.29)	
3. Share of profit of associates and jointly controlled entities	(1,853,188.38)	96,489,725.57		(298,934.03)		94,337,603.16
4. Depreciation and amortization	165,105,768.59	117,059,256.24	18,541,865.45	57,990,320.43		358,697,210.71
5. Gain from changes in fair value	5,539,845.99	(547,737.26)		(30,195.38)		4,961,913.35
6. Impairment losses on assets	20,574,240.66	2,097,039.31	2,117,761.70	87,610.44		24,876,652.11
7. Total profit (Total loss)	264,157,297.87	(95,856,125.44)	6,995,743.28	90,347,057.15	(18,944,392.60)	246,699,580.26
8. Income tax expenses				21,250,352.26		21,250,352.26
9. Net profit (net loss) (including minority interests)	264,157,297.87	(95,856,125.44)	6,995,743.28	69,096,704.89	(18,944,392.60)	225,449,228.00
10. Total assets	7,309,137,528.15	5,007,184,529.18	666,295,198.64	2,844,422,042.11	(8,191,599,719.72)	7,635,439,578.36
11. Total liabilities	4,816,526,137.42	4,125,554,419.92	447,868,041.23	2,184,594,106.92	(5,099,918,001.56)	6,474,624,703.93
12. Additions to other non-current assets other than long-term equity investments	220,001,135.23	86,720,778.70	13,645,189.71	38,299,885.98		358,666,989.62



## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 49. Segment information (continued)

##### (1) Segmental profit or loss and assets and liabilities (continued)

Continued from above table

Amount for last period	Refrigerators	Air-conditioners	Freezers	Others	Inter-segment elimination	Total
1. Revenue from external	7,989,072,423.25	5,979,521,256.25	765,864,732.82	1,096,503,076.57		15,830,961,488.89
2. Revenue from inter-segment				629,494,230.04	(629,494,230.04)	
3. Share of profit of in associates and jointly controlled entities	3,456,708.67	73,404,245.18		(53,258.27)		76,807,695.58
4. Depreciation and amortization	167,512,227.00	120,789,810.22	16,448,260.38	61,478,044.40		366,228,342.00
5. Gain from changes in fair value	9,855,375.51	11,591,842.52		(3,814,303.23)		17,632,914.80
6. Impairment losses on assets	6,461,689.22	10,412,813.88	108,310.11	12,571,958.98		29,554,772.19
7. Total profit (Total loss)	263,181,708.67	91,265,245.18	7,732,000.00	273,881,383.45	(8,351,773.60)	627,708,563.70
8. Income tax expenses				31,588,286.91		31,588,286.91
9. Net profit (net loss) (including minority interests)	263,181,708.67	91,265,245.18	7,732,000.00	242,293,096.54	(8,351,773.60)	596,120,276.79
10. Total assets	7,949,657,939.27	5,486,746,125.70	454,748,355.17	3,198,419,311.59	(9,070,602,811.89)	8,018,968,919.84
11. Total liabilities	5,435,743,107.41	4,688,527,536.82	287,572,547.80	2,448,916,465.63	(5,752,738,606.75)	7,108,021,050.91
12. Additions to other non-current assets other than long-term equity investments	293,733,230.03	93,286,297.77	19,318,291.11	42,976,073.37		449,313,892.28

##### (2) Geographic Information

Item	2011	2010
Revenue from external customers — Mainland	11,763,768,033.18	11,115,920,225.15
Revenues from external customers — Overseas	4,984,681,242.95	4,715,041,263.74
<b>Total</b>	<b>16,748,449,276.13</b>	<b>15,830,961,488.89</b>
Non-current assets — Mainland	2,778,410,063.08	2,676,565,058.72
Non-current assets — Overseas	421,828,284.59	493,686,176.91
<b>Total</b>	<b>3,200,238,347.67</b>	<b>3,170,251,235.63</b>

The Company is mainly operated in China Mainland, where the majority of non-current assets are all located, Therefore the further detailed regional information is unnecessarily to be reported.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 6. RELATED PARTIES AND RELATED TRANSACTIONS

#### 1. Particulars of the parent company

Unit: RMB'0000

Name of parent company	Relationship	Category of enterprise	Registration Address	Legal representative	Business nature
Qingdao Hisense Air-conditioning	Controlling shareholder	Foreign-sino joint venture	Qingdao	Tang Ye Guo	Manufacture of air-conditioners and moulds and after-sale services
Hisense Group	Ultimate holding shareholder	State wholly-owned	Qingdao	Zhou Hou Jian	Entrusted operation of state-owned assets; manufacture and sales of household appliances, communication products and services

Continued from above table

Name of parent company	Registered capital	Equity interest (%)	Voting rights (%)	Ultimate Holding Company	Organization code
Qingdao Hisense Air-conditioning	67,479	45.22%	45.22%	State-owned Assets Supervision and Administration Commission of Qingdao Municipal	61430651-4
Hisense Group	80,617			State-owned Assets Supervision and Administration Commission of Qingdao Municipal	16357877-1

2. For information on the subsidiaries, associates and joint ventures of the Company, please see note 4, note 5(9) and note 5(10).

#### 3. Greencool Companies

Name of related parties of Greencool Companies	Relationship with the Company
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

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 6. RELATED PARTIES AND RELATED TRANSACTIONS *(continued)*

#### 4. Other related parties of the Company

Name of other related parties	Other related parties Relationship with the Company	Institution code
Hisense Finance	Subsidiary of ultimate holding company	71788291x
Qingdao Hisense Electric Co., Ltd. ("Hisense Electrical Appliances")	Subsidiary of ultimate holding company	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 Huaao Electronics	
Beijing Xuehua Group Company Limited ("Xuehua Group")	Minority shareholder of Hisense Beijing	
Beijing Embraco Snowflake compressor Co., Ltd. ("Embraco")	Subsidiary of Xuehua Group	
Hisense International (HK) Co., Ltd. ("Hisense Hong Kong")	Subsidiary of ultimate holding company	

#### 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

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 6. RELATED PARTIES AND RELATED TRANSACTIONS (continued)

#### (6) Related party transactions

##### (1) Purchase of goods and receipt of services

Related party	Particulars of related parties transactions	Pricing and decision-making procedures of related parties transactions	Amount for current period		Amount for previous period	
			Amount	Percentage to similar transaction (%)	Amount	Percentage to similar transaction (%)
Hisense Whirlpool	Finished goods	Agreed price	437,593,469.15	2.88	335,100,969.65	2.26
Hisense Hitachi	Finished goods	Agreed price			379,235.19	
Hisense Group and its subsidiaries	Finished goods	Agreed price	120,098.36			
<b>Subtotal of purchase of finished goods</b>			<b>437,713,567.51</b>	<b>2.88</b>	<b>335,480,204.84</b>	<b>2.26</b>
Huayi Compressor and its subsidiaries	Raw materials	Agreed price	687,695,484.32	4.52	669,024,526.41	4.52
Embraco	Raw materials	Agreed price	40,512,368.84	0.27	54,096,125.32	0.37
Hisense Whirlpool	Raw materials	Agreed price	4,262,261.63	0.03	24,613,728.56	0.17
Hisense Hitachi	Raw materials	Agreed price	4,778,686.37	0.03	2,265,051.93	0.02
Hisense Group and its subsidiaries	Raw materials	Agreed price	6,613,394.86	0.04	136,917,906.26	0.93
Hisense Electrical Appliances and its subsidiaries	Raw materials	Agreed price	13,177,430.14	0.09	2,868,671.39	0.02
<b>Subtotal of purchase of raw materials</b>			<b>757,039,626.16</b>	<b>4.98</b>	<b>889,786,009.87</b>	<b>6.01</b>
Hisense Group and its subsidiaries	Mould and equipment	Agreed price	728,754.01		3,565,801.85	0.02
Hisense Electrical Appliances and its subsidiaries	Mould and equipment	Agreed price	82,632.14			
Hisense Whirlpool	Mould and equipment	Agreed price	1,110,062.58	0.01		
<b>Subtotal of purchase of moulds and equipment</b>			<b>1,921,448.73</b>	<b>0.01</b>	<b>3,565,801.85</b>	<b>0.02</b>
Hisense Group and its subsidiaries	Receipt of services	Agreed price	154,899,089.57	1.02	25,294,947.72	0.17
Attend	Receipt of services	Agreed price			5,901.59	
Hisense Electrical Appliances and its subsidiaries	Receipt of services	Agreed price	18,284,617.50	0.12	20,099,957.22	0.14
Xuehua Group	Receipt of services	Agreed price	8,000,920.86	0.05		
<b>Subtotal of receipt of services</b>			<b>181,184,627.93</b>	<b>1.19</b>	<b>45,400,806.53</b>	<b>0.31</b>
Hisense Hong Kong	Factoring purchase		156,524,642.03	1.03		
<b>Subtotal of financing purchase</b>			<b>156,524,642.03</b>	<b>1.03</b>		

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 6. RELATED PARTIES AND RELATED TRANSACTIONS *(continued)*

#### (6) Related party transactions *(continued)*

##### (1) *Purchase of goods and receipt of services (continued)*

- (1) Hisense Kelon and the 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 purchaser and recipient of services was subject to an upper 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, During the effective period of the agreement, the transaction with Hisense Kelon being the purchaser and recipient of services was subject to an upper limit (inclusive of tax) of RMB873,180,000.
- (3) Hisense Kelon and Huayi Compressor have entered into a Purchase and Supply of Compressors Framework Agreement on 3 December 2010, During the effective period of the agreement, the transaction with Hisense Kelon being the purchaser and recipient of services was subject to an upper limit (inclusive of tax) of RMB1,260,000,000.
- (4) 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 purchaser and recipient of services was subject to an upper limit (inclusive of tax) of RMB19,000,000.
- (5) Hisense Kelon and Embraco have entered into a Purchase and Supply of Compressors Framework Agreement on 3 December 2010, During the effective period of the agreement, the transaction with Hisense Kelon being the purchaser and recipient of services was subject to an upper 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, During the effective period of the agreement, the transaction in which Hisense Kelon engaged Xuehua Group to provide property services was subject to an upper 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, During the effective period of the agreement, the transaction in which Hisense Kelon shall perform factoring purchase through Hisense Hong Kong was subject to an upper limit of USD150,000,000.

The above agreements were considered and approved at the fifteenth interim meeting of the Company's seventh session of the board of directors in 2010 convened on 3 December 2010, the first interim general meeting in 2011 convened on 20 January 2011 and the annual general meeting of 2010 convened on 27 June 2011.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 6. RELATED PARTIES AND RELATED TRANSACTIONS (continued)

#### (6) Related party transactions (continued)

##### (2) Sale of goods and rendering of service

Name of related party	Particulars of related parties transactions	Pricing policies and procedures for decision-making	Amount for current period		Amount for previous period	
			Amount	Percentage to similar transaction (%)	Amount	Percentage to similar transaction (%)
Hisense Electrical Appliances and its subsidiaries	Finished goods	Agreed price	2,154,249.57	0.01	2,288,444.64	0.01
Hisense Whirlpool	Finished goods	Agreed price	359,940.53	185,265.25		
Hisense Hitachi	Finished goods	Agreed price	31,502,205.89	0.17	9,763,145.30	0.06
Hisense Group and its subsidiaries	Finished goods	Agreed price	1,544,072,482.85	8.35	903,215,764.24	5.11
<b>Subtotal of sales amount of finished product</b>			<b>1,578,088,878.84</b>	<b>8.53</b>	<b>915,452,619.43</b>	<b>5.17</b>
Hisense Whirlpool	Raw materials	Agreed price	6,635,647.13	0.04	5,612,621.70	0.03
Huayi Compressor	Raw materials	Agreed price			561,305.13	
Hisense Group and its subsidiaries	Raw materials	Agreed price	34,645,035.85	0.19	31,348,680.41	0.18
Hisense Hitachi	Raw materials	Agreed price	746,503.14		1,782.44	
Hisense Electrical Appliances and its subsidiaries	Raw materials	Agreed price	80,117.74		1,249,107.20	0.01
<b>Subtotal of sales amount of raw materials</b>			<b>42,107,303.86</b>	<b>0.23</b>	<b>38,773,496.88</b>	<b>0.22</b>
Hisense Group and its subsidiaries	Mould	Market price	119,115,888.69	0.64	104,026,153.73	0.59
Hisense Hitachi	Mould	Market price			87,350.43	
Hisense Whirlpool	Mould and equipment	Market price	854,700.85		3,355,513.05	0.02
Hisense Electrical Appliances and its subsidiaries	Mould	Market price	47,754,580.06	0.26	49,864,734.28	0.28
<b>Subtotal of sales amount of moulds</b>			<b>167,725,169.60</b>	<b>0.90</b>	<b>157,333,751.49</b>	<b>0.89</b>
Attend		Agreed price	53,770.94		65,648.40	
Hisense Electrical Appliances and its subsidiaries		Agreed price	307,692.31		315,600.00	
Hisense Whirlpool		Agreed price	625,111.97		562,602.00	
Hisense Group and its subsidiaries		Agreed price	153,393.26			
<b>Subtotal of rendering of services</b>			<b>1,139,968.48</b>	<b>0.01</b>	<b>943,850.40</b>	

- (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 (inclusive of tax) 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 and service provider was subject to an upper limit (inclusive of tax) of RMB65,950,000.
- (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 and service provider was subject to an upper limit (inclusive of tax) of RMB71,000,000.

The above agreements were considered and approved at the first interim meeting of the Company's seventh session of the board of directors in 2010 convened on 20 January 2010 and the annual general meeting of 2010 convened on 27 June 2011 respectively.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 6. RELATED PARTIES AND RELATED TRANSACTIONS (continued)

#### (6) Related party transactions (continued)

##### (3) Particulars of related party guarantees

Guarantor	Guaranteed party	Amount (RMB'0000)	Effective date of guarantee	Expiry date of guarantee	Nature of guarantee	Guarantee completed
Hisense Group	The Company	8,000.00	2011.05.24	2012.05.23	Borrowings	No
Hisense Group	The Company	2,500.00	2011.09.21	2012.09.20	Borrowings	No
Hisense Group	The Company	9,000.00	2011.10.18	2012.10.17	Borrowings	No
Hisense Group	The Company	7,500.00	2011.10.20	2012.10.19	Borrowings	No
Hisense Group	The Company	8,000.00	2011.10.24	2012.10.23	Borrowings	No
Hisense Group	Ronshen Refrigerator	6,750.00	2011.05.20	2012.05.18	Borrowings	No
Hisense Group	Ronshen Refrigerator	8,500.00	2011.09.20	2012.09.19	Borrowings	No
Hisense Group	Ronshen Refrigerator	6,000.00	2011.10.12	2012.03.29	Borrowings	No
Hisense Group	Ronshen Refrigerator	6,000.00	2011.10.13	2012.04.09	Borrowings	No
Hisense Group	Ronshen Refrigerator	8,000.00	2011.10.14	2012.10.12	Borrowings	No
Hisense Group	The Company	1,480.60	2011.10.28	2012.04.28	Discounted notes reclassified as borrowings	No
Hisense Group	The Company	851.59	2011.11.23	2012.05.22	Discounted notes reclassified as borrowings	No
Hisense Group	The Company	2,000.00	2011.12.16	2012.06.15	Discounted notes reclassified as borrowings	No
Hisense Group	The Company	2,000.00	2011.12.19	2012.06.19	Discounted notes reclassified as borrowings	No
Hisense Group	Ronshen Refrigerator	4,500.00	2011.12.16	2012.06.15	Discounted notes reclassified as borrowings	No
Hisense Group	The Company	200.00	2011.11.28	2012.05.28	Discounted notes reclassified as borrowings	No
Hisense Group	The Company	6,300.90	2011.07.26	2012.08.10	Borrowings denominated in USD	No
<b>Subtotal of borrowings</b>		<b>87,583.09</b>				
Hisense Group	The Company	2,696.85	2011.11.28	2012.02.28	Bank acceptance notes	No
Hisense Group	The Company	373.93	2011.11.28	2012.05.28	Bank acceptance notes	No
Hisense Group	The Company	3,777.65	2011.12.21	2012.03.21	Bank acceptance notes	No
Hisense Group	The Company	147.53	2011.12.21	2012.06.21	Bank acceptance notes	No
Hisense Group	The Company	2,410.00	2011.10.31	2012.01.31	Bank acceptance notes	No
Hisense Group	The Company	1,830.14	2011.10.31	2012.04.30	Bank acceptance notes	No
Hisense Group	The Company	20,000.00	2011.09.27	2012.03.27	Bank acceptance notes	No
Hisense Group	Hisense Shandong	345.00	2011.10.31	2012.1.31	Bank acceptance notes	No
Hisense Group	Hisense Shandong	2,353.00	2011.10.31	2012.4.30	Bank acceptance notes	No
Hisense Group	Hisense Shandong	511.00	2011.11.30	2012.02.28	Bank acceptance notes	No
Hisense Group	Hisense Shandong	1,129.00	2011.11.30	2012.05.30	Bank acceptance notes	No
Hisense Group	Hisense Shandong	3,022.89	2011.12.21	2012.06.19	Bank acceptance notes	No
<b>Subtotal of bank acceptance notes</b>		<b>38,596.99</b>	—	—		

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 6. RELATED PARTIES AND RELATED TRANSACTIONS *(continued)*

#### (6) Related party transactions *(continued)*

##### (3) *Particulars of related party guarantees*

Particulars of related party guarantee:

- (1) In February 2011, the Company and Hisense Finance have entered into Hai Xin Shou Xin Zi No. 025 Consolidated Credit Contract, pursuant to which, the Company might apply to Hisense Finance for the utilization of a maximum credit limit 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 Hai Xin Gao Bao Zi No. 013 to guarantee for the repayment of loan by the Company on 30 February 2011.
- (2) In December 2010, Ronshen Refrigerator and Hisense Finance have entered into Hai Xin Shou Xin Zi No. 024 Consolidated Credit Contract, pursuant to which, Ronshen Refrigerator might apply to Hisense Finance for the utilization of a maximum credit limit 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 Hai Xin Gao Bao Zi No. 012 to guarantee for the repayment of loan by Ronshen Refrigerator on 30 December 2010.
- (3) In October 2011, Hisense Group and the Qingdao Shandong Road branch of Industrial and Commercial Bank of China Limited have entered into a 3803001-2011 Ying Ye (Bao) Zi No. 0025 Maximum Guarantee Contract, pursuant to which Hisense Shandong would provide guarantee securities for the liabilities under the maximum credit limit of RMB200,000,000 applied from the Qingdao Shandong Road branch of Industrial and Commercial Bank of China Limited during the period from 22 October 2011 to 31 December 2012.
- (4) On 11 May 2011, the Guangzhou branch of ANZ issued a letter of standby credit in favor of the Company, which was guaranteed by Hisense Group in favor of the Company. The letter of credit was used to offer a guarantee by the Company for a US\$10,000,000 loan granted to KII by the Hong Kong Branch of ANZ, with the beneficiary being the Hong Kong branch of ANZ, in a term of guarantee from 26 July 2011 to 10 August 2012.
- (5) As at 31 December 2011, the Company and its subsidiaries had a balance of loan with Hisense Finance in the amount of RMB702,500,000, discounted notes reclassified as short-term borrowings in the amount of RMB110,321,900 and a balance of deposit of RMB177,369,500. For the year, the credit interests paid to Hisense Finance by the Company amounted to RMB35,728,400, interests paid in related to discounted notes amounted to RMB4,718,700 and handling fees paid amounted to RMB36,000, and the interest income received from Hisense Finance amounted to RMB901,600.



## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 6. RELATED PARTIES AND RELATED TRANSACTIONS *(continued)*

#### (7) Receivables from and payables to related parties

##### (1) *Receivables from related parties*

Item	Related party	Ending balance		Balance at the beginning of the period	
		Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Trade receivables	Hisense Electrical Appliances and its subsidiaries	5,680,553.92		2,477,547.69	
Trade receivables	Hisense Group and its subsidiaries	275,640,454.10	863,752.76	126,459,466.69	863,752.76
Trade receivables	Hisense Whirlpool	2,784,028.98		6,488,959.73	
Trade receivables	Hisense Hitachi			14,600.00	
Trade receivables	Huayi Compressor and its subsidiaries	217,666.55		44,603.55	
	<b>Subtotal</b>	<b>284,322,703.55</b>	<b>863,752.76</b>	<b>135,485,177.66</b>	<b>863,752.76</b>
Notes receivable	Hisense Electrical Appliances and its subsidiaries			3,520,000.00	
Notes receivable	Hisense Group and its subsidiaries	31,152,446.57		44,598,266.66	
	<b>Subtotal</b>	<b>31,152,446.57</b>		<b>48,118,266.66</b>	
Other receivables	Shunde Yunlong Consultancy	4,455,375.57	4,455,375.57	4,455,375.57	4,455,375.57
Other receivables	Hisense Electrical Appliances and its subsidiaries	200,000.00		200,000.00	
Other receivables	Hisense Group and its subsidiaries	6,420.00			
Other receivables	Hisense Whirlpool	431,841.02		2,454,755.40	
	<b>Subtotal</b>	<b>5,093,636.59</b>	<b>4,455,375.57</b>	<b>7,110,130.97</b>	<b>4,455,375.57</b>
Prepayments	Hisense Group and its subsidiaries	1,123,591.99		2,396,955.42	
Prepayments	Attend			3,364.00	
	<b>Subtotal</b>	<b>1,123,591.99</b>		<b>2,400,319.42</b>	

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 6. RELATED PARTIES AND RELATED TRANSACTIONS *(continued)*

#### (7) Receivables from and payables to related parties *(continued)*

##### (2) Payables to related parties

Item	Related party	Ending balance	Opening balance
Trade receivables	Huayi Compressor and its subsidiaries	146,198,325.53	137,261,716.73
Trade receivables	Embraco	6,649,203.00	8,407,027.00
Trade receivables	Hisense Group and its subsidiaries	19,701,923.51	35,984,693.93
Trade receivables	Hisense Electrical Appliances and its subsidiaries		33,266.88
Trade receivables	Hisense Whirlpool	116,870,313.04	149,099,763.78
<b>Subtotal</b>		<b>289,419,765.08</b>	<b>330,786,468.32</b>
Other payables	Hisense Group and its subsidiaries	1,717,184.03	3,997,381.52
Other payables	Huayi Compressor and its subsidiaries	200,000.00	200,000.00
Other payables	Embraco	100,000.00	100,000.00
Other payables	Xi'an Gaoke	2,358,041.00	2,358,041.00
Other payables	Combine	5,099,880.00	5,099,880.00
<b>Subtotal</b>		<b>9,475,105.03</b>	<b>11,755,302.52</b>
Advances from customers	Hisense Hitachi		933,827.22
Advances from customers	Hisense Group and its subsidiaries	37,762,190.02	2,630,421.51
<b>Subtotal</b>		<b>37,762,190.02</b>	<b>3,564,248.73</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 6. RELATED PARTIES AND RELATED TRANSACTIONS *(continued)*

#### (8) Transactions with “specific third parties”

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

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 6. RELATED PARTIES AND RELATED TRANSACTIONS *(continued)*

#### (9) Transactions with Greencool Companies

Item	Related parties	Ending balance	Opening balance
Other receivables	Guangdong Greencool	13,754,600.00	13,754,600.00
	Shenzhen Greencool	33,000,000.00	33,000,000.00
	Environmental		
	Shenzhen Greencool	32,000,000.00	32,000,000.00
	Technology		
	Hainan Greencool	12,289,357.71	12,289,357.71
<b>Subtotal of other receivables</b>		<b>91,043,957.71</b>	<b>91,043,957.71</b>
Other payables	Jiangxi Greencool	13,000,000.00	13,000,000.00
<b>Subtotal of other payables</b>		<b>13,000,000.00</b>	<b>13,000,000.00</b>

### 7. SHARE-BASED PAYMENT

#### 1. General information about share-based payments

Item	Amount for current period
Total equity instruments granted during the period	1,560,000.00
Total equity instruments exercised during the period	
Total equity instruments expired during the period	
Range of exercise price of share option outstanding and remaining term of contract as the end of the period	Exercise price of share option was RMB7.65, with a remaining term of contract term of 369 days
Range of exercise price of other equity instruments and remaining term of contract as at the end of the period	

#### 2. Equity settled share-based payments

Item	Amount for current period
Determination on fair value of equity instruments as the date of grant	Fair value of share options under the Scheme calculated by using the Black-Scholes option pricing model
Determination on the best estimate of quantity of exercisable equity instruments	Determined by the number of incentive objects, expected gain of share option and performance assessment of incentive objects, etc
Reasons for significant discrepancies between estimate of current and previous period	Nil
Accumulated amount of equity settled share-based payments in capital reserve	1,560,000.00
Total expense recognized for equity settled share-based payments	1,560,000.00

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 7. SHARE-BASED PAYMENT (continued)

#### 3. Share-based services

Item	Amount for current period
Total amount of employee services as a result of the share-based payments	1,560,000.00
Total amount of other services as a result of the share-based payments	

#### 4. Shares granted

Category	Exercise price	Outstanding as at 1 January 2011	Transferred from other categories during the year	Granted during the year	Exercised during the year	Expired during the year	Outstanding as at 31 December 2011
Directors	RMB7.65			2,808,000			2,808,000
Senior management	RMB7.65			2,484,000			2,484,000
Other management	RMB7.65			14,218,000			14,218,000
<b>Total</b>				<b>19,510,000</b>			<b>19,510,000</b>

The Board has completed the registration for the grant of share options under the First Share Option Incentive Scheme of Hisense Kelon Electrical Holdings Company Limited under the authorization granted at the general meeting of the Company on 28 September 2011, the basic information as follows:

- (1) Date of grant: 31 August 2011
- (2) Exercise price: RMB7.65 per share.
- (3) Option abbreviation: Hisense JLC1
- (4) Option code: 037018
- (5) The share options valid for five years from the date of authorization, subject to a restriction period of 2 years. The incentive participants may exercise their options in equal installments within 3 years from the third year of the date of grant, with 33%, 33% and 34% of the total options granted being exercisable each year.
- (6) The incentive participants may include: the directors of the Company (exclusive of the independent directors and external directors who are not officers of the Hisense Group and its subsidiaries (other than the Company and its subsidiaries), senior management (including president, vice president, financial controller, Board secretary, company secretary and other officers which are regarded as senior management under the Articles of Association) of the Company, mid-level management staff of the Company and its subsidiaries, and technical backbone determined by the Board.
- (7) The fund to be used for exercise of share options by the participants shall be raised by themselves and the Company does not provide borrowings or any other kind of financial assistance to the participants under the Scheme (including guarantee for their borrowings).
- (8) 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 objections.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 8. CONTINGENCIES

#### 1. Contingent Liabilities arising from pending litigation and their financial effect

As at 31 December 2011, the pending litigations involving the Company are summarized as follows:

##### (1) Cases with the Company as the plaintiff

Plaintiff	Defendant	Causes	Total amount involved
Ronshen Refrigerator <sup>*1</sup>	Xi'an Kelon	Delinquency of purchase amount	99,984,100.00
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	Others		5,080,430.00
<b>Total</b>			<b>118,807,505.57</b>

<sup>\*1</sup> In December 2008, the Foshan Intermediate Court 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. The Guangdong Higher Court overturned the civil judgment ((2007) Fo zhong Fa Min Er Chu Zi No. 88) of the Foshan Intermediate Court and ordered a retrial of the case by the Foshan Intermediate Court. On 23 December 2011, the Company received the civil judgment (2010) Fo Zhong Fa Min Er Chong Zi No. 2 from the Foshan Intermediate Court. The Foshan Intermediate Court made the first instance judgment for the retrial, according to which Xi'an Kelon had to pay to Ronshen Refrigerator for the debt in the amount of RMB87,314,200 together with relevant interests. As this judgment has not become effective, the Company is not in a position to ascertain the impact of this judgment on the profit of the Company.

##### (2) Cases with the Company as the defendant

Plaintiff	Defendant	Cause	Total amount involved
Supplier of raw materials	The Company	Dispute over sale and purchase contract and processing contract	28,565,082.36
Other	The Company	Labor dispute and others	7,961,320.00
<b>Total</b>			<b>36,526,402.36</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 8. CONTINGENCIES (continued)

#### 1. Contingent Liabilities arising from pending litigation and their financial effect (continued)

##### (3) Cases for which the judgment was in favor of the Company and become effective but was not yet executed

Greencool case:

Plaintiff	Defendant	Cause	Total amount involved
The Company*	Greencool and Gu Chu Jun	Fraud in purchase; capital infringement	725,414,350.00
<b>Total</b>			<b>725,414,350.00</b>

\* As at 12 August 2009, the Company had received civil judgment, namely (2009) Yuegao Faliminzhongzi Nos. 238, 171, 172 and 116 and (2008) Yue Gao Fa Li Min Zhong Zi 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"), being 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 namely (2006) Fo Zhong Fa Min Er Chu Zi Nos. 11, 12, 13, 10, 14, 153, 184, 185, 180, 154, 175, 181, 182 and 186 from the Foshan Intermediate Court become effective from the date of delivery of the 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 the civil judgment, namely (2008) Yue Gao Fa Li Min Zhong Zi No. 190 and No. 191 from the Guangdong Higher Court, being the final judgments in respect of the litigations instituted by the Company against Gu Chu Jun, the Greencool Companies and the specific third parties, which stated the civil judgments numbered (2006) Fo Zhong Fa Min Er Chu Zi Nos. 93 and 94 from the Foshan Intermediate Court become effective from the date of delivery of the final civil judgment from the Guangdong Higher Court mentioned above, and the judgments were in favor of the Company.

On 15 August 2008, the Company received a notice from the Foshan Intermediate Court, stating that as the defendants had not appealed within the prescribed period under the law, the civil judgment, namely (2006) Fo Zhong Fa Min Er Chu Zi No. 179 and (2007) Fo Zhong Fa Min Er Chu Zi No. 56 from the Foshan Intermediate Court became effective, and the judgments were in favor of the Company.

On 9 January 2009, the Company received the civil judgment, namely (2006) Fo Zhong Fa Min Er Chu Zi No. 183 from the Foshan Intermediate Court, being the 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 legal proceedings was dismissed due to insufficiency of evidence submitted by the Company.

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

In 2011, the above cases have not been executed by the relevant courts and it was determined that there was no actual difference in the recoverability as compared to 2010.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 8. CONTINGENCIES (continued)

#### 1. Contingent Liabilities arising from pending litigation and their financial effect (continued)

##### (3) Cases for which the judgment was in favor of the Company and become effective but was not yet executed (continued)

Other cases:

Plaintiff	Defendant	Cause	Total amount involved
The Company	Shanqiu Kelon	Purchase amount outstanding	25,660,900.00
<b>Total</b>			<b>25,660,900.00</b>

It represented the request of the Company to the defendants to repay the purchase amount for goods and the related interests and bear all the litigation fees. The civil judgment is now in effect.

### 9. COMMITMENT

As at 31 December 2011, the assets of the Company and its subsidiaries used as securities for borrowings are as follows:

Mortgagor	Mortgagee	Balance of finance (RMB'0000)	Name of securities	Pledge/security contracts	Valuation amount (RMB'0000)	Net carrying amount of security (RMB'0000)
Yangzhou Kelon			Buildings at Nos. 9 and 19 Hungyang Road	GDY476400120100007	17,702.02	10,878.76
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	4,182.13
The Company	Shunde, Foshan Branch of The Bank of China Limited	21,809.60	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	15,206.39
Kelon Fittings			Buildings at the side of Rongji Bridge, Buildings at the side of Rongji Bridge	GDY476400120100006	5,566	3,759.34
Kelon Air-Conditioner			No. 1 Rongji Road, side of Rongji Bridge	GDY476400120100009	25,751	9,953.51



## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 10. EVENTS AFTER THE BALANCE SHEET DATE

On 12 January 2012, the Company and Shanxi Qidi Science and Technology Park Development Co., Ltd. (“Shanxi Qidi”) entered into the equity transfer contract in relation to the transfer of the 60% equity interests in Xi’an Kelon Cooling Co., Ltd. (“Xi’an Kelon”) held by the Company to Shanxi Qidi for a consideration of RMB10,580,000, and to transfer the relevant debts owed by Xi’an Kelon to the Company to Shanxi Qidi for a consideration of RMB100,000,000. The total consideration of the transaction was RMB110,580,000.

This equity and debts transfer have been passed upon consideration at the first interim meeting in 2012 convened on 12 January 2012 by the seventh session of the Board of the Company.

### 11. OTHER SIGNIFICANT EVENTS

#### 1. Assets and liabilities measured at fair value

Item	Opening balance	Amount of financial assets	Gain/(loss) from change in fair value	Impairment provision for the period	Ending balance
Financial assets					
Derivative financial assets	28,150,388.56	5,637,307.68	5,637,307.68		33,787,696.24
<b>Subtotal of financial assets</b>	<b>28,150,388.56</b>	<b>5,637,307.68</b>	<b>5,637,307.68</b>		<b>33,787,696.24</b>
Derivative financial liabilities	(5,960,727.44)	(675,394.33)	(675,394.33)		(6,636,121.77)
<b>Subtotal of financial liabilities</b>	<b>(5,960,727.44)</b>	<b>(675,394.33)</b>	<b>(675,394.33)</b>		<b>(6,636,121.77)</b>

#### 2. Financial risk management objectives and policies

The Company’s major financial instruments include: cash at bank and on hand, derivative financial instruments, notes receivable, trade receivables, other receivable, notes payable, trade payables, other payables, bank borrowings. Details of the financial instruments were disclosed in the relevant notes.

Risks associated with the above financial instruments include: credit risk, liquidity risk, interest rate risk and foreign currency risk.

##### (1) Credit risk

Credit risk is the risk exposed to the Company on financial losses arising from the failure of clients or financial instrument counterparties to fulfill contract obligations. It arises mainly from the bank balances, trade and other receivables and financial derivative.

The Company maintains substantially all of its bank balances in several major large state banks in the PRC. In strong support of the country on those banks, the Board is of the opinion that there is no significant credit risk exposed to losses associated with such assets.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

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### 11. OTHER SIGNIFICANT EVENTS *(continued)*

#### 2. Financial risk management objectives and policies *(continued)*

##### (1) *Credit risk (continued)*

The Company mitigates its exposure to risk relating to trade and other receivables by dealing with diversified customers with solid financial foundation. Certain new customers are required to place cash deposits with the Group to reduce the maximum exposure to credit risk. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk. In addition, all receivable balances are monitored on an ongoing basis and overdue balances are followed up by senior management.

The credit risk on derivative instruments is not significant as the counterparties are high creditworthy banks rated by international credit-rating agencies.

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

##### (2) *Liquidity risk*

In the management of liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequately by management to finance the Company's operations and mitigate the effects of short-term fluctuations in cash flows. The Company's treasury department is responsible for maintaining a balance between continuity of funding and flexibility through the use of bank credit and loan in order to meet the Company's liquidity requirements.

In order to mitigate the liquidity risk, the directors have carried out a detailed review of the liquidity of the Company, including maturity profile of its trade and other payables, borrowings and availability of loan financing provided by Hisense Finance and future renewal of bank borrowings, it is concluded that adequate funding is available to fulfill the Group's short-term obligations and capital expenditure requirements.

##### (3) *Interest rate risk*

The Company is exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks, which are mostly short-term in nature whereas interest-bearing financial liabilities are primarily short-term bank borrowings. As at 31 December 2011, the Company's short-term bank borrowings were at fixed rate. As all the Company's borrowings were short term loans, any change in the interest rate from time to time is not considered to have significant impact to the Company's performance.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 11. OTHER SIGNIFICANT EVENTS *(continued)*

#### 2. Financial risk management objectives and policies *(continued)*

##### *(4) Foreign Currency risk*

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

The carrying amounts of the Company's monetary assets and monetary liabilities denominated in foreign currencies at the end of reporting period are as follows:

Currency	Ending balance		Opening balance	
	Assets	Liabilities	Assets	Liabilities
USD	566,052,696.12	105,444,838.96	663,067,000.00	490,664,000.00
Euro	120,539,277.81	8,380,259.01	396,320,000.00	123,060,000.00

The following table indicates the approximate effect of reasonably possible foreign exchange rate changes on the net profit, to which the Group has significant exposure at the end of reporting period:

Sensitivity analysis of change in exchange rate:

Item	2011	2010
	Increase/Decrease in profit after tax	Increase/Decrease in profit after tax
<b>USD to RMB</b>		
Appreciates by 5%	17,272,794.64	6,465,112.50
Depreciates by 5%	(17,272,794.64)	(6,465,112.50)
<b>Euro to RMB</b>		
Appreciates by 5%	4,205,963.21	10,247,250.00
Depreciates by 5%	(4,205,963.21)	(10,247,250.00)

Sensitivity analysis of change in forward rate:

Item	2011	2010
	Increase/Decrease in profit after tax	Increase/Decrease in profit after tax
<b>USD to RMB</b>		
Appreciates by 5%	(8,706,300.00)	(91,028,750.00)
Depreciates by 5%	8,706,300.00	91,028,750.00
<b>Euro to RMB</b>		
Appreciates by 5%	(582,375.00)	(4,789,375.00)
Depreciates by 5%	582,375.00	4,789,375.00

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 11. OTHER SIGNIFICANT EVENTS *(continued)*

#### 3. Capital management

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 31 December 2010.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes bank and other borrowings, trade payables, notes payable, other payables and debentures payables, less cash and cash equivalents. The gearing ratios as at the end of the reporting periods were as follows:

Item	2011	2010
Total debt	6,474,624,703.93	7,108,021,050.91
Including: Short-term borrowings	1,004,998,894.20	1,101,261,835.85
Trade payables	2,054,610,132.81	2,385,166,608.32
Notes payable	612,667,073.33	810,263,300.00
Other payables	1,156,195,947.88	1,109,408,607.20
Less: Cash and cash equivalents	396,814,919.98	419,921,513.93
<b>Net debt</b>	<b>6,077,809,783.95</b>	<b>6,688,099,536.98</b>
<b>Equity attributable to shareholders of the parent</b> <b>(adjusted capital)</b>	<b>805,123,597.33</b>	<b>541,241,410.07</b>
<b>Capital and net debt</b>	<b>6,882,933,381.28</b>	<b>7,229,340,947.05</b>
<b>Gearing ratio</b>	<b>88.30%</b>	<b>92.51%</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 11. OTHER SIGNIFICANT EVENTS (continued)

#### 4. Directors and supervisors' emoluments

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

##### (1) As at 31 December 2011

*Unit: RMB'0000*

Name	Position	Emoluments of independent director	Salaries and allowances	Pension scheme contributions	Total
<b>Executive director</b>					
Tang Ye Guo	Chairman		90	1.04	91.04
Yu Shu Min	Director				
Lin Lan	Director				
Xiao Jian Lin	Director				
Liu Chun Xin	Director		35.65	0.6	36.25
Zhou Xiao Tian	Director		34.67	34.67	
Ren Li Ren	Director and President		61.71	1.45	63.16
<b>Independent non- executive director</b>					
Zhang Sheng Ping	Independent non-executive Director	9			9
Wang Ai Guo	Independent non-executive Director	9			9
Wang Xin Yu	Independent non-executive Director	6			6
Cheung Yui Kai, Warren	Former independent non-executive Director	16			16
<b>Supervisor</b>					
Guo Qing Cun	Supervisor				
Gao Zhong Xiang	Supervisor				
Liu Zhan Cheng	Supervisor		41	1.03	42.03
<b>Total</b>		<b>40</b>	<b>263.03</b>	<b>4.12</b>	<b>307.15</b>

Particulars:

- (1) During the year, no emoluments were paid by the Company to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived or agreed to waive any emoluments during the year.
- (2) Mr. Xiao Jian Lin was appointed on 20 January 2011; Mr. Ren Li Ren was appointed on 1 August 2011; Mr. Wang Ai Guo was appointed on 20 January 2011; Mr. Wang Xin Yu was appointed on 26 September 2011; Mr. Cheung Yui Kai, Warren resigned on 29 July 2011; Ms. Liu Chun Xin resigned on 15 September 2011; and Mr. Zhou Xiao Tian resigned on 27 June 2011.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 11. OTHER SIGNIFICANT EVENTS *(continued)*

#### 4. Directors and supervisors' emoluments *(continued)*

##### (1) As at 31 December 2010

*Unit: RMB'0000*

Name	Emoluments of independent director	Salaries and allowances	Pension scheme Contributions	Total
<b>Executive director</b>				
Tang Ye Guo		67.10	0.40	67.50
Yu Shu Min				
Lin Lan				
Liu Chun Xin		34.80	0.40	35.20
Zhang Ming		18.50	0.30	18.80
Zhou Xiao Tian		98.00		98.00
<b>Independent non-executive director</b>				
Zhang Sheng Ping	6.00			6.00
Lu Qing	6.00			6.00
Cheung Yui Kai, Warren	24.00			24.00
<b>Supervisor</b>				
Guo Qing Cun				
Gao Zhong Xiang				
Liu Zhan Cheng		58.70	0.40	59.10
<b>Total</b>	<b>36.00</b>	<b>277.10</b>	<b>1.50</b>	<b>314.60</b>

Particulars: Mr. Zhang Ming resigned on 2 December 2010; Mr. Lu Qing resigned on 26 September 2010.

##### (2) Five highest paid individuals

In 2011, two (2010: three) of the five highest paid individuals of the Company were directors. The aggregate of the emoluments in respect of the other three individuals (2010: two) are as follows (the range of emoluments for 2011 and 2010 was below RMB1,000,000):

*Unit: RMB'0000*

Item	Ending balance	Opening balance
Emolument	172	95

#### 5. Key management personnel emoluments

*Unit: RMB'0000*

Item	2011	2010
Salaries and other short-term employee benefits	667.62	450.74
Retirement benefit scheme costs	18.07	8.41
<b>Total</b>	<b>685.69</b>	<b>459.15</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 11. OTHER SIGNIFICANT EVENTS (continued)

#### 6. Retirement benefit scheme

The Company contributes mainly to a defined contribution pension scheme, which is administered by the provincial government, in respect of employees of the Company and subsidiaries. According to such scheme, the Company and subsidiaries shall pay an amount, calculated at several percentages of the total salaries and wages of the employees, to a retirement fund.

The total costs charged to the profit or loss approximately of RMB166,526,800 (2010: RMB 105,018,000) represents contributions to the scheme by the Company and subsidiaries at rates specified in the scheme.

#### 7. Leases

(1) Different categories of leased assets of the Company are as follows:

Categories of leased assets under operating leases	Unit: RMB'0000	
	Ending carrying amount	Opening carrying amount
Buildings	3,801.99	4,059.99
<b>Total</b>	<b>3,801.99</b>	<b>4,059.99</b>

(2) The Company as lessor under operating lease

The Company's investment properties are also leased to a number of tenants for different terms. The rental income for 2011 amounted to RMB5,480,000 (2010: RMB18,874,000).

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

Item	Unit: RMB'0000	
	Amount for current period	Amount for previous period
Within one year	512.37	502.70
Over one year but within five years, inclusive	52.34	116.00
<b>Total</b>	<b>564.71</b>	<b>618.70</b>

(3) The Company as lessee under operating lease

The Company leases certain leasehold land and buildings and plant and machinery under operating leases with lease terms from one to five years. The operating lease payments for the year ended 31 December 2011 was as follows:

Operating lease payments	Unit: RMB'0000	
	Amount for current period	Amount for previous period
Leasehold land and buildings	1,428.25	1,895.50
Plant and machinery		244.50
<b>Total</b>	<b>1,428.25</b>	<b>2,140.0</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 11. OTHER SIGNIFICANT EVENTS *(continued)*

#### 7. Lease *(continued)*

(4) *The total future minimum lease payments under non-cancellable operating leases at the end of reporting period falling due are as follows:*

Item	Unit: RMB'0000	
	Amount for current period	Amount for previous period
Within one year	419.02	734.60
Over one year but within five years, inclusive	545.62	1,459.00
<b>Total</b>	<b>964.64</b>	<b>2,193.60</b>

#### 8. Capital commitment

Item	Unit: RMB'0000	
	Ending balance	Opening balance
Capital commitments for the investment in subsidiaries and jointly controlled entity:		
— Authorized but not yet contracted for		
— Contracted but not provided for	7,969.00	
Capital commitments for the acquisition of property, plant and equipment of subsidiaries:		
— Contracted but not provided for		25,182.00

#### 9. Dividends

No dividends was paid or proposed for the year ended 31 December 2011 (2010: Nil), or reserve funds converted into capital.



## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF PARENT COMPANY

#### 1. Trade receivable

##### (1) Disclosure of trade receivables by categories:

Category	Ending balance			
	Carrying amount		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance
Individually significant and subject to separate provision				
Ageing analysis	955,088,317.99	96.11	162,538,384.64	17.02
Greencool Companies	38,689,983.28	3.89	22,726,941.64	58.74
<b>Subtotal</b>	<b>993,778,301.27</b>	<b>100.00</b>	<b>185,265,326.28</b>	<b>18.64</b>
Individually insignificant but subject to separate provision				
<b>Total</b>	<b>993,778,301.27</b>	<b>100.00</b>	<b>185,265,326.28</b>	<b>18.64</b>

Continued from above table

Category	Opening balance			
	Carrying amount		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance
Individually significant and subject to separate provision				
Aging Age analysis	700,705,852.86	94.77	155,975,469.51	22.26
Greencool Companies	38,689,983.28	5.23	22,726,941.64	58.74
<b>Subtotal of the category</b>	<b>739,395,836.14</b>	<b>100.00</b>	<b>178,702,411.15</b>	<b>24.17</b>
Individually insignificant but subject to separate provision				
<b>Total</b>	<b>739,395,836.14</b>	<b>100.00</b>	<b>178,702,411.15</b>	<b>24.17</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF PARENT COMPANY (continued)

#### 1. Trade receivable (continued)

##### (1) Disclosure of trade receivables by category (continued)

Trade receivables in the category provided bad debts by using ageing method:

Age	Ending balance			Opening balance		
	Carrying amount		Provision for bad debts	Carrying amount		Provision for bad debts
	Amount	% of total balance		Amount	% of total balance	
Within three months	789,235,183.64	79.42		543,060,439.06	73.45	
Over three months but within six months	3,594,295.40	0.36	359,429.54	1,762,548.64	0.24	176,254.86
Over six months but within one year	159,767.70	0.02	79,883.85	167,301.04	0.02	83,650.52
Over one year	162,099,071.25	16.31	162,099,071.25	155,715,564.12	21.06	155,715,564.12
<b>Total</b>	<b>955,088,317.99</b>	<b>96.11</b>	<b>162,538,384.64</b>	<b>700,705,852.86</b>	<b>94.77</b>	<b>155,975,469.51</b>

##### (2) Movements in provision for trade receivables

	Opening balance	Provision for the year	Decrease for the year		Ending balance
			Reversal	Write-off	
2011	178,702,411.15	10,865,015.92		4,302,100.79	185,265,326.28

##### (3) Trade receivables that are written off

Company	Nature of trade receivable	Amount written-off	Reason for write-off	Arising from related party transactions or not
Unrelated parties	Loans	4,302,100.79	Not recoverable due to long outstanding	No
<b>Total</b>		<b>4,302,100.79</b>		

##### (4) As at 31 December 2011, there was no trade receivable from shareholder that holds 5% or more (including 5%) shares of the voting rights of the Company. As at 31 December 2010, there was no trade receivable from shareholder that holds 5% or more (including 5%) shares of the voting rights of the Company.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF PARENT COMPANY (continued)

#### 1. Trade receivable (continued)

##### (5) Top five of trade receivable

2011

No.	Relationship with the Company	Amount	Ageing	Percentage of the total trade receivables amount (%)
Top 1	Third party	178,737,705.00	Within three months	17.99
Top 2	Third party	162,914,960.00	Within three months	16.39
Top 3	Subsidiary	169,330,251.51	Within three months	17.04
Top 4	Subsidiary	35,582,191.27	Within three months	3.58
Top 5	Subsidiary	33,489,741.75	Within three months	3.37
<b>Total</b>		<b>580,054,849.53</b>		<b>58.37</b>

2010

No.	Relationship with the Company	Amount	Ageing	Percentage of the total trade receivables amount (%)
Top 1	Subsidiary	47,068,430.94	Within three months	6.37
Top 2	Third party	44,396,691.12	Within three months	6.00
Top 3	Third party	42,640,569.78	Within three months	5.77
Top 4	Subsidiary	29,101,009.80	Within three months	3.94
Top 5	Subsidiary	24,253,764.37	Within three months	3.28
<b>Total</b>		<b>187,460,466.01</b>		<b>25.36</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF PARENT COMPANY (continued)

#### 2. Other receivables

##### (1) Disclosure of other receivables by categories:

Category	Ending balance			
	Carrying amount		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance
Individually significant and subject to separate provision				
Aging analysis	946,814,635.01	98.36	17,754,064.36	1.88
Greencool Companies	15,754,600.00	1.64	9,962,961.47	63.24
Subtotal of the category	<b>962,569,235.01</b>	<b>100.00</b>	<b>27,717,025.83</b>	<b>2.88</b>
Individually insignificant but subject to separate provision				
<b>Total</b>	<b>962,569,235.01</b>	<b>100.00</b>	<b>27,717,025.83</b>	<b>2.88</b>

Continued from above table

Category	Opening balance			
	Carrying amount		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance
Individually significant and subject to separate provision				
Ageing analysis	951,248,691.00	98.37	18,701,584.29	1.97
Greencool Companies	15,754,600.00	1.63	9,962,961.47	63.24
Subtotal of the group	<b>967,003,291.00</b>	<b>100.00</b>	<b>28,664,545.76</b>	<b>2.96</b>
Individually insignificant but subject to separate provision				
<b>Total</b>	<b>967,003,291.00</b>	<b>100.00</b>	<b>28,664,545.76</b>	<b>2.96</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF PARENT COMPANY (continued)

#### 2. Other receivables (continued)

##### (1) Disclosure of other receivables by categories: (continued)

Other receivables in the category provided bad debts by using ageing analysis:

Age	Ending balance			Opening balance		
	Carrying amount		Provision for bad debts	Carrying amount		Provision for bad debts
	Amount	% of total balance		Amount	% of total balance	
Within three months	917,812,372.71	95.35		931,061,556.59	96.28	
Over three months but within six months	11,668,759.58	1.21	1,166,875.96	1,564,800.00	0.16	156,480.00
Over six months but within one year	1,492,628.64	0.16	746,314.32	154,460.25	0.02	77,230.13
Over one year	15,840,874.08	1.65	15,840,874.08	18,467,874.16	1.91	18,467,874.16
<b>Total</b>	<b>946,814,635.01</b>	<b>98.37</b>	<b>17,754,064.36</b>	<b>951,248,691.00</b>	<b>98.37</b>	<b>18,701,584.29</b>

##### (2) Movements in provision for other receivables

	Opening balance	Provision for the year	Decrease for the year		Ending balance
			Reversal	Write-off	
2011	28,664,545.76		947,519.93		27,717,025.83

(3) There was no other receivable written-off by the Company during the period.

(4) As at 31 December 2011, there was no other receivable from shareholder that holds 5% or more (including 5%) shares of the voting rights of the Company. As at 31 December 2010, there was no other receivable from shareholder that holds 5% or more (including 5%) shares of the voting rights of the Company.

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF PARENT COMPANY (continued)

#### 2. Other receivables (continued)

##### (5) Top five of the other receivables

2011

No.	Relationship with the Company	Amount	Ageing	Percentage of the total amount (%)
Top 1	Subsidiary	274,859,098.81	Within three months	28.55
Top 2	Subsidiary	214,414,337.32	Within three months	22.28
Top 3	Subsidiary	123,097,538.10	Within three months	12.79
Top 4	Subsidiary	110,356,172.08	Within three months	11.46
Top 5	Subsidiary	80,592,758.52	Within three months	8.37
<b>Total</b>		<b>803,319,904.83</b>	—	<b>83.45</b>

2010

No.	Relationship with the Company	Amount	Ageing	Percentage of the total amount (%)
Top 1	Subsidiary	275,005,663.74	Within three months	28.44
Top 2	Subsidiary	178,433,653.94	Within three months	18.45
Top 3	Subsidiary	116,619,375.44	Within three months	12.06
Top 4	Subsidiary	104,029,770.30	Within three months	10.76
Top 5	Subsidiary	63,588,915.14	Within three months	6.58
<b>Total</b>		<b>737,677,378.56</b>	—	<b>76.29</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF PARENT COMPANY (continued)

#### 3. Long-term equity investments

Entity	Accounting treatment	Investment cost	Opening balance	Changes	Ending balance	% Equity interest held	% Voting rights held	Provision for impairment	Impairment provided in the current year	Cash dividend in current year
Huayi Compressor	Equity method	41,686,088.96	53,817,362.47	(10,179,580.39)	43,637,782.08	6.45	6.45			
Attend	Equity method	2,000,000.00	3,727,785.79	(298,934.03)	3,428,851.76	20.00	20.00			
Hisense Whirlpool	Equity method	225,000,000.00	210,215,263.49	(3,827,145.17)	206,388,118.32	50.00	50.00			
Hisense Hitachi	Equity method	332,821,597.45	298,212,815.13	55,088,278.07	353,301,093.20	49.00	49.00			41,401,447.50
<b>Equity method Subtotal</b>		<b>601,507,686.41</b>	<b>565,973,226.88</b>	<b>40,782,618.48</b>	<b>606,755,845.36</b>					<b>41,401,447.50</b>
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)						
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 Rongshen	Cost method	1,520,000.00	1,520,000.00	(1,520,000.00)						
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			5,500,000.00

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF PARENT COMPANY (continued)

#### 3. Long-term equity investments (continued)

Entity	Accounting treatment	Investment cost	Opening balance	Changes	Ending balance	% Equity interest held	% Voting rights held	Provision for impairment	Impairment provided in the current year	Cash dividend in current year
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 Huabao	Cost method	40,000.00	40,000.00	(40,000.00)						
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
<b>Subtotal by cost method</b>		<b>2,607,078,076.03</b>	<b>2,607,078,076.03</b>	<b>(172,948,000.00)</b>	<b>2,434,130,076.03</b>			<b>59,381,641.00</b>		<b>18,823,552.90</b>
<b>Total</b>		<b>3,208,585,762.44</b>	<b>3,173,051,302.91</b>	<b>(132,165,381.52)</b>	<b>3,040,885,921.39</b>			<b>59,381,641.00</b>		<b>60,225,000.40</b>

#### 4. Revenue and cost of sale

##### (1) Revenue and cost of sale

Item	Amount for current period	Amount for previous period
Revenue from main operations	10,892,602,626.72	9,399,314,845.82
Revenue from other operations	955,129,068.90	341,567,288.04
<b>Total operating revenue</b>	<b>11,847,731,695.62</b>	<b>9,740,882,133.86</b>
Cost of main operations	8,800,871,140.75	8,046,354,849.44
Cost of other operations	702,982,573.02	54,624,148.30
<b>Total operating cost</b>	<b>9,503,853,713.77</b>	<b>8,100,978,997.74</b>

##### (2) Main operations (by products)

Products	Amount for current period		Amount for previous period	
	Revenue	Cost of sale	Revenue	Cost of sale
Refrigerators	6,018,753,460.33	4,753,389,068.57	5,538,102,772.78	4,382,133,195.69
Air-conditioners	4,274,997,748.16	3,585,529,489.75	3,455,596,807.67	3,317,303,133.75
Freezers	159,303,844.61	129,493,580.29	139,616,059.35	121,299,278.01
Small electrical appliances and others	439,547,573.62	332,459,002.14	265,999,206.02	225,619,241.99
<b>Total</b>	<b>10,892,602,626.72</b>	<b>8,800,871,140.75</b>	<b>9,399,314,845.82</b>	<b>8,046,354,849.44</b>



## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF PARENT COMPANY (continued)

#### 4. Revenue and cost of sale (continued)

##### (3) Main operations (by regions)

Region	Amount for current period		Amount for previous period	
	Revenue	Cost of sale	Revenue	Cost of sale
Domestic	10,892,602,626.72	8,800,871,140.75	9,399,314,845.82	8,046,354,849.44
Overseas				
<b>Total</b>	<b>10,892,602,626.72</b>	<b>8,800,871,140.75</b>	<b>9,399,314,845.82</b>	<b>8,046,354,849.44</b>

##### (4) Revenue from the top five customers of the Company

###### 2011

Name of customer	Total revenue in the current period	Percentage of the total revenue from main operations of the Company (%)
Top 1	1,207,391,797.41	11.08
Top 2	1,200,296,700.51	11.02
Top 3	184,024,560.54	1.69
Top 4	147,791,006.22	1.36
Top 5	135,379,906.37	1.24
<b>Total</b>	<b>2,874,883,971.05</b>	<b>26.39</b>

###### 2010

No.	Total operating income	Percentage of the total revenue from main operations of the Company (%)
Top 1	1,162,318,672	12.37
Top 2	1,123,132,310	11.95
Top 3	196,448,269	2.09
Top 4	194,800,815	2.07
Top 5	183,921,440	1.96
<b>Total</b>	<b>2,860,621,506</b>	<b>30.44</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF PARENT COMPANY (continued)

#### 5. Investment income

##### (1) Summary of investment income

Item	Amount for current period	Amount for previous period
Income from long-term equity investment - the cost method	18,823,552.90	89,219,885.32
Income from long-term equity investment - the equity method	94,337,603.16	76,807,695.58
Income from disposal of long-term equity investment	28,351,625.36	285,796,675.36
<b>Total</b>	<b>141,512,781.42</b>	<b>451,824,256.26</b>

##### (2) Income from long-term equity investments - the cost method

Investee	Amount for current period	Amount for previous period
Hisense Beijing	5,500,000.00	7,813,427.30
Hisense Mould	9,789,552.90	4,568,458.02
Hisense International Marketing	3,534,000.00	2,508,000.00
Yangzhou Kelon		74,330,000.00
<b>Total</b>	<b>18,823,552.90</b>	<b>89,219,885.32</b>

##### (3) Income from long-term equity investment - the equity method

Investee	Amount for current period	Amount for previous period
Huayi Compressor	1,973,956.79	2,423,768.16
Hisense Whirlpool	(3,827,145.17)	1,032,940.51
Attend	(298,934.03)	(53,258.27)
Hisense Hitachi	96,489,725.57	73,404,245.18
<b>Total</b>	<b>94,337,603.16</b>	<b>76,807,695.58</b>

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF PARENT COMPANY (continued)

#### 6. Supplementary information on cash flow statement

Supplementary information	Amount for current period	Amount for previous period
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	246,020,866.58	612,391,390.48
Add: Provision for assets impairment	13,381,932.10	23,203,599.26
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets	42,509,581.50	45,580,206.60
Amortization of intangible assets	10,620,323.00	10,747,256.86
Amortization of long-term prepaid expenses		
Loss on disposals of fixed assets, intangible and other long-term assets (Gain denoted in "bracket")	185,752.57	
Loss on retirement of fixed assets (Gain denoted in "bracket")		
Loss from scrapping in fair value (Gain denoted in "bracket")		
Financial expenses (Gain denoted in "bracket")	19,794,414.12	17,365,938.90
Investment loss (Gain denoted in "bracket")	(141,512,781.42)	(451,824,256.26)
Decrease in deferred tax assets (Increase denoted in "bracket")		
Increase in deferred tax liabilities (Decrease denoted in "bracket")		
Decrease in inventory (Increase denoted in "bracket")	64,218,677.76	(743,476,355.27)
Decrease in operating receivable (Gain denoted in "bracket")	(410,691,937.07)	(682,745,988.50)
Increase in operating payable (Decrease denoted in "bracket")	(42,111,702.22)	1,146,601,046.18
Others		
Net cash flows from operating activities	(197,584,873.08)	(22,157,161.75)
<b>2. Significant investing and financing activities not involving cash receipts and payment:</b>		
Liabilities converted into assets equity		
Convertible company debentures due within one year		
Fixed assets under finance leases		
<b>3. Net movement in cash and cash equivalents:</b>		
Cash at the end of the period	98,869,779.84	163,407,687.61
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/(decrease) in cash and cash equivalents	(64,537,907.77)	121,291,024.16

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 13. SUPPLEMENTARY INFORMATION

#### 1. Summary of non-recurring profit or loss

Item	Amount for current period	Amount for previous period
Losses and profits from disposal of non-current assets	16,528,938.47	302,080,075.27
Tax return or exemption without proper authorization		
Government grants recognized in the profits or losses (excluding those government grants that are closely related to the Company's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	21,704,167.78	42,198,798.89
Interests received from entities other than financial institutions recognized in profits or losses		
Gain arising from the difference between investment cost on subsidiaries associates and jointly controlled entities and the fair value of the net assets attributable to the Company.		
Gain or loss arising from non-monetary assets exchange		
Gain or loss arising from entrusted investment or entrusted asset management		
Asset impairment provided in current year due to forced majeure (e.g. natural disasters)		
Gain or loss arising from debt restructuring		
Corporate restructuring costs (e.g. staff replacement costs and costs during the course of integration)		(34,042,667.05)
Gain or loss arising from the difference between the fair value and transaction price in obviously unfair transactions		
Net profit of subsidiaries acquired under common control from beginning of year to the merger date		55,835,331.39
Gain or loss arising from contingencies irrelevant to the Company's normal business		
Gain or loss from changes in fair values of financial assets and liabilities held for trading except for hedging contracts and disposal of financial assets and liabilities held for trading and available-for-sale financial assets		
Reversal of provision for bad-debts of trade receivable subject to separate provision		
Gain or loss arising from entrusted loan granted to other entities		
Gain or loss arising from changes in fair value of investment properties under the fair value model		
One-off adjustments to profit or loss as required by taxation and accounting laws and regulations		
Consignment fee income arising from entrusted operations		
Other non-operating income and expense other than the aforementioned items	(3,467,732.46)	41,759,946.08
Other profit or loss items meeting the definition of non-recurring profit or loss		
Total non-recurring profit or loss	34,765,373.79	407,831,484.58
Less: Effect of non-recurring profit or loss after taxation	1,948,610.72	4,883,407.68
Net non-recurring profit or loss	32,816,763.07	402,948,076.90
Less: Net effect of non-recurring profit or loss attributable to minority interests (after tax)	2,174,928.56	2,649,489.10
Non-recurring profit or loss attributable to ordinary shareholders of the Company	30,641,834.51	400,298,587.80

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 13. SUPPLEMENTARY INFORMATION (continued)

#### 2. Return on net asset and earnings per share:

2011

Profit for the reporting period	Weighted average of return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	33.72	0.1677	0.1677
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring gain or loss	29.17	0.1450	0.1450

2010

Profit for the reporting period	Weighted average of return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	293.26	0.4365	0.4365
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring gain or loss	271.37	0.1464	0.1464

#### 3. Reasons for exceptional items in financial statements

Item	Ending balance (or amount for the year)	Opening balance (or amount for last year)	Fluctuation	Reasons of fluctuation
Notes receivable	502,919,307.39	385,982,498.33	30.30%	Mainly due to increased repayment at the year end leading to increase in notes receivable
Construction in progress	80,702,425.28	166,835,913.79	(51.63%)	Mainly due to transfer of Yangzhou production line upon completion
Deferred tax assets	3,623,816.22	6,893,223.90	(47.43%)	Due to change in deductible tax losses of certain subsidiaries
Taxes payable	(90,090,833.72)	(209,997,869.00)	(57.10%)	Mainly due to change in value-added tax payable
Business tax and surcharges	63,151,069.49	19,940,225.46	216.70%	Mainly due to payment of city maintenance and construction tax and education surcharge during the period
Gain on changes in fair value	4,961,913.35	17,632,914.80	(71.86%)	Mainly due to change in foreign currency forward contracts

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 13. SUPPLEMENTARY INFORMATION *(continued)*

#### 3. Reasons for exceptional items in financial statements *(continued)*

Item	Ending balance (or amount for the year)	Opening balance (or amount for last year)	Fluctuation	Reasons of fluctuation
Investment income	138,560,585.23	394,879,283.61	(64.91%)	Mainly due to decrease in investment income from disposal of Huayi Compressor
Non-operating income	158,721,726.61	518,757,089.73	(69.40%)	Mainly due to decrease in benefiting people subsidies
Refund of tax and levies	588,434,666.49	447,117,467.37	31.61%	Mainly due to increase in refund of export tax
Cash received from other operating activities	364,870,216.30	708,913,641.71	(48.53%)	Mainly due to decrease in benefiting people subsidies received
Proceeds from sell of investment	96,405,748.87	321,536,178.74	(70.02%)	Mainly due to decrease in disposal of equity interests in Huayi Compressor

#### 4. Five-years summary

*Unit: RMB'0000*

Statement item	2011	2010	2009	2008	2007
Total operating revenue	1,848,866.32	1,769,032.36	1,297,159.17	1,286,492.34	1,413,320.57
Total profit	24,669.96	62,770.86	19,631.55	(22,865.39)	40,357.06
Income tax	2,125.04	3,158.83	2,329.22	(221.38)	6,281.72
Net profit	22,544.92	59,612.03	17,302.34	(22,644.01)	34,075.34
Net profit attributable to equity holders of the Company	22,701.51	58,527.77	15,644.95	(23,331.20)	33,492.32
Minority interests	(156.59)	1,084.26	1,657.39	687.19	583.02
Distribution of dividends					

## Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are dominated in RMB)

### 13. SUPPLEMENTARY INFORMATION *(continued)*

#### 4. Five-year summary *(continued)*

Continued from above table

Statement item	31 December 2011	31 December 2010	31 December 2009	31 December 2008	31 December 2007
Total assets	763,543.96	801,896.89	612,836.59	584,242.45	675,031.82
Total liabilities	647,462.47	710,802.11	601,759.78	589,293.99	657,533.35
Net assets	116,081.49	91,094.79	11,076.81	(5,051.54)	17,498.47
Total equity attributable to equity holders of the Company	80,512.36	54,124.14	(26,674.83)	(41,622.71)	(18,730.85)
Minority interests	35,569.13	36,970.65	37,751.63	36,571.17	36,229.32
Total equities	116,081.49	91,094.79	11,076.81	(5,051.54)	17,498.47

### 14. APPROVAL OF FINANCIAL STATEMENTS

The financial statements and the notes to financial statements of the Company in 2011 were approved for publication at the first meeting of the seventh session of the Board of the Company in 2012.