

Hisense 海信科龙

海信科龍電器股份有限公司

Hisense Kelon Electrical Holdings Company Limited

Stock Code: 00921



Annual Report **2012**

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Company Profile

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 basic driving force for the Company’s development. The production and sales volume of its refrigerators and air-conditioners have been among the highest in China for consecutive years. Leveraging on the superior refrigeration technology and application of high technology in its products, the Company has won good reputation in the industry, and has been awarded many honors for its technologies and products at a national level. In 2012, Hisense intelligent refrigerators, with the theme of “Intelligent, Green, Healthy”, were awarded the Shanghai Appliance World Expo Appliance Product Prize; Hisense refrigerators and Ronshen refrigerators won the title of “Pioneer Brand in Food Preserving Technology” and “Leading Energy-saving Technology Award” respectively at the Fifth Annual Conference of Chinese Refrigerator Industry; Ronshen refrigerators won the title of the only recommended energy-saving refrigerator products of International Energy Conservation Environmental Protection Association (IEEPA); and Hisense Apple Pie A8 Ultra-thin Air-conditioner series received the Best Modern Design Award in the Seventh Appearance Design Patent Competition of China.

The Company will adhere to the operating direction of “building product advantages, reforming marketing model, improving system efficiency, developing the international market vigorously and ensuring scale and efficiency”, in the incessant pursuit for profound research and development, with a focus on product differentiation and improvement of user experience to reinforce technological innovations and boost product competitiveness, and will further perfect the high-end product line, enhance the product sales structure and reform the marketing model, paralleled by the all-round enhancement of the Company’s integrated capacity in the areas of technology level, product grade, market scale and sustainability etc., to achieve a steady growth in scale, efficiency and market share.

2012 Major Events Calendar

MARCH

In March 2012, Hisense intelligent refrigerators, with the theme of “Intelligent, Green, Healthy”, were awarded the Shanghai Appliance World Expo Appliance Product Prize.

MAY

In May 2012, Hisense refrigerators and Rongshen refrigerators won the title of “Pioneer Brand in Food Preserving Technology” and “Leading Energy-saving Technology Award” respectively at the Fifth Annual Conference of the Chinese Refrigerator Industry.

JUNE

In June 2012, members of the eighth session of the Board of Directors were elected at the Annual General Meeting of Hisense Kelon.

JULY

In July 2012, Hisense Kelon donated RMB200,000 to Ronggui Charity Federation of Shunde.

In July 2012, Hisense Apple Pie A8 Ultra-thin Air-conditioner series received the “Best Stylish Design Award” in the Seventh Appearance Design Patent Competition of China.

AUGUST

In August 2012, Hisense Kelon was named the “Demonstration Enterprise in Transformation and Upgrading of Processing Trade in Guangdong Province” by the Department of Foreign Trade and Economic Cooperation of Guangdong Province.

In August 2012, in the contest of China Household Appliance Innovative Products 2012, Hisense “BCD-558WGBPET Intelligent Refrigerator” received the Product Innovation Award, and Rongshen “316WYMB” and Hisense “11.3CM Super Thin Healthy Inverter Air-conditioner” both received the Industrial Design Innovation Award.

SEPTEMBER

In September 2012, International Energy Conservation Environmental Protection Association (IEEPA) held a conference in Beijing, and Rongshen refrigerators won the title of the only recommended energy-saving refrigerator products.

In September 2012, Hisense Rongsheng (Guangdong) Refrigerator Co., Ltd. and Guangdong Kelon Air-Conditioner Co., Ltd. won the title of “Enterprise with Excellent Quality” and “Outstanding Enterprise with Certification” at the Guangdong and Guangxi Quality Certification and Promotion Meeting held by China Quality Certification Centre.

NOVEMBER

In November 2012, the project on “Development and Application of Food Management System for Refrigerators based on Users’ Health Parameters” of Hisense refrigerators was assessed by the Department of Science & Technology of Shandong Province as internationally advanced.

DECEMBER

In December 2012, in the first results announcement of 2011-2012 China Household Appliance Industry Brand Evaluation System “CBES” and China Household Appliance Brand Trial Evaluation held by China Household Electric Appliance Research Institute, Hisense refrigerators and Rongshen refrigerators were selected as the “Top 10 Brand of Refrigerator Industry”, and Hisense air-conditioners and Kelon air-conditioners were chosen as the “Top 10 Brand of Air-conditioning Industry”.

In December 2012, the “Research and Development and Application of the Super Energy-saving Refrigerator Technology” of Rongshen refrigerators was awarded the “Third Prize of Science and Technology Award of Guangdong Province” and the “Second Prize of Technology Advancement for China Household Appliances” granted by China Household Electrical Appliances Association.

Chairman's Statement

Dear Shareholders:

I am pleased to present the annual report of the Company for the year ended 31 December 2012 (the "Reporting Period").

During the Reporting Period, according to the statistics of China Market Monitor Company Limited (CMM), the refrigerator and air-conditioner industries in the PRC experienced decreases in both accumulated retail sales volume and retail sales value. According to the statistics of the Customs, the overall export market also recorded significant slowdown in growth rate when compared with the same period last year. On the one hand, there were the weakening stimulation effect of the State's household appliances subsidy policies on expenditure, and the suppression of demand on household appliances brought by the ongoing stringent real estate policies. On the other hand, after the breakout of the European sovereign debt crisis, the economic growth of developed countries continued to be weak and demand from major overseas household appliances markets shrank. Facing the above negative operating environments both domestically and overseas, negative growth was recorded for the household appliances industry during the Reporting Period, and the operating pressure of household appliances enterprises continued to aggravate.

During the Reporting Period, the Company strictly adhered to the operating strategies of "building product advantages, reforming marketing models, enhancing per capita efficiency, accelerating the progress of internationalization and realizing sound and rapid growth", and thereby successfully achieved steadiness in the scale of operation and substantial growth in operating results amidst an unfavorable macroeconomic environment. During the Reporting Period, the Company recorded a revenue of RMB18,959 million from its operating business, representing a year-to-year increase of 2.54%. The net profit attributable to shareholders of the listed company was RMB718 million, representing earnings per share of RMB0.5301, representing a year-to-year increase of 216.10%. During the Reporting Period, the Company's principal operating businesses maintained steady growth, of which the revenue from the refrigerator business accounted for 48.76% of the revenue from principal operating businesses, representing a year-to-year increase of 2.61% and the revenue from the air-conditioner business accounted for 38.41% of the revenue from principal operating businesses, representing a year-to-year increase of 2.28%; and the operating revenue from domestic sales was RMB11,535 million, representing a year-to-year decrease of 1.95%; whereas the operating revenue from export sales was RMB5,819 million, representing a year-to-year increase of 16.74%. During the Reporting Period, the Company proactively adjusted its product structure with its strategy which put emphasis on high-end products and continuously enhanced product gross profit margin and profitability. The gross profit margin of domestic sales increased by 3.35 percentage points, while the gross profit margin of export sales increased by 3.75 percentage points.

During the Reporting Period, the Company accelerated its capital flow, strengthened control on receivables and inventory, suppressed the utilization of capital in different segments while effectively avoiding the risk of inventory depreciation, and enhanced its capital utilization efficiency. As at the end of the Reporting Period, the financial position of the Company showed a remarkable improvement. The balance of bank borrowings at the end of the period decreased by 96.98% when compared to the beginning of the period and there was a 5.16 percentage point decrease in the gearing ratio at the end of the period when compared to the beginning of the period.

In respect of research and development of technology, the Company has adopted "energy-saving and food preservation" as its core technological directions. It has developed the "preservation by active water" system, which solved the long existing application limitations of refrigerators in different aspects such as the drying of food and frosting. At the same time, the Company's strategy of "intelligentization" was also extended to refrigerator products and the Bauna series and other new high-end Hisense refrigerator products were launched, in which the "food management" function was realized through the use of Intelligent Internet of Things technologies (智能物聯網技術). Centered on "intelligentization" and "user experience", the Company has self-developed Hi-Smart, the first generation of compressor gesture control technology, and launched the Hisense "Apple Pie A8" series of air-conditioners, and leveraging on the advantages in the core technologies for inverter air-conditioners built over the years, the Company has successfully developed small-sized VRF series of multi-split inverter (小型VRF系列變頻多聯機), which further broadened and enriched the product categories. The Company's capabilities in industrial design and innovation have been further enhanced. At the Seventh Appearance Design Patent Competition of China organized by the State Intellectual Property Office, the appearance patent of the ultra-slim home-use air-conditioner of the Hisense "Apple Pie A8" series obtained the "Best Stylish Design Award", making it the only air-conditioner product to be honored with such award in 2012. At the 2012 IFA held in Germany, the new ultra-slim wall-mounted air-conditioner of the Hisense "Apple Pie A8" series was awarded the IFA Grand Prize of Innovative Design. The technological leadership in areas such as "preservation by active water, intelligent terminal, energy-saving by inverter technology" has also earned Hisense refrigerator Bauna series the "First Prize of the Eighth Session of China Household Appliances Product Innovation Award". During the Reporting Period, the Company has applied for 394 patents in total, including 13 PCT (patent cooperation agreement) international patents and 102 invention patents. The Company has been granted 316 patents over the years in total, including 32 invention patents. In August 2012, the scientific results of the Company's "Research and Development and Application of Refrigerating Ion Preservation Technology" passed the evaluation of the State Committee of Science and Technology, which affirmed that the application of the technology could successfully solve the drying problem of air cooling refrigerators and effectively enhance the preservation function of the refrigerators.

Chairman's Statement

Projecting into 2013, household appliances enterprises will continue to face a severe market environment and substantial operating pressure against slowdown of domestic economic growth, sluggish demand in the household appliances market, ongoing stringent real estate policies, and increasing operating costs (especially labor costs), in combination with a pool of factors such as uncertainty in global economic growth and continued sluggish market. However, at the same time, demand for product upgrades at level 1 and level 2 cities, promotion and actualization of new urbanization, construction of security housings and revolution of new technologies will lead to upgrades in household appliances consumption with increasing demand for intelligent, energy-saving and environmental friendly household appliances, which will help to promote technology upgrade and innovation as well as enhancements in product structures for enterprises. The Company will adhere to the operating strategy of “building product advantages, reforming marketing model, enhancing system efficiency, exploring the international markets and securing scale and results”, to strengthen the efforts in technology upgrade with an emphasis on “energy-saving by inverter technology” and “green and environmental friendliness” in order to attain leadership in the core competitiveness of products, to realize differentiation of product functions, sophistication of products, product quality improvement, as well as reasonable control of product costs, all of which will contribute to build the leading position of products; to continue the launch of new high-end products, to enrich the product line of high-end products and to enhance the market share of high-end products; to increase input in the third and fourth grade markets, to further pursue channel infiltration, to accelerate the development of channel points and enhance the management and control of network points, to forcefully develop the electronic commercial business and accelerate the expansion of project channels; to continuously implement flow rationalization, integration and enhancement measures, as well as equipment automation and informatization, to reinforce capital management and to accelerate capital flow, to achieve steady increase in its scale, performance and market share.

The Company recorded substantial growth in its performance in 2012. This is attributable to the care and strong support of all shareholders, financial institutions, partners and the government, as well as the outstanding leadership of the board of directors, the supervisory committee and the management and the continued dedication of all staff. I would like to express my gratitude to every one of them and hope to receive your continued support in the forthcoming year. With scrupulous planning and the concerted efforts and commitment of our staff and the realization of our objectives successively, we believe, and the Company is confident in, the development of the Company in 2013. I also earnestly look forward to sharing a better future of Hisense Kelon with you all.

Management Discussion and Analysis

I. INDUSTRY OVERVIEW

During the Reporting Period, according to the statistics of China Market Monitor Company Limited (CMM), the refrigerator and air-conditioner industries in the PRC experienced decreases in both accumulated retail sales volume and retail sales value. According to the statistics of the Customs, the overall export market also recorded significant slowdown in growth rate when compared with the same period last year. On the one hand, there were the weakening stimulation effect of the State's household appliances subsidy policies on expenditure, and the suppression of demand on household appliances brought by the ongoing stringent real estate policies. On the other hand, after the breakout of the European sovereign debt crisis, the economic growth of developed countries continued to be weak and demand from major overseas household appliances markets shrank. Facing the above negative operating environments both domestically and overseas, negative growth was recorded for the household appliances industry during the Reporting Period, and the operating pressure of household appliances enterprises continued to aggravate.

II. ANALYSIS OF THE COMPANY'S OPERATION

Overall situation

During the Reporting Period, the Company strictly adhered to the operating strategies of "building product advantages, reforming marketing models, enhancing per capita efficiency, accelerating the progress of internationalization and realizing sound and rapid growth", and thereby successfully achieved steadiness in the scale of operation and substantial growth in operating results amidst an unfavorable macroeconomic environment. During the Reporting Period, the Company recorded a revenue of RMB18,959 million from its operating business, representing a year-to-year increase of 2.54%. The net profit attributable to shareholders of the listed company was RMB718 million, representing earnings per share of RMB0.5301, representing a year-to-year increase of 216.10%. During the Reporting Period, the Company's principal operating businesses maintained steady growth, of which the revenue from the refrigerator business accounted for 48.76% of the revenue from principal operating businesses, representing a year-to-year increase of 2.61% and the revenue from the air-conditioner business accounted for 38.41% of the revenue from principal operating businesses, representing a year-to-year increase of 2.28%; and the operating revenue from domestic sales was RMB11,535 million, representing a year-to-year decrease of 1.95%; whereas the operating revenue from export sales was RMB5,819 million, representing a year-to-year increase of 16.74%. During the Reporting Period, the Company proactively adjusted its product structure with its strategy which put emphasis on high-end products and continuously enhanced product gross profit margin and profitability. The gross profit margin of domestic sales increased by 3.35 percentage points, while the gross profit margin of export sales increased by 3.75 percentage points.

During the Reporting Period, the Company accelerated its capital flow, strengthened control on receivables and inventory, suppressed the utilization of capital in different segments while effectively avoiding the risk of inventory depreciation, and enhanced its capital utilization efficiency. As at the end of the Reporting Period, the financial position of the Company showed a remarkable improvement. The balance of bank borrowings at the end of the period decreased by 96.98% when compared to the beginning of the period and there was a 5.16 percentage point decrease in the gearing ratio at the end of the period when compared to the beginning of the period.

Research and development of technology

During the Reporting Period, the Company has adopted "energy-saving and food preservation" as its core technological directions. It has developed the "preservation by active water" system, which solved the long existing application limitations of refrigerators in different aspects such as the drying of food and frosting. At the same time, the Company's strategy of "intelligentization" was also extended to refrigerator products and the Bauna series and other new high-end Hisense refrigerator products were launched, in which the "food management" function was realized through the use of Intelligent Internet of Things technologies (智能物聯網技術). The technological leadership in areas such as "preservation by active water, intelligent terminal, energy-saving by inverter technology" has also earned Bauna series the "First Prize of the Eighth Session of China Household Appliances Product Innovation Award" at the International Funkausstellung (IFA) 2012 held in Germany. Riding on the leading position in energy-saving of the Company's refrigerator products, Hisense refrigerators were named the "Pioneer Brand in Food Preserving Technology", whereas Ronshen refrigerators obtained the "Leading Energy-saving Technology Award" at the Fifth Annual Conference of the Chinese Refrigerator Industry. The project of Ronshen refrigerators on "Research and Development and Application of the Super Energy-saving Refrigerating Technology" was awarded the "Second Prize of Technology Advancement for China Household Appliances" by the China Household Electrical Appliances Association.

Management Discussion and Analysis

During the Reporting Period, centered on “intelligentization” and “user experience”, the Company has self-developed Hi-Smart, the first generation of compressor gesture control technology, and launched the Hisense “Apple Pie A8” series of air-conditioners. At the 2012 IFA held in Germany, the new ultra-slim wall-mounted air-conditioner of the Hisense “Apple Pie A8” series was awarded the IFA Grand Prize of Innovative Design for its application of novel materials, novel technologies and novel techniques. Furthermore, leveraging on the advantages in the core technologies for inverter air-conditioners built over the years, the Company has successfully developed small-sized VRF series of multi-split inverter (小型VRF系列變頻多聯機), which further broadened and enriched the product categories.

During the Reporting Period, the Company’s capabilities in industrial design and innovation have been further enhanced. At the Seventh Appearance Design Patent Competition of China organized by the State Intellectual Property Office, the appearance patent of the ultra-slim home-use air-conditioner of the Hisense “Apple Pie A8” series obtained the “Best Stylish Design Award”, making it the only air-conditioner product to be honored with such award in 2012.

During the Reporting Period, the Company has applied for 394 patents in total, including 13 PCT (patent cooperation agreement) international patents and 102 invention patents. The Company has been granted 316 patents over the years in total, including 32 invention patents. In August 2012, the scientific results of the Company’s “Research and Development and Application of Refrigerating Ion Preservation Technology” passed the evaluation of the State Committee of Science and Technology, which affirmed that the application of the technology could successfully solve the drying problem of air cooling refrigerators and effectively enhance the preservation function of the refrigerators.

Refrigerator and freezer business

After the speedy growth over the past few years, there is significant excess in production capacity within the refrigerator industry. During the Reporting Period, the overall refrigerator industry recorded negative growth. According to the statistics of CMM in December 2012, accumulated retail sales volume of the refrigerator industry showed a year-to-year decrease of 15% in 2012. Excessive production capacity coupled with generally sluggish market demand has resulted in a bleak period for the refrigerator enterprises in 2012 amidst an austere market. However, there has been a gradual increase in the consumer demand for products featuring intelligence, energy-saving and environmental friendly specifications on the other hand. The weight of large size three-door, multi-door and French-door refrigerators increased in terms of market share. It could be observed that the refrigerator industry was moving towards high-end products. The Company has strived for product technological innovation and functional upgrade, and persisted in increasing the weight of high-end products, contributing to a 1.84 percentage point increase in the gross profit margin of refrigerator products. Meanwhile, the market size and share of the Company’s refrigerator products has also further increased. According to the statistics of CMM, refrigerators of the Company acclaimed a market share of 16.34% in terms of retail sales volume in 2012, securing the second position in the industry and representing an increase of 2.15 percentage points as compared to 2011. In addition, the size of the export of the Company’s freezer products also showed rapid growth, representing a year-to-year increase of 32.53%.

Air-conditioner business

During the Reporting Period, the air-conditioner market in China was languorous. Affected by factors including stringent real estate policies, inflation and demand overdraft as a result of favorable policies for household appliances for the past few years, the air-conditioner industry experienced an overall slump. According to the statistics of CMM in December 2012, accumulated retail sales volume of the air-conditioner industry showed a year-to-year decrease of 19.60% in 2012. Yet on the other hand, inverter products recorded increase against the overall trend, of which fluorine-free inverter air-conditioners still maintained a speedy growth in the market share. The Company focused on the promotion of inverter air-conditioners with level 2 energy-efficiency or above which are characterized by the concepts of “energy-saving, comfort and healthiness”, and continued to implement enhancement of efficiency and cost reduction. The gross profit margin of air-conditioner product has significantly increased by 4.06 percentage points and the air-conditioner business realized a profit. In addition, with the Company vigorously developing the export business, the scale of overseas sales for air-conditioner products achieved a year-to-year growth of 31.24%.

Management Discussion and Analysis

III. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD

(I) Major Accounting Data and Financial Indicators

Did the Company make retrospective adjustment to or restatement of the accounting data of prior years due to changes in accounting policies and correction of accounting errors?

Yes No

	2012	2011	Increase or decrease as compared to last year (%)	2010
Operating revenue (RMB)	18,958,915,310.09	18,488,663,163.12	2.54	17,690,323,631.83
Net profits attributable to shareholders of listed company (RMB)	717,764,680.40	227,015,126.87	216.17	585,277,671.92
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	597,180,784.22	196,373,292.36	204.10	184,979,084.12
Net cash flow from operating activities (RMB)	1,098,192,778.13	366,265,192.49	199.84	637,569,588.09
Basic earnings per share (RMB/share)	0.5301	0.1677	216.10	0.4365
Diluted earnings per share (RMB/share)	0.5301	0.1677	216.10	0.4365
Return on net assets (%)	61.95	33.72	28.23	293.26
	31 December 2012	31 December 2011	Increase or decrease as compared to end of last year (%)	31 December 2010
Total assets (RMB)	9,200,334,640.73	7,635,439,578.36	20.50	8,018,968,919.84
Net assets attributable to shareholders of listed company (Owners' equity attributable to shareholders of listed company) (RMB)	1,512,042,166.49	805,123,597.33	87.80	541,241,410.07

Management Discussion and Analysis

(II) Non-recurring profit and loss items and amounts

Unit: RMB

Items	Amount of 2012	Amount of 2011	Amount of 2010	Description
Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)	97,537,681.25	16,528,938.47	302,080,075.27	
Government grants recognized in the profits or losses (excluding government grants closely related to the Company's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	23,057,674.18	21,704,167.78	42,198,798.89	
Corporate restructuring costs (e.g. staff relocation costs and costs during the course of integration)	—	—	(34,042,667.05)	
Net profit or loss of subsidiaries acquired under common control from beginning of year to the merger date	—	—	55,835,331.39	
Other non-operating income and expenses other than the aforementioned items	3,348,427.38	(3,467,732.46)	41,759,946.08	
Effect of income tax	2,187,048.64	1,948,610.72	4,883,407.68	
Effect of minority interests (after tax)	1,172,837.99	2,174,928.56	2,649,489.10	
Total	120,583,896.18	30,641,834.51	400,298,587.80	—

(III) Analysis of Principal Business

I. Income

Is the Company's income from sales of goods larger than its income from provision of services?

Yes No

Industry Category	Items (ten thousand units/sets)	2012	2011	Increase or decrease as compared to last year (%)
Home appliances manufacturing industry	Sales volume	1,264	1,161	9%
	Production volume	1,283	1,153	11%
	Inventory volume	113	95	18%

Management Discussion and Analysis

2. Costs

Unit: RMB ten thousand

Industry Category	Item	2012		2011		Year-to-year increase or decrease (%)
		Amount	Weight to operating costs (%)	Amount	Weight to operating costs (%)	
Home appliances manufacturing industry	Raw materials	1,245,834.25	91.86	1,248,879.52	92.09	(0.24)
	Staff wages	36,017.61	2.66	37,296.45	2.75	(3.43)
	Depreciation	23,805.38	1.76	23,556.59	1.74	1.06

3. Expense

Unit: RMB ten thousand

Expense Item	2012	2011	Increase or decrease as compared to last year (%)	Reason for the changes
Sales expense	273,189.44	263,621.19	3.63	No significant changes
Management expense	64,089.35	54,764.99	17.03	No significant changes
Finance expense	3,899.96	5,600.40	(30.36)	Mainly due to the decrease in the Company's borrowings which in turn led to the corresponding decrease in interest expense during the Reporting Period
Income tax expense	1,054.84	2,125.04	(50.36)	Mainly due to make-up of loss for prior years with profit before tax during the Reporting Period

Management Discussion and Analysis

4. Cash Flow

Unit: RMB ten thousand

Item	2012	2011	Increase or decrease as compared to corresponding period of last year (%)
Sub-total of cash inflows from operating activities	1,043,373.56	917,118.41	13.77
Sub-total of cash outflows from operating activities	933,554.28	880,491.90	6.03
Net cash flows from operating activities	109,819.28	36,626.52	199.84
Sub-total of cash inflows from investing activities	12,326.66	11,314.95	8.94
Sub-total of cash outflows from investing activities	16,323.81	23,005.17	(29.04)
Net cash flows from investing activities	(3,997.15)	(11,690.21)	(65.81)
Sub-total of cash inflows from financing activities	176,720.64	245,503.42	(28.02)
Sub-total of cash outflows from financing activities	270,858.12	272,796.20	(0.71)
Net cash flows from financing activities	(94,137.48)	(27,292.78)	244.92
Net increase in cash and cash equivalents	11,684.65	(2,310.66)	(605.68)

- (1) Net cash flows from operating activities increased by 199.84% year-on-year, mainly due to increase in the Company's profit, acceleration of capital flow and enhancement of capital efficiency during the Reporting Period;
- (2) Net cash flows from investing activities decreased by 65.81% year-on-year, mainly due to decrease of investment in fixed assets during the Reporting Period;
- (3) Net cash flows from financing activities increased by 244.92% year-on-year, mainly due to significant decrease in borrowings during the Reporting Period.

5. Research and development expenses

During the Reporting Period, the Company focused on the upgrade and innovation of its "energy-saving technology" and "intelligent technology". Through launching R&D projects on refrigerator products such as "Research and Development and Application of Super Energy-saving Refrigerating Technology", "Research and Development and Application of Ion Hydration and Preservation Technology" and "Development and Application of Refrigerator Food Management System based on Users' Health Parameters", and R&D projects on air-conditioner products such as "Research and Application of Household Appliance Intelligent Technology" and "Research and Industrialization of Household Air-conditioner Energy-saving and Emission-reduction Ecological Design and Manufacturing Technology", the Company strived to enhance the energy efficiency and intelligentization of its products, in order to increase its core competitiveness and its products' market competitiveness. Research and development provides strong technological support for the Company's industrial advancement. During the Reporting Period, the Company continued to increase investment in R&D and improve the efficiency of R&D, and research and development expenses of RMB0.436 billion were incurred.

Management Discussion and Analysis

(IV) Description of Principal Business Segments

Unit: RMB ten thousand

Item	Revenue from principal operating businesses	Costs of principal operating businesses	Gross profit margin (%)	Increase or decrease in revenue from principal operating businesses as compared to corresponding period last year (%)	Increase or decrease in costs of principal operating businesses as compared to corresponding period last year (%)	Increase or decrease in gross profit margin as compared to corresponding period last year (%)
By industry						
Home appliances manufacturing industry	1,735,377.67	1,356,275.25	21.85	3.61	0.01	2.82
By product						
Refrigerators	846,116.65	646,815.96	23.55	2.61	0.20	1.84
Air-conditioners	666,513.48	531,713.68	20.22	2.28	(2.68)	4.06
Others	222,747.55	177,745.61	20.20	12.19	8.20	2.94
Total	1,735,377.67	1,356,275.25	21.85	3.61	0.01	2.82
By region						
Mainland	1,153,471.85	834,735.76	27.63	(1.95)	(6.28)	3.35
Overseas	581,905.82	521,539.49	10.37	16.74	12.05	3.75
Total	1,735,377.67	1,356,275.25	21.85	3.61	0.01	2.82

Management Discussion and Analysis

(V) Analysis of assets and liabilities position

1. Significant changes in asset items

Unit: RMB ten thousand

Item	31 December 2012		31 December 2011		Increase or decrease in weight (%)	Explanation of significant changes
	Amount	Percentage to total assets (%)	Amount	Percentage to total assets (%)		
Cash at bank and on hand	51,606.55	5.61	39,853.27	5.22	0.39	No significant changes
Notes receivable	155,876.62	16.94	50,291.93	6.59	10.35	Mainly due to the Company's enhanced management of payment collection, improvement in the Company's capital position, and decrease in endorsement and discounting of the Company's notes receivable and change to collection at maturity resulted from maturity mismatch of notes receivable and notes payable in the Reporting Period
Accounts receivable	145,588.22	15.82	119,376.75	15.63	0.19	No significant changes
Inventories	173,844.11	18.90	154,727.79	20.26	(1.36)	No significant changes
Investment properties	3,644.66	0.40	3,801.99	0.50	(0.10)	No significant changes
Long-term equity investments	75,192.57	8.17	61,075.58	8.00	0.17	No significant changes
Fixed assets	190,983.24	20.76	194,707.02	25.50	(4.74)	No significant changes
Construction in progress	6,834.43	0.74	8,070.24	1.06	(0.32)	No significant changes

Management Discussion and Analysis

2. Significant changes in liability items

Unit: RMB ten thousand

Item	2012		2011		Increase or decrease in weight (%)	Explanation of significant changes
	Amount	Percentage to total assets (%)	Amount	Percentage to total assets (%)		
Short-term borrowings	3,030.95	0.33	100,499.89	13.16	(12.83)	Mainly due to improvement in funding situation and the adjustment in the financing structure during the Reporting Period
Notes payable	143,285.22	15.57	61,266.71	8.02	7.55	Mainly due to promotion of electronic bill payment during the Reporting Period
Taxes payable	(4,899.48)	(0.53)	(9,009.08)	(1.18)	0.65	Mainly due to decrease in the Company's value-added tax credits at the end of the Reporting Period
Other payables	158,129.45	17.19	115,619.59	15.14	2.05	Mainly due to increase in expenses and funds payable by the Company during the Reporting Period

Management Discussion and Analysis

(VI) Assets and liabilities measured at fair value

Unit: RMB ten thousand

Items	Amount at the beginning of the period	Gain or loss from change in fair value during the period	Accumulated changes in fair value accounted in equity	Impairment provided during the period	Amount purchased during the period	Amount sold during the period	Amount at the end of the period
Financial assets							
1. Financial assets measured at fair value where changes in fair value are accounted for as gain or loss of the period (excluding derivative financial assets)	—	—	—	—	—	—	—
2. Derivative financial assets	3,378.77	(2,310.94)	(2,310.94)	—	—	—	1,067.83
3. Financial assets available for sale	—	—	—	—	—	—	—
Subtotal of financial assets	3,378.77	(2,310.94)	(2,310.94)	—	—	—	1,067.83
Real estate for investment	—	—	—	—	—	—	—
Productive biological assets	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total	3,378.77	(2,310.94)	(2,310.94)	—	—	—	1,067.83
Financial liabilities	(663.61)	647.19	647.19	—	—	—	(16.42)

(VII) Major subsidiaries and companies in which the Company has equity interest

Name of company	Company type	Industry	Major product or service	Registered capital	Total assets (RMB ten thousand)	Net assets (RMB ten thousand)	Operating revenue (RMB ten thousand)	Operating profit (RMB ten thousand)	Net profits (RMB ten thousand)
Hisense Hitachi	A company in which the Company has equity interest	Home appliances industry	Production and sale of commercial air-conditioners	US\$46 million	172,955.95	90,916.85	275,849.21	44,336.74	37,882.74

(VIII) Core Competitiveness Analysis

1. Technological advantages

The Company adheres to its operating philosophy of “technology orientation” and centers on “energy-saving by inverter technology” and “green and environmental friendliness” to build its core competitiveness through innovations in technologies and products. The Company has a State-recognized enterprise technology centre and a post-doctoral scientific research station. It is also a national industrial technological innovation base and an industrialization base under the 863 Plan. The Company continues to enhance its self-directed innovation capacity.

Management Discussion and Analysis

2. *Brand advantages*

The three brand names used in the refrigerator and air-conditioner products of the Company, namely “Hisense”, “Ronshen” and “Kelon”, are Chinese Well-known Marks with good brand reputation and market base. Among these brands, the market share of “Hisense” inverter air-conditioners had ranked first in China for thirteen consecutive years, while the market share of “Ronshen” refrigerators had ranked first in China for eleven years. “High technology and high quality” reflects the Company’s core brand value. At the same time, the Company gradually accelerates the progress of internationalization, and continues to promote the internationalization of its own brands.

IV. OUTLOOK

Projecting into 2013, household appliances enterprises will continue to face a severe market environment and substantial operating pressure against slowdown of domestic economic growth, sluggish demand in the household appliances market, ongoing stringent real estate policies, and increasing operating costs (especially labor costs), in combination with a pool of factors such as uncertainty in global economic growth and continued sluggish market. However, at the same time, demand for product upgrades at level 1 and level 2 cities, promotion and actualization of new urbanization, construction of security housings and revolution of new technologies will lead to upgrades in household appliances consumption with increasing demand for intelligent, energy-saving and environmental friendly household appliances, which will help to promote technology upgrade and innovation as well as enhancements in product structures for enterprises.

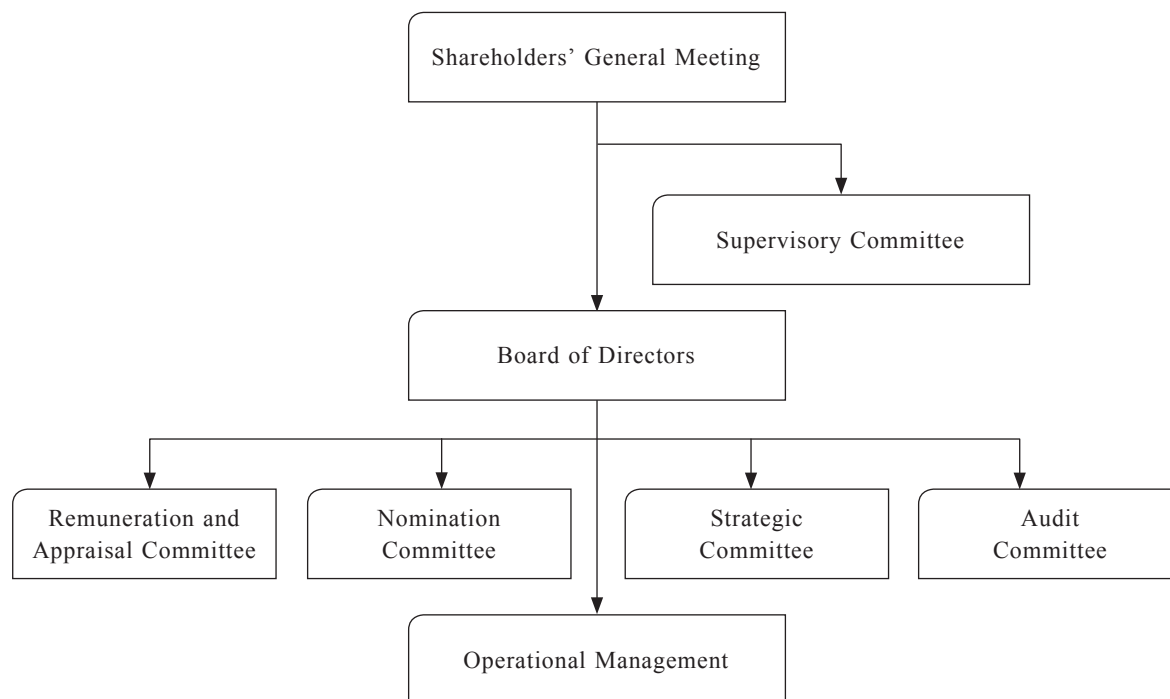
The Company will adhere to the operating strategy of “building product advantages, reforming marketing model, enhancing system efficiency, exploring the international markets and securing scale and results” to achieve steady increase in its scale, performance and market share, through the following:

1. to strengthen the efforts in technology upgrade with an emphasis on “energy-saving by inverter technology” and “green and environmental friendliness” in order to attain leadership in the core competitiveness of products; to realize differentiation of product functions, sophistication of products, building up of an edge in terms of product quality, as well as reasonable control of product costs, all of which will contribute to build the leading position of products; to continue the launch of new high-end products through technological advancement, to enrich the product line of high-end products and to enhance the market share of high-end products;
2. to revolutionize the sales channel, business model and operation model; to increase input in the third and fourth grade markets, to further pursue channel infiltration, to accelerate the development of channel points and enhance the management and control of network points, to forcefully develop the electronic commercial business and accelerate the expansion of project channels; to leverage on enhanced promotional capabilities to increase the scale and results and to shift sales business towards “driven by promotion to end customers”; to set up the operating model and capability for “on-demand supply” and “fast procurement and fast sales” for the supply chain;
3. to continuously implement flow rationalization, integration and enhancement measures, as well as equipment automation and informatization, in order to realize all-round enhancement of the overall efficiency of the Company;
4. to step up support for the international markets, to increase the pre-research capability for overseas markets, and to tilt towards self-owned brands in respect of export to international markets;
5. to perfect plan management system, to reinforce market forecast capability and to increase the Company’s responsiveness to the market; and to reinforce capital management and to accelerate capital flow.

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 Secretary to the Board. 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. At the second extraordinary meeting in 2012 held on 15 August 2012, a special resolution was considered and passed to amend certain provisions of the Articles of Association of the Company, which mainly related to the revision to the profit distribution policies of the Company and the inclusion of a provision that investments in derivatives that meet certain criteria shall be examined and approved by the shareholders' general meeting. For details, please see the announcement and the circular published by the Company on 28 June 2012 on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>).

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.

Corporate Governance Report

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 2012, one Annual General Meeting ("AGM") and two Extraordinary General Meetings ("EGM") have been held by the Company. The shareholding held by the shareholders attending the AGM and the EGMs represented 50.57%, 52.26% and 50.36% of all issued shares of the Company respectively. The attendance records of Directors attending the general meetings are set out in the following table:

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	3	2	0	66.67%
Mr. Ren Li Ren	3	2	0	66.67%
Ms. Yu Shu Min	3	0	0	—
Mr. Lin Lan	3	0	0	—
Mr. Xiao Jian Lin	3	0	0	—
Mr. Gan Yong He	3	1	0	33.33%
Mr. Zhang Sheng Ping (<i>Note 1</i>)	1	1	0	100%
Mr. Wang Xin Yu	3	3	0	100%
Mr. Wang Ai Guo	3	1	0	33.33%
Mr. Xu Xiang Yi (<i>Note 2</i>)	2	1	0	50%

Notes:

1. Mr. Zhang Sheng Ping ceased to be an independent non-executive Director with effect from 26 June 2012.
2. Mr. Xu Xiang Yi was appointed an independent non-executive Director on 26 June 2012.
3. All directors unable to attend the general meetings in person have applied for leave in writing before the commencement of the general meetings.

Rights of Shareholders

Procedures for Shareholders to requisition the convening of shareholders' extraordinary general meeting or class meeting

Shareholders who requisition the convening of a shareholders' extraordinary general meeting or a class meeting shall comply with the following procedures:

- (1) two or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign the written requisitions in one or more counterparts requiring the Board to convene a shareholders' extraordinary general meeting or a class meeting thereof and stating the object of the meeting. The written requisition shall be deposited at the Company's registered office in China at No.8 Ronggang Road, Ronggui, Shunde, Foshan, Guangdong Province, PRC or the Company's place of business in Hong Kong at Room 3101-3105, Singa Commercial Centre, No.148 Connaught Road West, Hogn Kong. The Board shall proceed as soon as possible to convene the shareholders' extraordinary general meeting or class meeting thereof after the receipt of such written requisition. The number of shares held referred to above shall be calculated as of the date of the written requisitions.

Corporate Governance Report

- (2) if the Board fails to issue a notice of such a meeting within thirty days after the receipt of the written requisitions, the requisitionists may themselves convene such a meeting in a manner as similar as possible to the manner in which the shareholders' meetings are convened by the Board within four months after the receipt of such requisitions by the Board. Reasonable expenses incurred by the requisitionists by reason of the Board's failure to convene a meeting as requisitioned and the calling and convening of a meeting by themselves shall be borne by the Company.

Procedures by which enquiries may be made by shareholders

Shareholder requests for information such as the Articles of Association, register of shareholders and minutes of shareholders' general meetings or inspect relevant information should provide written documentation to the Company to evidence the type and number of shares of the Company that he/she holds. Upon verification of the shareholder's identities, the Company will provide the copy as per the shareholder's request within 7 days upon receipt of reasonable charges. In addition, the shareholders can also make enquiries or suggestions by various methods such as phone, mail, site visit and internet platform. The Securities Department of the Company, whose contact details are set out below, is responsible for the day-to-day communication with shareholders.

The Securities Department, Hisense Kelon Electrical Holdings Company Limited
No. 8 Ronggang Road, Ronggui Street, Shunde District, Foshan City, Guangdong Province,
the People's Republic of China.
Postal code: 528303
Fax number: 86-757-28361055
E-mail address: kelonsec@hisense.com

Shareholders have smooth channels to make enquiries and suggestions to the Company, and the Company also arranges designated person to respond to the relevant enquiries timely.

For voting on each resolution in a general meeting, shareholders are entitled to enquire about the content of the resolution and make recommendation in respect thereof. Speaking shareholder should first introduce his/her identity as shareholder and his/her shareholdings etc., whereas the chairman of the meeting shall in person or appoint specific staff to respond to or give explanation for such enquiry or recommendation.

Procedures for putting forward proposals at shareholders' general meeting

Any shareholder(s) who hold(s), individually or jointly, 3% or more of the Company's shares shall be entitled to propose and submit in writing to the convener additional motions sixteen days prior to the date of the shareholders' general meeting. The convener shall issue a supplemental notice of the general meeting within the prescribed period to announce the contents of the additional motion(s).

As regard the procedures for proposing a person for election as a Director, please refer to the procedures made available on the website of the Company at <http://www.kelon.com>.

(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 eighth session of the Board was elected and established at the annual general meeting of the Company held on 26 June 2012 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. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo.

Corporate Governance Report

As at 1 January 2012, the Board was composed of the executive Directors Mr. Tang Ye Guo (Chairman), Ms. Yu Shu Min, Mr. Lin Lan, Mr. Xiao Jian Lin and Mr. Ren Li Ren and the independent non-executive Directors Mr. Zhang Sheng Ping, Mr. Wang Xin Yu and Mr. Wang Ai Guo. The following movements in the composition of the Board took place during the Reporting Period up to the date of this report:

- (i) Mr. Gan Yong He was elected 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;
- (ii) Mr. Zhang Sheng Ping did not offer for re-election upon expiry of his term of office on 25 June 2012 and ceased to be an independent non-executive Director on 26 June 2012;
- (iii) Mr. Xu Xiang Yi was elected as an independent non-executive Director of the eighth session of the Board of the Company at the 2011 AGM of the Company held on 26 June 2012;
- (iv) Mr. Tang Ye Guo, Mr. Ren Li Ren, Ms. Yu Shu Min, Mr. Lin Lan, Mr. Xiao Jian Lin and Mr. Gan Yong He were re-elected as executive Directors of the eighth session of the Board, and Mr. Wang Xin Yu and Mr. Wang Ai Guo were re-elected as independent non-executive Directors of the eighth session of the Board of the Company at the 2011 AGM of the Company held on 26 June 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 32 to 34 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.

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 2012, the Directors:

- selected 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 delegated 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.

Corporate Governance Report

In accordance with the Listing Rules and the relevant laws and regulations the Company has formulated the relevant systems 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. The Board assesses and evaluates the performance of the Directors in carrying out their duties according to their attendance rate in the Board meetings and shareholders' general meetings as well as the opinions and suggestions put forward by them in the day-to-day work.

In 2012, the seventh session of the Board of the Company has held 8 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				
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	8	8	0	100%
Mr. Ren Li Ren	8	8	0	100%
Ms. Yu Shu Min	8	8	0	100%
Mr. Lin Lan	8	8	0	100%
Mr. Xiao Jian Lin	8	8	0	100%
Mr. Gan Yong He <i>(Note)</i>	7	7	0	100%
Mr. Zhang Sheng Ping	8	8	0	100%
Mr. Wang Xin Yu	8	8	0	100%
Mr. Wang Ai Guo	8	8	0	100%

Note: Mr. Gan Yong He was appointed a Director on 16 January 2012.

In 2012, the eighth session of the Board of the Company has held 10 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 eighth 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	10	10	0	100%
Mr. Ren Li Ren	10	10	0	100%
Ms. Yu Shu Min	10	10	0	100%
Mr. Lin Lan	10	10	0	100%
Mr. Xiao Jian Lin	10	10	0	100%
Mr. Gan Yong He	10	10	0	100%
Mr. Xu Xiang Yi	10	10	0	100%
Mr. Wang Xin Yu	10	10	0	100%
Mr. Wang Ai Guo	10	10	0	100%

Corporate Governance Report

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. Arrangements are also in place to ensure that all Directors are given an opportunity to include matters in the agenda for Board meetings. The secretary to the Board is responsible for providing details of a regular Board meeting (including information in relation to the meeting of 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 to enable Directors to discharge their duties and responsibilities, including those for seeking independent professional advice. 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.

The Board is responsible for corporate governance, supervision of the management in establishment of a compliant organization structure and system, compliance with the CG Code (as defined below) and other laws and regulations in the ordinary course of management and other functions set out in code provision D.3.1 in the CG Code. During the Reporting Period, the Board and special committees have reviewed compliance of the Company's policies and practices on corporate governance, the training and continuous professional development of the Directors and senior management and the Company's system of internal control.

As at the date of this annual report, the Directors of the eighth 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. 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. Zhang Sheng Ping is from 26 June 2009 to 25 June 2012, the term of office of Mr. Xu Xiang Yi is from 26 June 2012 to 25 June 2015, the term of office of Mr. Wang Ai Guo is from 26 June 2012 to 25 June 2015, and the term of office of Mr. Wang Xin Yu is from 26 June 2012 to 25 June 2015.

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.

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.

Corporate Governance Report

Remuneration and Appraisal Committee

The eighth 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 (whose term ended on 25 June 2012), Mr. Wang Ai Guo, Mr. Xu Xiang Yi (since 26 June 2012) and Mr. Wang Xin Yu. Mr. Xu Xiang Yi acts as the chairman of the committee.

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 the remuneration policies are therefore important to the Company. For details of the remuneration policies of the Company, please refer to page 55 of this annual report.

Corporate Governance Report

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

Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Ms. Yu Shu Min	3	3	0	100%
Mr. Lin Lan	3	3	0	100%
Mr. Zhang Sheng Ping (<i>Note 1</i>)	2	2	0	100%
Mr. Wang Xin Yu	3	3	0	100%
Mr. Wang Ai Guo	3	3	0	100%
Mr. Xu Xiang Yi (<i>Note 2</i>)	1	1	0	100%

Note:

1. Mr. Zhang Sheng Ping ceased to be an independent non-executive Director and the chairman of the committee with effect from 26 June 2012.
2. Mr. Xu Xiang Yi was appointed an independent non-executive Director and became the chairman of the committee on 26 June 2012.

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

- (i) the disclosure of the annual remuneration of the Directors, supervisors and senior management in the 2011 annual report;
- (ii) the annual remuneration of the candidates of the eighth session of the Board of the Company, namely Mr. Tang Ye Guo, Mr. Ren Li Ren and Mr. Gan Yong He as executive Directors and Mr. Xu Xiang Yi, Mr. Wang Ai Guo and Mr. Wang Xin Yu as independent non-executive Directors, and made recommendations to the Board;
- (iii) the election of Mr. Xu Xiang Yi as the chairman of the Remuneration and Appraisal Committee of the eighth session of the Board of the Company;

Members of the Remuneration and Appraisal Committee confirmed that the remuneration of the Directors, supervisors and senior management during the Reporting Period are in line with the remuneration appraisal system set up by the Company and the remuneration policies have been strictly implemented. Details of the remuneration of the Directors, the supervisors and the senior management of the Company for the year ended 31 December 2012 are set out on page 54 of this annual report.

Nomination Committee

The eighth 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 (whose term ended on 25 June 2012), Mr. Xu Xiang Yi (since 26 June 2012), Mr. Wang Xin Yu and Mr. Wang Ai Guo, and Directors, namely, Mr. Tang Ye Guo and Mr. Ren Li Ren. Mr. Xu Xiang Yi acts as the chairman of the committee.

Corporate Governance Report

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 serves 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.

The Nomination Committee of the Board of the Company held three meetings 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 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	3	3	0	100%
Mr. Ren Li Ren	3	3	0	100%
Mr. Zhang Sheng Ping (<i>Note 1</i>)	1	1	0	100%
Mr. Wang Xin Yu	3	3	0	100%
Mr. Wang Ai Guo	3	3	0	100%
Mr. Xu Xiang Yi (<i>Note 2</i>)	2	2	0	100%

Note:

1. Mr. Zhang Sheng Ping ceased to be an independent non-executive Director and the chairman of the committee with effect from 26 June 2012.
2. Mr. Xu Xiang Yi was appointed an independent non-executive Director and became the chairman of the committee on 26 June 2012.

Corporate Governance Report

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

- (i) the resolution on the election of the new session of the Board;
- (ii) the resolution on the election of Mr. Xu Xiang Yi as the chairman of the Nomination Committee of the eighth session of the Board of the Company;
- (iii) the resolution on the nomination of Mr. Ren Li Ren as the President of the Company;
- (iv) the resolution on the nomination of Mr. Jia Shao Qian, Mr. Zhang Yu Qing, Mr. Wang Yun Li and Mr. Gan Yong He as Vice-presidents of the Company;
- (v) the resolution on the nomination of Mr. Xia Feng and Ms. Wong Tak Fong as the secretary to the Board and the company secretary respectively;
- (vi) the resolution on the nomination of Ms. Li Jun as the person in charge of finance 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. During the Reporting Period, the Nomination Committee strictly implemented the nomination procedures and recommendation criteria in accordance with the nomination policy enacted.

Strategic Committee

The eighth 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 eighth session of the Board comprised Mr. Tang Ye Guo, Mr. Ren Li Ren, Ms. Yu Shu Min, Mr. Lin Lan and Mr. Xiao Jian Lin. Mr. Tang Ye Guo is the chairman of the committee.

During the Reporting Period, the Strategic Committee convened one meeting, which was attended by all five members of the Strategic Committee. At the meeting, the resolution on the election of Mr. Tang Ye Guo as the chairman of the Strategic Committee of the eighth session of the Board of the Company was passed upon consideration.

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.

Corporate Governance Report

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 the relevant 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;
- (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;

Corporate Governance Report

- (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;
- (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 eighth session of the Board of the Company are independent non-executive Directors. During the Reporting Period and up to the date hereof, the Audit Committee consisted of Mr. Zhang Sheng Ping (whose term ended on 25 June 2012), Mr. Xu Xiang Yi (since 26 June 2012), Mr. Wang Xin Yu and Mr. Wang Ai Guo. Mr. Wang Ai Guo is the chairman of the committee.

The Audit Committee of the Board of the Company held four 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 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 (<i>Note 1</i>)	3	3	0	100%
Mr. Wang Xin Yu	4	4	0	100%
Mr. Wang Ai Guo	4	4	0	100%
Mr. Xu Xiang Yi (<i>Note 2</i>)	1	1	0	100%

Note:

- Mr. Zhang Sheng Ping ceased to be an independent non-executive Director and a member of the committee with effect from 26 June 2012.
- Mr. Xu Xiang Yi was appointed an independent non-executive Director and became a member of the committee on 26 June 2012.

Corporate Governance Report

In 2012, the Audit Committee accomplished the following major tasks:

1. Having reviewed the annual, interim and quarterly financial reports of the Company;
2. Having elected Mr. Wang Ai Guo as the chairman of the Audit Committee of the eighth session of the Board;
3. 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;
4. Having reviewed the effectiveness of the company's internal control system; and
5. Having made recommendations on significant events of the Company and reminded the senior management of the Company of the relevant risks.

(e) 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.

During the Reporting Period, the term of the seventh session of the Supervisory Committee expired and Mr. Gao Zhong Xiang and Mr. Liu Zhan Cheng, being a shareholder representative supervisor and the employee representative supervisor of the seventh session of the Supervisory Committee respectively, did not offer themselves for re-election. The eighth session of the Supervisory Committee of the Company as elected at the annual general meeting held on 26 June 2012 originally comprised Mr. Guo Qing Cun and Ms. Li Jun as shareholder representative supervisor and Mr. Zhang Jian Jun as employee representative supervisor. Due to the resignation of Ms. Li Jun, Ms. Liu Jiang Yan was appointed as a shareholder representative supervisor of the eighth session of the Supervisory Committee with effect from 15 August 2012. Since then, the eighth session of the Supervisory Committee is composed of two shareholder representative supervisor, namely Mr. Guo Qing Cun and Ms. Liu Jiang Yan and one employee representative supervisor of the Company, Mr. Zhang Jian Jun, 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 33 to 34 of this annual report.

II. Compliance with the CG Code

To the best knowledge and information of the Company, during the Reporting Period, the Company has complied with the code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) ("CG Code") as set out in Appendix 14 to the Listing Rules other than the following:

- (A) The Articles of Association of the Company provide that the Company can purchase liability insurance for the Directors with the approval of the shareholders' general meeting. Following the consideration and approval by the shareholders at the annual general meeting of the Company held on 26 June 2012, the Company has already purchased liability insurance for the Directors and senior management of the Company to meet the requirement in code provision A.1.8 of the CG Code.
- (B) Mr. Wang Ai Guo and Mr. Xu Xiang Yi did not attend certain general meetings held by the Company despite code provision A.6.7 of the CG Code due to other commitments.

Corporate Governance Report

Training of the Directors

In order to enhance the level of corporate management of the Directors, the secretary to the Board of the Company continuously follows the latest regulatory requirements set out by the securities regulatory institutions, and delivers such requirements and information to the Directors, supervisors and senior management of the Company in a timely manner. At the same time, the Company has also arranged training programs for the relevant Directors, supervisors and senior management, which includes a training session conducted by the Hong Kong legal advisers of the Company in relation to, inter alia, the new amendments to the CG Code and the Listing Rules and the key features of the statutory inside information disclosure regime and specific training sessions held by the Shenzhen Stock Exchange and China Securities Regulatory Commission Guangdong Bureau, with the aim to assist Directors in participating in continuous professional development.

The secretary to the Board maintains records of training attended by the Directors. The training attended by each current Director during the Reporting Period is tabulated as follows:

Name	Type of training (Note)
Mr. Tang Ye Guo	a, b
Mr. Ren Li Ren	a, b
Ms. Yu Shu Min	a, b
Mr. Lin Lan	a, b
Mr. Xiao Jian Lin	a, b
Mr. Gan Yong He	a, b
Mr. Wang Xin Yu	a, b
Mr. Wang Ai Guo	b
Mr. Xu Xiang Yi	a, b

Note:

a: attending seminar(s) or training session(s)

b: reading newspapers, journals and updates relating to the Company's business or directors' duties and responsibilities etc.

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. Ren Li Ren
TERM OF OFFICE	26 June 2006 to 25 June 2015	27 June 2011 to 25 June 2015

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.

During the Reporting Period, the Chairman held a meeting with the independent non-executive Directors without the presence of the executive Directors.

Corporate Governance Report

Internal Control

During the Reporting Period, pursuant to the provisions and requirements of the Basic Norms for Enterprise Internal Control and its ancillary guidelines, with the objectives of enhancing the level of corporate operation and management and risk prevention ability, as well as reasonably ensuring the compliance of the Company's operation with law and regulation, the safety of assets, the truthfulness and completeness 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, 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 scope of assessment in internal control that require emphasis, including organizational structure, development strategies, human resources, social responsibility, corporate culture, funding activities, procurement operations, asset management, sales business, research and development, guarantee business, business outsourcing, financial report, comprehensive budget, contract management, internal information transfer and information systems, and has carried out self-assessment on the effectiveness of the Company's internal control in 2012. 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 2012, 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, they all confirmed that they had complied with the Model Code during their term of office.

IV. Auditor

In 2012, as considered and approved at the shareholders' general meeting, the Company agreed to reappoint Crowe Horwath China Certified Public Accountants (LLP) as the auditors of the Company for the financial year of 2012, and the Board was authorized to fix their remuneration. The Company agreed to pay a remuneration of approximately RMB2,000,000 and RMB700,000 to the auditors for the provision of audit services for financial reporting and internal control respectively for the year ended 31 December 2012 and bear the corresponding travel expenses.

V. Company secretary

Ms. Wong Tak Fong was appointed as a joint company secretary with Ms. Li Lin with effect from 4 April 2011. On 26 June 2012, the Board examined and approved the appointment of Ms. Wong Tak Fong as the company secretary to assist the Company in dealing with the Hong Kong Listing Rules compliance matters. Ms. Li Lin has resigned from the position of the joint company secretary of the Company with effect from 26 June 2012. Ms Wong Tak Fong is the Company's external personnel. She can contact and communicate with the secretary of the Board of the Company, Mr. Xia Feng, in her day-to-day work.

According to Rule 3.29 of the Listing Rules, Ms. Wong Tak Fong has taken no less than 15 hours of relevant professional training during the Reporting Period.

Profiles of Directors, Supervisors & Members of the Senior Management

Directors:

Mr. Tang Ye Guo, aged 50, 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 and the vice president of Hisense 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 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 and chairman of the board of directors of Hisense Air-Conditioning and the chairman of the board of directors of the Company from June 2006 to April 2010. He has been the vice president and a director of Hisense Group and chairman of the board of directors of Hisense Air-Conditioning and the chairman of the board of directors of the Company since April 2010.

Ms. Yu Shu Min, aged 61, 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 vice chair woman of the board of directors and the chief executive officer of Hisense Group. She has been the chairwoman of the board of directors of Hisense Electric since December 1999. Ms. Yu has been the vice chair woman of the board of directors and the president of Hisense Group since July 2001. She has been a director of the Company since June 2006.

Mr. Lin Lan, aged 55, has worked 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 of GE 動力系統公司 (GE Power Systems). Mr. Lin 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 been a director of the Company since June 2006.

Mr. Xiao Jian Lin, aged 45, has successively served as the deputy head of operation centre, the head of finance centre, head of finance department and assistant to president of Hisense Group. He was the head of audit department of Hisense Group from August 2007 to January 2009. He has been a director of Hisense Group since January 2000, the vice-president of Hisense Group since January 2008, the head of finance and operation management centre of Hisense Group since January 2009, and a director of Hisense Electric since June 2008. He has been a director of Hisense Air-Conditioning since April 2009. He has served as a director of the Company since January 2011.

Mr. Ren Li Ren, aged 48, 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., the general manager of Hisense (Nanjing) Electrical Co., Ltd., the general manager of Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd. and the vice general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.. From June 2006 to June 2009, he acted as the assistant to the president of the Company. From June 2009 to June 2011, he acted as the vice president of the Company. He has been the president of the Company since June 2011. He has been a director of Hisense Air-Conditioning and a director of the Company since August 2011.

Mr. Gan Yong He, aged 45, was previously the head of manufacturing quality department and head of central quality department of Anhui Boxihua Household Electric Appliance Co., Ltd., and the quality manager and quality director of Electrolux (China) Home Appliances Co., Ltd. He acted as 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.

Profiles of Directors, Supervisors & Members of the Senior Management

Mr. Xu Xiang Yi, aged 57, holds a Ph. D. in Law from Shandong University. He is a professor and Ph. D. supervisor in business management. He was the Dean of the School of Management of Shandong University from January 2004 to November 2012, and is currently the head of the Department of Social Sciences of Shandong University. He was an independent director of Shandong Hi-speed Company Limited (listed on the Shanghai Stock Exchange) from April 2003 to April 2010, a supervisor of Shandong Hi-speed Company Limited since April 2010, an independent director of Hisense Electric (listed on the Shanghai Stock Exchange) from June 2003 to May 2009, an independent director of TonglingJingda Special Magnet Wire Co., Ltd. (listed on the Shanghai Stock Exchange) from December 2006 to January 2010, and an independent director of Shandong Demian Incorporated Company (listed on the Shenzhen Stock Exchange) from April 2010 to December 2011. He has been an independent director of Baolingbao Biology Co., Ltd. (listed on the Shenzhen Stock Exchange) since October 2007, and an independent director of Shandong Longji Machinery Co., Ltd. (listed on the Shenzhen Stock Exchange) since March 2008. He has been an independent non-executive director of the Company since June 2012.

Mr. Wang Ai Guo, aged 48, 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 was a professor at the Faculty of Accountancy of Shandong Economics College between 2000 and 2011. 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 was an independent director of Laiwu Steel Co., Ltd (萊蕪鋼鐵股份有限公司) (listed on the Shanghai Stock Exchange) from June 2008 to February 2012 and an independent director of Shandong Zhangqiu Blower Co., Ltd. (山東省章丘鼓風機股份有限公司) (listed on the Shenzhen Stock Exchange) since July 2009 and an independent non-executive director of China Corn Oil Company Limited (中國玉米油股份有限公司) (listed on The Stock Exchange of Hong Kong Limited) since November 2009. He has been an independent director of Shandong Chenming Paper Holdings Co. Ltd (山東晨鳴紙業集團股份有限公司) (listed on the Shenzhen Stock Exchange and The Stock Exchange of Hong Kong Limited) since April 2010. He has also been an independent director of Shandong Iron and Steel Company Ltd (山東鋼鐵股份有限公司) (listed on the Shanghai Stock Exchange) since April 2012. He has served as an independent non-executive director of the Company since January 2011.

Mr. Wang Xinyu, aged 42, 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.

Supervisors:

Mr. Guo Qing Cun, aged 59, 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 trade union of Hisense Group. He has served as a supervisor of the Company since December 2006.

Ms. Liu Jiang Yan, aged 37, holds a bachelor degree. She was the head of the finance department of Qingdao Hisense Import & Export Co., Ltd. from August 2004 to March 2009, and the deputy director of the finance centre of Hisense Electric from March 2009 to June 2010. She has been the deputy director of the finance and operation management centre of Hisense Group from June 2010 to August 2012. She has been the deputy director of the finance and operation management centre of Hisense Group and a supervisor of the Company since August 2012.

Profiles of Directors, Supervisors & Members of the Senior Management

Mr. Zhang Jian Jun, aged 39, holds a bachelor degree in law. He was a deputy director of the management promotion department of the PRC marketing company of the Company from March 2007 to March 2008, the deputy director of the integrated management department of the PRC marketing company of the Company from March 2008 to August 2009 and the legal counsel of the PRC marketing company of the Company from November 2009 to August 2010. He has been the head of the legal affairs department of the Company from September 2010 to June 2012. He has been a supervisor and the head of the legal affairs department of the Company since June 2012.

Senior Management Members:

Mr. Jia Shao Qian, aged 40, has served as a legal adviser in the corporate legal department of Hisense Group. He was a supervisor of public relations in the president office of Hisense Group from January 2000 to January 2003, deputy manager of the president office of Hisense Group from January 2003 to July 2005 and manager of the president office of Hisense Group from July 2005 to January 2007. He has served as the vice president of the Company since January 2007. He served as chairman of the supervisory committee of Hisense Electric from June 2006 to March 2011.

Mr. Zhang Yu Qing, aged 49, is a senior engineer. He was the 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 has 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 was 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 Yun li, aged 39, was the deputy sales general manager of Qingdao Hisense Electric Co., Ltd. from July 2006 to January 2010, deputy executive general manager of the PRC marketing company of the Company from January 2010 to October 2010, and executive general manager of the PRC marketing company of the Company from November 2010 to February 2012. He has been the vice president of the Company since December 2010.

Ms. Li Jun, aged 38, holds a bachelor degree in Accountancy. She is a certified public accountant and has served successively as the head of financial analysis of the finance department and the deputy head of the audit department of Hisense Group. She was the deputy director of the finance and operation management centre of Hisense Group from January 2009 to August 2012. She acted as a supervisor of the Company from June 2012 to August 2012. She has been the person in charge of finance and the chief accountant of the Company since August 2012.

Mr. Xia Feng, aged 36, holds a master degree in management, and was previously the head of the capital operating department of Hisense Group, deputy manager of the marketing department of Hisense Air-Conditioning, and deputy manager, representative of securities affairs, manager of securities department and secretary to the board of directors of Hisense Electric. He has been the secretary to the board of directors and the head of securities department of the Company since August 2010.

Ms. Wong Tak Fong, aged 45, holds a master degree in Business Administration from the University of Bradford, and is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom, 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 acted as a joint company secretary from April 2011 to June 2012 and has acted as the company secretary of the Company since June 2012.

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

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 DIVIDEND

The Group recorded net profit attributable to equity shareholders of RMB718 million for the year ended 31 December 2012. The Board resolved not to pay any dividend for the year ended 31 December 2012 and not to capitalize any reserve funds (no dividend was paid by the Group for the year ended 31 December 2011).

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 2012.

LIQUIDITY AND SOURCES OF FUNDS

For the year ended 31 December 2012, net cash generated from operating activities of the Group amounted to approximately RMB1,098 million (2011: net cash generated from operating activities amounted to approximately RMB366 million).

As at 31 December 2012, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB516 million (2011: RMB398 million), and bank loans amounting to approximately RMB30 million (2011: RMB1,005 million).

Total capital expenditures of the Group for the year ended 31 December 2012 amounted to approximately RMB163 million (2011: RMB230 million).

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 31 December 2012, the Group had approximately 30,698 employees, mainly comprising 4,644 technical staff, 13,325 sales representatives, 622 financial staff, 1,147 administrative staff and 10,960 production staff. The Group had 4 employees with a doctorate degree, 197 with a master's degree and 2,978 with a bachelor's degree. For the year ended 31 December 2012, the Group's staff payroll amounted to RMB1,541 million (corresponding period in 2011 amounting to RMB1,485 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 three-level training system, a well-rounded curriculum system and a training regulation system and actively promoted the building up of teacher resources internally and externally, so as to effectively support the development of the Company's management and technical personnel and achieve value-added human resources. The Company develops training programs every year based on its annual work plan and human resources development needs.

The Company has provided 1,362 courses in total during the Reporting Period, and the number of participants reached 64,518. The courses are mainly of enterprise management type, craftsmanship and quality type, corporate culture type, manufacturing type, or are induction courses for new staff, etc., covering employees at different levels, ranging from ground level staff responsible for work such as front-line production and marketing 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 2012, the Group's property, plant and equipment (including leasehold land held for own use), investment properties and accounts receivable of approximately RMB423 million (31 December 2011: RMB569 million) were pledged as security for the Group's borrowings.

Report of the Directors

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 2012 are set out in note 11 to the financial statements.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

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

PUBLIC FLOAT

The Directors confirm that as at 28 March 2013, 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 "Hong Kong Listing Rules").

AUDIT COMMITTEE

The eighth 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 2012.

CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2013 will be approximately RMB47 million. The Group has sufficient funds to meet the funding requirement for capital expenditure plans and daily operations.

TRUST DEPOSITS

As at 31 December 2012, 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 2012, the Group did not have any long-term bank borrowings and its cash and cash equivalents amounted to RMB514 million (2011: RMB397 million), of which more than RMB416 million are denominated in Renminbi.

As at 31 December 2012, the Group's current liabilities amounted to RMB6,958 million, non-current liabilities amounted to RMB369 million, and shareholders' equity attributable to the shareholders of the Company amounted to RMB1,512 million. Details of the Group's capital structure are set out in the financial statements which be contained in the annual report of the Company.

GEARING RATIO

As at 31 December 2012, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 79.64% (2011: 84.80%).

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The eighth 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 Hong Kong Listing Rules. The Company considers that all the independent non-executive Directors of the eighth session of the Board meet the relevant requirements under Rule 3.13 of the Hong Kong Listing Rules and considers them to be independent.

Report of the Directors

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

None of the Directors and the supervisors of the Company have a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

The Directors of the eighth session of the Board and the supervisors of the Company do not and 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 2012.

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the eighth session of the Board have reviewed the continuing connected transactions of the Group for the year 2012, 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 Hong Kong Listing Rules as its code for securities transaction by Directors. After having made specific enquiries to the Directors, all Directors 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 2012, 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

As at 31 December 2012, there were 37,184 shareholders of the Company (the “Shareholders”) in total, of which the top ten Shareholders were as follows:

Name of Shareholder	Nature of Shareholder	No. of shares held	Percentage to the total issued shares of the Company	Percentage to the relevant class of issued shares of the Company	No. of shares held subject to trading moratorium	No. of pledged or frozen shares
Qingdao Hisense Air-conditioning Company Limited	State-owned legal person	612,316,909	45.22%	68.46%	612,316,909	0
HKSCC Nominees Limited ^{Note}	Foreign legal person	457,568,208	33.79%	99.56%	0	Unknown
China Huarong Asset Management Corporation	State-owned legal person	30,000,000	2.22%	3.35%	0	0
Zhang Shaowu	Domestic natural person	6,365,415	0.47%	0.71%	0	0
Industrial Bank Company Limited — Lombarda China New Trend Securities Investment Fund (LOF)	Other	5,179,033	0.38%	0.58%	0	0
Agricultural Bank of China — Fullgoal Tianrui Strong Area Selected Mixed Open Securities Investment Fund	Other	4,584,930	0.34%	0.51%	0	0
GF Securities Company Limited	Domestic non-state-owned legal person	4,383,613	0.32%	0.49%	0	0
Zhong Juan Wei	Domestic natural person	3,661,174	0.27%	0.41%	0	0
Agricultural Bank of China — Fullgoal Tiancheng Dividend Flexible Allocation Mixed Securities Investment Fund	Other	3,000,000	0.22%	0.34%	0	0
Industrial and Commercial Bank of China — Fullgoal Tianhui Selected Growth Mixed Securities Investment Fund (LOF)	Other	2,500,000	0.18%	0.28%	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, has acquired 27 million H shares of the Company through the exercise of option during the Reporting Period, and became holder of 54 million H shares in total at the end of the period, representing 3.99% of the total number of shares of the Company.
- At the end of the day falling 5 trading days prior to the date of disclosure of the annual report for A shares on 29 March 2013, there were 36,198 shareholders of the Company in total.

Report of the Directors

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of tradable shares held	Class of shares
HKSCC Nominees Limited	457,568,208	Overseas listed foreign shares
China Huarong Asset Management Corporation	30,000,000	RMB ordinary shares
Zhang Shaowu	6,365,415	RMB ordinary shares
Industrial Bank Company Limited — Lombarda China New Trend Securities Investment Fund (LOF)	5,179,033	RMB ordinary shares
Agricultural Bank of China — Fullgoal Tianrui Strong Area Selected Mixed Open Securities Investment Fund	4,584,930	RMB ordinary shares
GF Securities Company Limited	4,383,613	RMB ordinary shares
Zhong Juan Wei	3,661,174	RMB ordinary shares
Agricultural Bank of China — Fullgoal Tiancheng Dividend Flexible Allocation Mixed Securities Investment Fund	3,000,000	RMB ordinary shares
Industrial and Commercial Bank of China — Fullgoal Tianhui Selected Growth Mixed Securities Investment Fund (LOF)	2,500,000	RMB ordinary shares
Yan Xinyao	1,885,739	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 《上市公司收購管理辦法》 (Administrative Measures for the Takeover 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 2012, 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 ^{Note}	Beneficial owner	A shares	612,316,909(L)	68.46%	45.22%
Qingdao Hisense Electric Holdings Company Limited ^{Note}	Interest of controlled corporation	A shares	612,316,909(L)	68.46%	45.22%
Hisense Company Limited ^{Note}	Interest of controlled corporation	A shares	612,316,909(L)	68.46%	45.22%
Hisense (Hong Kong) Company Limited ^{Note}	Beneficial owner	H shares	54,000,000(L)	11.75%	3.99%
Qingdao Hisense Electric Holdings Company Limited ^{Note}	Interest of controlled corporation	H shares	54,000,000(L)	11.75%	3.99%
Hisense Company Limited ^{Note}	Interest of controlled corporation	H shares	54,000,000(L)	11.75%	3.99%

Note: 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 47.90% 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.

Save as disclosed above, as at 31 December 2012, 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.

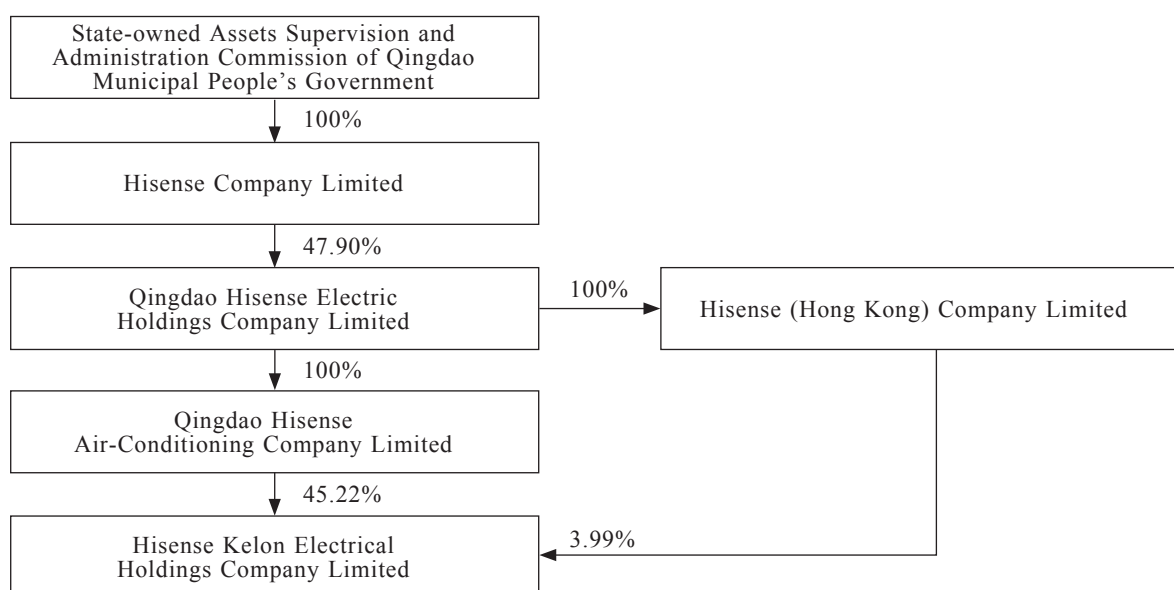
PARTICULARS OF THE CONTROLLING SHAREHOLDERS OF THE COMPANY

- (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-conditioning products 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 and its registered capital is 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,

Report of the Directors

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.
- (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 2012, save as disclosed in sub-section "Movements of the share options during the Reporting Period" 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 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 2012, the aggregate amount of the Group's purchases from the top five suppliers was RMB2,428 million, representing 17.90% of the total purchase amount of the Group for the year and the aggregate sales amount to the top five customers was RMB4,853 million, representing 27.96% of the total sales amount of the Group for the year. As at 31 December 2012, 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.

Report of the Directors

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.

AUDITOR

On 1 August 2011, as considered and approved at the 2011 second extraordinary general meeting of the Company, 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. In 2012, as considered and approved at the shareholders' general meeting, the Company agreed to re-appoint Crowe Horwath China Certified Public Accountants (LLP) as the auditors of the Company for the financial year of 2012.

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 names appear on the H-share register of members.

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.

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(2) Movements of the share options during the Reporting Period

No.	Name	Position	Outstanding share options as at 1 January 2012 (ten thousand shares)	Number of share options exercised or cancelled during the Reporting Period (ten thousand shares)	Number of share options lapsed during the Reporting Period (ten thousand shares)	Outstanding share options as at 31 December 2012 (ten thousand 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	Zhang Jian Jun	Supervisor	5.6	—	—	5.6	0.004%	0.006%
9	Mid level management staff and key personnel		1398.1	—	—	1398.1	1.040%	1.563%
Total			1951	—	—	1951	1.440%	2.181%

Note: All share options available for issue under the Scheme have been granted.

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) The grant date of the share options

The grant date of the share options is 31 August 2011.

(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.

Report of the Directors

(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).

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.

(6) 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.

(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 RMB4.6485 million in total in relation to this share option incentive scheme.

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

- (I) **On 29 November 2011, 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, the Financial Services Agreement, Business Framework Agreement 1, Business Framework Agreement 2 and the Purchase Financing Agency Framework Agreement with Embraco, Huayi Compressor, Hisense Group and Hisense Electric, Snowflake, Hisense Finance, Hisense Hitachi, Hisense – Whirlpool and Hisense Hong Kong respectively.**

Embraco is held as to 30.82% by Snowflake, a substantial shareholder which holds 45% of the equity interests in Beijing Refrigerator (being a non wholly owned subsidiary of the Company) and therefore Embraco and Snowflake are connected persons of the Company according to the Hong Kong Listing Rules.

Report of the Directors

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 and Hisense Hong Kong (which held 1.99% of the issued shares of the Company as at the date of the agreement) holds 3.99% of the issued shares of the Company. As Hisense Group indirectly owns 47.90% of Hisense Air-conditioning and Hisense Hong Kong (then indirectly owned 51.01% of such companies as at the date of the agreement) and Hisense Electric is owned as to 41.15% (then owned as to 41.36% as at the date of the agreement) by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries are connected persons of the Company according to the Hong Kong Listing Rules. As Hisense Finance is a subsidiary of Hisense Group, Hisense Finance is also a connected person of the Company according to the Hong Kong Listing Rules.

As certain directors of the Company are also senior management of Hisense Hitachi and Hisense-Whirlpool, Hisense Hitachi and Hisense-Whirlpool are connected persons of the Company according to the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange.

Details of the Compressors Purchase Framework Agreement with Embraco, the Compressors Purchase and Supply Framework Agreement with Huayi Compressor, the Business Co-operation Framework Agreement with Hisense Group and Hisense Electric, the Property Services Framework Agreement with Snowflake, the Financial Services Agreement with Hisense Finance, Business Framework Agreement 1 with Hisense Hitachi and Business Framework Agreement 2 with Hisense-Whirlpool 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 29 November 2011 and 28 December 2011 respectively.

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 Purchase Financing Agency Framework Agreement can be found in the announcement published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 29 November 2011.

The above transactions (other than the Business Framework Agreement 1 with Hisense Hitachi and the Business Framework Agreement 2 with 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 which is exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules). Specific information of the Compressors Purchase Framework Agreement, the Compressors Purchase and Supply Framework Agreement, the Business Co-operation Framework Agreement, the Financial Services Agreement and the Property Services Framework Agreement 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

Report of the Directors

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. In addition, the Group can have bigger bargaining power by carrying out bulk purchase of compressors from Embraco and/or its subsidiaries, thus reducing purchase costs and increasing product competitiveness. 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, 16 January 2012) until 31 December 2012, which can be terminated before its expiration by mutual agreement of the parties.
- (2) Pricing for the purchase of compressors will be the market price of compressors which will be confirmed by commercial negotiation between the parties according to the principles of fairness and reasonableness 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).

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. In addition, the Group can have bigger bargaining power by carrying out bulk purchase of compressors from Huayi Compressor and/or its subsidiaries, thus reducing purchase costs and increasing product competitiveness. 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, 16 January 2012) until 31 December 2012, which can be terminated before its expiration by mutual agreement of the parties.
- (2) Pricing for the purchase of compressors will be the market price of compressors which will be confirmed by commercial negotiation between the parties according to the principles of fairness and reasonableness 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 transactions contemplated under the Huayi Compressors Purchase Framework Agreement 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 and Supply Framework Agreement are subject to the annual cap of RMB1,380,000,000 (inclusive of value-added tax).

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

On the one hand, the 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, 16 January 2012) until 31 December 2012, which can be terminated before its expiration by mutual agreement of the parties.
- (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 provision of the agency services for export 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 rate of the charges actually incurred by the Group for conducting overseas by itself in previous years, on the basis that such export agency fee percentage shall be a rate which is lower than the level of the rate of the charges actually incurred by the Group for conducting overseas sales by itself in previous years to a certain extent for the same computation of expenses and conditions.
- (3) Payment term(s) for the transactions between the Company on the one hand and Hisense Group and Hisense Electric on the other hand shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto.

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(4) The annual caps under the Business Co-operation Framework Agreement are shown in the table below:

Unit: RMB (ten thousand) (including value-added tax)

Types of transactions	Division by products or services	Connected person	Annual cap
Sale of products and materials	Sale of home electrical appliances products by the Group	Hisense Group	250,000
		Hisense Electric	400
	Sale of equipment by the Group	Hisense Group	1,200
	Sale of moulds by the Group	Hisense Group	18,700
		Hisense Electric	8,000
	Sale of raw materials, parts and components by the Group	Hisense Group	7,000
Hisense Electric		2,000	
Provision of services	Provision of design, loading and unloading services, equipment rental services and property services by the Group	Hisense Group	842
		Hisense Electric	50
Purchase of products and materials	Purchase of home electrical appliances products by the Group	Hisense Group	250
		Hisense Electric	150
	Purchase of raw materials, parts and components by the Group	Hisense Group	2,203
		Hisense Electric	4,600
	Purchase of equipment by the Group	Hisense Group	1,000
Receipt of services	Receipt of property service, medical service, material processing services, material inspection services, installation and maintenance, management consultancy, agency services for import, leasing, design, property construction and information system maintenance by the Group	Hisense Group	12,912
		Hisense Electric	2,810
	Receipt of agency services for export by the Group	Hisense Group	16,200

Report of the Directors

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 the provision of more expedient and efficient services 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 less 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 commence from the date of approval of the Financial Services Agreement by the independent shareholders (that is, 16 January 2012) until 31 December 2013, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.
- (2) The services to be provided by Hisense Finance to the Group include deposit services, loan and electronic bank acceptance bill (電子銀行承兌匯票) services, draft discount services (票據貼現服務) and settlement and sale of foreign exchange services (結售匯服務), subject to the approval from the Administration of Foreign Exchange (外匯管理局) having been obtained by Hisense Finance for the provision of such 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 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. Hisense Finance may require the Group to provide guarantee or security over assets in respect of the loan services rendered, depending on the then circumstances and business needs. The service fees charged for the provision of electronic bank acceptance bill services by Hisense Finance for the Group shall not be higher than the standard service fees charged by normal commercial banks in the PRC for comparable services. The discount rate for the provision of draft discount services by Hisense Finance to the Group shall be determined on the basis of the rediscount rate (再貼現利率) quoted by The People's Bank of China and with reference to market level and shall not be higher than the discount rate charged by normal commercial banks in the PRC providing such services to the Group. The level of services (including the level of exchange rates) for the settlement and sale of foreign exchange at Hisense Finance shall not be worse than the level of services (including the level of exchange rates) of normal commercial banks in the PRC providing such services to the Group.
- (4) The maximum daily balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the cap of RMB350,000,000 (inclusive of interest) on any given day. The maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the Financial Services Agreement shall not exceed the cap of RMB1.5 billion (inclusive of interest and service fees).

The annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services during the term of the Financial Services Agreement shall not exceed the cap of RMB50,000,000. Subject to the approval from the Administration of Foreign Exchange (外匯管理局) having been obtained by Hisense Finance for the provision of settlement and sale and foreign exchange services, the annual amount settled or sold by Hisense Finance for the Group shall not exceed the cap of US\$50,000,000.

5. The Property Services Framework Agreement with Snowflake

Snowflake and its relevant subsidiaries possess the expertise and experience for the provision of property services which can enable the Company to carry out its daily operation smoothly. In addition, by leveraging on the price advantages for the provision of property services by Beijing Snowflake Group and its relevant subsidiaries, the Group is able to reduce its costs. As such, the Company entered into the Property Services Framework Agreement with Snowflake, the principal terms of which are as follows:

- (1) The term of the Property Services Framework Agreement shall commence from 1 January 2012 to 31 December 2012, which can be terminated before its expiration by mutual agreement of the parties.

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- (2) The fees payable by the Group for the provision of property services by Snowflake and/or its subsidiaries is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price for the provision of similar services 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) The fees for the provision of such services will be calculated on a monthly or quarterly basis and payment for such monthly or quarterly fee should be made by telegraphic transfer or bills by the relevant members of the Group.
- (4) The transactions contemplated under the Property Services Framework Agreement are subject to the annual cap of RMB33,200,000.

(II) During the Reporting Period, certain connected transactions in relation to ordinary operation have been entered into, details of which are as follows:

Connected parties	Type of connected transaction	Particulars of connected transaction	Pricing principle of connected transaction	Connected transaction amount (RMB ten thousand)	Percentage of total amount of similar transactions (%)
Embraco	Purchase	Purchase of materials	Agreed price	4,183.39	0.28
Hisense Electric	Purchase	Purchase of materials	Agreed price	1,219.91	0.08
Hisense Electric	Receipt of services	Receipt of services	Agreed price	938.18	0.06
Hisense Electric	Sale	Sale of moulds	Market price	5,619.97	0.30
Hisense — Whirlpool	Purchase	Purchase of materials	Agreed price	512.78	0.03
Hisense — Whirlpool	Purchase	Purchase of finished goods	Agreed price	34,984.95	2.33
Hisense — Whirlpool	Sale	Sale of materials	Agreed price	2,213.54	0.12
Hisense Group	Purchase	Purchase of materials	Agreed price	598.23	0.04
Hisense Group	Receipt of services	Receipt of services	Agreed price	22,114.32	1.47
Hisense Group	Sale	Sale of materials	Agreed price	3,671.85	0.19
Hisense Group	Sale	Sale of finished goods	Agreed price	232,130.84	12.24
Hisense Group	Sale	Sale of moulds	Market price	16,276.58	0.86
Hisense Hitachi	Purchase	Purchase of materials	Agreed price	650.50	0.04
Hisense Hitachi	Sale	Sale of finished goods	Agreed price	4,635.20	0.24
Huayi Compressor	Purchase	Purchase of materials	Agreed price	73,868.56	4.91
Hisense Hong Kong	Purchase	Purchase financing agency	Agreed price	8,514.17	0.57
Snowflake	Receipt of services	Receipt of services	Agreed price	2,246.02	0.15

As at 31 December 2012, the Company and its subsidiaries had balances of bank deposits of approximately RMB283,962,600, bank loans of RMB0 and notes payable of approximately RMB1,162,751,300 with Hisense Finance. For the year, loan interests paid to Hisense Finance amounted to approximately RMB23,829,000, interests paid in relation to discounted notes amounted to approximately RMB4,822,500, and handling fees paid amounted to approximately RMB768,700. Interest income received from Hisense Finance for the deposits amounted to approximately RMB1,485,600.

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(III) During the Reporting Period, the Company and its connected persons (within the meaning under Chapter 14A of the Hong Kong Listing Rules) have entered into the following agreements, involving transactions between the Group and the relevant connected persons after the Reporting Period:

No.	Agreement	Counterparty to the agreement	Particulars of connected transactions	Annual cap
1.	Business Co-operation Framework Agreement dated 6 December 2012	Hisense Group and Hisense Electric	Purchase of home electrical appliances by the Group	RMB2,100,000
			Purchase of equipment by the Group	RMB8,550,000
			Purchase of raw materials, parts and components by the Group	RMB53,830,000
			Receipt of services by the Group	RMB124,840,000
			Supply of home electrical appliances by the Group	RMB2,888,970,000
			Supply of equipment by the Group	RMB8,550,000
			Supply of moulds by the Group	RMB358,550,000
			Supply of raw materials, parts and components by the Group Provision of services by the Group	RMB26,350,000 RMB6,900,000
2.	Huayi Compressors Purchase Framework Agreement dated 6 December 2012	Huayi Compressor	Purchase of compressors by the Group	RMB1,180,000,000
3.	Export Agency for White Goods Framework Agreement dated 6 December 2012	Hisense Marketing	Receipt of agency services for export for the white goods products of the Group	RMB280,000,000
4.	Purchase Financing Agency Framework Agreement dated 6 December 2012	Hisense Hong Kong	Receipt of financing agency services by the Group to purchase raw materials and components from overseas suppliers	US\$36,000,000
5.	Compressors Purchase Framework Agreement dated 6 December 2012	Embraco	Purchase of compressors by the Group	RMB106,840,000
6.	Property Services Framework Agreement dated 6 December 2012	Snowflake	Receipt of property services by the Group	RMB32,000,000
7.	Supplemental Agreement to Financial Services Agreement dated 6 December 2012	Hisense Finance	Amendment to the Financial Services Agreement pursuant to which Hisense Finance may also require the Group to provide guarantee, security or pledge in respect of the electronic bank acceptance bill services rendered	The maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group shall not exceed the cap of RMB1.5 billion (inclusive of interest and service fees).

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The term of the agreements in items 1 to 4 and 7 above commences from the date of approval of such agreements by the independent shareholders (that is, 25 January 2013) until 31 December 2013, whereas the term of the agreements in items 5 and 6 commences from 1 January 2013 until 31 December 2013. Hisense Marketing is a subsidiary of Hisense Group and the relationship between the Group on the one hand and Hisense Group, Hisense Electric, Hisense Hong Kong, Hisense Finance, Huayi Compressor, Embraco and Snowflake on the other hand has been disclosed above.

Details of the agreements can be found in the announcements and the circular published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 6 December 2012 and 4 January 2013 respectively.

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 (which be contained in the annual report of the Company), 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 specific 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 specific third party companies mentioned above.

As at 31 December 2012, the balance of amounts due to Hisense Kelon from the Greencool Companies and such specific 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 specific 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 2012, the balance of amounts due to Hisense Kelon from the Greencool Companies and the abovementioned specific third party companies amounted to RMB651 million.

The Company has estimated, based on the information about the cases available at present, the recoverable amount of the amounts due from the Greencool Companies and the specific 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, and cannot, warrant on the outcome of the cases and the accurate recovery rate.

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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 Standards 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 specific 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 enforcement of the rulings in respect of the abovementioned 17 cases have not yet been completed, 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 2012 and 2011 and this qualified opinion will not affect the fairness in the preparation of the Company's income statement for 2012.

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, 31 December 2011 and 31 December 2012 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 order that the amount subject to the judgments can be recovered as soon as possible. On 21 December 2012, the Company received the notices of resumption of execution of the judgments which have come into force from the Foshan Intermediate Court for the cases mentioned above. The Foshan Intermediate Court has decided to resume the execution of the relevant cases based on the spirit in the notice issued by the Supreme People's Court. The Company will also pay attention to the progress of the cases and make its best efforts to protect its rights as a creditor.

CODE ON CORPORATE GOVERNANCE PRACTICES

To the best knowledge and information of the Company, during the Reporting Period, the Company has complied with the code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) ("CG Code") as set out in Appendix 14 to the Listing Rules other than the following:

- (A) The Articles of Association of the Company provide that the Company can purchase liability insurance for the Directors with the approval of the shareholders' general meeting. Following the consideration and approval by the shareholders at the annual general meeting of the Company held on 26 June 2012, the Company has already purchased liability insurance for the Directors and senior management of the Company to meet the requirement in code provision A.1.8 of the CG Code.
- (B) Mr. Wang Ai Guo and Mr. Xu Xiang Yi did not attend certain general meetings held by the Company despite code provision A.6.7 of the CG Code due to other commitments.

Report of the Directors

NOTE: SUPPLEMENTARY INFORMATION AS REQUIRED BY THE HONG KONG STOCK EXCHANGE IN RELATION TO THE COMPANY'S A SHARE ANNUAL RESULTS ANNOUNCEMENT

I. Particulars of the remuneration OF, Directors, supervisors and senior management of the Company

Name	Position	Gender	Age	Term of Office	Total remuneration received from the Company (RMB ten thousand)	Actual remuneration received at the end of the Reporting Period (RMB ten thousand)
Tang Ye Guo	Chairman	Male	50	2012.06.26-2015.06.25	99.92	99.92
Yu Shu Min	Director	Female	61	2012.06.26-2015.06.25	0.00	0.00
Lin Lan	Director	Male	55	2012.06.26-2015.06.25	0.00	0.00
Xiao Jian Lin	Director	Male	45	2012.06.26-2015.06.25	0.00	0.00
Ren Li Ren	Director, President	Male	48	2012.06.26-2015.06.25	80.08	80.08
Gan Yong He	Director, Vice President	Male	45	2012.06.26-2015.06.25	98.60	98.60
Xu Xiang Yi	Independent non-executive Director	Male	57	2012.06.26-2015.06.25	4.50	4.50
Wang Ai Guo	Independent non-executive Director	Male	48	2012.06.26-2015.06.25	9.00	9.00
Wang Xin Yu	Independent non-executive Director	Male	42	2012.06.26-2015.06.25	24.00	24.00
Guo Qing Cun	Chairman of Supervisory Committee	Male	59	2012.06.26-2015.06.25	0.00	0.00
Liu Jiang Yan	Supervisor	Female	37	2012.08.15-2015.06.25	0.00	0.00
Zhang Jian Jun	Employee Representative Supervisor	Male	39	2012.06.26-2015.06.25	29.84	29.84
Jia Shao Qian	Vice President	Male	40	2012.06.26-2015.06.25	62.12	62.12
Zhang Yu Qing	Vice President	Male	49	2012.06.26-2015.06.25	65.95	65.95
Wang Yun Li	Vice President	Male	39	2012.06.26-2015.06.25	80.92	80.92
Li Jun	Person in charge of finance Former Supervisor	Female	38	2012.08.15-2015.06.25 2012.06.26-2012.08.14	37.41	37.41
Xia Feng	Secretary to the Board	Male	36	2012.06.26-2015.06.25	33.39	33.39
Wong Tak Fong	Company Secretary	Female	45	2012.06.26-2015.06.25	16.27	16.27
Zhang Sheng Ping	Former independent non-executive Director	Male	47	2009.06.26-2012.06.25	4.50	4.50
Gao Zhong Xiang	Former Supervisor	Male	45	2009.06.26-2012.06.25	0.00	0.00
Liu Zhan Cheng	Former Supervisor	Male	34	2009.06.26-2012.06.25	24.10	24.10

Report of the Directors

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

- the remuneration of the Directors of the Company is determined based on suggestions made to the Board by the remuneration and 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 Board and 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.

III. Material litigations and arbitrations of the Company

General status of the litigation (arbitration)	Amount involved (RMB ten thousand)	Whether a liability is expected to be caused	Progress of the litigation (arbitration)	Results and effects of the litigation (arbitration)	Execution of the judgment of the litigation (arbitration)
Since February 2004, Guangdong 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, Guangdong Refrigerator initiated the proceedings in the Foshan Intermediate Court, demanding Xi'an Kelon to refund the payment for goods and the related expenses.	9,998.41	No	In December 2008, the Foshan Intermediate Court dismissed the claim due to insufficiency of factual and legal evidence. Guangdong Refrigerator made an appeal to the Higher People's Court of the Guangdong Province (the "Guangdong Higher Court"). The Guangdong 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 retried 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 Guangdong Refrigerator for the debt in the amount of RMB87,314,200 together with relevant interests. During the Reporting Period, 西安航空動力控制有限公司 (Xi'an Aero-Engine Controls Company Ltd.) appealed to the Guangdong Higher Court, but did not pay an appeal fee. Guangdong Higher Court ruled that 西安航空動力控制有限公司 (Xi'an Aero-Engine Controls Company Ltd.) was considered to have withdrawn the appeal. The first instance judgment for the retrial made by the Foshan Intermediate Court entered into force.	—	—

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General status of the litigation (arbitration)	Amount involved (RMB ten thousand)	Whether a liability is expected to be caused	Progress of the litigation (arbitration)	Results and effects of the litigation (arbitration)	Execution of the judgment of the litigation (arbitration)
A series of related party transactions and unusual cash flows occurred between the Greencool Companies and the Company during the period from October 2001 to July 2005. In addition, during the period, the Greencool Companies, through certain specific third party companies such as Tianjin Lixin Commercial Trading Development Company Limited, were involved in a series of unusual cash flow with the Company. The Company has instituted proceedings against Greencool Companies for such transactions and unusual cash flows as well as the suspected fund embezzlements.	72541.44	No	On 21 December 2012, the Company received the notices of resumption of execution of (2008) Fo Zhong Fa Zhi Zi No. 853, (2009) Fo Zhong Fa Zhi Zi No. 113, 114, 115, 116, 118, 157, 234, 235, 236, 237, 238, 259, 502, 852, 995, 996 and (2010) Fo Zhong Fa Zhi Zi No. 32 from the Foshan Intermediate Court. Regarding the application by the Company and the relevant subsidiaries in which it holds a controlling equity interest for the execution of the cases regarding the damage to their corporate interests by Guangdong Greencool and its associated companies and Gu Chu Jun, the Foshan Intermediate Court has decided to resume the execution of the relevant cases based on the spirit in the notice issued by the Supreme People's Court on the resumption of execution procedures against the Greencool Companies in accordance with the law.	—	In the process of execution

IV. Disposal of assets 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 Shaanxi 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 Guangdong 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 Shaanxi Qidi Science and Technology Park Development Co., Ltd. for a total consideration of RMB110,580,000. For details, please see the announcement published by the Company on 12 January 2012 on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>). The procedures for the transfer of equity interests have been completed, and the Company no longer holds any equity interests and debt in Xi'an Kelon.

V. Status of material projects which are not funded by Capital Raising Activities

Unit: RMB ten thousand

Name of project	Total investment amount	Amount injected during the year	Aggregate actual amount injected at the end of the period	Progress of project	Earnings of project
Project in relation to Shandong Refrigerator production base	10000	10000	10000	Infrastructure stage	—

Explanation of material investment projects which are not funded by capital raising activities

In order to enhance the Company's production capability of middle-to-high-end refrigerators, upon the approval of the eighth session of the Board of the Company at the fifth extraordinary meeting in 2012, the Company injected a capital of RMB100 million to construct a new refrigerator production base and establish a wholly-owned subsidiary Shandong Refrigerator.

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VI. Shareholdings in other listed companies held by the Company

Stock code	Stock abbreviation	Initial investment cost (RMB ten thousand)	Shareholding percentage in the company (%)	Carrying amount at the end of the period (RMB ten thousand)	Profit and loss for the Reporting Period (RMB ten thousand)	Changes in ownership interests for the Reporting Period (RMB ten thousand)
000404	Huayi Compressor	4,168.60	6.45	5,034.49	663.42	670.71

VII. Particulars of Guarantees

Unit: RMB ten thousand

The guaranteed party	External guarantees given by the Company (excluding guarantees for its subsidiaries)				Type of guarantee	Period of guarantee	Completed or not	Whether the guarantee is given for any connected party
	Date of disclosure 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				
Fujian Kelon	2011.11.30	3,000	2012.04.26	1,000	General guarantee	2012.04.26-2012.08.31	Yes	No
Total limit on the amount of external guarantees approved during the Reporting Period (A1)				12,000	Actual amount of external guarantees during the Reporting Period (A2)			1,000
Total limit on the amount of external guarantees which has been approved at the end of the Reporting Period (A3)				12,000	Total balance of actual amount of external guarantees at the end of the Reporting Period (A4)			0

The guaranteed party	Guarantees given by the Company for its subsidiaries				Type of guarantee	Period of guarantee	Completed or not	Whether the guarantee is given for any connected party
	Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount	Guaranteed amount	Actual effective date (date of agreement)	Actual guaranteed amount				
Guangdong Refrigerator	2011.11.30	90,000	2011.08.03	6,006.66	Joint liability guarantee; Mortgage	2011.08.03-2012.12.14	Yes	No
Guangdong Refrigerator		90,000	2012.10.10	72.43	Joint liability guarantee; Mortgage	2012.10.10-2013.02.21	No	No
Guangdong Air-conditioner		30,000	2011.09.30	44,571.06	Joint liability guarantee	2011.09.30-2012.12.24	Yes	No
Guangdong Air-conditioner		30,000	2012.08.21	3,293.75	Joint liability guarantee	2012.08.21-2013.08.30	No	No
Kelon Fittings		5,000	2011.09.30	334.50	Joint liability guarantee; Mortgage	2011.09.30-2012.08.30	Yes	No
Kelon Fittings		5,000	2012.10.15	98.55	Joint liability guarantee; Mortgage	2012.10.15-2013.08.30	No	No
Guangdong Freezer		5,000	2011.08.17	1,329.01	Joint liability guarantee; Mortgage	2011.08.17-2012.12.26	Yes	No
Ronshen Plastic		6,000	2011.10.31	2,432.18	Joint liability guarantee	2011.10.31-2012.07.25	Yes	No
Yangzhou Refrigerator		10,000	2010.07.23	2,994.78	Joint liability guarantee	2010.07.23-2012.08.23	Yes	No
Yangzhou Refrigerator		10,000	2010.07.23	311.95	Joint liability guarantee	2010.07.23-2013.01.25	No	No
Kelon International Incorporation		50,000	2011.07.29	34,098.84	Joint liability guarantee	2011.07.29-2013.08.28	Yes	No

Report of the Directors

Total limit on the amount of guarantees for subsidiaries approved during the Reporting Period (B1)	198,000	Actual amount of guarantees for subsidiaries during the Reporting Period (B2)	95,543.71
Total limit on the amount of guarantees for subsidiaries which has been approved at the end of the Reporting Period (B3)	198,000	Total balance of actual amount of guarantees for subsidiaries at the end of the Reporting Period (B4)	3,776.68
Total guaranteed amount of the Company (being the sum of the previous two major items)			
Total limit on the amount of guarantees approved during the Reporting Period (A1+B1)	210,000	Actual amount of guarantees during the Reporting Period (A2+B2)	96,543.71
Total limit on the amount of guarantees which has been approved at the end of the Reporting Period (A3+B3)	210,000	Total balance of actual amount of guarantees at the end of the Reporting Period (A4+B4)	3,776.68
Including:			
Guaranteed amount provided for shareholders, beneficial controlling parties and their connected parties (C)			0
Guaranteed amount provided directly or indirectly for the guaranteed party with gearing ratio over 70% (D)			82,396.70
Total guaranteed amount over 50% of the net asset (E)			0
Sum of the above three guarantees (C+D+E)			82,396.70
Statement on possibility to assume joint liabilities for guarantees which have not expired			Nil
Description of provision of external guarantee in violation of prescribed procedures			Nil

VIII. 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.
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 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.
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	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 on change in fair value of the derivatives of RMB-16.6375 million. Investment gain amounted to RMB42,961,800, resulting in a total profits or losses of RMB26,324,300.
	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.

Report of the Directors

Specific opinions of independent Directors 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 by the Company, and the targeted risk control measures adopted were practicable.

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

Type of contract	Contract amount at the beginning of the period (RMB ten thousand)	Contract amount at the end of the period (RMB ten thousand)	Gain or loss during the Reporting Period (RMB ten thousand)	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	159,732.21	199,816.46	2,632.43	132.15

IX. Description of changes in scope of consolidation as compared to financial report last year

1. Subsidiaries that have ceased to be consolidated:

(1) Xi'an Kelon

During the Reporting Period, the Company transferred its 60% equity interest in Xi'an Kelon to Shaanxi Qidi Science and Technology Park Development Co., Ltd. Relevant transfer procedures have been completed. Accordingly, Xi'an Kelon ceased to be consolidated.

(2) KELON USA, Inc.

During the Reporting Period, the Company deregistered its wholly-owned subsidiary KELON USA, Inc. Accordingly, KELON USA, Inc. ceased to be consolidated.

2. Subsidiaries newly consolidated:

During the Reporting Period, the Company established Shandong Refrigerator. Relevant establishment procedures have been completed. Accordingly, Shandong Refrigerator was consolidated in the period.

Report of the Directors

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 Marketing”	Qingdao Hisense International Marketing Holdings Co., Ltd.
“Beijing Refrigerator”	Hisense (Beijing) Electric Company Limited
“Nanjing Refrigerator”	Hisense (Nanjing) Electric Company Limited
“Shandong Refrigerator”	Hisense (Shandong) Refrigerator Company Limited
“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.
“Fujian Kelon”	Fujian Kelon Air-Conditioner Sales Co., Ltd.
“Guangdong Refrigerator”	Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.
“Guangdong Air-Conditioner”	Guangdong Kelon Air-Conditioner Co., Ltd.
“Kelon Fittings”	Guangdong Kelon Fittings Co., Ltd.
“Guangdong 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

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 2012 in accordance with the articles of association of the Company:

1. 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 2012 was held on 29 March 2012, at which the 2011 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 2012 was held on 24 April 2012, at which the 2012 first quarterly report of the Company was considered and passed;
- (3) The third meeting of the seventh session of the Supervisory Committee in 2012 was held on 10 May 2012, at which the resolution on the election of the new session of the Supervisory Committee was considered and passed;
- (4) The first meeting of the eighth session of the Supervisory Committee in 2012 was held on 26 June 2012, at which the resolution on the election of Mr. Guo Qing Cun as chairman of the eighth session of the Supervisory Committee of the Company was considered and passed;
- (5) The second meeting of the eighth session of the Supervisory Committee in 2012 was held on 28 June 2012, at which the resolutions on the resignation of Ms. Li Jun as shareholder representative supervisor and the nomination of Ms. Liu Jiang Yan as shareholder representative supervisor of the eighth session of the Supervisory Committee of the Company were considered and passed;
- (6) The third meeting of the eighth session of the Supervisory Committee in 2012 was held on 23 August 2012, at which the 2012 interim report of the Company and related issues were considered and passed;
- (7) The fourth meeting of the eighth session of the Supervisory Committee in 2012 was held on 29 October 2012, at which the 2012 third quarterly report of the Company was considered and passed.

2. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2012

- (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 of the Company. 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 of the Company or prejudiced the Company's interests in the execution of their duties in the Company.

Report of the Supervisory Committee

(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 2012 and issued an auditor's report with qualified opinion. The Supervisory Committee is of the view that 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.

(3) Special explanation concerning matters involved in the audit opinion

The Supervisory Committee have reviewed the special explanation of the board of directors of the Company concerning matters involved in the audit opinion and agreed with the special explanation of the board of directors of the Company concerning matters involved in the audit opinion.

(4) During the reporting period, the Company had not made any investments which were funded by capital raising activities.

(5) 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.

(6) During the reporting period, the connected transactions which the Company entered into with connected parties were fair and reasonable and the prices were fairly determined without prejudicing the interests of any non-connected shareholders and the Company.

(7) Opinion of the Company's Supervisory Committee on the Company's internal control self-assessment report

After reviewing the Company's 2012 Internal Control Self-assessment Report, the Company's Supervisory Committee is 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 2012 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 2012 Internal Control Self-assessment Report by the board of directors of the Company.

Corporate Information

REGISTERED OFFICE IN CHINA

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

PLACE OF BUSINESS IN HONG KONG

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

SECRETARY FOR THE BOARD OF DIRECTORS & COMPANY SECRETARY

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

AUTHORIZED REPRESENTATIVES

Tang Ye Guo
Xiao Jian Lin

INVESTOR COMMUNICATION CENTRE

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LEGAL ADVISERS

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

Hong Kong:

Sit, Fung, Kwong & Shum
9/F., York House, The Landmark,
15 Queen's Road Central, Hong Kong

BANKERS IN CHINA

The Industrial and Commercial Bank of China
Bank of China
Bank of Communications
Agricultural Bank of China
Guangdong Development Bank
Shunde Rural Commercial Bank

BANKERS IN HONG KONG

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



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Tower 2, 16 XiSihuanZhongLu, Haidian District, Beijing, P.R.C.
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Fax: 0086-10-88210558

Guo Hao Shen Zi [2013] No. 407A0001

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 2012, and the Company's and consolidated income statements, the Company's and consolidated cash flows statements and the Company's and consolidated statements of changes in equity for 2012 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 specific 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 specific third party companies mentioned above.

Auditor's Report

As at 31 December 2012, the balance of amounts due to Hisense Kelon from the Greencool Companies and such specific 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 specific 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 2012 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

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

Chinese Certified Public Accountant: **Ma Li**

28 March 2013

1. Consolidated Balance Sheets

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Closing balance	Opening Balance
Current assets:		
Cash at bank and on hand	516,065,467.96	398,532,682.30
Balances with clearing companies		
Lending capital		
Financial assets held-for-trading	10,678,293.47	33,787,696.24
Notes receivable	1,558,766,192.61	502,919,307.39
Accounts receivable	1,455,882,205.49	1,193,767,494.97
Prepayments	304,301,601.58	315,474,246.14
Insurance premium receivable		
Receivables from reinsurers		
Reserves for reinsurance contract receivable		
Interests receivable		
Dividends receivable		
Others receivables	342,722,165.14	439,873,135.47
Financial assets purchased under agreements to resell		
Inventories	1,738,441,110.15	1,547,277,865.07
Non-current assets due within one year		
Other current assets	3,309,064.74	3,568,803.11
Total current assets	5,930,166,101.14	4,435,201,230.69
Non-current assets:		
Disbursement of entrusted loans and advances		
Available-for-sale financial assets		
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	751,925,728.90	610,755,845.36
Investment properties	36,446,602.09	38,019,850.43
Fixed assets	1,909,832,448.93	1,947,070,154.12
Construction in progress	68,344,253.58	80,702,425.28
Construction materials		
Disposal of fixed assets		
Productive biological assets		
Oil and gas assets		
Intangible assets	495,496,878.49	520,066,256.26
Development costs		
Goodwill		
Long-term prepaid expenses	827,939.58	
Deferred tax assets	7,294,688.02	3,623,816.22
Other non-current assets		
Total non-current assets	3,270,168,539.59	3,200,238,347.67
Total assets	9,200,334,640.73	7,635,439,578.36

Legal representative: **Tang Ye Guo**

Person in charge of accounting matters and accounting department: **Li Jun**

1. Consolidated Balance Sheets

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Closing balance	Opening Balance
Current liabilities:		
Short-term borrowings	30,309,453.94	1,004,998,894.20
Borrowings from central bank		
Receipt of deposits and deposits from other banks		
Loans from other banks		
Financial liabilities held-for-trading	164,231.22	6,636,121.77
Notes payable	1,432,852,210.08	612,667,073.33
Accounts payable	2,335,425,936.47	2,054,610,132.81
Advances from customers	837,065,771.59	758,206,285.15
Proceeds from disposal of financial assets under agreements to repurchase		
Handling fees and commission payable		
Employee remunerations payable	223,662,684.56	190,026,739.08
Taxes payable	(48,994,818.36)	(90,090,833.72)
Interests payable	202,930.49	1,447,530.16
Dividends payable	2,067.02	2,067.02
Other payables	1,581,294,492.81	1,156,195,947.88
Reinsured accounts payable		
Reserves for reinsurance contract		
Customer brokerage deposits		
Securities underwriting brokerage deposits		
Non-current liabilities due within one year		
Other current liabilities	566,406,795.92	467,458,815.86
Total current liabilities	6,958,391,755.74	6,162,158,773.54
Non-current liabilities:		
Long-term borrowings		
Bonds payable		
Long-term payables		
Specific payables		
Provisions	311,862,482.54	271,488,354.42
Deferred tax liabilities		
Other non-current liabilities	56,872,390.49	40,977,575.97
Total non-current liabilities	368,734,873.03	312,465,930.39
Total liabilities	7,327,126,628.77	6,474,624,703.93
Owners' equity (or shareholders' equity):		
Paid in capital (or share capital)	1,354,054,750.00	1,354,054,750.00
Capital reserve	2,101,650,386.96	2,096,929,058.26
Less: Treasury shares		
Special reserves		
Surplus reserves	145,189,526.48	145,189,526.48
General risk provisions		
Retained profits	(2,099,392,002.85)	(2,817,156,683.25)
Difference on translation of foreign currency financial statements	10,539,505.90	26,106,945.84
Total equity attributable to owners of the Company	1,512,042,166.49	805,123,597.33
Minority interests	361,165,845.47	355,691,277.10
Total owners' equity (or shareholders' equity)	1,873,208,011.96	1,160,814,874.43
Total liabilities and owners' equity (or shareholders' equity)	9,200,334,640.73	7,635,439,578.36

Legal representative: **Tang Ye Guo** Person in charge of accounting matters and accounting department: **Li Jun**

2. Company Balance Sheet

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Closing balance	Opening Balance
Current assets:		
Cash at bank and on hand	342,912,430.57	98,869,779.84
Financial assets held-for-trading		
Notes receivable	1,488,240,456.12	437,663,532.61
Accounts receivable	654,198,358.60	808,512,974.99
Prepayments	119,788,776.75	756,622,872.10
Interests receivable		
Dividends receivable		
Other receivables	1,020,581,138.05	934,852,209.18
Inventories	1,101,946,998.54	984,923,528.87
Non-current assets due within one year		
Other current assets	2,787,913.86	3,082,829.08
Total current assets	4,730,456,072.49	4,024,527,726.67
Non-current assets:		
Available-for-sale financial assets		
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	3,114,944,543.47	2,981,504,280.39
Investment properties	15,218,337.00	16,605,766.00
Fixed assets	184,855,845.67	211,015,835.20
Construction in progress	6,298,205.16	
Construction materials		
Disposal of fixed assets		
Productive biological assets		
Oil and gas assets		
Intangible assets	227,144,140.00	235,490,945.00
Development expenses		
Goodwill		
Long-term prepaid expenses		
Deferred tax assets		
Other non-current assets		
Total non-current assets	3,548,461,071.30	3,444,616,826.59
Total assets	8,278,917,143.79	7,469,144,553.26

Legal representative: **Tang Ye Guo**

Person in charge of accounting matters and accounting department: **Li Jun**

2. Company Balance Sheet

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Closing balance	Opening Balance
Current liabilities:		
Short-term borrowings		350,000,000.00
Financial liabilities held-for-trading		
Notes payable	1,393,993,081.39	641,592,857.89
Accounts payable	1,454,062,384.08	2,078,189,683.49
Advance receipts	757,121,873.57	609,092,217.78
Staff remuneration payables	110,455,624.85	90,224,591.92
Taxes payable	6,815,013.66	6,431,126.07
Interests payable		258,875.78
Dividends payable		
Other payables	1,488,361,520.58	1,084,806,857.61
Non-current liabilities due within one year		
Other current liabilities	462,020,126.95	366,496,222.69
Total current liabilities	5,672,829,625.08	5,227,092,433.23
Non-current liabilities:		
Long-term borrowings		
Bonds payable		
Long-term payables		
Special payables		
Provisions	307,754,994.01	267,088,764.47
Deferred tax liabilities		
Other non-current liabilities	38,150,435.08	26,427,298.90
Total non-current liabilities	345,905,429.09	293,516,063.37
Total liabilities	6,018,735,054.17	5,520,608,496.60
Owners' equity (or shareholders' equity):		
Paid in capital (or share capital)	1,354,054,750.00	1,354,054,750.00
Capital reserve	2,226,146,119.35	2,251,104,411.10
Less: Treasury shares		
Special reserves		
Surplus reserves	114,580,901.49	114,580,901.49
General risk provisions		
Retained profits	(1,434,599,681.22)	(1,771,204,005.93)
Differences on translation of foreign currency financial statements		
Total owners' equity (or shareholders' equity)	2,260,182,089.62	1,948,536,056.66
Total liabilities and owners' equity (or shareholders' equity)	8,278,917,143.79	7,469,144,553.26

Legal representative: **Tang Ye Guo**

Person in charge of accounting matters and accounting department: **Li Jun**

3. Consolidated Income Statement

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Amount for current period	Amount for previous period
I. Total operating revenue	18,958,915,310.09	18,488,663,163.12
Including: Operating revenue	18,958,915,310.09	18,488,663,163.12
Interest incomes		
Insurance premium earned		
Income from handling fees and commission		
II. Total operating costs	18,591,936,414.70	18,530,787,771.28
Including: Operating costs	15,034,033,516.68	15,202,894,118.35
Interest expenses		
Handling fees and commission expenses		
Refunded premiums		
Net amount of compensation payout		
Net amount of insurance contract reserves provided		
Policyholder dividend expense		
Reinsurance premium income		
Business taxes and surcharges	105,218,703.08	63,151,069.49
Selling and distribution expenses	2,731,894,401.50	2,636,211,941.70
General and administrative expenses	640,893,526.75	547,649,947.84
Financial expenses	38,999,591.86	56,004,041.79
Impairment losses on assets	40,896,674.83	24,876,652.11
Add: Gain from changes in fair value (Loss denoted by “-”)	(16,637,512.22)	4,961,913.35
Investment income (Loss denoted by “-”)	335,254,433.67	138,560,585.23
Including: Share of profit of associates and jointly controlled entities	190,097,006.83	94,337,603.16
Foreign exchange gains (Loss denoted by “-”)		
III. Operating profits (Loss denoted by “-”)	685,595,816.84	101,397,890.42
Add: Non-operating income	64,651,884.85	158,721,726.61
Less: Non-operating expenses	7,393,693.62	13,420,036.77
Including: Loss on disposal of non-current assets	2,711,055.26	7,324,104.26
IV. Total profit (Total loss denoted by “-”)	742,854,008.07	246,699,580.26
Less: Income tax expenses	10,548,434.72	21,250,352.26
V. Net profits (Net loss denoted by “-”)	732,305,573.35	225,449,228.00
Including: Net profits of consolidated parties prior to consolidation		
Net profits attributable to shareholders of the parent	717,764,680.40	227,015,126.87
Profit and loss of minority interests	14,540,892.95	(1,565,898.87)
VI. Earnings per share:	—	—
(1) Basic earnings per share	0.5301	0.1677
(2) Diluted earnings per share	0.5301	0.1677
VII. Other comprehensive income	(15,494,563.24)	(9,365,044.24)
VIII. Total comprehensive income	716,811,010.11	216,084,183.76
Total comprehensive income attributable to shareholders of the parent	702,270,117.16	217,650,082.63
Total comprehensive income attributable to minority interests	14,540,892.95	(1,565,898.87)

For acquisitions through business combination under common control during the period, the net profit of the acquirees realized prior to business combination was: RMB0.

Legal representative: **Tang Ye Guo**

Person in charge of accounting matters and accounting department: **Li Jun**

4. Company Income Statement

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Amount for current period	Amount for previous period
I. Total operating revenue	13,406,348,502.57	11,847,731,695.62
Less: Operating costs	10,778,043,429.66	9,503,853,713.77
Business taxes and surcharges	48,003,078.26	42,618,391.80
Selling and distribution expenses	2,312,048,959.91	2,232,312,327.06
General and administrative expenses	52,155,934.46	32,096,123.53
Financial expenses	8,572,096.98	45,015,094.49
Impairment losses on assets	33,546,203.90	13,381,932.10
Add: Gain from changes in fair value (Loss denoted by “-”)		
Investment income (Loss denoted by “-”)	127,802,268.55	141,512,781.42
Including: Share of profit of associates and jointly controlled entities	190,097,006.83	94,337,603.16
II. Operating profits (Loss denoted by “-”)	301,781,067.95	119,966,894.29
Add: Non-operating income	37,041,171.92	131,138,218.79
Less: Non-operating expenses	2,217,915.16	5,084,246.50
Including: Loss on disposal of non-current assets	145,147.14	443,418.68
III. Total profit (Total loss denoted by “-”)	336,604,324.71	246,020,866.58
Less: Income tax expenses		
IV. Net profits (Net loss denoted by “-”)	336,604,324.71	246,020,866.58
V. Earnings per share:	—	—
(1) Basic earnings per share		
(2) Diluted earnings per share		
VI. Other comprehensive income	72,876.70	(2,986,537.67)
VII. Total comprehensive income	336,677,201.41	243,034,328.91

Legal representative: **Tang Ye Guo**

Person in charge of accounting matters and accounting department: **Li Jun**

5. Consolidated Cash Flows Statement

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Amount for current period	Amount for previous period
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	9,072,544,890.41	8,217,879,262.84
Net increase in customer deposits and interbank deposits		
Net increase in borrowings from central bank		
Net increase in placements from other financial institutions		
Cash received from original insurance contracts		
Net cash received from reinsurance business		
Net increase in deposits from policyholders		
Net increase from disposal of financial assets held-for-trading		
Cash received from interests, fees and commissions		
Net increase in placements from banks and other financial institutions		
Net increase in repurchase business capital		
Tax rebates received	684,127,212.61	588,434,666.49
Other cash received concerning operating activities	677,063,467.75	364,870,216.30
Subtotal of cash inflows from operating activities	10,433,735,570.77	9,171,184,145.63
Cash paid for purchases of commodities and receipt of services	5,062,047,166.06	4,805,387,039.52
Net increase in loans and advances to customers		
Net increase in deposits with central bank and other financial institutions		
Cash paid for indemnity of original insurance contract		
Cash paid for interests, fees and commissions		
Policyholder dividend paid		
Cash paid to and for employees	1,540,550,623.47	1,485,346,868.11
Cash paid for taxes and surcharges	669,911,064.46	590,690,046.54
Cash paid for other operating activities	2,063,033,938.65	1,923,494,998.97
Subtotal of cash outflows from operating activities	9,335,542,792.64	8,804,918,953.14
Net cash flows from operating activities	1,098,192,778.13	366,265,192.49
II. Cash flows from investing activities:		
Cash received from returns on investments	49,000,000.00	96,405,748.87
Cash received from investment income	3,800,000.00	3,534,000.00
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	1,432,470.09	4,559,784.59
Net cash received from disposals of subsidiaries and other operation units	69,034,178.70	8,650,000.00
Cash received relating to other investing activities		
Subtotal of cash inflows from investing activities	123,266,648.79	113,149,533.46
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	163,238,148.25	230,051,652.60
Cash paid for investments		
Net increase in pledge loans		
Cash paid for acquiring subsidiaries and other operation units		
Cash paid relating to other investing activities		
Subtotal of cash outflows from investing activities	163,238,148.25	230,051,652.60
Net cash flows from investing activities	(39,971,499.46)	(116,902,119.14)

Legal representative: **Tang Ye Guo**

Person in charge of accounting matters and accounting department: **Li Jun**

5. Consolidated Cash Flows Statement

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Amount for current period	Amount for previous period
III. Cash flows from financing activities:		
Cash received from disposal of investments		
Including: Cash contribution from minority shareholders' investment by subsidiaries		
Cash received from borrowings	1,767,206,418.19	2,447,491,015.73
Cash received from issue of bonds		
Cash received relating to other financing activities		7,543,201.56
Subtotal of cash inflows from financing activities	1,767,206,418.19	2,455,034,217.29
Cash paid for repayment of borrowings	2,671,252,062.37	2,676,809,232.85
Cash paid for distribution of dividends, profit or interest expenses	37,329,177.94	51,152,753.63
Including: Dividend and profit paid to minority shareholders by subsidiaries		
Cash paid relating to other financing activities		
Subtotal of cash outflows from financing activities	2,708,581,240.31	2,727,961,986.48
Net cash flows from financing activities	(941,374,822.12)	(272,927,769.19)
IV. Effects of foreign exchange rate changes on cash and cash equivalents		458,101.89
V. Net increase in cash and cash equivalents	116,846,456.55	(23,106,593.95)
Add: Balance of cash and cash equivalents at the beginning of the period	396,814,919.98	419,921,513.93
VI. Balance of cash and cash equivalents at the end of the period	513,661,376.53	396,814,919.98

Legal representative: **Tang Ye Guo**

Person in charge of accounting matters and accounting department: **Li Jun**

6. Company Cash Flows Statement

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Amount for current period	Amount for previous period
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	2,620,167,621.02	1,736,188,330.75
Tax rebates received		
Other cash received concerning operating activities	1,962,021,636.97	1,571,577,525.29
Subtotal of cash inflows from operating activities	4,582,189,257.99	3,307,765,856.04
Cash paid for purchases of commodities and receipt of services	2,358,939,977.91	2,219,639,628.15
Cash paid to and for employees	611,506,622.07	554,122,792.77
Cash paid for taxes and surcharges	439,157,935.98	375,343,054.97
Cash paid for other operating activities	555,972,068.25	356,245,253.23
Subtotal of cash outflows from operating activities	3,965,576,604.21	3,505,350,729.12
Net cash flows from operating activities	616,612,653.78	(197,584,873.08)
II. Cash flows from investing activities:		
Cash received from returns on investments	49,000,000.00	96,405,748.87
Cash received from investment income	15,826,368.60	22,743,029.91
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	344,159.29	51,554.00
Net cash received from disposals of subsidiaries and other operation units	26,784,178.70	8,650,000.00
Cash received relating to other investing activities		
Subtotal of cash inflows from investing activities	91,954,706.59	127,850,332.78
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	6,315,137.14	2,088,638.91
Cash paid for investments	100,000,000.00	
Cash paid for acquiring subsidiaries and other operation units		
Cash paid relating to other investing activities		
Subtotal of cash outflows from investing activities	106,315,137.14	2,088,638.91
Net cash flows from investing activities	(14,360,430.55)	125,761,693.87
III. Cash flows from financing activities:		
Cash received from disposal of investments	70,000,000.00	620,000,000.00
Cash received from borrowings		
Cash received from issue of bonds		
Cash received relating to other financing activities		
Subtotal of cash inflows from financing activities	70,000,000.00	620,000,000.00
Cash paid for repayment of borrowings	420,000,000.00	592,844,737.40
Cash paid for distribution of dividends, profit or interest expenses	8,209,572.50	19,869,991.16
Cash paid relating to other financing activities		
Subtotal of cash outflows from financing activities	428,209,572.50	612,714,728.56
Net cash flows from financing activities	(358,209,572.50)	7,285,271.44
IV. Effects of foreign exchange rate changes on cash and cash equivalents		
V. Net increase in cash and cash equivalents	244,042,650.73	(64,537,907.77)
Add: Balance of cash and cash equivalents at the beginning of the period	98,869,779.84	163,407,687.61
VI. Balance of cash and cash equivalents at the end of the period	342,912,430.57	98,869,779.84

Legal representative: **Tang Ye Guo**

Person in charge of accounting matters and accounting department: **Li Jun**

7. Consolidated Statement of Changes in Owners' Equity

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Paid in capital (or share capital)	Capital reserve	Amount for current period						Total owners' equity	
			Attributable to the owners of the Company			General risk provisions	Retained profits	Other		Minority interests
			Less: Treasury shares	Special reserves	Surplus reserves					
I. Closing balance of previous year	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
Add: Changes in accounting policies										
Correction for error in previous period										
Other										
II. Opening balance of the year	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
III. Movements in the current year (Decreases denoted in "-")		4,721,328.70					717,764,680.40	(15,567,439.94)	5,474,568.37	712,393,137.53
(1) Net Profit							717,764,680.40		14,540,892.95	732,305,573.35
(2) Other comprehensive income		72,876.70						(15,567,439.94)		(15,494,563.24)
Subtotal of (1) and (2) above		72,876.70					717,764,680.40	(15,567,439.94)	14,540,892.95	716,811,010.11
(3) Owner contributions and capital reductions		4,648,452.00								4,648,452.00
1. Owner contributions										
2. Amount of share- based payment included in owners' equity		4,648,452.00								4,648,452.00
3. Other										
(4) Profit Distribution									(9,066,324.58)	(9,066,324.58)
1. Appropriations to surplus reserve										
2. Appropriations to general risk provisions										
3. Distribution to owners (or shareholders)									(9,066,324.58)	(9,066,324.58)
4. Other										
(5) Transfer of owners' equity										
1. Transfer to capital (or share capital) from capital reserve										
2. Transfer to capital (or share capital) from surplus reserve										
3. Surplus reserves for making up losses										
4. Other										
(6) Special reserves										
1. Provided during the period										
2. Used during the period										
(7) Other										
IV. Closing balance for the period	1,354,054,750.00	2,101,650,386.96			145,189,526.48		(2,099,392,002.85)	10,539,505.90	361,165,845.47	1,873,208,011.96

Legal representative: **Tang Ye Guo**

Person in charge of accounting matters and accounting department: **Li Jun**

7. Consolidated Statement of Changes in Owners' Equity

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Paid in capital (or share capital)	Capital reserve	Amount for previous year Attributable to the owners of the Company				General risk provisions	Retained profits	Other	Minority interests	Total owners' equity
			Less: Treasury shares	Special reserves	Surplus reserves						
I. Closing balance of previous year	1,354,054,750.00	2,053,683,491.30			145,189,526.48		(3,044,171,810.12)	32,485,452.41	369,706,458.86	910,947,868.93	
Add: Retrospective adjustments arising from business combination under common control and other matters											
Add: Changes in accounting policies											
Correction for error in previous period											
Other											
II. Opening balance of the year	1,354,054,750.00	2,053,683,491.30			145,189,526.48		(3,044,171,810.12)	32,485,452.41	369,706,458.86	910,947,868.93	
III. Movements in the current year (Decreases denoted in "-")		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)	
Subtotal 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) Owner contributions and capital reductions		1,560,000.00								1,560,000.00	
1. Owner contributions											
2. Amount of share-based payment included in owners' equity		1,560,000.00								1,560,000.00	
3. Other											
(4) Profit Distribution									(12,449,282.89)	(12,449,282.89)	
1. Appropriations to surplus reserve											
2. Appropriations to general risk provisions											
3. Distribution to owners (or shareholders)									(12,449,282.89)	(12,449,282.89)	
4. Other											
(5) Transfer of owners' equity											
1. Transfer to capital (or share capital) from capital reserve											
2. Transfer to capital (or share capital) from surplus reserve											
3. Surplus reserves for making up losses											
4. Other											
(6) Special reserves											
1. Provided during the period											
2. Used during the period											
(7) Other		44,672,104.63								44,672,104.63	
IV. Closing balance for the period	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 accounting matters and accounting department: **Li Jun**

8. Company Statement of Changes in Owners' Equity

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Paid in capital (or share capital)	Capital reserve	Amount for current period			General risk provisions	Retained profits	Total owners' equity
			Less: Treasury shares	Special reserves	Surplus reserves			
I. Closing balance of previous year	1,354,054,750.00	2,251,104,411.10			114,580,901.49	(1,771,204,005.93)	1,948,536,056.66	
Add: Changes in accounting policies								
Correction for error in previous period								
Other								
II. Opening balance of the year	1,354,054,750.00	2,251,104,411.10			114,580,901.49	(1,771,204,005.93)	1,948,536,056.66	
III. Movements in the current year (Decreases denoted in “-”)		(24,958,291.75)				336,604,324.71	311,646,032.96	
(1) Net Profit						336,604,324.71	336,604,324.71	
(2) Other comprehensive income		72,876.70					72,876.70	
Subtotal of (1) and (2) above		72,876.70				336,604,324.71	336,677,201.41	
(3) Owner contributions and capital reductions		4,648,452.00					4,648,452.00	
1. Owner contributions								
2. Amount of share-based payment included in owners' equity		4,648,452.00					4,648,452.00	
3. Other								
(4) Profit Distribution								
1. Appropriations to surplus reserve								
2. Appropriations to general risk provisions								
3. Distribution to owners (or shareholders)								
4. Other								
(5) Transfer of owners' equity								
1. Transfer to capital (or share capital) from capital reserve								
2. Transfer to capital (or share capital) from surplus reserve								
3. Surplus reserves for making up losses								
4. Other								
(6) Special reserves								
1. Provided during the period								
2. Used during the period								
(7) Other		(29,679,620.45)					(29,679,620.45)	
IV. Closing balance for the period	1,354,054,750.00	2,226,146,119.35			114,580,901.49	(1,434,599,681.22)	2,260,182,089.62	

Legal representative: **Tang Ye Guo**

Person in charge of accounting matters and accounting department: **Li Jun**

8. Company Statement of Changes in Owners' Equity

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	Paid in capital (or share capital)	Capital reserve	Less: Treasury shares	Amount for previous year		General risk provisions	Retained profits	Total owners' equity
				Special reserves	Surplus reserves			
I. Closing balance of previous year	1,354,054,750.00	2,252,530,948.77			114,580,901.49		(2,017,224,872.51)	1,703,941,727.75
Add: Changes in accounting policies								
Correction for error in previous period								
Other								
II. Opening balance of the year	1,354,054,750.00	2,252,530,948.77			114,580,901.49		(2,017,224,872.51)	1,703,941,727.75
III. Movements in the current year (Decreases denoted in "—")		(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)
Subtotal of (1) and (2) above		(2,986,537.67)					246,020,866.58	243,034,328.91
(3) Owner contributions and capital reductions		1,560,000.00						1,560,000.00
1. Owner contributions								
2. Amount of share-based payment included in owners' equity		1,560,000.00						1,560,000.00
3. Other								
(4) Profit Distribution								
1. Appropriations to surplus reserve								
2. Appropriations to general risk provisions								
3. Distribution to owners (or shareholders)								
4. Other								
(5) Transfer of owners' equity								
1. Transfer to capital (or share capital) from capital reserve								
2. Transfer to capital (or share capital) from surplus reserve								
3. Surplus reserves for making up losses								
4. Other								
(6) Special reserves								
1. Provided during the period								
2. Used during the period								
(7) Other								
IV. Closing balance for the period	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 accounting matters and accounting department: **Li Jun**

Notes to the Financial Statements

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

1. COMPANY PROFILE

Hisense Kelon Electrical Holdings Company Limited (hereinafter referred to as the “Company”) was formerly known as 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 renamed as 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, 5.79% of the total share capital of the Company held by Shunde Xin Hong Enterprise Company was transferred to Guangdong Greencool. 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 share transfer, Guangdong Greencool, the former single largest shareholder of the Company, no longer 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 Qingdao Hisense Air-Conditioning, the largest shareholder of the Company, was 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 denominated in RMB)

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 to a specific party 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 2012, the total number of shares of the Company was 1,354,054,750.00 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 flows 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 denominated in RMB)

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 the capital reserve is not sufficient to absorb the difference, the excess 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 from equity securities and whereas such amount cannot be offset by premium, the excess balance shall be adjusted against 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 denominated in RMB)

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 the concept of control, 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 based on the Company's own accounting policies, and transactions or matters between companies within the scope of consolidation and internal liabilities are offset in the preparation of the consolidated financial statements; The portion of a subsidiary's equity not attributable to the Company are recognised as minority interests and presented separately under the shareholders' equity of the consolidated financial statements; in case the loss for the current period attributable to minority shareholders of a subsidiary exceeds the minority interest portion's 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 flows 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) and highly liquid investments that are readily convertible to known amounts of cash and 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 functional 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 functional 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 fair value are translated using the spot exchange rate at the date of fair value determined, and the resulting difference is charged to the profit or loss for the period as changes in fair value, except that the relevant translation difference arising from foreign currency available for sale financial assets which is charged to the capital reserve.

Notes to the Financial Statements

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

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 flows 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 "Effect of foreign exchanges rate changes on cash and cash equivalents" in the cash flows statement.

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

A financial liability or part of it is derecognized when the existing obligations of the financial liability are fully or partially discharged.

Notes to the Financial Statements

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

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*

Based on its own business characteristics and requirements of risk management, the management of the Company classifies the financial assets or financial liabilities borne are, at initial recognition, classified into the following five categories: financial assets or financial liabilities at fair value through profit or loss (including held-for-trading financial assets and financial liabilities and those designated upon initial recognition as financial assets and financial liabilities at fair value through profit or loss); held-to-maturity investments, loans and 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 and financial liabilities 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 using the effective interest rate method on the basis of amortized cost. Gains or losses arising from amortization, impairment or 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 denominated in RMB)

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 *Loans and Receivables*

Receivables refer to the right to receive cash or another financial assets caused by the sale of goods and the provision of labor services to external customers by the Company, and receivables in other companies except debt instruments quoted in active markets, including accounts receivables, other receivables and long-term receivables. Receivables are initially recognized at the contract price charged to the buyers or the agreed consideration. During the holding period, 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 profit or loss 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 other three categories of financial assets as described above.

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 or bond interests which were due but not received 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 cumulative 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 profit or loss 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 profit or loss of the current period.

Notes to the Financial Statements

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

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 substantial risks and rewards of their ownership are neither transferred nor retained but the Group ceases the control over 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 derecognition, the difference between the amounts of the following 2 items shall be recorded in the profits and losses of the current period:
 - A. The carrying amount of the transferred financial asset;
 - B. The aggregate consideration received from the transfer, and the cumulative amount of the changes of the fair value originally recorded in the shareholders’ equity (in the event that the financial asset involved in the transfer is an available-for-sale financial asset).
- 3 If the transfer of partial financial asset satisfies the conditions for derecognition, the carrying amount of the entire transferred financial asset shall be allocated between the portion that has been derecognized and the portion that has not been derecognized, according to their respective relative fair values, 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 carrying amount of the portion that has been derecognized;
 - B. The aggregate consideration of the portion that has been derecognized, and the portion of the cumulative amount of the changes in the fair value originally recorded in the shareholders’ equity which is corresponding to the portion that has been derecognized (in the event that the financial asset involved in the transfer is an available-for-sale financial asset).
- 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 being transferred with continued involvement, the Company continues to recognize the financial asset being transferred to the extent of its continued involvement, and recognizes a financial liability at the same time.

Notes to the Financial Statements

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

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 discharged or partially discharged, 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 raise new financial liabilities to replace the existing financial liabilities, and the terms of the new financial liabilities are substantially different from the terms of the existing financial liabilities, the Company shall derecognize the existing financial liabilities, and begin to recognize the new financial liabilities at the same time.

If the terms of the existing financial liabilities have been substantially modified in whole or in part, the Company shall derecognize the existing financial liabilities in whole or in part, and at the same time, recognize the modified financial liabilities as a new one.

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

If the Company repurchases part of the financial liabilities, the Company shall allocate the entire financial liabilities between the part to be continuously recognized and the part to be derecognized in accordance with their fair values on the date of repurchasing. The difference between the derecognized book value and the payment (including the transfer-out of non-cash assets or new financial liabilities to be recognized) shall be included into profit and loss for 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 accounts receivable)

The Group assesses the carrying amount of every financial asset (excluding accounts receivable) 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 that the value of the financial assets recovered and the recovery can be related to an event occurring after the impairment was recognized (such as an increase in the credit rating 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 exceeds what the amortized cost would have been had the impairment loss not been recognized at the date of reversal.

Notes to the Financial Statements

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

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 prolonged decrease in the fair value of an available-for-sale financial asset, 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 cumulative loss from the decline in fair value originally recognized directly in shareholder's equity is removed. The cumulative loss removed equals the difference of the initial acquisition cost of the available-for-sale financial asset (net of principal payment and amortization) and current fair value less impairment losses previously 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 equity instrument classified as available-for-sale, any increase in fair value that occurs after the impairment is reversed in shareholder's equity, not in profit or loss.

10. Accounts receivables

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

1 The criteria and amount for individually significant receivables.

Accounts for 10% or above (10% inclusive) of the total accounts 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 objective 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 in according to the separate impairment assessment, accounts receivables 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 denominated in RMB)

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

10. Accounts receivables *(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 accounts 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 objective 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, work in progress, goods in transit, finished goods and etc.

Notes to the Financial Statements

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

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.

Work in progress and finished goods are measured 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 order specified in the contract, the excess 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. 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 causing the write-down of the inventories' value disappear, the write-down amount shall be reversed and the provision of impairment shall be charged 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 denominated in RMB)

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 long-term equity investments acquired from business combination not involving entities under common control and achieved in stages, the initial cost comprises the carrying amount of previously held equity instrument in the acquiree immediately before the acquisition date, and the additional investment cost at the acquisition date.

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 measured in a reliable way, the book value of assets received is determined on basis of the fair value of assets surrendered, except there are objective evidences for the higher reliability of the fair value of assets received. For the exchange of non-monetary assets not meeting the above criteria, the book value of assets surrendered and related taxes shall be accounted as cost of assets received.

The initial investment cost of long-term equity investment obtained by debt restructuring shall be measured at fair value.

Notes to the Financial Statements

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

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*

The cost method is used when the Company does not jointly control or has significant influence over the investee, and the long-term equity investments are not quoted in active markets, and no reliably measurable fair value. The cost method is also used for long-term equity investments over the subsidiaries. Long-term equity investments under common control or significant influence shall be accounted by equity method.

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

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

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

- 1 If the initial cost of a long-term equity investment exceeds the investor's share of the fair value of the investee's identifiable net assets at the date of acquisition, 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 investor's share of the fair value of the investee's identifiable net assets at the date of acquisition, 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, and the Group's accounting policies and periods, and eliminating the portion of the profit or loss arising from inter-group transactions with joint ventures and associates according to its share ratio (but impairment losses for assets arising from inter-group 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 recognized as share of profits after setting off its share of un-recognized losses.
- 4 Entitlements to profits or cash dividends declared by the investee reduce the carrying value of the long-term investments.
- 5 For the changes in the shareholders' equity other than those arising from its profit and loss of the investee, the Company records directly in capital reserve, provided that the Group's proportion of shareholding in investee remains unchanged.

Notes to the Financial Statements

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

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 require the unanimous consent of the parties sharing control. Common control is evidenced by the following three bases:

- A. None of the parties shall control 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 already unanimously agreed 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 and associates.

For a long-term investment which investee is not under common control or significant influence, no quoted price in an active market and no reliable fair value measurement, 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 denominated in RMB)

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

13. Investment properties

Investment properties are the properties held to earn rental or capital appreciation or both, and represents buildings which have been leased out by the Company.

Investment properties are initially recognized at the cost, and are depreciated or amortized on a basis consistent with the depreciation and amortization policies which the Group adopts for fixed assets and intangible assets.

Please see note 2.25 for recognition of impairment for investment properties using cost model for subsequent measurement.

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 accounting 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 will 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. Depreciations are started when the fixed assets are available for intended use, and are terminated when the fixed assets are derecognized or classified as non-current assets held-for-sale (except fixed assets that are fully depreciated and are still in use, and lands that are accounted separately). When no impairment provision is made, the annual depreciation rates for different fixed assets which are determined by residual value, asset category, and estimated useful life are as follows:

Category	Useful life (year)	Rate of residual value (%)	Annual depreciation rates (%)
Buildings	20-50	0-10	1.8-5
Machinery and equipment	5-20	5-10	4.5-19
Electronic equipment, appliances and furniture	5-10	5-10	9-19
Motor vehicles	5-10	5-10	9-19
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 denominated in RMB)

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 loss of 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 properties, inventories and other assets that require a substantially long period of time of acquisition and construction or producing activity for its intended use 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 by the Company can be directly attributable to the acquisition and construction or producing activities of assets eligible for capitalization, it shall be capitalized and recorded as part of 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 expenditures for asset are already incurred, which shall include expenditures in form of cash, transfer of non-cash assets or interest bearing debts paid for the acquisition and construction or producing activities of assets eligible for capitalization;
- 2 The borrowing costs have been incurred;
- 3 The acquisition and construction or producing 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 denominated in RMB)

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 until 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 producing activities 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. Should the interruption be a necessary step for the asset qualified for capitalization under construction or production to become ready for its intended use or sale, the borrowing cost shall continue to be capitalised. Borrowing costs arising during the interruption period shall be recognised in the profit or loss for the period until the construction or production of the asset is resumed, and by then capitalisation of the borrowing costs shall also be resumed. Where part of the acquisition and construction or producing activities of asset qualified for capitalization is completed and available for separate use, the capitalization of borrowing cost for that part of asset shall be ceased.

(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 income 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 in relation to the specific borrowings shall be capitalized until the qualified asset is ready for the intended use or sale.

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 shall be amortized in each accounting period by real interest rate method, and an adjustment shall be made to the amount of interests in each period.

During the capitalization period, exchange differences related to principal and interest on a specific purpose borrowings denominated in foreign currencies are capitalized as part of the 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 terms, which is of financing nature, the cost of intangible assets shall be determined based on the current value of the purchase price.

Notes to the Financial Statements

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

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 intangible assets acquired through the debt restructuring shall be accounted at 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 measured in a reliable way, the book value of assets received is recognized on basis of the fair value of assets surrendered, except there are objective evidences for the higher reliability of the fair value of assets received. For the exchange of those non-monetary assets not meeting the above criteria, the book value of assets surrendered and related taxes shall be accounted as cost of assets received and not recognized in the profit and loss.

(2) *Subsequent measurement of intangible assets*

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 measurement unit for usage 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 is carried out 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 an intangible 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 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 for internal research and development projects:

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

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

Notes to the Financial Statements

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

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 recognized in profit or loss for the current period.
- (4) Expenditure on the development phase of internal research and development 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 or sale;
 - 2 Management intends to complete the intangible asset, and to use or sell;
 - 3 It can be demonstrated how the intangible assets will generate economic benefits or the intangible assets has its own market, or that they can be used in case of internal utilization;
 - 4 There are 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) Pre-operating expenses should be recognized in profit or loss in the month as incurred.

20. Provisions

- (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 treatment 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.

Notes to the Financial Statements

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

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 treatment 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. Revenue

(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 balance sheet date, 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 balance sheet date, where the outcome of rendering of services cannot be reliably estimated, accounting treatment is carried out as follows:

- 1 If the cost incurred is expected to be recoverable, the revenue shall be recognized to the extent that the cost incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost.
- 2 If the cost incurred is not expected to be recoverable, the cost incurred shall be recognized in the profit or loss for the current period, and no revenue from such services is recognized.

Notes to the Financial Statements

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

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

22. Revenue *(continued)*

(3) Transfer of asset use rights

When it is probable that the economic benefits related to the transaction will flow to the Company and the relevant income can be reliably measured, the treatment will be carried out as follows:

- 1 The interest income is determined on basis of the length of time and effective interest rate of the Company's cash funds which is used by the others.
- 2 The royalties income is determined on basis of the agreed chargeable time and method 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 can be complied with and the grants can be received.

If a government grant 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 denominated in RMB)

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

24. Deferred tax assets/deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognized 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 are recognized in current period's profit or loss as income tax expense or income tax credits, except for the adjustment made for goodwill in a business combination and deferred tax from transactions or items that are directly related to 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;
 - 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, tax 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, tax 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 tax assets, the carrying amount of the deferred tax assets shall be written down, the amount of writing down shall be accounted for income tax expense in the current period, and the amount of writing down shall be accounted in shareholder's equity if the deferred tax is originally recognized in shareholder's 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 denominated in RMB)

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 in subsidiaries, associates and jointly controlled entities, 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) 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. If any indication exists that an asset may be impaired, the recoverable amount of this asset is estimated. 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 of an asset is the higher of its fair value less costs to sell and its present value of the expected 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 impairment loss of the above assets is recognized, it cannot be reversed 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 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) Information on financial position, operating results and cash flows statement is available to the Group. The accounting policies of operating segments are the same with the significant 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 of arm's length transactions.

Notes to the Financial Statements

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

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

28. Operating leases

The Company recognises the rentals of operating leases in profit or loss over the leasing period on a straight line basis. Initial direct costs incurred are accounted for in the profit or loss for the period.

29. 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.

30. Correction of prior period's accounting errors

There is no prior period's 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	Taxable value added amount	17%
Business tax	Taxable business turnover	5%
City maintenance and construction tax	Amounts of value-added tax and business tax	1%-7%
Education surcharges	Amounts of value-added tax and business tax	3%
Corporate income tax	Taxable income	25%

2. Tax preferences and approvals

Hisense Ronshen (Guangdong) Refrigerator Co., Ltd., a subsidiary of the Company, received Certificate of High/New Technology Enterprise (Number: GF201144000198) dated 23 August 2011 which was 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 (2011, 2012 and 2013). Pursuant to the tax preference regulation on High/New Technology Enterprises, this subsidiary is entitled to the preferential enterprise income tax rate of 15% in 2011, 2012 and 2013.

Guangdong Kelon Mould Co., Ltd., a subsidiary of the Company, received Certificate of High/New Technology Enterprise (Number: GF201144000843) dated 13 October 2011 which was 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 (2011, 2012 and 2013). Pursuant to the tax preference regulation on High/New Technology Enterprises, this subsidiary is entitled to the preferential enterprise income tax rate of 15% in 2011, 2012 and 2013.

According to the Notice of the Second Tentative List of Recognised High/New Technology Enterprises in Guangdong Province in 2012 (Yuekehangaazi [2012] No. 1645), Hisense Ronshen (Guangdong) Freezer Co., Ltd., a subsidiary of the Company, with an income tax rate of 15% in 2011, was certified as a High/New Technology Enterprise, with an effective period of three years (2012, 2013 and 2014). According to the relevant tax preference regulation on High/New Technology Enterprises, the applicable enterprise income tax rate for this subsidiary in 2012, 2013 and 2014 is 15%.

Notes to the Financial Statements

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

3. TAXATION *(continued)*

2. Tax preferences and approvals *(continued)*

Guangdong Kelon Fittings Co., Ltd., a subsidiary of the Company, received the Certificate of High/New Technology Enterprise (Number: GR201044000174) dated 26 September 2010 which was 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 this subsidiary in 2010, 2011 and 2012 is 15%.

According to the Notice of the Second Tentative List of Recognised High/New Technology Enterprises in Sichuan Province in 2012 (Chuangaoqirenzi [2012] No. 7), Hisense (Chengdu) Refrigerator Co., Ltd., a subsidiary of the Company, with an income tax rate of 15% in 2011, was certificated as a High/New Technology Enterprise, with an effective period of three years (2012, 2013 and 2014). According to the relevant tax preference regulation on High/New Technology Enterprises, the applicable enterprise income tax rate for this subsidiary in 2012, 2013 and 2014 is 15%.

Hisense (Beijing) Electric Co., Ltd. a subsidiary of the Company with an income tax rate of 15% in 2010, received Certificate of High/New Technology Enterprise (Number: GF201111002104) dated 28 October 2011 which was 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 this subsidiary in 2011, 2012 and 2013 is 15%.

Hisense (Nanjing) Electric Co., Ltd., a subsidiary of the Company, received the Certificate of High/New Technology Enterprise (Number: GR201032000380) dated 13 December 2010 which was 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 this subsidiary in 2010, 2011 and 2012 is 15%.

Hisense (Shandong) Air-conditioning Co., Ltd., a subsidiary of the Company with an income tax rate of 15% in 2010, received the Certificate of High/New Technology Enterprise (Number: GF201137100040) dated 6 September 2011 which was 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 this subsidiary in 2011, 2012 and 2013 is 15%.

Qingdao Hisense Mould Co., Ltd., a subsidiary of the Company with an income tax rate of 15% in 2010, received the Certificate of High/New Technology Enterprise (Number: GF201137100073) dated 6 September 2011 which was 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 this subsidiary in 2011, 2012 and 2013 is 15%.

Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd., a subsidiary of the Company with an income tax rate of 12.5% in 2011, 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 which were incorporated in Hong Kong are taxed on the assessable profits arising in Hong Kong at a rate of 16.5% (2011: 16.5%).

Notes to the Financial Statements

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

3. TAXATION (continued)

3. Other illustrations

- (1) Other taxes, including real estate tax, land use tax, local education surcharges, 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) Kelon (Japan) Ltd, a subsidiary of the Company, is a legal representative in Japan and is involved in all major categories of taxations (including corporate tax, corporate inhabitant tax and corporate business 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 itself and proportional tax rate on 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	Value of lands, buildings and depreciable assets	In accordance with the applicable local tax rate

4. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

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

(1) Major subsidiaries

1. Subsidiaries acquired from establishment or investment

Name of subsidiary	Type of subsidiary	Place of registration	Nature of Business	Registered capital	Entity type	Scope of business	Actual investment at the end of the Period	Shareholding (%) Direct	Indirectly	% of voting rights held	Consolidated or not	Minority interest	Amount of minority interest used to set off loss attributable to minority interest	Excess of loss of the period attributable to minority share of the subsidiary offset by ownership of the parent company over share of ownership by minority interest in the subsidiary as at the beginning of the year
Hisenze Ronshen (Guangdong) Refrigerator Co., Ltd. ("Guangdong Refrigerator")	Wholly-owned subsidiary	Foshan	Industrial	US\$26,800,000	Limited liability company	Manufacture and sale of refrigerators	20,600.82	70%	30%	100%	Yes			
Guangdong Kelon Air-conditioner Co., Ltd. ("Guangdong Air-conditioner") ^{* 1}	Subsidiary	Foshan	Industrial	US\$36,150,000	Limited liability company	Manufacture and sale of air-conditioners	28,100.00	60%		100%	Yes			
Hisenze Ronshen ("Guangdong) Freezer Co., Ltd. ("Guangdong Freezer")	Wholly-owned subsidiary	Foshan	Industrial	23,700.00	Limited liability company	Manufacture and sale of freezers	3,585.10	44%	56%	100%	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%	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	4,321.29	70%	30%	100%	Yes			
Foshan Shunde Rongsheng Plastic Co., Ltd. ("Rongsheng Plastic")	Subsidiary	Foshan	Industrial	US\$15,827,400	Limited liability company	Manufacture of plastic parts	8,263.91	44.92%	25.13%	70.05%	Yes	8,072.21		
Guangdong Kelon Mould Co., Ltd. ("Kelon Mould")	Subsidiary	Foshan	Industrial	US\$15,056,100	Limited liability company	Manufacture of mould	7,856.36	40.22%	29.89%	70.11%	Yes	4,550.33		
Guangdong Huao Electronics Co., Ltd. ("Huao Electronics") ^{* 1}	Subsidiary	Foshan	Industrial	1,000.00	Limited liability company	Research and development, production and sale of electronic products	700.00		70%	100%	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%	100%	Yes			

Notes to the Financial Statements

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

4. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (continued)

Unless otherwise expressly stated, all amounts 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	Registered capital	Entity type	Scope of business	Actual investment at the end of the Period	Shareholding (%) Direct	Indirectly	% of voting rights held	Consolidated or not	Minority interest	Amount of minority interest used to set off loss attributable to minority interest	Excess of loss of the period attributable to minority share of the subsidiary offset by ownership of the parent company over share of ownership by minority interest in the subsidiary as at the beginning of the year
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 Well Electrical Appliances Co., Ltd. ("Kelon Well")	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	(436.50)		
Hisense Ronshen ("Yingkou") Refrigerator Co., Ltd. ("Yingkou Refrigerator")	Subsidiary	Yingkou	Industrial	20,000.00	Limited liability company	Manufacture and sale of refrigerators	14,316.61	42%	36.79%	78.79%	Yes	1,486.46		
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	24,196.28	60%	40%	100%	Yes			
Jiangxi Kelon Combine Electrical Appliances Co., Ltd. ("Jiangxi Combine") ^{1, 2}	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 Refrigerator")	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	32,449.22	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			
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	23,711.31	75%	25%	100%	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 Refrigerator")	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	2,471.97		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. ("Chengdu Refrigerator")	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			
Hisense (Shandong) Refrigerator Co., Ltd. ("Shandong Refrigerator")	Wholly-owned subsidiary	Qingdao	Industrial	10,000.00	Limited liability company	Manufacture of energy saving and environmental friendly refrigerators, freezers and other household energy saving cooling appliances; sale of self-manufactured products of the Company, design and development of new products in the area of energy saving and environmental friendly refrigerators, freezers and energy saving cooling appliances	10,000.00	100%		100%	Yes			

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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	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	Amount of minority interest used to set off loss attributable to minority interest	Excess of loss of the period attributable to minority share of the subsidiary offset by ownership of the parent company over share of ownership by minority interest in the subsidiary as at the beginning of the year
								Direct	Indirectly					
Hisense (Beijing) Electric Co., Ltd. ("Beijing Refrigerator")	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	7,990.91		
Hisense (Shandong) Air-conditioning Co., Ltd. ("Shandong Air-conditioning")	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. ("Zhejiang Air-conditioning")	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	2,995.45		
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	4,940.67		
Hisense (Nanjing) Electric Co., Ltd. ("Nanjing Refrigerator")	Subsidiary	Nanjing	Industrial	12,869.15	Limited liability company	Research and development, manufacture and sale of fluoime-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	6,517.05		

*1 The Company holds 60% equity interests in Guangdong 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 denominated in RMB)

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

(1) Major subsidiaries *(continued)*

3. Changes in scope of business combination

Subsidiaries newly consolidated for the period

Name	Net assets as at the end of the period	Net profit for the period
Shandong Refrigerator	99,802,857.07	(197,142.93)

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
Xi'an Kelon Cooling Co., Ltd. ("Xi'an Kelon")*	(107,564,468.04)	(14,281,705.56)	Disposed
Kelon USA, Inc. ("USA Kelon")	(67,380,290.77)	6,227,539.69	Deregistered

* In 2012, the Company transferred 60% of the equity interests in Xi'an Kelon to a third party.

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	HKD	13,217,374.51	0.8108	10,716,647.25
Net accounts receivable	HKD	458,916,819.25	0.8108	372,089,757.05
Other payables	HKD	729,559,035.18	0.8108	591,526,465.72
Total operating revenue	HKD	3,260,432,431.85	0.8108	2,643,558,615.74
General and Administrative expenses	HKD	4,883,721.88	0.8108	3,959,721.70

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 and Japan Kelon. 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 shareholder's equity in the balance sheet.

Notes to the Financial Statements

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Opening balances refer to balances as at 1 January 2012, whereas closing balances refer to balances as at 31 December 2012, and the current period refers to 2012, whereas the previous period refers to 2011)

1. Cash at bank and on hand

Item	Closing balance			Opening balance		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
Cash:						
RMB	6,818.62	1.0000	6,818.62	166,089.31	1.0000	166,089.31
USD	0.75	6.2855	4.72	0.75	6.3009	4.73
JPY	1200	0.0730	87.66	779.65	0.0811	63.23
Others			0.06			0.06
Subtotal:			6,911.06			166,157.33
Bank deposits:						
RMB	415,593,988.42	1.0000	415,593,988.42	260,094,504.27	1.0000	260,094,504.27
HKD	699,256.80	0.8108	566,957.73	2,905,900.88	0.8107	2,355,813.84
USD	14,650,362.17	6.2855	92,084,851.41	18,696,226.35	6.3009	117,803,052.63
JPY	145,261.00	0.0730	10,611.17	96,487.92	0.0811	7,825.17
EUR	526,331.88	8.3176	4,377,817.96	1,453,843.52	8.1625	11,866,997.70
Others	156,024.90		1,020,238.78			4,520,569.04
Subtotal of bank deposits:			513,654,465.47			396,648,762.65
Other cash at bank and on hand:						
RMB	2,404,091.43	1.0000	2,404,091.43	371,433.45	1.0000	371,433.45
USD				45,332.13	6.3009	285,633.22
EUR				129,947.40	8.1625	1,060,695.65
Subtotal of other cash at bank and on hand:			2,404,091.43			1,717,762.32
Total			516,065,467.96			398,532,682.30

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 denominated 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	Closing balance	Opening balance
Guarantee deposits for letter of credit	2,404,091.43	1,717,762.32
Total	2,404,091.43	1,717,762.32

2. Financial assets held-for-trading

(1) Financial assets held-for-trading

Item	Closing balance	Opening balance
Derivative financial assets	10,678,293.47	33,787,696.24
Total	10,678,293.47	33,787,696.24

(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 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 2012.

3. Notes receivable

(1) Classification of notes receivable

Category	Closing balance	Opening balance
Bank acceptance notes	1,529,113,685.60	468,377,887.77
Trade acceptance notes	29,652,507.01	34,541,419.62
Total	1,558,766,192.61	502,919,307.39

- (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 issuers.

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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 matured amounted to RMB3,809,337,554.60 (31 December 2011: RMB2,887,110,721.24), with the particulars of the top five amounts as follows:

Issuer	Date of issuance	Due date	Amount
Nanjing procurement center of Suning Appliance Co., Ltd.	9 July 2012	7 January 2013	10,000,000.00
Nanjing procurement center of Suning Appliance Co., Ltd.	9 July 2012	6 January 2013	10,000,000.00
Nanjing procurement center of Suning Appliance Co., Ltd.	27 July 2012	27 January 2013	10,000,000.00
Nanjing procurement center of Suning Appliance Co., Ltd.	27 July 2012	27 January 2013	10,000,000.00
Nanjing procurement center of Suning Appliance Co., Ltd.	27 July 2012	27 January 2013	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. Accounts receivable

- (1) *Accounts receivable by category:*

Category	Closing balance			
	Carrying amount		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance
Individually significant and subject to separate provision				
Ageing analysis	1,607,402,974.16	97.65	167,483,810.31	10.43
Greencool Companies	38,689,983.28	2.35	22,726,941.64	58.74
Subtotal	1,646,092,957.44	100.00	190,210,751.95	11.56
Individually insignificant but subject to separate provision				
Total	1,646,092,957.44	100.00	190,210,751.95	11.56

Notes to the Financial Statements

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Accounts receivable (continued)

(1) Accounts receivable 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	1,343,347,381.18	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	1,382,037,364.46	100.00	188,269,869.49	13.62
Individually insignificant but subject to separate provision				
Total	1,382,037,364.46	100.00	188,269,869.49	13.62

Accounts receivable in the category provided bad debts by using ageing method:

Age	Closing 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	1,432,725,055.88	87.04		1,174,482,507.39	84.98	
Over three months but within six months	1,612,142.13	0.10	161,214.21	3,594,295.40	0.26	359,429.54
Over six months but within one year	11,486,360.10	0.70	5,743,180.05	174,160.16	0.01	87,080.08
Over one year	161,579,416.05	9.82	161,579,416.05	165,096,418.23	11.95	165,096,418.23
Total	1,607,402,974.16	97.66	167,483,810.31	1,343,347,381.18	97.20	165,542,927.85

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

Company name	Closing 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
Total	38,689,983.28	22,726,941.64	38,689,983.28	22,726,941.64

Notes to the Financial Statements

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivable (continued)

(2) Movements in provision for accounts receivable

Year	Opening balance	Provision for the year	Decrease for the year		Closing balance
			Reversal	Write-off	
2012	188,269,869.49	4,352,850.28	119,305.39	2,292,662.43	190,210,751.95

(3) Accounts receivable that are written off

Company	Nature of accounts receivable	Amount written off	Reason for write off	Arising from related party transactions or not
Unrelated parties	Loans	2,292,662.43	Not recoverable due to long outstanding	No
Total			—	—

(4) As at 31 December 2012, there was no accounts receivable from shareholder who holds 5% or more (including 5%) shares of the voting rights of the Company. As at 31 December 2011, there was no accounts receivable from shareholder who holds 5% or more (including 5%) shares of the voting rights of the Company.

(5) Top five accounts receivable

2012

No.	Relationship with the Company	Amount	Ageing	Percentage of the total accounts receivable amount (%)
Top 1	Unrelated party	238,358,502.63	Within three months	14.48
Top 2	Unrelated party	201,274,092.16	Within three months	12.23
Top 3	Related party	151,758,526.68	Within three months	9.22
Top 4	Related party	103,756,948.62	Within three months	6.30
Top 5	Related party	86,931,073.83	Within three months	5.28
Total		782,079,143.92	—	47.51

Notes to the Financial Statements

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

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

4. Accounts receivable *(continued)*

(5) *Top five accounts receivable (continued)*

2011

No.	Relationship with the Company	Amount	Ageing	Percentage of the total accounts receivable 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
Total		677,849,745.81	—	49.04

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

(7) As at the end of the period, accounts receivable amounted to RMB35,541,669.96 were used for factoring and securing borrowings amounted to RMB30,309,453.94.

5. Prepayments

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

Age	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within one year	303,832,959.24	99.85	314,927,960.62	99.83
One to two years			39,080.91	0.01
Two to three years	3,429.34		41,991.61	0.01
Over three years	465,213.00	0.15	465,213.00	0.15
Total	304,301,601.58	100.00	315,474,246.14	100.00

Notes to the Financial Statements

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Prepayments (continued)

(2) Top five prepayments

2012

No.	Relationship with the Company	Amount	Ageing	Reason of unsettlement
Top 1	Unrelated party	110,605,760.12	Within one year	Normal settlement
Top 2	Unrelated party	50,595,506.27	Within one year	Normal settlement
Top 3	Unrelated party	36,624,182.25	Within one year	Normal settlement
Top 4	Unrelated party	21,092,306.73	Within one year	Normal settlement
Top 5	Unrelated party	10,558,637.05	Within one year	Normal settlement
Total		229,476,392.42	—	

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
Total		248,802,470.10	—	

- (3) As at 31 December 2012, there was no prepayments due from shareholder who holds 5% or more (including 5%) shares of the voting rights of the Company. As at 31 December 2011, there was no prepayments due from shareholder who 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 denominated in RMB)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables

(1) Other receivables by category:

Category	Closing balance			
	Carrying amount		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance
Individually significant and subject to separate provision				
Ageing analysis	114,494,489.83	15.77	40,794,652.88	35.63
Greencool Companies	611,538,997.88	84.23	342,516,669.69	56.01
Subtotal	726,033,487.71	100.00	383,311,322.57	52.80
Individually insignificant but subject to separate provision				
Total	726,033,487.71	100.00	383,311,322.57	52.80

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	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	811,148,590.77	100.00	371,275,455.30	45.77
Individually insignificant but subject to separate provision				
Total	811,148,590.77	100.00	371,275,455.30	45.77

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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	Closing 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	72,331,742.43	9.96		159,597,609.34	19.68	
Over three months but within six months	621,139.95	0.09	62,114.00	11,668,759.58	1.44	1,166,875.96
Over six months but within one year	1,618,137.15	0.22	809,068.58	1,502,628.64	0.18	751,314.32
Over one year	39,923,470.30	5.50	39,923,470.30	26,840,595.33	3.31	26,840,595.33
Total	114,494,489.83	15.77	40,794,652.88	199,609,592.89	24.61	28,758,785.61

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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	Closing 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
Total	611,538,997.88	342,516,669.69	611,538,997.88	342,516,669.69

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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	
2012	371,275,455.30	18,080,468.51	3,697,461.17	2,347,140.07	383,311,322.57

(3) Other receivables that are written off

Company	Nature of receivable	Amount written off	Reason for write off	Arising from related transactions or not
Unrelated party	Debt	2,347,140.07	Not recoverable due to long outstanding	No
Total			—	—

(4) As at 31 December 2012, 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 2011, there was no other receivable from shareholder that holds 5% or more (including 5%) shares of the voting rights of the Company.

(5) Top five other receivables (no changes from the end of 2011)

No.	Relationship with the Company	Amount	Ageing	Percentage of the total other receivables amount (%)
Top 1	“Specific third party”	121,496,535.45	Over three years	16.73
Top 2	“Specific third party”	96,905,328.00	Over three years	13.35
Top 3	“Specific third party”	89,600,300.00	Over three years	12.34
Top 4	“Specific third party”	58,030,000.00	Over three years	7.99
Top 5	“Specific third party”	40,000,000.00	Over three years	5.51
Total		406,032,163.45	—	55.92

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

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

Notes to the Financial Statements

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Inventories

(1) Classification of inventories

Item	Closing 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	311,880,441.53	30,368,703.52	281,511,738.01	267,061,592.26	34,094,906.33	232,966,685.93
Work in progress	133,492,738.57	8,643,831.77	124,848,906.80	107,356,608.71	8,643,831.77	98,712,776.94
Finished goods	1,379,352,498.90	47,272,033.56	1,332,080,465.34	1,254,821,071.36	39,222,669.16	1,215,598,402.20
Total	1,824,725,679.00	86,284,568.85	1,738,441,110.15	1,629,239,272.33	81,961,407.26	1,547,277,865.07

(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	34,094,906.33	1,719,163.10	683,548.90	4,761,817.01	30,368,703.52
Work in progress	8,643,831.77				8,643,831.77
Finished goods	39,222,669.16	22,638,665.21	14,063,944.42	525,356.39	47,272,033.56
Total	81,961,407.26	24,357,828.31	14,747,493.32	5,287,173.40	86,284,568.85

8. Other current assets

Item	Closing balance	Opening balance
Others	3,309,064.74	3,568,803.11
Total	3,309,064.74	3,568,803.11

Particulars of other current assets: other current assets mainly represented prepaid rent and others.

Notes to the Financial Statements

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Investments in jointly controlled entities and associates

(1) Investments in jointly controlled entities

Unit: RMB'0000

Name of investee	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	86,048.04	43,833.80	42,214.24	116,045.35	521.50
Hisense Hitachi	Limited company	Shandong	Qing Shan Gong	Industrial	USD46.00 million	49.00	49.00	172,955.95	82,039.10	90,916.85	275,849.21	37,882.74

(2) Investments in associates

Unit: RMB'0000

Name of investee	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") ¹	Joint stock company	Jiangxi	Liu Ti Bin	Industrial	32,458.12	6.45	6.45	474,355.98	362,662.38	111,693.60	560,143.25	17,308.19
Attend Logistics Co., Ltd. ("Attend")	Limited company	Guangzhou	Ye Wei Long	Logistics	1,000.00	20.00	20.00	2,057.68	414.76	1,642.92	881.97	(71.50)

Particulars of investments in jointly controlled entities and associates:

- 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.
- Evidence for joint control in jointly controlled entities: as required in the articles of associations of the joint venture, the production and operation of the enterprise shall be under joint management by the parties.
- 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 denominated in RMB)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Long-term equity investment

Investee	Accounting treatment	Investment cost	Opening balance	Increase for the period	Decrease for the period	Closing 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	Equity method	225,000,000.00	206,388,118.32	3,430,870.26		209,818,988.58	50.00	50.00			
Hisense Hitachi	Equity method	332,821,597.45	353,301,093.20	180,174,917.89	49,000,000.00	484,476,011.09	49.00	49.00			49,000,000.00
2. Investment in associates											
Huayi Compressor	Equity method	41,686,088.96	43,637,782.08	6,707,096.34		50,344,878.42	6.45	6.45			
Attend	Equity method	2,000,000.00	3,428,851.76		143,000.95	3,285,850.81	20.00	20.00			
3. Other long-term equity investment											
Combine ^{*1}	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			
Qingdao Hisense International Marketing Co., Ltd. ("Hisense International Marketing")	Cost method	3,800,000.00	3,800,000.00			3,800,000.00	12.67	12.67			3,800,000.00
Total		616,507,686.41	621,755,845.36	190,312,884.49	49,143,000.95	762,925,728.90			11,000,000.00		52,800,000.00

*1 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 it has been fully impaired.

* Apart from Huayi Compressor, associates and joint ventures of the Company are unlisted companies.

Notes to the Financial Statements

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

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

11. Investment properties

(1) Investment properties by cost-method

Item	Opening balance	Additions in the current year	Reductions in the current year	Closing balance
1. Total cost	67,801,787.18	874,341.84		68,676,129.02
1. Buildings	67,801,787.18	874,341.84		68,676,129.02
2. Total accumulated depreciation and amortization	29,781,936.75	2,447,590.18		32,229,526.93
1. Buildings	29,781,936.75	2,447,590.18		32,229,526.93
3. Total net book value	38,019,850.43			36,446,602.09
1. Buildings	38,019,850.43			36,446,602.09
4. Total accumulated provision for impairment				
1. Buildings				
5. Total carrying amount	38,019,850.43			36,446,602.09
1. Buildings	38,019,850.43			36,446,602.09

(2) Particulars of investment properties

- 1 The depreciation expense charged for 2012 was RMB2,447,590.18, and the depreciation expense charged for 2011 was RMB2,610,671.34.
- 2 As at 31 December 2012, the investment properties with cost of RMB33,102,500.00 and carrying amount of RMB14,967,500.00 were pledged. Please see note 9 for details.
- 3 As at 31 December 2012, investment properties with cost of RMB13,794,500.00, accumulated depreciation of RMB6,623,700.00 and net carrying amount of RMB7,170,800.00 have not obtained ownership certificate.
- 4 As at 31 December 2012, 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.
- 5 Amongst the investment properties, all buildings were located in the Mainland China with useful lives between 20 to 50 years.

Notes to the Financial Statements

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Fixed assets

(1) Particulars of fixed assets

Item	Opening balance	Additions in the current year	Reductions in the current year	Closing balance
1. Total cost:	4,856,870,826.19	389,865,027.08	354,455,703.96	4,892,280,149.31
Including: Buildings	1,569,669,176.50	41,728,343.83	52,190,771.51	1,559,206,748.82
Machinery and equipment	2,395,158,791.23	129,027,771.80	201,987,076.35	2,322,199,486.68
Furniture, fixtures and office equipment	300,192,398.48	33,127,952.14	14,239,278.24	319,081,072.38
Motor vehicles	23,870,012.37	2,066,048.18	3,382,390.52	22,553,670.03
Moulds	567,980,447.61	183,914,911.13	82,656,187.34	669,239,171.40
2. Total accumulated depreciation:	2,743,855,204.62	350,982,461.94	239,787,687.42	2,855,049,979.14
Including: Buildings	700,498,696.18	52,685,175.76	25,792,338.15	727,391,533.79
Machinery and equipment	1,412,605,891.65	135,892,404.16	138,966,751.47	1,409,531,544.34
Furniture, fixtures and office equipment	206,209,304.31	28,519,558.21	10,279,154.70	224,449,707.82
Motor vehicles	12,704,811.05	2,910,271.43	3,092,484.44	12,522,598.04
Moulds	411,836,501.43	130,975,052.38	61,656,958.66	481,154,595.15
3. Total net amount of fixed assets	2,113,015,621.57			2,037,230,170.17
Including: Buildings	869,170,480.32			831,815,215.03
Machinery and equipment	982,552,899.58			912,667,942.34
Furniture, fixtures and office equipment	93,983,094.17			94,631,364.56
Motor vehicles	11,165,201.32			10,031,071.99
Moulds	156,143,946.18			188,084,576.25
4. Total provision for impairment	165,945,467.45	12,669,787.61	51,217,533.82	127,397,721.24
Including: Buildings	34,175,618.43	40,631.17		34,216,249.60
Machinery and equipment	122,098,540.91	12,271,977.88	46,959,583.75	87,410,935.04
Furniture, fixtures and office equipment	1,394,140.34	127,950.98	62,312.77	1,459,778.55
Motor vehicles	1,061,125.06		8,433.43	1,052,691.63
Moulds	7,216,042.71	229,227.58	4,187,203.87	3,258,066.42
5. Total carrying amount of fixed assets	1,947,070,154.12			1,909,832,448.93
Including: Buildings	834,994,861.89			797,598,965.43
Machinery and equipment	860,454,358.67			825,257,007.30
Furniture, fixtures and office equipment	92,588,953.83			93,171,586.01
Motor vehicles	10,104,076.26			8,978,380.36
Moulds	148,927,903.47			184,826,509.83

For 2012, the fixed asset transferred from construction in progress amounted to RMB199,999,014.31 (2011: RMB259,793,869.60).

- (2) Depreciation expenses for the year ended 31 December 2012 amounted to RMB350,982,461.94, and RMB328,822,121.78 in 2011.
- (3) As at the end of the period, no fixed asset was idle transitorily.
- (4) As at the end of the period, no fixed asset was held under finance lease.

Notes to the Financial Statements

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Fixed assets (continued)

- (5) As at the end of the period, no fixed asset was rent out under operating lease.
- (6) As at the end of the period, no fixed asset was held for sale.
- (7) As at the end of the period, no fixed asset has not obtained the ownership certificate.
- (8) As at the end of the period, the buildings with cost of RMB595,724,700.00 and net carrying amount of RMB236,917,300.00 were pledged (please see note 9 for details).

13. Constructions in progress

(1) Summary of constructions in progress

Item	Closing balance			Opening balance		
	Carrying amount	Provision for Impairment	Net carrying amount	Carrying amount	Provision for Impairment	Net carrying amount
Yangzhou						
Refrigerator	20,227,599.56		20,227,599.56	57,594,245.52		57,594,245.52
Chengdu						
Refrigerator	4,079,463.99		4,079,463.99			
Xi'an Kelon				9,044,256.34	9,044,256.34	
Others	55,363,025.70	11,325,835.67	44,037,190.03	34,434,015.43	11,325,835.67	23,108,179.76
Total	79,670,089.25	11,325,835.67	68,344,253.58	101,072,517.29	20,370,092.01	80,702,425.28

Notes to the Financial Statements

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Constructions in progress (continued)

(2) Movements in significant construction in progress

Name of project	Budget	Opening balance	Additions in the current year	Transferred to fixed assets	Other reductions	% contribution in budget	Progress	Source of fund	Closing balance
Utility works for production and training building, canteen and factory D of Yangzhou Refrigerator	25,355,000.00	24,711,427.58	1,408,372.42	26,119,800.00		103.02	Completed	Self-funding	
Installation of addition capacity at electricity room of factory D of Yangzhou Refrigerator	1,920,000.00	1,872,848.00		1,872,848.00		97.54	Completed	Self-funding	
Steel platform of expansion project of factory D of Yangzhou Refrigerator	3,704,605.67	3,357,340.71		3,357,340.71		90.63	Completed	Self-funding	
30-worker, door foaming production line of Yangzhou Refrigerator	4,972,500.00	3,547,591.00		3,547,591.00		71.34	Completed	Self-funding	
Low voltage switchgear of Yangzhou Refrigerator	2,365,252.00	1,609,138.46		1,609,138.46		68.03	Completed	Self-funding	
High voltage foaming machine of Yangzhou Refrigerator	1,113,576.18	1,184,407.00		1,184,407.00		106.3	Completed	Self-funding	
Hydraulic machine and punch press of Yangzhou Refrigerator	3,870,000.00	3,307,692.30		3,307,692.30		85.47	Completed	Self-funding	
Refrigerator foaming production line of Yangzhou Refrigerator	EUR900,000.00	1,043,427.70	6,103,593.10	7,147,020.80			Completed	Self-funding	
Flow line of D production line of Yangzhou Refrigerator	5,250,000.00	1,346,153.85	3,148,941.05	4,495,094.90		85.62	Completed	Self-funding	
New south entrance and dormitory reconstruction of Yangzhou Refrigerator	1,600,000.00	1,600,000.00					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			9,044,256.34		To be scrapped	Self-funding	
Additional sheet decoiler/ flattener of Hisense Chengdu	1,800,000.00	1,040,000.00		1,040,000.00		57.78	Completed	Self-funding	
Others		35,990,088.68	180,043,991.01	146,318,081.14	3,064,054.97				66,651,943.58
Total		101,072,517.29	190,704,897.58	199,999,014.31	12,108,311.31				79,670,089.25

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 denominated 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	Reductions in the current year	Closing 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		
Total	20,370,092.01		9,044,256.34	11,325,835.67	

During the period, decreases in provision for impairment of constructions in progress were attributable to disposal of subsidiaries by the Company.

14. Intangible assets

(1) Particulars of intangible assets

Item	Opening balance	Additions in the current year	Reductions in the current year	Closing balance
1. Total cost	1,270,866,297.90	3,322,084.15	35,875,257.15	1,238,313,124.90
(1) Land use rights	619,385,483.07		12,225,608.67	607,159,874.40
(2) Trademarks	524,409,198.95			524,409,198.95
(3) Know-how	76,207,763.30	266,057.95	6,840,698.62	69,633,122.63
(4) Others	50,863,852.58	3,056,026.20	16,808,949.86	37,110,928.92
2. Total accumulated amortization	410,127,492.20	24,248,227.22	28,152,879.81	406,222,839.61
(1) Land use rights	191,994,780.52	12,724,810.06	9,291,173.70	195,428,416.88
(2) Trademarks	134,130,255.55			134,130,255.55
(3) Know-how	43,826,542.37	7,419,224.93	6,741,614.89	44,504,152.41
(4) Others	40,175,913.76	4,104,192.23	12,120,091.22	32,160,014.77
3. Total net amount of intangible assets	860,738,805.70			832,090,285.29
(1) Land use rights	427,390,702.55			411,731,457.52
(2) Trademarks	390,278,943.40			390,278,943.40
(3) Know-how	32,381,220.93			25,128,970.22
(4) Others	10,687,938.82			4,950,914.15
4. Total provision for impairment	340,672,549.44		4,079,142.64	336,593,406.80
(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		4,079,142.64	519,447.21
5. Total carrying amount of intangible assets	520,066,256.26			495,496,878.49
(1) Land use rights	377,377,859.36			361,718,614.33
(2) Trademarks	104,217,827.00			104,217,827.00
(3) Know-how	32,381,220.93			25,128,970.22
(4) Others	6,089,348.97			4,431,466.94

Notes to the Financial Statements

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Intangible assets (continued)

(2) Particulars of intangible assets:

- 1 For 2012, amortization of intangible assets amounted to RMB24,248,227.22. For 2011, amortization of intangible assets amounted to RMB27,264,417.59.
- 2 As at the end of the period, the land use rights with cost of RMB244,527,000.00 and net carrying amount of RMB140,731,800.00 were pledged (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 expenses

Item	Opening balance	Additions in the current year	Amortization in the current year	Other reductions	Closing balance	Reasons of other reductions
Other		903,206.81	75,267.23		827,939.58	
Total		903,206.81	75,267.23		827,939.58	

16. Deferred tax assets and deferred tax liabilities

Net amount of deferred tax assets and deferred tax liabilities after offsetting:

(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
Deferred tax assets:				
Provision for assets impairment	5,009,313.49	31,958,489.21	5,009,705.46	33,398,036.43
Financial assets held-for-trading	20,853.33	139,022.22	(2,810,784.05)	(18,738,560.35)
Others	2,264,521.20	15,096,808.06	1,424,894.81	9,499,298.76
Subtotal	7,294,688.02	47,194,319.49	3,623,816.22	24,158,774.84

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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	20,853.33	(2,810,784.05)

(3) Deductible tax losses that are not recognized as of deferred tax assets will expire in the following years

Year	Closing balance	Opening balance	Remark
2013	61,251,326.07	245,359,766.32	
2014	117,640,611.32	111,696,812.16	
2015	15,226,563.21	90,062,311.18	
2016	129,600,742.65	103,304,565.54	
2017	61,275,995.35		
Infinite	51,806,891.39	99,012,458.23	
Total	436,802,129.99	649,435,913.43	

(4) Summary of taxable temporary differences and deductible temporary differences

Item	Amount
Financial assets held-for-trading	139,022.22
Provision for bad debts on accounts receivable	1,773,016.76
Provision for bad debts on other receivables	38,853.00
Provision for declines in values of inventories	311,770.65
Impairment provision for fixed assets	29,834,848.80
Others	15,096,808.06
Total	47,194,319.49

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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		Closing balance
			Reversal	Write-off	
1. Provision for bad debts	559,545,324.79	22,433,318.79	3,816,766.56	4,639,802.50	573,522,074.52
2. Provision for decline in value of inventory	81,961,407.26	24,357,828.31	14,747,493.32	5,287,173.40	86,284,568.85
3. Provision for impairment of long-term equity investments	11,000,000.00				11,000,000.00
4. Provision for impairment of fixed assets	165,945,467.45	12,669,787.61		51,217,533.82	127,397,721.24
5. Provision for impairment of construction in progress	20,370,092.01			9,044,256.34	11,325,835.67
6. Provision for impairment of intangible assets	340,672,549.44			4,079,142.64	336,593,406.80
Total	1,179,494,840.95	59,460,934.71	18,564,259.88	74,267,908.70	1,146,123,607.08

18. Short-term borrowings

(1) Classification of short-term borrowings:

Item	Closing balance	Opening balance
Guaranteed borrowings		876,208,329.78
Secured borrowings ^{*1}	30,309,453.94	128,790,564.42
Total	30,309,453.94	1,004,998,894.20

Particulars of classification of short-term borrowings

^{*1} The secured borrowings represented secured borrowings from the factoring accounts receivable of the Company's subsidiaries, and were all in US dollars.

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 denominated in RMB)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Held-for-trading financial liabilities

Item	Closing balance	Opening balance
Derivative financial liabilities	164,231.22	6,636,121.77
Total	164,231.22	6,636,121.77

Particulars of held-for-trading financial liabilities:

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 2012.

20. Notes payable

Category	Closing balance	Opening balance
Bank acceptance notes	1,270,078,312.63	574,089,894.79
Trade acceptance notes	162,773,897.45	38,577,178.54
Total	1,432,852,210.08	612,667,073.33

Particulars of notes payable:

- 1 As at 31 December 2012, there was no amount due to shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of notes payable. As at 31 December 2011, there was no amount due to shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of notes payable.
- 2 Please see note 6 for details of amount due to related parties in the balance of notes payable as at the end of the period.

21. Accounts payable

(1) Ageing analysis of accounts payable

Ageing	Closing balance	Opening balance
Within one year	2,197,488,131.14	1,896,440,466.81
Over one year	137,937,805.33	158,169,666.00
Total	2,335,425,936.47	2,054,610,132.81

Notes to the Financial Statements

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. Accounts payable (continued)

- (2) As at 31 December 2012, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of accounts payable. As at 31 December 2011, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of accounts payable.
- (3) Please see note 6 for details of amount due to related parties in the balance of accounts payable as at the end of the period.

22. Advances from customers

(1) Age analysis of advances from customers

Ageing	Closing balance	Opening balance
Within one year	780,456,731.80	724,328,844.60
Over one year	56,609,039.79	33,877,440.55
Total	837,065,771.59	758,206,285.15

- (2) As at 31 December 2012, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of advance from customers. As at 31 December 2011, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of advances from customers.
- (3) Please see note 6 for details of amount due to related parties in the balance of advances from customers as at the end of the period.

23. Employee benefits payables

Item	Opening balance	Additions in the current year	Reductions in the current year	Closing balance
1. Wages and salaries, bonuses, allowances and subsidies	179,201,340.94	1,269,225,978.46	1,233,577,139.04	214,850,180.36
2. Staff welfare	2,879,380.23	76,348,082.88	74,341,474.67	4,885,988.44
3. Social insurance	5,379,004.34	169,680,182.16	173,102,425.57	1,956,760.93
4. Housing provident funds	434,209.56	38,963,433.14	39,259,737.85	137,904.85
5. Labor union funds and employee education funds	2,132,804.01	14,549,342.20	14,903,997.25	1,778,148.96
6. Others		5,419,550.11	5,365,849.09	53,701.02
Total	190,026,739.08	1,574,186,568.95	1,540,550,623.47	223,662,684.56

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 denominated in RMB)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. Taxes payable

Tax item	Closing balance	Opening balance
Value-added tax	(87,895,577.02)	(123,225,211.20)
Business tax	401,621.41	495,763.32
Enterprise income tax	2,021,491.04	9,465,576.15
Individual income tax	2,237,608.84	2,435,405.10
City maintenance and construction tax	4,218,708.41	3,316,311.19
Real estate tax	8,637,222.75	7,763,959.35
Land use tax	4,443,808.55	3,869,787.80
Education surcharges	2,844,675.81	1,707,928.35
Urban area embankment maintenance fee	2,194,774.55	3,118,821.60
Others	11,900,847.30	960,824.62
Total	(48,994,818.36)	(90,090,833.72)

25. Interests payable

Item	Closing balance	Opening balance
Interests payable for short-term borrowings	202,930.49	1,447,530.16
Total	202,930.49	1,447,530.16

26. Dividends payable

Name	Closing balance	Opening balance
Yingleng (Group) Co., Ltd.	2,067.02	2,067.02
Total	2,067.02	2,067.02

27. Other payables

(1) Ageing analysis of other payables

Ageing	Closing balance	Opening balance
Within one year	1,336,620,886.45	880,233,889.90
Over one year	244,673,606.36	275,962,057.98
Total	1,581,294,492.81	1,156,195,947.88

Notes to the Financial Statements

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Other payables (continued)

- (2) As at 31 December 2012, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of other payables. As at 31 December 2011, there was no amount due to shareholders holding 5% (including 5%) or more of the voting shares of the Company in the balance of other payables.
- (3) Please see note 6 for details of amount due to related parties in the balance of other payables as at the end of the period.
- (4) Particulars of significant other payables with age 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 Company amount
Zhuhai Longjia	28,316,425.03	Current account	Specific third party Company amount
Zhuhai Defa	21,400,000.00	Current account	Specific third party Company amount
Jiangxi Greencool	13,000,000.00	Current account	Greencool Companies

28. Other current liabilities

Item	Closing balance	Opening balance	Reasons for the balance
Installation fees	161,354,404.01	81,761,415.36	Installation fee provided for but not yet paid in relation to goods sold
Sales discounts	255,481,161.65	237,048,057.80	Incurred but not yet settled
Transportation fees	2,907,099.51	6,434,368.43	Incurred but not yet settled
Audit fees	3,392,034.86	1,245,067.00	Annual audit fee
Marketing fees	47,851,709.13	33,105,041.92	Incurred but not yet settled
Amounts payable	23,177,516.32	11,013,977.35	Incurred but not yet settled
Power fees	7,835,376.59	7,858,495.82	Incurred but not yet settled
Agency fees	8,730,560.08	4,082,785.25	Incurred but not yet settled
Others	55,676,933.77	84,909,606.93	Incurred but not yet settled
Total	566,406,795.92	467,458,815.86	

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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	Closing balance
Pending litigation	5,985,197.71		1,320,888.15	4,664,309.56
Provision for warranties*	265,503,156.71	41,695,016.27		307,198,172.98
Total	271,488,354.42	41,695,016.27	1,320,888.15	311,862,482.54

* 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	Closing balance	Opening balance
Deferred income	56,872,390.49	40,977,575.97
Total	56,872,390.49	40,977,575.97

Particulars of deferred income are as follows:

Item	Closing balance	Opening balance
State debenture projects 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	2,375,000.00	2,825,000.00
Acceptance of equipment donation from the United Nations in December 2006	2,022,041.66	2,527,552.07
Others	31,025,348.83	12,705,023.90
Total	56,872,390.49	40,977,575.97

For 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 denominated in RMB)

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

31. Share capital

2012

Categories of shares	Opening balance	Additions in the current year	Reductions in the current year	Closing 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
Total number of shares	1,354,054,750.00			1,354,054,750.00

2011

Categories of shares	Opening balance	Additions in the current year	Reductions in the current year	Closing 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
Total number of shares	1,354,054,750.00			1,354,054,750.00

Notes to the Financial Statements

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

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

32. Capital reserve

(1) Changes in capital reserve

2012

Item	Opening balance	Additions in the current year	Reductions in the current year	Closing balance
Share premium	1,968,114,175.93			1,968,114,175.93
Other capital reserve	128,814,882.33	4,721,328.70		133,536,211.03
Total	2,096,929,058.26	4,721,328.70		2,101,650,386.96

2011

Item	Opening balance	Additions in the current year	Reductions in the current year	Closing balance
Share premium	1,968,114,175.93			1,968,114,175.93
Other capital reserve	85,569,315.37	46,232,104.63	2,986,537.67	128,814,882.33
Total	2,053,683,491.30	46,232,104.63	2,986,537.67	2,096,929,058.26

(2) Particulars of capital reserve:

Additions in the current year represented the transfer of equity incentive of RMB4,648,452.00 into the capital reserve; and the increase in capital reserve of RMB72,876.70 due to change in other equity of Huayi Compressor.

Notes to the Financial Statements

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

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

33. Surplus reserve

2012

Item	Opening balance	Additions in the current year	Reductions in the current year	Closing balance
Statutory surplus reserve	145,189,526.48			145,189,526.48
Total	145,189,526.48			145,189,526.48

2011

Item	Opening balance	Additions in the current year	Reductions in the current year	Closing balance
Statutory surplus reserve	145,189,526.48			145,189,526.48
Total	145,189,526.48			145,189,526.48

34. Undistributed profits

2012

Item	Ratio for appropriation or distribution	Amount for current period	Amount for previous period
Undistributed profits at the end of previous period		(2,817,156,683.25)	(3,044,171,810.12)
Add: Adjustment of undistributed profits at the beginning of the year			
Undistributed profits at the beginning of the period		(2,817,156,683.25)	(3,044,171,810.12)
Add: Net profits for the period attributable to the shareholders of Company		717,764,680.40	227,015,126.87
Less: Appropriation of statutory surplus reserve			
Ordinary shares dividends payable			
Undistributed profits at the end of the period		(2,099,392,002.85)	(2,817,156,683.25)

Notes to the Financial Statements

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. Undistributed profits (continued)

2011

Item	Ratio for appropriation or distribution	Amount for current period	Amount for previous period
Undistributed profits at 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 at the beginning of the period		(3,044,171,810.12)	(3,629,449,482.04)
Add: Net profits for 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)

35. Operating revenue and operating costs

(1) Operating revenue and operating costs

Item	Amount for current period	Amount for previous period
Revenue from principal operations	17,353,776,682.71	16,748,449,276.13
Revenue from other operations	1,605,138,627.38	1,740,213,886.99
Total operating revenue	18,958,915,310.09	18,488,663,163.12
Costs of principal operations	13,562,752,511.56	13,561,364,782.89
Costs of other operations	1,471,281,005.12	1,641,529,335.46
Total operating costs	15,034,033,516.68	15,202,894,118.35

(2) Principal operations (by products)

Products	Amount for current period		Amount for previous period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
1. Refrigerators	8,461,166,469.00	6,468,159,644.37	8,246,154,462.25	6,455,383,210.76
2. Air-conditioners	6,665,134,751.43	5,317,136,777.28	6,516,774,558.25	5,463,286,512.79
3. Others	2,227,475,462.28	1,777,456,089.91	1,985,520,255.63	1,642,695,059.34
Total	17,353,776,682.71	13,562,752,511.56	16,748,449,276.13	13,561,364,782.89

Notes to the Financial Statements

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. Operating revenue and operating costs (continued)

(3) Principal operations (by regions)

Region	Amount for current period		Amount for previous period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Domestic	11,534,718,459.71	8,347,357,581.94	11,763,768,033.18	8,906,846,167.76
Overseas	5,819,058,223.00	5,215,394,929.62	4,984,681,242.95	4,654,518,615.13
Total	17,353,776,682.71	13,562,752,511.56	16,748,449,276.13	13,561,364,782.89

(4) Operating revenue from the top five customers of the Company

2012

No.	Amount for current period	Percentage of the total revenue from principal operations of the Company (%)
Top 1	1,601,984,128.66	9.23
Top 2	1,360,330,549.34	7.84
Top 3	986,464,145.61	5.68
Top 4	535,475,018.23	3.09
Top 5	368,338,598.27	2.12
Total	4,852,592,440.11	27.96

2011

No.	Amount for current period	Percentage of the total revenue from principal 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
Total	4,249,065,939.80	25.38

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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%	3,118,073.06	5,626,810.69
City maintenance and construction tax	1%-7%	39,636,367.21	32,552,458.64
Education surcharges	3%	27,185,066.18	17,530,082.85
Others		35,279,196.63	7,441,717.31
Total		105,218,703.08	63,151,069.49

37. Financial expenses

Item	Amount for current period	Amount for previous period
Interest expenses*	29,818,343.17	39,264,507.45
Less: Interest incomes	3,051,399.68	1,941,417.40
Discounted notes	12,359,540.38	4,718,744.46
Loss on foreign exchange	8,723,293.92	7,363,879.23
Others	(8,850,185.93)	6,598,328.05
Total	38,999,591.86	56,004,041.79

* Interest expenses for 2012 and 2011 were interests on bank borrowings wholly repayable within five years.

38. Asset impairment losses

Item	Amount for current period	Amount for previous period
1. Bad debt loss	18,616,552.23	9,769,243.58
2. Decline in value of inventories	9,610,334.99	15,107,408.53
3. Impairment loss on fixed assets	12,669,787.61	
Total	40,896,674.83	24,876,652.11

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	(23,109,402.77)	5,637,307.68
Including: Gain from changes in fair value of derivative financial instruments	(23,109,402.77)	5,637,307.68
Held-for-trading financial liabilities	6,471,890.55	(675,394.33)
Total	(16,637,512.22)	4,961,913.35

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 2012.

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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	3,800,000.00	3,534,000.00
Income from long-term equity investment — the equity method	190,097,006.83	94,337,603.16
Income from disposal of long-term equity investment*	98,395,591.58	18,499,320.95
Income from disposal of financial assets held-for-trading	42,961,835.26	22,189,661.12
Total	335,254,433.67	138,560,585.23

* Investment income from disposal of long-term equity investment for the period represented investment income recognized for the disposal of equity in Xi'an Kelon and deregistration of USA Kelon 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	3,800,000.00	3,534,000.00
Total	3,800,000.00	3,534,000.00

(3) *Income from long-term equity investment — the equity method:*

Investee	Amount for current period	Amount for previous period
Huayi Compressor	6,634,219.63	1,973,956.79
Hisense Whirlpool	3,430,870.26	(3,827,145.17)
Attend	(143,000.95)	(298,934.03)
Hisense Hitachi	180,174,917.89	96,489,725.57
Total	190,097,006.83	94,337,603.16

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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	1,853,144.93	5,353,721.78
Including: Gain from disposal of fixed assets	1,853,144.93	5,353,721.78
Government grants	54,767,674.18	150,739,804.78
Others	8,031,065.74	2,628,200.05
Total	64,651,884.85	158,721,726.61

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* ¹	(450,000.00)	(450,000.00)
Acceptance of equipment donation from the United Nations in December 2006* ²	(505,510.41)	(505,510.41)
Government grants related to other assets	16,488,891.92	8,525,405.00
Subtotal	15,533,381.51	7,569,894.59
2. Government grants related to income		
Production technology reform project for energy-saving household SBS large-size refrigerator	450,000.00	450,000.00
Acceptance of equipment donation from the United Nations in December 2006	505,510.41	505,510.41
Financial subsidies for promotion of high efficiency air-conditioners* ³	31,710,000.00	129,035,637.00
Other government grants	22,102,163.77	20,748,657.37
Subtotal	54,767,674.18	150,739,804.78
Total	70,301,055.69	158,309,699.37

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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 Guangdong 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 Guangdong 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 was commenced from October 2007 and ended in October 2009. In April and May 2008, Guangdong 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 Guangdong Refrigerator as non-operating income over a period of 10 years. In 2008, Guangdong 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, income in the amount of RMB450,000.00 was recognized. In 2012, income in the amount of RMB450,000.00 was recognized, and the remaining amount of RMB2,375,000.00 was recognized as deferred income.

*2 The amount represented equipment donated made by United Nations Industrial Development Organization on 11 May 2005 to Beijing Refrigerator 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 2012, the balance of RMB2,022,041.66 was pending to be recognized as deferred income.

*3 The government grants represented grants to the Company according to the Notice on Grant Settlement for June 2010 to May 2011 by the Ministry of Finance in Relation to Promotion of High Efficiency and Energy Saving Air-Conditioners (Yue Cai Gong (2012) No. 296), issued by the Guangdong Provincial Department of Finance, and Notice on Central Financial Subsidy Budget Benchmark Settlement for June 2010 to May 2011 in Relation to Promotion of High Efficiency and Energy Saving Air-Conditioners (Qing Cai Jian Zhi (2012) No. 122) 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. 32, 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	2,711,055.26	7,324,104.26
Including: Loss on disposal of fixed assets	2,711,055.26	7,324,104.26
Others	4,682,638.36	6,095,932.51
Total	7,393,693.62	13,420,036.77

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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	14,219,306.52	17,980,944.58
Including: PRC enterprise income tax	12,561,887.81	16,402,424.58
Hong Kong profit tax	1,657,418.71	1,578,520.00
Deferred tax expenses	(3,670,871.80)	3,269,407.68
Total	10,548,434.72	21,250,352.26

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	742,854,008.07	246,699,580.26
Income tax expenses calculated at statutory (or applicable) tax rates	185,713,502.02	61,674,895.07
Tax effect of different rate applicable to subsidiaries	(6,761,202.70)	(6,963,570.45)
Adjustment of prior year income tax in the current year	(168,593.35)	3,269,407.68
Gain/(loss) attributable to jointly controlled entities and associates	(47,524,251.69)	(23,584,400.79)
Non-taxable income	(8,007,318.42)	(5,981,608.71)
Non-deductible expenses	4,329,272.07	33,935,932.72
Utilization of tax loss of previous periods	(140,901,199.46)	(65,720,607.51)
Unused tax losses not recognized as deferred tax assets	23,868,226.25	24,620,304.25
Others		
Income tax expenses	10,548,434.72	21,250,352.26

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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	717,764,680.40	227,015,126.87
Non-recurring item attributable to ordinary shareholders of the Company of the reporting period	F	120,583,896.18	30,641,834.51
Net profits after non-recurring item attributable to ordinary shareholders of the Company of the reporting period	P2=P1-F	597,180,784.22	196,373,292.36
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	1,354,054,750.00
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	1,354,054,750.00
Basic earnings per share attributable to ordinary shareholders of the Company	Y1=P1/S	0.5301	0.1677
Basic earnings per share attributable to ordinary shareholders of the Company after non-recurring items	Y2=P2/S	0.4410	0.1450
Diluted earnings per share attributable to ordinary shareholders of the Company	Y3=(P1 + P3)/X2	0.5301	0.1677
Diluted earnings per share attributable to ordinary shareholders of the Company after non-recurring items	Y4=(P2 + P4)/X2	0.4410	0.1450

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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	72,876.70	(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)
Subtotal	72,876.70	(2,986,537.67)
2. Difference on translation of foreign currency financial statements	(15,567,439.94)	(6,378,506.57)
Less: Net amount transferred to gain/(loss) upon disposal of foreign operations in the current period		
Subtotal	(15,567,439.94)	(6,378,506.57)
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		
Subtotal		
Total	(15,494,563.24)	(9,365,044.24)

45. Notes to cash flows statement

(1) Cash received relating to other operating activities

Item	Amount for current period	Amount for previous period
Current accounts	125,447,861.07	172,650,948.02
Interest incomes	3,051,399.68	1,941,417.40
Government grants	70,301,055.69	158,309,699.37
Others	478,263,151.31	31,968,151.51
Total	677,063,467.75	364,870,216.30

Notes to the Financial Statements

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

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

45. Notes to cash flows statement *(continued)*

(2) Cash paid relating to other operating activities

Item	Amount for current period	Amount for previous period
Cash payments for general and administrative expenses	357,274,718.00	271,995,466.52
Cash payments for selling and distribution expenses	1,512,573,756.27	1,558,429,152.72
Bank charges	6,701,653.21	6,777,538.05
Others	186,483,811.17	86,292,841.68
Total	2,063,033,938.65	1,923,494,998.97

(3) Cash received relating to other financing activities

Item	Amount for current period	Amount for previous period
Receipt of guarantee deposits		7,543,201.56
Total		7,543,201.56

Notes to the Financial Statements

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

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

46. Supplementary information on cash flows statement

(1) Supplementary information on cash flows statement

Supplementary information	Amount for current period	Amount for previous period
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	732,305,573.35	225,449,228.00
Add: Provision for assets impairment	40,896,674.83	24,876,652.11
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets	353,430,052.12	331,432,793.12
Amortization of intangible assets	24,248,227.22	27,264,417.59
Amortization of long-term prepaid expenses	75,267.23	296,766.66
Loss on disposals of fixed assets, intangible and other long-term assets (Gain denoted in "bracket")	857,910.33	1,970,382.48
Loss on scrapping of fixed assets (Gain denoted in "bracket")		
Loss on change in fair value (Gain denoted in "bracket")	16,637,512.22	(4,961,913.35)
Financial expenses (Gain denoted in "bracket")	42,177,883.55	43,983,251.91
Investment loss (Gain denoted in "bracket")	(335,254,433.67)	(138,560,585.23)
Decrease in deferred tax assets (Increase denoted in "bracket")	(3,670,871.80)	3,269,407.68
Increase in deferred tax liabilities (Decrease denoted in "bracket")		
Decrease in inventory (Increase denoted in "bracket")	(195,486,406.67)	344,736,770.82
Decrease in operating receivables (Gain denoted in "bracket")	(1,220,594,730.58)	27,213,026.61
Increase in operating payables (Decrease denoted in "bracket")	1,642,570,120.00	(520,705,005.91)
Others		
Net cash flows from operating activities	1,098,192,778.13	366,265,192.49
2. Significant investing and financing activities not involving cash receipts and payment:		
Liabilities converted into equity		
Convertible company debentures due within one year		
Fixed assets under finance leases		
3. Net movement in cash and cash equivalents:		
Cash at the end of the period	513,661,376.53	396,814,919.98
Less: Cash at the beginning of the period	396,814,919.98	419,921,513.93
Add: Cash equivalents at the end of the period		
Less: Cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	116,846,456.55	(23,106,593.95)

Notes to the Financial Statements

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

46. Supplementary information on cash flows 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	6,858.00	910.37
2. Cash and cash equivalents received from disposal of subsidiaries and other operating companies	6,858.00	865.00
Less: Cash and cash equivalents held by subsidiaries and other operating companies		
3. Net cash received from disposal of subsidiaries and other operating companies	6,858.00	865.00
4. Net assets of subsidiaries disposed	(17,494.48)	19,731.91
Current assets	511.58	19,619.64
Non-current assets	2,131.97	111.64
Current liabilities	20,138.02	(0.63)
Non-current liabilities		

(3) Details of cash and cash equivalents

Item	Closing balance	Opening balance
1. Cash		
Including: Cash on hand	6,911.06	166,157.33
Bank deposit that are readily available for payment	513,654,465.47	396,648,762.65
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	513,661,376.53	396,814,919.98

47. Net current assets

Item	Closing balance	Opening balance
Current assets (Consolidated)	5,930,166,101.14	4,435,201,230.69
Less: Current liabilities (Consolidated)	6,958,391,755.74	6,162,158,773.54
Net current Assets (Consolidated)	(1,028,225,654.60)	(1,726,957,542.85)
Current assets (the Company)	4,730,456,072.49	4,024,527,726.67
Less: Current liabilities (the Company)	5,672,829,625.08	5,227,092,433.23
Net current assets (the Company)	(942,373,552.59)	(1,202,564,706.56)

Notes to the Financial Statements

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

48. Total assets less current liabilities

Item	Closing balance	Opening balance
Total assets (Consolidated)	9,200,334,640.73	7,635,439,578.36
Less: Current liabilities (Consolidated)	6,958,391,755.74	6,162,158,773.54
Total assets less current liabilities (Consolidated)	2,241,942,884.99	1,473,280,804.82
Total assets (the Company)	8,278,917,143.79	7,469,144,553.26
Less: current liabilities (the Company)	5,672,829,625.08	5,227,092,433.23
Total assets less current liabilities (the Company)	2,606,087,518.71	2,242,052,120.03

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) Segment profit or loss and assets and liabilities

Amount for current period	Refrigerators	Air-conditioners	Others	Inter-segment elimination	Total
1. Revenue from external sales	8,461,166,469.00	6,665,134,751.43	2,227,475,462.28		17,353,776,682.71
2. Revenue from Inter-segment			676,793,128.22	(676,793,128.22)	
3. Gain from investment in associates and jointly controlled entities	10,065,089.89	180,174,917.89	(143,000.95)		190,097,006.83
4. Depreciation and amortization	157,257,659.98	123,199,415.13	97,296,471.46		377,753,546.57
5. Gain from changes in fair value	(18,877,582.57)	(10,481,249.64)	12,721,319.99		(16,637,512.22)
6. Impairment losses on assets	12,541,870.92	18,180,374.60	10,174,429.31		40,896,674.83
7. Total profit (Total loss)	383,535,395.57	211,840,410.68	180,114,227.65	(32,636,025.83)	742,854,008.07
8. Income tax expenses	815,401.83	1,333,698.10	8,399,334.79		10,548,434.72
9. Net profit (net loss) (including minority interests)	382,719,993.75	210,506,712.58	171,714,892.85	(32,636,025.83)	732,305,573.35
10. Total assets	7,811,010,733.14	5,171,832,963.97	3,474,332,492.51	(7,256,841,548.89)	9,200,334,640.73
11. Total liabilities	5,040,013,259.72	4,029,079,030.52	2,440,086,482.12	(4,182,052,143.59)	7,327,126,628.77
12. Additions to other non-current assets other than long-term equity investments	3,719,865.79	(52,778,720.84)	(22,180,836.57)		(71,239,691.62)

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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	Others	Inter-segment elimination	Total
1. Revenue from external sales	8,246,154,462.25	6,516,774,558.25	1,985,520,255.63		16,748,449,276.13
2. Revenue from inter-segment			491,507,674.29	(491,507,674.29)	
3. Gain from investment in 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	76,532,185.88		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	2,205,372.14		24,876,652.11
7. Total profit (Total loss)	264,157,297.87	(95,856,125.44)	97,342,800.43	(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)	76,092,448.17	(18,944,392.60)	225,449,228.00
10. Total assets	7,309,137,528.15	5,007,184,529.18	3,510,717,240.75	(8,191,599,719.72)	7,635,439,578.36
11. Total liabilities	4,816,526,137.42	4,125,554,419.92	2,632,462,148.15	(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	51,945,075.69		358,666,989.62

(2) Geographic Information

Item	2012	2011
Revenue from external customers — Mainland	11,534,718,459.71	11,763,768,033.18
Revenues from external customers — Overseas	5,819,058,223.00	4,984,681,242.95
Total	17,353,776,682.71	16,748,449,276.13
Non-current assets — Mainland	2,853,489,324.27	2,778,410,063.08
Non-current assets — Overseas	416,679,215.32	421,828,284.59
Total	3,270,168,539.59	3,200,238,347.67

The Company is mainly operated in Mainland China, where the majority of non-current assets are 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 denominated in RMB)

6. RELATED PARTIES AND RELATED PARTY 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, moulds and provision of 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 denominated in RMB)

6. RELATED PARTIES AND RELATED PARTY 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 Co., Ltd. (“Hisense Finance”)	Subsidiary of ultimate holding company	71788291x
Qingdao Hisense Electric Co., Ltd. (“Hisense Electrical Appliances”)	Subsidiary of ultimate holding company	26462882-x
Shunde Yunlong Consultancy Service Limited (“Shunde Yunlong Consultancy”)	Minority shareholder of Huaao Electronics	
Beijing Xuehua Group Company Limited (“Xuehua Group”)	Minority shareholder of Beijing Refrigerator	
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 unusual cash flows through the following “Specific Third Party Companies”

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

Notes to the Financial Statements

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

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(6) Related party transactions

(1) Purchase of goods/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	349,849,515.68	2.33	437,593,469.15	2.88
Hisense Electrical Appliances and its subsidiaries	Finished goods	Agreed price	116,566.71		120,098.36	
Subtotal of purchase of finished goods			349,966,082.39	2.33	437,713,567.51	2.88
Huayi Compressor and its subsidiaries	Raw materials	Agreed price	738,685,597.41	4.91	687,695,484.32	4.52
Embraco	Raw materials	Agreed price	41,833,871.81	0.28	40,512,368.84	0.27
Hisense Whirlpool	Raw materials	Agreed price	5,127,848.50	0.03	4,262,261.63	0.03
Hisense Hitachi	Raw materials	Agreed price	6,504,984.81	0.04	4,778,686.37	0.03
Hisense Group and its subsidiaries	Raw materials	Agreed price	5,982,255.07	0.04	6,613,394.86	0.04
Hisense Electrical Appliances and its subsidiaries	Raw materials	Agreed price	12,199,141.46	0.08	13,177,430.14	0.09
Subtotal of purchase of raw materials			810,333,699.06	5.38	757,039,626.16	4.98
Hisense Group and its subsidiaries	Mould and equipment	Agreed price	687,840.40		728,754.01	
Hisense Electrical Appliances and its subsidiaries	Mould and equipment	Agreed price	28,119.76		82,632.14	
Hisense Whirlpool	Mould and equipment	Agreed price			1,110,062.58	0.01
Subtotal of purchase of moulds and equipment			715,960.16		1,921,448.73	0.01
Hisense Group and its subsidiaries	Receipt of services	Agreed price	221,143,204.53	1.47	154,899,089.57	1.02
Xuehua Group	Receipt of services	Agreed price	22,460,245.50	0.15	18,284,617.50	0.12
Hisense Electrical Appliances and its subsidiaries	Receipt of services	Agreed price	9,381,775.43	0.06	8,000,920.86	0.05
Subtotal of receipt of services			252,985,225.46	1.68	181,184,627.93	1.19
Hisense Hong Kong	Financing purchase		85,141,686.04	0.57	156,524,642.03	1.03
Subtotal of financing purchase			85,141,686.04	0.57	156,524,642.03	1.03

Notes to the Financial Statements

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

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(6) Related party transactions *(continued)*

(1) Purchase of goods/receipt of services *(continued)*

- (1) Hisense Kelon and the related subsidiaries of Hisense Group have entered into a Business Cooperation Framework Agreement on 29 November 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 RMB401,250,000.
- (2) Hisense Kelon and Hisense Whirlpool have entered into a Business Framework Agreement (II) on 29 November 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 RMB1,014,100,000.
- (3) Hisense Kelon and Huayi Compressor have entered into a Compressors Purchase and Supply Framework Agreement on 29 November 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 RMB1,380,000,000.
- (4) Hisense Kelon and Hisense Hitachi have entered into a Business Framework Agreement (I) on 29 November 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 RMB15,000,000.
- (5) Hisense Kelon and Embraco have entered into a Compressors Purchase Framework Agreement on 29 November 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 RMB250,000,000.
- (6) Hisense Kelon and Beijing Xuehua Group have entered into a Property Service Framework Agreement on 29 November 2011, 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 RMB33,200,000.
- (7) Hisense Kelon and Hisense Hong Kong has entered into a Factoring Purchase Framework Agreement on 29 November 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 fourteenth interim meeting of the Company's seventh session of the board of directors in 2011 convened on 29 November 2011 and the first extraordinary general meeting in 2012 convened on 16 January 2012 respectively.

Notes to the Financial Statements

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

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(6) Related party transactions (continued)

(2) Sale of goods/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	104,787.60		2,154,249.57	0.01
Hisense Whirlpool	Finished goods	Agreed price			359,940.53	
Hisense Hitachi	Finished goods	Agreed price	46,352,001.50	0.24	31,502,205.89	0.17
Hisense Group and its subsidiaries	Finished goods	Market price	2,321,308,431.16	12.24	1,544,072,482.85	8.35
Subtotal of sales amount of finished product			2,367,765,220.26	12.48	1,578,088,878.84	8.53
Hisense Whirlpool	Raw materials	Agreed price	22,135,363.33	0.12	6,635,647.13	0.04
Hisense Group and its subsidiaries	Raw materials	Agreed price	36,718,517.66	0.19	34,645,035.85	0.19
Hisense Hitachi	Raw materials	Agreed price	62,606.54		746,503.14	
Hisense Electrical Appliances and its subsidiaries	Raw materials	Agreed price	12,926.82		80,117.74	
Subtotal of sales amount of raw materials			58,929,414.35	0.31	42,107,303.86	0.23
Hisense Group and its subsidiaries	Mould and equipment	Market price	162,765,821.13	0.86	119,115,888.69	0.64
Hisense Hitachi	Mould	Market price	213,675.21			
Hisense Whirlpool	Mould and equipment	Market price	1,722,638.38	0.01	854,700.85	
Hisense Electrical Appliances and its subsidiaries	Mould	Market price	56,199,720.78	0.30	47,754,580.06	0.26
Subtotal of sales amount of moulds			220,901,855.50	1.17	167,725,169.60	0.90
Attend		Agreed price	3,000.00		53,770.94	
Hisense Electrical Appliances and its subsidiaries		Agreed price	308,000.00		307,692.31	
Hisense Whirlpool		Agreed price	739,797.81		625,111.97	
Hisense Group and its subsidiaries		Agreed price	2,462,818.40	0.01	153,393.26	
Subtotal of rendering of services			3,513,616.21	0.01	1,139,968.48	0.01

- (1) Hisense Kelon and related subsidiaries of Hisense Group have entered into a Business Cooperation Framework Agreement on 29 November 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 RMB2,881,920,000.
- (2) Hisense Kelon and Hisense Whirlpool have entered into a Business Framework Agreement (II) on 29 November 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 RMB71,500,000.
- (3) Hisense Kelon and Hisense Hitachi have entered into a Business Framework Agreement (I) on 29 November 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 RMB489,200,000.

The above agreements were considered and approved at the fourteenth interim meeting of the Company's seventh session of the board of directors in 2011 convened on 29 November 2011 and the first extraordinary general meeting in 2012 convened on 16 January 2012 respectively.

Notes to the Financial Statements

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

6. RELATED PARTIES AND RELATED PARTY 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	90.00	2012.09.24	2013.01.15	Bank acceptance notes	No
Hisense Group	The Company	3,421.71	2012.09.24	2013.03.21	Bank acceptance notes	No
Hisense Group	The Company	3,503.30	2012.09.24	2013.03.22	Bank acceptance notes	No
Hisense Group	The Company	2,600.00	2012.09.27	2013.03.26	Bank acceptance notes	No
Hisense Group	The Company	4,376.48	2012.09.27	2013.03.27	Bank acceptance notes	No
Hisense Group	The Company	1,493.00	2012.10.24	2013.01.22	Bank acceptance notes	No
Hisense Group	The Company	2,857.90	2012.10.24	2013.01.24	Bank acceptance notes	No
Hisense Group	The Company	350.00	2012.10.24	2013.04.10	Bank acceptance notes	No
Hisense Group	The Company	3,515.30	2012.10.24	2013.04.22	Bank acceptance notes	No
Hisense Group	The Company	3,388.72	2012.10.24	2013.04.24	Bank acceptance notes	No
Hisense Group	The Company	4,127.00	2012.10.24	2013.04.29	Bank acceptance notes	No
Hisense Group	The Company	1,252.40	2012.10.30	2013.01.28	Bank acceptance notes	No
Hisense Group	The Company	3,812.59	2012.10.30	2013.04.24	Bank acceptance notes	No
Hisense Group	The Company	450.00	2012.10.30	2013.04.25	Bank acceptance notes	No
Hisense Group	The Company	4,341.14	2012.10.30	2013.04.29	Bank acceptance notes	No
Hisense Group	The Company	4,640.00	2012.11.19	2013.05.20	Bank acceptance notes	No
Hisense Group	The Company	1,768.15	2012.12.25	2013.03.21	Bank acceptance notes	No
Hisense Group	The Company	3,198.47	2012.12.25	2013.06.21	Bank acceptance notes	No
Hisense Group	The Company	5,282.04	2012.12.25	2013.06.25	Bank acceptance notes	No
Hisense Group	The Company	158.30	2012.12.28	2013.06.28	Bank acceptance notes	No
Hisense Group	The Company	1,405.30	2012.12.31	2013.06.30	Bank acceptance notes	No
Hisense Group	The Company	1,888.36	2012.09.14	2013.03.14	Bank acceptance notes	No
Hisense Group	Shandong Air-Conditioner	2,031.00	2012.10.29	2013.01.29	Bank acceptance notes	No
Hisense Group	Shandong Air-Conditioner	185.00	2012.10.29	2013.04.26	Bank acceptance notes	No
Hisense Group	Beijing Refrigerator	1,089.91	2012.09.28	2013.03.28	Bank acceptance notes	No
Subtotal of bank acceptance notes		61,226.07	—	—		
Hisense Group	The Company	868.51	2012.08.29	2013.05.23	Commercial acceptance	No
Subtotal of commercial acceptance		868.51	—	—		

Notes to the Financial Statements

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

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(6) Related party transactions *(continued)*

(3) *Particulars of related party guarantees (continued)*

Particulars of related party guarantee:

- (1) In February 2012, the Company and Hisense Finance have entered into Hai Xin Shou Xin Zi No. 037 Consolidated Credit Contract, pursuant to which, the Company might apply to Hisense Finance for the utilization of a maximum credit limit of RMB600,000,000 from 24 February 2012 to 21 March 2013. To ensure the settlement of the liabilities under the credit contract, Hisense Group and Hisense Finance have entered into a Maximum Guarantee Contract Hai Xin Gao Bao Zi No. 019 to provide guarantee for the repayment of debts by the Company on 24 February 2012.
- (2) In October 2011, Hisense Group and the Qingdao Shandong Road branch of ICBC have entered into a 3803001-2011 Ying Ye (Bao) Zi No. 0025 Maximum Guarantee Contract, pursuant to which Shandong Air-Conditioner 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.
- (3) In January 2012, Beijing Refrigerator and Hisense Finance Co., Ltd. have entered into Hai Xin Shou Xin Zi Di No. 035 Consolidated Credit Contract, pursuant to which, Beijing Refrigerator might apply to Hisense Finance Co., Ltd. for the utilization of a maximum credit limit of RMB100,000,000 from 16 January 2012 to 31 December 2012. To ensure the settlement of the liabilities under the credit contract, Hisense Group and Hisense Finance have entered into a Maximum Guarantee Contract Hai Xin Gao Bao Zi No. 017 to provide guarantee securities for the repayment of debts by Beijing Refrigerator on 16 January 2012.
- (4) As at 31 December 2012, the Company and its subsidiaries had balances of bank deposit of RMB283,962,600, bank loans of RMB0, and notes payable of RMB1,162,751,300 with Hisense Finance. For the year, loan interests paid to Hisense Finance amounted to RMB23,829,000, interests paid in relation to discounted notes amounted to RMB4,822,500, and handling fees paid amounted to RMB768,700. Interest income received from Hisense Finance for the deposits amounted to RMB1,485,600.

Notes to the Financial Statements

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

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(7) Receivables from and payables to related parties

(1) *Receivables from related parties*

Item	Related party	Closing balance		Opening balance	
		Carrying amount	Provision for bad debts	Carrying amount	Provision for bad debts
Accounts receivable	Hisense Electrical Appliances and its subsidiaries	4,111,613.09		5,680,553.92	
Accounts receivable	Hisense Group and its subsidiaries	341,067,486.70	863,752.76	275,640,454.10	863,752.76
Accounts receivable	Hisense Whirlpool	11,685,289.52		2,784,028.98	
Accounts receivable	Hisense Hitachi	100,000.00			
Accounts receivable	Huayi Compressor and its subsidiaries			217,666.55	
	Subtotal	356,964,389.31	863,752.76	284,322,703.55	863,752.76
Notes receivable	Hisense Group and its subsidiaries	28,452,507.01		31,152,446.57	
	Subtotal	28,452,507.01		31,152,446.57	
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	
Other receivables	Hisense Group and its subsidiaries	22,760.00		6,420.00	
Other receivables	Hisense Whirlpool			431,841.02	
	Subtotal	4,478,135.57	4,455,375.57	5,093,636.59	4,455,375.57
Prepayments	Hisense Group and its subsidiaries			1,123,591.99	
Prepayments	Huayi Compressor and its subsidiaries	5,852,060.18			
	Subtotal	5,852,060.18		1,123,591.99	

Notes to the Financial Statements

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

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(7) Receivables from and payables to related parties *(continued)*

(2) Payables to related parties

Item	Related party	Closing balance	Opening balance
Notes payable	Huayi Compressor and its subsidiaries	15,000,000.00	
Subtotal		15,000,000.00	
Accounts payable	Huayi Compressor and its subsidiaries	176,551,619.44	146,198,325.53
Accounts payable	Embraco	14,975,319.81	6,649,203.00
Accounts payable	Hisense Group and its subsidiaries	12,404,602.33	19,701,923.51
Accounts payable	Hisense Whirlpool	55,750,858.43	116,870,313.04
Accounts payable	Hisense Hitachi	292,761.19	
Subtotal		259,975,161.20	289,419,765.08
Other payables	Hisense Group and its subsidiaries	368,738.49	1,717,184.03
Other payables	Huayi Compressor and its subsidiaries	300,000.00	200,000.00
Other payables	Embraco	100,000.00	100,000.00
Other payables	Combine	5,099,880.00	5,099,880.00
Other payables	Hisense Whirlpool	13,452.61	
Subtotal		5,882,071.10	7,117,064.03
Advances from customers	Hisense Hitachi	1,551,940.98	
Advances from customers	Hisense Group and its subsidiaries	6,006,903.93	37,762,190.02
Subtotal		7,558,844.91	37,762,190.02

Notes to the Financial Statements

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

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(8) Transactions with “specific third party companies”

Item	Related parties	Closing balance	Opening balance
Accounts receivable	Hefei Weixi	18,229,589.24	18,229,589.24
	Wuhan Changrong	20,460,394.04	20,460,394.04
Subtotal of accounts receivable		38,689,983.28	38,689,983.28
Prepayments	Hefei Weixi	465,213.00	465,213.00
Subtotal of prepayments		465,213.00	465,213.00
Other receivables	Jiangxi Kesheng	27,462,676.72	27,462,676.72
	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
Subtotal of other receivables		520,495,040.17	520,495,040.17
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
Subtotal of other payables		114,716,425.03	114,716,425.03

Notes to the Financial Statements

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

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(9) Transactions with Greencool Companies

Item	Related parties	Closing 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
Subtotal of other receivables		91,043,957.71	91,043,957.71
Other payables	Jiangxi Greencool	13,000,000.00	13,000,000.00
Subtotal of other payables		13,000,000.00	13,000,000.00

7. SHARE-BASED PAYMENT

1. General information about share-based payments

Item	Amount for current period
Total equity instruments granted during the period	4,648,452.00
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 1,338 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	6,208,452.00
Total expense recognized for equity settled share-based payments	6,208,452.00

Notes to the Financial Statements

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

7. SHARE-BASED PAYMENT (continued)

3. Share-based services

Item	Amount for current period	Amount for previous period
Total amount of employee services as a result of the share-based payments		6,208,452.00
Total amount of other services as a result of the share-based payments		

4. Shares granted

Category	Exercise price	Outstanding as at 1 January 2012	Transferred from other categories during the year	Granted during the year	Exercised during the year	Expired during the year	Outstanding as at 31 December 2012
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
Total		19,510,000					19,510,000

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 grant, 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 excluding 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 denominated in RMB)

8. CONTINGENCIES

1. Contingent liabilities arising from pending litigations and their financial impact

As at 31 December 2012, the pending litigations involving the Company are summarized as follows:

(1) Cases with the Company as the plaintiff

Plaintiff	Defendant	Causes	Total amount involved
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
Total			18,823,405.57

(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	7,652,976.18
Other	The Company	Labor dispute and others	8,731,019.53
Total			16,383,995.71

Notes to the Financial Statements

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

8. CONTINGENCIES *(continued)*

1. Contingent liabilities arising from pending litigations and their financial impact *(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
Total			725,414,350.00

* As at 12 August 2009, the Company had received civil judgment, namely (2009) Yuegaofaliminzhongzi 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 i 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.

On 21 December 2012, the Company received the notices of resumption of execution of (2008) Fo Zhong Fa Zhi Zi No. 853, (2009) Fo Zhong Fa Zhi Zi No. 113, 114, 115, 116, 118, 157, 234, 235, 236, 237, 238, 259, 502, 852, 995, 996 and (2010) Fo Zhong Fa Zhi Zi No. 32 from the Intermediate People's Court of Foshan City, Guangdong Province (the "Foshan Intermediate Court"). Regarding the application by the Company and the relevant subsidiaries in which it holds a controlling equity interest for the execution of the cases regarding the damage to their corporate interests by Guangdong Greencool Enterprises Development Company Limited and its associated companies (the "Greencool Companies") and Gu Chu Jun, the Foshan Intermediate Court has decided to resume the execution of the relevant cases based on the spirit in the notice issued by the Supreme People's Court on the resumption of execution procedures against the Greencool Companies in accordance with the law.

Up to 28 March 2013, the execution of the above cases have not been completed by the relevant courts and it was determined that there was no difference in the recoverability as compared to 2011 in substance.

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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	Shangqiu Kelon	Purchase amount outstanding	25,660,900.00
Total			25,660,900.00

It represented the request of the Company to the defendants to repay the purchase amount of goods, related interests and all the litigation fees. The civil judgment is now in effect.

9. COMMITMENT

As at 31 December 2012, 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 Refrigerator			Buildings at Nos. 9 and 19 Hongyang Road	GDY476400120100007	17,702.02	12,112.04
Yangzhou Refrigerator			Land use right of the west side of Yangzijiang South Road Yangzhou, No. 9 Hungyang Road and Fuyang Road North	GDY476400120100008	26,685.03	4,082.55
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	14,331.45
Guangdong Air-Conditioner			No. 1 Rongqi Road, side of Rongqi Bridge	GDY476400120100009	25,751	8,735.62

Notes to the Financial Statements

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

10. EVENTS AFTER THE BALANCE SHEET DATE

Huayi Compressor, an associate of the Company, issued 235,042,735 RMB-denominated ordinary shares to specific investors through private issue of shares at an issue price of RMB4.68 per share (payable in cash) in January 2013. Registered capital changed from RMB324,581,218.00 to RMB559,623,953.00 upon the issue and subscription. Such change in registered capital has been verified by Shinewing Certified Public Accountants, who issued the capital verification report XYZH/2012CDA4086-2.

Upon the private issue of Huayi Compressor, the shareholding of the Company changed from 6.45% to 3.74%.

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	Closing balance
Financial assets					
Derivative financial assets	33,787,696.24	(23,109,402.77)	(23,109,402.77)		10,678,293.47
Subtotal of financial assets	33,787,696.24	(23,109,402.77)	(23,109,402.77)		10,678,293.47
Derivative financial liabilities	(6,636,121.77)	6,471,890.55	6,471,890.55		(164,231.22)
Subtotal of financial liabilities	(6,636,121.77)	6,471,890.55	6,471,890.55		(164,231.22)

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, accounts receivable, other receivables, notes payable, accounts payable, 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 denominated in RMB)

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 cash and cash equivalents at a level which is adequate, in the management's point of views, 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 2012, 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 on the Company's performance.

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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 EUR. The exchange rates between RMB, HKD, USD, JPY and EUR are not pegged, and there is fluctuation of exchange rates between RMB, USD, JPY and EUR.

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	Closing balance		Opening balance	
	Assets	Liabilities	Assets	Liabilities
USD	583,485,858.40	32,183,140.67	566,052,696.12	105,444,838.96
EUR	84,088,791.97	4,434,575.43	120,539,277.81	8,380,259.01

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	2012	2011
	Increase/Decrease in profit after tax	Increase/Decrease in profit after tax
USD to RMB		
Appreciates by 5%	20,673,851.91	17,272,794.64
Depreciates by 5%	(20,673,851.91)	(17,272,794.64)
EUR to RMB		
Appreciates by 5%	2,987,033.12	4,205,963.21
Depreciates by 5%	(2,987,033.12)	(4,205,963.21)

Sensitivity analysis of change in forward rate:

Item	2012	2011
	Increase/Decrease in profit after tax	Increase/Decrease in profit after tax
USD to RMB		
Appreciates by 5%	(9,993,375.00)	(8,706,300.00)
Depreciates by 5%	9,993,375.00	8,706,300.00
EUR to RMB		
Appreciates by 5%	(1,172,925.00)	(582,375.00)
Depreciates by 5%	1,172,925.00	582,375.00

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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 2012 and 31 December 2011.

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, accounts payable, 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	2012	2011
Total debt	7,327,126,628.77	6,474,624,703.93
Including: Short-term borrowings	30,309,453.94	1,004,998,894.20
Accounts payable	2,335,425,936.47	2,054,610,132.81
Notes payable	1,432,852,210.08	612,667,073.33
Other payables	1,581,294,492.81	1,156,195,947.88
Less: Cash and cash equivalents	513,661,376.53	396,814,919.98
Net debt	6,813,465,252.24	6,077,809,783.95
Equity attributable to shareholders of the parent	1,512,042,166.49	805,123,597.33
Capital and net debt	8,325,507,418.73	6,882,933,381.28
Gearing ratio	81.84%	88.30%

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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 2012*

Unit: RMB'0000

Name	Position	Emoluments of independent director	Salaries and allowances	Pension scheme contributions	Total
Executive director					
Tang Ye Guo	Chairman		98.40	1.52	99.92
Yu Shu Min	Director				
Lin Lan	Director				
Xiao Jian Lin	Director				
Ren Li Ren	Director and President		78.18	1.89	80.08
Gan Yong He	Director and Vice-president		97.08	1.52	98.60
Independent non-executive director					
Xu Xiang Yi	Independent non-executive Director	4.50			4.50
Wang Ai Guo	Independent non-executive Director	9.00			9.00
Wang Xin Yu	Independent non-executive Director	24.00			24.00
Zhang Sheng Ping	Former independent non-executive Director	4.50			4.50
Supervisor					
Guo Qing Cun	Supervisor				
Liu Jiang Yan	Supervisor				
Zhang Jian Jun	Employee representative supervisor		29.76	0.08	29.84
Gao Zhong Xiang	Former supervisor				
Liu Zhan Cheng	Former supervisor		24.10		24.10
Total		42.00	327.53	5.01	374.54

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. Gan Yong He was appointed on 16 January 2012; Mr. Xu Xiang Yi was appointed on 26 June 2012; Ms. Liu Jiang Yan was appointed on 15 August 2012; Mr. Zhang Jian Jun was appointed on 26 June 2012; Mr. Zhang Sheng Ping resigned on 26 June 2012; Mr. Gao Zhong Xiang resigned on 26 June 2012; and Mr. Liu Zhan Cheng resigned on 26 June 2012.

Notes to the Financial Statements

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

11. OTHER SIGNIFICANT EVENTS (continued)

4. Directors and supervisors' emoluments (continued)

(1) As at 31 December 2011

		<i>Unit: RMB'0000</i>			
Name	Position	Emoluments of independent director	Salaries and allowances	Pension scheme Contributions	Total
Executive director					
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
Independent non-executive director					
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
Supervisor					
Guo Qing Cun	Supervisor				
Gao Zhong Xiang	Supervisor				
Liu Zhan Cheng	Supervisor		41	1.03	42.03
Total		40	263.03	4.12	307.15

Particulars: 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.

(2) Five highest paid individuals

In 2012, three (2011: two) of the five highest paid individuals of the Company were directors. The aggregate of the emoluments in respect of the other two individuals (2011: three) are as follows (the range of emoluments for 2012 and 2011 was below RMB1,000,000):

		<i>Unit: RMB'0000</i>	
Item		Amount for current period	Amount for previous period
Emolument		150	172

Notes to the Financial Statements

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

11. OTHER SIGNIFICANT EVENTS *(continued)*

5. Key management personnel emoluments

Item	Unit: RMB'0000	
	2012	2011
Salaries and other short-term employee benefits	699.58	667.62
Retirement benefit scheme costs	20.23	18.07
Total	719.81	685.69

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 RMB208,643,600 (2011: RMB 166,526,800) 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	
	Closing carrying amount	Opening carrying amount
Buildings	3,644.66	3,801.99
Total	3,644.66	3,801.99

(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 2012 amounted to RMB7,860,000 (2011: RMB5,480,000).

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	669.63	512.37
Over one year but within five years, inclusive	473.69	52.34
Total	1,143.32	564.71

Notes to the Financial Statements

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

11. OTHER SIGNIFICANT EVENTS *(continued)*

7. Lease *(continued)*

(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 2012 was as follows:

	<i>Unit: RMB'0000</i>	
Operating lease payments	Amount for current period	Amount for previous period
Leasehold land and buildings	1,318.27	1,428.25
Plant and machinery	756.31	
Total	2,074.58	1,428.25

(4) *The total future minimum lease payments under non-cancellable operating leases at the end of reporting period falling due are as follows:*

	<i>Unit: RMB'0000</i>	
Item	Amount for current period	Amount for previous period
Within one year	804.25	419.02
Over one year but within five years	992.75	545.62
Total	1,797.00	964.64

8. Capital commitment

	<i>Unit: RMB'0000</i>	
Item	Closing balance	Opening balance
Commitments for the investment in subsidiaries and jointly controlled entity:		
— Authorized but not yet contracted for		
— Contracted but not provided for	4,688.66	7,969.00
Commitments for the acquisition of property, plant and equipment of subsidiaries:		
— Contracted but not provided for		

9. Dividends

No dividends was paid or proposed for the year ended 31 December 2012 (2011: Nil), or reserve funds converted into capital.

Notes to the Financial Statements

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

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

1. Accounts receivable

(1) Disclosure of accounts receivable by categories:

Category	Closing balance			
	Carrying amount		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance
Individually significant and subject to separate provision				
Ageing analysis	803,290,236.75	95.40	165,054,919.79	20.55
Greencool Companies	38,689,983.28	4.60	22,726,941.64	58.74
Subtotal	841,980,220.03	100.00	187,781,861.43	22.30
Individually insignificant but subject to separate provision				
Total	841,980,220.03	100.00	187,781,861.43	22.30

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	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
Subtotal	993,778,301.27	100.00	185,265,326.28	18.64
Individually insignificant but subject to separate provision				
Total	993,778,301.27	100.00	185,265,326.28	18.64

Notes to the Financial Statements

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

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (continued)

1. Accounts receivable (continued)

(1) Disclosure of accounts receivable by category (continued)

Accounts receivable in the category provided bad debts by using ageing method:

Age	Closing 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	631,388,149.75	74.99		789,235,183.64	79.42	
Over three months but within six months	1,265,442.13	0.15	126,544.21	3,594,295.40	0.36	359,429.54
Over six months but within one year	11,416,538.58	1.36	5,708,269.29	159,767.70	0.02	79,883.85
Over one year	159,220,106.29	18.91	159,220,106.29	162,099,071.25	16.31	162,099,071.25
Total	803,290,236.75	95.41	165,054,919.79	955,088,317.99	96.11	162,538,384.64

(2) Movements in provision for accounts receivable

	Opening balance	Provision for the year	Decrease for the year		Closing balance
			Reversal	Write-off	
2012	185,265,326.28	3,666,951.25		1,150,416.10	187,781,861.43

(3) Accounts receivable that were written off

Company name	Nature of accounts receivable	Amount written-off	Reason for write-off	Arising from related party transactions or not
Unrelated parties	Loans	1,150,416.10	Not recoverable due to long outstanding	No
Total		1,150,416.10		

- (4) As at 31 December 2012, there was no amount due from shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of accounts receivable. As at 31 December 2011, there was no amount due from shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of accounts receivable.

Notes to the Financial Statements

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

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (continued)

1. Accounts receivable (continued)

(5) Top five accounts receivable

2012

No.	Relationship with the Company	Amount	Ageing	Percentage of the total accounts receivable amount (%)
Top 1	Third party	238,358,502.63	Within three months	28.31
Top 2	Third party	195,596,319.17	Within three months	23.23
Top 3	Subsidiary	40,762,559.25	Within three months	4.84
Top 4	Third party	24,456,945.19	Within three months	2.90
Top 5	Subsidiary	19,748,315.16	Within three months	2.35
Total		518,922,641.40		61.63

2011

No.	Relationship with the Company	Amount	Ageing	Percentage of the total accounts receivable amount (%)
Top 1	Subsidiary	178,737,705.00	Within three months	17.99
Top 2	Third party	162,914,960.00	Within three months	16.39
Top 3	Third party	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
Total		580,054,849.53		58.37

Notes to the Financial Statements

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

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (continued)

2. Other receivables

(1) Disclosure of other receivables by category:

Category	Closing balance			
	Carrying amount		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance
Individually significant and subject to separate provision				
Aging analysis	1,038,532,918.70	98.51%	23,743,419.18	2.29%
Greencool Companies	15,754,600.00	1.49%	9,962,961.47	63.24%
Subtotal	1,054,287,518.70	100.00%	33,706,380.65	3.20%
Individually insignificant but subject to separate provision				
Total	1,054,287,518.70	100.00%	33,706,380.65	3.20%

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	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	962,569,235.01	100.00	27,717,025.83	2.88
Individually insignificant but subject to separate provision				
Total	962,569,235.01	100.00	27,717,025.83	2.88

Notes to the Financial Statements

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

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (continued)

2. Other receivables (continued)

(1) Disclosure of other receivables by category: (continued)

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

Age	Closing 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	1,013,443,126.16	96.13%		917,812,372.71	95.35	
Over three months but within six months	610,204.95	0.06%	61,020.50	11,668,759.58	1.21	1,166,875.96
Over six months but within one year	1,594,377.82	0.15%	797,188.91	1,492,628.64	0.16	746,314.32
Over one year	22,885,209.77	2.17%	22,885,209.77	15,840,874.08	1.65	15,840,874.08
Total	1,038,532,918.70	98.51%	23,743,419.18	946,814,635.01	98.37	17,754,064.36

(2) Movements in provision for other receivables

	Opening balance	Provision for the year	Decrease for the year		Closing balance
			Reversal	Write-off	
2012	27,717,025.83	7,981,804.11		1,992,449.29	33,706,380.65

(3) Other receivable that were written-off

Company name	Nature of other receivables	Amount written-off	Reason for write-off	Arising from related party transactions or not
Unrelated party	Loans	1,992,449.29	Not recoverable due to long outstanding	No

(4) As at 31 December 2012, there was no amount due from shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of other receivables. As at 31 December 2011, there was no amount due from shareholders holding 5% or more (including 5%) of the voting shares of the Company in the balance of other receivables.

Notes to the Financial Statements

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

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (continued)

2. Other receivables (continued)

(5) Top five other receivables

2012

No.	Relationship with the Company	Amount	Ageing	Percentage of the total other receivables amount (%)
Top 1	Subsidiary	211,154,792.61	Within three months	20.03
Top 2	Subsidiary	170,029,177.84	Within three months	16.13
Top 3	Subsidiary	137,171,745.54	Within three months	13.01
Top 4	Subsidiary	117,511,986.92	Within three months	11.15
Top 5	Subsidiary	63,588,915.14	Within three months	6.03
Total		699,456,618.05	—	66.35

2011

No.	Relationship with the Company	Amount	Ageing	Percentage of the total other receivables 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
Total		803,319,904.83	—	83.45

Notes to the Financial Statements

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

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (continued)

3. Long-term equity investments

Investee	Accounting treatment	Investment cost	Opening balance	Changes	Closing 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	43,637,782.08	6,707,096.33	50,344,878.41	6.45	6.45			
Attend	Equity method	2,000,000.00	3,428,851.76	(143,000.95)	3,285,850.81	20.00	20.00			
Hisense Whirlpool	Equity method	225,000,000.00	206,388,118.32	3,430,870.26	209,818,988.58	50.00	50.00			
Hisense Hitachi	Equity method	332,821,597.45	353,301,093.20	131,174,917.89	484,476,011.09	49.00	49.00			49,000,000.00
Equity method Subtotal		601,507,686.41	606,755,845.36	141,169,883.53	747,925,728.89					49,000,000.00
Guangdong Refrigerator	Cost method	155,552,425.85	155,552,425.85		155,552,425.85	70.00	70.00			
Guangdong Air-Conditioner	Cost method	281,000,000.00	281,000,000.00		281,000,000.00	60.00	60.00	59,381,641.00		
Guangdong 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			
YingKou Refrigerator	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 Refrigerator	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			
Chengdu Refrigerator	Cost method	50,000,000.00	50,000,000.00		50,000,000.00	100.00	100.00			
Beijing Refrigerator	Cost method	92,101,178.17	92,101,178.17		92,101,178.17	55.00	55.00			

Notes to the Financial Statements

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

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (continued)

3. Long-term equity investments (continued)

Investee	Accounting treatment	Investment cost	Opening balance	Changes	Closing balance	% Equity interest held	% Voting rights held	Provision for impairment	Impairment provided in the current year	Cash dividend in current year
Shandong Air-Conditioner	Cost method	567,175,477.74	567,175,477.74		567,175,477.74	100.00	100.00			
Zhejiang Air-Conditioner	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			
Shandong Refrigerator	Cost method	100,000,000.00		100,000,000.00	100,000,000.00	100.00	100.00			
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			
Hisense International Marketing	Cost method	3,800,000.00	3,800,000.00		3,800,000.00	12.67	12.67			3,800,000.00
Subtotal by cost method		2,534,130,076.03	2,434,130,076.03	(7,729,620.45)	2,426,400,455.58			59,381,641.00		3,800,000.00
Total		3,135,637,762.44	3,040,885,921.39	133,440,263.08	3,174,326,184.47			59,381,641.00		52,800,000.00

4. Operating revenue and operating costs

(1) Operating revenue and operating costs

Item	Amount for current period	Amount for previous period
Revenue from principal operations	10,893,593,680.70	10,892,602,626.72
Revenue from other operations	2,512,754,821.87	955,129,068.90
Total operating revenue	13,406,348,502.57	11,847,731,695.62
Costs of principal operations	8,563,618,825.63	8,800,871,140.75
Costs of other operations	2,214,424,604.03	702,982,573.02
Total operating costs	10,778,043,429.66	9,503,853,713.77

(2) Principal operations (by products)

Products	Amount for current period		Amount for previous period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Refrigerators	6,205,246,053.64	4,802,391,754.86	6,018,753,460.33	4,753,389,068.57
Air-conditioners	3,989,222,718.97	3,221,180,133.02	4,274,997,748.16	3,585,529,489.75
Others	699,124,908.09	540,046,937.75	598,851,418.23	461,952,582.43
Total	10,893,593,680.70	8,563,618,825.63	10,892,602,626.72	8,800,871,140.75

Notes to the Financial Statements

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

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (continued)

4. Operating revenue and operating costs (continued)

(3) Principal operations (by regions)

Region	Amount for current period		Amount for previous period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Domestic	10,893,593,680.70	8,563,618,825.63	10,892,602,626.72	8,800,871,140.75
Overseas				
Total	10,893,593,680.70	8,563,618,825.63	10,892,602,626.72	8,800,871,140.75

(4) Operating revenue from the top five customers of the Company

2012

No.	Amount for the current period	Percentage of the total revenue from principal operations of the Company (%)
Top 1	1,311,005,853.74	12.03
Top 2	986,464,145.61	9.06
Top 3	205,057,899.02	1.88
Top 4	180,757,884.05	1.66
Top 5	148,982,418.42	1.37
Total	2,832,268,200.84	26.00

2011

No.	Amount for the current period	Percentage of the total revenue from principal 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
Total	2,874,883,971.05	26.39

Notes to the Financial Statements

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

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE 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	15,826,368.60	18,823,552.90
Income from long-term equity investment — the equity method	190,097,006.83	94,337,603.16
Income from disposal of long-term equity investment	(78,121,106.88)	28,351,625.36
Total	127,802,268.55	141,512,781.42

(2) Income from long-term equity investments — the cost method

Investee	Amount for current period	Amount for previous period
Beijing Refrigerator	5,500,000.00	5,500,000.00
Hisense Mould	6,526,368.60	9,789,552.90
Hisense International Marketing	3,800,000.00	3,534,000.00
Total	15,826,368.60	18,823,552.90

(3) Income from long-term equity investment — the equity method

Investee	Amount for current period	Amount for previous period
Huayi Compressor	6,634,219.63	1,973,956.79
Hisense Whirlpool	3,430,870.26	(3,827,145.17)
Attend	(143,000.95)	(298,934.03)
Hisense Hitachi	180,174,917.89	96,489,725.57
Total	190,097,006.83	94,337,603.16

Notes to the Financial Statements

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

12. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY (continued)

6. Supplementary information on cash flows statement

Supplementary information	Amount for current period	Amount for previous period
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	336,604,324.71	246,020,866.58
Add: Provision for assets impairment	33,546,203.90	13,381,932.10
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets	32,407,602.37	42,509,581.50
Amortization of intangible assets	9,201,933.74	10,620,323.00
Amortization of long-term prepaid expenses		
Loss on disposals of fixed assets, intangible and other long-term assets (Gain denoted in "bracket")	54,925.62	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")	7,576,200.74	19,794,414.12
Investment loss (Gain denoted in "bracket")	(127,802,268.55)	(141,512,781.42)
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")	(117,023,469.68)	64,218,677.76
Decrease in operating receivable (Gain denoted in "bracket")	(2,422,836,491.42)	(410,691,937.07)
Increase in operating payable (Decrease denoted in "bracket")	2,864,883,692.35	(42,111,702.22)
Others		
Net cash flows from operating activities	616,612,653.78	(197,584,873.08)
2. Significant investing and financing activities not involving cash receipts and payment:		
Liabilities converted into equity		
Convertible company debentures due within one year		
Fixed assets under finance leases		
3. Net movement in cash and cash equivalents:		
Cash at the end of the period	342,912,430.57	98,869,779.84
Less: Cash at the beginning of the period	98,869,779.84	163,407,687.61
Add: Cash equivalents at the end of the period		
Less: Cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	244,042,650.73	(64,537,907.77)

Notes to the Financial Statements

(Unless otherwise expressly stated, the following amounts are denominated 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	97,537,681.25	16,528,938.47
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)	23,057,674.18	21,704,167.78
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)		
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		
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	3,348,427.38	(3,467,732.46)
Other profit or loss items meeting the definition of non-recurring profit or loss		
Total non-recurring profit or loss	123,943,782.81	34,765,373.79
Less: Effect of non-recurring profit or loss after taxation	2,187,048.64	1,948,610.72
Net non-recurring profit or loss	121,756,734.17	32,816,763.07
Less: Net effect of non-recurring profit or loss attributable to minority interests (after tax)	1,172,837.99	2,174,928.56
Non-recurring profit or loss attributable to ordinary shareholders of the Company	120,583,896.18	30,641,834.51

Notes to the Financial Statements

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

13. SUPPLEMENTARY INFORMATION (continued)

2. Return on net asset and earnings per share:

2012

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	61.95	0.5301	0.5301
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring gain or loss	51.54	0.4410	0.4410

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

3. Reasons for exceptional items in financial statements

Statement Item	Closing balance (or amount for the current year)	Opening balance (or amount for last year)	% Change	Reasons for change
Notes receivable	1,558,766,192.61	502,919,307.39	209.94%	Mainly due to the Company's enhanced management of payment collection, improvement in the Company's capital position, and decrease in endorsement and discounting of the Company's notes receivable due to maturity mismatch of notes receivable and accounts payable in the Reporting Period
Short-term borrowings	30,309,453.94	1,004,998,894.20	(96.98%)	Mainly due to improvement in the Company's capital position and the adjustment in the financing structure during the Reporting Period
Notes payable	1,432,852,210.08	612,667,073.33	133.87%	Mainly due to promotion of electronic bill payment during the Reporting Period

Notes to the Financial Statements

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

13. SUPPLEMENTARY INFORMATION (continued)

3. Reasons for exceptional items in financial statements (continued)

Statement Item	Closing balance (or amount for the current year)	Opening balance (or amount for last year)	% Change	Reasons for change
Taxes payable	(48,994,818.36)	(90,090,833.72)	(45.62%)	Mainly due to decrease in the Company's value-added tax credits at the end of the Reporting Period
Other payables	1,581,294,492.81	1,156,195,947.88	36.77%	Mainly due to increase in expenses and funds payable by the Company during the Reporting Period
Other non-current liabilities	56,872,390.49	40,977,575.97	38.79%	Mainly due to increase in assets-related government grants received by the Company during the Reporting Period. The related assets were amortized in their expected useful life
Difference on translation of foreign currency financial statements	10,539,505.90	26,106,945.84	(59.63%)	Mainly due to deregistration of overseas subsidiary of the Company during the Reporting Period
Business taxes and surcharges	105,218,703.08	63,151,069.49	66.61%	Mainly due to increase in turnover taxes paid by the Company, leading to corresponding increase in taxes and surcharges paid during the Reporting Period
Finance expenses	38,999,591.86	56,004,041.79	(30.36%)	Mainly due to decrease in borrowings of the Company, leading to decrease in interest expenses during the Reporting Period
Impairment losses on assets	40,896,674.83	24,876,652.11	64.40%	Mainly due to impairment tests on assets and provision of corresponding impairment by the Company during the Reporting Period
Investment income	335,254,433.67	138,560,585.23	141.96%	Mainly due to increase in profit from Hisense Hitachi and gain on disposal of subsidiaries
Non-operating income	64,651,884.85	158,721,726.61	(59.27%)	Mainly due to decrease in benefiting people subsidies
Net cash from disposal of subsidiaries and other business units	69,034,178.70	8,650,000.00	698.08%	Mainly due to disposal of Xi'an Kelon during the Reporting Period

Notes to the Financial Statements

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

13. SUPPLEMENTARY INFORMATION (continued)

4. Five-years summary

Unit: RMB'0000

Statement item	2012	2011	2010	2009	2008
Total operating revenue	1,895,891.53	1,848,866.32	1,769,032.36	1,297,159.17	1,286,492.34
Total profit	74,285.40	24,669.96	62,770.86	19,631.55	(22,865.39)
Income tax	1,054.84	2,125.04	3,158.83	2,329.22	(221.38)
Net profit	73,230.56	22,544.92	59,612.03	17,302.34	(22,644.01)
Net profit attributable to equity holders of the Company	71,776.47	22,701.51	58,527.77	15,644.95	(23,331.20)
Minority interests	1,454.09	(156.59)	1,084.26	1,657.39	687.19
Distribution of dividends					

Continued from above table

Statement item	31 December 2012	31 December 2011	31 December 2010	31 December 2009	31 December 2008
Total assets	920,033.46	763,543.96	801,896.89	612,836.59	584,242.45
Total liabilities	732,712.66	647,462.47	710,802.11	601,759.78	589,293.99
Net assets	187,320.80	116,081.49	91,094.79	11,076.81	(5,051.54)
Total equity attributable to equity holders of the Company	151,204.22	80,512.36	54,124.14	(26,674.83)	(41,622.71)
Minority interests	36,116.58	35,569.13	36,970.65	37,751.63	36,571.17
Total equity	187,320.80	116,081.49	91,094.79	11,076.81	(5,051.54)

14. APPROVAL OF FINANCIAL STATEMENTS

The financial statements and the notes to financial statements of the Company in 2012 were approved for publication at the first meeting of the eighth session of the Board of the Company in 2013.