

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

# Hisense 海信科龙

## HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

海信科龍電器股份有限公司

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 00921)**

### ANNOUNCEMENT OF RESULTS

#### FOR THE YEAR ENDED 31 DECEMBER 2009

All members (the “Directors”) of the board of directors (the “Board”) of Hisense Kelon Electrical Holdings Company Limited (the “Company”) announces the annual consolidated results of the Company and its subsidiaries (collectively the “Group” or “Kelon”) for the year ended 31 December 2009 together with the 2008 comparative figures, prepared in accordance with the International Financial Reporting Standards (“IFRS”) as follows:

#### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*(For the year ended 31 December 2009)*

	Notes	2009 RMB'000	2008 RMB'000
Turnover	3	8,673,761	8,052,909
Cost of sales		<u>(6,970,546)</u>	<u>(6,816,609)</u>
<b>Gross profit</b>		1,703,215	1,236,300
Other revenue	5	95,845	63,832
Other gains and losses	6	23,785	1,283
Distribution costs		(1,254,513)	(1,081,498)
Administrative expenses		(351,022)	(352,733)
Other expenses		(13,844)	(15,045)
Share of results of associates		16,057	4,197
Share of results of jointly controlled entity		(11,701)	-
Finance costs	7	<u>(68,621)</u>	<u>(89,771)</u>
<b>Profit/(loss) before income tax expense</b>	8	139,201	(233,435)
Income tax expense	9	<u>(4,192)</u>	<u>(4,085)</u>
<b>Profit/(loss) for the year</b>		<u>135,009</u>	<u>(237,520)</u>
<b>Other comprehensive income</b>			
Exchange differences on translation of financial statements of foreign operations		96	8,780
Share of reserves of associates		27	(34)
Reclassification adjustment of exchange reserve included in profit or loss on disposal of a foreign subsidiary		<u>(7,877)</u>	<u>-</u>
Other comprehensive income for the year, net of tax		<u>(7,754)</u>	<u>8,746</u>
<b>Total comprehensive income for the year</b>		<u>127,255</u>	<u>(228,774)</u>

**Profit/(loss) attributable to:**

- Owners of the Company		136,412	(231,896)
- Minority interests		<u>(1,403)</u>	<u>(5,624)</u>
		<u>135,009</u>	<u>(237,520)</u>
<b>Total comprehensive income attributable to:</b>			
- Owners of the Company		128,658	(223,150)
- Minority interests		<u>(1,403)</u>	<u>(5,624)</u>
		<u>127,255</u>	<u>(228,774)</u>
<b>Earnings/(losses) per share attributable to owners of the Company</b>			
- Basic and diluted	10	<u>RMB0.14</u>	<u>RMB(0.23)</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(As at 31 December 2009)

	Notes	2009 RMB'000	2008 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment		1,275,044	1,363,074
Investment properties		33,762	35,565
Payments for leasehold land held for own use under operating leases		261,794	286,835
Interests in associates		102,673	86,589
Interests in jointly controlled entity		113,712	33,750
Available-for-sale financial assets		4,310	4,550
Intangible assets		154,503	167,135
Deferred tax assets		12,873	13,647
Total non-current assets		<u>1,958,671</u>	<u>1,991,145</u>
<b>Current assets</b>			
Inventories		656,536	505,528
Trade and other receivables	11	1,443,252	1,050,415
Taxation recoverable		102	943
Other financial assets		5,597	6,019
Pledged bank deposits		7,133	23,240
Cash and cash equivalents		119,460	110,216
		<u>2,232,080</u>	<u>1,696,361</u>
<b>Non-current assets held for sale</b>		<u>31,574</u>	<u>-</u>
Total current assets		<u>2,263,654</u>	<u>1,696,361</u>
<b>Total assets</b>		<u>4,222,325</u>	<u>3,687,506</u>
<b>Current liabilities</b>			
Trade and other payables	12	2,966,867	2,192,391
Trade deposits received		455,933	354,243
Other financial liabilities		1,040	13,611
Provisions		108,419	114,215
Taxation payable		28,804	27,342
Other liabilities		30,848	29,384
Borrowings		1,330,873	1,814,948
		<u>4,922,784</u>	<u>4,546,134</u>
<b>Liabilities directly associated with non-current assets held for sale</b>		<u>30,914</u>	<u>-</u>
Total current liabilities		<u>4,953,698</u>	<u>4,546,134</u>
<b>Net current liabilities</b>		<u>(2,690,044)</u>	<u>(2,849,773)</u>
Total assets less current liabilities		<u>(731,373)</u>	<u>(858,628)</u>
<b>NET LIABILITIES</b>		<u>(731,373)</u>	<u>(858,628)</u>
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital		992,007	992,007
Share premium		1,195,597	1,195,597
Statutory reserves		114,581	114,581
Capital reserve		267,448	266,638
Foreign exchange reserve		30,110	37,891
Accumulated losses		(3,478,224)	(3,614,636)
Equity attributable to owners of the Company		<u>(878,481)</u>	<u>(1,007,922)</u>
<b>Minority interests</b>		<u>147,108</u>	<u>149,294</u>
<b>TOTAL EQUITY</b>		<u>(731,373)</u>	<u>(858,628)</u>

## NOTES

## **1. BASIS OF PREPARATION**

### **(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB. International Financial Reporting Standards include International Financial Reporting Standards, International Accounting Standards (“IAS”) and Interpretations (collectively referred to as “IFRSs”). In addition, the consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### **(b) Basis of preparation**

As at 31 December 2009, the Group had an accumulated losses of approximately RMB3,478 million. Its current liabilities exceeded current assets by approximately RMB2,690 million (2008: RMB2,850 million) in which the Group has outstanding short-term loans in the aggregate of approximately RMB1,331 million (2008: RMB1,815 million). These conditions indicate the existence of a material uncertainty, which may cast significant doubt on the Group’s ability to continue as a going concern. Nevertheless, the directors are of the opinion that the Group will be able to finance its future working capital and financial requirements based on (i) loan and draft discount financing available from Hisense Finance Company Limited (“Hisense Finance”) with the maximum loan amount and service fee payable not exceeding an annual cap of RMB1.5 billion and RMB50 million respectively on a revolving basis; (ii) continuous financial support available from Hisense Group Company Limited (“Hisense Group”), the holding company of Qingdao Hisense Air-conditioning Company Limited (“Hisense Air-Conditioning”) in form of providing corporate guarantees to lenders; and (iii) cash flow forecasts projected by the Group’s management showing adequate cash flows from its future operation.

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries, the Group’s interests in associates and a jointly controlled entity. The measurement basis used in the preparation of the financial statements is historical cost except for certain financial instruments which are measured at fair value as explained in the accounting policies set out in the annual report.

## **2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)**

### **(a) Application of International Financial Reporting Standards**

The Group has adopted the following new/revised IFRSs issued by the IASB and IFRIC that are effective for the current accounting period of the Group. The adoption of the following new/revised standards had no material effect on the results or financial position of the Group for the current or prior accounting periods and no prior period adjustment has been recognised.

## 2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) - Continued

### (a) Application of International Financial Reporting Standards - Continued

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

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

IFRS 8 “Operating Segments” has replaced IAS14 “Segment Reporting”. IFRS 8 requires segment disclosure to be based on the way that the Group’s chief operating decision maker (“CODM”) regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group’s CODM for the purposes of assessing segment performance and making decisions about operating matters. The CODM has been identified as the board of directors (the “Board”) of the Company. The segment identified in accordance with IFRS 8 does not differ materially from that previously disclosed under IAS 14 and thus the adoption of IFRS 8 has no impact on the Group’s segment reporting.

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

Except for as stated above the adoption of the new/revised IFRSs did not result in significant

changes to the Group's accounting policies.

## 2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) - Continued

### (b) Potential impact arising on IFRSs not yet effective

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2010

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

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

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

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

### 3. TURNOVER

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

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

### 4. SEGMENT INFORMATION

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

#### (a) Business Segments

Year ended 31 December 2009

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

Inter-segment sales are charged at prevailing market rates.

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



#### 4. SEGMENT INFORMATION - Continued

##### Year ended 31 December 2009 - Continued

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

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

#### 4. SEGMENT INFORMATION - Continued

Year ended 31 December 2008

	Refrigerators RMB'000	Air- conditioners RMB'000	Freezers RMB'000	Product components RMB'000	Elimination RMB'000	Consolidated RMB'000
<b>Turnover</b>						
External sales	4,189,049	3,024,028	397,572	442,260	-	8,052,909
Inter-segment sales	-	-	-	406,148	(406,148)	-
Total turnover	<u>4,189,049</u>	<u>3,024,028</u>	<u>397,572</u>	<u>848,408</u>	<u>(406,148)</u>	<u>8,052,909</u>

Inter-segment sales are charged at prevailing market rates.

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

	Refrigerators RMB'000	Air- conditioners RMB'000	Freezers RMB'000	Product components RMB'000	Consolidated RMB'000
<b>Assets</b>					
Segment assets	1,806,597	952,716	173,896	428,188	3,361,397
Interests in associates	56,283	28,574	1,732	-	86,589
Unallocated corporate assets (Note (b))					<u>239,520</u>
Consolidated total assets					<u><u>3,687,506</u></u>
<b>Liabilities</b>					
Segment liabilities	1,403,727	854,319	120,234	206,043	2,584,323
Unallocated corporate liabilities (Note (b))					<u>1,961,811</u>
Consolidated total liabilities					<u><u>4,546,134</u></u>

#### 4. SEGMENT INFORMATION - Continued

##### Year ended 31 December 2008 - Continued

	Refrigerators RMB'000	Air- conditioners RMB'000	Freezers RMB'000	Product components RMB'000	Unallocated RMB'000	Consolidated RMB'000
Additions of property, plant and equipment	187,413	33,026	27,658	26,363	40	274,500
Additions of intangible assets	4,484	2,263	600	300	-	7,647
Depreciation of property, plant and equipment	108,182	66,358	9,490	28,236	2,120	214,386
Depreciation of investment properties	2,003	598	26	-	-	2,627
Amortisation of intangible assets	4,254	3,166	229	201	42	7,892
Amortisation of payments for leasehold land held for own use under operating leases	7,931	2,923	735	1,140	313	13,042
Impairment loss of property, plant and equipment	-	-	-	5,056	-	5,056
(Gain)/ loss on disposal of property, plant and equipment, net	277	306	2,662	316	(586)	2,975
Gain on disposal of non-current assets held for sale	(34,623)	(17,499)	(766)	-	-	(52,888)
Write down of inventories to net realisable value, net	3,980	11,520	497	1,431	-	17,428

Notes:

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

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

##### (b) Information about major customers

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

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

#### 4. SEGMENT INFORMATION - Continued

##### (c) Geographical information

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

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

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

#### 5. OTHER REVENUE

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

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

Notes:

- (a) Penalty income represents mainly compensation received from suppliers for the supply of defective materials and parts used in the production. The compensation amount was determined with reference to actual costs incurred by the Group.
- (b) Subsidy income represents mainly subsidies received from relevant authorities in the PRC for encouraging production and business development in Chengdu. The subsidy income also represents the subsidies received in relation to the "Subsidy Programme for Residents' Purchase of Energy-saving Appliance".

## 6. OTHER GAINS AND LOSSES

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

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

## 7. FINANCE COSTS

	<b>2009</b> <b>RMB'000</b>	<b>2008</b> <b>RMB'000</b>
Interest on:		
- Bank borrowings wholly repayable within five years	42,203	66,057
- Discounted note receivables	2,972	18,863
- Loan and draft discount financing from Hisense Finance	23,446	4,851
	<u>68,621</u>	<u>89,771</u>

## 8. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE

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

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

## 9. INCOME TAX EXPENSE

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

	<b>2009</b>	<b>2008</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Current tax – PRC Enterprise Income Tax (“EIT”)		
- Tax for the year	2,931	21
- Under provision in respect of prior years	<u>487</u>	<u>6,236</u>
	3,418	6,257
Under provision of current tax in respect of prior years for foreign operations	-	175
Deferred tax	<u>774</u>	<u>(2,347)</u>
Income tax expense	<u><u>4,192</u></u>	<u><u>4,085</u></u>

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

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

On 16 March 2007, the Fifth Plenary Session of the Tenth National People’s Congress passed the Corporate Income Tax Law of the PRC (“new tax law”), which took effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate in the PRC changed from 33% to 25% with effect from 1 January 2008.

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

Hisense Ronshen Yangzhou Refrigerator Co., Ltd. (“Yangzhou Kelon”), and Chengdu Kelon Refrigerator Co., Ltd. (“Chengdu Kelon”) are foreign invested enterprises, enjoying the 5-year tax holiday starting from the first profit making year with full exemption for the first two years, followed by half exemption for the consecutive three years.

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

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

## 9. INCOME TAX EXPENSE - Continued

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

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

At the end of reporting period, deferred tax assets arising on tax losses carried forward had been recognised to the extent it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

## 10. EARNINGS/(LOSSES) PER SHARE

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

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

## 11. TRADE AND OTHER RECEIVABLES

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

The aging analysis of trade receivables is as follows:

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

Normal credit term of 60 days is granted to customers. The Group allows a credit period of up to one year for large and well-established customers. Sales are usually settled by cash on delivery for small and new customers. Trade receivables are non-interest bearing.

Trade receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

## 12. TRADE AND OTHER PAYABLES

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

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

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



**13. DIFFERENCES BETWEEN IFRS AND PRC ACCOUNTING STANDARDS AND REGULATIONS (“PRC GAAP”) AS APPLICABLE TO THE GROUP**

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

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

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

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

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

## **REPORT ISSUED BY BDO LIMITED**

The following is an extract from the report issued by BDO Limited on the consolidated financial statements:

### **BASIS FOR QUALIFIED OPINION**

It was reported by the Company that the previous controlling shareholder, Guangdong Greencool Enterprise Development Company Limited (“Greencool Enterprise”), had entered into a series of activities/transactions during the period from 2001 to 2005 which had been harmful to the Group, including but not limited to unauthorised use of the Group’s funds, fictitious sales of goods and scrap materials, unreasonable prepayments and purchases of raw materials and property, plant and equipment at unreasonable quantities and prices. These transactions were conducted through Greencool Enterprise, its affiliates and/or companies suspected to be connected with the Company’s former chairman, Mr. Gu Chu Jun (“Mr. Gu”). As at 31 December 2009, the aggregate amount of receivables due from these companies was approximately RMB285 million (net of an accumulated impairment loss of RMB365 million) which were reflected in the consolidated statement of financial position at 31 December 2009 as “Amounts due from Greencool Enterprise and its affiliates” and “Amounts due from companies suspected to be connected with Mr. Gu” within current assets.

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

During the years ended 31 December 2008 and 2009, legal proceedings which were previously initiated against Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu have reached court judgments which mostly ruled in favour of the Company. However, the enforcement of court judgments has not been completed. Due to the uncertainty on the execution of court judgments, we are unable to satisfy ourselves as to the appropriateness of the accumulated impairment amounts and the recoverability of the carrying amounts of receivable due from these companies. Any adjustments found to be necessary would affect the opening accumulated losses as at 1 January 2009, the net liabilities as at 31 December 2009 and the profit for the year then ended.

### **QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE**

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matters set out in the basis for qualified opinion section of this report, the consolidated financial statements give a true and fair view of the state of the Group’s affairs as at 31 December 2009 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without further qualifying our opinion, we draw attention to note 2(b) to the financial statements which indicates that the Group’s current liabilities exceeded its current assets by approximately RMB2,690 million. This condition, along with other matters as set forth in note 2(b) to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern. The directors are of the opinion that the Group will have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due for the foreseeable future and have prepared the consolidated financial statements on a going concern basis.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

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

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

During the reporting period, the Company’s revenue from its principal operations was RMB8,673,760,000, representing an increase of 7.71% as compared to the corresponding period in

2008. The net profit attributable to equity holders of the parent company was RMB136, 410,000, which represented a successful turnaround from the previous losses.

## **ANALYSIS OF OPERATIONAL STRUCTURE**

During the reporting period, out of the revenue from the Company's principal operation, the revenue from the refrigerator business accounted for 60.05% of the total turnover of the Company, representing an increase of 24.34% as compared to the corresponding period last year. The revenue from the air-conditioner business accounted for 28.80% of the total turnover of the Company, representing a decrease of 17.40% as compared to the corresponding period last year. The remaining 11.15% of the total turnover was generated from other businesses, such as sales of freezers and product components.

In addition, the domestic sales business accounted for 65.15% of the total turnover of the Company, whereas the revenue recorded an increase of 15.12% as compared to the corresponding period last year. The overseas sales business accounted for 34.85% of the total turnover of the Company, whereas the revenue recorded a decrease of 3.86% as compared to the corresponding period last year.

### **Refrigerator Business**

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

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

significant year-to-year increase in its profit margin.

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

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

### **Air-conditioner Business**

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

During the reporting period, the sales of the Company had decreased under the impact of the macroeconomic environment and pressure on the inventory level. In response to industrial hardships, the Company actively adjusted its industrial strategic planning and conducted systemic innovations in the areas of sales policies, channel strategies and branding directions. With the objective of enhancing the positioning of its products in the market, the Company self-developed key technologies and enhanced the design of the entire machine to effectively reduce the cost of product design; reinforced the development of technologies to further enrich the product portfolio

of energy-saving, high-efficiency and environmental-friendly air-conditioners; and fully implemented the project of cost-control through industrial benchmarks to increase the production efficiency and lower the product costs. At the same time, the Company was actively following up on the State's policies, the Company has produced a series of products in response to the State's policy. By means of the above measures, the Company recorded a substantial increase in both domestic and overseas sales during the second half of the year as compared to that of the corresponding period in 2008, but it still could not offset the decline in the first half of air-conditioner business, and the air-conditioner business recorded a decrease for the entire reporting period as compared to that of the corresponding period in 2008.

### **Technologies and research and development**

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

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

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

### **Analysis of the Impacts on the Results**

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

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

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

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

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

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

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

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

2. The increase in sales costs exceeded the increase in the revenue of the Company represented

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

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

## **OUTLOOK**

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

As a technologically-advance enterprise in the domestic household electrical appliances industry, the Company adheres to the operating strategy of technological orientation. The Company will continue to step up its efforts in technological research and development, reinforce its technological strengths and lead the industry in product upgrade and innovation. The following measures will also be taken to further enhance the operating conditions of the Company:

1. Continue to uphold the operating philosophy of "centering on quality" to provide products of the highest quality to its users. The Company will further optimise the "Quality Risk Annual Reward" assessment mechanism to reinforce control over quality management process, enhance the level of quality control at each production segment, perfect the after-sales service management system, and lower quality cost loss.
2. Further increase the inputs in technology and product development in order to improve its product structure through product upgrade, and to enhance the Company's brand image and profitability through increasing the market share in the high-end market.
3. To proactively monitor the State's industrial policies, deepen the research on and response to the State's industrial policies, speed up response to market, fortify channel management, vertically explore the third and fourth tier markets, in order to seize the opportunities and fight for a bigger market share through leveraging on its advantages in product quality, technology and branding.
4. Explore new opportunities in export business, reinforce the efforts in the export of self-owned



brands, further increase the scale of exports, accelerate the progress of internationalisation, and to boost its reputation in the international market.

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

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

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

The foundation for the current economic recovery is still shaky, and there are still uncertainties in the economic operation in the PRC, whereas export is exposed to numerous challenges. The

management of the Company firmly believes that, with the care and support of all shareholders, financial institutions, partners and the government, the Company will continue to enhance its quality of operation and management and foster a continuous and healthy growth of the Company.

#### **FINAL DIVIDENDS**

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

#### **LIQUIDITY AND SOURCES OF FUNDS**

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

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

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

#### **HUMAN RESOURCES AND EMPLOYEES' REMUNERATION**

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

#### **CHARGES ON THE GROUP'S FIXED ASSETS**

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

## **EXPOSURE TO EXCHANGE RATE FLUCTUATIONS**

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

## **PUBLIC FLOAT**

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

## **MATERIAL LITIGATIONS**

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

## **AUDIT COMMITTEE**

The seventh session of the audit committee of the Company has reviewed the final results of the Company for the year ended 31 December 2009.

## **CAPITAL EXPENDITURE**

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

## **DEPOSIT IN TRUST**

As at 31 December 2009, the Company did not have any deposit in trust in any financial institution in the PRC. All of the Company’s deposits are placed with commercial banks in the PRC and Hong Kong.

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

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

## **RATIO OF TOTAL ASSETS TO TOTAL LIABILITIES**

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

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

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

## **SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS**

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

## **DIRECTORS AND SUPERVISORS' INTERESTS IN CONTRACTS**

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

## **INDEPENDENT NON-EXECUTIVE DIRECTORS' REVIEWS OF CONTINUING CONNECTED TRANSACTIONS**

The independent non-executive Directors of the Board have reviewed the continuing connected transactions of the Company for the year 2009, and confirmed that these transactions were conducted in the ordinary course of business of the Company on normal commercial terms which were fair and reasonable and in the interest of the shareholders of the Company as a whole.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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

## SHARE CAPITAL STRUCTURE

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

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

## TOP TEN/SUBSTANTIAL SHAREHOLDERS

(1) As at 31 December 2009, the Company has a total of 36,633 shareholders in total. The shareholding information of the top ten/substantial shareholders was as follows:

Shareholdings of the top ten shareholders						
Name of Shareholder	Nature of Shareholder	Percentage of the total issued shares capital of the Company	Percentage of the relevant class of issued shares of the Company	No. of Shares Held	No. of Shares (subject to selling restrictions) Held	No. of Pledged or Frozen Shares
Qingdao Hisense Air-conditioning Company Limited	Domestic Non-state-owned Legal Person	25.22%	46.99%	250,173,722	234,375,922	0
The Hong Kong and Shanghai Banking Corporation Limited	Foreign Shareholder	5.90%	12.74%	58,556,738	0	Unknown
China Huarong Asset Management Corporation	Domestic State-owned Legal Person	5.77%	10.75%	57,224,772	0	0
Guotai Junan Securities (Hong Kong) Limited	Foreign Shareholder	5.21%	11.24%	51,677,000	0	Unknown
Shenyin Wanguo Securities (H.K.) Limited	Foreign Shareholder	5.05%	10.89%	50,068,000	0	Unknown
First Shanghai Securities Limited	Foreign Shareholder	3.89%	8.39%	38,567,000	0	Unknown
Bank of China (Hong Kong) Limited	Foreign Shareholder	3.07%	6.62%	30,416,000	0	Unknown
China Merchants Securities(HK) Co Ltd	Foreign Shareholder	2.12%	4.58%	21,044,000	0	Unknown
Morgan Stanley Hong Kong Securities Ltd	Foreign Shareholder	1.73%	3.72%	17,117,500	0	Unknown
KGI Securities(Hong Kong) Ltd	Foreign Shareholder	1.26%	2.72%	12,505,000	0	Unknown

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

<b>Shareholdings of top ten holders of tradable shares not subject to trading moratorium</b>		
<b>Name of Shareholder</b>	<b>Number of listed Shares Held</b>	<b>Class of Shares</b>
The Hong Kong and Shanghai Banking Corporation Limited	58,556,738	H Shares
China Huarong Asset Management Corporation	57,224,772	RMB ordinary shares
Guotai Junan Securities (Hong Kong) Limited	51,677,000	H Shares
Shenyin Wanguo Securities (H.K.) Limited	50,068,000	H Shares
First Shanghai Securities Limited	38,567,000	H Shares
Bank of China (Hong Kong) Limited	30,416,000	H Shares
China Merchants Securities(HK) Co Ltd	21,044,000	H Shares
Morgan Stanley Hong Kong Securities Ltd	17,117,500	H Shares
Qingdao Hisense Air-conditioning Company Limited	15,797,800	RMB ordinary shares
KGI Securities (Hong Kong) Ltd	12,505,000	H Shares

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

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

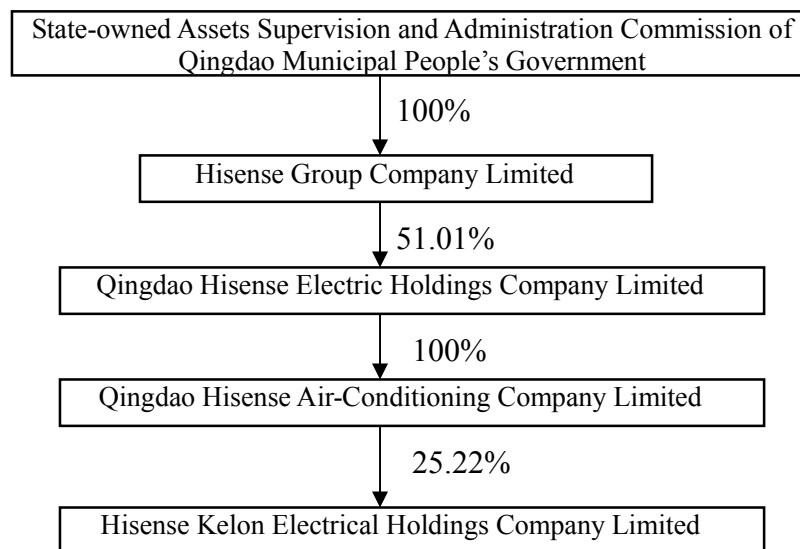
(a) Qingdao Hisense Air-Conditioning Co., Ltd., the controlling shareholder of the Company, was incorporated on 17 November 1995 with the registered capital of RMB674.79 million. Its registered address is Changsha Road, Hi-tech Industrial Zone, Qingdao, the PRC and the legal representative is Mr. Tang Ye Guo. It is primarily engaged in the development and manufacture of air-conditioners and injection moulds and the provision of after-sale repairing services for its products.

(b) The beneficial controller of the Company is Hisense Group Company Limited, which was incorporated in August 1979 with its registered address at No. 17 Donghai West Road, Shinan, Qingdao. Mr. Zhou Houjian is the legal representative of Hisense Group, a wholly state-owned

enterprise with the registered capital of RMB806,170,000. The scope of business includes: the entrusted operation of state-owned assets; the manufacture and sales of TV sets, refrigerators, freezers, washing machines, small household appliances, VCD and DVD players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products and the provision of related services; the development of software and the provision of internet services; the technological development and the provision of consultation services; the self-operated import and export business (with its operation subject to the list of projects as approved by the MOFTEC); the foreign economic and technical cooperation (with its operation subject to the list of projects as approved by the MOFTEC); operation of property rights transaction, provision of brokerage and information services; provision of industrial travel agency services; and provision of relevant business trainings (Permit/licence shall be obtained for the operation of the businesses above if they fall into the requirements of licensure).

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

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



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

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

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

As at 31 December 2009, none of the members of the seventh session of the Board, supervisors and the chief executive of the Company and any of their associates held any interests or short positions in any shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO.

## **MAJOR CUSTOMERS AND SUPPLIERS**

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

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

During the year ended 31 December 2009, neither the company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

During the Reporting Period, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

All information about the annual report as required by Appendix 16 to the Listing Rules will be published on the Stock Exchange's website (<http://www.hkex.com.hk>) and the Company's website (<http://www.kelon.com>) in due course.

By Order of the Board

**Hisense Kelon Electrical Holdings Company Limited**

**Tang Ye Guo**

*Chairman*

Foshan City, Guangdong, the PRC, 8 April 2010

*As at the date of this announcement, the Company's directors are Mr. Tang Ye Guo, Mr. Zhou Xiao Tian, Ms. Yu Shu Min, Mr. Lin Lan, Ms. Liu Chun Xin and Mr. Zhang Ming; and the Company's independent non-executive directors are Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren.*



**Note: Supplementary information as required by The Stock Exchange of Hong Kong Limited in relation to the Company's A share annual results announcement (prepared in accordance with PRC GAAP)**

**I . Particulars of the changes in shareholdings and remuneration of Directors, supervisors and senior management of the Company**

Name	Current Position	Gender	Age	Term of Office	Total remuneration received from the Company during the Reporting Period (before taxation) (RMB ten thousand)	Remuneration received from shareholders' entities or other related companies
Tang Ye Guo	Director, Chairman	Male	47	2009.6.26-2012.6.25	77.79	No
Zhou Xiao Tian	Director, President	Male	49	2009.6.26-2012.6.25	63.87	No
Yu Shu Min	Director	Female	58	2009.6.26-2012.6.25	0	Yes
Lin Lan	Director	Male	51	2009.6.26-2012.6.25	0	Yes
Zhang Ming	Director, Vice President	Male	38	2009.6.26-2012.6.25	23.26	No
Liu Chun Xin	Director, Vice President	Female	41	2009.6.26-2012.6.25	34.17	No
Zhang Sheng Ping	Independent Non-executive director	Male	44	2009.6.26-2012.6.25	6.00	No
Lu Qing	Independent Non-executive director	Male	43	2009.6.26-2012.6.25	6.00	No
Cheung Yui Kai, Warren	Independent Non-executive director	Male	42	2009.6.26-2012.6.25	24.00	No
Guo Qing Cun	Supervisor	Male	56	2009.6.26-2012.6.25	0	Yes
Gao Zhong Xiang	Supervisor	Male	42	2009.6.26-2012.6.25	0	Yes
Liu Zhan Cheng	Supervisor	Male	31	2009.5.6-2012.6.25	22.52	No
Jia Shao Qian	Vice President	Male	37	2009.6.26-2012.6.25	21.84	No
Ren Li Ren	Vice President	Male	45	2009.6.26-2012.6.25	31.76	No
Zhang Yu Qing	Vice President	Male	46	2009.6.26-2012.6.25	8.00	Yes
Wang Jiu Cun	Former Vice President	Female	56	2006.6.26-2009.1.12	13.38	No
Shi Yong Chang	Former Vice President	Male	50	2008.1.30-2009.6.25	30.67	No

Yu Wan Li	Secretary to the Board	Female	31	2009.6.26-2012.6.25	15.48	No
Chen Zhen Wen	Company Secretary	Male	33	2009.6.26-2012.6.25	39.57	No
Total	—	—	—	—	418.31	-

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

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

## **II. Investments of the Company during the Reporting Period.**

**( I ) During the Reporting Period, the Company did not raise any capital and no proceeds obtained prior to the Reporting Period was used during the Reporting Period.**

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

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

## **III. Material litigations and arbitrations of the Company**

### **( I ) General information of litigation**

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

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

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

## (II) New litigations

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

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

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

## (III) Particulars of cases with final judgments or rulings

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

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

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

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

Unit: RMB (in ten thousand)

No.	Name of Case	Target Claim Amount	Particulars	Development
1	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun, Hainan Greencool, Tianjin Greencool and Jinan	8,160.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB81.6 million from the plaintiff.	The court made a judgment in favour of the Company. The judgment has come into force.

No.	Name of Case	Target Claim Amount	Particulars	Development
	San Ai Fu			
2	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Tianjin Greencool, Tianjin Aike and Gu Chu Jun etc	9,000.00	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB90 million of the plaintiff.	The court made a judgment in favour of the Company. The judgment has come into force.
3	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun and Tianjin Greencool	7,500.00	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the company to misappropriate RMB75 million of the plaintiff.	The court made a judgment in favour of the Company. The judgment has come into force.
4	Litigation initiated by Yangzhou Kelon against Guangdong Greencool, Gu Chu Jun and Yangzhou Greencool	4,000.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB40 million from the plaintiff.	The court made a judgment in favour of the Company. The judgment has come into force.
5	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun, Jiangxi Keda and Shenzhen Greencool	1,300.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB13 million from the plaintiff.	The court made a judgment in favour of the Company. The judgment has come into force.
6	Litigation initiated by Yangzhou Kelon against Guangdong Greencool, Gu Chu Jun and Yangzhou Greencool	3,500.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB35 million from the plaintiff.	The court made a judgment in favour of the Company. The judgment has come into force.
7	Litigation initiated by the Company's Hubei Branch against Guangdong Greencool, Gu Chu Jun and Wuhan Changrong	2,984.37	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB29.8437 million from the plaintiff.	The lawsuit has been withdrawn by the Company.

No.	Name of Case	Target Claim Amount	Particulars	Development
8	Litigation initiated by the Company and its Anhui Branch against Guangdong Greencool, Gu Chu Jun and Hefei Weixi	1,869.48	As authorised by Gu Chu Jun, Guangdong Greencool, taking benefits from its role as a substantial shareholder, misused its controlling position in the Company to facilitate that Hefei Weixi took delivery of a large number of air-conditioners and refrigerators from the plaintiffs without making any payment during the period from 31 December 2003 to August 2005, and the defaulted payments of RMB16,075,400 and RMB2,619,400 due to the Anhui Branch and the Company, respectively, have not yet been settled. The connected transaction above was conducted without going through the normal internal approval procedures of the Company and no announcement has been issued on it. Therefore, it is attributive to the misuse of Guangdong Greencool and Gu Chu Jun of their controlling position in the Company against the interests of the plaintiff.	The court ruled that Hefei Weixi should pay the damages of RMB11,723,263.82 to the Company and its Anhui Branch. The judgment has come into force.
9	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Shenzhen Greencool Environmental	3,300.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB33 million from the plaintiff.	The court made a judgment in favour of the Company. The judgment has come into force.
10	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun and Zhuhai Defa	2,140.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB21.4 million from the plaintiff.	The court made a judgment in favour of the Company. The judgment has come into force.
11	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu	2,000.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused	The court made a judgment in favour of the Company. The

No.	Name of Case	Target Claim Amount	Particulars	Development
	Jun and Wuhan Changrong		its controlling position in the Company to embezzle RMB20 million from the plaintiff.	judgment has come into force.
12	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Hainan Greencool	1,228.94	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB12.2894 million from the plaintiff.	The court dismissed the petition by the Company. And the Company did not lodge any appeal.
13	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Shenzhen Greencool Technology	3,200.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB32 million from the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
14	Litigation initiated by the Company against Guangdong Greencool, Gu Chu Jun, Zhuhai Greencool, Beijing Greencool, and Hainan Greencool	1,375.46	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB13.7546 million from the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
15	Litigation initiated by Jiangxi Kelon against Guangdong Greencool, and Gu Chu Jun ,Zhuhai Longjia	2,860.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB28.6 million from the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
16	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun, Jiangxi Kesheng and Tianjin Greencool	1,863.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB18.63 million from the plaintiff.	The Court made a judgment that the defendants were to pay RMB14.2883 million. The judgment has come into force.
17	Litigation initiated by Kelon Fittings	9,741.22	Guangdong Greencool, taking advantage from its role as a	The Court made a judgment that the defendants were

No.	Name of Case	Target Claim Amount	Particulars	Development
	against Guangdong Greencool, Tianjin Xiangrun, Shenzhen Greencool and Gu Chu Jun		substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB97.4122 million from the plaintiff.	to pay RMB95.7839 million. The judgment has come into force.
18	Litigation initiated by Shenzhen Kelon Purchase Company Limited against Guangdong Greencool, Tianjin Lixin, Shenzhen Greencool and Gu Chu Jun	8,960.03	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB89.6003 million from the plaintiff.	The Court made a judgment that the defendants were to pay RMB89.2035 million. The judgment has come into force.
19	Litigation initiated by Kelon Air-Conditioner against Guangdong Greencool, Jinan San Ai Fu, Tianjin Greencool, Hainan Greencool and Gu Chu Jun	4,080.00	Guangdong Greencool, taking advantage from its role as a substantial shareholder and as instructed by Gu Chu Jun, misused its controlling position in the Company to embezzle RMB40.8 million from the plaintiff.	The Court made a judgment in favour of the Company. The judgment has come into force.
20	Litigation on dispute initiated by CNA International.inc./ MC Appliance Corporation against the Company/ Kelon International	US\$13,750,719	The plaintiff alleged that it entered into a sale and purchase contract with the defendant to purchase refrigerators, but the defendant failed to perform its obligations under the contract on a timely basis, and that the goods delivered were defective. In this case, CNA did not bring the breach of warranty obligation before court. Kelon Electric was entitled to, and initiated, a counterclaim for the trade receivables of more than US\$980,000.	It was held in the judgment of first instance that the Company shall pay US\$269,020.5 to CNA. Neither party has lodged an appeal.
21	The case of dispute over a construction contract between the Company and Zhejiang Hangzhou Hangxiao Ganggou	1,885.30	In September 2003, the Company and Hangxiao Ganggou entered into the Contract of Manufacture and Installation. On 5 August 2005, Hangxiao Ganggou initiated the litigation at the Intermediate People's Court of Foshan City,	The Supreme People's Court made a judgment of dismissing the plea of Hangxiao Ganggou for a

No.	Name of Case	Target Claim Amount	Particulars	Development
	Holdings Company Limited (“Hangxiao Ganggou”)		requesting the Company to pay the construction fee and default payment etc. The plea of Hangxiao Ganggou was dismissed at both the Courts of First Instance and Second Instance. Hangxiao Ganggou applied for re-trial, with the target claim amount of re-trial of RMB18.853 million.	re-trial, which has come into force.

#### **(IV) Litigation by minority shareholders**

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

#### **(V) The Progress of other litigations and arbitrations**

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

2. The Company was involved in the reorganization of Zhongshan Weili Group Corporation in 2004. On 8 August 2004, the Company entered into the Contract of Land Use by Investment Project with the other parties, pursuant to which the Company, Zhongshan City Fusha Town Shunchang Industrial Co., Ltd. (“Shunchang Company”) and the Company’s subsidiary Kelon Development would co-invest for the establishment of Guangdong Kelon Weili Electrical Appliances Company Limited (“Kelon Weili”), and Zhongshan City Fusha Town Industrial Development Co., Ltd. (“Fusha Company”) would sell the land use right of the industrial land with an area of 500 mu located at Road No. 2 Fusha Industrial Park to Kelon Weili at a consideration of RMB30,000 per



mu. On 24 November 2004, pursuant to the provisions of the Contract of Land Use by Investment Project, the Company provided to Kelon Weili an amount of RMB 7.55 million (of which, RMB50,000 was intended for maintenance of machinery and renovation of equipment) for the payment of the land acquisition amount by Kelon Weili to Fusha Company. Upon receipt of the amount, Kelon Weili accordingly paid the amount to Fusha Company, but since then Fusha Company has not delivered the agreed land use right to Kelon Weili or returned the amount.

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

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

#### **IV. Securities investments during the Reporting Period**

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

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

Unit: RMB in ten thousand

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

The equity in Huayi Compressor held by the Company was accounted as the long-term equity investment. The equity was transferred to the Company in 1999, when Jingdezhen Huayi Compressor Co., Ltd. transferred to the Company a total of 59.28 million shares of Huayi Compressor as part of its state-owned and legal person shares held by it. Currently, all 59.28 million

shares of Huayi Compressor held by the Company have been released from sales restrictions. In order to leverage on the shares in Huayi Compressor held by the Company, the board of directors of the Company convened a meeting on 23 March 2010, at which the management of the Company was authorized to dispose up to six million shares of Huayi Compressor held by it at an appropriate time and within a reasonable price range.

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

### ( I ) Amount of funds embezzled for non-operating purposes at beginning of the Reporting Period and end of the Reporting Period

Unit: RMB (in ten thousand)

Outstanding amount of funds of the Company embezzled by the former substantial shareholders, its subsidiaries, specified third parties and other related parties for non-operating purpose		Total amount recovered during this period	Settlement Method	Amount recovered	Time of Settlement
1 January 2009	31 December 2009				
65,514.95	65,514.95	0	--	0	--

As at the end of the Reporting Period, the total funds of the Company embezzled by the former substantial shareholder and its subsidiaries, specified third parties and other related parties for non-operating reasons amounted to RMB655,149,500 in aggregate, of which, a total amount of RMB650,694,100 was embezzled by the former substantial shareholder (Guangdong Greencool) and its associated companies (the “Greencool Companies”) and specified third parties while the remaining balance of RMB4,455,400 was embezzled by other related parties.

### ( II ) Explanation of the Board on the development of the Company’s claims for all embezzled amounts during the Reporting Period:

During the Reporting Period, the Company has stepped up its effort to recover the embezzled funds pursuant to the requirements of the 《關於進一步加快推進清欠工作的通知》(證監公司字[2006]92號) (“Notice on Expediting the Loan Recovering Process” (Zheng Jian Gong Si Zi 2006 No. 92)). The progress is as follows:

The Company has initiated a total of 19 cases of litigation against Greencool Companies and specified third parties, with a target claim amount of RMB791 million. As at the date of this report, one case was withdrawn, involving an amount of RMB29.8437 million; one case was dismissed,

involving an amount of RMB12.2894 million, and the Company has not yet lodged an appeal for the case; 1 case received judgment of first instance from the Intermediate Court of Foshan and has come into force as the counterparty did not lodge an appeal, involving an amount of RMB18.6948 million; 16 cases for which the counterparties have lodged an appeal have received judgment from the Higher Court of Guangdong Province that the appeals were dismissed and the judgments of first instance from the Intermediate Court of Foshan were maintained, with a total amount of RMB729.7971 million. For details, please refer to “Material litigations and arbitrations of the Company” in this announcement. The Company has already applied for the execution of the judgments that have come into force to the Intermediate Court of Foshan.

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

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

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

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

Issuance of Shares to Qingdao Hisense Air-Conditioning Company Limited and the Letter of Reply Concerning the Approval for the Announcement by Qingdao Hisense Air-Conditioning Company Limited the Acquisition Report of Hisense Kelon Electrical Holdings Company Limited and the Waiver of its General Offer Obligation.

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

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

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

Unit: RMB(in ten thousand)

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

Connected Persons	Particulars of the Connected transaction	Pricing policy	Sale of products and provision of services to connected persons		Purchase of goods and receipt of services from connected persons	
			Transaction amount	Percentage of total amount of similar transactions	Transaction amount	Percentage of total amount of similar transactions
Hisense Nanjing	Purchase materials for refrigerators	Note 1			212.72	0.03%
Hisense Beijing	Purchase materials for refrigerators	Note 1			37.81	0.01%
Huayi Compressor	Purchase of compressors	Note 3			10,784.00	1.55%
Jiaxibeila	Purchase of compressors	Note 3			26,356.28	3.78%
Hisense Whirlpool	Purchase materials for refrigerators	Note 2			66.28	0.01%
Total purchase of materials					37,856.51	5.44%
Qingdao Savor	Accept services	Note 1			229.17	0.37%
Hisense Electronic	Accept services	Note 1			206.87	0.33%
Total of services accepted					436.05	0.70%
Hisense Shandong	Sales of finished air-conditioners	Note 1	22,623.93	2.61%		
Hisense Zhejiang	Sales of finished air-conditioners	Note 1	747.64	0.09%		
Hisense Beijing	Sales of finished refrigerators	Note 1	51,832.15	5.97%		
Hisense International	Sales of refrigerators, air-conditioners	Note 1	34,211.86	3.94%		
Total sales of finished goods			109,415.58	12.61%		
Hisense Shandong	Sales materials for air-conditioners	Note 1	197.73	0.29%		
Hisense Zhejiang	Sales materials for air-conditioners	Note 1	304.76	0.45%		
Hisense Beijing	Sales materials for refrigerators	Note 1	2,738.87	4.01%		
Hisense Nanjing	Sales materials for refrigerators	Note 1	5,933.35	8.68%		
Qingdao Savor	Sales materials for refrigerators	Note 1	24.36	0.04%		
Hisense Whirlpool	Sales materials for refrigerators	Note 2	776.30	1.14%		

Connected Persons	Particulars of the Connected transaction	Pricing policy	Sale of products and provision of services to connected persons		Purchase of goods and receipt of services from connected persons	
			Transaction amount	Percentage of total amount of similar transactions	Transaction amount	Percentage of total amount of similar transactions
Total sales of materials			9,975.36	14.61%		
Hisense Shandong	Sales of moulds	Note 1	39.88	0.00%		
Hisense Beijing	Sales of moulds	Note 1	108.30	0.01%		
Hisense Nanjing	Sales of moulds	Note 1	229.06	0.03%		
Hisense Mould	Sales of moulds	Note 1	143.59	0.02%		
Hisense Whirlpool	Sales of moulds	Note 2	307.95	0.04%		
Total sales of moulds			828.79	0.10%		
Hisense Multimedia	Provide services	Note 1	30.11	0.04%		
Hisense Zhejiang	Provide services	Note 1	20.75	0.03%		
Hisense Whirlpool	Provide services	Note 2	43.40	0.06%		
Total of services provided			94.26	0.13%		
Hisense Nanjing	Sales of machines	Note 1	42.54	0.31%		
Hisense Beijing	Sales of machines	Note 1	43.07	0.31%		
Hisense Whirlpool	Sales of machines	Note 2	493.20	3.58%		
Total sales of machines			578.81	4.20%		
Hisense Nanjing	Purchase machines	Note 1			922.99	12.04%
Hisense Shandong	Purchase machines	Note 1			266.68	3.48%
Total purchase of machines					1,189.67	15.52%
Hisense Finance	Borrowings balance				99,876.00	
Hisense Finance	Payment of loan interest	Note 4			2,344.65	

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

Note 1: During the Reporting Period, the Company and the relevant subsidiaries of Hisense Group entered into “Business Cooperation Framework Agreement”, “Supplemental Business Cooperation Framework Agreement” and “Second Supplemental Business Cooperation Framework Agreement”,

pursuant to which, the Company and the relevant subsidiaries of Hisense Group agreed on the pricing principle for connected transactions in the course of ordinary business;

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

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

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

### VIII. External guarantee

Unit: RMB (in ten thousand)

Guaranteed party	Date (the day of signing the agreement)	Guaranteed amount	Type of guarantee	Period of guarantee	Completion or not	Whether in favour of any related party (yes or no)
Fujian Kelon Air-conditioners Sales Company Limited	August 2009	2,000.00	Jointly and severally liable	Four months	Yes	No
Total actual guaranteed amount during the Reporting Period					2,000.00	
Total balance of the actual guaranteed amount at the end of the Reporting Period					-	
Guarantees made by the Company to its subsidiaries						
Total actual guaranteed amount to subsidiaries during the Reporting Period					120,069.45	
Total balance of the actual guaranteed amount to subsidiaries at the end of the Reporting Period					11,994.06	
Total guarantee made by the Company (including the guarantees to subsidiaries)						
Total guaranteed amount					11,994.06	
Percentage of the total guaranteed amount to absolute net assets of the Company					14.14%	
Attributable to:						
Guaranteed amount provided to shareholders, actual controlling parties and their related parties					-	
Guaranteed amount provided directly or indirectly to guaranteed objects with gearing ratio over 70%					10,125.01	
Total guaranteed amount over 50% of the net asset					-	
Total guarantee amount of the above three guarantees					10,125.01	

**IX. BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD issued a qualified auditor's report for the company. The detailed explanation given by the Board of the Company on the matters relating to the audit opinion is as follows:**

**As described in Notes 5.4, 5.6, 6 and 7 to the financial statements, a series of related party transactions and unusual cash flows occurred between Guangdong Greencool Enterprise Development Limited, the former largest shareholder of Hisense Kelon, and its related parties (hereinafter referred to as the "Greencool Companies") and Hisense Kelon during the period from October 2001 to July 2005. In addition, during the period, the Greencool Companies, through certain specified third party companies such as Tianjin Lixin Commercial Trading Development Company Limited, involved in a series of unusual cash flows with Hisense Kelon. Hisense Kelon has instituted proceedings for such transactions and unusual cash flows as well as the suspected fund embezzlements. These matters are related to Hisense Kelon's amounts due from or to the Greencool Companies and the specified third party companies mentioned above.**

**As at 31 December 2009, the balance of amounts due from the Greencool Companies and such specified third party companies amounted to RMB651 million. Hisense Kelon has made a provision for bad debts of RMB365 million in respect of the amounts due from the Greencool Companies and such third party companies. As set out in Note 7 to the financial statements, apart from the withdrawal of the case at the Intermediate People's Court of Foshan ((2006) Fo Zhong Fa Min Er Chu Zi No. 178) and the rejection of the petition to the Intermediate People's Court of Foshan ((2006) Fo Zhong Fa Min Er Chu Zi No. 183), Hisense Kelon has won in all other cases mentioned above and the rulings have all come into force. However, we are unable to adopt appropriate audit procedures to obtain sufficient and appropriate audit evidence to ascertain whether or not the estimated provision for bad debts based on such amount and the assessment and calculation of the receivables are reasonable.**

Explanation: A series of related party transactions and unusual cash flows occurred between the Company and Guangdong Greencool Enterprise Development Limited, the former largest shareholder of the Company, and its related parties, or through its third party companies, from 2001 to 2005. Such transactions and unusual cash flows as well as the suspected fund embezzlements have been formally investigated by the relevant authorities. As at 31 December 2009, the balance of amounts due from the Greencool Companies and the abovementioned specified third party companies amounted to RMB651 million.

The Company has estimated, based on the information about the cases available at present, the recoverable amount of the amounts due from the Greencool Companies and the specified third party companies, and has made a provision for bad debts of RMB365 million. The bases of the estimate include: the information regarding the properties of the Greencool Companies sealed and frozen by



the court as applied by the Company, and the preliminary analysis report on the aforesaid fund embezzlements prepared by the lawyer of the Company. As analyzed by the lawyer, the properties of the Greencool Companies available for settlement amounted to approximately RMB1 billion, and the total claim amount against the Greencool Companies by the creditors to the court amounted to approximately RMB2.4 billion. The amount claimed by the Company for fund embezzlements by the Greencool Companies amounted to RMB791 million. The Company sought to have the outstanding amounts settled based on the proportion of property to debts. Based on the estimated settlement proportion, and taking into consideration that the court has not determined the appropriation arrangement for the properties sealed, the Board of the Company estimated the recoverable amount and made a provision for bad debts of RMB365 million.

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

The Board of the Company considers that the provision for bad debts is an accounting estimate. The accounting method applied to such receivables does not breach the relevant requirements of the Accounting System for Business Enterprises. While the relevant courts have given their final rulings in favour of the Company in respect of 17 cases of litigation out of 19 initiated by the Company against Greencool Companies and specified third parties and the judgments have come into effect, one case with a claim amount of RMB29.8437 million was withdrawn by the Company and another case with a claim amount of RMB12.2894 million was dismissed. The aggregate claim amounts of these two cases accounted for a small proportion of the total claim amount of RMB729.7971 million under the court judgments. However, as the rulings in respect of the abovementioned 17 cases have not yet been enforced so far, the Board of the Company is of the view that there is no material difference in terms of the assessed recoverability of such receivables between that for 2009 and 2008 and therefore this qualified opinion will not affect the fairness in the preparation of the Company's income statement for 2009.

After the determination of the abovementioned debt settlement proportion, the Company will, based on the confirmed recoverable proportion, adjust retrospectively the 2005 balance sheet and income statement, and adjust the relevant items in the balance sheet as at 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009. The Company has taken measures to sequester the properties of the Greencool Companies which are available for settlement. The Company will also pay attention to the progress of the case and make its best efforts to ensure its rights as a creditor.

**X. BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD issued a qualified auditor’s report for the 2009 annual report of the company. The detailed explanation given by the Independent Non-executive Directors of the company on the matters relating to the audit opinion is as follows:**

The Independent Non-executive Directors of the Company studied and considered the matters relating to the report, and reviewed the detailed explanation on matters relating to the audit opinion rendered by the seventh session of the Board of the Company. The Independent Non-executive Directors of the Company consented to such explanation on matters relating to the audit opinion from the seventh session of the Board of the Company.

**XI. BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD issued a qualified auditor’s report for the 2009 annual report of the company. The detailed explanation given by the supervisory committee of the company on the matters relating to the audit opinion is as follows:**

The Supervisory Committee of the Company reviewed the detailed explanation on matters relating to the audit opinion rendered by the seventh session of the Board of the Company, and consented to such explanation on the abovementioned matters from the seventh session of the Board of the Company.

## **XII. Other important matters**

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

## **DEFINITIONS**

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

“Company”, the Company”	Hisense Kelon Electrical Holdings Company Limited
“Hisense Air-Conditioning”	Qingdao Hisense Air-conditioning Company Limited
“Hisense Group”	Hisense Group Company
“Hisense Finance”	Hisense Group Finance Co., Ltd
“Hisense Multimedia”	Guangdong Hisense Multimedia Company Limited.
“Hisense International”	Qingdao Hisense International Marketing Holdings Co., Ltd.

“Hisense Electronic”	Qingdao Hisense Electronic Technology Service Co., Ltd.
“Qingdao Savor”	Qingdao Savor Electronic Information Service Co., Ltd.
“Hisense Zhejiang”	Hisense (Zhejiang) Air-Condition Co., Ltd.
“Hisense Shandong”	Hisense (Shandong) Air-Conditioning Co., Ltd.
“Hisense Beijing”	Hisense (Beijing) Electric Co., Ltd.
“Hisense Nanjing”	Hisense (Nanjing) Electric Co., Ltd.
“Hisense Mould”	Qingdao Hisense Mould Co., Ltd.
“Guangdong Greencool”	Guangdong Greencool Enterprise Development Company Limited
“Greencool Companies”	Guangdong Greencool and other related parties
“Kelon Air-Conditioner”	Guangdong Kelon Air-Conditioner Co., Ltd.
“Kelon Fittings”	Guangdong Kelon Fittings Co., Ltd.
“Jiangxi Kelon”	Jiangxi Kelon Industrial Development Co., Ltd.
Ronshen Refrigerator	Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.
“Yangzhou Kelon”	Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.
“Huayi Compressor”	Huayi Compressor Holdings Company Limited
“Jiaxi Beila”	Jiaxi Beila Compressor Company Limited
“Jiangxi Kesheng”	Jiangxi Kesheng Industry and Trading Company Limited
“Tianjin Greencool”	Greencool Refrigerant (China) Company Limited
“Hainan Greencool”	Hainan Greencool Environmental Protection Engineering Co. Ltd.
“Jinan San Ai Fu”	Jinan San Ai Fu Petrochemical Company Limited
“Shenzhen Kelon”	Shenzhen Kelon Procurement Co., Ltd.
“Shenzhen Greencool”	Greencool Procurement (Shenzhen) Co., Ltd.
“Tianjin Xiangrun”	Tianjin Xiangrun Trading Development Company Limited
“Yangzhou Greencool”	Yangzhou Greencool Venture Capital Company Limited
Jiangxi Keda	Jiangxi Keda Plastic Technology Company Limited
“Wuhan Changrong”	Wuhan Changrong Electrical Appliance Company Limited
“Zhuhai Longjia”	Zhuhai City Longjia Refrigerant Co., Ltd.
“Zhuhai Defa”	Zhuhai Defa Air-conditioner Fittings Company Limited
“Hefei Weixi”	Hefei Weixi Home Appliances Co., Ltd.

“Zhuhai Greencool”	Zhuhai Greencool Refrigeration and Engineering Co., Limited
“Beijing Greencool”	Beijing Greencool Refrigerant Replacement Engineering Co., Limited
“Shenzhen Greencool Technology”	Greencool Technology Development (Shenzhen) Company Limited
“Shenzhen Greencool Environmental”	Greencool Technology Environmental Protection Engineering (Shenzhen) Co., Ltd.
“Intermediate People’s Court of Foshan City”	Intermediate People’s Court of Foshan City
“CSRC”	China Securities Regulatory Commission
“Shenzhen Stock Exchange”	Shenzhen Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“RMB”	Renminbi