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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 2010

The board of directors (the "Board") of Hisense Kelon Electrical Holdings Company Limited (the "Company" or "Hisense Kelon") announces the annual consolidated results of the Company and its subsidiaries (collectively the "Group" or "Kelon") for the year ended 31 December 2010 (the "Reporting Period") together with the 2009 comparative figures, prepared in accordance with International Financial Reporting Standards ("IFRS") as follows:

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010**

| | Notes | 2010 RMB'000 | 2009 RMB'000 (restated) |
|---|-------|---------------------|-------------------------------|
| Turnover | 6 | 15,810,762 | 11,934,255 |
| Cost of sales | | <u>(13,059,159)</u> | <u>(9,162,064)</u> |
| Gross profit | | 2,751,603 | 2,772,191 |
| Other revenue | 7 | 501,614 | 152,340 |
| Other gains and losses | 8 | 414,161 | 85,562 |
| Distribution costs | | (2,523,510) | (2,217,430) |
| Administrative expenses | | (499,410) | (524,848) |
| Other operating expenses | | (9,085) | (10,873) |
| Share of results of associates | | 2,370 | 16,057 |
| Share of results of jointly controlled entities | | 94,406 | 53,466 |
| Finance costs | 10 | <u>(57,365)</u> | <u>(78,769)</u> |
| Profit before income tax expense | 11 | 674,784 | 247,696 |
| Income tax expense | 12 | <u>(31,588)</u> | <u>(23,292)</u> |
| Profit for the year | | <u>643,196</u> | <u>224,404</u> |
| Other comprehensive income | | | |
| - Exchange differences on translation of financial statements of foreign operations | | 1,471 | 96 |
| - Share of reserves of associates | | 13 | 27 |
| - Reclassification adjustment for capital reserve upon partial disposal of an associate | | (15,758) | - |
| - Reclassification adjustment for reserves upon disposal of subsidiaries | | 100 | (7,877) |
| Other comprehensive income for the year, net of tax | | <u>(14,174)</u> | <u>(7,754)</u> |
| Total comprehensive income for the year | | <u>629,022</u> | <u>216,650</u> |
| Profit attributable to: | | | |
| - Owners of the Company | | 632,354 | 207,830 |
| - Non-controlling interests | | 10,842 | 16,574 |
| | | <u>643,196</u> | <u>224,404</u> |
| Total comprehensive income attributable to: | | | |
| - Owners of the Company | | 618,180 | 200,076 |
| - Non-controlling interests | | 10,842 | 16,574 |
| | | <u>629,022</u> | <u>216,650</u> |
| Earnings per share attributable to the owners of the Company | | | |
| - Basic and diluted | 13 | <u>RMB0.47</u> | <u>RMB0.15</u> |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010**

| | Notes | As at 31 December 2010 RMB'000 | 2009 RMB'000 (restated) | As at 1 January 2009 RMB'000 (restated) |
|--|-------|--------------------------------------|-------------------------------|---|
| Non-current assets | | | | |
| Property, plant and equipment | | 2,019,359 | 2,043,050 | 2,181,828 |
| Investment properties | | 40,600 | 33,762 | 35,565 |
| Payments for leasehold land held for own use under operating leases | | 380,445 | 396,192 | 425,184 |
| Interests in associates | | 50,102 | 102,673 | 86,589 |
| Interests in jointly controlled entities | | 458,545 | 293,169 | 148,041 |
| Available-for-sale financial assets | | 4,040 | 4,310 | 4,550 |
| Intangible assets | | 169,357 | 177,687 | 195,620 |
| Deferred tax assets | | 6,893 | 16,435 | 21,623 |
| Total non-current assets | | <u>3,129,341</u> | <u>3,067,278</u> | <u>3,099,000</u> |
| Current assets | | | | |
| Inventories | | 1,903,097 | 1,135,951 | 881,263 |
| Trade and other receivables | 14 | 2,683,155 | 1,653,725 | 1,719,022 |
| Taxation recoverable | | 5,853 | 2,554 | 2,537 |
| Derivative financial instruments | | 28,151 | 5,597 | 6,019 |
| Pledged bank deposits | | 9,261 | 7,233 | 23,240 |
| Cash and cash equivalents | | 419,921 | 201,183 | 150,276 |
| | | 5,049,438 | 3,006,243 | 2,782,357 |
| Assets of a disposal group classified as held for sale | | <u>-</u> | <u>31,574</u> | <u>-</u> |
| Total current assets | | <u>5,049,438</u> | <u>3,037,817</u> | <u>2,782,357</u> |
| Total assets | | <u>8,178,779</u> | <u>6,105,095</u> | <u>5,881,357</u> |
| Current liabilities | | | | |
| Trade and other payables | 15 | 4,707,045 | 3,499,924 | 3,153,784 |
| Trade deposits received | | 1,181,585 | 597,757 | 530,625 |
| Derivative financial instruments | | 5,960 | 1,040 | 13,611 |
| Provisions | | 246,800 | 197,397 | 198,652 |
| Taxation payable | | 30,761 | 32,846 | 28,058 |
| Other liabilities | | 35,037 | 34,385 | 29,384 |
| Borrowings | | 1,101,262 | 1,450,873 | 1,869,948 |
| | | <u>7,308,450</u> | <u>5,814,222</u> | <u>5,824,062</u> |
| Liabilities directly associated with assets of a disposal group classified as held for sale | | <u>-</u> | <u>30,914</u> | <u>-</u> |
| Total current liabilities | | <u>7,308,450</u> | <u>5,845,136</u> | <u>5,824,062</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2010

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

1. GENERAL INFORMATION

Hisense Kelon Electrical Holdings Company Limited (the "Company") is a public limited company incorporated in the People's Republic of China (hereinafter referred to as the "PRC") on 16 December 1992. Its H shares were listed on The Stock Exchange of Hong Kong Limited on 23 July 1996 and its A shares were listed on the Shenzhen Stock Exchange on 13 July 1999.

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

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

On 29 June 2009, the Company entered into revised conditional sale and purchase agreement regarding the acquisition of the white goods assets and business (the "White Goods Business") of

Hisense Air-Conditioning (the "Revised Acquisition"). The Revised Acquisition was approved by the CSRC on 26 March 2010. On 10 June 2010, the Company allotted and issued 362,048,187 A shares to Hisense Air-Conditioning for the Revised Acquisition. The details of the transaction are disclosed in Note 2.

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

In the opinion of the directors of the Company, as at 31 December 2010, Hisense Company Limited ("Hisense Group"), a state-owned enterprise incorporated in the PRC, is regarded as the ultimate holding company.

The English names by which some of the companies are referred to in these financial statements represent management's best efforts in translating their Chinese names as no English names have been registered for these companies. The Group, comprising the Company and its subsidiaries, is principally engaged in the manufacture and sale of refrigerators and air-conditioners.

The address of the registered office and principal place of business of the Company is No. 8 Ronggang Road, Ronggui, Shunde, Foshan, the PRC.

2. BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL

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

The White Goods Business comprises the following entities and business:

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

2. BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL - Continued

- (a) On 31 March 2009, Hisense Mould entered into a sale and purchase agreement with Qingdao Hisense Optical Co., Ltd. to dispose of its 95% equity interests in Hisense Plastic, which include 100% equity interest of Qingdao Haiping, for an aggregate consideration of RMB1,879,000. Hisense Plastic and Qingdao Haiping were engaged in manufacture and sale of plastic products and electrical appliance components respectively, which have been included under the reportable segment "others". On 26 June 2009, the transaction was completed and a gain on disposal of RMB2,148,000 was recognised in profit or loss for the year ended 31 December 2009.
- (b) Hisense Marketing Business is an integrated set of activities, assets and related liabilities that are conducted and managed for the purposes of facilitating sale and marketing of the white goods products produced by Hisense Shandong, Hisense Zhejiang, Hisense Beijing and Hisense Nanjing, a subsidiary of Hisense Beijing, and its functions have been extended to the Group upon the common control business combination on 1 April 2010.

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

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

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

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

2. BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL - Continued

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

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

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

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

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of preparation

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

3. BASIS OF PREPARATION - Continued

(b) Basis of preparation - Continued

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

(c) Functional and presentation currency

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

4. ADOPTION OF IFRSs

Adoption of new/revised IFRSs - effective 1 January 2010

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

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

4. ADOPTION OF IFRSs - Continued

Adoption of new/revised IFRSs - effective 1 January 2010 - Continued

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

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

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

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

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

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

IAS 17 (Amendments) - Leases

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

5. SEGMENT INFORMATION

The Group manages its business by divisions which are organised by a mixture of both business lines and geography. The information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has identified the following four reportable segments: refrigerators, air-conditioners, freezers and others (including product components and other electrical household appliances).

Segment information for the year is set out below:

Year ended 31 December 2010

(i) Profit or loss

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

Inter-segment sales are charged at prevailing market rates.

| | | | | | | |
|---|----------------|---------------|--------------|---------------|----------|-----------------|
| Result | | | | | | |
| Segment results | <u>259,725</u> | <u>17,861</u> | <u>7,732</u> | <u>46,101</u> | <u>-</u> | 331,419 |
| Unallocated corporate income (Note (a)) | | | | | | <u>2,961</u> |
| | | | | | | 334,380 |
| Share of results of associates | 2,423 | - | - | (53) | - | 2,370 |
| Share of results of jointly controlled entities | 1,032 | 93,374 | - | - | - | 94,406 |
| Gain on partial disposal of an associate | | | | | | 285,637 |
| Gain on disposal of subsidiaries, net | | | | | | 13,440 |
| Interest income | | | | | | 1,916 |
| Finance costs | | | | | | <u>(57,365)</u> |
| Profit before income tax expense | | | | | | 674,784 |
| Income tax expense | | | | | | <u>(31,588)</u> |
| Profit for the year | | | | | | <u>643,196</u> |

5. SEGMENT INFORMATION - Continued

Year ended 31 December 2010 - Continued

(ii) Consolidated statement of financial position

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

5. SEGMENT INFORMATION - Continued

Year ended 31 December 2010 - Continued

(iii) Other information

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

5. SEGMENT INFORMATION - Continued

Year ended 31 December 2009 (restated)

(i) Profit or loss

| | For the year ended 31 December 2009 | | | | | Consolidated RMB'000 |
|---|-------------------------------------|---------------------------------|---------------------|-------------------|------------------------|-------------------------|
| | Refrigerators RMB'000 | Air- conditioners RMB'000 | Freezers RMB'000 | Others RMB'000 | Elimination RMB'000 | |
| Turnover | | | | | | |
| External sales | 6,583,805 | 4,045,708 | 594,816 | 709,926 | - | 11,934,255 |
| Inter-segment sales | - | - | - | 416,717 | (416,717) | - |
| Total turnover | <u>6,583,805</u> | <u>4,045,708</u> | <u>594,816</u> | <u>1,126,643</u> | <u>(416,717)</u> | <u>11,934,255</u> |
| Inter-segment sales are charged at prevailing market rates. | | | | | | |
| Result | | | | | | |
| Segment results | <u>159,501</u> | <u>44,136</u> | <u>46,393</u> | <u>33,747</u> | <u>-</u> | 283,777 |
| Unallocated corporate expenses (Note (a)) | | | | | | <u>(31,530)</u> |
| | | | | | | 252,247 |
| Share of results of associates | 15,931 | - | - | 126 | - | 16,057 |
| Share of results of jointly controlled entities | (11,701) | 65,167 | - | - | - | 53,466 |
| Interest income | | | | | | 4,695 |
| Finance costs | | | | | | <u>(78,769)</u> |
| Profit before income tax expense | | | | | | 247,696 |
| Income tax expense | | | | | | <u>(23,292)</u> |
| Profit for the year | | | | | | <u>224,404</u> |

5. SEGMENT INFORMATION - Continued

Year ended 31 December 2009 (restated) - Continued

(ii) Consolidated statement of financial position

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

5. SEGMENT INFORMATION - Continued

Year ended 31 December 2009 (restated) - Continued

(iii) Other information

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

5. SEGMENT INFORMATION - Continued

Notes:

- (a) Unallocated corporate expenses mainly comprise impairment loss on payments for leasehold land held for own use under operating leases. Unallocated corporate income mainly comprises gain arising from expiry of trade and other payables.
- (b) Unallocated corporate assets and liabilities mainly comprise the amounts due from/to companies suspected to be connected with the Company's former chairman, Mr. Gu Chu Jun ("Mr. Gu"), frozen leasehold land and buildings, frozen plant, machinery and equipment and tax recoverable and payable.

Geographical information

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

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

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

6. TURNOVER

Turnover, which is also the revenue, represents the net invoiced value of goods sold net of discounts and sales related taxes during the year. The amounts of each significant category of turnover are as follows:

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

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

7. OTHER REVENUE

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

| | 2010 RMB'000 | 2009 RMB'000 (restated) |
|--|-----------------|-------------------------------|
| Interest income | 1,916 | 4,695 |
| Penalty income (Note (a)) | 15,223 | 13,466 |
| Rental income and property management income | 18,874 | 20,363 |
| Subsidy income (Note (b)) | 458,599 | 111,212 |
| Agency fee income for export services | 4,494 | 2,604 |
| Dividends income from an available-for-sale financial asset | 2,508 | - |
| | <u>501,614</u> | <u>152,340</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) The subsidy income represents subsidies received in relation to the "Subsidy Programme for Residents' Purchase of Energy-saving Appliance" and subsidies received by a group entity from relevant authorities in the PRC for encouraging production and business development.

8. OTHER GAINS AND LOSSES

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

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

8. OTHER GAINS AND LOSSES - Continued

Note:

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

9. DEPRECIATION AND AMORTISATION

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

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

An analysis of the Group's amortisation of intangible assets and payments for leasehold land held for own use under operating leases is as follows:

| | 2010 RMB'000 | 2009 RMB'000 (restated) |
|---|-----------------|-------------------------------|
| Amounts included in distribution costs | 2,521 | 2,447 |
| Amounts included in administrative expenses | 25,863 | 25,035 |
| | <u>28,384</u> | <u>27,482</u> |

10. FINANCE COSTS

| | 2010 RMB'000 | 2009 RMB'000 (restated) |
|--|-----------------|-------------------------------|
| Interest on: | | |
| - Bank borrowings wholly repayable within five years | 11,075 | 49,052 |
| - Discounted note receivables | 6,038 | 4,805 |
| - Loan and draft discount financing from Hisense Finance | 40,252 | 24,912 |
| | <u>57,365</u> | <u>78,769</u> |

11. PROFIT BEFORE INCOME TAX EXPENSE

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

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

12. INCOME TAX EXPENSE

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

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

- (i) Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits. No Hong Kong Profits tax is provided as no assessable profits have been derived from the group entities operating in Hong Kong.
- (ii) Certain subsidiaries have been recognised as "high technology" companies and are entitled to a preferential tax rate of 15% (2009: 15%). Other certain subsidiaries of the Company are foreign invested enterprises and are subject to a preferential tax rate of 12.5% (2009: Nil) under the transitional preferential policies of the EIT law.

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

13. EARNINGS PER SHARE

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

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

14. TRADE AND OTHER RECEIVABLES

On 13 December 2006, the share transfer transaction on the Company between the preceding controlling shareholder of the Company, Guangdong Greencool Enterprise Development Company Limited ("Greencool Enterprise"), which is owned by the Company's former chairman, Mr. Gu Chu Jun ("Mr. Gu"), and Hisense Air-Conditioning was completed. Upon the completion, Mr. Gu, Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu were no longer connected with the Group. Accordingly, no related party disclosures were made in respect of Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu for the year. Details of trade and other receivables, including the balances with Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu, are disclosed as follows:

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

14. TRADE AND OTHER RECEIVABLES - Continued

Notes:

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

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

15. TRADE AND OTHER PAYABLES

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

Notes:

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

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

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

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

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

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

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

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

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 2010, the aggregate carrying amounts of receivables due from these companies was approximately RMB285 million (net of an accumulated impairment loss of RMB365 million) which were reflected in the consolidated statement of financial position at 31 December 2010 as "Amounts due from Greencool Enterprise and its affiliates" and "Amounts due from companies suspected to be connected with Mr. Gu" within current assets.

The aggregate carrying amounts of payables due to these companies was approximately RMB128 million which were reflected in the consolidated statement of financial position as at 31 December 2010 as "Amount due to Greencool Enterprise and its affiliates" and "Amount due to companies suspected to be connected with Mr. Gu" within current liabilities.

As of 31 December 2010, legal proceedings which were initiated against Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu have ended up with court judgments which mostly ruled in favour of the Group. However, the enforcement of the court judgments has not been completed and the outcome of above amounts to be settled remained outstanding. Due to the uncertainty arising from the execution of the court judgments, we are unable to satisfy ourselves as to the appropriateness of the accumulated impairment amounts and the recoverability of the carrying amounts of receivable due from these companies. Any adjustments found to be necessary would affect the opening accumulated losses and the net assets as at 1 January 2010, the net assets as at 31 December 2010 and the profit for the year then ended.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

I. Industry overview

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

II. Major indices of the Group

During the Reporting Period, the Company seized the favorable opportunities in market development to expand its sales network with its strengths in technological innovations and product quality, and realized a revenue of RMB15,810 million from its principal businesses for the year, representing a year-to-year increase of 32.48%. The net profit attributable to the equity holders of the parent company was RMB632 million, representing a year-to-year increase of 204.27%. Earnings per share was RMB0.47, representing a year-to-year increase of 204.27%. During the Reporting Period, the principal businesses of the Group maintained stable growth, of which the refrigerator segment accounted for 50.48% of the total turnover, recording a year-to-year revenue increase of 21.22%; the air-conditioner segment accounted for 38.07% of the total turnover, recording a year-to-year revenue increase of 48.78%; operating revenue of the domestic sales business amounted to RMB11,096 million, representing a year-to-year increase of 28.51%; operating revenue of the export sales amounted to RMB4,714 million, representing a year-to-year increase of 42.87%.

III. Analysis of the Group's operation

1. Overall situation

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

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

2. The core technologies and self-innovations

In respect of core technologies and self-innovations, the Group has always upheld the operating philosophy of technology orientation for the attainment of core competitiveness through persistent technological innovation. During the Reporting Period, the Group has stepped up the technological innovations for green, low-carbon, environmental-friendly and energy-saving products, with the adoption of green and low-carbon

concepts from product design, R&D, production to recycle, as well as the reinforced promotion for high-efficiency and energy-saving products.

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

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

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

3.Refrigerator and freezers business

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

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

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

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

4.Air-conditioner business

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

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

IV.Outlook

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

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

1. to strengthen the technology roadmap planning and product planning for the next three years, to intensify research for the key technologies, enhance the research capability for high-end products; to improve the structure and work flow of the research unit and the incentive system for the research staff, further increase the input into research and development; and at the same time, continue the in-depth implementation of the industry benchmark project and the six-sigma project to achieve improvements in quality, quantity and cost advantages with the objective of making the refrigerators of the Group becoming the qualitative and quantitative benchmarks for the refrigerator industry in the PRC.
2. to continue to attract domestic and overseas top management and technical talents to improve its personnel structure and establish a core management and technical team; and to strengthen the high-end training of internal backbone staff.
3. to strengthen channel management and expand the third and fourth grade markets in depth with focus on reinforcing the setting up of outlets; and to increase the marketing inputs and strive for a bigger market share.
4. to continue the development of product platform and standardization of parts and components, promote the standardization and automation of equipment and product upgrade at each production facility, facilitate the informatization of the production facilities, and to increase the production efficiency per head; and, at the same time, to perfect the internal control system of the Group, to arouse the awareness for internal control among its staff.
5. to increase the export of products under its own brands, further expand the scale of export and to speed up the pace of internationalization.

FINAL DIVIDENDS

The Group recorded a profit of RMB632 millions for the year ended 31 December 2010. The Board resolved not to pay any dividend for the year ended 31 December 2010 and not to capitalize any reserve funds (no

dividend was paid by the Group for the year ended 31 December 2009).

LIQUIDITY AND SOURCES OF FUNDS

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

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

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

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

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

CHARGE ON THE GROUP'S ASSETS

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

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

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

PUBLIC FLOAT

As at 30 March 2011, the Directors acknowledge that based on publicly available information and to the best of their knowledge, 25% or above of the total issued share capital of the Company are held by the public. Therefore, the public float of the Company satisfies the requirement stipulated under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

AUDIT COMMITTEE

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

CAPITAL EXPENDITURE

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

TRUST DEPOSITS

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

TOTAL ASSETS TO TOTAL LIABILITIES RATIO

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

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

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

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

SHARE CAPITAL STRUCTURE

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

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

TOP TEN SHAREHOLDERS

(1) As at 31 December 2010, there were 37,209 shareholders of the Company (the "Shareholders") in total,

of which the top ten Shareholders were as follows:

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

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

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

| Name of Shareholders | Number of Tradable Shares Held | Class of Shares |
|---|--------------------------------|--------------------------------|
| HKSCC Nominees Limited | 457,366,208 | Overseas listed foreign shares |
| China Huarong Asset Management Corporation | 37,420,000 | RMB ordinary shares |
| China Construction Bank – Penghua Value Advanced Stock Fund | 13,046,489 | RMB ordinary shares |
| Zhang Shaowu | 6,080,000 | RMB ordinary shares |
| The Industrial and Commercial Bank of | 3,780,227 | RMB ordinary |

| | | |
|---|-----------|---------------------|
| China – Lion Flexible Allocation Stock Fund | | shares |
| Agricultural Bank of China – Boser New Growth Stock Fund | 2,999,951 | RMB ordinary shares |
| China Construction Bank – Baokang Consumption Products Stock Fund | 2,219,929 | RMB ordinary shares |
| Cheng Jinyang | 2,219,149 | RMB ordinary shares |
| China Trust Company Limited – Rosefinch Phase IX | 2,200,600 | RMB ordinary shares |
| Bank of China – Fortune SGAM Power Portfolio Stock Fund | 2,000,000 | RMB ordinary shares |

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

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES

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

| Name of shareholder | Capacity | Type of shares | Number of shares held | Percentage of the respective type of shares | Percentage of the total number of shares in issue |
|--|------------------------------------|----------------|---------------------------------|---|---|
| Qingdao Hisense Air-conditioning Company Limited <i>Note 1</i> | Beneficial owner | A shares | 612,316,909(L) | 68.46% | 45.22% |
| Qingdao Hisense Electric Holdings Company Limited <i>Note 1</i> | Interest of controlled corporation | A shares | 612,316,909(L) | 68.46% | 45.22% |
| Hisense Company Limited <i>Note 1</i> | Interest of controlled corporation | A shares | 612,316,909(L) | 68.46% | 45.22% |
| China Huarong Asset Management Corporation | Beneficial owner | A shares | 53,800,000 (L) <i>Note 5</i> | 6.01% <i>Note 5</i> | 3.97% <i>Note 5</i> |
| Hillhouse Capital Management, Ltd. <i>Note 2</i> | Investment manager | H shares | 46,700,000(L) | 10.16% | 3.45% |

| | | | | | |
|---|---|----------|----------------|---------|-------|
| Gaoling Fund, L.P. <i>Note 2</i> | Beneficial owner | H shares | 43,076,000(L) | 9.37% | 3.18% |
| Cheah Capital Management Limited <i>Note 3</i> | Interest of controlled corporation | H shares | 42,829,000(L) | 9.31(L) | 3.16% |
| Cheah Company Limited <i>Note 3</i> | Interest of controlled corporation | H shares | 42,829,000(L) | 9.31(L) | 3.16% |
| Hang Seng Bank Trustee International Limited <i>Note 3</i> | Trustee | H shares | 42,829,000(L) | 9.31(L) | 3.16% |
| Value Partners Group Limited <i>Note 3</i> | Interest of controlled corporation | H shares | 42,829,000(L) | 9.31(L) | 3.16% |
| Value Partners Limited <i>Note 3</i> | Investment manager | H shares | 42,829,000(L) | 9.31(L) | 3.16% |
| To Hau Yin <i>Note 3</i> | Family interest | H shares | 42,829,000(L) | 9.31(L) | 3.16% |
| Cheah Cheng Hye <i>Note 3</i> | Founder of discretionary trust | H shares | 42,829,000(L) | 9.31(L) | 3.16% |
| Deutsche Bank Aktiengesellschaft <i>Note 4</i> | Beneficial owner and person having security interests in shares | H shares | 32,136,141 (L) | 6.99% | 2.37% |

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

Notes:

- 1. Qingdao Hisense Air-conditioning Company Limited is a company owned as to 93.33% by Qingdao Hisense Electric Holdings Company Limited, which is in turn owned as to 51.01% by Hisense Company Limited. By virtue of the SFO, Qingdao Hisense Electric Holdings Company Limited and Hisense Company Limited are deemed to be interested in the same parcel of A shares of which Qingdao Hisense Air-conditioning Company Limited is interested.*
- 2. Hillhouse Capital Management, Ltd. was interested in a total of 46,700,000 H shares by virtue of the SFO. Of these shares, Gaoling Fund, L.P. and Gaoling Yali Fund, L.P. were interested in 43,076,000 shares and 3,624,000 shares respectively.*
- 3. Value Partners Limited, Value Partners Group Limited, Cheah Capital Management Limited, Cheah Company Limited, Hang Seng Bank Trustee International Limited, Cheah Cheng Hye and To Hau Yin were interested in the same parcel of these 42,829,000 H shares by virtue of the SFO.*
- 4. Deutsche Bank Aktiengesellschaft was interested in these H shares by virtue of the SFO, in which it was interested as to 641 shares as beneficial owner and 32,135,500 shares as person having security interests.*
- 5. Pursuant to the record in the register kept under section 336 of the SFO. China Huarong Asset Management Corporation was interested in a total of 53,800,000 A shares (representing approximately*

6.01% of the issued A shares of the Company). However, according to the record kept by China Securities Depository and Clearing Co., Ltd. Shenzhen Branch, as at 31 December 2010, the shareholding of China Huarong Asset Management Corporation has been reduced to 37,420,000 A shares (representing approximately 4.18% of the issued A shares of the Company).

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

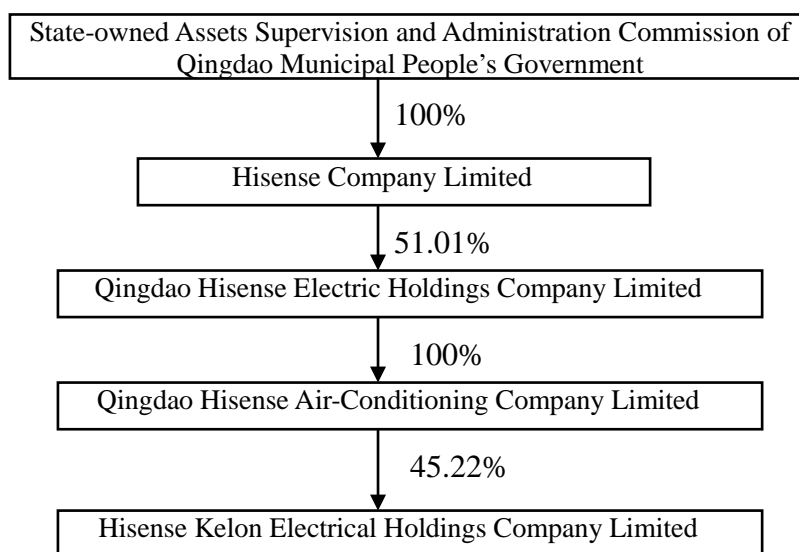
(2) Particulars of the controlling shareholders of the Company

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

(b) The beneficial controller of the Company is Hisense Company Limited, which was incorporated in August 1979 with its registered address at No. 17 Donghai West Road, Shinan, Qingdao. Mr. Zhou Houjian is the legal representative of Hisense Company Limited, a wholly state-owned enterprise with the registered capital of RMB806,170,000. The scope of business includes: the entrusted operation of state-owned assets; the manufacture and sales of TV sets, refrigerators, freezers, washing machines, small household appliances, disc players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products and the provision of related services; the development of software and the provision of internet services; the technological development and the provision of consultation services; the self-operated import and export business (with its operation subject to the list of projects as approved by the MOFTEC); the foreign economic and technical cooperation (with its operation subject to the list of projects as approved by the MOFTEC); operation of property rights transaction, provision of brokerage and information services; provision of industrial travel agency services; and provision of relevant business trainings (Permit/licence shall be obtained for the operation of the businesses above if they fall into the requirements of licensure).

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

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



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

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES

As at 31 December 2010, none of the members of the Board, supervisors and the chief executive of the Company and their respective associates held any interests or short positions in any shares, underlying shares

and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be maintained by the Group pursuant to section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2010, the aggregate amount of the Group's purchases from the top five suppliers was RMB2,318,000,000, representing 17.77% of total purchase amount of the Group for the year and the aggregate sales amount to the top five customers was RMB4,082,000,000, representing 25.78% of the total sales amount of the Group for the year. As at 31 December 2010, none of the Directors, their associates or shareholders of the Company, who, to the knowledge of the Company, hold 5% or more of the shares in the Company, have any interest in the above suppliers or customers.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

After the resignation of the independent non-executive Director, Mr. Lu Qing, in order to find an appropriate person with accounting qualification to fill the vacancy, the Company failed to appoint the right person as new independent non-executive Director and a member of the Audit Committee of the Board within three months after Mr. Lu's resignation took effect. After the appointment of Mr. Wang Ai Guo as an independent non-executive Director and a member of the Audit Committee of the Board at the extraordinary general meeting and at the first board meeting of the year 2011 of the seventh session of the Board with effect from 20 January 2011, the Company has complied with Rule 3.10 and Rule 3.21 of the Listing Rules and Code Provision A.3 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (the "CG Code"). Further, Mr. Chen Zhen Wen has resigned as the company secretary of the Company with effect from 11 June 2010. The Company has identified candidates to fill the post left vacant by Mr. Chen and will effect appointment shortly. Other than the above, to the best knowledge and information of the Company, the Company has complied with the code provisions of the CG Code during the Reporting Period. The above situation did not have any adverse effects on the normal management and operation of the Company.

PUBLICATION OF ANNUAL REPORT ON THE INTERNET WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANY

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, 30 March 2011

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, Mr. Xiao Jian Lin and Ms. Liu Chun Xin ; and the Company's independent non-executive directors are Mr. Zhang Sheng Ping, and Mr. Cheung Yui Kai, Warren and Mr. Wang Ai Guo.

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

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

| Name | Position | Gender | Age | Term of Office | Total remuneration received from the Company during the Reporting Period (including taxation) (RMB ten thousand) | Remuneration received from shareholders' entities or other related companies |
|------------------------|---|--------|-----|--|--|--|
| Tang Ye Guo | Chairman | Male | 48 | 2009.6.26-2012.6.25 | 67.50 | No |
| Zhou Xiao Tian | Director, President | Male | 50 | 2009.6.26-2012.6.25 | 97.95 | No |
| Yu Shu Min | Director | Female | 59 | 2009.6.26-2012.6.25 | 0 | Yes |
| Lin Lan | Director | Male | 52 | 2009.6.26-2012.6.25 | 0 | Yes |
| Xiao Jian Lin | Director | Male | 43 | 2011.1.20-2012.6.25 | 0 | Yes |
| Liu Chun Xin | Director, Vice President | Female | 42 | 2009.6.26-2012.6.25 | 35.27 | No |
| Zhang Ming | Former Director, Former Vice President | Male | 39 | 2009.6.26-2010.12.1 2009.6.26-2010.8.26 | 18.82 | No |
| Zhang Sheng Ping | Independent non-executive Director | Male | 45 | 2009.6.26-2012.6.25 | 6 | No |
| Cheung Yui Kai, Warren | Independent non-executive Director | Male | 43 | 2009.6.26-2012.6.25 | 24 | No |
| Wang Ai Guo | Independent non-executive Director | Male | 46 | 2011.1.20-2012.6.25 | 0 | No |
| Lu Qing | Former independent non-executive Director | Male | 44 | 2009.6.26-2010.9.25 | 4 | No |
| Guo Qing Cun | Supervisor | Male | 57 | 2009.6.26-2012.6.25 | 0 | Yes |
| Gao Zhong Xiang | Supervisor | Male | 43 | 2009.6.26-2012.6.25 | 0 | Yes |
| Liu Zhan Cheng | Supervisor | Male | 32 | 2009.5.6-2012.6.25 | 59 | No |
| Jia Shao Qian | Vice President | Male | 38 | 2009.6.26-2012.6.25 | 21.97 | No |
| Ren Li Ren | Vice President | Male | 46 | 2009.6.26-2012.6.25 | 35.89 | No |
| Zhang Yu Qing | Vice President | Male | 47 | 2009.6.26-2012.6.25 | 17 | No |
| Wang Yun Li | Vice President | Male | 37 | 2010.12.2-2012.6.25 | 25.87 | No |
| Xia Feng | Secretary to the Board | Male | 34 | 2010.8.27-2012.6.25 | 5.6 | No |
| Yu Wan Li | Former Secretary to the Board | Female | 32 | 2009.6.26-2010.8.24 | 14 | No |
| Chen Zhen Wen | Former Company Secretary | Male | 34 | 2009.6.26-2010.6.10 | 26.28 | No |
| Total | — | — | — | — | 459.15 | - |

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

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

II. Investments of the Company during the Reporting Period

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

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

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

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

III. Material litigations and arbitrations of the Company

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

| Name of case | Amount in dispute(RMB ten thousand) | Particulars of the case | Status |
|--|-------------------------------------|---|--|
| Ronshen Refrigerator against Xi'an Kelon in relation to a sale and purchase contract | 9998.41 | Since February 2004, Ronshen Refrigerator has repeatedly provided Xi'an Kelon fundings and prepayments in an aggregate amount of RMB89,184,085.06 to support the latter's production. The two | In December 2008, the Foshan Intermediate Court dismissed the claim due to insufficiency of factual and legal evidence. Ronshen Refrigerator made an appeal. The |

| | | | |
|--|--|--|--|
| | | <p>parties later entered into a repayment agreement, but Xi'an Kelon has failed to perform such agreement. Therefore, Ronshen Refrigerator initiated the proceedings in the Foshan Intermediate Court, demanding Xi'an Kelon to refund the payment for goods and the related expenses.</p> | <p>Guangdong Province Higher Court has revoked the judgment of the Foshan Intermediate Court (Fo Zhong Fa Min Er Zi No. 88 (2007)) and the case was to be re-tried by the Foshan Intermediate Court. The case has been re-opened at the Foshan Intermediate Court for re-trial in February 2011. At present, this case is being heard.</p> |
|--|--|--|--|

IV.ACQUISITIONS AND DISPOSALS OF ASSETS AND MERGERS AND TAKEOVERS BY THE COMPANY

- During the Reporting Period, the Company acquired from its controlling shareholder, Hisense Air-Conditioning, 100% equity interests in Hisense (Shandong) Air-Conditioning Co., Ltd., 51% equity interests in Hisense (Zhejiang) Air-Condition Co., Ltd., 55% equity interests in Hisense (Beijing) Electric Co., Ltd. (including 60% equity interests in Hisense (Nanjing) Electric Co., Ltd. held by Hisense (Beijing) Electric Co., Ltd.), 49% equity interests in Qingdao Hisense Hitachi Air Conditioning Co., Ltd., 78.7% equity interests in Qingdao Hisense Mould Co., Ltd. and the white goods assets of Qingdao Hisense Marketing Co., Ltd. through non-public issue of shares (A Shares). On 26 March 2010, the Company received from the CSRC the following approvals: the "Letter of Reply Concerning the Approval for the Major Asset Restructuring of Hisense Kelon Electrical Holdings Company Limited and the Acquisition of Assets through Issuance of Shares to Qingdao Hisense Air-Conditioning Company Limited" and the "Letter of Reply Concerning the Approval for the Announcement by Qingdao Hisense Air-Conditioning Company Limited of the Acquisition Report of Hisense Kelon Electrical Holdings Company Limited and the Waiver of its General Offer Obligation". On 19 May 2010, BDO China Li Xin Da Hua CPA Company Limited issued the "Capital Verification Report" (Li Xin Da Hua Yan Zi No.[2010]039). According to such capital verification report, as at 19 May 2010, the Company has received additional registered capital (share capital) of RMB362,048,187 in total from Hisense Air-Conditioning, all contributed in the form of the subject assets. On 21 May 2010, the Company has completed the equity registration procedures with the Shenzhen branch of China Securities Depository and Clearing Corporation Limited in respect of the equity interests of this non-public share issue to Hisense Air-Conditioning, and the Shenzhen branch of China Securities Depository and Clearing Corporation Limited has issued the "Confirmation of Securities Registration". On 10 June 2010, the 362,048,187 A shares issued under this share issue were listed.
- On 29 January 2010, the seventh session of the board of directors of the Company convened the first extraordinary meeting of 2010 by way of written resolutions and approved the "Equity Transfer Agreement" between the Company and a third party, pursuant to which it was agreed that the Company's 100% shareholding in Wuhu Ecan Motors Company Limited would be transferred to the third party at a consideration of RMB12 million, and the two parties would share the profit and loss during the transition period of the transfer. After this equity transfer, the Company will no longer hold any shareholding in Wuhu Ecan Motors Company Limited. As at the date of this announcement, the procedures for change in shareholding have been completed.

3. In order to better leverage on the shares of Huayi Compressor held by the Company, the seventh session of the board of directors of the Company convened a meeting on 23 March 2010, at which the management of the Company was authorized to dispose of not more than 6 million shares of Huayi Compressor held by it at an appropriate time and within a reasonable price range. On 4 June 2010, the board of directors of the Company was authorized to dispose of not more than 50 million shares of Huayi Compressor held by the Company at the 2009 annual general meeting upon consideration.

V. SECURITIES INVESTMENTS DURING THE REPORTING PERIOD

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

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

Unit: RMB (in ten thousand)

| Stock code | Stock abbreviation | Initial investment amount | Shareholding percentage in the Company | Carrying amount at the end of the period | Profit and loss for the Reporting Period | Changes in ownership interests during the Reporting Period |
|------------|--------------------|---------------------------|--|--|--|--|
| 000404 | Huayi Compressor | 5,383.64 | 8.33% | 5,381.74 | 242.38 | - |

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

VI. DISCUSSION ON FUNDS EMBEZZLED

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

Unit: RMB (in ten thousand)

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

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

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

The Company has initiated a total of 19 cases of legal proceedings against the Greencool Companies and specified third parties, with a target claim amount of RMB791 million. As at the date of this announcement, 17 of the judgments were in force and entered the execution process, and the amount applied for enforcement was RMB 725 million. One case was withdrawn, involving an amount of RMB29.8437 million; one case was rejected due to lack of evidence, involving an amount of RMB12.2894 million.

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

VII. PARTICULARS OF CONNECTED TRANSACTIONS RELATED TO ORDINARY OPERATION OF THE COMPANY DURING THE REPORTING PERIOD

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

Unit: RMB

| Connected parties | Type of connected transaction | Particulars of transaction | Pricing principle of connected transaction | Transaction amount | Percentage of total amount of similar transactions |
|---|-------------------------------|----------------------------|--|--------------------------|--|
| Hisense -Whirlpool | Purchase | Finished goods | Agreed price | 335, 100, 969. 65 | 2. 26% |
| Hisense Hitachi | Purchase | Finished goods | Agreed price | 379, 235. 19 | 0. 00% |
| Sub-total of purchase of finished goods | | | | 335, 480, 204. 84 | 2. 27% |
| Huayi Compressor | Purchase | Materials | Agreed price | 669, 024, 526. 40 | 4. 52% |
| Embraco | Purchase | Materials | Agreed price | 54, 096, 125. 32 | 0. 37% |
| Hisense -Whirlpool | Purchase | Materials | Agreed price | 24, 613, 728. 56 | 0. 17% |
| Hisense Hitachi | Purchase | Materials | Agreed price | 2, 265, 051. 93 | 0. 02% |
| Hisense Group | Purchase | Materials | Agreed price | 136, 917, 906. 26 | 0. 93% |
| Hisense Electric | Purchase | Materials | Agreed price | 2, 868, 671. 39 | 0. 02% |
| Sub-total of purchase of Materials | | | | 889, 786, 009. 86 | 6. 01% |
| Hisense Group | Purchase | Mould and equipment | Agreed price | 3, 565, 801. 85 | 0. 02% |
| Sub-total of Purchase of mould and equipment | | | | 3, 565, 801. 85 | 0. 02% |
| Hisense Group | Receipt of services | | Agreed price | 25, 294, 947. 72 | 0. 17% |
| Attend Logistics | Receipt of services | | Agreed price | 5, 901. 59 | 0. 00% |

| | | | | | |
|--|------------------------------|-------------------------|--------------|-----------------------|--------------|
| Snowflake Note | Receipt of services | | Agreed price | 20,099,957.22 | 0.14% |
| Sub-total of receipt of services | | | | 45,400,806.53 | 0.31% |
| Hisense Electric | sale of finished goods | Finished goods | Agreed price | 2,288,444.64 | 0.01% |
| Hisense -Whirlpool | sale of finished goods | Finished goods | Agreed price | 185,265.25 | 0.00% |
| Hisense Hitachi | sale of finished goods | Finished goods | Agreed price | 9,763,145.30 | 0.06% |
| Hisense Group | sale of finished goods | Finished goods | Agreed price | 903,215,764.24 | 5.11% |
| Sub-total of sale of finished goods | | | Agreed price | 915,452,619.43 | 5.17% |
| Hisense -Whirlpool | Sale | Materials | Agreed price | 5,612,621.70 | 0.03% |
| Huayi Compressor | Sale | Materials | Agreed price | 561,305.13 | 0.00% |
| Hisense Group | Sale | Materials | Agreed price | 31,348,680.41 | 0.18% |
| Hisense Hitachi | Sale | Materials | Agreed price | 1,782.44 | 0.00% |
| Hisense Electric | Sale | Materials | Agreed price | 1,249,107.20 | 0.01% |
| Sub-total of sale of materials | | | | 38,773,496.87 | 0.22% |
| Hisense Group | Sale | Moulds | Market price | 104,026,153.73 | 0.59% |
| Hisense Hitachi | Sale | Moulds | Market price | 87,350.43 | 0.00% |
| Hisense -Whirlpool | Sale | Moulds and equipment | Market price | 3,355,513.05 | 0.02% |
| Hisense Electric | Sale | Moulds | Market price | 49,864,734.28 | 0.28% |
| Sub-total of sale of moulds | | | | 157,333,751.49 | 0.89% |
| Attend Logistics | Receipt of services | | Agreed price | 65,648.40 | 0.00% |
| Hisense Electric | Receipt of services | | Agreed price | 315,600.00 | 0.00% |
| Hisense -Whirlpool | Receipt of services | | Agreed price | 562,602.00 | 0.00% |
| Sub-total of provision of services | | | | 943,850.40 | 0.01% |

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

Note: Since the Revised Acquisition was completed on 1 April 2010, the maximum aggregate annual value disclosed in the previous announcements did not include the continuing connected transactions of the acquired entities incurred prior to 31 March 2010.

VIII. PARTICULARS OF EXTERNAL GUARANTEES

Unit: RMB (in ten thousand)

| External guarantee given by the Company (excluding guarantees for its subsidiaries) | | | | | | |
|--|---|-------------------|-------------------|---------------------|------------------|--|
| The guaranteed party | Date (the date of signing of the agreement) | Guaranteed amount | Type of guarantee | Period of guarantee | Completed or not | Whether in favour of any connected party (yes or no) |
| NIL | - | - | - | - | - | - |
| Total guaranteed amount during the Reporting Period | | | | - | | |
| Total balance of the guaranteed amount at the end of the Reporting Period (A) | | | | - | | |
| Guarantees given by the Company for its subsidiaries | | | | | | |
| Total guaranteed amount for subsidiaries during the Reporting Period | | | | 95,715.88 | | |
| Total balance of the guaranteed amount for subsidiaries at the end of the Reporting Period (B) | | | | 15,583.11 | | |
| Total guarantee given by the Company (including the guarantees for subsidiaries) | | | | | | |
| Total guaranteed amount (A+B) | | | | 15,583.11 | | |
| Percentage of the total guaranteed amount to absolute net assets of the Company | | | | 28.79% | | |
| Including: | | | | | | |
| Guaranteed amount provided to shareholders, beneficial controlling parties and their connected parties (C) | | | | - | | |
| Guaranteed amount provided directly or indirectly to the guaranteed party with gearing ratio over 70% (D) | | | | 4,400.96 | | |
| Total guaranteed amount over 50% of the net asset (E) | | | | - | | |
| Sum of the above three guarantees (C+D+E) | | | | 4,400.96 | | |

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

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

As at 31 December 2010, the balance of amounts due to Hisense Kelon from the Greencool Companies and such specified third party companies amounted to RMB651 million. Hisense Kelon has made a provision for bad debts of RMB365 million in respect of the amounts due from the Greencool Companies and such third party companies. As set out in Note 7 to the financial statements, apart from the withdrawal of the case at the Intermediate People's Court of Foshan ((2006) Fo Zhong Fa

Min Er Chu Zi No. 178) and the rejection of the petition to the Intermediate People's Court of Foshan ((2006) Fo Zhong Fa Min Er Chu Zi No. 183), Hisense Kelon has won in all other cases mentioned above and the rulings have all come into force. However, we are unable to adopt appropriate audit procedures to obtain sufficient and appropriate audit evidence to ascertain whether or not the estimated provision for bad debts based on such amount and the assessment and calculation of the receivables are reasonable.

Explanation: A series of related party transactions and unusual cash flows occurred between the Company and Guangdong Greencool Enterprise Development Limited, the former largest shareholder of the Company, and its related parties, or through its third party companies, from 2001 to 2005. Such transactions and unusual cash flows as well as the suspected fund embezzlements have been formally investigated by the relevant authorities. As at 31 December 2010, the balance of amounts due to Hisense Kelon from the Greencool Companies and the abovementioned specified third party companies amounted to RMB651 million.

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

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

The Board of the Company considers that the provision for bad debts is an accounting estimate. The accounting method applied to such receivables does not breach the relevant requirements of the Accounting System for Business Enterprises. While the relevant courts have given their final rulings in favour of the Company in respect of 17 cases of litigation out of 19 initiated by the Company against Greencool Companies and specified third parties and the judgments have come into effect, one case with a claim

amount of RMB29.8437 million was withdrawn by the Company and another case with a claim amount of RMB12.2894 million was rejected. The aggregate claim amounts of these two cases accounted for a small proportion of the total claim amount of RMB729.7971 million under the court judgments. However, as the rulings in respect of the abovementioned 17 cases have not yet been enforced so far, the Board of the Company is of the view that there is no material difference in terms of the assessed recoverability of such receivables between that for 2010 and 2009 and therefore this qualified opinion will not affect the fairness in the preparation of the Company's income statement for 2010.

After the determination of the abovementioned debt settlement proportion, the Company will, based on the confirmed recoverable proportion, adjust retrospectively the 2005 balance sheet and income statement, and adjust the relevant items in the balance sheets as at 31 December 2006, 31 December 2007, 31 December 2008 , 31 December 2009 and 31 December 2010 respectively. The Company has taken measures to sequester the properties of the Greencool Companies which are available for settlement. The Company will also pay attention to the progress of the cases and make its best efforts to ensure its rights as a creditor.

X. BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD issued a qualified auditor's report for the 2010 annual report of the Company. The detailed explanation given by the independent non-executive Directors of the Company on the matters relating to the audit opinion is as follows:

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

XI. BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD issued a qualified auditor's report for the 2010 annual report of the Company. The detailed explanation given by the supervisory committee of the Company on the matters relating to the audit opinion is as follows:

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

XII. Implementation of the share option incentive scheme of the Company during the Reporting Period

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

DEFINITIONS

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

| | |
|-------------------------------|--|
| “Company”, “the Company” | Hisense Kelon Electrical Holdings Company Limited |
| “Hisense Air-Conditioning” | Qingdao Hisense Air-Conditioning Company Limited |
| “Hisense Electric” | Hisense Electric Co., Ltd. |
| “Hisense Group” | Hisense Company Limited |
| “Hisense Electronic Holdings” | Qingdao Hisense Electronic Holdings Co., Ltd. |
| “Hisense Hitachi” | Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. |
| “Hisense-Whirlpool” | Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd. |
| “Hisense Finance” | Hisense Finance Company Limited |
| “Attend Logistics” | Attend Logistics Co., Limited |
| “Embraco” | Beijing Embraco Snowflake Compressor Co., Ltd. |
| “Snowflake” | Beijing Snowflake Electrical Appliance Group Corporation |
| “Guangdong Greencool” | Guangdong Greencool Enterprise Development Company Limited |
| “Greencool Companies” | Guangdong Greencool and other related parties |
| “Xi’an Kelon” | Xi’an Kelon Cooling Co., Ltd. |
| “Ronshen Refrigerator” | Hisense Ronshen(Guangdong) Refrigerator Co Ltd. |
| “Huayi Compressor” | Huayi Compressor Company Limited |
| “Foshan Intermediate Court” | Intermediate People’s Court of Foshan City |
| “CSRC” | China Securities Regulatory Commission |
| “RMB” | Renminbi |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |