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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 2011**

All members (the “Directors”) of the board of directors (the “Board”) of Hisense Kelon Electrical Holdings Company Limited (the “Company” or “Hisense Kelon”) announce the annual audited results of the Company and its subsidiaries (collectively the “Group” or “Kelon”) for the year ended 31 December 2011 (the “Reporting Period”) together with the 2010 comparative figures, prepared in accordance with China Accounting Standards for Business Enterprises (“China Accounting Standards”).

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

FINANCIAL INFORMATION

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

Consolidated Balance Sheet

Item	Note	31 December 2011	31 December 2010
Assets			
Current assets			
Cash at bank and on hand		398,532,682.30	429,182,477.81
Financial assets held for trading		33,787,696.24	28,150,388.56
Notes receivable		502,919,307.39	385,982,498.33
Trade receivables	5	1,193,767,494.97	1,354,284,204.38
Prepayments		315,474,246.14	358,298,915.72
Others receivables		439,873,135.47	383,163,557.93
Inventories		1,547,277,865.07	1,903,101,598.65
Other current assets		3,568,803.11	6,554,042.83
Total current assets		4,435,201,230.69	4,848,717,684.21
Non-current assets			

Long-term equity investments		610,755,845.36	570,013,226.88
Investment properties		38,019,850.43	40,599,871.77
Fixed assets		1,947,070,154.12	1,852,388,292.88
Construction in progress		80,702,425.28	166,835,913.79
Fixed assets pending for disposal			134,981.60
Intangible assets		520,066,256.26	533,088,958.15
Long term prepaid expenses			296,766.66
Deferred tax assets		3,623,816.22	6,893,223.90
Total non-current assets		3,200,238,347.67	3,170,251,235.63
Total assets		7,635,439,578.36	8,018,968,919.84
Liabilities and Shareholders' equity			
Current liabilities			
Short-term borrowings		1,004,998,894.20	1,101,261,835.85
Financial liabilities held for trading		6,636,121.77	5,960,727.44
Notes payable		612,667,073.33	810,263,300.00
Trade payables	6	2,054,610,132.81	2,385,166,608.32
Advances from customers		758,206,285.15	950,206,943.91
Employee remunerations payable		190,026,739.08	185,256,825.01
Taxes payable		-90,090,833.72	-209,997,869.00
Interests payable		1,447,530.16	2,065,066.74
Dividends payable		2,067.02	3,208,911.85
Other payables		1,156,195,947.88	1,109,408,607.20
Other current liabilities		467,458,815.86	483,383,088.08
Total current liabilities		6,162,158,773.54	6,826,184,045.40
Non-current liabilities			
Provisions		271,488,354.42	246,800,154.13
Other non-current liabilities		40,977,575.97	35,036,851.38
Total non-current liabilities		312,465,930.39	281,837,005.51
Total liabilities		6,474,624,703.93	7,108,021,050.91
Shareholders' Equity			
Share capital		1,354,054,750.00	1,354,054,750.00
Capital reserve		2,096,929,058.26	2,053,683,491.30
Surplus reserves		145,189,526.48	145,189,526.48
Undistributed profits		-2,817,156,683.25	-3,044,171,810.12
Difference on translation of foreign currency financial statements		26,106,945.84	32,485,452.41
Total equity attributable to		805,123,597.33	541,241,410.07

shareholders of the company			
Minority Interests		355,691,277.10	369,706,458.86
Total shareholders' equity		1,160,814,874.43	910,947,868.93
Total liabilities and shareholders' equity		7,635,439,578.36	8,018,968,919.84

Consolidated Income Statement

Item	Note	2011	2010
Revenue	7	18,488,663,163.12	17,690,323,631.83
Cost of sales	7	15,202,894,118.35	14,796,731,809.19
Business taxes and surcharges		63,151,069.49	19,940,225.46
Selling and distribution expenses		2,636,211,941.70	2,523,719,106.60
General and administrative expenses		547,649,947.84	529,343,841.24
Financial expenses	8	56,004,041.79	74,595,738.49
Impairment losses on assets		24,876,652.11	29,554,772.19
Gain from changes in fair value		4,961,913.35	17,632,914.80
Investment income		138,560,585.23	394,879,283.61
Including: Share of profit of associates and joint ventures		94,337,603.16	76,807,695.58
Operating profits		101,397,890.42	128,950,337.07
Non-operating income		158,721,726.61	518,757,089.73
Non-operating expenses		13,420,036.77	19,998,863.10
Including: Losses on disposal of non-current assets		7,324,104.26	5,039,033.44
Total profit		246,699,580.26	627,708,563.70
Less: Income tax expenses	9	21,250,352.26	31,588,286.91
Net profit		225,449,228.00	596,120,276.79
Profits realized by consolidated parties prior to consolidation			55,835,331.39
Net profit attributable to shareholders of the Company		227,015,126.87	585,277,671.92
Minority interests		-1,565,898.87	10,842,604.87
Earnings per share			
Basic earnings per share	12	0.1677	0.4365
Diluted earnings per share	12	0.1677	0.4365
Other comprehensive income		-9,365,044.24	-26,596,568.37
Total comprehensive income		216,084,183.76	569,523,708.42
Total comprehensive income attributable to the shareholders of the Company		217,650,082.63	558,681,103.55

Total comprehensive income attributable to minority interests		-1,565,898.87	10,842,604.87
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Note:

1. General information

Hisense Kelon Electrical Holdings Company Limited (the “Company”) is a joint stock limited company incorporated in the People’s Republic of China (the “PRC”) on 16 December 1992. The Company’s overseas listed public shares (the “H Shares”) were listed on The Stock Exchange of Hong Kong Limited on 23 July 1996, whereas the Company’s domestic shares (the “A Shares”) were listed on the Shenzhen Stock Exchange on 13 July 1999.

On 29 January 2007, a share reform scheme (the “Reform of Non-tradable Shares 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 , and further approved by Ministry of Commerce PRC on 22 March 2007.

On 31 August 2009, the Company constituted a major asset reorganization and entered into conditional sale and purchase agreement regarding the acquisition of the white goods assets and business (the “White Goods Business”) of Hisense Air-Conditioning(the “Acquisition”). The Acquisition was approved by the CSRC (PRC’s China Securities Regulatory Commission) on 23 March 2010. On 10 June 2010, the Company allotted and issued 362,048,187 A shares to Hisense Air-Conditioning for the Acquisition.

As at 31 December 2011, Hisense Air-Conditioning held 612,316,909 shares, representing 45.22% of the Company’s total issued share capital and continued to be the immediate holding company.

In the opinion of the directors of the Company, as at 31 December 2011, Hisense Company Limited (“Hisense Group”), a state-owned enterprise incorporated in the PRC, is regarded as the ultimate holding shareholder.

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. Basis of preparation

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

on Financial Reporting (revised 2010) issued by the China Securities Regulatory Commission).

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

3. Significant changes in accounting policies

There are no significant changes in the accounting policies applied in preparing of these financial statements.

4. Segment information

The Group manages its business by divisions which are organized 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).

(1) Segment information as at and for the year ended 31 December 2011 is as follows:

Amount for current period	Refrigerators	Air-conditioners	Freezers	Others	Elimination	Total
1. Revenue from external sales	8,246,154,462.25	6,516,774,558.25	669,210,867.37	1,316,309,388.26		16,748,449,276.13
2. Revenue from Inter-segment				491,507,674.29	-491,507,674.29	
3. Share of profit of associates and joint ventures	-1,853,188.38	96,489,725.57		-298,934.03		94,337,603.16
4. Depreciation and amortization	165,105,768.59	117,059,256.24	18,541,865.45	57,990,320.43		358,697,210.71
5. Gain from changes in fair value	5,539,845.99	-547,737.26		-30,195.38		4,961,913.35
6. Impairment losses on assets	20,574,240.66	2,097,039.31	2,117,761.70	87,610.44		24,876,652.11
7. Total profit (Total loss)	264,157,297.87	-95,856,125.44	6,995,743.28	90,347,057.15	-18,944,392.60	246,699,580.26
8. Income tax expenses				21,250,352.26		21,250,352.26
9. Net profit (net loss)	264,157,297.87	-95,856,125.44	6,995,743.28	69,096,704.89	-18,944,392.60	225,449,228.00
10. Total assets	7,309,137,528.15	5,007,184,529.18	666,295,198.64	2,844,422,042.11	-8,191,599,719.72	7,635,439,578.36
11. Total liabilities	4,816,526,137.42	4,125,554,419.92	447,868,041.23	2,184,594,106.92	-5,099,918,001.56	6,474,624,703.93
12. Additions to other non-current assets other than long-term equity investments	220,001,135.23	86,720,778.70	13,645,189.71	38,299,885.98		358,666,989.62

Segment information as at and for the year ended 31 December 2010 is as follows:

Amount for last period	Refrigerators	Air-conditioners	Freezers	Others	Elimination	Total
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1. Revenue from external sales	7,989,072,423.25	5,979,521,256.25	765,864,732.82	1,096,503,076.57		15,830,961,488.89
2. Revenue from inter-segment				629,494,230.04	-629,494,230.04	
3. Share of profit offt in associates and joint ventures	3,456,708.67	73,404,245.18		-53,258.27		76,807,695.58
4. Depreciation and amortization	167,512,227.00	120,789,810.22	16,448,260.38	61,478,044.40		366,228,342.00
5. Gain from changes in fair value	9,855,375.51	11,591,842.52		-3,814,303.23		17,632,914.80
6. Impairment losses on assets	6,461,689.22	10,412,813.88	108,310.11	12,571,958.98		29,554,772.19
7. Total profit (Total loss)	263,181,708.67	91,265,245.18	7,732,000.00	273,881,383.45	-8,351,773.60	627,708,563.70
8. Income tax expenses				31,588,286.91		31,588,286.91
9. Net profit (net loss)	263,181,708.67	91,265,245.18	7,732,000.00	242,293,096.54	-8,351,773.60	596,120,276.79
10. Total assets	7,949,657,939.27	5,486,746,125.70	454,748,355.17	3,198,419,311.59	-9,070,602,811.89	8,018,968,919.84
11. Total liabilities	5,435,743,107.41	4,688,527,536.82	287,572,547.80	2,448,916,465.63	-5,752,738,606.75	7,108,021,050.91
12. Additons to other non-current assets other than long-term equity investments	293,733,230.03	93,286,297.77	19,318,291.11	42,976,073.37		449,313,892.28

(2) Geographic Information

Item	2011	2010
Revenue from external customers - Mainland	11,763,768,033.18	11,115,920,225.15
Revenues from external customers - Overseas	4,984,681,242.95	4,715,041,263.74
Total	16,748,449,276.13	15,830,961,488.89
Non-current assets - Mainland	2,778,410,063.08	2,676,565,058.72
Non-current assets - Overseas	421,828,284.59	493,686,176.91
Total	3,200,238,347.67	3,170,251,235.63

*The Company is mainly operated in China Mainland, where the majority of non-current assets are located as well, Therefore the further detailed regional information is unnecessarily to be reported.

5. Trade receivables

(1) On 13 December 2006, the share transfer transaction on the Company between the preceding immediate holding 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 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 receivables, including the balances with Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu (“Greencool Companies”), are disclosed as follows:

Company name	31 December 2011		31 December 2010	
	Ending Balance	Provision for bad debts	Ending Balance	Provision for bad debts
Hefei Weixi Electrical Appliance Co., Ltd. (“Hefei Weixi”)	18,229,589.24	7,805,094.62	18,229,589.24	7,805,094.62
Wuhan Changrong	20,460,394.04	14,921,847.02	20,460,394.04	14,921,847.02
Total	38,689,983.28	22,726,941.64	38,689,983.28	22,726,941.64

(2) Normal credit term of 60 days is granted to customers. The Group allows a credit term of not exceeding 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.

The aging of trade receivables is analyzed as follows (excluding the above Greencool Companies):

Item	31 December 2011	31 December 2010
Within three months	1,174,482,507.39	1,336,582,155.73
Over three months but within six months	3,594,295.40	1,843,470.19
Over six months but within one year	174,160.16	159,767.69
Over one year	165,096,418.23	158,975,335.64
Total	1,343,347,381.18	1,497,560,729.25
Less: provision for bad debts	165,542,927.85	159,239,566.51
	1,177,804,453.33	1,338,321,162.74

6. Trade payables

The aging of trade payables is analysed as follows:

Item	31 December 2011	31 December 2010
Within one year	1,896,440,466.81	2,242,016,720.89
Over one year	158,169,666.00	143,149,887.43
Total	2,054,610,132.81	2,385,166,608.32

7. Revenue and Cost of Sale.

Item	2011	2010
Revenue from main operations	16,748,449,276.13	15,830,961,488.89
Revenue from other operations	1,740,213,886.99	1,859,362,142.94
Total	18,488,663,163.12	17,690,323,631.83
Item	2011	2010

Cost of main operations	13,561,364,782.89	13,045,175,706.33
Cost of other operations	1,641,529,335.46	1,751,556,102.86
Total	15,202,894,118.35	14,796,731,809.19

8. Financial expenses-net

Item	2011	2010
Interest expenses	39,264,507.45	42,229,349.81
less: interest income	1,941,417.40	1,915,985.40
Discounted notes	4,718,744.46	
Gain/(loss) on Foreign Exchange	7,363,879.23	23,768,834.19
Others	6,598,328.05	10,513,539.89
Total	56,004,041.79	74,595,738.49

9. Income tax expenses

Item	2011	2010
Income tax expenses	17,980,944.58	22,046,312.04
Inc: Current income tax calculated according to tax law and related regulations in Mainland China.	16,402,424.58	
Current income tax calculated according to tax law and related regulations in Hong Kong	1,578,520.00	
Deferred income tax expenses	3,269,407.68	9,541,974.87
Total	21,250,352.26	31,588,286.91

The reconciliation from income tax calculated based on the applicable tax rates and total profits to the income tax expenses is as follows:

Item	2011	2010
Total profits	246,699,580.26	627,708,563.70
Income tax expenses calculated at statutory (or applicable) tax rates	61,674,895.07	156,927,140.93
Tax effects of different tax rates applicable to certain subsidiaries	-6,963,570.45	-11,607,261.78
Adjustments for current income tax for previous periods	3,269,407.68	9,541,974.87
Profit and loss attributable to joint ventures and associates	-23,584,400.79	-19,201,923.90
Income not subject to tax	-5,981,608.71	-2,332,993.57
Non-deductible expenses	33,935,932.72	41,910,684.40
Utilisation of tax loss from previous periods	-65,720,607.51	-178,101,542.87
Tax loss for which no deferred tax asset was recognized	24,620,304.25	34,452,208.83
Others		
Income tax expenses	21,250,352.26	31,588,286.91

Certain subsidiaries have been recognised as “high technology” companies and are entitled to a preferential tax rate of 15% (2010: 15%). Other certain subsidiaries of the Company are foreign invested enterprises and are subject to a preferential tax rate of 12.5% (2010: 12.5%) under the transitional preferential policies of the EIT law.

Hong Kong Income Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits.

Except as disclosed above, the Company and other group entities, which were established and operated in the PRC, are subject to EIT at a standard rate of 25% (2010: 25%).

10. Net Current Assets

Item	31 December 2011	31 December 2010
Current Assets (Consolidated)	4,435,201,230.69	4,848,717,684.21
Less : Current Liabilities (Consolidated)	6,162,158,773.54	6,826,184,045.40
Net Current Assets (Consolidated)	-1,726,957,542.85	-1,977,466,361.19
Current Assets (Parent Company)	4,024,527,726.67	3,755,591,683.45
Less : Current Liabilities (Parent Company)	5,227,092,433.23	5,430,286,773.26
Net Current Assets (Parent Company)	-1,202,564,706.56	-1,674,695,089.81

11. Total Assets Less Current Liabilities

Item	31 December 2011	31 December 2010
Total Assets (Consolidated)	7,635,439,578.36	8,018,968,919.84
Less : Current Liabilities (Consolidated)	6,162,158,773.54	6,826,184,045.40
Total Assets less Current Liabilities (Consolidated)	1,473,280,804.82	1,192,784,874.44
Total Assets (Parent Company)	7,469,144,553.26	7,383,646,118.26
Less : Current Liabilities (Parent Company)	5,227,092,433.23	5,430,286,773.26
Total Assets Less Current Liabilities (Parent Company)	2,242,052,120.03	1,953,359,345.00

12. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the consolidated net profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding:

Item	2011	2010
Consolidated net profit attributable to holders of ordinary shares of the Company	227,015,126.87	585,277,671.92
weighted average number of ordinary shares in issue of the Company	1,354,054,750	1,340,843,434.25
Basic earnings per share	0.1677	0.4365

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated net profit attributable to ordinary shareholders of the Company adjusted for dilutive potential ordinary shares divided by the adjusted weighted average number of ordinary shares in issue of the Company. For the years ended 31 December 2011 and 2010, there were no dilutive potential ordinary shares, and therefore the diluted earnings per share were same as the basic earnings per share.

(c) Dividends

No dividends was paid or proposed for the year ended 31 December 2011, or reserve funds converted into capital(2010: Nil).

Report of Crowe Horwath China Certified Public Accountants (LLP)

Below is an excerpt of the auditor’s report issued by Crowe Horwath China Certified Public Accountants (LLP) for the consolidated financial statements:

Matters leading to qualified opinions

It was reported by the Company that a series of related party transactions and unusual cash flows occurred between Guangdong Greencool Enterprise Development Limited, the former substantial shareholder of the Company, and its related parties (hereinafter referred to as the “Greencool Companies”) and Hisense Kelon during the period from October 2001 to July 2005 (the “Period”). In addition, during the Period, the Greencool Companies, through certain specified third party companies such as Tianjin Lixin Commercial Trading Development Company Limited, were involved in a series of unusual cash flows with Hisense Kelon. Hisense Kelon has instituted proceedings for such transactions and unusual cash flows as well as the suspected fund embezzlements. These matters are related to Hisense Kelon’s amounts due from or to the Greencool Companies and the specified third party companies mentioned above.

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

Audit opinion

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

MANAGEMENT DISCUSSION AND ANALYSIS

I. Industry Overview

During the Reporting Period, the growth rate of the PRC refrigerator and air-conditioner markets has significantly decelerated, with the overall export market being sluggish. On the one hand, the

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

II. Analysis of the Company's Operation

1. Overall situation

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

During the Reporting Period, the Company accelerated its capital flow, lowered its inventory level, enhanced its capital utilization, and continuously improved its financial condition, leading to a 15.37% decrease in the outstanding balance of facility of the Company at the end of the period as compared to the beginning of the period, paralleled by a substantial decrease in financial expenses by 24.92% and a remarkable improvement in the gearing ratio of the Company which dropped by 3.84 percentage points at the end of the period when compared to the beginning of the period. Concurrently, based on its anticipation in advance of a slowdown in the market during the second half of the year, the Company has stepped up the control over inventories and trade receivables to

lower the inventory level. This has led to greater improvement in the inventory level and balance of trade receivables at the end of the period when compared to the beginning of the period, showing a drop of 18.70% and 11.85% respectively, and effectively minimized the risk of inventory depreciation and the capital risk of the Company, and established a sound market foundation for market competition in 2012.

2. Technology orientation

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

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

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

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

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

3. Refrigerator business

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

4. Air-conditioner business

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

III. Outlook

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

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

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

IV. Analysis to principal financials during the Reporting Period

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

1. Principal businesses by region

Unit: RMB ten thousand

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

2. Principal businesses by product

Unit: RMB ten thousand

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

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

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

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

Unit: RMB

Assets and liabilities item	End of Reporting Period		Same period last year		Increase / Decrease in weight
	Amount	Weight to total assets	Amount	Weight to total assets	
Cash at bank and on	398,532,682.30	5.22%	429,182,477.81	5.35%	-0.13%

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

2、Expenses of the Company during the Reporting Period

Unit: RMB ten thousand

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

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

Unit: RMB ten thousand

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

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

Unit: RMB

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

(iii) Items accounted by fair values

Unit: RMB ten thousand

Items	At the beginning of the period	Gain or loss in fair value during the period	Accumulated changes in fair value accounted in equity	Impairment provided during the period	At the end of the period
Financial assets					

Of which: 1. Financial assets measured at fair value where changes in fair value are accounted for as gain or loss of the period	2,815.04	563.73	-	-	3,378.77
Of which: Derivative financial assets	2,815.04	563.73	-	-	3,378.77
2. Financial assets available for sale	-	-	-	-	-
Subtotal of financial assets	2,815.04	563.73	-	-	3,378.77
Financial liabilities	-596.07	-67.54	-	-	-663.61
Real estate for investment	-	-	-	-	-
Productive biological assets	-	-	-	-	-
Other	-	-	-	-	-
Total	2,218.97	496.19	-	-	2,715.16

(iv) Financial assets denominated in foreign currency

Unit: RMB ten thousand

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

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

equity interest

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

FINAL DIVIDENDS

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

LIQUIDITY AND SOURCES OF FUNDS

For the year ended 31 December 2011, net cash generated from operating activities of the Group amounted to approximately RMB 366 million (2010: net cash generated from operating activities amounted to approximately RMB 637 million).

As at 31 December 2011, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB 398 million (2010: RMB 429 million), and bank loans amounting to approximately RMB1,005 million (2010: RMB1,101 million).

Total capital expenditures of the Group for the year ended 31 December 2011 amounted to approximately RMB 230 million (2010: RMB 346 million).

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

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

EMPLOYEES' TRAINING AND REMUNERATION POLICY

Employees and people are the basis for corporate development. Leveraging on the platform provided by Hisense College, the Company has established a training course system and facilitated the building of a team of reserved talents in the management and technical areas for value-added human resources. The Company develops training programs every year based on its annual work

plan and human resources development needs. In 2011, the Company organized 23 classes and 44 courses, with 971 participants ranging from supporting staff to senior management.

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

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2011, the Group's property, plant and equipment (including leasehold land held for own use), investment properties and trade receivables of approximately RMB 569 million (31 December 2010: RMB 854 million) 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

The Directors confirm that as at 29 March 2012, 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 2011.

CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2012 will be approximately RMB 79.69 million. The Group has sufficient funds to meet the funding requirement for capital expenditure plans and daily operations.

TRUST DEPOSITS

As at 31 December 2011, the Group did not have any trust deposits with any financial institutions in the PRC. All of the Group's deposits have been deposited in commercial banks and other financial institution in the PRC and Hong Kong.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2011, the Group did not have any long-term bank borrowings and its cash and cash equivalents amounted to RMB397 million (2010: RMB 420 million), of which more than RMB 260 million are denominated in Renminbi.

As at 31 December 2011, the Group's current liabilities amounted to RMB6,162 million, non-current liabilities amounted to RMB312 million, and shareholders' equity attributable to the shareholders of the Company amounted to RMB805 million.

GEARING RATIO

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

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

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

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY AUDITORS

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

SHARE CAPITAL STRUCTURE

As at 31 December 2011, the share capital structure of the Company was as follows:

Class of Shares	Number of shares	Percentage to the total issued share capital
H shares	459,589,808	33.94%
A shares	894,464,942	66.06%
Total	1,354,054,750	100.00%

TOP TEN SHAREHOLDERS

(1) As at 31 December 2011, there were 38,300 shareholders of the Company (the “Shareholders”) in total, of which the top ten Shareholders were as follows:

Name of Shareholder	Nature of Shareholder	No. of shares held	Percentage to the total issued shares of the Company	Percentage to the relevant class of issued shares of the Company	No. of shares held subject to trading moratorium	No. of pledged or frozen shares
Qingdao Hisense Air-conditioning Company Limited	State-owned legal person	612,316,909	45.22%	68.46%	612,316,909	0
HKSCC Nominees Limited <small>Note</small>	Foreign shareholder	457,552,208	33.79%	99.56%	0	Unknown
China Huarong Asset Management Corporation	State-owned legal person	30,292,800	2.24%	3.39%	0	0
Zhang Shaowu	Domestic natural person	6,110,200	0.45%	0.68%	0	0
The Industrial and Commercial Bank of China – Lion Flexible Allocation Stock Fund	Other	3,780,227	0.28%	0.42%	0	0
China Construction Bank – Penghua Value Advanced Stock Fund	Other	3,026,227	0.22%	0.34%	0	0
Xian Zhuoqun Investment Management Limited	Domestic general legal person	2,000,000	0.15%	0.22%	0	0
Zhong Juanwei	Domestic natural person	1,954,955	0.14%	0.22%	0	0
Yan Xinyao	Domestic natural person	1,885,739	0.14%	0.21%	0	0
Song Chenghai	Domestic natural person	1,663,438	0.12%	0.19%	0	0

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

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

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

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

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES

So far as is known to the Directors, supervisors and the chief executive of the Company, as at 31 December 2011, the following persons (other than the Directors, supervisors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”), or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange:

Long position or short position in the shares of the Company

Name of shareholder	Capacity	Type of shares	Number of shares held	Percentage of the respective type of shares	Percentage of the total number of shares in issue
Qingdao Hisense Air-conditioning Company Limited ^{Note 1}	Beneficial owner	A shares	612,316,909(L)	68.46%	45.22%
Qingdao Hisense Electric Holdings Company Limited ^{Note 1}	Interest of controlled corporation	A shares	612,316,909(L)	68.46%	45.22%
Hisense Company Limited ^{Note 1}	Interest of controlled corporation	A shares	612,316,909(L)	68.46%	45.22%
Hisense (Hong Kong) Company Limited ^{Note 1}	Beneficial owner	H shares	27,000,000(L)	5.87%	1.99%
Qingdao Hisense Electric Holdings Company Limited ^{Note 1}	Interest of controlled corporation	H shares	27,000,000(L)	5.87%	1.99%
Hisense Company Limited ^{Note 1}	Interest of controlled corporation	H shares	27,000,000(L)	5.87%	1.99%
Hillhouse Capital Management, Ltd. ^{Note 3}	Investment manager	H shares	50,612,000(L)	11.01%	3.74%
Gaoling Fund, L.P. ^{Note 3}	Beneficial owner	H shares	46,900,000(L)	10.20%	3.46%
Citigroup Inc. ^{Note 4}	Person having security interests in shares and custodian corporation/ approved lending agent	H shares	25,771,274(L) 434,774(P)	5.61% 0.09%	1.90% 0.03%

Long position in the underlying shares of the Company

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

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

Notes:

- Qingdao Hisense Air-conditioning Company Limited is a company directly owned as to 93.33% and indirectly owned as to 6.67% by Qingdao Hisense Electric Holdings Company Limited, whereas Hisense (Hong Kong) Company Limited is a company directly owned as to 100% by Qingdao Hisense Electric Holdings Company Limited. Qingdao Hisense Electric Holdings Company Limited is in turn owned as to 51.01% by Hisense Company Limited. By virtue of the SFO, Qingdao Hisense Electric Holdings Company Limited and Hisense Company Limited were deemed to be interested in the same parcel of A shares of which Qingdao Hisense Air-conditioning Company Limited was interested and in the same parcel of H shares of which Hisense (Hong Kong) Company Limited was interested.*
- Hisense Company Limited was deemed to be interested in an option which might be acquired by Hisense (Hong Kong) Company Limited for the purchase of up to 27,000,000 H shares. By virtue of the SFO, Hisense (Hong Kong) Company Limited and Qingdao Hisense Electric Holdings Company Limited were deemed to be interested in the same parcel of underlying H shares.*
- Hillhouse Capital Management, Ltd. was interested in a total of 50,612,000 H shares by virtue of the SFO. Of these shares, Gaoling Fund, L.P. and VHG Investment, L.P. were interested in 46,900,000 H shares and 3,712,000 H shares respectively.*
- Citigroup Inc. was interested in these H shares by virtue of the SFO, in which it was interested as to 25,336,500 H shares as person having security interests and as to 434,774 H shares as custodian corporation or approved lending agent.*

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

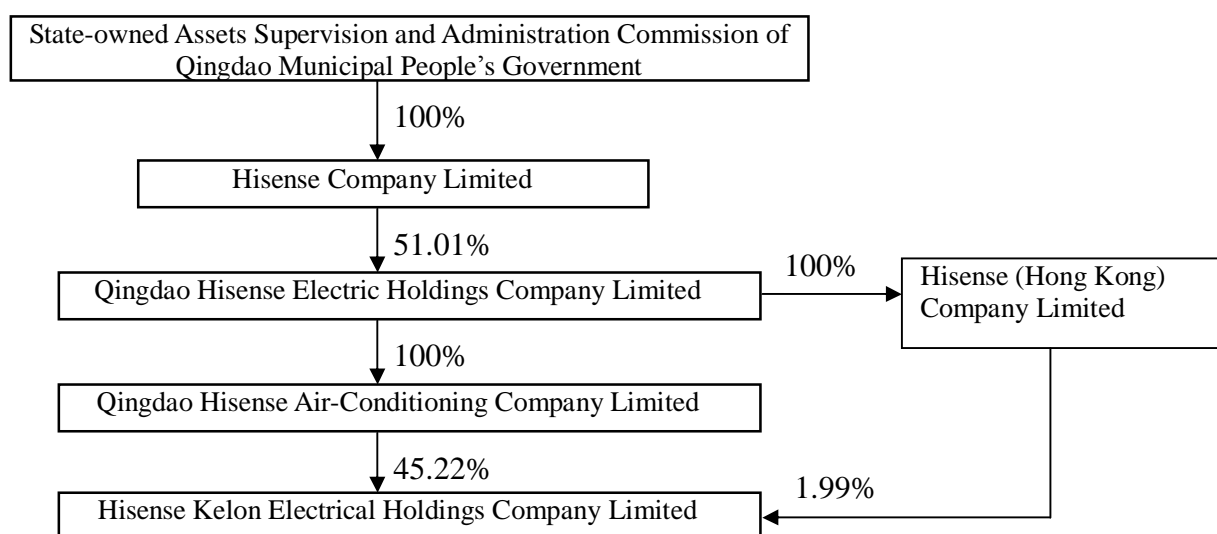
(2) Particulars of the controlling shareholders of the Company

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

above if they fall into the requirements of licensure).

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

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



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

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

As at 31 December 2011, save as disclosed in sub-section "Allocation of the share options under the grant and movements of the share options granted during the year" under the section headed "Summary on adoption of first share option incentive scheme and the grant thereunder" below, none of the members of the Board, supervisors and the chief executive of the Company and their respective associates held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be maintained by the Group pursuant to section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

MAJOR CUSTOMERS AND SUPPLIERS

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

PRE-EMPTIVE RIGHTS

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

TAXATION

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

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

(1) Purpose of the Scheme

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

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

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

No.	Name	Position	Number of share options granted during the year ('0000 shares)	Number of share options exercised or cancelled during the year ('0000 shares)	Number of share options lapsed during the year ('0000 shares)	Outstanding share options as at 31 December 2011 ('0000 shares)	As a percentage of the total share capital	As a percentage of share capital of the same class (A shares)
1	Tang Ye Guo	Chairman	126	-	-	126	0.093%	0.141%
2	Xiao Jian Lin	Director	82.8	-	-	82.8	0.061%	0.093%

3	Jia Shao Qian	Vice-President	82.8	-	-	82.8	0.061%	0.093%
4	Ren Li Ren	Director, President	72	-	-	72	0.053%	0.080%
5	Zhang Yu Qing	Vice-President	82.8	-	-	82.8	0.061%	0.093%
6	Wang Yun Li	Vice-President	82.8	-	-	82.8	0.061%	0.093%
7	Gan Yong He	Director, Vice-President	18.1	-	-	18.1	0.013%	0.020%
8	Liu Chun Xin *	Former Director, Former Vice-President, Former Head of Finance Department	90	-	90	-	-	-
9	Mid level management staff and key personnel		1407.7	-	4	1403.7	1.040%	1.57%
	Total		2045	-	94	1951	1.440%	2.181%

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

Notes:

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

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

(3) Determination method of exercise price

The exercise price of the grant is the higher of the following two prices: (i) the closing price of the A shares on the last trading day immediately preceding the date of the announcement of the summary of the Scheme (that is, 29 November 2010), which was RMB7.65 per share; and (ii) the

average closing price of the A shares during the last 30 trading days immediately preceding the date of announcement of the summary of the Scheme, which was RMB7.37 per share. Therefore, the exercise price is RMB7.65 per share. For reference only, the closing price of A shares was RMB5.63 and the closing price of H shares was HK\$1.87 on the grant date of the share options, which was on 31 August 2011, whereas the closing price of A shares was RMB 5.7 and the closing price of H shares was HK\$1.92 on 30 August 2011, being the date immediately before the grant date of the share options.

(4) Validity period of the share options

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

(5) Exercise Arrangement

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

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

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

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

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

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

(6) Value of the share options

The Company used the Black-Scholes model to calculate the value of the share options, taking the grant date as the measurement date. The estimated value of the share options is RMB 0.66 per A share, representing 11.72% of the market price of the A share as at the grant date. Data used in and results of the calculation are as follows :

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

Value of options per A Share

RMB 0.66

Calculation rate of the Black-Scholes model = 11.72%

Notes:

1. The calculation results of the value of the share options are subject to a number of assumptions of the parameters used herein and the limitation of the model adopted, therefore the estimated value of the Share Options may be subjective and uncertain.
2. The exercise price was determined in accordance with the relevant provisions stated in the Scheme, being the higher of:

- (1) the closing price of the A shares on the last trading day immediately preceding the date of the announcement of the summary of the Scheme (that is, 29 November 2010), which was RMB7.65; and
- (2) the average closing price of the A shares during the last 30 trading days immediately preceding the date of announcement of the summary of the Scheme, which was RMB7.37 per share.

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

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

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

CODE ON CORPORATE GOVERNANCE PRACTICES

After the resignation of the independent non-executive Director, Mr. Lu Qing, in order to find an appropriate person with accounting qualification to fill the vacancy, the Company was not able to appoint the right person as new independent non-executive Director and a member of the Audit Committee of the Board within three months after Mr. Lu's resignation took effect. After the appointment of Mr. Wang Ai Guo as an independent non-executive Director and a member of the Audit Committee of the Board at the extraordinary general meeting and at the first board meeting of the year 2011 of the seventh session of the Board with effect from 20 January 2011, the Company has complied with Rule 3.10 and Rule 3.21 of the Listing Rules and Code Provision A.3 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (the "CG Code"). Further, Mr. Chen Zhen Wen has resigned as the company secretary of the Company with effect from 11 June 2010 and during the period when the Company was in the process of identifying suitable candidate, the position was left vacant until the appointment of Ms. Wong Tak Fong and Ms. Li Lin as the joint company secretaries of the Company on 4 April 2011. Besides, in respect of the annual general meeting of the Company held on 27 June 2011, after the dispatch of the initial notice of annual general meeting on 11 May 2011, the supplemental and further notice of annual general meeting dated 9 June 2011 in relation to two additional proposed resolutions was dispatched by the Company on 9 June 2011. As such, such notice was sent less than 20 clear business days before the meeting as required under Code Provision E.1.3 of the CG Code. In order to keep pace with and to avoid any interruptions to the Company's normal business development, the Board was of the view that it is in the interest of the Company and its shareholders as a whole to have such additional resolutions tabled at the annual general meeting despite the fact that the Company was unable to comply with the notice requirement under the CG Code. Other than the above, to the best knowledge and information of the Company, during the Reporting Period, the Company has complied with the code provisions of the CG Code.

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

The Board announced on 13 July 2011 that the Company intends to prepare only one set of financial statements for any financial period commencing on or after 1 January 2011 under China Accounting Standards in light of the acceptance by the Hong Kong Stock Exchange of matters in relation to the adoption of Mainland accounting and auditing standards and the appointment of Mainland audit firms, details of which can be found in the announcement published on the website of the Hong

Kong Stock Exchange (<http://www.hkex.com.hk>) on 13 July 2011.

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 Hong Kong 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, 29 March 2012

As at the date of this announcement, the Company's directors are Mr. Tang Ye Guo, Mr. Ren Li Ren, Ms. Yu Shu Min, Mr. Lin Lan, Mr. Xiao Jian Lin and Mr. Gan Yong He; and the Company's independent non-executive directors are Mr. Zhang Sheng Ping, Mr. Wang Xin Yu 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

I.PARTICULARS OF THE REMUNERATION OF, AND GRANT OF SHARE OPTIONS TO, DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position	Gender	Age	Term of Office	Total remuneration received from the Company during the Reporting Period (including taxation) (RMB ten thousand)	Remuneration received from shareholders' entities or other related entities	Number of share options granted during the Reporting Period (ten thousand shares)
Tang Ye Guo	Chairman	Male	49	2009.6.26-2012.6.25	91.04	No	126
Yu Shu Min	Director	Female	60	2009.6.26-2012.6.25	0	Yes	0
Lin Lan	Director	Male	53	2009.6.26-2012.6.25	0	Yes	0
Xiao Jian Lin	Director	Male	44	2011.1.20-2012.6.25	0	Yes	82.8
Ren Li Ren	Director,	Male	47	2011.8.1-2012.6.25	63.16	No	72
	President			2011.6.27--2012.6.25			
Gan Yong He	Director,	Male	44	2012.1.16-2012.6.25	58.29	No	18.1
	Vice President			2011.6.27--2012.6.25			
Zhang Sheng Ping	Independent non-executive Director	Male	46	2009.6.26-2012.6.25	9.00	No	0
Wang Ai Guo	Independent non-executive Director	Male	47	2011.1.20-2012.6.25	9.00	No	0

Wang Xin Yu	Independent non-executive Director	Male	41	2011.9.26-2012.6.25	6.00	No	0
Guo Qing Cun	Supervisor	Male	58	2009.6.26-2012.6.25	0	Yes	0
Gao Zhong Xiang	Supervisor	Male	44	2009.6.26-2012.6.25	0	Yes	0
Liu Zhan Cheng	Supervisor	Male	33	2009.5.6-2012.6.25	42.03	No	0
Jia Shao Qian	Vice President	Male	39	2009.6.26-2012.6.25	58.34	No	82.8
Zhang Yu Qing	Vice President	Male	48	2009.6.26-2012.6.25	46.23	No	82.8
Wang Yun Li	Vice President	Male	38	2010.12.2-2012.6.25	55.77	No	82.8
Wang Hao	Person in charge of finance	Male	33	2011.9.15--2012.6.25	54.28	No	54
Xia Feng	Secretary to the Board	Male	35	2010.8.27-2012.6.25	30.11	No	0
Wong Tak Fong	Joint Company Secretary	Female	44	2011.4.4--2012.6.25	12.34	No	0
Li Lin	Joint Company Secretary	Female	33	2011.4.4--2012.6.25	13.70	No	3
Zhou Xiao Tian	Former director, Former president	Male	51	2009.6.26-2011.6.26	34.67	No	0
Liu Chun Xin	Former director, Former vice President	Female	43	2009.6.26-2011.9.14	36.25	No	0*
Cheung Yui Kai, Warren	Former independent non-executive Director	Male	44	2009.6.26-2011.9.25	16.00	No	0
Liu Wen Zhong	Former Vice President	Male	44	2011.6.27-2012.2.2	49.48	No	55
Total	-	-	-	-	685.69	-	659.30

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

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

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

- the remuneration of the Directors of the Company is determined based on suggestions made to the Board by the remuneration and appraisal committee of the Board on the basis of the duties of the Directors and the remuneration level of other listed companies in the same industry, and is subject to consideration and approval by the Board and the shareholders at general meetings;

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

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

II. INVESTMENTS OF THE COMPANY DURING THE REPORTING PERIOD

During the Reporting Period, the Company did not raise any capital and no proceeds obtained prior to the Reporting Period were used during the Reporting Period and there was no material investment which did not involve raising of capital.

III. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY

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

Name of case	Amount in dispute (RMB ten thousand)	Particulars of the case	Status
Ronshen Refrigerator against Xi'an Kelon in relation to a sale and purchase contract	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 parties later entered into a repayment agreement, but Xi'an Kelon has failed to perform such agreement. Therefore, Ronshen Refrigerator initiated the proceedings in the Foshan Intermediate Court, demanding Xi'an Kelon to refund the payment for goods and the related expenses.	In December 2008, the Foshan Intermediate Court dismissed the claim due to insufficiency of factual and legal evidence. Ronshen Refrigerator made an appeal to the Guangdong Province Higher Court. The Guangdong Province Higher Court has revoked the judgment of the Foshan Intermediate Court (Fo Zhong Fa Min Er Chu Zi No. 88 (2007)) and the case was to be re-tried by the Foshan Intermediate Court. On 23 December 2011, the Company received the civil judgment (Fo Zhong Fa Min Er Chong Zi No. 2 (2010)) from the Foshan Intermediate Court. The Foshan Intermediate Court made the first instance judgment for the retrial,

			according to which Xi'an Kelon shall pay to Ronshen Refrigerator for the debt in the amount of RMB87,314,200 together with relevant interests.
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IV.ACQUISITIONS AND DISPOSALS OF ASSETS AND MERGERS AND TAKEOVERS BY THE COMPANY

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

V.SECURITIES INVESTMENTS DURING THE REPORTING PERIOD

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

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

Unit: RMB ten thousand

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

In order to better leverage on the shares of Huayi Compressor held by it, the Company disposed of part of the shares of Huayi Compressor held by it in a total of 6,102,126 shares during the Reporting Period. The corresponding cost of long-term equity investment of RMB12,149,200 was released and an investment gain of RMB45,837,300 was recognised.

VI. DISCUSSION ON FUNDS EMBEZZLED

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

Unit: RMB ten thousand

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

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

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

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

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

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

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

Embraco is held as to 30.82% by Snowflake, a substantial shareholder which holds 45% of the equity interests in Hisense (Beijing) Electric Company Limited (being a non wholly owned subsidiary of the Company) and therefore Embraco is a connected person of the Company according to the Hong Kong Listing Rules. Huayi Compressor is a substantial shareholder holding 29.95% of Ronshen Plastic and 29.89% of Kelon Mould (both being non-wholly owned subsidiaries of the Company) and therefore Huayi Compressor is a connected person of the Company according to the Hong Kong Listing Rules. Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding 45.22% of the issued shares of the Company. As Hisense Group is the indirect holding shareholder of Hisense Air-conditioning and Hisense Electric is owned as to 41.36% by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries are associates of Hisense Air-conditioning and are therefore connected

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

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

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

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

The above transactions (other than the Business Framework Agreements with Hisense Hitachi and Hisense-Whirlpool) constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. The Company confirmed that it had complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules for the relevant connected transactions (other than the Purchase Financing Agency Framework Agreement and the Property Services Framework Agreement with Snowflake which are exempt from the reporting,

announcement and independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules). Specific information is set out as follows:

1. The Compressors Purchase Framework Agreement with Embraco

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

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

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

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

- (1) The Compressors Purchase and Supply Framework Agreement shall commence from the date of approval of the Compressors Purchase and Supply Framework Agreement by the independent shareholders (that is, 20 January 2011) until 31 December 2011, which can be terminated before its expiration by mutual agreement of the parties.
- (2) Pricing for the purchase of compressors is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of compressors from time to time. Such transactions will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on

terms not less favourable to the parties than terms available to or from (as appropriate) independent third parties.

(3) Payment for the purchase of compressors should be made by the Group by telegraphic transfer or bills within 90 days from the first day of the following month after the compressors had passed the inspection tests and the relevant invoice(s) have been accounted for in the accounts.

(4) The transactions contemplated under the Compressors Purchase and Supply Framework Agreement are subject to the annual cap of RMB1,260,000,000 (inclusive of value-added tax).

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

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

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

(2) Pricing for the purchase of home electrical appliances between the Company on the one hand and Hisense Group and Hisense Electric on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances from time to time. Pricing for the purchase of raw materials, equipments, parts and components between the Company on the one hand and Hisense Group and Hisense Electric on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness. Pricing for the supply of moulds by the Company to Hisense Group and Hisense Electric is the market price determined by the open bidding process. Pricing for the provision of services between the Company on the one hand and Hisense Group and Hisense Electric on the other hand (other than agency services for export) is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services in the industry. The fees payable by the Group for the engagement of the agency services for export of Hisense Group and Hisense Electric is calculated by multiplying the Group's turnover from overseas sales for the relevant products with an export agency fee percentage. Such export agency fee percentage is determined by commercial negotiations according to the principles of fairness and reasonableness between

the parties mainly with reference to the level of the rate of the charges actually incurred by the Group for overseas sales in previous years.

(3) Payment for the purchase of home electrical appliances between the Company on the one hand and Hisense Group and Hisense Electric on the other hand should be made by the buyer by telegraphic transfer or bills within 60 days after the receipt of the home electrical appliances. Payment for the sale and purchase of equipment, raw materials, parts and components should be made by the buyer within 60 days after the receipt of the equipment, raw materials, parts and components. Payment for the sale and purchase of moulds is determined according to the payment terms agreed between the parties as set out in the relevant contract(s) as agreed in the open bidding process. The fees for the engagement of the services will be calculated on a monthly basis and payment for such monthly fee should be made by the party which engages such services by telegraphic transfer or bills within from the following month.

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

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

Types of transactions	Division by products or services	Connected person	Proposed annual cap
Sale of products and materials	Sale of home electrical appliances products by the Company	Hisense Group	177,785
		Hisense Electric	600
	Sale of moulds by the Company	Hisense Group	18,250
		Hisense Electric	9,250
	Sale of raw materials, parts and components by the Company	Hisense Group	19,793
		Hisense Electric	1,100
Provision of services	Provision of design, loading and unloading services, equipment rental services and property services by the Company	Hisense Group	356
		Hisense Electric	36
Purchase of products and materials	Purchase of home electrical appliances products by the Company	Hisense Group	793
		Hisense Electric	500
	Purchase of raw materials, parts and components by the Company	Hisense Group	863
		Hisense Electric	6,000
	Purchase of equipment by the Company	Hisense Group	1,892
		Hisense Electric	200

Types of transactions	Division by products or services	Connected person	Proposed annual cap
Receipt of services	Receipt of property service, medical service, installation and maintenance, material inspection services, management consultancy, information system maintenance, leasing, design, advertising, agency services for import and material processing services by the Company	Hisense Group	15,028
	Receipt of agency services for export by the Company	Hisense Group	22,200
	Receipt of property service and material processing services by the Company	Hisense Electric	2,414

4. The Financial Services Agreement with Hisense Finance

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

- (1) The term of the Financial Services Agreement shall be two years with effect from obtaining the approval by the independent shareholders at the extraordinary general meeting (that is, 15 January 2010).
- (2) The services to be provided by Hisense Finance to the Group include deposit services, loan services and draft discount services.
- (3) The interest rate payable for the Group's deposits with Hisense Finance shall not be lower than the rate payable by normal commercial banks in the PRC for comparable deposits. The terms for the provision of the deposit services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions. The interest rate charged for the loans provided to the Group by Hisense Finance shall not be higher than the rate charged by normal commercial banks in the PRC for comparable loans. The terms for the provision of the loans by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions. Under the Financial Services Agreement, the service fee payable by the Company for the draft discount services to be provided by Hisense Finance shall not be less favourable than the service fee charged by normal commercial banks in the PRC for providing comparable draft discount services.
- (4) The maximum daily balance of the deposits placed by the Group with Hisense Finance at any time during the life of the Financial Services Agreement shall not exceed the cap of RMB400,000,000 (inclusive of interest) on any given day. The maximum balance of loan to be provided by Hisense Finance to the Group shall not exceed the cap of RMB1.5 billion (inclusive of interest) during the term of the Financial Services Agreement. The annual service fee payable by the Company to

Hisense Finance for the provision of draft discount services shall not exceed the cap of RMB25,000,000 during the term of the Financial Services Agreement.

- (II) During the Reporting Period, the Company and connected parties such as Hisense Group, Hisense Electric, Huayi Compressor, Hisense-Whirlpool, Hisense Hitachi, Hisense Finance, Snowflake and Embraco have entered into certain connected transactions in relation to ordinary operation, details of which are as follows:

Unit: RMB

Connected parties	Type of connected transaction	Particulars of transaction	Pricing principle of connected transaction	Transaction amount	Percentage of total amount of similar transactions
Hisense -Whirlpool	Purchase	Finished goods	Agreed price	437,593,469.15	2.88%
Hisense Electric	Purchase	Finished goods	Agreed price	120,098.36	0.00%
Sub-total of purchase of finished goods				437,713,567.51	2.88%
Huayi Compressor	Purchase	Materials	Agreed price	687,695,484.32	4.52%
Embraco	Purchase	Materials	Agreed price	40,512,368.84	0.27%
Hisense -Whirlpool	Purchase	Materials	Agreed price	4,262,261.63	0.03%
Hisense Hitachi	Purchase	Materials	Agreed price	4,778,686.37	0.03%
Hisense Group	Purchase	Materials	Agreed price	6,613,394.86	0.04%
Hisense Electric	Purchase	Materials	Agreed price	13,177,430.14	0.09%
Sub-total of purchase of materials				757,039,626.16	4.98%
Hisense Group	Purchase	Mould and equipment	Agreed price	728,754.01	0.00%
Hisense Electric	Purchase	Mould and equipment	Agreed price	82,632.14	0.00%
Hisense -Whirlpool	Purchase	Mould and equipment	Agreed price	1,110,062.58	0.01%
Sub-total of purchase of mould and equipment				1,921,448.73	0.01%
Hisense Group	Receipt of services			154,899,089.57	1.02%
Snowflake	Receipt of services			18,284,617.50	0.12%
Hisense Electric	Receipt of services			8,000,920.86	0.05%
Sub-total of receipt of services				181,184,627.93	1.19%
Hisense Hong Kong	Purchase financing agency			156,524,642.03	1.03%
Sub-total of purchase financing agency				156,524,642.03	1.03%
Hisense Electric	Sale	Finished goods	Agreed price	2,154,249.57	0.01%
Hisense -Whirlpool	Sale	Finished goods	Agreed price	359,940.53	0.00%
Hisense Hitachi	Sale	Finished goods	Agreed price	31,502,205.89	0.17%

Hisense Group	Sale	Finished goods	Market price	1,544,072,482.85	8.35%
Sub-total of sale of finished goods				1,578,088,878.84	8.53%
Hisense -Whirlpool	Sale	Materials	Agreed price	6,635,647.13	0.04%
Hisense Group	Sale	Materials	Agreed price	34,645,035.85	0.19%
Hisense Hitachi	Sale	Materials	Agreed price	746,503.14	0.00%
Hisense Electric	Sale	Materials	Agreed price	80,117.74	0.00%
Sub-total of sale of materials				42,107,303.86	0.23%
Hisense Group	Sale	Mould	Market price	119,115,888.69	0.64%
Hisense -Whirlpool	Sale	Mould and equipment	Market price	854,700.85	0.00%
Hisense Electric	Sale	Mould	Market price	47,754,580.06	0.26%
Sub-total of sale of moulds				167,725,169.60	0.90%
Hisense Electric	Provision of services		Agreed price	307,692.31	0.00%
Hisense -Whirlpool	Provision of services		Agreed price	625,111.97	0.00%
Hisense Group	Provision of services		Agreed price	153,393.26	0.00%
Sub-total of provision of services				1,086,197.54	0.00%

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

VIII. PARTICULARS OF EXTERNAL GUARANTEES DURING THE REPORTING PERIOD ARE AS FOLLOWS:

Unit: RMB ten thousand

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

(A3)								
Guarantees given by the Company for its subsidiaries								
The guaranteed party	Date of disclosure and number of relevant announcement in relation to the limit on the guaranteed amount	Guaranteed amount	Actual effective date (date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee	Completed or not	Whether the guarantee is given for any connected party
Ronshen Refrigerator	Date of announcement: 16 July 2009 Number of announcement: 2009-062	90,000	2011.09.30	718.07	Joint and several liability guarantee/ secured guarantee	2011.09.30-2012.08.30	No	No
Kelon Air-conditioner		47,000	2011.09.30	6,821.15	Joint and several liability guarantee	2011.09.30-2012.08.30	No	No
Kelon Fittings		5,000	2011.09.30	334.50	Joint and several liability guarantee/ secured guarantee	2011.09.30-2012.08.30	No	No
Ronshen Freezer		5,000	2011.12.28	51.70	Joint and several liability guarantee/ secured guarantee	2011.12.28-2012.01.27	No	No
Yangzhou Refrigerator		10,000	2010.07.23	1,298.96	Joint and several liability guarantee	2010.07.23-2012.02.25	No	No
Ronshen Plastic		4,000	2011.10.31	845.68	Joint and several liability guarantee	2011.10.31-2012.02.28	No	No
Kelon International Incorporation	Date of announcement: 18 March 2011 Number of announcement: 2011-007	40,000	2011.07.29	6,468.50	Joint and several liability guarantee	2011.07.29-2012.07.29	No	No
Total limit on the amount of guarantees for subsidiaries approved during the Reporting Period (B1)				40,000		Actual amount of guarantees for subsidiaries during the Reporting Period (B2)		71,106.58
Total limit on the amount of guarantees for subsidiaries which has been approved at the end of the Reporting Period (B3)				212,000		Total balance of actual amount of guarantees for subsidiaries at the end of the Reporting Period (B4)		16,538.56

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

IV.CROWE HORWATH CHINA CERTIFIED PUBLIC ACCOUNTANTS (LLP) ISSUED A QUALIFIED AUDITOR'S REPORT FOR THE COMPANY. THE DETAILED EXPLANATION GIVEN BY THE BOARD ON THE MATTERS RELATING TO THE AUDIT OPINION IS AS FOLLOWS:

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

As at 31 December 2011, the balance of amounts due to Hisense Kelon from the Greencool Companies and such specified third party companies amounted to RMB651 million. Hisense Kelon has made a provision for bad debts of RMB365 million in respect of the amounts due from the Greencool Companies and such third party companies. As set out in Note 8 to the financial statements, apart from the withdrawal of the case at the Intermediate People's Court

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

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

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

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

The Board of the Company considers that the provision for bad debts is an accounting estimate. The accounting method applied to such receivables does not breach the relevant requirements of the Accounting rule for Business Enterprises. While the relevant courts have given their final rulings in favour of the Company in respect of 17 cases of litigation out of 19 initiated by the Company

against Greencool Companies and specified third parties and the judgments have come into effect, one case with a claim amount of RMB29.8437 million was withdrawn by the Company and another case with a claim amount of RMB12.2894 million was rejected. The aggregate claim amounts of these two cases accounted for a small proportion of the total claim amount of RMB725 million under the court judgments. However, as the rulings in respect of the abovementioned 17 cases have not yet been enforced so far, the Board of the Company is of the view that there is no material difference in terms of the assessed recoverability of such receivables between that for 2011 and 2010 and therefore this qualified opinion will not affect the fairness in the preparation of the Company's income statement for 2011.

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

X.IMPLEMENTATION OF THE SHARE OPTION INCENTIVE SCHEME OF THE COMPANY DURING THE REPORTING PERIOD

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

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

In light of the acceptance by the Hong Kong Stock Exchange of matters in relation to the adoption of Mainland accounting and auditing standards and the appointment of Mainland audit firms, the Board of the Company has announced that the Company intends to prepare only one set of financial

statements for any financial period commencing on or after 1 January 2011 under China Accounting Standards and has removed BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD. and BDO Limited respectively as the domestic auditors and overseas auditors of the Company and has appointed Crowe Horwath China Certified Public Accountants (LLP) as the auditors of the Company for the year 2011 at the extraordinary general meeting of the Company held on 1 August 2011, details of which can be found in the announcements dated 13 July 2011 and 1 August 2011 and the supplemental circular dated 13 July 2011 published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>).

XII.DERIVATIVES INVESTMENT

(i) Situations of derivatives investment

<p>Risk analysis of positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)</p>	<p>The derivatives business of the Company mainly represents the foreign exchange derivatives business used to avoid the risk of foreign exchange fluctuations related to the overseas sales receivables. The Company determines a reasonable range of foreign exchange rates to achieve the hedging purpose.</p> <p>The Company has formulated the “Management Measures for the Foreign Exchange Capital Business” and “the Internal Control System for Forward Foreign Exchange Capital Transactions” The measures specifically regulate the basic principles, operation rules, risk control measures and internal controls that shall be followed when engaging in the business of foreign exchange derivatives. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.</p>
<p>Changes in market price or product fair value of invested derivatives during the Reporting Period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of derivatives’ fair value</p>	<p>The assessment of the fair value of the derivatives carried out by the Company mainly represents the outstanding foreign exchange forward contracts entered into by the Company and banks, which are recognized as transactional financial assets or liabilities based on the difference between the quotation of the outstanding foreign exchange forward contracts and the forward exchange rate as at the end of the period. During the Reporting Period, the Company recognized a gain of fair value changes of the derivatives of RMB4.9619 million.</p>
<p>Explanations of any significant changes in the Company’s accounting policies and specific accounting and auditing principles on derivatives between the Reporting Period and the last reporting period</p>	<p>During the Reporting Period, there were no material changes in the accounting policy and specific accounting and auditing principles for the Company’s derivatives business as compared to last reporting period.</p>
<p>Specific opinions of independent Directors,</p>	<p>Opinion of independent directors: Commencement of</p>

sponsor or financial advisor on the derivatives investment and risk control of the Company	foreign exchange derivatives business by the Company was beneficial to the Company in the prevention of exchange rate fluctuation risks. The Company has devised the Internal Control System for Forward Foreign Exchange Capital Transactions to strengthen internal control and enhance the management of foreign exchange risks, and the targeted risk control measures adopted were practicable.
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(ii) Positions in derivatives investment at the end of the Reporting Period

Unit: RMB ten thousand

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

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

DEFINITIONS

In 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 Hitachi”	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.
“Hisense-Whirlpool”	Hisense-Whirlpool (Zhejiang) Electric Appliances Co., Ltd.
“Hisense Finance”	Hisense Finance Company Limited
“Embraco”	Beijing Embraco Snowflake Compressor Co., Ltd.
“Snowflake”	Beijing Snowflake Electrical Appliance Group Corporation
“Hisense Hong Kong”	Hisense (Hong Kong) Company Limited
“Guangdong Greencool”	Guangdong Greencool Enterprise Development Company

	Limited
“Greencool Companies”	Guangdong Greencool and other related parties
“Xi’an Kelon”	Xi’an Kelon Refrigeration Co., Ltd.
“Ronshen Refrigerator ”	Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.
“Kelon Air-Conditioner”	Guangdong Kelon Air-Conditioner Co., Ltd.
“Kelon Fittings”	Guangdong Kelon Fittings Co., Ltd.
“Ronshen Freezer”	Hisense Ronshen (Guangdong) Freezer Co., Ltd.
“Yangzhou Refrigerator”	Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.
“Kelon Mould”	Guangdong Kelon Mould Company Limited
“Ronshen Plastic”	Foshan Shunde District Ronshen Plastic Co., Ltd.
“Hisense Mould”	Qingdao Hisense Mould Co., Ltd.
“Huayi Compressor”	Huayi Compressor Company Limited
“Foshan Intermediate Court”	Intermediate People’s Court of Foshan City
“RMB”	Renminbi
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited