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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 2012**

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 2012 (the “Reporting Period”) together with the 2011 comparative figures, prepared in accordance with China Accounting Standards for Business Enterprises (“China Accounting Standards”). 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 2012	31 December 2011
Assets			
Current assets			
Cash at bank and on hand		516,065,467.96	398,532,682.30
Financial assets held for trading		10,678,293.47	33,787,696.24
Notes receivable		1,558,766,192.61	502,919,307.39
Trade receivables	5	1,455,882,205.49	1,193,767,494.97
Prepayments		304,301,601.58	315,474,246.14
Others receivables		342,722,165.14	439,873,135.47
Inventories		1,738,441,110.15	1,547,277,865.07
Other current assets		3,309,064.74	3,568,803.11
Total current assets		5,930,166,101.14	4,435,201,230.69
Non-current assets			
Long-term equity investments		751,925,728.90	610,755,845.36
Investment properties		36,446,602.09	38,019,850.43
Fixed assets		1,909,832,448.93	1,947,070,154.12
Construction in progress		68,344,253.58	80,702,425.28

Fixed assets pending for disposal			
Intangible assets		495,496,878.49	520,066,256.26
Long term prepaid expenses		827,939.58	
Deferred tax assets		7,294,688.02	3,623,816.22
Total non-current assets		3,270,168,539.59	3,200,238,347.67
Total assets		9,200,334,640.73	7,635,439,578.36
Liabilities and Shareholders' equity			
Current liabilities			
Short-term borrowings		30,309,453.94	1,004,998,894.20
Financial liabilities held for trading		164,231.22	6,636,121.77
Notes payable		1,432,852,210.08	612,667,073.33
Trade payables	6	2,335,425,936.47	2,054,610,132.81
Advances from customers		837,065,771.59	758,206,285.15
Employee remunerations payable		223,662,684.56	190,026,739.08
Taxes payable		-48,994,818.36	-90,090,833.72
Interests payable		202,930.49	1,447,530.16
Dividends payable		2,067.02	2,067.02
Other payables		1,581,294,492.81	1,156,195,947.88
Other current liabilities		566,406,795.92	467,458,815.86
Total current liabilities		6,958,391,755.74	6,162,158,773.54
Non-current liabilities			
Provisions		311,862,482.54	271,488,354.42
Other non-current liabilities		56,872,390.49	40,977,575.97
Total non-current liabilities		368,734,873.03	312,465,930.39
Total liabilities		7,327,126,628.77	6,474,624,703.93
Shareholders' Equity			
Share capital		1,354,054,750.00	1,354,054,750.00
Capital reserve		2,101,650,386.96	2,096,929,058.26
Surplus reserves		145,189,526.48	145,189,526.48
Undistributed profits		-2,099,392,002.85	-2,817,156,683.25
Difference on translation of foreign currency financial statements		10,539,505.90	26,106,945.84
Total equity attributable to shareholders of the Company		1,512,042,166.49	805,123,597.33
Minority Interests		361,165,845.47	355,691,277.10
Total shareholders' equity		1,873,208,011.96	1,160,814,874.43
Total liabilities and shareholders' equity		9,200,334,640.73	7,635,439,578.36

Consolidated Income Statement

Item	Note	2012	2011
Revenue	7	18,958,915,310.09	18,488,663,163.12
Cost of sales	7	15,034,033,516.68	15,202,894,118.35
Business taxes and surcharges		105,218,703.08	63,151,069.49
Selling and distribution expenses		2,731,894,401.50	2,636,211,941.70
General and administrative expenses		640,893,526.75	547,649,947.84
Financial expenses	8	38,999,591.86	56,004,041.79
Impairment losses on assets		40,896,674.83	24,876,652.11
Gain from changes in fair value		-16,637,512.22	4,961,913.35
Investment income	9	335,254,433.67	138,560,585.23
Including: Share of profit of associates and joint ventures		190,097,006.83	94,337,603.16
Operating profits		685,595,816.84	101,397,890.42
Non-operating income		64,651,884.85	158,721,726.61
Non-operating expenses		7,393,693.62	13,420,036.77
Including: Losses on disposal of non-current assets		2,711,055.26	7,324,104.26
Total profit		742,854,008.07	246,699,580.26
Less: Income tax expenses	10	10,548,434.72	21,250,352.26
Net profit		732,305,573.35	225,449,228.00
Profits realized by consolidated parties prior to consolidation			
Net profit attributable to shareholders of the Company		717,764,680.40	227,015,126.87
Minority interests		14,540,892.95	-1,565,898.87
Earnings per share			
Basic earnings per share	13	0.5301	0.1677
Diluted earnings per share	13	0.5301	0.1677
Other comprehensive income		-15,494,563.24	-9,365,044.24
Total comprehensive income		716,811,010.11	216,084,183.76
Total comprehensive income attributable to the shareholders of the Company		702,270,117.16	217,650,082.63
Total comprehensive income attributable to minority interests		14,540,892.95	-1,565,898.87

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 2012, 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 controlling shareholder.

In the opinion of the directors of the Company, as at 31 December 2012, Hisense Company Limited (“Hisense Group”), a state-owned enterprise incorporated in the PRC, is regarded as the ultimate controlling 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, accounting estimate 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 three reportable segments: refrigerators, air-conditioners, and others (including freezers, product components and other electrical household appliances).

(1) Segment information as at and for the year ended 31 December 2012 is as follows:

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

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

Amount for last period	Refrigerators	Air-conditioners	Others	Elimination	Total
1. Revenue from external sales	8,246,154,462.25	6,516,774,558.25	1,985,520,255.63		16,748,449,276.13
2. Revenue from inter-segment			491,507,674.29	-491,507,674.29	
3. Share of profit of in 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	76,532,185.88		358,697,210.71

5. Gain from changes in fair value	5,539,845.99	-547,737.26	-30,195.38		4,961,913.35
6. Impairment losses on assets	20,574,240.66	2,097,039.31	2,205,372.14		24,876,652.11
7. Total profit (Total loss)	264,157,297.87	-95,856,125.44	97,342,800.43	-18,944,392.60	246,699,580.26
8. Income tax expenses			21,250,352.26		21,250,352.26
9. Net profit (net loss)	264,157,297.87	-95,856,125.44	76,092,448.17	-18,944,392.60	225,449,228.00
10. Total assets	7,309,137,528.15	5,007,184,529.18	3,510,717,240.75	-8,191,599,719.72	7,635,439,578.36
11. Total liabilities	4,816,526,137.42	4,125,554,419.92	2,632,462,148.15	-5,099,918,001.56	6,474,624,703.93
12. Additions to other non-current assets other than long-term equity investments	220,001,135.23	86,720,778.70	51,945,075.69		358,666,989.62

(2) Geographic Information

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

*The Company is mainly operated in 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 controlling shareholder, 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 2012		31 December 2011	
	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 2012	31 December 2011
Within three months	1,432,725,055.88	1,174,482,507.39
Over three months but within six months	1,612,142.13	3,594,295.40
Over six months but within one year	11,486,360.10	174,160.16
Over one year	161,579,416.05	165,096,418.23
Total	1,607,402,974.16	1,343,347,381.18
Less: provision for bad debts	167,483,810.31	165,542,927.85
	1,439,919,163.85	1,177,804,453.33

6. Trade payables

The aging of trade payables is analysed as follows:

Item	31 December 2012	31 December 2011
Within one year	2,197,488,131.14	1,896,440,466.81
Over one year	137,937,805.33	158,169,666.00
Total	2,335,425,936.47	2,054,610,132.81

7. Revenue and cost of sales

Item	2012	2011
Revenue from main operations	17,353,776,682.71	16,748,449,276.13
Revenue from other operations	1,605,138,627.38	1,740,213,886.99
Total	18,958,915,310.09	18,488,663,163.12
Item	2012	2011
Cost of main operations	13,562,752,511.56	13,561,364,782.89
Cost of other operations	1,471,281,005.12	1,641,529,335.46
Total	15,034,033,516.68	15,202,894,118.35

8. Financial expenses

Item	2012	2011
Interest expenses	29,818,343.17	39,264,507.45
less: interest income	3,051,399.68	1,941,417.40
Discounted notes	12,359,540.38	4,718,744.46

Gain/(loss) on Foreign Exchange	8,723,293.92	7,363,879.23
Others	- 8,850,185.93	6,598,328.05
Total	38,999,591.86	56,004,041.79

9. Investment Income

(1) Summary of investment income

Item	2012	2011
Income from long-term equity investment - the cost method	3,800,000.00	3,534,000.00
Income from long-term equity investment - the equity method	190,097,006.83	94,337,603.16
Income from disposal of long-term equity investment*	98,395,591.58	18,499,320.95
Income from disposal of financial assets held for trading	42,961,835.26	22,189,661.12
Total	335,254,433.67	138,560,585.23

*Investment income from disposal of long-term equity investment for the period represented investment income recognized for the disposal of equity in Xian Kelon, and deregistration of KELON USA, INC. by the Company.

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

Investee	2012	2011
Qingdao Hisense International Marketing Co., Ltd.	3,800,000.00	3,534,000.00
Total	3,800,000.00	3,534,000.00

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

Investee	2012	2011
Huayi Compressor	6,634,219.63	1,973,956.79
Hisense-Whirlpool	3,430,870.26	-3,827,145.17
Attend Logistics Co., Ltd.	-143,000.95	-298,934.03
Hisense Hitachi	180,174,917.89	96,489,725.57
Total	190,097,006.83	94,337,603.16

10. Income tax expenses

Item	2012	2011
Income tax expenses	14,219,306.52	17,980,944.58
Inc: Current income tax calculated according to tax law and related regulations in Mainland China	12,561,887.81	16,402,424.58
Current income tax calculated according to tax law and related regulations in Hong Kong	1,657,418.71	1,578,520.00
Deferred tax expenses	-3,670,871.80	3,269,407.68
Total	10,548,434.72	21,250,352.26

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

Item	2012	2011
Total profits	742,854,008.07	246,699,580.26
Income tax expenses calculated at statutory (or applicable) tax rates	185,713,502.02	61,674,895.07
Tax effects of different tax rates applicable to certain subsidiaries	-6,761,202.70	-6,963,570.45
Adjustments for current income tax for previous periods	-168,593.35	3,269,407.68
Profit and loss attributable to joint ventures and associates	-47,524,251.69	-23,584,400.79
Non-taxable income	-8,007,318.42	-5,981,608.71
Non-deductible expenses	4,329,272.07	33,935,932.72
Utilisation of tax loss from previous periods	-140,901,199.46	-65,720,607.51
Tax loss for which no deferred tax asset was recognized	23,868,226.25	24,620,304.25
Others		
Income tax expenses	10,548,434.72	21,250,352.26

Certain subsidiaries have been recognised as “high technology” companies and are entitled to a preferential tax rate of 15% (2011: 15%). Other certain subsidiaries of the Company are foreign invested enterprises and are subject to a preferential tax rate of 12.5% (2011: 12.5%) under the transitional preferential policies of the EIT law.

Hong Kong Profits Tax is calculated at 16.5% (2011: 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% (2011: 25%).

11. Net Current Assets

Item	31 December 2012	31 December 2011
Current Assets (Consolidated)	5,930,166,101.14	4,435,201,230.69
Less : Current Liabilities (Consolidated)	6,958,391,755.74	6,162,158,773.54
Net Current Assets (Consolidated)	-1,028,225,654.60	-1,726,957,542.85
Current Assets (the Company)	4,730,456,072.49	4,024,527,726.67
Less : Current Liabilities (the Company)	5,672,829,625.08	5,227,092,433.23
Net Current Assets (the Company)	-942,373,552.59	-1,202,564,706.56

12. Total Assets Less Current Liabilities

Item	31 December 2012	31 December 2011
Total Assets (Consolidated)	9,200,334,640.73	7,635,439,578.36
Less : Current Liabilities (Consolidated)	6,958,391,755.74	6,162,158,773.54
Total Assets less Current Liabilities (Consolidated)	2,241,942,884.99	1,473,280,804.82
Total Assets (the Company)	8,278,917,143.79	7,469,144,553.26

Less : Current Liabilities (the Company)	5,672,829,625.08	5,227,092,433.23
Total Assets Less Current Liabilities (the Company)	2,606,087,518.71	2,242,052,120.03

13. 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	2012	2011
Consolidated net profit attributable to ordinary shareholders of the Company	717,764,680.40	227,015,126.87
weighted average number of ordinary shares in issue of the Company	1,354,054,750	1,354,054,750
Basic earnings per share	0.5301	0.1677

(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 2012 and 2011, 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 2012, or reserve funds converted into capital(2011: 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 2012, 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 accompanying financial statements of the Company present fairly, in all material respects, the consolidated and company's financial position as at 31 December 2012, and the consolidated and company's financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

MANAGEMENT DISCUSSION AND ANALYSIS

I .INDUSTRY OVERVIEW

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

II . ANALYSIS OF THE COMPANY'S OPERATION

Overall situation

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

its strategy which put emphasis on high-end products and continuously enhanced product gross profit margin and profitability. The gross profit margin of domestic sales increased by 3.35 percentage points, while the gross profit margin of export sales increased by 3.75 percentage points.

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

Research and development of technology

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

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

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

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

drying problem of air cooling refrigerators and effectively enhance the preservation function of the refrigerators.

Refrigerator and freezer business

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

Air-conditioner business

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

III. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD

(I) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

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

Yes No

	2012	2011	Increase or decrease as compared to last	2010

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

(II) NON-RECURRING PROFIT AND LOSS ITEMS AND AMOUNTS

Unit: RMB

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

(III) ANALYSIS OF PRINCIPAL BUSINESS

1. Income

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

Yes No

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

2. Costs

Unit: RMB ten thousand

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

3. Expense

Unit: RMB ten thousand

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

4. Cash Flow

Unit: RMB ten thousand

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

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

5. Research and development expenses

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

(IV) DESCRIPTION OF PRINCIPAL BUSINESS SEGMENTS

Unit: RMB ten thousand

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

(V) ANALYSIS OF ASSETS AND LIABILITIES POSITION

1. Significant changes in asset items

Unit: RMB ten thousand

Item	31 December 2012		31 December 2011		Increase or decrease in weight (%)	Explanation of significant changes
	Amount	Percentage to total assets (%)	Amount	Percentage to total assets (%)		
Cash at bank and on hand	51,606.55	5.61	39,853.27	5.22	0.39	No significant changes

Notes receivable	155,876.62	16.94	50,291.93	6.59	10.35	Mainly due to the Company's enhanced management of payment collection, improvement in the Company's capital position, and decrease in endorsement and discounting of the Company's notes receivable and change to collection at maturity resulted from maturity mismatch of notes receivable and notes payable in the Reporting Period
Accounts receivable	145,588.22	15.82	119,376.75	15.63	0.19	No significant changes
Inventories	173,844.11	18.90	154,727.79	20.26	-1.36	No significant changes
Investment properties	3,644.66	0.40	3,801.99	0.50	-0.10	No significant changes
Long-term equity investments	75,192.57	8.17	61,075.58	8.00	0.17	No significant changes
Fixed assets	190,983.24	20.76	194,707.02	25.50	-4.74	No significant changes
Construction in progress	6,834.43	0.74	8,070.24	1.06	-0.32	No significant changes

2. Significant changes in liability items

Unit: RMB ten thousand

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

(VI) ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Unit: RMB ten thousand

Items	Amount at the beginning of the period	Gain or loss from change in fair value during the period	Accumulated changes in fair value accounted in equity	Impairment provided during the period	Amount purchased during the period	Amount sold during the period	Amount at the end of the period
Financial assets							
1. Financial assets	—	—	—	—	—	—	—

measured at fair value where changes in fair value are accounted for as gain or loss of the period (excluding derivative financial assets)								
2. Derivative financial assets	3,378.77	-2,310.94	-2,310.94	—	—	—	1,067.83	
3. Financial assets available for sale	—	—	—	—	—	—	—	
Subtotal of financial assets	3,378.77	-2,310.94	-2,310.94	—	—	—	1,067.83	
Real estate for investment	—	—	—	—	—	—	—	
Productive biological assets	—	—	—	—	—	—	—	
Others	—	—	—	—	—	—	—	
Total	3,378.77	-2,310.94	-2,310.94	—	—	—	1,067.83	
Financial liabilities	-663.61	647.19	647.19	—	—	—	-16.42	

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

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

(VIII) Core Competitiveness Analysis

1、Technological advantages

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

2. Brand advantages

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

IV.Outlook

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

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

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

capital flow.

FINAL DIVIDEND

The Group recorded net profit attributable to shareholders of the listed company of RMB 718 million for the year ended 31 December 2012. The Board resolved not to pay any dividend for the year ended 31 December 2012 and not to capitalize any reserve funds (no dividend was paid by the Group for the year ended 31 December 2011).

LIQUIDITY AND SOURCES OF FUNDS

For the year ended 31 December 2012, net cash generated from operating activities of the Group amounted to approximately RMB 1,098 million (2011: net cash generated from operating activities amounted to approximately RMB 366 million).

As at 31 December 2012, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB 516 million (2011: RMB 398 million), and bank loans amounting to approximately RMB30 million (2011: RMB1,005 million).

Total capital expenditures of the Group for the year ended 31 December 2012 amounted to approximately RMB 163 million (2011: RMB 230 million).

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 31 December 2012, the Group had approximately 30,698 employees, mainly comprising 4,644 technical staff, 13,325 sales representatives, 622 financial staff, 1,147 administrative staff and 10,960 production staff. The Group had 4 employees with a doctorate degree, 197 with a master's degree and 2,978 with a bachelor's degree. For the year ended 31 December 2012, the Group's staff payroll amounted to RMB1,541 million (corresponding period in 2011 amounting to RMB1,485 million).

EMPLOYEES' TRAINING AND REMUNERATION POLICY

Employees and people are the basis for corporate development. Leveraging on the platform provided by Hisense College, the Company has established a three-level training system, a well-rounded curriculum system and a training regulation system and actively promoted the building up of teacher resources internally and externally, so as to effectively support the development of the Company's management and technical personnel and achieve value-added human resources. The Company develops training programs every year based on its annual work plan and human resources development needs.

The Company has provided 1,362 courses in total during the Reporting Period, and the number of participants reached 64,518. The courses are mainly of enterprise management type, craftsmanship and quality type, corporate culture type, manufacturing type, or are induction courses for new staff, etc., covering employees at different levels, ranging from ground level staff responsible for work such as front-line production and marketing to senior management.

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

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2012, the Group's property, plant and equipment (including leasehold land held for own use), investment properties and trade receivables of approximately RMB 423 million (31 December 2011: RMB 569 million) were pledged as security for the Group's borrowings.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

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

PUBLIC FLOAT

The Directors confirm that as at 28 March 2013, based on publicly available information and to the best of their knowledge, 25% or above of the total issued share capital of the Company are held by the public. Therefore, the public float of the Company satisfies the requirement stipulated under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

AUDIT COMMITTEE

The eighth session of the audit committee of the Company has reviewed the final results of the Group for the year ended 31 December 2012.

CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2013 will be approximately RMB 47 million. The Group has sufficient funds to meet the funding requirement for capital expenditure plans and daily operations.

TRUST DEPOSITS

As at 31 December 2012, the Group did not have any trust deposits with any financial institutions in the PRC. All of the Group's deposits have been deposited in commercial banks and other financial institution in the PRC and Hong Kong.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2012, the Group did not have any long-term bank borrowings and its cash and cash equivalents amounted to RMB514 million (2011: RMB 397 million), of which more than RMB 416 million are denominated in Renminbi.

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

GEARING RATIO

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

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The eighth session of the Board has received a written confirmation from each of the independent

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

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

The Directors of the eighth session of the Board and the supervisors of the Company do not and did not directly or indirectly hold any material interests in any contract of significance of the Company or its subsidiaries subsisting during or at the end of the year 2012.

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the eighth session of the Board have reviewed the continuing connected transactions of the Group for the year 2012, and confirmed that these transactions were conducted in the ordinary course of business of the Group in accordance with the relevant agreements governing them and on normal commercial terms which were fair and reasonable and in the interest of the shareholders of the Company as a whole.

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY AUDITORS

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

SHARE CAPITAL STRUCTURE

As at 31 December 2012, the share capital structure of the Company was as follows:

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

Total	1,354,054,750	100.00%
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TOP TEN SHAREHOLDERS

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

Name of Shareholder	Nature of Shareholder	No. of shares held	Percentage to the total issued shares of the Company	Percentage to the relevant class of issued shares of the Company	No. of shares held subject to trading moratorium	No. of pledged or frozen shares
Qingdao Hisense Air-conditioning Company Limited	State-owned legal person	612,316,909	45.22%	68.46%	612,316,909	0
HKSCC Nominees Limited <small>Note</small>	Foreign legal person	457,568,208	33.79%	99.56%	0	Unknown
China Huarong Asset Management Corporation	State-owned legal person	30,000,000	2.22%	3.35%	0	0
Zhang Shaowu	Domestic natural person	6,365,415	0.47%	0.71%	0	0
Industrial Bank Company Limited – Lombarda China New Trend Securities Investment Fund (LOF)	Other	5,179,033	0.38%	0.58%	0	0
Agricultural Bank of China – Fullgoal Tianrui Strong Area Selected Mixed Open Securities Investment Fund	Other	4,584,930	0.34%	0.51%	0	0
GF Securities Company Limited	Domestic non-state-owned legal person	4,383,613	0.32%	0.49%	0	0
Zhong Juan Wei	Domestic natural person	3,661,174	0.27%	0.41%	0	0
Agricultural Bank of China – Fullgoal Tiancheng Dividend Flexible Allocation Mixed Securities	Other	3,000,000	0.22%	0.34%	0	0

Investment Fund						
Industrial and Commercial Bank of China – Fullgoal Tianhui Selected Growth Mixed Securities Investment Fund (LOF)	Other	2,500,000	0.18%	0.28%	0	0

Note:

1. The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, among which, Hisense (Hong Kong) Company Limited, a party acting in concert with the controlling shareholder of the Company, has acquired 27 million H shares of the Company through the exercise of option during the Reporting Period, and became holder of 54 million H shares in total at the end of the period, representing 3.99% of the total number of shares of the Company.

2. At the end of the day falling 5 trading days prior to the date of disclosure of the annual report for A shares on 29 March 2013, there were 36,198 shareholders of the Company in total.

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of tradable shares held	Class of shares
HKSCC Nominees Limited	457,568,208	Overseas listed foreign shares
China Huarong Asset Management Corporation	30,000,000	RMB ordinary shares
Zhang Shaowu	6,365,415	RMB ordinary shares
Industrial Bank Company Limited – Lombarda China New Trend Securities Investment Fund (LOF)	5,179,033	RMB ordinary shares
Agricultural Bank of China – Fullgoal Tianrui Strong Area Selected Mixed Open Securities Investment Fund	4,584,930	RMB ordinary shares
GF Securities Company Limited	4,383,613	RMB ordinary shares
Zhong Juan Wei	3,661,174	RMB ordinary shares
Agricultural Bank of China – Fullgoal Tiancheng Dividend Flexible Allocation Mixed Securities Investment Fund	3,000,000	RMB ordinary shares
Industrial and Commercial Bank of China – Fullgoal Tianhui Selected Growth Mixed Securities Investment Fund (LOF)	2,500,000	RMB ordinary shares
Yan Xinyao	1,885,739	RMB ordinary shares

Note : The Company is not aware whether any of the top ten holders of tradable shares is connected with each other or any of them is a party acting in concert with any of the other nine shareholders within the meaning of 《上市公司收購管理辦法》 (Administrative Measures for the Takeover of Listed Companies).

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES

AND UNDERLYING SHARES

So far as is known to the Directors, supervisors and the chief executive of the Company, as at 31 December 2012, the following persons (other than the Directors, supervisors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”), or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange:

Long position or short position in the shares of the Company

Name of shareholder	Capacity	Type of shares	Number of shares held	Percentage of the respective type of shares	Percentage of the total number of shares in issue
Qingdao Hisense Air-conditioning Company Limited ^{Note}	Beneficial owner	A shares	612,316,909(L)	68.46%	45.22%
Qingdao Hisense Electric Holdings Company Limited ^{Note}	Interest of controlled corporation	A shares	612,316,909(L)	68.46%	45.22%
Hisense Company Limited ^{Note}	Interest of controlled corporation	A shares	612,316,909(L)	68.46%	45.22%
Hisense (Hong Kong) Company Limited ^{Note}	Beneficial owner	H shares	54,000,000(L)	11.75%	3.99%
Qingdao Hisense Electric Holdings Company Limited ^{Note}	Interest of controlled corporation	H shares	54,000,000(L)	11.75%	3.99%
Hisense Company Limited ^{Note}	Interest of controlled corporation	H shares	54,000,000(L)	11.75%	3.99%

Note: Qingdao Hisense Air-conditioning Company Limited is a company directly owned as to 93.33% and indirectly owned as to 6.67% by Qingdao Hisense Electric Holdings Company Limited, whereas Hisense (Hong Kong) Company Limited is a company directly owned as to 100% by Qingdao Hisense Electric Holdings Company Limited. Qingdao Hisense Electric Holdings Company Limited is in turn owned as to 47.90% by Hisense Company Limited. By virtue of the SFO, Qingdao Hisense Electric Holdings Company Limited and Hisense Company Limited were deemed to be interested in the same parcel of A shares of which Qingdao Hisense Air-conditioning Company Limited was interested and in the same parcel of H shares of which Hisense (Hong Kong) Company Limited was interested.

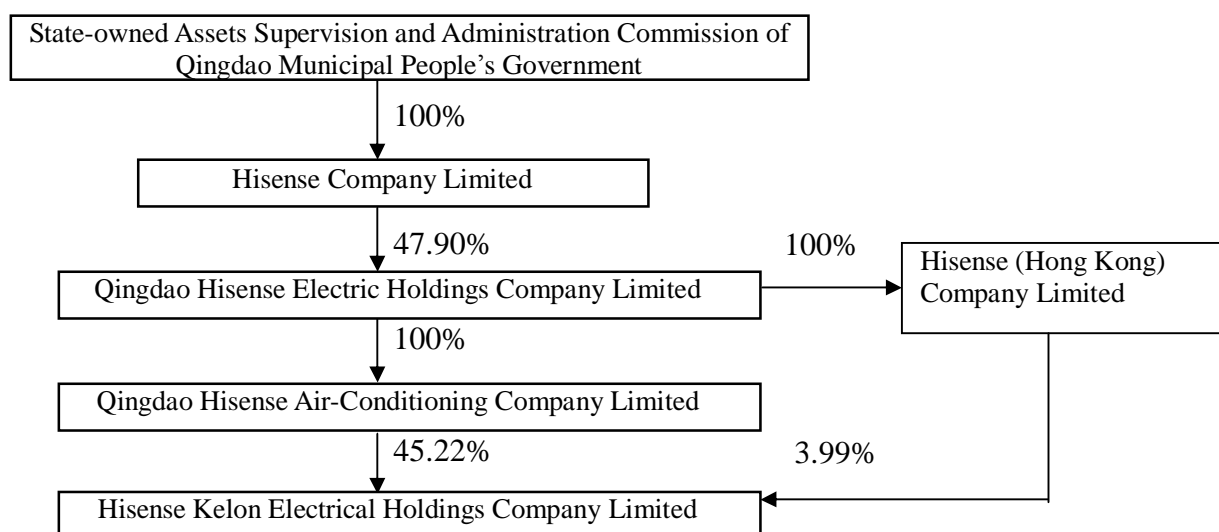
Save as disclosed above, as at 31 December 2012, in so far as the Directors, supervisors and chief executive of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register

required to be kept by the Company pursuant to section 336 of the SFO.

PARTICULARS OF THE CONTROLLING SHAREHOLDERS OF THE COMPANY

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

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



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

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

UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, save as disclosed in sub-section “Movements of the share options during the Reporting Period” under the section headed “Summary on adoption of first share option incentive scheme and the grant thereunder” below, none of the members of the Board, supervisors and the chief executive of the Company held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be maintained by the Group pursuant to section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2012, the aggregate amount of the Group’s purchases from the top five suppliers was RMB2,428 million, representing 17.90% of the total purchase amount of the Group for the year and the aggregate sales amount to the top five customers was RMB4,853 million, representing 27.96% of the total sales amount of the Group for the year. As at 31 December 2012, none of the Directors, their associates or shareholders of the Company who, to the knowledge of the Directors, held more than 5% of the shares in the Company, had any interest in the above suppliers or customers.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDITOR

In 2011, as considered and approved at the 2011 second extraordinary general meeting of the Company, BDO CHINA LI XIN DA HUA Certified Public Accountants CO., LTD. and BDO Limited were respectively removed as the domestic auditors and overseas auditors of the Company for the financial year of 2011, and Crowe Horwath China Certified Public Accountants (LLP) were appointed as the auditors of the Company for the financial year of 2011. In 2012, as considered and approved at the shareholders’ general meeting, the Company agreed to re-appoint Crowe Horwath China Certified Public Accountants (LLP) as the auditors of the Company for the financial year of 2012.

PRE-EMPTIVE RIGHTS

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

TAXATION

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

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

(1) Purpose of the Scheme

The first share option incentive scheme (the “Scheme”) was adopted by the Company on 1 August

2011. The Scheme is formulated to further refine the management structure of the Company, provide long-term rewards and retention incentives for the senior and mid-level management, key technical, sales and management personnel of the Company, fully motivate their pro-activeness and creativity, closely correlate their interests with the long term development of the Company, and allow sustainable development of the Company.

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

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

No.	Name	Position	Outstanding share options as at 1 January 2012 (ten thousand shares)	Number of share options exercised or cancelled during the Reporting Period (ten thousand shares)	Number of share options lapsed during the Reporting Period (ten thousand shares)	Outstanding share options as at 31 December 2012 (ten thousand shares)	As a percentage of the total share capital	As a percentage of share capital of the same class (A shares)
1	Tang Ye Guo	Chairman	126	-	-	126	0.093%	0.141%
2	Xiao Jian Lin	Director	82.8	-	-	82.8	0.061%	0.093%
3	Jia Shao Qian	Vice-President	82.8	-	-	82.8	0.061%	0.093%
4	Ren Li Ren	Director, President	72	-	-	72	0.053%	0.080%
5	Zhang Yu Qing	Vice-President	82.8	-	-	82.8	0.061%	0.093%
6	Wang Yun Li	Vice-President	82.8	-	-	82.8	0.061%	0.093%
7	Gan Yong He	Director, Vice-President	18.1	-	-	18.1	0.013%	0.020%
8	Zhang Jian Jun	Supervisor	5.6	-	-	5.6	0.004%	0.006%
9	Mid level management staff and key personnel		1398.1	-	-	1398.1	1.040%	1.563%
	Total		1951	-	-	1951	1.440%	2.181%

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

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

(3) The grant date of the share options

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

(4) Validity period of the share options

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

(5) Exercise Arrangement

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

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

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

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

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

(6) Determination method of exercise price

The exercise price of the grant is the higher of the following two prices: (i) the closing price of the A shares on the last trading day immediately preceding the date of the announcement of the summary of the Scheme (that is, 29 November 2010), which was RMB7.65 per share; and (ii) the average closing price of the A shares during the last 30 trading days immediately preceding the date of announcement of the summary of the Scheme, which was RMB7.37 per share. Therefore, the exercise price is RMB7.65 per share.

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

In accordance with the requirements of the First Share Option Incentive Scheme of Hisense Kelon Electrical Holdings Company Limited (Revised Draft), the Company has elected to use the Black-Scholes option pricing model to calculate the fair value of the share options granted under the Scheme. According to the calculation by such pricing model, the Company recognized an expense of RMB4.6485 million in total in relation to this share option incentive scheme.

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

(I) On 29 November 2011, the Company entered into the Compressors Purchase Framework Agreement, the Compressors Purchase and Supply Framework Agreement, the Business Co-operation Framework Agreement, the Property Services Framework Agreement, the Financial Services Agreement, Business Framework Agreement 1, Business Framework Agreement 2 and the Purchase Financing Agency Framework Agreement with Embraco, Huayi Compressor, Hisense Group and Hisense Electric, Snowflake, Hisense Finance, Hisense Hitachi, Hisense-Whirlpool and Hisense Hong Kong respectively.

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

Huayi Compressor is a substantial shareholder holding 29.95% of Ronshen Plastic and 29.89% of Kelon Mould (both being non-wholly owned subsidiaries of the Company) and therefore Huayi Compressor is a connected person of the Company according to the Hong Kong Listing Rules.

Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding 45.22% of the issued shares of the Company and Hisense Hong Kong (which held 1.99% of the issued shares of the Company as at the date of the agreement) holds 3.99% of the issued shares of the Company. As Hisense Group indirectly owns 47.90% of Hisense Air-conditioning and Hisense Hong Kong (then indirectly owned 51.01% of such companies as at the date of the agreement) and Hisense Electric is owned as to 41.15% (then owned as to 41.36% as at the date of the agreement) by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries are connected persons of the Company according to the Hong Kong Listing Rules. As Hisense Finance is a subsidiary of Hisense Group, Hisense Finance is also a connected person of the Company according to the Hong Kong Listing Rules.

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

Details of the Compressors Purchase Framework Agreement with Embraco, the Compressors Purchase and Supply Framework Agreement with Huayi Compressor, the Business Co-operation Framework Agreement with Hisense Group and Hisense Electric, the Property Services Framework Agreement with Snowflake, the Financial Services Agreement with Hisense Finance, Business Framework Agreement 1 with Hisense Hitachi and Business Framework Agreement 2 with Hisense-Whirlpool can be found in the announcement and the circular published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 29 November 2011 and 28 December 2011 respectively.

As Hisense Group is the beneficial controller of both Hisense Hong Kong and the Company, Hisense Hong Kong is a connected person of the Company under the Rules Governing the Listing

of Stocks on the Shenzhen Stock Exchange. Hisense Hong Kong is also a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. Since the financial assistance arrangement under the Purchase Financing Agency Framework Agreement would be for the benefit of the Company on normal commercial terms where no security over the assets of the Company was to be granted in respect of the financial assistance, such arrangement was exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules. Details of the Purchase Financing Agency Framework Agreement can be found in the announcement published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 29 November 2011.

The above transactions (other than the Business Framework Agreement 1 with Hisense Hitachi and the Business Framework Agreement 2 with Hisense-Whirlpool) constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. The Company confirmed that it had complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules for the relevant connected transactions (other than the Purchase Financing Agency Framework Agreement which is exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules). Specific information of the Compressors Purchase Framework Agreement, the Compressors Purchase and Supply Framework Agreement, the Business Co-operation Framework Agreement, the Financial Services Agreement and the Property Services Framework Agreement is set out as follows:

1. The Compressors Purchase Framework Agreement with Embraco

The Group is engaged in the manufacture of home electrical appliances, including but not limited to refrigerators and freezers, which requires compressors as a component for its products. After considering a range of factors including the quality, the price and the compatibility of the compressors manufactured by Embraco and/or its subsidiaries with the current facilities used by and the refrigerators and freezers manufactured by the Group as well as the level of services provided by Embraco and/or its subsidiaries, the Group considers that Embraco and/or its subsidiaries are in a good position to supply compressors to the Group. In addition, the Group can have bigger bargaining power by carrying out bulk purchase of compressors from Embraco and/or its subsidiaries, thus reducing purchase costs and increasing product competitiveness. As such, the Company entered into the Compressors Purchase Framework Agreement with Embraco, the principal terms of which are as follows:

- (1) The Compressors Purchase Framework Agreement shall commence from the date of approval of the Compressors Purchase Framework Agreement by the independent shareholders (that is, 16 January 2012) until 31 December 2012, which can be terminated before its expiration by mutual agreement of the parties.
- (2) Pricing for the purchase of compressors will be the market price of compressors which will be confirmed by commercial negotiation between the parties according to the principles of fairness and reasonableness from time to time. Such transactions will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable to the parties than terms available to or from (as appropriate) independent third parties.
- (3) Payment term(s) for the purchase of compressors shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto.
- (4) The transactions contemplated under the Compressors Purchase Framework Agreement are subject to the annual cap of RMB250,000,000 (inclusive of value-added tax).

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

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

- (1) The Compressors Purchase and Supply Framework Agreement shall commence from the date of approval of the Compressors Purchase and Supply Framework Agreement by the independent shareholders (that is, 16 January 2012) until 31 December 2012, which can be terminated before its expiration by mutual agreement of the parties.
- (2) Pricing for the purchase of compressors will be the market price of compressors which will be confirmed by commercial negotiation between the parties according to the principles of fairness and reasonableness from time to time. Such transactions will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable to the parties than terms available to or from (as appropriate) independent third parties.
- (3) Payment term(s) for the transactions contemplated under the Huayi Compressors Purchase Framework Agreement shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto.
- (4) The transactions contemplated under the Compressors Purchase and Supply Framework Agreement are subject to the annual cap of RMB1,380,000,000 (inclusive of value-added tax).

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

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

Framework Agreement with Hisense Group and Hisense Electric, the principal terms of which are as follows:

- (1) The Business Co-operation Framework Agreement shall commence from the date of approval of the Business Co-operation Framework Agreement by the independent shareholders (that is, 16 January 2012) until 31 December 2012, which can be terminated before its expiration by mutual agreement of the parties.
- (2) Pricing for the purchase of home electrical appliances between the Company on the one hand and Hisense Group and Hisense Electric on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances from time to time. Pricing for the purchase of raw materials, equipments, parts and components between the Company on the one hand and Hisense Group and Hisense Electric on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness. Pricing for the supply of moulds by the Company to Hisense Group and Hisense Electric is the market price determined by the open bidding process. Pricing for the provision of services between the Company on the one hand and Hisense Group and Hisense Electric on the other hand (other than agency services for export) is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services in the industry. The fees payable by the Group for the provision of the agency services for export is calculated by multiplying the Group's turnover from overseas sales for the relevant products with an export agency fee percentage. Such export agency fee percentage is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties mainly with reference to the rate of the charges actually incurred by the Group for conducting overseas by itself in previous years, on the basis that such export agency fee percentage shall be a rate which is lower than the level of the rate of the charges actually incurred by the Group for conducting overseas sales by itself in previous years to a certain extent for the same computation of expenses and conditions.
- (3) Payment term(s) for the transactions between the Company on the one hand and Hisense Group and Hisense Electric on the other hand shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto.
- (4) The annual caps under the Business Co-operation Framework Agreement are shown in the table below:

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

Types of transactions	Division by products or services	Connected person	Annual cap
Sale of products and materials	Sale of home electrical appliances products by the Group	Hisense Group	250,000
		Hisense Electric	400
	Sale of equipment by the Group	Hisense Group	1,200
	Sale of moulds by the Group	Hisense Group	18,700
		Hisense Electric	8,000
Sale of raw materials, parts and	Hisense Group	7,000	

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

4. The Financial Services Agreement with Hisense Finance

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

- (1) The term of the Financial Services Agreement shall commence from the date of approval of the Financial Services Agreement by the independent shareholders (that is, 16 January 2012) until 31 December 2013, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.
- (2) The services to be provided by Hisense Finance to the Group include deposit services, loan and electronic bank acceptance bill (電子銀行承兌匯票) services, draft discount services (票據貼

現服務) and settlement and sale of foreign exchange services (結售匯服務), subject to the approval from the Administration of Foreign Exchange (外匯管理局) having been obtained by Hisense Finance for the provision of such services.

- (3) The interest rate payable for the Group's deposits with Hisense Finance shall not be lower than the rate payable by normal commercial banks in the PRC for comparable deposits. The interest rate charged for the loans provided to the Group by Hisense Finance shall not be higher than the rate charged by normal commercial banks in the PRC for comparable loans. Hisense Finance may require the Group to provide guarantee or security over assets in respect of the loan services rendered, depending on the then circumstances and business needs. The service fees charged for the provision of electronic bank acceptance bill services by Hisense Finance for the Group shall not be higher than the standard service fees charged by normal commercial banks in the PRC for comparable services. The discount rate for the provision of draft discount services by Hisense Finance to the Group shall be determined on the basis of the rediscount rate (再貼現利率) quoted by The People's Bank of China and with reference to market level and shall not be higher than the discount rate charged by normal commercial banks in the PRC providing such services to the Group. The level of services (including the level of exchange rates) for the settlement and sale of foreign exchange at Hisense Finance shall not be worse than the level of services (including the level of exchange rates) of normal commercial banks in the PRC providing such services to the Group.
- (4) The maximum daily balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the cap of RMB350,000,000 (inclusive of interest) on any given day. The maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the Financial Services Agreement shall not exceed the cap of RMB1.5 billion (inclusive of interest and service fees). The annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services during the term of the Financial Services Agreement shall not exceed the cap of RMB50,000,000. Subject to the approval from the Administration of Foreign Exchange (外匯管理局) having been obtained by Hisense Finance for the provision of settlement and sale and foreign exchange services, the annual amount settled or sold by Hisense Finance for the Group shall not exceed the cap of US\$50,000,000.

5. The Property Services Framework Agreement with Snowflake

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

- (1) The term of the Property Services Framework Agreement shall commence from 1 January 2012 to 31 December 2012, which can be terminated before its expiration by mutual agreement of the parties.
- (2) The fees payable by the Group for the provision of property services by Snowflake and/or its subsidiaries is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price for the provision of similar services from time to time. Such transactions will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable

to the parties than terms available to or from (as appropriate) independent third parties.

- (3) The fees for the provision of such services will be calculated on a monthly or quarterly basis and payment for such monthly or quarterly fee should be made by telegraphic transfer or bills by the relevant members of the Group.
- (4) The transactions contemplated under the Property Services Framework Agreement are subject to the annual cap of RMB33,200,000.

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

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

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

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

No.	Agreement	Counterparty	Particulars of connected transactions	Annual cap
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		to the agreement		
1	Business Co-operation Framework Agreement dated 6 December 2012	Hisense Group and Hisense Electric	Purchase of home electrical appliances by the Group	RMB2,100,000
			Purchase of equipment by the Group	RMB8,550,000
			Purchase of raw materials, parts and components by the Group	RMB53,830,000
			Receipt of services by the Group	RMB124,840,000
			Supply of home electrical appliances by the Group	RMB2,888,970,000
			Supply of equipment by the Group	RMB8,550,000
			Supply of moulds by the Group	RMB358,550,000
			Supply of raw materials, parts and components by the Group	RMB26,350,000
			Provision of services by the Group	RMB6,900,000
2	Huayi Compressors Purchase Framework Agreement dated 6 December 2012	Huayi Compressor	Purchase of compressors by the Group	RMB1,180,000,000
3	Export Agency for White Goods Framework Agreement dated 6 December 2012	Hisense Marketing	Receipt of agency services for export for the white goods products of the Group	RMB280,000,000
4	Purchase Financing Agency Framework Agreement dated 6 December 2012	Hisense Hong Kong	Receipt of financing agency services by the Group to purchase raw materials and components from overseas suppliers	US\$36,000,000
5	Compressors Purchase Framework Agreement dated 6 December 2012	Embraco	Purchase of compressors by the Group	RMB106,840,000
6	Property Services Framework Agreement dated 6 December 2012	Snowflake	Receipt of property services by the Group	RMB32,000,000
7.	Supplemental Agreement to	Hisense Finance	Amendment to the Financial Services Agreement pursuant to which Hisense Finance may also require the Group to provide guarantee, security or pledge in	The maximum balance of loan and electronic bank acceptance bills provided by Hisense

	Financial Services Agreement dated 6 December 2012		respect of the electronic bank acceptance bill services rendered	Finance for the Group shall not exceed the cap of RMB1.5 billion (inclusive of interest and service fees).
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The term of the agreements in items 1 to 4 and 7 above commences from the date of approval of such agreements by the independent shareholders (that is, 25 January 2013) until 31 December 2013, whereas the term of the agreements in items 5 and 6 commences from 1 January 2013 until 31 December 2013. Hisense Marketing is a subsidiary of Hisense Group and the relationship between the Group on the one hand and Hisense Group, Hisense Electric, Hisense Hong Kong, Hisense Finance, Huayi Compressor, Embraco and Snowflake on the other hand has been disclosed above.

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

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

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

As at 31 December 2012, the balance of amounts due to Hisense Kelon from the Greencool Companies and such specific third party companies amounted to RMB651 million. Hisense Kelon has made a provision for bad debts of RMB365 million in respect of the amounts due from the Greencool Companies and such third party companies. As set out in Note 8 to the financial statements, apart from the withdrawal of the case at the Intermediate People's Court of Foshan ((2006) Fo Zhong Fa Min Er Chu Zi No. 178) and the rejection of the petition to the Intermediate People's Court of Foshan ((2006) Fo Zhong Fa Min Er Chu Zi No. 183), Hisense Kelon has won in all other cases mentioned above and the rulings have all come into force. However, we are unable to adopt appropriate audit procedures to obtain sufficient and appropriate audit evidence to ascertain whether or not the estimated provision for bad debts

based on such amount and the assessment and calculation of the receivables are reasonable.

Explanation: A series of related party transactions and unusual cash flows occurred between the Company and Guangdong Greencool Enterprise Development Limited, the former largest shareholder of the Company, and its related parties, or through its third party companies, from 2001 to 2005. Such transactions and unusual cash flows as well as the suspected fund embezzlements have been formally investigated by the relevant authorities. As at 31 December 2012, the balance of amounts due to Hisense Kelon from the Greencool Companies and the abovementioned specific third party companies amounted to RMB651 million.

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

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

The Board of the Company considers that the provision for bad debts is an accounting estimate. The accounting method applied to such receivables does not breach the relevant requirements of the Accounting Standards for Business Enterprises. While the relevant courts have given their final rulings in favour of the Company in respect of 17 cases of litigation out of 19 initiated by the Company against Greencool Companies and specific third parties and the judgments have come into effect, one case with a claim amount of RMB29.8437 million was withdrawn by the Company and another case with a claim amount of RMB12.2894 million was rejected. The aggregate claim amounts of these two cases accounted for a small proportion of the total claim amount of RMB725 million under the court judgments. However, as the enforcement of the rulings in respect of the

abovementioned 17 cases have not yet been completed, the Board of the Company is of the view that there is no material difference in terms of the assessed recoverability of such receivables between that for 2012 and 2011 and this qualified opinion will not affect the fairness in the preparation of the Company's income statement for 2012.

After the determination of the abovementioned debt settlement proportion, the Company will, based on the confirmed recoverable proportion, adjust retrospectively the 2005 balance sheet and income statement, and adjust the relevant items in the balance sheets as at 31 December 2006, 31 December 2007, 31 December 2008, 31 December 2009, 31 December 2010, 31 December 2011 and 31 December 2012 respectively. The Company has taken measures to sequester the properties of the Greencool Companies which are available for settlement. Application has been made to the Foshan Intermediate Court for enforcement of judgments which have come into effect in respect of the abovementioned cases. To drive the enforcement of the judgments, the Company has reported to the relevant authorities such as Supreme People's Court and General Office of the State Council for various times in order that the amount subject to the judgments can be recovered as soon as possible. On 21 December 2012, the Company received the notices of resumption of execution of the judgments which have come into force from the Foshan Intermediate Court for the cases mentioned above. The Foshan Intermediate Court has decided to resume the execution of the relevant cases based on the spirit in the notice issued by the Supreme People's Court. The Company will also pay attention to the progress of the cases and make its best efforts to protect its rights as a creditor.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

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

All information about the annual report as required by Appendix 16 to the Hong Kong 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, 28 March 2013

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. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo.

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

I. PARTICULARS OF THE REMUNERATION OF, DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

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

	non-executive Director					
Gao Zhong Xiang	Former Supervisor	Male	45	2009.06.26-2012.06.25	0.00	0.00
Liu Zhan Cheng	Former Supervisor	Male	34	2009.06.26-2012.06.25	24.10	24.10

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

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

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

III. MATERIAL LITIGATIONS AND ARBITRATIONS OF THE COMPANY

General status of the litigation (arbitration)	Amount involved (RMB ten thousand)	Whether a liability is expected to be caused	Progress of the litigation (arbitration)	Results and effects of the litigation (arbitration)	Execution of the judgment of the litigation (arbitration)
Since February 2004, 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	9,998.41	No	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 Higher People's Court of the Guangdong Province (the "Guangdong Higher Court"). The Guangdong Higher Court has revoked the judgment of the Foshan Intermediate Court (Fo Zhong Fa Min Er Chu Zi No. 88 (2007)) and the case was to be 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. During the Reporting Period, 西安航空動力控制有限公司(Xi'an Aero-Engine	—	—

expenses.			Controls Company Ltd.) appealed to the Guangdong Higher Court, but did not pay an appeal fee. Guangdong Higher Court ruled that 西安航空動力控制有限責任公司 (Xi'an Aero-Engine Controls Company Ltd.) was considered to have withdrawn the appeal. The first instance judgment for the retrial made by the Foshan Intermediate Court entered into force.		
A series of related party transactions and unusual cash flows occurred between the Greencool Companies and the Company during the period from October 2001 to July 2005. In addition, during the period, the Greencool Companies, through certain specific third party companies such as Tianjin Lixin Commercial Trading Development Company Limited, were involved in a series of unusual cash flow with the Company. The Company has instituted proceedings against Greencool Companies for such transactions and unusual cash flows as well as the suspected fund embezzlements.	72541.44	No	On 21 December 2012, the Company received the notices of resumption of execution of (2008) Fo Zhong Fa Zhi Zi No. 853 , (2009) Fo Zhong Fa Zhi Zi No. 113, 114, 115, 116, 118, 157, 234, 235, 236, 237, 238, 259, 502, 852, 995, 996 and (2010) Fo Zhong Fa Zhi Zi No. 32 from the Foshan Intermediate Court. Regarding the application by the Company and the relevant subsidiaries in which it holds a controlling equity interest for the execution of the cases regarding the damage to their corporate interests by Guangdong Greencool and its associated companies and Gu Chu Jun, the Foshan Intermediate Court has decided to resume the execution of the relevant cases based on the spirit in the notice issued by the Supreme People's Court on the resumption of execution procedures against the Greencool Companies in accordance with the law.	—	In the process of execution

IV. DISPOSAL OF ASSETS BY THE COMPANY

On 12 January 2012, the seventh session of the Board convened the first extraordinary meeting in 2012, at which the Resolution in relation to the Transfer of 60% of the Equity Interests in Xi'an Kelon Refrigeration Co., Ltd. and Relevant Debt was considered and passed. On the same day, the Company and Shaanxi Qidi Science and Technology Park Development Co., Ltd. entered into the equity transfer contract in relation to the transfer of the 60% equity interests in Xi'an Kelon held by the Company and the relevant debt (being the debt owed by Xi'an Kelon to the Company in the sum of RMB10,580,000 and the debt owed by Xi'an Kelon to 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 Shaanxi Qidi Science and Technology Park Development Co., Ltd. for a total consideration of RMB110,580,000. For details, please see the announcement published by the Company on 12 January 2012 on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>). The procedures for the transfer of equity interests have been completed, and the Company no longer holds any equity interests and debt in Xi'an Kelon.

V. STATUS OF MATERIAL PROJECTS WHICH ARE NOT FUNDED BY CAPITAL RAISING ACTIVITIES

Unit: RMB ten thousand

Name of project	Total investment amount	Amount injected during the year	Aggregate actual amount injected at the end of the period	Progress of project	Earnings of project
Project in relation to Shandong Refrigerator production base	10000	10000	10000	Infrastructure stage	—
Explanation of material investment projects which are not funded by capital raising activities					
In order to enhance the Company's production capability of middle-to-high-end refrigerators, upon the approval of the eighth session of the Board of the Company at the fifth extraordinary meeting in 2012, the Company injected a capital of RMB100 million to construct a new refrigerator production base and establish a wholly-owned subsidiary Shandong Refrigerator.					

VI. SHAREHOLDINGS IN OTHER LISTED COMPANIES HELD BY THE COMPANY

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

VII. PARTICULARS OF GUARANTEES

Unit: RMB ten thousand

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

Guarantees given by the Company for its subsidiaries

The guaranteed party	Date of disclosure of relevant announcement in relation to the limit on the guaranteed amount	Guaranteed amount	Actual effective date (date of agreement)	Actual guaranteed amount	Type of guarantee	Period of guarantee	Completed or not	Whether the guarantee is given for any connected party
Guangdong Refrigerator	2011.11.30	90,000	2011.08.03	6,006.66	Joint liability guarantee; Mortgage	2011.08.03-2012.12.14	Yes	No
Guangdong Refrigerator		90,000	2012.10.10	72.43	Joint liability guarantee; Mortgage	2012.10.10-2013.02.21	No	No
Guangdong Air-conditioner		30,000	2011.09.30	44,571.06	Joint liability guarantee	2011.09.30-2012.12.24	Yes	No
Guangdong Air-conditioner		30,000	2012.08.21	3,293.75	Joint liability guarantee	2012.08.21-2013.08.30	No	No
Kelon Fittings		5,000	2011.09.30	334.50	Joint liability guarantee; Mortgage	2011.09.30-2012.08.30	Yes	No
Kelon Fittings		5,000	2012.10.15	98.55	Joint liability guarantee; Mortgage	2012.10.15-2013.08.30	No	No
Guangdong Freezer		5,000	2011.08.17	1,329.01	Joint liability guarantee; Mortgage	2011.08.17-2012.12.26	Yes	No
Ronshen Plastic		6,000	2011.10.31	2,432.18	Joint liability guarantee	2011.10.31-2012.07.25	Yes	No
Yangzhou Refrigerator		10,000	2010.07.23	2,994.78	Joint liability guarantee	2010.07.23-2012.08.23	Yes	No
Yangzhou Refrigerator		10,000	2010.07.23	311.95	Joint liability guarantee	2010.07.23-2013.01.25	No	No
Kelon International Incorporation		50,000	2011.07.29	34,098.84	Joint liability guarantee	2011.07.29-2013.08.28	Yes	No
Total limit on the amount of guarantees for subsidiaries approved during the Reporting Period (B1)					198,000		Actual amount of guarantees for subsidiaries during the Reporting Period (B2)	

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

VIII. DERIVATIVES INVESTMENT

(i) Situations of derivatives investment

Risk analysis of positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)	<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>
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	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

derivatives' fair value	foreign exchange forward contracts and the forward exchange rate as at the end of the period. During the Reporting Period, the Company recognized a gain on change in fair value of the derivatives of RMB-16.6375 million. Investment gain amounted to RMB42,961,800, resulting in a total profits or losses of RMB26,324,300.
Explanations of any significant changes in the Company's accounting policies and specific accounting and auditing principles on derivatives between the Reporting Period and the last reporting period	During the Reporting Period, there were no material changes in the accounting policy and specific accounting and auditing principles for the Company's derivatives business as compared to last reporting period.
Specific opinions of independent Directors on the derivatives investment and risk control of the Company	Opinion of independent directors: Commencement of foreign exchange derivatives business by the Company was beneficial to the Company in the prevention of exchange rate fluctuation risks. The Company has devised the Internal Control System for Forward Foreign Exchange Capital Transactions to strengthen internal control and enhance the management of foreign exchange risks by the Company, and the targeted risk control measures adopted were practicable.

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

Type of contract	Contract amount at the beginning of the period (RMB ten thousand)	Contract amount at the end of the period (RMB ten thousand)	Gain or loss during the Reporting Period (RMB ten thousand)	Percentage of contract amount at the end of the period to net assets of the Company at the end of the Reporting Period (%)
Foreign exchange derivatives contracts	159,732.21	199,816.46	2,632.43	132.15

IX. DESCRIPTION OF CHANGES IN SCOPE OF CONSOLIDATION AS COMPARED TO FINANCIAL REPORT LAST YEAR

1. Subsidiaries that have ceased to be consolidated:

(1) Xi'an Kelon

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

(2) KELON USA, Inc.

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

2. Subsidiaries newly consolidated:

During the Reporting Period, the Company established Shandong Refrigerator. Relevant

establishment procedures have been completed. Accordingly, Shandong Refrigerator was consolidated in the period.

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 Marketing”	Qingdao Hisense International Marketing Holdings Co., Ltd.
“Beijing Refrigerator”	Hisense (Beijing) Electric Company Limited
“Nanjing Refrigerator”	Hisense (Nanjing) Electric Company Limited
“Shandong Refrigerator”	Hisense (Shandong) Refrigerator Company Limited
“Hisense Hong Kong”	Hisense (Hong Kong) Company Limited
“Guangdong Greencool”	Guangdong Greencool Enterprise Development Company Limited
“Greencool Companies”	Guangdong Greencool and other related parties
“Xi’an Kelon”	Xi’an Kelon Refrigeration Co., Ltd.
“Fujian Kelon”	Fujian Kelon Air-Conditioner Sales Co., Ltd.
“Guangdong Refrigerator ”	Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.
“Guangdong Air-Conditioner”	Guangdong Kelon Air-Conditioner Co., Ltd.
“Kelon Fittings”	Guangdong Kelon Fittings Co., Ltd.
“Guangdong Freezer”	Hisense Ronshen (Guangdong) Freezer Co., Ltd.
“Yangzhou Refrigerator”	Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.
“Kelon Mould”	Guangdong Kelon Mould Company Limited
“Ronshen Plastic”	Foshan Shunde District Ronshen Plastic Co., Ltd.
“Hisense Mould”	Qingdao Hisense Mould Co., Ltd.

“Huayi Compressor”	Huayi Compressor Company Limited
“Foshan Intermediate Court”	Intermediate People’s Court of Foshan City
“RMB”	Renminbi
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited