

合肥美菱股份有限公司



2009 年年度报告

Annual Report Of Hefei Meiling Co., Ltd.

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Section I. Important Notice

1. Board of Directors, Supervisory Committee, all directors, supervisors and senior executives of Hefei Meiling Co., Ltd. (hereinafter referred to as the Company) hereby confirm that there are no any fictitious statements, misleading statements, or important omissions carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents.
2. The Company did not have that directors, supervisors and senior executives of the Company could not guarantee the reality, accuracy and completion of the whole contents or have objections.
3. All the directors attended the board meeting on discussing the Annual Report in both ways of site and communication.
4. ShineWing Certified Public Accountants Co., Ltd. issued standard unqualified Auditors' Report for the Company's Financial Report of 2009.
5. Directors and senior executives of the Company respectively signed Written Confirmation Opinions for 2009 Annual Report.
6. Supervisory Committee of the Company formed Written Examination Opinions for 2009 Annual Report.
7. Chairman of the Company Mr. Zhao Yong, President Mr. Wang Yong, Vice-president Mr. Yu Wanchun and Person in Charge of Accounting Organ Mr. Liu Bimin hereby confirm that the Financial Report of the Annual Report is true and complete.

Section II. Company Profile

1. Legal Name of the Company

In Chinese: 合肥美菱股份有限公司

In English: HEFEI MEILING CO., LTD.

Abbr. in English: HFML

2. Legal Representative: Mr. Zhao Yong

3. Secretary of the Board of Directors: Li Xia

Contact address: No. 2163, Lian Hua Road, Economic and Technology Development Zone, Hefei

Tel: 0551-2219021 Fax: 0551-2219021

E-mail: lixia@meiling.com

4. Registered Address: No. 2163, Lian Hua Road, Economic and Technology Development Zone, Hefei

Post Code: 230601

Office Address: No. 2163, Lian Hua Road, Economic and Technology Development Zone, Hefei

Post Code: 230601

Company's Internet Website: <http://www.meiling.com>

E-mail of the Company: info@meiling.com

5. Newspapers Chosen for Disclosing the Information of the Company:

Securities Times and Hong Kong Commercial Daily

Internet Website for Publishing the Annual Report of the Company:
<http://www.cninfo.com.cn>

The Place Where the Annual Report is Prepared and Placed: Secretariat of the Board of Directors, on 2/F of the Company's Office Bldg.

6. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock: MEILINGDIANQI, WANMEILING-B

Stock Code: 000521, 200521

7. Other Relevant Materials of the Company

(1) Initial registration date: December 31, 1992

Registration address: Hefei Municipal Administration Bureau of Industrial and Commerce

Registration date after change: May 21, 2009

Address for change: Anhui Province Administration Bureau of Industrial and Commerce

(2) Legal Person Business License Registration No.: 340000400001278

(3) Taxation Registration No.: GSWZi No.34011114918555X

(4) Organization Code Certificate: 14918555-X

(5) Domestic Certified Public Accountants Engaged by the Company:

Name: ShineWing Certified Public Accountants Co., Ltd.

Address: 9/F, Block A, Fu Hua Mansion No.8 Chao Yang Men Bei da jie, Dong Cheng District, Beijing, P.R.China

Section III. Summary of Financial Highlight and Business Highlight

I. Main accounting highlight

1. Main financial highlight in the report period

Unit: RMB

Items	Amount
Operating profit	303,178,588.81
Total profit	357,887,818.32
Net profit	301,176,050.79
Net profit attributable to the shareholders of the listed company	301,198,313.20
Net profit attributable to the shareholders of the listed company after deducting non-recurring gains and losses	68,899,599.60
Net cash flow arising from operating activities	-7,389,799.21

2. Items of deducting non-recurring gains and losses and the involved amounts are as following:

Unit: RMB

Items of non-recurring gains and losses	Amount
Gains and losses from the disposal of non-current assets	-951,734.88
Governmental subsidy reckoned into current gains and losses, but closely relevant to the Company's business except for the governmental subsidy enjoyed in quota or ration according to the national general standards	55,557,759.89
Current net gains/losses of the subsidiaries from period-begin to consolidated date occurred from enterprise merger under the common control	8,071,697.32
Held transaction financial asset, gains/losses of changes of fair values from transaction financial liabilities, and investment gains from disposal of transaction financial asset, transaction financial liabilities and financial asset available for sales, exclude the effective hedging business relevant with normal operations of the Company	212,838,471.01
Other non-operating income and expenditure except for the above items	682,706.99
Influenced amount of minority shareholders' equity	120,058.86
Influenced amount of income tax	43,780,127.87
Total	232,298,713.60

II. Major accounting data and financial indexes over the past three years ended by the report period

1. Main accounting data

Unit: RMB

	2009	2008	Increase/decrease in this year compared with that in last year (%)	2007
Operating income	6,324,181,070.70	4,813,665,574.77	31.38	4,590,758,080.02
Total profit	357,887,818.32	32,267,357.79	1009.13	25,877,129.82
Net profit attributable to shareholders of the listed company	301,198,313.20	27,376,945.70	1000.19	20,334,465.25
Net profit attributable to shareholders of the listed	68,899,599.60	23,255,501.68	196.27	-33,525,733.05

company after deducting non-recurring gains and losses				
Net cash flow arising from operating activities	-7,389,799.21	235,806,026.64	-103.63	196,272,521.49
	At the end of 2009	At the end of 2008	Increase/decrease at the end of this year compared with that at the end of last year (%)	At the end of 2007
Total assets	4,786,934,109.38	3,896,522,425.23	22.85	3,488,105,158.07
Owners' equity	1,349,566,799.36	1,461,271,804.76	-7.64	1,031,398,409.56
Owners' equity attributable to shareholders of the listed company	1,324,427,907.57	1,436,110,650.56	-7.78	1,004,423,104.86
Share capital	413,642,949.00	413,642,949.00	0.00	413,642,949.00

Note: The aforementioned data are calculated based on Requirements on the Information Disclosure of Companies Publicly Issuing Shares(No. 9) promulgated by CSRC.

2. Main financial indexes

Unit: RMB

	2009	2008	Increase/decrease in this year compared with that in last year (%)	2007
Basic earnings per share	0.7282	0.0662	1000.19	0.0492
Diluted earnings per share	0.7282	0.0662	1000.19	0.0492
Basic earnings per share after deducting non-recurring gains and losses	0.1666	0.0562	196.27	-0.0810
Fully diluted return on equity	22.74%	1.91%	20.84	2.02%
Weighted average return on equity	18.46%	2.69%	15.77	2.05%
Fully diluted return on equity after deducting non-recurring gains and losses	5.20%	1.62%	3.58	-3.34%
Weighted average return on equity after deducting non-recurring gains and losses	5.51%	2.28%	3.23	-3.37%
Net cash flow arising from operating activities per share	-0.02	0.57		0.47

	At the end of 2009	At the end of 2008	Increase/decrease at the end of this year compared with that at the end of last year (%)	At the end of 2007
Net asset per share attributable to shareholders of listed company	3.20	3.47	-7.78%	2.43

III. The Company's return on equity and earnings per share as of the year 2009 as calculated in accordant with Requirements on the Information Disclosure of Companies Publicly Issuing Shares No. 9---Calculation and Disclosure on Return on Equity and Earnings per Share, as follows:

Unit: RMB

Items	Return on equity		Earnings per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Net profit attributable to common shareholders of the Company	22.74%	18.46%	0.7282	0.7282
Net profit attributable to common shareholders of the Company after deducting the non-recurring losses and gains	5.20%	5.51%	0.1666	0.1666

IV. Changes of shareholders' equities in the report period

Unit: RMB

	Amount in period-begin	Increase in the report period	Decrease in the report period	Amount in period-end
Share capital	413,642,949.00			413,642,949.00
Capital public reserve	1,073,168,078.72	150,494,961.77	563,376,017.96	660,287,022.53
General provision				
Surplus public reserve	285,107,714.19			285,107,714.19
Retained profit	-335,808,091.35	301,198,313.20		-34,609,778.15
Total	1,436,110,650.56	451,693,274.97	563,376,017.96	1,324,427,907.57

Section III. Changes in Capital Shares and Particulars about Shareholders

(I) Statement of changes in share capital (ended of Dec. 31, 2009)

1. Particulars about the changes in shares of the Company

Unit: Share

	Before the change		Increase/Decrease of this time (+, -)					After the change	
	Amount	Proportion	New shares issued	Bonus shares	Capitalization of public reserve	Others	Subtotal	Amount	Proportion
I. Restricted shares	113,806,751	27.52%						113,806,751	27.52%
1. State-owned shares	32,078,846	7.76%				-32,078,846	-32,078,846	0	0
2. State-owned legal person's shares	72,382,652	17.50%				32,078,846	32,078,846	104,461,498	25.26%
3. Other domestic shares	9,277,998	2.24%						9,277,998	2.24%
Including: Domestic non-state-owned legal person's shares	9,149,917	2.21%						9,149,917	2.21%
Domestic natural person's shares	128,081	0.03%						128,081	0.03%
4. Foreign shares									
Including: Foreign legal person's shares									
Foreign natural person's shares									
5. Senior executives' shares	67,255	0.02%						67,255	0.02%
II. Unrestricted shares	299,836,198	72.48%						299,836,198	72.48%
1. RMB Ordinary shares	186,736,198	45.14%						186,736,198	45.14%
2. Domestically listed foreign shares	113,100,000	27.34%						113,100,000	27.34%
3. Overseas listed foreign shares									
4. Others									
III. Total shares	413,642,949	100.00%						413,642,949	100.00%

2. Particulars about shares held by the top ten shareholders and the top ten shareholders with unrestricted condition

Unit: Share

Total shareholders		51,994			
Particulars about shares held by the top ten shareholders					
Names of shareholders	Nature of shareholder	Proportion of share held	Amount of share held	Amount of restricted shares held	Shares pledged or frozen
Sichuan Changhong Electric Co., Ltd	State-owned	18.01%	74,491,952	70,214,797	10,174,282
Hefei Xingtai Holding Group Co., Ltd	Domestic legal person	6.704%	27,730,974	27,730,974	
Changhong (Hong	Foreign	4.15%	17,150,815		

Kong) Trade Co., Ltd.	legal person				
Industrial and Commercial Bank of China — China Universal Growth and Focus Stock Fund	Domestic legal person	2.80%	11,599,926		
Industrial and Commercial Bank of China — Guangfa Jurui Stock Fund	Domestic legal person	1.93%	7,999,844		
CAO SHENGCHUN	Foreign natural person	1.74%	7,178,447		
China Construction Bank — ICBC Credit Suisse Steady Growth Stock Fund	Domestic legal person	1.62%	6,717,636		
Hefei Meiling (Group) Holdings Co., Ltd.	State shares	1.20%	4,978,752	4,978,752	4,978,752
Industrial and Commercial Bank of China — China Universal Strategy Return Stock Fund	Domestic legal person	0.60%	2,499,963		
Long Qinfang	Domestic natural person	0.51%	2,099,566		

Particulars about the shares held by the top ten unrestricted shareholders

Name of shareholder	Amount of unrestricted shares held	Type of share
Changhong (Hong Kong) Trade Co., Ltd.	17,150,815	Domestically listed foreign share
Industrial and Commercial Bank of China — China Universal Growth and Focus Stock Fund	11,599,926	RMB common share
Industrial and Commercial Bank of China — Guangfa Jurui Stock Fund	7,999,844	RMB common share
CAO SHENGCHUN	7,178,447	Domestically listed foreign share
China Construction Bank — ICBC Credit Suisse Steady Growth Stock Fund	6,717,636	RMB common share
Sichuan Changhong Electric Co., Ltd	4,277,155	RMB common share
Industrial and Commercial Bank of China — China Universal Strategy Return Stock Fund	2,499,963	RMB common share
Long Qinfang	2,099,566	Domestically listed foreign share
CHEN YI QING	1,608,859	Domestically listed foreign share
Wo Liangliang	1,400,000	RMB common share

Explanation on associated relationship or accordant action among the aforesaid shareholders	Among the above shareholders, Changhong (Hong Kong) Trade Co., Ltd. is the wholly-owned subsidiary of Sichuan Changhong Electric Co., Ltd.; there existed no associated relationship or belong to the concerted actors as specified in the Measures for the Administration of Information Disclosure of Shareholder Equity Changes of Listed Companies among Sichuan Changhong Electric Co., Ltd., Changhong (Hong Kong) Trade Co., Ltd. and other top 8 shareholders; and top ten shareholders with unrestricted subscription; as the Company has not known whether there exists any business relationship among the other shareholders with unrestricted subscription or they belong to the concerted
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	actors as specified in the Measures for the Administration of Information Disclosure of Shareholder Equity Changes of Listed Companies.
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3. Statement on changes of restricted shares

Unit: Share

Name of shareholders	Restricted shares in year-begin	Restricted shares increased this year	Restricted shares released this year	Restricted shares in year-end	Reason for restriction	Date of releasing
Sichuan Changhong Electric Co., Ltd.	38,135,951	32,078,846		70,214,797	Commitment for Share Merger Reform	Jan. 4, 2010
Sichuan Changhong Electric Group Co., Ltd.	32,078,846	-32,078,846		0	Commitment for Share Merger Reform	
Hefei Xingtai Holding Group Co., Ltd.	26,396,258	1,334,716		27,730,974	Commitment for Share Merger Reform	Jan. 4, 2010
Hefei Meiling (Group) Holdings Co., Ltd.	6,313,468	-1,334,716		4,978,752	Commitment for Share Merger Reform	Jan. 4, 2010
Total	102,924,523	0		102,924,523		

4. Particulars about shares amount held by the top ten restricted shareholders and the restricted condition

Unit: Share

Name of shareholders	Unrestricted shares held	Restricted condition
Sichuan Changhong Electric Co., Ltd	70,214,797	Commitment for Share Merger Reform
Hefei Xingtai Holding Group Co., Ltd	27,730,974	Commitment for Share Merger Reform
Hefei Meiling (Group) Holdings Co., Ltd.	4,978,752	Commitment for Share Merger Reform
China Cinda Asset Management Corporation	1,536,975	Commitment for Share Merger Reform; share merger reform consideration was not returned, the shares held has not be arranged for listing.
Anhui Agricultural Bank of China, Trust, Hefei Office	1,536,975	Commitment for Share Merger Reform; share merger reform consideration was not returned, the shares held has not be arranged for listing.
Hefei Technology Bank	853,875	Commitment for Share Merger Reform; share merger reform consideration was not returned, the shares held has not be arranged for listing.
Hefei Insurance Corporation	853,875	Commitment for Share Merger Reform; share merger reform

		consideration was not returned, the shares held has not be arranged for listing.
Cixi Xianglong Mould and Plastic Co., Ltd.	512,325	Commitment for Share Merger Reform; share merger reform consideration was not returned, the shares held has not be arranged for listing.
Yuyao Electric Keystroke Plant	509,220	Commitment for Share Merger Reform; share merger reform consideration was not returned, the shares held has not be arranged for listing.
Hefei Branch, Bank of China	426,937	Commitment for Share Merger Reform; share merger reform consideration was not returned, the shares held has not be arranged for listing.
Hefei Collective and Industrial Union	426,937	Commitment for Share Merger Reform; share merger reform consideration was not returned, the shares held has not be arranged for listing.

(II) Issuance and Listing of shares

On August 30, 1993, approved by through Anhui Provincial Government's Document[WZMi(1993) No.166] and reexamination of China Securities Regulatory Commission(ZJFSZi(1993) No.27), the Company made first public issuance for 30 million shares with the issuance price of RMB 4.8, and the Company was listed on Oct. 18th, 1993 in Shenzhen Stock Exchange. After the issuance, the total shares capital of the Company were 120 million.

In 1996, through approval by China Securities Regulatory Commission, the Company issued 100 million shares of domestically listed foreign shares (B-shares) at the price of RMB 3.30 per share on Aug. 14, 1996, which was listed with Shenzhen Stock Exchange for trading on Aug. 28, 1996.

In June 1997, the Company implemented the dividend distribution plan by distributing bonus shares at the rate of 3.5 shares for every 10 shares. As a result, the share capital increased by 82.3549 million shares, up to 380,226,255 shares.

From July 29 to August 11, 1997, the Company conducted allotment for A-shares. Totally 33.4167 million shares were placed and were listed on Aug. 23, 1997. Up to then, the Company's total share capital increased to 413,642,949 shares at present.

On Aug. 24, 2007, the Company implemented Share Merger Reform Scheme, the non-tradable share shareholders of the Company carried out the price computation on A-share tradable shareholders with its possessed shares to acquire the listing and circulation right of its possessed non-tradable shares, and A-share tradable shareholders will obtain 1.5 shares of price computation for holding every 10 shares of MEILING DIANQI A-share tradable shares; and the total shares of the Company have not changed.

On October 28, 2008, 12,543,559 tradable shares with restricted condition of the Company were listed for trading.

On Jan. 4, 2010, 74,074,020 tradable shares with restricted condition of the Company were released for trading.

(III) Controlling shareholder and actual controller

1. Changes on shares held

On May 18, 2006 and Jan. 11, 2007, Hefei Meiling (Group) Holdings Co., Ltd. (hereinafter refers to Meiling Group) respectively signed Share Transfer Agreement of Meiling Electric Appliance and Share Transfer Supplementary Agreement of Meiling Electric Appliance with Sichuan Changhong Electric Co., Ltd. (hereinafter refers to Sichuan Changhong) and Sichuan Changhong Electric Group Co., Ltd. (hereinafter refers to Changhong Group); Meiling Group planed to transfer its holding 82,852,683 shares among 123,396,375 shares to Sichuan Changhong and Changhong Group in the method of agreement transfer, of which Sichuan Changhong accepted 45,000,000 shares(accounting for 10.88 percent in total shares of the Company) with becoming the first largest shareholder and Changhong Group accepted 37,852,683 shares(accounting for 9.15 percent in total shares of the Company) with becoming the third largest shareholder. In August 2007, the aforementioned shares transfer accomplished its ownership transfer. On Dec. 26, 2008, the Company received the Document on Reply of Shares Transfer Held by State-owned Shareholders of Hefei Meiling Co., Ltd.(GZCQuan (2008) No.1413) delivered from Changhong Group issued by State-owned Assets Supervision and Administration Commission of the State Council, in which 32,078,846 shares of the Company held by Changhong Group were approved to be transferred to Sichuan Changhong. On Jan. 21, 2009, the aforementioned shares transfer accomplished its ownership transfer. After the transfer, 70,214,797 tradable shares with restricted conditions held by the first largest shareholder Sichuan Changhong of the Company accounted for 16.98 percent in the total shares of the Company. Sichuan Changhong committed to continue to perform the commitment made by Changhong Group during the share merger reform of the Company.

2. Brief introduction on controlling shareholder and actual controller

According to Reply of Shares Transfer Held by State-owned Shareholders of Hefei Meiling Co., Ltd issued by State-owned Assets Supervision and Administration Commission of the State Council and the Registration and Transfer Confirmation issued by Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, Sichuan Changhong Electric Co., Ltd is the controlling shareholder of the Company.

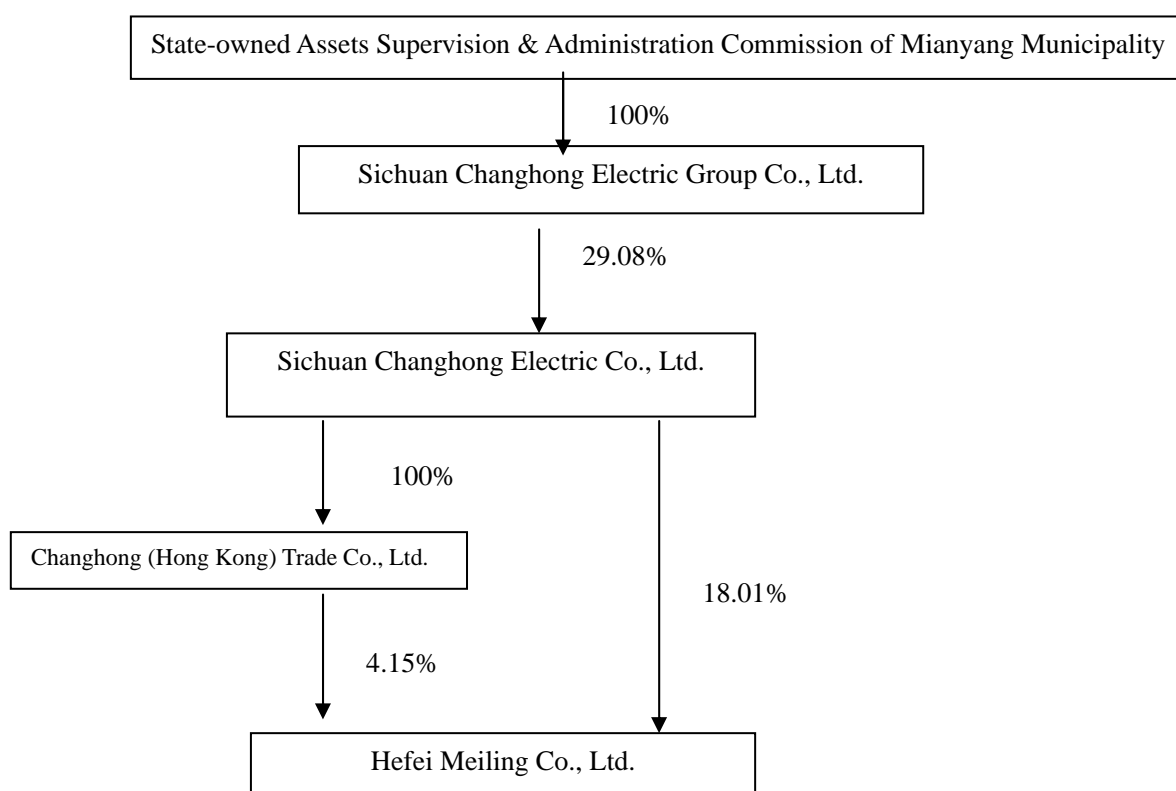
Sichuan Changhong Electric Co., Ltd.: Legal representative: Mr. Zhao Yong; registered capital: RMB 1,898,210,000; registered address: No. 35, Mianxing (E) Road, Hi-tech Zone, Mianyang, Sichuan; business scope: manufactures, sales and maintenance of household appliance, electric products and spare parts, communications equipments, computer and other electrical equipments, specialized equipments of electronic and electrician, electrical machinery and equipment, series products of batteries, electric medicine products, electrical equipments, digital monitoring products, metal products, apparatus and instruments, culture and office machines, culture and education and sports products, furniture, kitchen cabinet and gas appliance; house and equipment rental, packing products and technical services; road transportation, storage and discharging convey; e-commerce; R&D, sales and services of software; consultancy and services of enterprise management; hi-tech project investment and other state-permitted business; development and operation of property; callback and disposal of obsolete appliance and electric products.

Sichuan Changhong Electric Group Co., Ltd. is the controlling shareholder of Sichuan Changhong Electric Co., Ltd.: Legal representative: Mr. Zhao Yong; registered capital: RMB 1,898,211,418.00; business scope: manufacturing and sales of household appliance, automobile electrical appliance, electronic products and components, products of electronic information network, electronic commerce, new materials, electrical products, environmental products, equipment for communication transmission, and electrical material; and property development. Ended as Dec. 31, 2009, Sichuan Changhong Electric Group Co., Ltd. held

5,520,195,340,000 shares of Sichuan Changhong Electric Co., Ltd. with accounting for 29.08 percent of Sichuan Changhong.

The actual controller of Sichuan Changhong Electric Group Co., Ltd. is State-owned Assets Supervision & Administration Commission of Mianyang Municipality. State-owned Assets Supervision & Administration Commission of Mianyang Municipality held 100 percent equities of Sichuan Changhong Electric Group Co., Ltd. State-owned Assets Supervision & Administration Commission of Mianyang Municipality is entrusted by the same level government, unitedly performs decision-making and management of state-owned asset owners, and is one organization which executes comprehensive management and supervision on its belonged state-owned assets.

Equity structure chart of the Company is as follows:



Section V. Particulars about Directors, Supervisors, Senior Executives and Employees

1. Shares held by directors, supervisors and senior executives, their office term and remuneration

Name	Title	Sex	Age	Begin date of office term	End date of office term	Shares held at year-begin	Shares held at year-end	Reason for change	Total remuneration drawn from the Company in the report period (RMB'0000)(before tax)	Drawing remuneration from shareholders' units or other related units or not
Zhao Yong	Chairman of the Board	Male	47	April 15, 2008	April 15, 2011	0	0		0	Yes
Wang Jiazhang	Vice Chairman of the Board	Male	59	April 15, 2008	April 15, 2011	89,674	89,674		35.83	No
Li Jin	Director	Male	43	April 15, 2008	April 15, 2011	0	0		0	Yes
Wang Yong	Director, President	Male	43	April 15, 2008	April 15, 2011	0	0		47.71	No
Li Wei	Director	Male	37	April 15, 2008	April 15, 2011	0	0		0	Yes
Ye Honglin	Director	Male	39	April 15, 2008	April 15, 2011	0	0		0	Yes
Liu Hongwei	Standing Vice President	Male	47	May 5, 2009	April 15, 2011	0	0		41.84	No
Yu Wanchun	Vice President	Male	40	May 5, 2009	April 15, 2011	0	0		38.53	No
Li Daijiang	Vice President	Male	44	May 5, 2009	April 15, 2011	0	0		38.18	No
Wang Yingmin	Vice President	Male	50	May 5, 2009	April 15, 2011	0	0		38.60	No
Li Xia	Secretary of the Board	Female	29	May 22, 2009	April 15, 2011	0	0		7.76	No
Wang Xingzhong	Independent Director	Male	66	April 15, 2008	April 15, 2011	0	0		6.00	No
Song Baozeng	Independent Director	Male	70	April 15, 2008	April 15, 2011	0	0		6.00	No
Liu Youpeng	Independent Director	Male	56	April 15, 2008	April 15, 2011	0	0		6.00	No
Fei Mingying	Chairman of Supervisory Committee	Female	52	April 15, 2008	April 15, 2011	0	0		0	Yes

Yu Xiao	Supervisor	Male	42	April 15, 2008	April 15, 2011	0	0		0	Yes
Yong Fengshan	Supervisor	Male	42	April 15, 2008	April 15, 2011	0	0		6.00	Yes
Zhang Ruhe	Employee Supervisor	Male	51	April 15, 2008	April 15, 2011	0	0		5.14	No
Qi Dunwei	Employee Supervisor	Male	38	April 15, 2008	Feb. 26, 2010	0	0		8.20	No
Total						89,674	89,674		285.79	

2. Main work experience of directors, supervisors and senior executives for the recent five years:

(1) Zhao Yong, Male, Han nationality, was born in Santai, Sichuan dated June, 1963, Member of CPC, Senior Engineer and Post Doctorate. He ever held the posts of Deputy General Manager, Vice Chairman of the Board, Member of Standing CPC Committee, General Manager, Vice Secretary of CPC Committee of Sichuan Changhong Electric Co., Vice Chairman of the Board, Member of Standing CPC Committee, Vice Secretary of CPC Committee of Sichuan Changhong Electric Group Co., Ltd. and Deputy Mayor and Member of CPC Organization of Mianyang City; now he holds the posts of Chairman of the Board and Secretary of CPC Committee of Sichuan Changhong Electric Group Co., Ltd., Chairman of the Board and Secretary of CPC Committee of Sichuan Changhong Electric Co., and Chairman of the Board of the Company.

(2) Wang Jiazhang, Male, Han nationality, Member of CPC, was born in Jan., 1951. He was successively held the posts of Assistant of Factory Director and Vice Factory Director of Hefei Refrigerator Headquarter, and Vice Chairman of the Board and Chairman of the Board of Hefei Meiling Co., Ltd.; now he holds the posts of Chairman of the Board and Secretary of CPC Committee of Hefei Meiling (Group) Holdings Co., Ltd., and Vice Chairman of the Board of the Company.

(3) Li Jin, Male, Han nationality, was born in Anhua, Hunan dated April, 1967, Member of CPC and Senior Engineer with Doctor's Degree. He has been in charge of Head of Air-conditioner Research Center of Air-conditioner Division, Deputy Minister of Air-conditioner Department and concurrently chief engineer of Sichuan Changhong Electric Co., Ltd., and General Manager of Changhong Air-conditioner Corp., etc. Now he holds the posts of Director of Sichuan Changhong Electric Group Co., Ltd., and Deputy General Manager of Sichuan Changhong Electric Co., Ltd., and Director of the Company.

(4) Wang Yong, Male, Han nationality, was born in Ziyang, Sichuan dated July, 1967, Engineer with Bachelor's Degree. He graduated from radio-technology major of Shanghai Jiao Tong University in July 1990 and then worked at Sichuan Changhong Electric Co., Ltd. He ever took the posts of Director of Management Committee in Marketing Management

Department, Head of Administration Office, Vice Minister, and Deputy General Manager of Changhong Electric (China) Marketing Corp. and concurrently General Manager of North China Operation & Administration Center, etc. Now he is President of Hefei Meiling Co., Ltd.

(5) Li Wei, Male, Han nationality, was born in Tongliang of Sichuan Province dated Feb., 1973, Assistant Economist with bachelor degree. He ever took the post of General Manager of Xi'an Sales Filiale of Sichuan Changhong Electric Co., Ltd and General Manger of Southeast Operation Management Center of Changhong Electric (China) Marketing Co., Ltd.; now, he is the General Manger of Changhong Air-condition Co., Ltd, and Director of the Company.

(6) Ye Honglin, Male, Han nationality, was born in Pujiang of Sichuan Province dated Dec., 1971, Senior Accountant with bachelor degree. He ever took the posts of General Manager of Internal Bank of Sichuan Changhong Electric Co., Ltd., Deputy Minister and Minister of Financial Department, Deputy General Manager of Hefei Meiling Co., Ltd., now he is the CFO of Sichuan Changhong Electric Co., Ltd, and Director of the Company .

(7) Liu Hongwei, Male, Han nationality, was born in Shangqiu, Henan dated July 1963, Doctor Degree of Department of Mechanical Engineering and Applied Mechanics of Pennsylvania State Lehigh University. He was ever worked in Pennsylvania State Kulicke and Soffa Industries, California State Tessera Technology Corporation and California State Intel Corporation; now, he is Standing Vice President of the Company.

(8) Yu Wanchun, Male, Han nationality, was born in Renshou, Sichuan dated September, 1970, Senior Accountant with Bachelor's Degree. He graduated from Finance major of Chongqing Business College (now, has its new name of Chongqing Technology and Business University) in July 1994 and started to work at Sichuan Changhong Electric Co., Ltd.; he ever held the positions of Section Chief of Accounting Department and Deputy Minister of Finance Department of Sichuan Changhong Electric Co., Ltd., etc.; now he is Vice President of the Company.

(9) Li Daijiang, Male, Han nationality, was born in Shifang, Sichuan dated October, 1966, Member of CPC and Statistician with Bachelor' Degree. He graduated from statistics major of Southwest University of Finance & Economics in July, 1987 and then worked at Sichuan Changhong Electric Co., Ltd.; he ever held the posts of Head of Price Department, Minister of Price Department, Vice Minister of Comprehensive Management Department and Vice Minster of the Ministry of Materials, etc. Now he is Vice President of the Company.

(10) Wang Yingmin, Male, Han nationality, was born in Fu Ping of Shanxi dated April 1959, Senior Engineer with Master Degree. He graduated from Machine Manufacturing Craftwork of Northwestern Polytechnical University. He ever worked in machine design in 630 Graduate School of Aviation Ministry from Jan. 1983 to Sep. 1985; made research and development in air conditioner and refrigeration tools from May 1988 to Jan. 1995; made research, development and technological management of refrigerators sine Feb. 1995; from 1997, he ever took the posts of Deputy GM, Technology Majordomo and Chief Scientist. Now, he is the Vice President and Chief Scientist of the Company.

(11) Li Xia, Female, Han nationality, was born in Qionglai, Sichuan dated October 1980, Member of CPC and Intermediate Accountant with Master Degree. She graduated from Accountig Department of Sichuan University Business and Management School. In July 2006, she worked in Sichuan Changhong Electric Co., Ltd. She ever was Project Manager in Financing&Acquisition Office of Asset Management Department and Business Executive in Board Office of Sichuan Changhong Electric Co., Ltd. From May 2008 to May 2009, she took the posts of Deputy GM and Finanical Supervisor of Sichuan Changhong Innovation Investment Co., Ltd. Now, she is the Secretary of the Board of the Company.

(12) Wang Xingzhong, Male, Han nationality, was born in Guanghai of Sichuan Porvince

dated August 1944, CPC member, senior accountant with Bachelor Degree; ever took the posts of Deputy Director of Economic Commission of Mianyang Municipality, Deputy General Director and General Director of Mianyang Finance Bureau and concurrently General Director of Mianyang Local Taxation Bureau; Assistant to Mayor, and Deputy Mayor of Mianyang People's Government. Now, he was retired. And he is the Independent Director of the Company

(13) Song Baozeng, Male, Han nationality, was born in Laizhou of Shandong Province dated Jan., 1940, CPC member, Researcher with Bachelor Degree. He ever took the posts of Engineer, Deputy Director and Deputy Superintendent of No.2 Institute of Chinese Academy of Engineering Physics, and Vice-president of Chinese Academy of Engineering Physics. Now, he is the Director of Mianyang Meineng Materials Technology Co., Ltd., Chairman of Sichuan Kexuecheng Center Technology Co., Ltd, and concurrently Professor of Southwest University of Science and Technology and Sichuan University, and Consultant of Sichuan Provincial Advisory Commission, and the Independent Director of the Company.

(14) Liu Youpeng, Male, Han nationality, was born in Hefei of Anhui Province dated Nov., 1954, Economics Doctor, Senior Economist, Senior Credit Manager. Now, he takes the posts of Professor of Shanghai Business School, Distinguished Expert Commissioner of Training Department of China General Chamber of Commerce, Credit Manager of Training Department of China General Chamber of Commerce, and Independent Director of Anhui Gujing Group Co., Ltd. He ever worked in Weishu District of Beijing, Quanjiao Middle School of Anhui and Wanbei Branch of Anhui Agricultural College; he successively took the posts of Section Chief and Office Deputy Director of Education Department of Anhui Province, Deputy Mayor of Haozhou Municipality of Anhui Province and Office Director of Universities Admissions Office of Education Department of Anhui Province, and the Independent Director of the Company.

(15) Fei Mingying, Female, Han nationality, was born in Su County, Anhui dated November 1958, Member of CPC and Economist with Bachelor's Degree; she ever held the posts of Director of Audit Office, Minister of Audit Ministry of Law, etc. of Sichuan Changhong Electric Co., Ltd. Now she holds the chairman of Supervisory Committee, Deputy Secretary of Committee for Disciplinary Inspection and Minister of Ministry of Audit of Sichuan Changhong Electric Co., Ltd., and Chairman of Supervisory Committee of the Company.

(16) Yu Xiao, Male, Han nationality, was born in Yiwu, Zhejiang dated August, 1968, Member of CPC, Senior Accountant with Bachelor's Degree. He ever held the posts of Deputy Director General of Finance & Accounting Office, Deputy Director General of Finance & Accounting Office of Sales Department, and Deputy Minister of Sales Department, Minister of Finance Department of Sichuan Changhong Electric Co., Ltd., and now he is CFO of Sichuan Changhong Electric Group Co., Ltd. and Supervisor of the Company.

(17) Yong Fengshan, Male, Han nationality, was born in Dingyuan of Anhui Province, Senior Accountant, successively held the posts of Director Assistant of Operation Department, Head of Financial Department of Hefei Cable Plant, and Deputy Chief Accountant concurrently Minister of Financial Department of Hefei Meiling Co., Ltd. Now he holds the posts of General Manager of Hefei Industrial Investment Co., Ltd, and the Supervisor of the Company.

(18) Zhang Ruhe, Male, Han nationality, was born in Feixi, Anhui Province, college degree, Member of CPC; he ever took the posts of Secretary of Army 60th Artillery Regiment, Office Director and Vice-secretary of Discipline Department of Hefei Plastic General Plant, Commissioner of Armed Forces, Deputy General Manager of Superintendence Department, Equipment Security Personnel of Extrusion Plate Plant of Hefei Meiling Co., Ltd., Party Affairs and Administration Officer in President Office of Hefei Meiling Co., Ltd. Now, he is the Charger of Materials Takeback in Materials General Warehouse of Hefei Meiling Co.,

Ltd., and the Employee Supervisor of the Company.

(19) Qi Dunwei, Male, Han nationality, was born in Oct. 1971 of Tongcheng, Anhui Province, Bachelor Degree. He worked in Hefei Meiling Co., Ltd. since graduated in 1996. Since 1996, he worked in Secretariat of the Board(Securities Department) of Hefei Meiling Co., Ltd. He took the post of Securities Affairs Representative of Hefei Meiling Co., Ltd. from year 1998 to Jan. 28, 2010. From April 15, 2008 to Feb. 26, 2010, he was the Employee Supervisor of Hefei Meiling Co., Ltd.

3. Particulars about office titles in Shareholding Company

Name	Unit	Title	Start date of office term	End date of office term	Drawing remuneration and allowance or not
Zhao Yong	Sichuan Changhong Electric Co., Ltd.	Chairman of the Board, Secretary of the Communist Party Committee	2008.05.31	2011.05.31	Yes
Wang Jiazhang	Hefei Meiling (Group) Holdings Co., Ltd.	Chairman of the Board, Secretary of the Communist Party Committee	2002	—	No
Li Jin	Sichuan Changhong Electric Co., Ltd.	Deputy GM	2008.05.31	2011.05.31	Yes
	Sichuan Changhong Electric Group Co., Ltd	Director	2008.05.31	2011.05.31	No
Yu Xiao	Sichuan Changhong Electric Group Co., Ltd	CFO	2007.04	2010.04	Yes
Ye Honglin	Sichuan Changhong Electric Co., Ltd.	CFO	2008.09.19	2011.05.31	Yes
Fei Mingying	Huayi Compressor Co., Ltd.	Chairman of Supervisor Committee	2009.01.12	2012.01.12	No
	Sichuan Changhong Electric Co., Ltd.	Chairman of Supervisor Committee, Minister of Audit Department, Vice-secretary of Discipline Committee	2008.05.31	2011.05.31	Yes

4. Foundation of annual remuneration

Foundation of annual remuneration received by directors, supervisors and senior executives: the Company conducted the performance examination on the task of directors, supervisors and senior executives according to the resolution Board of Directors, the relevant policies of labor authority and the checking system of linking their office position wages with performance; then the remuneration is decided and implemented on the basis of evaluation result which has been examined and approved by the Board of Directors or the Shareholders' General Meeting.

5. Particular of the change of Director, Supervisor and Senior Executive

(1) On April 22, 2009, the Board of the Company issued one notice in which Secretary of the Board and Vice President of the Company Mr. Xue Hui was agreed to resign his posts. In order to ensure the normal operation of the board, in accordance with the Listing Rules of Shenzhen Stock Exchange, during the vacant period of position as the secretary of the Board,

Chairman Mr. Zhao Yong took the relevant responsibilities on behalf till the Company newly engaged Secretary of the Board.

(2) On May 4, 2009, the 15th meeting of the 6th Board of the Company was held in which approved the Proposal on Engaging Senior Executive of the Board of the Company. The Board agreed to engage Mr. Wang Yong as the President of the Company; nominated by President, Mr. Liu Hongwei was engaged as the Standing Vice President of the Company; and Mr. Yu Wanchun, Mr. Li Daijiang and Mr. Wang Yingmin were engaged as the Vice President of the Company.

(3) On May 21, 2009, the 16th meeting of the 6th Board of the Company was held in which approved the Proposal on Engaging Secretary of the Board, Securities Affairs Representative of the Board of the Company. The Board agreed to engage Ms. Li Xia as the Secretary of the Board.

6. The number of employees, professional composition, education background and retirement

The Company has 3,394 on-duty employees, 34 senior personnel of them had master degree or above, 1,372 of them hold junior college degrees or bachelor degrees. The Company needed to bear the expenses of 733 retired staff. Professional composition of employees is as follow:

Professional	Number	Proportion
Production personnel	1950	57.45%
Salesperson	721	21.24%
Technicians	296	8.72%
Financial personnel	118	3.48%
Administrative personnel	309	9.10%

Section VI. Administrative Structure

I. Company Administration

In the report period, in strict accordance with the requirements in Company Law, Securities Law, Code of Corporate Governance for Listed Companies in China, Rules Covering Listing of Stocks on Shenzhen Stock Exchange and other relevant laws and regulations by CSRC, the Company endlessly perfected its administration structure, established and promoted its internal management and control system, continuously deeply develop administration activities of the Company, further standardize operations and enhance its administrative level. Under the relevant laws and regulations of the regulator, the Company revised and improved the Articles of Association, Rules of Procedure of Shareholders' General Meeting, Rules of Procedure of Board, Rules of Procedure of Supervisory Committee, Registration System of Insider on Insider Information, Management Measures of Directors, Supervisors and Senior Managers Hold Shares of the Company and Its Change, Related Transaction Management System, Internal Reporting System on Significant Information, Management System of External Information Submission and Usage and other related systems, which were adopted by the board of directors. Meanwhile the Company organized relevant departments and staffs to study these systems, effectively implemented the systems, improved the Company's governance structure, guaranteed the interests of all shareholders, especially small and medium shareholders and stakeholders, and promoted the company's standard operation as well. By the end of reporting period, the company governance structure was basically in line with the governance requirements of normative documents on the listed companies released by China Securities Regulatory Commission.

During the report period, in handling the relations between the company shareholders and general meeting of shareholders, controlling shareholders and Company, directors and board of directors, supervisors and supervisory committee, performance evaluation and incentive and restraint mechanisms, stakeholders, and information disclosure and transparency, the Company adhered to the standard operation, and strictly kept in line with the relevant provisions of the China Securities Regulatory Commission and the Shenzhen Stock Exchange.

In September of 2009, the Anhui Securities Supervisory of China Securities Regulatory Commission conducted an on-site inspection on the Company and issued a Rectification Notice in Limited Period, the Company submitted the required rectification and reform reports, and finished the rectification and reform in the specified period according to the requirements in the notice issued by the regulator.

1. Shareholders and Shareholders' General Meeting: Strictly in accordance with the Rules for the General Meetings of Shareholders of Listed Companies and the Rules for the General Meetings of Shareholders of the Companies, the Company convened and held Shareholder's Meeting and ensure fair treatment toward all shareholders, especially minority shareholders to fully exercise their rights.

2. Controlling shareholders and listed companies: With independent business and management ability, the Company separated from the controlling shareholder, Board of Directors and Supervisory Committee and internal institution, in terms of business, personnel, assets, finance and organization. The controlling shareholder of the Company could strictly standardize its behaviors and did not exceed the Shareholders' General Meeting to intervene the decision-making and management activities directly or indirectly.

3. Directors and the Board of Directors: The Company elected directors in strict accordance with the director electing and engaging processes prescribed by Articles of Association. At present, there are three independent directors which covers one third of the Board of Directors, and the member formation of the Board of Directors was in accordance with the

requirements of laws and regulations of Articles of Association. On the principle of Rules of the Board of Directors and Rules of the Independent Directors, all directors could carry out their work carefully and attend the Board of Directors and the Shareholders' General Meeting seriously; take part in relevant trainings actively and get more familiar with relevant laws and regulations.

4. Supervisors and Supervisory Committee: The Company had set up Supervisory Committee, and the numbers and member formation of the Supervisory Committee were in accordance with the requirements of Articles of Association, Company Law and relevant laws and regulations. In accordance with Rules and Procedures of the Supervisory Committee, all the supervisors could earnestly perform their duties, supervise the significant events, related transaction, financial status, directors, presidents as well as other senior executives of the Company and express their independent opinions.

5. Performance valuation as well as encouragement binding mechanism: The Company continued to promote and perfect the equitable, transparent and normative performance valuation standard and encouragement binding mechanism for directors, supervisors and senior executives. The election for senior executives is normative and transparent, which is in accordance with laws and regulations.

6. Interest correlatives: The Company could fully respect and safeguard the legitimate rights and interests of interest correlatives, thus realizing interest balance for society, shareholders, the Company and its employees and promoting its stable development.

7. Information disclosures and its transparency: In strict accordance with the requirements of the Information Disclosure Management System and relevant laws, the Company strengthened information disclosure management, performed information disclosure obligations. And the Company assigned Securities Times, China Securities, Hong Kong Wen Wei Po and Ju Chao Information Web (www.cninfo.com.cn) for its information disclosure; disclosed relevant information truly, accurately, integrally and timely, and to ensured that all the shareholders enjoys the right of acquiring the information equally.

II. The Establishment, Improvement and Duty Performance of the Independent Directors Work System

(I) The Establishment and Improvement of the Independent Directors Work System

1. In order to further improve the company governance structure, effectively protect the interests of small shareholders and maintain the company's interests, standardize the company's annual report on the preparation, auditing and information disclosure and other related normative works to promote the company's standard operation, and ensure the independent directors can exercise their power independently. Based on its actual situation, according to the Company Law, Guide Suggestion about Building Independent Director of Listed Companies, Guidelines for Governance of Listed Companies and Articles of Association and other relevant provisions, the Company on February 5, 2002, formulated the Independent Director System, and adopted to implement in the company's twentieth meeting of the third board of directors.

2. In order to improve internal control and management governance mechanisms and give full play to the supervision and coordination role of the independent director to guarantee the interests of small investors, According to relevant provisions on the audited annual financial reports of listed companies issued by China Securities Regulatory Commission and Shenzhen Stock Exchange and the Articles of Association, Independent Director System , Management System of Company Information Disclosure, combined with the company's annual report preparation and the disclosure of the actual situation, the Company formulated the Work System on Annual Report of Independent Directors on February 23, 2009, which adopted by the company's twelfth meeting of sixth board of directors.

(II) The Duty Performance of the Independent Directors

The company's independent directors could be in strict accordance with Company Law, Securities Law and Guide Suggestion about Building Independent Director of Listed Companies, Stock Listing Rules of Shenzhen Stock Exchange and Articles of Association, Independent Directors System and the relevant laws, regulations, rules and regulations and other provisions, faithfully performed duties of independent directors, cautiously, seriously and diligently exercised the rights of independent directors, freed from influences of major shareholder and actual controller or the unit and private person having a stake in the Company, and actively attended the shareholders' meeting and board of directors, expressed an independent point of opinion regarding the related issues, and put forward reasonable proposals for the company's production management and business development, given full play to the role of independent directors to guarantee legitimate rights and interests of the shareholders, especially small and medium shareholders.

1. The Information About the Independent Directors' Attending and Voting of the Meeting of the Board of the Directors

In the year of 2009, the Company held a total of 16 times board of directors and 3 times shareholders' general meeting. Independent directors seriously participated in the company's board of directors and general meeting of shareholders, fulfilled the diligent obligations of independent directors. The information about the independent directors' attending the meetings of the board of the directors in 2009 are as follows:

Name of the independent directors	This year's required attendance times	Represented in person/time	Represented by proxy/time	Absence/time	Voting result		
					In favor	Against	Abstented
Wang Xingzhong	16	16	0	0	16	0	0
Song Baozeng	16	16	0	0	16	0	0
Liu Youpeng	16	16	0	0	16	0	0

During the report period, independent directors had no objection to all this year's proposals advanced by the board of directors as well that of the non-board of directors, and voted in favor of all the proposals put forward by the board of directors.

2. The Information regarding the daily work

In the year of 2009, for the major issues demanding the board discussion and decision-making, independent directors could do a pre-considered carefully examination, and in strict accordance with requirements of the Independent Director System in Hefei Meiling Co., Ltd. and other related systems, diligently, loyally performed their duties, and actively attended the relevant meetings, in-depth looked into the company's production and operation situation and the progress of major issues, and put forward reasonable opinions and suggestions on the company's operations, development from their professional perspective; in term of the company's connected transactions, foreign security matters, financial transactions with related parties and other related subjects, independent directors raised independent advice; independent directors have played a positive role in board of directors making right scientific decision and in the company's operating management and development, effectively ensuring the interest of company and the general public investors.

In the process of 2009 annual report preparation and disclosure, according to requests of the China Securities Regulatory Commission Announcement No. 48 (2008), independent directors actively performed their duties, given full play to the independent role of independent directors in the work of annual report, listened carefully to company management's progress report about this year's production and management situation and major issues and conducted the necessary investigation. During the audit, independent directors directly communicated with the CPA about the annual review issues, and earnestly

carried out the diligent responsibilities of independent directors. Main works were as follows: (1) Combined with the company's actual situation, after consultation with the accounting firms auditing annual report, independent directors determined timetable for audit work of the company's annual financial report, and formulated annual audit work plan. (2) Before the accounting firms started the audit work, independent directors communicated with the CPA involving in the annual review about the composition of the Working Group on the audit, the audit plan, risk judgments, risk and fraud in testing and evaluation methods as well as the focus in this year's audit. (3) Independent directors also heard financial officers' annual reports on company's financial position and operating results.

3. The Information about the view expressions of Independent directors

In 2009, independent directors had an independent review on the issues of connected transactions, executive appointments and the purchase of assets, and had not raised any objections to the this year's proposals advanced by board of directors and other non-board of directors.

1) On February 23, 2009, the 12th session of the 6th board of directors considered and adopted the Proposal on Predicting Related Transactions in 2009, Proposal on 2009's Renewal of the Annual Financial Audit Institutions and the Payment of Remuneration, and independent directors issued pre-approved opinions and independent views on the expected issues of connected transactions in 2009, and expressed independent opinions in term of the appointment of financial auditors.

2) On May 4, 2009, the fifteenth session of the sixth board of directors considered and adopted the Proposal on the Appointment of Senior Executives by the Board of Directors, and the independent directors gave independent views on the appointment of senior managers.

3) On May 21, 2009, the Sixteenth Meeting of the sixth board of directors considered and adopted the Proposal on the Appointments of Secretary of the Board of Directors, and Securities Affairs Representative by the Board of Directors and independent directors expressed the independent opinions on the appointment of secretary of the board of directors.

4) On November 13, 2009, the 26th session of the sixth board of directors considered and adopted the Proposal on the Bidding for Equity of Sichuan Changhong Air-conditioner Co., Ltd. and Zhongshan Changhong Electric Co., Ltd., and independent directors issued pre-approved opinions and independent views on the connected transactions.

5) Independent directors respectively issued a written confirmation advice on the company's 2008 annual report, 2009 first quarterly report, 2009 semi-annual report, and the third quarterly report in 2009.

4. Other works

In 2009, independent directors had no separate proposal to convene a board meeting; had not hired an independent external audit institutions and advisory bodies; independent directors also served as the Company's Audit Committee of the Board, and the special committees of remuneration and assessment, strategy and nomination; in line with the implementation rules of Company's special committee, independent directors performed their duties and played the role of various special committees in scientific decision-making and supervision to the board of directors.

In the year of 2009, independent directors took the chances of attending board meeting and took other opportunities to understand the Company's operating condition, and listened to company management's reports on the business status and standard operation. For the major issues demanding the decisions of the board, such as business development situation, connected transactions and financial operation, risk control, independent director heard the relevant detailed report, independent directors expressed opinions in the board meeting and promoted the board of directors to make scientific and objective decisions.

At the same time, independent directors actively learned the relevant laws, regulations, and rules, deepened the knowledge and understanding on the relevant laws especially the concerning regulating the corporate administration structure and protection of social public shareholders' equity, improved the protection ability consolidatedly on the Company and investors's interests, formed the thoughts of self-protecting social public shareholders' equity.

III. The Company and the Controlling shareholder Achieved Separation in terms of the Business, Personnel, Assets, Financial and Organization

The Company and its largest shareholder of Sichuan Changhong Electric Co., Ltd. achieved a separate accounting and shared independent responsibility and risk in term of business, personnel, assets, financial and Organization.

1) Business: The Company had an independent, complete business and autonomous management, with the specialized purchase and sales departments, the Company could independently manage its business, and the company management personnel were independent of the controlling shareholder and its affiliated companies.

2) Personnel: The company staff, labor, personnel and wages were fully independent. President, Vice President, Secretary of the Board and other senior management personnel worked for and received pay from the Company, not undertaking any other duties and receiving compensation in the controlling shareholder and its affiliated companies as other than a director, supervisor.

3) Assets: The company had the production and operation sites independent of the controlling shareholder, an independent complete asset structure, an independent production system, auxiliary production system and ancillary facilities, land use rights, home ownership and other assets, independent procurement and marketing systems.

4) Organization: The Companies set up an organization, fully independent of the largest shareholders, in which the company's board of directors, supervisors and internal organization were capable of independent action, preventing from the company's largest shareholder intervention in the decision-making behavior.

5) Finance: The company had a separate financial and accounting department, and established an independent accounting system and financial management systems, opened an independent bank account for tax declaration.

IV. Campaign to Strengthen Corporate Governance of the Companies

Before the reporting period, on July 31, 2008 the Company revealed Rectification Report on Special Campaign of Corporate Governance of Hefei Meiling Co., Ltd. During the report period, according to the situation of on-site inspection made by Anhui Supervisory Bureau of Chinese Securities Regulatory Commission from July 13 to July 24 in 2009 and the requirements from Notice on Rectification In Limited Period with No.WZJHZi [2009] 197 (hereinafter referred to as " Notice ")issued by Anhui Supervisory Bureau of Chinese Securities Regulatory Commission on August 7, 2009; the Company promptly organized the directors, supervisors, senior executives and the relevant departments to carry out a careful study and discussion. According to the Company Law, Securities Law, Code of Corporate Governance for Listed Companies in China, Stock Listing Rules of Shenzhen Stock Exchange and other relevant laws and regulations and regulatory requirements, in line with diligence, strict self-discipline, honesty and trustworthiness and a responsible attitude to shareholders, Board of Directors drawn up corrective measures on the issues mentioned in the notice thus forming report on rectification. At the same time, regarding this inspection as an opportunity, the Company continued to standardize the operation and strengthen internal controls as well as improve corporate governance standards. On September 18, 2009, the Company held its 26th meeting of the 6th Board, in which approved Rectification Report on

the Views of On-site Inspection by Anhui Supervisory Committee of Chinese Securities Regulatory Commission. The rectification in limited period has been completed and the continuous rectification has got better results. Presently the rectification effect and improvement plan and other items listed in the rectification report are as follows:

(I) The problems about the normal operation of the Company

Except for the first and 12th meeting of the 6th board of directors, others used means of off-site but communication, which is not conducive to the participant directors to fully express their views and does not meet with the related requirements of the Code of Corporate Governance for Listed Companies in China.

Corrective measures: Company directors seriously studied the Code of Corporate Governance for Listed Companies in China and perfected them according to the criteria. Most of the time the Board adopted means of off-site but communication, mainly because the workplaces of directors scattered and the Company must ensure the normal operation efficiency, so Company adopted communication ways for most times. But prior to the meeting, the Company board sent out meeting notifications and information to members of the Board. Members fully communicated on the issues which will be discussed in the meeting and discussed fully about the resolutions in the meeting. It did not affect the decision-making effects of the Company's board of directors. To ensure that the directors of the Board can fully discuss and communicate, the Company have managed to hold board meetings in site way. Till the disclosure of the annual report, the Company has held a total of five site board meetings.

(II) Problems about the establishment of corporate governance rules and regulations

Some clauses of the Articles of Association of the Company needed to be further revised and improved. Rules of Procedure of the Shareholders' General Meeting and Rules of Procedure of the Board needed further revisions.

Corrective measures: the Company's sixth directors, supervisors and senior executives one by one sort out and revised some section of Articles of Association, in accordance with the items listed in the notice and Guidance to Articles of Association of Listed Companies in China (2006 revision). Besides, the Company also revised and improved the Rules of Procedure of the Shareholders' General Meeting, Rules of Procedure of the Board, Rules of Procedure of Supervisory Committee according to the Guidance to Articles of Association of Listed Companies in China and the amended the revised Articles of Association.

In addition, in connection with the ongoing promotion of Special Activities on Implementation of Strengthening Intern Control Regulation, the Company deeply sort out the Company's internal control system and make self-examination on the controlling status. Also the Company formulated and improved Registration System of Internal Information Insider, Management Method of Holding Shares by Directors, Supervisors and Senior Executives and Its Changes, Management System of Related Transaction, Internal Report System of Significant Information, Management System of Delivery and Usage of External Information. These systems are passed by the Board. The Company has organized the related units and personnel to learn and to implement effectively according to the relevant system.

(III) Problems about Related-party transactions and information disclosure

1. On September 26, 2008, November 17, 2008, April 22, 2009 the Company respectively received subsidiaries of RMB 2 million, RMB 1.8 million and RMB 16,137,700 from the Government, but the Company did not timely implement the information disclosure obligations.

Corrective measures: the relevant departments of the Company haven't enough awareness about the impact Company's receiving government subsidies on the profits of Company profits and it lacks deep understanding of related rules of the information disclosure, but the Company has made full disclosure of the above government grants in the third quarter report

and annual report of 2008 as well as the interim report in 2009. Especially a received government subsidies on April 22, 2009 has already been listed in other non-current liabilities - deferred income, which was reward account from government in advance to promote economic development. Specifically, in order to promote a more stable industrial economy and rapid development from Hefei Government. For the industrial enterprises above certain scale, where the excess part of gross industrial output value and the main business income between year 2009 and year 2008, excluding the base part of the increment of the increased part. In order to ensure the policy to play a full role in incentives and easing their fund turnover pressure, government rewarded the companies that meet the conditions, the government would pre-cash the bonus in way of pre-delivering funds, and settle the overall bonus at the year-end, retreat more fill less based on the actual settlement. As the Company believed there is a certain uncertainty in the government subsidies, in accordance with the provisions of Accounting Standards For Business Enterprise, they should not be taken as non-operating income, so Company recorded it in Other non-current liabilities subjects and disclosed in the interim report 2009 in detail. In the future, the Company will strictly abide by Internal Report System of Significant Matters, and timely and accurately report to the board secretary on significant messages. And for such matters, the Company will actively communicate with the regulatory authorities, strictly observe and implement the relevant requirements of information disclosure rules and Management Method of Information Disclosure made by the Company, improved and strengthened the management of information disclosure matters, timely and accurately disclosing information, try to improve the quality of corporate information disclosure to enable investors to know the situation of the Company.

2. In 2007, the Company purchased goods valued RMB 45,296,500 from Changhong and its subsidiaries, RMB 311,133,300 from Meiling Group and its subsidiaries, while Company sold goods valued RMB 542,199,200 to Sichuan Changhong and its subsidiaries, RMB 30.519 million to Meiling Group and its subsidiaries; in 2008, the Company sold goods valued RMB 54,533,400 to Changhong and its subsidiaries. None of the above-mentioned related-party transactions was carried out according to the appropriate corporate governance decision-making process, and the Company failed to timely fulfill the information disclosure obligations.

Corrective measures: Company organized directors, supervisors and executives to seriously study the Listing Rules of Shenzhen Stock Exchange and other regulations, re-perfected the revision of Management System of Related Transaction and Internal Report System of Significant Information, and passed by the Board. Meanwhile, the Company organized all the relevant departments within the Company and its subsidiary companies to study the various elements of Management System of Related Transaction and Internal Report System of Significant Information to enhance the awareness of internal report of significant information and highlight the importance of the related-party transactions' decision-making and the information disclosure. In the future, the Company will draw on the lessons of the above matters to strengthen the learning and understanding of relevant institutions, develop relevant systems to enhance the awareness of relevant departments and staff on important issues, so as to make timely and accurate internal report of related matters and prevent the occurrence of such incidents. At the same time, under the relevant provisions of the Internal Control Guidelines of Shenzhen Stock Exchange, with regard to related-party transactions in 2009 and the actual occurrence, the Company strictly carried out the corresponding decision-making processes of corporate governance and disclosure obligations. Approval authority and approval procedure as well as avoiding voting are all carried out in strict accordance with the Articles of Association, Rules of Procedure of Shareholders' General Meeting, Rules of Procedure of Directors and other regulations. At present, the internal

controls of the Company's related party transactions are strict, full, effective and not against the Internal Control Guidelines of Shenzhen Stock Exchange and related systems. In the followings, the Company will continue to strictly control the decision-making process related-party transactions in accordance with relevant provisions, ensuring a true, complete, timely and accurate information disclosure.

The Company followed the aforementioned related-party transactions with the good faith, equality, voluntariness, fairness, openness and fair principles, the price of the related-party transactions is fair, reasonable, not harmful to the interests of non-associated shareholders, listed companies and other shareholders, while in the Company made specific disclosure in scheduled report of the Company.

3. The Company failed to disclose the factual fulfillment of daily related transaction matters during the report period in the annual report according to Contents and Formats for Information Disclosures by Companies That Offer Securities to the Public Guidelines No. 2: Contents and Formats of Annual Report(2007 Amendment).

Corrective measures: the related departments of Company specially organized meetings to study the Contents and Formats for Information Disclosures by Companies That Offer Securities to the Public Guidelines No. 2: Contents and Formats of Annual Report (2007 Amendment), with each person responsible for specified tasks. And the Company made it clear that Company will predict the total amount of the daily related transaction of the year in the 2009 annual report and subsequent periodic reports according to the requirements. At the same time, Company will disclose the factual fulfillment of daily related transaction matters during the report period.

4. Taken-back Agreement of State-owned Land was signed between the Company and the Land Reserve Center of Hefei and the Company disclosed on Dec. 2006, in which didn't fully disclose the following terms: "If the final closing amount is beyond RMB 600 million and the transaction price is respectively beyond RMB 4 million, RMB 5 million, RMB 6 million each acre, the reserve center will sub-extract respectively 10%, 30%, 50% of the corresponding extra parts, this term doesn't meet with the integrity of the information disclosure.

Corrective actions and related instructions: In 2006, the Company signed the Taken-back Agreement of State-owned Land (hereinafter referred to as the "Agreement") with Hefei Land Reserve Center (hereinafter referred to as Reserve Center), the reserve center HAS withdraw the two land-use right of state owned land which located in Hefei Wuhu with payment. The agreement of the land contract involving the land compensation fees and storage of government revenue and calculation method of government revenue, and make it clear that parts of government income will be used to solve the problem of occupation on the fund of the Company by Hefei Meiling Group Holding Co., LTD. (hereinafter referred to as Meiling Group). In light of that this agreement involving Hefei government's assistance to solve fund occupation of Meiling Group on the Company and the subsequent operations, if the Company disclose the land compensation and government revenue calculation standard of the agreement, on the one hand, it goes against the government through land mortgage financing to solve the problem of fund occupation of Meiling Group on the Company, on the other hand, the disclosure of the specific transaction price in stage extraction standard may give a clear market expectations, it won't be good for land reserve center's subsequent introduction to gain maximum land auction completion price. In addition, according to communication of reserve center and relevant government departments, the government also didn't agree to disclose detailed items of the agreement. Based on these, to think over from the angle of land realizable value maximization, the Company didn't disclose the agreement concerning the land compensation fees and government revenue concrete calculation. On June 12, 2009, in light of that Company has successfully clinched a deal auction on storage

land, the Company further disclosed related contents of the agreement in accordance with the relevant regulations. The disclosure is in correspond with the Company's benefit maximization and the benefit of all shareholders.

The Company reported the progress of the fulfillment of the agreement on time and received land compensation fees RMB 422,511,200 payable from the Hfei Finance Bureau dated Dec. 15th, 2009. Later, the Company will fully balance the advantage and disadvantage of important matters, fully communicate with supervisory board in advance and ensure the authenticity, integrity, timeliness and accuracy of the information on the premise of protecting the interest of the Company and shareholders.

(IV) Problems on financial accounting management

1. Accounting receivable calculation didn't meet with the standard and the management should be improved. The irregularity of the checking accounts and settlement between Company and clients led to false book balance of the Company's receivables. For example, at the end of 2008 the book balance of receivables included the un-liquidated sales expense RMB 42.1 million and the Company made this expense hang out in advance in other payable subjects. The above accounting inflated the assets of financial statements and the amount of liabilities, also affected the accuracy of the provision for bad debts.

Corrective measures: after fully discussing with ShineWing Certified Public Accountants Co., Ltd., the financial auditor, Company has improved from the following areas:

(1) Further strengthening the receivables management, adding the frequency of reconciling account with clients, regularly analyzing the receivables. Company require the salesmen to on time communicate with clients on the unsettled accounts, collect related reimbursement documents and fulfill formalities of recorded settlement.

(2) There's always time gap between the occurrence of the expense and the reimbursement due to the huge nationwide market. When making financial reports and withholding the sales expense in advance, firstly, related department should make a clear list and summary of the expenses included in the receivables and estimate the temporary unsure fees according to the related market policy. Secondly, offsetted in advance unsettled sales fees included in the book balance of receivables, and returning them next month, to reason by analogy each month, the Company can ensure the authenticity of the receivables. Meanwhile, the Company will not accrue the bad debt on the inflated receivables caused by unsettled fees.

2. Inventory accounting management needs to be strengthened. Part of Company's external inventory checking materials weren't signed by related people and didn't show their stock ages, affecting the authenticity of withdrawal of provision for inventory depreciation. Besides, the Company didn't make reasonable provision for depreciation for sample machines of book calculation.

Corrective measurements:

(1) Company re-defined and reinforced the requirements to the treasury inventory and the inspections to the treasury inventory report. Internal treasury inventory must be signed by inventory staffs and monitoring site staff while the external treasury inventory must be defined through signature and Company seal by staffs of Company and external warehousing and storage person. All the treasury inventory must inspect the real ages and condition of the products. The information must be completely written on the inventory report. The staffs failing to check or write the checking report according to the inventory requirements must be notified and punished.

(2) Based on the above rectification, Company will fully consider the quality and real liquidity of the treasury when taking frequency of impairment test to the treasury. And the Company will strictly test sample machines if there exists phenomenon of impairment according to the sample sales policy of the Company. In addition, Company will, according to Accounting Standards and for Business Enterprise and the Company's accounting policies,

estimation, extract a corresponding provision for inventory depreciation.

3. Cost of sales management lacks strict control, accounting is not standardized. Company's 2008 annual sales expense rate is 16.65%, the first quarter of 2009 rapidly growing to 22.74%, while Qingdao Haier Co., Ltd's rates of sales expense rate over the same period were 14%, 13.38%, Guangdong Midea Electric Appliances Co., Ltd.'s rates of sales expense rate over the same period were respectively 10.18%, 11.78%. So the cost of sales expense rate increases rapidly, with a higher rate than other listed companies in the same industry. Besides, the counting and drawing of Company's sales expense rate each month was inaccurate, resulting in sales expense rate volatile. The major cost items, such as marketing support payments, in the second half of 2008 wrote off the extra amount of accrual of the first half year, resulting substantial amount of negative in some months of the second half year, impacting the accuracy of Company's quarterly and mid-year report.

Corrective measurements: Company organized related departments including sales departments and their financial and vocational staffs to have fully discussed, and made rectification and improvement from the following several aspects:

(1) To establish a more scientific marketing budget management system, to use sales expenses in strict accordance with the Budget First and Then Occur, to improve the responsibility of marketing expense management and control, and to strengthen the rigidity of cost estimates. At the same time, further to strengthen, refine marketing system operations control measures to improve the effectiveness of sales operations.

(2) On the cost of expenses, to strengthen the advanced full argument, and the analysis of effect of subsequent, so as to maximize the input and output as well as to reduce the blind sale of promotional activities, thereby reducing marketing expenses.

(3) For the sales channels, marketing promotions, logistics and warehouse management as well as customer service, to adopt targeted flexible business tools and information tools so as to further compress expenses.

(4) Reimbursement of costs must be audited by the finance staff of sales division and reviewed by the headquarters, forming a dual-monitor when reimbursing. At the same time, the audit departments of the Company carry out regular annual routine audit, special audit, outgoing audit and other supervisory measures to various marketing divisions, ensuring the cost of sales expenses true and reasonable.

(5) To improve and optimize statistics of the cost of sales to improve the accuracy of statistics, and withdrawal in advance the cost of sales by classification to avoid the extraction of total amount impacting the individual cost items, withdrawal in advance the sales expenses each month in accordance with precise details of the withholding marketing expenses.

V. The condition about strengthening the implementation of special activities of internal control standard

Under the guidance of Anhui Securiteis Regulatory Bureau, the Company established the special promotion work team of internal control basic standards, Chairman Zhao Yong of the Company was the first responsible person. The work team underly established leadership team, working group. As a responsible one, leadership team should earnestly perform their duties, strengthen their leadership; Led by the financial management team, the working group is constituted by designated personnel of Company's each platform departments, and responsible for organizing to learn the Basic Standards of Internal Control and relevant documents. In accordance with the requirement from the regulatory agencies and to conduct analyze and clear problem, pay attention to the internal implementation regularly. The Company's activities of strengthening the implementation of special activities of internal control standard is around the theme of strengthening internal control and standardize the implementation with launching organizational learning stage, self-examination stage, expert

evaluation stage and rectification and improving stage. Gradually establish and perfect the system of internal control requirements, the framework and operation system, effective operation of assets, improving management level, perfecting internal control mechanism. At the same time, under the guidance and help of Anhui Securities Regulatory Bureau and assistance of ShineWing Certified Public Accountants Co., Ltd., the Company promotes its internal control self-examination and the rectification work smoothly. Through the special propulsion group's positive efforts and hard working and with the help of above institutions, the Company conducted extensive and profound self-examination and rectification, achieved good effect. Later, the Company will strictly comply with the demand of regulatory agencies about internal control specification, under the leadership of the regulators to continue launching the special activities as planned, establish and perfect the institutional management system, improve the level of management, meet outside regulatory requirements, promote the construction of internal control environment, overall planning, coordination, implement internal control progressively, perfect the corporate governance structure, improve the standard operation level and the overall competitiveness.

VI. The condition about Company's establishment of Responsibility Investigation System on Significant Mistakes of Annual Report Disclosure

For promoting the Company's management and risk prevention ability, according to the Notice on Doing Well in 2009 Annual Report of Listed Companies and Relevant Notice([2009] 34), the Company has formulated the Responsibility Investigation System on Significant Mistakes of Annual Report Disclosure, and passed it in the 30th meeting of the 6th board of the Company.

VII. Company's self-assessment of internal control

According to the Standards of Internal Accounting Control and Basic Standards of Enterprise Internal Control issued by the Ministry of Finance and Internal Control Guidelines for Listed Companies issued by Shenzhen Stock Exchange as well as other laws and regulations, combining with requirements of self-examination and the rectification activities in the special activities of listed corporate governance, the Company's board of directors undertook a comprehensive review of the Company's implementation of the management of rules and regulations, and carried out summary and self-evaluation. Key internal controls were reported as follows:

(I) The overall program of internal construction and control

In accordance with relevant laws and regulations and the requirement of Articles of association, according to principles of being comprehensive, prudent, effective, timely and the requirements for establishing a modern enterprise system, according to their actual situation, Company established a relatively complete system of internal controls to ensure that the Company's operational activities can be carried out normally. On the operational management, Company ensured the management goals by forming a scientific decision-making mechanism, enforcement mechanisms and monitoring mechanisms through the establishment and improvement of corporate governance structure and internal organization in line with requirements of modern management; on financial management, Company ensured a true and complete accounting information to improve the quality of accounting information through standardizing the corporate accounting act; on information disclosure, Company strictly implemented Management System of Information Disclosure to standardize various procedures of the information disclosure, to improve the quality of information disclosure, to enhance corporation's transparency. The Company's internal control system is in line with the relevant requirements of Chinese Securities Regulatory Commission and Shenzhen Stock Exchange.

(II) The condition of the establishment of internal control system

The Company developed the Rules of Procedure of the Shareholders' General Meeting, Rules of Procedure of the Board, Rules of Procedure of Supervisory Committee, Detailed Rules of Implementation of Special Committee of the Board, System of Independent Director and Working Rules of President, and other normative systems, which all promoted the perfection of structure and standardized operation of corporate governance. Board of Directors consists of four specialized committees responsible for the board, which further clarified the decision-making process, enabling the Company's special committee do a complete analysis in advance, effective monitoring and comprehensive ex-post evaluation on major issues, thus providing important support for the decision-making of board of directors. Audit and Legal Affairs Department within the Company takes audit and special inspection to the Company's operating activities and results of various divisions and subsidiaries, effectively preventing the Company's business risk to protect the legitimate rights and interests of shareholders.

The Company owns effective internal control environment: board and related special committees take charge of approving and regularly auditing corporate operational strategy and important decision, ensuring the acceptable level of operational risk; senior executives strictly implement the Company's strategies and policies approved by the Board, the responsibility, authority and reporting relationships among the senior executives and board of directors, special committees are clear; Company's senior executives actively promote the employees to understand the Company's internal control system through advocacy, counseling, etc. and make it function effectively in the internal control system.

The board believes that through continuous establishment, improvement and perfection, meanwhile the corresponding rectification, improvement in the 2008 special corporate governance activities and the 2009 rectification activities as well as the 2009 special self-examination and rectification of internal controls, Company's current internal control system is more comprehensive, reasonable and effective, meeting with the requirements of the national laws and rules. It adapts to the requirements of corporate management and development, playing a role in controlling and preventing each process and key section of the operational management; ensure the orderly conduct of corporate activities and ensure the full realization and full implementation of the Company's development strategy and business objectives; ensure the authenticity, legitimacy, integrity of Company's accounting information; ensure the security, integrity of owned property and materials; be able to truly, accurately, completely and timely report and disclose information strictly in accordance with the content and format requirements of information disclosure set by laws, regulations and articles of association; be able to treat all investors to fairly and openly, to warmly receive visit and consultation from investors, and effectively protect the interests of investors.

Along with the gradual improvement of the legal system, the changes of internal and external environment and the need for sustained and rapid growth of companies, the Company's internal control system will be further improved. The Company will continue to sum up experience and improve the internal control system, strengthen awareness of standardized operation, enhance the internal oversight mechanisms and effectively implement and carry out them, promoting the healthy and rapid development of the Company.

The report and detailed contents with regard to Self-Evaluation Report Of Internal Control Hefei Meiling Co., Ltd were disclosed contemporarily on Securities Times and Hong Kong Commercial Daily as well as in Juchao website, the report has been through the Company's consideration in the 30th meeting of the sixth Board of Directors.

(II) The views of Independent directors on the Company's internal control self-assessment

According to requirements and other relevant provisions of the Guidelines of Internal

Control for Listed Companies and Notice on Doing Well in 2009 Annual Report of listed Companies issued by Shenzhen Stock Exchange, the Company's independent directors made the following observations on the Company's internal control self-assessment:

During the report period, the Company amended, improved, considered and adopted a series of corporate governance rules according to requirements of the Standards of Internal Accounting Control and Basic Standards of Enterprise Internal Control issued by the Ministry of Finance and Internal Control Guidelines for Listed Companies as well as other laws and regulations issued by Shenzhen Stock Exchange. At present, the Company has established a corporate internal control system based on corporate environmental control systems, operational control system, accounting system, control system, information disclosure system, internal audit control system. The existing internal control system is more comprehensive, reasonable and effective, in line with the requirements of national laws and regulations, able to adapt to the requirements of corporate governance and corporate development needs. The key activities of the Company's internal control system are conducted in accordance with the provisions of internal control system. Company has a full and effective control of the operations, budget management, fund management, related party transactions, external guarantees, major investment, information disclosure and other key activities, ensuring the Company's normal business management.

The 2009 internal control self-assessment made by the Company truly and objectively reflect the basic situation of the construction and operation of Company's internal control system.

(IV) The views of supervisory board on the Company's internal control self-assessment

According to requirements and other relevant provisions of the Guidelines of Internal Control for Listed Companies and Notice on Doing Well in 2009 Annual Report of listed Companies issued by Shenzhen Stock Exchange, the Company's supervisory committee made the following observations on the Company's internal control self-assessment:

According to the relevant provisions of Chinese Securities Regulatory Commission and Shenzhen Stock Exchange, the Company, following the basic principles of internal control, in accordance with their own actual situation, established and improved Company's internal control system covering various aspects of Company to ensure the normal conduct of business activities and protect the Company's security and integrity of assets.

The establishment of the internal audit department and personnel are basically completed, ensuring the implementation and supervision of priority activities of Company's internal controls fully effective. In 2009, the Company did not violate the Guidelines of Internal Control for Listed Companies issued by Shenzhen Stock Exchange and the Company's internal control system.

In summary, the board of supervisors think that the Company's internal control self-assessment meets with the requirements of the Guidelines of Internal Control for Listed Companies by Shenzhen Stock Exchange and other relevant documents; the establishment, perfection and current status of implementation of internal control system comply with the demands of the Company's internal control; the self-assessment on internal control fully, truly and accurately reflected the actual status of the internal control of the Company.

VIII. The Company's evaluation and incentive status to senior executives

During the report period, the Company will continue to improve and standardize the directors, supervisors and senior executives's performance evaluation standard and incentive and restraint mechanisms, and clarify the responsibility of managers in Company's post system.

To senior executives, the Company adopts distribution and assessment system in the content of operating performance. It distributes the salary of senior executives according to the personal position responsibilities and performance results on in-charge position and

Company's profits. The Company determines their management responsibilities and evaluation index respectively according to the management goal of 2009, and to evaluate the senior executives according to the accomplishment status of 2009 plan.

Section VI. Brief introduction of the Shareholder's General Meeting

In the report period, the Company total held three Annual Shareholder's General Meeting, including Annual Shareholder's General Meeting for 2008, 2009 First Extraordinary Shareholder's General Meeting and 2009 Second Extraordinary Shareholder's General Meeting. The convening, holding and voting for the meetings comply with regulation of Company Law, Rules for Shareholder Meeting and Article of Association and other relevant laws and rules.

1. Particulars about the Annual Shareholder's General Meeting

The Company held the Annual Shareholder's General Meeting for 2008 dated on May 6, 2009 and the resolution notice has been published in China Securities Journal, Securities Times and Hong Kong Wen Wei Po as well as Juchao website dated on May 7, 2009.

2. Extraordinary Shareholder's General Meetings in 2009

(1) 2009 First Extraordinary Shareholder's General Meeting

The Company held the 2009 First Extraordinary Shareholder's General Meeting dated on August 28, 2009 and the resolution notice has been published in China Securities Journal, Securities Times and Hong Kong Wen Wei Po as well as Juchao website dated on August 29, 2009.

(2) 2009 Second Extraordinary Shareholder's General Meeting

The Company held the 2009 Second Extraordinary Shareholder's General Meeting dated on Dec. 1, 2009 and the resolution notice has been published in China Securities Journal, Securities Times and Hong Kong Wen Wei Po as well as Juchao website dated on Dec. 2, 2009.

Section VIII. Report of the Board of Directors

I. Operation of the Company

In the report period, the Company complied with the operation guidelines of “Quality First, Quick Response, Teamwork, and Hardworking and Thrift”, and strengthened the control on affiliated subsidiaries of white appliances including refrigerators and air conditioners. Through feet-rooted and hard working, further changed the spirit, actively responded to the market changes, got hold of market chances, fully promoted the developments of main operations such as refrigerators, freezers and air conditioners, consolidated the internal management, improved the management ability, actively and effectively promoted the various works and obtained outstanding achievements, fully fulfilled the annual operation target tasks made by the Company. Ended the report period, the operating income of refrigerators, freezers and air conditioners realized by the Company was RMB 6,324,181,070 with an increase of 31.38% compared with that in the same period of last year, the net profit attributable to the parent Company realized was RMB 301,198,313 with an increase of 1000.19% compared with that in the same period of last year.

D) Main operations:

1. In 2009, the domestic marketing emphasizedly implemented three big strategies such as Services Marketing, Electrolux Project and Channel Innovation, the order sales volume during the whole year surpassed 3 million sets and upgraded to new steps. The Company carried out activities of Huge Inspection on Qualities of Refrigerators which built the brand image of leading quality of Meiling refrigerators. In 2009, the retail market occupation rate in the primary and secondary market was 10.19% (Source: CMM Statistics) with an increase of 0.68 percentage points year-on-year, the market occupation rate remained top 2 among the industry. The Company carried out another activity “Ten-year Free Guarantee of Refrigerators in Meiling Household Electrical Appliances Going into Rural Families” which extremely stimulated the growth of refrigerators sale volume in the rural market. In accordance with the statistics in the Appliance-Sent-to-Countryside Information System, the delivered volume which was sent to countryside in 2009 was 1,513,000 with the sales proportion of 10.4% in various brands, the market occupation rate remained top 2 in the relevant Appliance-Sent-to-Countryside enterprises.

In aspect of products layout, the Company continued to keep on the product strategy of high-end refrigerators multi-doors, extended the kinds of high-end products of “Athena”; enriched the three-doors series products, took the sales and expansion of Appliance-Sent-to-Countryside like refrigerators as the work emphasis. Large capacity multi-doors refrigerators such as high-end products of Athena realized high-end breakthrough, got hold of certain share in high-end market of refrigerators, and promoted the Meiling brand image. The sales amount of high-end products of Athena in 2009 climbed 91% year-on-year, the sale amount of three-door refrigerators climbed 219% year-on-year. The Company successfully bid for 82 kinds of refrigerators (freezers) in the former three phases of Appliance-Sent-to-Countryside. The national policy of Appliance-Sent-to-Countryside advanced the growth of overall sales volume and market shares in 2009.

2. International economic crisis in 2009 continued, the orders volume in main export countries of the Company like Europe and America had certain decrease, but, the Company adjusted the overseas sales strategy, export product structure and overseas customers structure, which made the profit-gaining ability of export products promote, the overseas sales of the Company gained profits in 2009.

3. Three manufacture bases of Meiling Hefei headquarter, Jiangxi Meiling and Mianyang

Meiling well allocated the resources, smoothed the restricted problems in midseason, strongly guaranteed the products supply. The manufacture system focused on promoting production order management in 2009, improved the production efficiency, the abilities of satisfying products delivery period enhanced. The honoring rate of production orders in 2009 increased 18% year-on-year, labor productivity climbed 48% year-on-year, the pass rate of export inspection rose up 18% year-on-year. In August 2009, the Company officially passed the examination of General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China and obtained the export inspection exemption qualifications, and became the first household appliance enterprise with obtaining the export inspection exemption qualifications in Anhui Province.

4. The R&D system of the Company focused on promoting standardization and generalization in 2009; totally 80 kinds of production refrigerators were developed. In the Awarding Ceremony “ 6th China Product Innovation Design Award for 2009(CIDF)”, Meiling obtained the only Gold CIDF among the kinds of domestic refrigerators by virtue of Athena BCD-518HE9B developed in the spirits of Self-Innovation and Made in China. China Household Electric Appliance Research Institute and the Company together compiled Zoological Design of Household and Similar Electric Appliance• Special Requirements of Refrigerators which fully acknowledged Zoological Design Example of Refrigerators of the Company among the industries. At the same time, the Company independently developed household refrigerators such as top energy-efficient refrigerator BCD-186DHA with daily power consumption of 0.25 degree and coldest domestic refrigerators with minus 164 degrees which had leading level in the industries. In addition, in order to comply with the characteristics of Chinese rural market, all the products types in the bidding for Appliance-Sent-to-Countryside were newly-designed products in accordance with market characteristics in different zones, which have bigger competitiveness.

5. At the beginning of 2009, accorded with the requirements of “Face Crisis, Build Confidence, Actively Respond, Quick Action”, the Company established the action plan of secondary venture, and paid much attention to promote fully, the plans of secondary venture with 5 categories and 55 items in whole year have been wholly put into practice. Made solid foundations for passing the hard time and realizing the requirements of health, storage, and getting-ready made by Chairman of the Board Mr. Zhao. In 2009, the Company focused on consolidated the operation control, more paid attention to asset safety and operation quality to make the operations of the Company enter to healthy development road. At the same time, consolidated budget management, credit management, and promoted strategy and reduced cost, especially cleared the long-term inventory and account receivable, which all improved the overall operation efficiency and profits of the Company.

6. The IPD maturity of the Company in 2009 got further improvement, at the same time, the Company continued to expanded the investment on information construction, including PPCO, Materials barcode, finished barcode, OA maintenance, PDM system, MISS system and Customer Service, which supplied supports and guarantees for the various fundamental management, information construction and business operation of the Company.

7. The relevant subsidiaries of air-conditioners implemented the policies of reduction and increasing efficiency, the inventories descended largely, inventory structure was reasonable, inventories reduced to the lowest point, the inventory asset quality further improved; actively improved the usage efficiency of fixed assets, revitalized unused fixed assets, production efficiency enhanced obviously. Timely got hold of the policy of Appliance-Sent-to-Countryside and Energy-saving and Benefit for People, quickly adjusted the products structure and marketing strategy, speeded up the extension and development of high-efficiency and energy-saving air conditioner of the Company, gained good market chances in high-efficiency air conditioner, and the Company's profits had obvious

improvement.

II) Main business scope and operation of the Company

(1) Scope of main operations

The Company belongs to the industry of household electric appliance, featuring in development, manufacture and sale of refrigerator. The main business scope contains manufacture, sale and service of household appliance refrigerator and relevant parts and components; sale and service of other household electric appliances

(2) Operation of the products in 2009 is as follows:

Unit: RMB'0000

Items	Income from main operations	Cost of main operation	Gross profit ratio (%)	Increase/decrease in income over the same period of last year	Increase/decrease in cost over the same period of last year (%)	Increase/decrease in gross profit ratio over last year (%)
Refrigerators (Freezer)	466,031	311,016	33.26	18.03	3.81	9.14
Air conditioner	138,675	121,095	12.68	211.73	188.89	6.90
Total	604,706	432,111	28.54%	37.64%	26.52%	76.47%

(3) Operation in 2009 classified according to areas:

Unit: RMB'0000

Areas	The current year			The last year		
	Main operating Income	Cost	Gross profit ratio(%)	Income	Cost	Gross profit ratio(%)
Domestic sales	548,668	381,989	30.38	347,363	257,276	25.93
Export products	56,038	50,122	10.56	91,961	84,247	8.39
Total	604,706	432,111	28.54	439,324	341,523	22.26

(4) Particulars about the main suppliers and customers

Unit: RMB

Total purchase amount of the top five suppliers	168,815	Proportion in the total purchase amount	44.33%
Total sales amount of the top five customers	64,124	Proportion in the total sales amount	10.14%

III) Particulars about the financial data and asset structure of the Company during the report period.

Unit: RMB'0000

Asset structure (proportion taken in the total asset)	Dec. 31, 2009	Dec. 31, 2008	Increase or decrease scope (%)
Accounts receivable (%)	6.62%	7.91%	-1.28%
Inventory (%)	21.99%	15.00%	6.99%
Long-term equity investment (%)	0.77%	0.82%	-0.05%
Fixed assets (%)	16.77%	20.22%	-3.46%
Project in process (%)	0.19%	1.56%	-1.37%
Short-term loans (%)	3.84%	8.63%	-4.79%
Long-term loans (%)	0.32%	0.49%	-0.17%
Financial data	2009	2008	Increase or decrease over the same period of last year

Sale expense rate (%)	22.01%	15.43%	6.58%
Administrative expense rate (%)	2.92%	3.24%	-0.32%
Financial expense rate (%)	0.31%	1.02%	-0.71%
Income tax expense(RMB'0000)	5,190.44	388.64	1335.54%

Reasons for the above changes:

1. The proportion of accounts receivable reduced, which was mainly because the Company used credit system instrument, consolidated credit policy and strengthened account receivable management, and the assets scale enlarged.
2. The proportion of inventory climbed, which was mainly because the Company prepared for Appliance-Sent-to-Countryside in 2010, production-expansion increased the inventory, and inventory increased in operation while Changhong Air-conditioner was established in 2009 obtained from merger under the common control in the report period.
3. The proportion of long-term equity investment reduced, which was mainly because the assets scale increased.
4. The proportion of fixed assets reduced, which was mainly because the assets scale increased.
5. The proportion of project in process reduced, which was mainly because settlement on accomplishment of project in the report period converted into fixed assets.
6. The proportion of short-term loans and long-term loans reduced, because the fund of the Company in the report period was plenty which decreased the bank loan.
7. The sale expense rate climbed, which was mainly because the Company further fined the market; expanded and verged channel, net and consolidated marketing degree in order to face the economic crisis and laid out the work of Appliance-Sent-to-Countryside, which made the the market support expense, advertisement expense, labor force expense, vehicle oil consumption and logistics storage expense increase; projected expense of "Ten-year Free Guarantee of Refrigerators"; and sale expense occurred in the report period by the subsidiary Changhong Air-conditioner obtained by merger under the common control in the report period.
8. The administrative expense rate declined, which was mainly because the Company obtained effects in expense control in order to respond to economic crisis, and the operating income of the Company went up.
9. The financial expense rate declined, which was mainly because the fund of the Company was plenty, interest expense of note discounting,,exchange loss and commission fee deduced.
10. The income tax expense climbed, which was mainly because parent Company was in period of offsetting losses in last report period, and the profit realized by the Company increased greatly in the report period.

IV) Constitution of cash flow arising from the operating activities, investment and financing activities:

Unit: RMB'0000

Items	2009	2008	Increase or decrease scope (%)
1. Net cash flow from operating activities	-738.98	23,580.60	-103.13%
Cash inflow from operating activities	362,083.71	295,061.46	22.71%
Cash outflow from operating activities	362,822.69	271,480.86	33.65%
2. Net cash flow from investment activities	53,307.41	-31,420.03	269.66%
Cash inflow from investment activities	85,493.00	4,693.70	1,721.44%
Cash outflow from investment activities	32,185.59	36,113.73	-10.88%
3. Net cash flow from financing activities	-18,745.14	8,210.11	-328.32%

Cash inflow from financing activities	31,461.37	59,338.75	-46.98%
Cash outflow from financing activities	50,206.51	51,128.64	-1.80%
4. Net increase of cash and cash equivalents	33,771.85	-619.62	-5,550.43%
Cash inflow total	479,038.09	359,093.91	33.40%
Cash outflow total	445,214.80	358,723.22	24.11%

Reason for the above changes:

1. Net cash flow from operating activities reduced and cash outflow from operating activities increased, which were because of facing the incoming of sales midseason, actively prepared stock thus payment for purchase increased and lessened notes discounting while the Company's fund was plentiful.

2. Net cash flow from investment activities and cash inflow from investment activities increased, because of disposing the financial assets available for sales in the report period and receiving the compensation expense of removal of former plant in Wuhu Road.

3. Net cash flow from financing activities and cash inflow from financing activities decreased largely, because the Company's fund was plentiful in the report period thus lessened the bank loan financings.

V) Operation and operating performance of the holding subsidiaries and joint stock subsidiaries of the Company

Unit: RMB'0000

Companies	Economic nature	Main business	Registered capital	Share-holding proportion	Total assets	Net assets	Net profit
Hefei Meiling Packing Co., Ltd.	Domestic joint-venture	Produce and sell corrugated paper	US Dollars 3.067 million	48.28%	15,353.59	5,352.03	222.40
Zhongke Meiling Low-temperature Technology Co., Ltd.	Domestic joint-venture	Low-temperature refrigerator and freezer	RMB 60 million	70.00%	7,616.58	5,609.81	25.01
Jiangxi Meiling Refrigeration Co., Ltd.	Domestic joint-venture	Produce and sell refrigerator	RMB 40 million	90.00%	9,403.48	4,883.08	-35.86
Mianyang Meiling Refrigeration Co., Ltd.	Domestic joint-venture	Produce and sell refrigerator	RMB 50 million	90.00%	7,522.95	4,572.10	-427.90
Sichuan Changhong Air-conditioner Co., Ltd.	Wholly owned by legal person	Produce and sell air-conditioner	RMB 200 million	100.00%	54,272.93	30,560.04	765.30
Zhongshan Changhong Electric Co., Ltd.	Domestic joint-venture	Produce and sell air-conditioner	RMB 80 million	90.00%	17,215.68	8,472.94	41.87

Explantions: According to the strategic development plan of the Company, in order to further develop white appliance industry, resolve the potential competition in common industry between the Company and controlling shareholders. On Dec. 9, 2009, the Company participated in the bid organized by Sichuan State-owned Property Transaction Center Co., Ltd. on the public hanging out 100% equities of Sichuan Changhong Air-conditioner Co., Ltd. (99% equities directly held by Sichuan Changhong and 1% equity held by its subsidiary Company – Sichuan Changhong Innovation Investment Co., Ltd.) and 90% equities of

Zhongshan Changhong Electric Co., Ltd. held by Sichuan Changhong Electric Co., Ltd.; finally the Company purchased the aforesaid assets at the price of RMB 393,560,000. The relevant change procedures of industrial and commercial registration were respectively completed on Dec. 25, 2009 and Dec. 31, 2009, and after completing equity transfer registration, the Company held 100% equities of Changhong Air-conditioner and 90% equities of Zhongshan Changhong. Bidding for purchasing the air-conditioner assets held by Sichuan Changhong through public hanging out in Assets and Equity Exchange was good for further integrating and optimizing industry resources of white appliance, exerting cooperative effect of industry, enriching the products line, doing white appliance industry bigger and stronger, expanding new profit-gaining point; at the same time, solving the potential competitions in the same industry between the Company and controlling shareholder once for all, and further perfecting the administration structure of the Company.

VI) Prospects of the development of the Company

1. Entering into 2010, the macro economic situation has been changed, the cost of raw material sustainably climbs, the market competition become fierce, the whole production capacity of industry surplus, the Company will face greater challenges. In 2010, the operation direction of the Company in 2010 are: get hold of macro policy chances, innovate market, build brand with quality, improve the market occupation rate, guarantee the top 2 in the industry; benign operation, enhance efficiency, improve the profit ability, establish sustainable profit-gaining ability; consolidate the product innovation taking the demands of consumer as the center, advance the core competitiveness; try to realize the new breakthroughs of sale income and operational net profit.

2. Main operation strategy and measures for 2010

The operation guidelines of the Company in 2010 are: products are key points; quality is the most important nature; innovation marketing and cut off cost. The following works are mainly carried out:

(1) Take IPD as the core, implement product development with product layout, and carry out technology R&D with technology layout.

(2) Ensure the product craft and quality to improve sustainably; enhanced the production system efficiency.

(3) Promote the innovation marketing themes as services marketing, Electrolux project and channel innovation.

(4) Further implement standardization and generalization.

(5) Fully expand ODM cooperation.

(6) Sustainably promote various strategy cost-reduction projects with cutting off costs.

(7) Boost the turnover rate of inventory and account receivable.

(8) Deepen and extend the informationization.

(9) Fully promote project system management.

(10) Make experiments on the operation mode of Business Department.

(11) Establish and perfect the internal control system, and ensure the effective implementation.

(12) Consolidate the integration and resource optimization of white appliance industry such as refrigerators and air conditioners; fully exert the cooperative effects in R&D, purchase, production and sales; formed relative complete and scale-formed white appliance industry system, promoted the comprehensive market competitiveness of the Company, further make the white appliance industry bigger and stronger.

3. Risks and countermeasures

In accordance with challenges and risks brought by the macro economic situation in 2010, industry competition, change in market demand, uprising in raw materials cost, the Company

will strictly implement operation guideline of “products are key points, quality is the most important nature; innovate marketing and cut off cost”; accorded with the aforementioned operation strategy and measures, actively promoted the improvement of management abilities and increment of products sale volume; at the same time, adjust the product structure, enhance the product quality, consolidate the product competitiveness and comprehensive abilities, thus realized the benign sustainable development of the Company.

II. Particulars about investment of the Company

(I) External investment in the report period

1. In order to make the while appliance industry bigger and stronger, expand the new profit-gaining growth point of the Company, solve the potential competition in common industry between the Company and controlling shareholders. The Company purchased 100% equities of Sichuan Changhong Air-conditioner Co., Ltd. and 90% equities of Zhongshan Changhong Electric Co., Ltd. held by Sichuan Changhong Electric Co., Ltd. For details, read the Section X. IV. (1) “Purchase of Assets” in the report.

2. On Dec. 1, 2008, the 9th meeting of the 6th board of the Company examined and approved Proposal on Establishing Mianyang Subsidiary. In light of the state latest financial and tax policy and the preferential policy for Wenchuan disaster zone from state, the Company jointly invested to establish Mianyang Meiling Refrigeration Co., Ltd. with the underling subsidiary Zhongke Meiling Low Temperature Technology Company Ltd. on the basis of former Mianyang Subsidiary. Registered capital of Mianyang Meiling Refrigeration Co., Ltd. was RMB 50 million, of which the Company invested RMB 45 million with cash with the proportion of 90% in registered capital, Zhongke Meiling Low Temperature Technology Company Ltd. invested RMB 5 million with cash with the proportion of 10% in registered capital. Mianyang Meiling Refrigeration Co., Ltd. has accomplished industrial and commercial registration on March 6, 2009, and former Mianyang Subsidiary was cancelled.

3. On Sep. 28, 2009, the 24th meeting of the 6th board of the Company examined and approved Proposal on Investment on Establishing Hefei Meiling Marketing (China) Co., Ltd.; the Company and its underling controlling subsidiary Mianyang Meiling Refrigeration Co., Ltd. jointly invested to build up Hefei Meiling Marketing (China) Co., Ltd. to boost the products sales and brand values through innovations of maketing mode and marketing channels. The registered capital of Hefei Meiling Marketing (China) Co., Ltd. was RMB 10 million, of which the Company invested RMB 9.9 million with cash with the proportion of 99% in registered capital, Mianyang Meiling Refrigeration Co., Ltd. invested RMB 0.1 million with cash with the proportion of 1% in registered capital.

(II) Application of raised proceeds of the Company in the report period

There is no fund raised in the report period and also no situation that the application of fund raised before the report period but lasted till this report period.

(III) Significant investment with the non-raised proceeds, project progress and earnings in the report period.

In the report period, the non-raised proceeds investment was mainly Rebuilding and Capacity-Expanded Project of Hefei Manufacture Base.

On Nov. 13, 2009, the 26th meeting of the 6th board of the Company examined and approved Proposal on Rebuilding and Capacity-Expanded Project of Hefei Manufacture Base. Based on the operations demand, the Company agreed to rebuild and expand the capacity of Hefei Manufacture Base, invested newly-built plant, capacity-expanded production line of freezer and relevant matching equipments, the freezer capacity will increase 600,000 sets, the total investment amount will be about 198.7 million, of which the investment on fixed asset was

RMB 148.7 million, the current fund was RMB 50 million; all the funds was solved by the self-financing fund of the Company. For the aforementioned events, the Company have been disclosed in notice form in Securities Times, China Securities Journal and Hong Kong Wen Wei Po and Juchao website dated Nov. 16, 2009 (notice No.: 2009-039).

Ended as Dec. 31, 2009, earthwork grading of rebuilding and capacity-expanded project of Hefei Manufacture Base has been accomplished 50%; meanwhile, bidding for project construction supervision institutions has been finished. Construction payment of the project has not yielded at present. It is now in prophase construction period, no investment income has yielded.

III. Auditors' report issued by CPAs

ShineWing Certified Public Accountants Co., Ltd. issued standard unqualified Auditors' Report for the Company's Financial Report of 2009.

IV. Routine work of the Board of Directors

(I) Meetings and resolution of the Board of Directors in the report period

1. On Feb. 23, 2009, the Company held the 12th meeting of the 6th Board of Directors. Relevant resolution of the meeting has been published on China Securities, Securities Times and Hong Kong Wen Wei Po dated Feb. 25, 2009.
2. On Apr. 10, 2009, the Company held the 13th meeting of the 6th Board of Directors. Relevant resolution of the meeting has been published on China Securities, Securities Times and Hong Kong Wen Wei Po dated Apr. 16, 2009.
3. On Apr. 16, 2009, the Company held the 14th meeting of the 6th Board of Directors, which approved the First Quarterly Report 2009.
4. On May 4, 2009, the Company held the 15th meeting of the 6th Board of Directors. Relevant resolution of the meeting has been published on China Securities, Securities Times and Hong Kong Wen Wei Po dated May 5, 2009.
5. On May 21, 2009, the Company held the 16th meeting of the 6th Board of Directors. Relevant resolution of the meeting has been published on China Securities, Securities Times and Hong Kong Wen Wei Po dated May 22, 2009.
6. On Jun. 5, 2009, the Company held the 17th meeting of the 6th Board of Directors. Relevant resolution of the meeting has been published on China Securities, Securities Times and Hong Kong Wen Wei Po dated Jun. 6, 2009.
7. On Jul. 24, 2009, the Company held the 18th meeting of the 6th Board of Directors, which approved Proposal on Authorizing Management to Sell Financial Assets Available for Sales.
8. On Aug. 7, 2009, the Company held the 19th meeting of the 6th Board of Directors. Relevant resolution of the meeting has been published on China Securities, Securities Times and Hong Kong Wen Wei Po dated Aug. 8, 2009.
9. On Aug. 12, 2009, the Company held the 20th meeting of the 6th Board of Directors. Relevant resolution of the meeting has been published on China Securities, Securities Times and Hong Kong Wen Wei Po dated Aug. 13, 2009.
10. On Aug. 19, 2009, the Company held the 21st meeting of the 6th Board of Directors, which approved Proposal on Donation to Taiwan Disaster Area.
11. On Sep. 3, 2009, the Company held the 22nd meeting of the 6th Board of Directors. Relevant resolution of the meeting has been published on China Securities, Securities Times and Hong Kong Wen Wei Po dated Sep. 5, 2009.
12. On Sep. 18, 2009, the Company held the 23rd meeting of the 6th Board of Directors. Relevant resolution of the meeting has been published on China Securities, Securities Times and Hong Kong Wen Wei Po dated Sep. 19, 2009.
13. On Sep. 28, 2009, the Company held the 24th meeting of the 6th Board of Directors,

which approved Proposal on Investing to Construct Hefei Meiling Marketing Co., Ltd. and proposal on Applying to Industrial & Commercial Bank of China for Not More Than 0.2 Billion Credit Line.

14. On Oct. 21, 2009, the Company held the 25th meeting of the 6th Board of Directors. Relevant resolution of the meeting has been published on China Securities, Securities Times and Hong Kong Wen Wei Po dated Oct. 22, 2009.

15. On Nov. 13, 2009, the Company held the 25th meeting of the 6th Board of Directors. Relevant resolution of the meeting has been published on China Securities, Securities Times and Hong Kong Wen Wei Po dated Nov. 16, 2009.

16. On Dec. 30, 2009, the Company held the 25th meeting of the 6th Board of Directors. Relevant resolution of the meeting has been published on China Securities, Securities Times and Hong Kong Wen Wei Po dated Dec. 31, 2009.

(II) Implementation of resolutions of the Shareholders' General Meeting by the Board of Directors

In the report period, the Company held one annual shareholders' general meeting and two extraordinary shareholders' general meetings, according to relevant regulations of the Company Law, Articles of Association, with the attitude of taking responsibility for the Company and all shareholders, the board of directors carefully executed relevant right authorized by the board of directors and shareholders' general meeting, and implemented the resolution of shareholders' general meeting.

(III) Performance of the special committee of the Board

1. Performance of the Audit Committee of the Board

According to relevant regulations of the Company Law, Listing Rules of Shenzhen Stock Exchange and relevant laws and rules, and relevant requirements of CSRC and Shenzhen Stock Exchange, strictly complying with Article of Association of Hefei Meiling Co., Ltd., Details Rules of Audit Committee of Hefei Meiling Co., Ltd., Working Rules of Annual Report of Audit Committee of Hefei Meiling Co., Ltd., the Audit Committee actively fulfilled the function of supervising and checking in the audit work in 2009, maintained the independency of audit. Details were as follows:

(1) On Jan. 6, 2010, the Audit Committee held the 4th audit meeting of the 6th board of directors, which approved Time Arrangement of Auditing the Financial Accounting Statement in 2009.

(2) On Jan. 15, 2010, the Audit Committee held the 5th audit meeting of the 6th board of directors, which approved Un-audited Financial Accounting Statement in 2009, and thought that the au-audited Financial Accounting Statement objectively reflected the financial status and operation achievement on 2009.

(3) On Feb. 26, 2010, the Audit Committee held the 6th meeting of the 6th board of directors after Shinewing Certified Public Accountants offered initial audit opinions, which again checked the Financial Statement in 2009, and expressed specified opinions. The audit committee made sufficient communication with CPAs, and the CPAs would make a report to the audit committee about existing problem in audit process and proceeding which should be adjusted. The proceedings need to adjust were adjusted according to the audit adjustment opinions of CPAs. According to the audit conditions the audit committee learn from CPAs and the annual production and operations the management level reported to the audit committee, the audit committee red the first draft of the Financial Accounting Statement in 2009 which was be audited, and thought that, the Financial Accounting Statement in 2009 audited by Shinewing Certified Public Accountants truly, exactly and integrally reflected the operation of the Company, and approbated the initial audit opinion on the Financial

Accounting Statement offered by Shinewing Certified Public Accountants.

(4) On Mar. 8, 2010, the Audit Committee held the 7th meeting of the 6th board of directors, which discussed the Financial Accounting Statement in 2009 and formed resolutions: with the audit of Audit Committee, they thought the audited 2009 financial report truly, accurately, objectively and completely reflected the operation status of the Company, and they recognized the audit opinions on financial report of the Company issued by Shinewing Certified Public Accountants Co., Ltd, and agreed to submit the Financial Accounting Statement in 2009 financial report and audit report of the Company audited by Shinewing Certified Public Accountants Co., Ltd to the Board of the Directors of the Company for examination; Audit Committee thought Shinewing Certified Public Accountants Co., Ltd engaged by the Company could perform audit in accordance with The China's Independent Auditing Standards during the work of audit supplied for the Company in 2009, and the audit work was successfully accomplished following up the standards of independence, objectiveness and fairness; and they agreed to submit the summary report of the audit work this year audited by Shinewing Certified Public Accountants Co., Ltd to the Board of the Directors of the Company for examination. At the same time, with the suggestion of the Audit Committee, we plans to suggest re-engaging Shinewing Certified Public Accountants Co., Ltd as the accounting firm for the examination, certification and issuing written opinions for the annual Financial Accounting Statement in 2010 of the Company, and the re-engage term is one year, and the proposal could be implemented after submitting to the board of the directors and Shareholders' General Meeting of the Company.

2. Performance of the Remuneration and Examination Committees of the Board

According to relevant regulations of the Company Law, Listing Rules of Shenzhen Stock Exchange and relevant laws and rules, and relevant requirements of CSRC and Shenzhen Stock Exchange, strictly complying with Article of Association of Hefei Meiling Co., Ltd., Details Rules of Remuneration and Examination Committee of Hefei Meiling Co., Ltd., the Remuneration and Examination Committee carefully implemented its responsibilities: mainly establishing the examination standards of directors, supervisors and senior executives, and made examination; establishing and checkup remuneration policy and plan of directors and managers; and directing the board of directors to perfect remuneration system. Remuneration and Examination Committees audited the disclosed remuneration issues of directors, supervisors and senior executives in the annual report. In the report period, according to the operation achievement and macro economy development requirements, Remuneration and Examination Committees carefully researched the award and examination measures and remuneration system of management team and controlling enterprises.

On Mar. 12, 2010, the Remuneration & Examination Committee held the second meeting, which examined the Remuneration Paid to the Directors, Supervisors and Senior Executives in 2009 and thought that, the remuneration of the directors, supervisors and senior executives of the Company were honored from the Company strictly according to the remuneration examination system. The remuneration disclosed by the Company was real, accurate and complete, in accordance with the demand of Content and Format for Annual Report (emended in 2007) presented by CSRC, and offered written opinions.

3. Performance of Nomination Committee of the Board

According to relevant regulations of the Company Law, Listing Rules of Shenzhen Stock Exchange and relevant laws and rules, and relevant requirements of CSRC and Shenzhen Stock Exchange, strictly complying with Article of Association of Hefei Meiling Co., Ltd., Details Rules of Nomination Committee of Hefei Meiling Co., Ltd., the Nomination Committee carefully implemented its responsibilities. In 2009, the Nomination Committee audited the nominated senior executives and made suggestion.

On Apr. 27, 2009, the Nomination Committee held meeting and examined the qualification

of the candidates who the board planned to employed as senior executives: the Present Mr. Wang Yong, the Standing Vice-Present Mr. Liu Hongwei, Vice-Present Mr. Yu Wanchun, Vice-Present Mr. Li Daijiang and Vice-Present Mr. Wang Yingmin, and thought that, their qualification accorded with the Company Law, Articles of Association and relevant regulations of CSRC, without any case of banning to enter the security market or not releasing the ban. Their education background, career experience, specialty ability and professional attainment accorded with the position requirements. It agreed to put in the employment proceedings of senior executives to the board for examination.

On May 14, 2009, the Nomination Committee held meeting and examined the qualification of the candidates who the board planned to employed as secretary of the board: and thought that, her qualification accorded with the Company Law, Articles of Association and relevant regulations of CSRC, without any case of banning to enter the security market or not releasing the ban. Her education background, career experience, specialty ability and professional attainment accorded with the requirements of secretary of the board. It agreed to put in the employment proceeding as secretary of the board to the board for examination.

4. Performance of the Strategy Committee of the Board

According to relevant regulations of the Company Law, Listing Rules of Shenzhen Stock Exchange and relevant laws and rules, and relevant requirements of CSRC and Shenzhen Stock Exchange, strictly complying with Article of Association of Hefei Meiling Co., Ltd., Details Rules of Strategy Committee of Hefei Meiling Co., Ltd., the Strategy Committee carefully implemented its responsibilities. In 2009, the Strategy Committee strictly implemented its responsibility, made research and gave suggestion on the proceedings such as strategy development and purchase of assets of the Company, and made active direction.

V. Preplan on the profit distribution and estimation of profit distribution policy for 2010

(I) Preplan on the profit distribution in 2009

Audited by ShineWing Certified Public Accountants Co., Ltd., the net profit attributable to owners of parent company in 2009 was RMB 301,198,313.20, plus the undistributed profit in year-begin RMB -335,808,091.35, then the profit available for distribution attributable to parent company realized in consolidated statement in 2009 was RMB -34,609,778.15; losses have not been offset already. Thus, the Company did not distribute profit for year 2009, nor convert the capital reserve into share capital. In order to create condition for profit distribution of shareholders, the Company plans to offset the accumulative losses in previous year with surplus reserves.

The events needed to be handed into the shareholders' general meeting of 2009 for discussion.

(II) Cash dividends in the past three years

Unit: (RMB) Yuan

	Amount of cash dividends (tax Included)	Net profit attributed to the owner of parent Company in consolidated statement	Rate of net profit attributed to the owner of parent Company in consolidated statement	Profit available for distribution
2008	0.00	25,678,991.58	0.00	0
2007	0.00	17,645,149.62	0.00	0
2006	0.00	11,965,716.54	0.00	0

(III) Independent opinions of independent directors on preplan on the profit distribution in 2009

According to relevant regulations, the independent directors Wang Xingzhong, Song Baozeng and Liu Youpeng expressed independent opinions on preplan on the profit

distribution in 2009: as the independent directors of the Company, with the principle of independent and object judgement, we thought that: the audit results of accounting statement made by Shinewing Certified Public Accountants Co., Ltd. truly reflected the actual financial status and operation achievement, so we agreed the preplan on the profit distribution in 2009, and agreed to put in the preplan to the shareholders' general meeting 2009 for approval.

VI. Establishment and perfection of information insiders system and management system of external information users

In order to further standardize the management of inside information of the Company, strengthen secret-keeping work of inside information, maintain the fair principle of information disclosure. According to the regulations of relevant laws and rules such as the Company Law, Securities Law, Listing Rules of Shenzhen Stock Exchange and Management Measures for Information Disclosure of Listed Company, and Articles of Association and Management System for Information Disclosure, the Company established and issued Registration System of Information Insiders of Hefei Meiling Co., Ltd. in Sep. 2009.

In order to consolidate the compiles, examination and disclosure period of scheduled report and significant matters, the delivery and usage management of external information, in accordance with Company Law, Securities Law, Articles of Association, Management System of Information Insiders of Hefei Meiling Co., Ltd. and Internal Control System of Hefei Meiling Co., Ltd., the Company established and issued External Information Delivery and Usage Management System of Hefei Meiling Co., Ltd. in Sep. 2009.

VII. Other proceedings of the report

(I) Changes of information disclosure newspaper

On Dec. 31, 2009, the Company publicized Notice on Change of Information Disclosure Newspaper in Securities Times, China Securities Journal, Hong Kong Wen Wei Po and Juchao Website, that the Company appointed information disclosure newspaper in 2009 were Securities Times, China Securities Journal, Hong Kong Wen Wei Po, while since Jan. 1, 2010, they would be changed to Securities Times as domestic newspaper for information disclosure and Hong Kong Commercial Daily as Overseas newspaper for information disclosure, and the appointed information disclosure website would still be Juchao Website (<http://www.cninfo.com.cn>).

(II) Changes of CPAs

On Sep. 18, 2009, the Company held the 23rd meeting of the 6th board of directors, which approved Proposal on Changing CPAs to Shinewing Certified Public Accountants Co., Ltd. Whereas Shinewing Certified Public Accountants Co., Ltd. had consolidated Sichuan Jun He Certified Public Accountants Co., Ltd., the board agreed to change CPAs to Shinewing Certified Public Accountants Co., Ltd. as audit institution for 2009. All the contracts the Company signed with Sichuan Jun He Certified Public Accountants Co., Ltd. would still have availability, and relevant rights and responsibilities would still have function. The independent directors expressed independent opinions that they thought the change accorded with relevant laws, regulations and discussion procedure, which would not affect normal audit quality of accounting statement and would not hurt the legal rights of all shareholders and investors. All agreed the change. On Dec. 1, 2009, the Company held the 2nd extraordinary shareholders' general meeting 2009, which discussed and approved Proposal on Changing CPAs to Shinewing Certified Public Accountants Co., Ltd. the aforesaid events were disclosed on Securities Times, China Securities Journal, Hong Kong Wen Wei Po and Juchao website dated Sep. 19, 2009 and Dec. 1, 2009 (Notices No. 2009-033 and No. 2009-043).

(III) Relevant proceedings of withdrawing use right of state-owned land

In 2006, the Company signed Withdrawing Use Right of State-owned Land Agreement with Hefei Land Reserve Center, that Hefei Land Reserve Center paid to withdraw the use right of two state-owned land located in Wuhu Road, Hefei City; On Dec.10, 2009, the Company signed supplement agreement on paying compensation of land (Supplement Agreement on Withdrawing Use Right of State-owned Land Agreement) with Hefei Finance Bureau and Land Reserve Center, which agreed that Hefei Finance Bureau should pay land compensation of RMB 422,511,200(including removal, relocation and allocation) to the Company. According to Accounting Standard for Business Enterprises No.3, calculated by the Company, the cost, remove loss and expense, and allocation fee (including happened and plan to happen) of land use right, real estate and fixed assets damaged in removal, project in process were totally about RMB 430 million. The received land compensation deducted the aforesaid cost and expenses, and finally it brought loss of RMB 7.5 million to the Company; on Dec. 15, 2009, the Company received land compensation of RMB 422,511,200 from Hefei Finance Bureau. Relevant events of the aforesaid were disclosed on China Securities Journal, Securities Times, Hong Kong Wen Wei Po and Juchao website dated Dec. 30, 2006, Aug. 7, 2007, Jun. 10, 2009, Jun. 12, 2009, Dec. 11, 2009 and Dec. 17, 2009.

(IV) Proceedings about large amount allowance from government

In the report period, the Company received allowance from government totally about RMB 55,547,000 including tax preference of new products, steam allowance, brand award of province-level new products, special employment policy subsidies (including subsidiary Company Changhong Air Condition, Zhongshan Changhong, Jiangxi Meiling and Mianyang Meiling, in which the financial discount interest of RMB 2,312,800).

VIII. Ceitified public accountants He Jun and Chen Fangfang from Shinewing Ceitified Public Accountants Co., Ltd. offered Special Explanations on Capital Occupation of Controlling Shareholders and Other Related Parties of Hefei Meiling Co., Ltd. with the number of XYZH/2009CDA6025-2, the whole content was as follows:

All shareholders of Hefei Meiling Co., Ltd.,

We received entrustment to audit Balance Sheet on Dec.30, 2009, Profit Statement, cCash Flow Statement and Shareholders' Equity Change Statement (hereinafter refer to as Financial Statement) in 2009 of Hefei Meiling (hereinafter refer to as Hefei Meiling) according to China Certified Accountants Auditing Standards, and signed audit report with unqualified opinions XYZH/2009CDA6025 on Mar. 15, 2010.

According to the requirements of Notice of China Securities Regulatory Commission and the State-owned Assets Supervision and Administration Commission of the State Council Concerning Some Issues on Regulating the Funds between Listed Companies and Associated Parties and Listed Companies' Provision of Guaranty to Other Parties (ZJF[2003] No. 56), Hefei Meiling edited Summary Statement of Capital Occupation of Controlling Shareholders and Other Related Parties of Hefei Meiling Co., Ltd. in 2009 (hereinafter refer to as Summary Statement).

Editing and disclosing the Summary Statement and ensure its truness, legality and integraty is the responsbility of Hefei Meiling Co., Ltd. we checked the data in the Summary Statement with relevant contents in accounting materials and audited Financial Statement 2009 of Hefei Meiling Co., Ltd., and did not find any disagreement in all significant aspects. Besides executing relevant audit procedure of related transaction in auditing Financial Statement 2009, we did not execute any additional audit or other procedure of data in the Summary Statement. In order to better realize Capital Occupation of Controlling

Shareholders and Other Related Parties of Hefei Meiling Co., Ltd. in 2009, the Summary Statement should be read with the audited Financial Statement together.

The Special Explanation is only for Hefei Meiling Co., Ltd. to disclose Capital Occupation of Controlling Shareholders and Other Related Parties., not used to any other purposes.

IX. Special explanations and independent opinions of independent directors on accumulated and current capital occupation and external guarantee of related parties

According to relevant regulations of Notice Concerning Some Issues on Regulating the Funds between Listed Companies and Associated Parties and Listed Companies' Provision of Guaranty to Other Parties (ZJF[2003] No. 56) and Notice on Regulating the External Gurantee of Listed Company (ZJF[2005] No.120 (hereinafter refer to as Notice)), as the independent directors of Hefei Meiling Co., Ltd. (hereinafter refer to as the Company), with the attitude of preciseness, seeking truth from facts, carefulness and responsibility, we carefully checked the external guarantee of the Company in 2009, and made explanation and independent opinions.

In the report period, the Company provided bank finance authority guarantee of RMB 20 million for subsidiary Company – Zhongke Meiling Low-temperature Technology Co., Ltd., the subsidiary Company – Zhongshan Changhong Electric Co., Ltd. (hereinafter refer to as Zhongshan Changhong) provided bank finance authority guarantee of USD 13 million (the signed amount in contract was calculated as RMB 88,766,600 according to the exchange rate on that day of USD 1 = RMB 6.8282 and the bank discount). At the end of the report period, the Company provided external guarantee amounting to RMB 1,111,766,600. Before the Company purchased 90% equity of Zhongshan Changhong, Zhongshan Changhong and Guangdong Changhong provided mutual bank finance authority guarantee, in which Zhongshan Changhong provided guarantee of RMB 13 million for Guangdong changhong on Apr. 10, 2009, with the term of 1 year; Guangdong Changhong provided guarantee of RMB 50 million for Zhongshan Changhong on Aug. 24, 2009, with the term of 1 year. On Dec. 31, 2009, the Company completed the change procedure of industrial and commercial registration of purchasing 90% equity of Zhongshan Changhong. In order to resolve the historical guarantee problem between Zhongshan Changhong and Guangdong Changhong which is the underling subsidiary of Sichuan Changhong Electric Co., Ltd., Zhongshan Changhong sent a letter to Zhognshan Branch of Construction Bank of China on Feb. 5, 2010, which terminated the credit line guarantee for Guangdong Changhong with the name of Zhongshan Changhong. The bank have confirmed.

Till Dec. 31, 2009, there was no non-operating capital occupation of controlling shareholders and related parties. In the report period, controlling shareholders and other related parties of the Company did not non-operationally occupy the funds of the Company, there was either no directly or indirectly providing capital to controlling shareholders and other related parties from the Company.

We thought that, the Company strictly complied with the regulations and requirements of Notice, standardized the capital intercourse between the Company and controlling shareholders and other related parties, and regulated the external guarantee which strictly accorded with relevant rules and system, without any violating regulations, and strictly controlled and prevented operation risk to maintain interests of all shareholders and the Company. In the Report period, the external guarantee of the Company was the demand of operation and reasonable capital use, whose decision procedure was legal and reasonable, without any hurts for the interests of the Company and shareholders.

Section IX. Report of the Supervisory Committee

In 2009, strictly according to relevant regulations of laws and rules such as the Company

Law, Articles of Association and Rules of Procedure for Supervisory Committee, starting from maintaining the profit of the Company and all shareholders, all supervisors carefully implemented their responsibility of supervision. Through presenting shareholders' general meetings and meetings of the board of directors, learning the forming process of significant decisions, could timely held the operation development and results, and expressed opinions of the Supervisory Committee on significant decisions and events, which exerted the function of knowing, checking and supervising, and also made supervision of the implementation of directors and senior executives, which maintained the legal profit of the Company and all shareholders. Their main work was as follows:

I. Holding of the Supervisory Committee's meeting

In the report period, the 6th supervisory Committee held the 4th meeting, details were as follows:

(1) On Feb. 23, 2009, the Company held the 4th meeting of the 6th Supervisory Committee by way of site and communication, which discussed and approved the Annual Report 2008 and Summary, Working Report of Supervisory Committee 2008, Independent Opinions of Supervisory Committee on the Company's Operation in 2008, Opinions of Supervisory Committee on Self-estimation Report of Internal Control, Financial Settlement Report 2008, Preplan of Profit Distribution in 2008 and Plan of Profit Distribution in 2009, Proposal on Canceling Wuhu Tax Caution Money in Other Accounts Receivable, Proposal on Ensuring Tax Loss, Proposal on Withdrawing Inventory Depreciation Reserves, Proposal on Expectation of Related Transaction in 2009 and Proposal on Amending the Articles of Association. On Apr. 17, 2009, the Supervisory Committee offered written audited opinion on the First Quarterly Report of 2009.

(2) On Aug. 7, 2009, the Company held the 5th meeting of the 6th Supervisory Committee by way of site and communication, which discussed and approved the Semi-Annual Report of 2009 and Summary, Proposal on Canceling Bad Debts in Accounts Receivable, Proposal on Withdrawing Bad Debts Reserve and Proposal on Implementing the Welfare Plan of Employees' Early Retirement.

(3) On Sep. 18, 2009, the Company held the 6th meeting of the 6th Supervisory Committee by way of site and communication, which discussed and approved the Proposal on Amending Rules of Procedure of the Supervisory Committee and Proposal on Changing CPAs to Shinewing Certified Public Accountants Co., Ltd.

(4) On Oct. 21, 2009, the Company held the 7th meeting of the 6th Supervisory Committee by way of site and communication, which discussed and approved the the Third Quarterly Report of 2009, Proposal on Disposal of Rejecting Parts of Assets and Proposal on Prediction for the Maintenance Fees of "Ten-year Free Guarantee of Refrigerators".

II. Independent Opinions of the Supervisory Committee on relevant events in 2009

1. Legal operation of the Company

In the report period, the Company operated in line with laws and carefully fulfilled the guideline of Legal Management, Supervision, Self-discipline and regulation. The Supervisory Committee thought that, under the supervision of the supervisory department, the Company greatly improved the Company administration level according to relevant policies and laws of the country. Particularly through further and continuously carrying out the special corporate governance of listed Company, those obvious problems and weak points existed in the Company have been reformed carefully. And in addition, the work of internal control system has received great progress and decision-making procedure has become clearer and more perfect which directly brought the prominent improvement in criterion management and operation level. At the same time, it effectively solved the risk of

decision-making and operation, maintaining the legal interests of the Company and investors. We thought that the decision-making procedure of shareholders' general meeting and each meeting of the board were legal, which established perfect internal control system and accorded with regulations of relevant laws, rules and systems; the directors and senior executives have obviously increased their awareness of diligence and responsibility and can earnestly know situation and offer opinions on significant problems. They also earnestly executed all the resolutions of the Shareholders' General Meeting and meeting of the Board of Directors. It was not found that these aforesaid people violated the relevant laws of the country, the Articles of Association of the Company and hurt interests of the Company and shareholders when they performed their duties. In the report period, there was no such behavior that some important information should have been disclosed but not disclosed in time.

2. Inspection of the finance of the Company

The Supervisory Committee examined the financial system of the Company in the report period in line with laws, and audited the financial statement, periodical report and relevant documents. The Supervisory Committee thought that: in the report period, the financial behaviors of the Company were done strictly according to accounting principles and internal system of financial management, the financial system of the Company was perfect, the financial structure was reasonable and the financial status was good. The financial reports truly and completely reflect the financial state and operation achievements of the Company during the report period. The audit report issued by Sichuan Jun He CPAs is real and objective.

3. The use of raised capital of the Company

In the report period, the Company had neither raised proceeds nor delayed use of raised proceeds from previous years to the report period.

In the report period, the non-raised capital was mainly invested to alteration and expansion project in process of Hefei Manufacture base, including newly-build factory, product line of refrigerator ability expansion and relevant supporting facilities. The project will increase the product ability of 600,000 refrigerators.

In the report period, the aforesaid project was still in the phase of construction, without any income.

4. Purchase and sales of assets of the Company

In the report period, the Supervisory Committee checked the case that the Company purchased 100% equity of Sichuan Changhong Air-conditioner Co., Ltd. and 90% equity of Zhongshan Changhong Electric Co., Ltd. held by Sichuan Changhong Electric Co., Ltd. through the public hanging out by Sichuan State-owned Property Transaction Center Co., Ltd., and thought that, the purchase strictly accorded with the requirements of relevant regulations of Interim Measures for the Administration of Purchase of State-owned Assets of Enterprises, Interim Measures for the Administration of Purchase of State-owned Assets of Enterprise in Sichuan Province and its Rules for Implementation, and the price of the equity assets was reasonable. The discussion and decision-making procedure of the assets purchase accorded with relevant regulations of the Company Law, Securities Law, Listing Rules of Shenzhen Stock Exchange and Articles of Association, without any inside transaction proceeding. The relevant behavior was open, fair and reasonable, which accorded with the interests of listed Company and all shareholders, without any proceeding of hurting minority shareholders interests or causing loss of assets.

5. Particulars about related transaction

In the report period, the Supervisory Committee thought that, occurred daily related transaction and the related transaction occurred between the refrigerators assets the Company purchased and controlling shareholder – Sichuan Changhong and related parties (Sichuan Changhong Innovation Investment Co., Ltd.) were fair and reasonable, which embodied the market principle of fairness, without any inside transaction or proceedings of hurting interests of non-related shareholders and listed Company.

6. Opinions on the audit report offered by CPAs

In this year, Shinewing Certified Public Accountants Co., Ltd. offered audit report with standard unqualified opinion for the Financial Report 2009. The Supervisory Committee thought that, the audit report objectively and fairly reflected the actual status of the Company. The Supervisory Committee did not have disagreement to the contents and results of the report.

Section X. Significant Events

I. Proceedings about significant lawsuits and arbitrations of the Company in the report period

There were no significant lawsuits and arbitrations of the Company in this report period.

II. There was no bankruptcy and relevant issues of the Company in this report period.

III. There was no share holding for other listed companies, share participating of commercial banks, securities companies, insurances companies, and trust and futures companies held by the Company in this report period.

Unit: RMB

Name of the invested Company	Initial invest amount	Balance in the year-begin	Increase or decrease in this year	Accumulated equity adjustment	Balance in the year-end
China Pacific Insurance Co.,Ltd	580,000.00	580,000.00	-58,000.00		0
Huishang Bank Co., Ltd.	5,000,000.00	5,000,000.00			5,000,000.00
Anhui USTC Iflytek Co., Ltd.	18,960,000.00	18,960,000.00	-11,868,193.94		7,091,806.06
Anhui Knowledge Property Exchange	1,000,000.00	2,292,931.53	295,852.43	1,588,783.96	2,588,783.96
Total	25,540,000.00	26,832,931.53	-11,630,341.51	1,588,783.96	14,680,590.02

IV. Proceedings about the purchases and sales of assets, and mergers in the report period

(I) Purchase of Assets

According to the strategic development plan of the Company, in order to further develop white electrics industry, expend new profit growth, and resolve the potential competition in common industry between the Company and controlling shareholders, the Company held the 26th meeting of the 6th board of directors on Nov. 13, 2009, which agreed and approved Proposal on Purchasing Equity of Sichuan Changhong Air-conditioner Co., Ltd. and Zhongshan Changhong Electric Co., Ltd. This purchase was related transaction, the independent directors approved the aforesaid related transaction before purchase, and they agreed to put in the relevant proposals to the board to discuss. 3 independent directors expressed independent opinions on this related transaction, and all thought that, the price of the purchase was decided at the basis of the value estimated by State-owned Assets Supervision and Administration Committee of Mianyang Government and the status of the bid assets, and the way of public auction for transferring equity accorded with the principle of market price-making. The price of the transaction was objective and fair, which embodied the principle of openness, fairness and justice, without any proceeding of hurting the interests of the Company and other shareholders. On Dec. 1, 2009, the Company held the 2nd Extraordinary Shareholders' General Meeting 2009, which discussed and approved Proposal on Purchasing Equity of Sichuan Changhong Air-conditioner Co., Ltd. and Zhongshan Changhong Electric Co., Ltd., in which the related party – Sichuan Chanhong avoided voting to this proposal. On Dec. 9, 2009, the Company finally purchased the aforesaid assets at the price of RMB 393,560,000, including 100% equity of Sichuan Changhong Air-conditioner Co., Ltd. held by Sichuan Changhong Electric Co., Ltd. (99% equity directly held by Sichuan Changhong and 1% equity held by its subsidiary Company – Sichuan Changhong Innovation Investment Co., Ltd.) and 90% equity of Zhongshan Changhong Electric Co., Ltd through participating bidding for the the public hanging out by Sichuan State-owned Property Transaction Center Co., Ltd.. On Dec. 10, 2009, according to relevant regulations of Notice of Transferring 100% equity of Sichuan Changhong Air-conditioner Co., Ltd. held by Sichuan Changhong Electric Co., Ltd. and 90% equity of Zhongshan Changhong Electric Co., Ltd. issued by Sichuan State-owned Property Transaction Center Co., Ltd., the Company signed Property Transaction Contract with Sichuan Changhong and Sichuan

Changhong Innovation Investment Co., Ltd. This related transaction was not significant assets reorganization according to the regulations of Management Measures for Significant Assets Reorganization of Listed Company, so it did not need the approval of relevant department. The change procedure of industrial and commercial registration was respectively completed on Dec. 25, 2009 and Dec. 31, 2009, and after completing equity transfer registration, the Company held 100% equity of Changhong Air-conditioner and 90% equity of Zhongshan Changhong.

The notices of the aforesaid events were publicized on Securities Times, China Securities Journal, Hong Kong Wen Wei Po and Juchao website dated Nov. 16, 2009, Dec. 2, 2009, Dec. 9, 2009, Dec. 10, 2009 and Jan., 5, 2010 (No. 2009-039, 2009-041, 2009-046, 2009-047, 2010-001). This equity purchase was favorable for further integrating and optimizing industry resources of white appliance, exerting cooperative effect of industry, enriching the products line, doing white appliance industry bigger and stronger, expanding new profit-gaining point, improving the yield of net assets in some degree, making basis for doing white appliance industry bigger and stronger, at the same time, solving the potential competitions in the same industry between the Company and controlling shareholder once for all, and further perfecting the administration structure of the Company.

(II) Sales of assets

According to the demand of the Company's operation development, in order to centralize key resources development as main industry and vitalize the financial assets available for sale held by the Company, the Company held the 18th meeting of the 6th board of directors on Jul. 24, 2009, which discussed and approved Proposal on Authorizing Management Team to Dispose Financial Assets Available for Sale. The board of directors authorized the management level to gradually sell all shares of USTC Iflytek Co., Ltd. and China Pacific Insurance (Group) Co., Ltd. in secondary market, combined with finance market environment according to relevant regulations. On Aug. 12, 2009 and Aug. 28, 2009, the Company held the 20th meeting of the 6th board and the 1st extraordinary shareholders' general meeting, which both discussed and approved Proposal on Authorizing Management Level to Continue to Dispose Financial Assets Available for Sale. The Shareholders' general meeting and the board of directors agreed to authorize the management level to gradually sell the remaining shares of unlimited shares in circulation for sale of USTC Iflytek Co., Ltd. and China Pacific Insurance (Group) Co., Ltd. in secondary market, combined with finance market environment according to relevant regulations. In the report period, the management team accumulatively sold 6,091,250 shares of USTC Iflytek Co., Ltd. 1,000,000 shares of financial assets available for sale of China Pacific Insurance (Group) Co., Ltd. in secondary market, which gained net investment income before tax of RMB 210,941,346.01.

(III) Enterprises merger

On Apr. 10, 2009, the Company held the 13th meeting of the 6th board of directors, which discussed and approved Proposal on Takeover and Merger of Hefei Changhong Meiling Refrigeration Co., Ltd. Hefei Changhong Meiling Refrigeration Co., Ltd. is the wholly-owned subsidiary Company of the Company. According to the demand of market development and operation management of the Company, in order to conform resources of enterprises and reduce tax loss, the Company planed to cancel Hefei Changhong Meiling Refrigeration Co., Ltd. in the way of merger. Relevant note was publicized on Securities Times, China Securities Journal, Hong Kong Wen Wei Po and Juchao website dated Apr. 14, 2009 (No. 2009-008). Till the end of the report period, the Company put in relevant application materials of canceling to relevant department in charge, and the department in charge audited the material and expressed audit opinions. We prepared supplement materials

according to audit opinion. On Jan. 29, 2010, the Company received the note from the department in charge, and the canceling of Hefei Changhong Meiling Refrigeration Co., Ltd. was completed.

V. In the report period, the Company did not implement stock incentive plan.

VI. Significant related transaction in the report period.

(I) Particulars about the purchase from the related parties in this year

Unit: RMB'0000

Name of related parties	Purchase for this year (tax excluded)	Purchase for last year (tax excluded)	Expected amount of related transaction in the year-beginning
Parent Company and the final controller			25,000.00
Include: Sichuan Changhong Electric Co., Ltd.	48,655.20	9,528.09	
Other enterprises controlled by the same parent Company and the final controller			
Include: Sichuan Changhong Minsheng Logistics Co., Ltd.	4,220.42	878.68	
Sichuan Changhong Mold and Plastic Tech. Co., Ltd.	12,565.14	6,430.22	
Sichuan Changhong Jijia Precision Machinery Co., Ltd.	9,469.18	56.98	
Sichuan Hongxin Software Co., Ltd.	32.24	0.00	
Mianyang Hongfa Mould Design and Making Co., Ltd.	13.81	0.00	
Sichuan Changhong Packaging and Printing Co., Ltd.	1,586.53	3.09	
SiChuan Changhong Battery Co., Ltd.	1.40	0.00	
TECO Electric and Machinery Co., Ltd.	275.60	0.00	
Sichuan Changhong Precision Electron Technology Co., Ltd.	83.07	0.00	
Sichuan Changhong Devices Technology Co., Ltd.	1,224.14	236.76	
Sichuan Changhong New Energy Technology Co., Ltd	29.63	7.01	
Sichuan Liyuan Electron Co., Ltd.	292.47	0.00	
Mianyang Hongrun Electron Co., Ltd.	512.15	0.00	
Guangdong Changhong Electron Co., Ltd	7.40	207.94	
Zhongshan Guanghong Mould Technology Co., Ltd.	4.58	0.00	

Associated enterprises of controlling

shareholders and actual controller			
Sichuan Changhe Technology Co., Ltd.	40.94	0.00	
Sichuan Changxin Refrigeration Components Co., Ltd.	4,181.82	0.00	
Sichuan Jinghong Packaging Products Co., Ltd.	649.37	0.00	
Subtotal	83,860.55	17,348.77	
Huayi Compressor Co., Ltd.	43,933.06	24,403.94	46,000.00
Joint enterprise and associated enterprise			
Include: Hefei Meiling Packaging Co., Ltd.	5,622.35	6,260.09	10,000.00
Total		48,012.80	81,000.00

The expectation of daily related transaction amount of 2009 did not include the related transaction occurred between Zhongshan Changhong, Changhong Air-conditioner and Sichuan Changhong and its subsidiary companies. The expected related purchase amount occurred with Sichuan Changhong and its Subsidiary Company was RMB 810 million. The actual occurred related purchase amount was RMB 677,749,000, which did not exceed the expectation of daily related transaction amount in the year-beginning. At the end of Dec., 2009, after the equity of Zhongshan Changhong and Changhong Air-conditioner was transferred to the Company, their daily related transaction with Sichuan Changhong and its subsidiary Company was related transaction. The related purchase amount occurred between Zhongshan Changhong, Changhong Air-conditioner and Sichuan Changhong and its Subsidiary Company in 2009 was RMB 656,410,400.

2. Related sales

Particulars about the sales to the related parties in this year

Unit: RMB'0000

Name of related parties	Sales for this year (tax excluded)	Sales for last year (tax excluded)	Expected amount of related transaction in the year-beginning
Parent Company and the final controller			5,000.00
Include: Sichuan Changhong Electric Co., Ltd.	80,560.09	-	
Other enterprises controlled by the same parent Company and the final controller			
Include: PT.CHANGHONG ELECTRIC INDONESIA	5,021.22	-	
Sichuan Changhong Jijia Precision Machinery Co., Ltd.	753.09	67.86	
Sichuan Changhong Mold and Plastic Tech. Co.,	584.14	4,102.51	

Ltd.		
Sichuan CCO Display Technology Co., Ltd.	328.92	-
Mianyang Lejiayi Commerce & Trade Chains Co., Ltd.	287.53	141.96
Jiangxi Changhong Electron Technology Development Co., Ltd.	221.91	-
Hong Kong (Changhong) Trade Co., Ltd.	158.42	322.15
Sichuan Changhong Xinrui Technology Co., Ltd.	102.30	-
Chengdu Lejiayi Commerce & Trade Co., Ltd.	58.34	271.54
Sichuan Changhong International Hotel Co., Ltd.	45.45	-
Chongqing Hongshenghuo Commerce & Trade Co., Ltd.	36.24	-
Tianjin Lejiayi Commerce & Trade Co., Ltd.	18.59	4.22
Huayi Compressor Co., Ltd.	14.77	-
Sichuan Changhong Appliance Technology Co., Ltd.	9.77	-
Kunming Yijiahong Commerce & Trade Co., Ltd.	6.70	-
Sichuan Changhong Electron System Co., Ltd.	6.27	-
Fuzhou Lejiayi Commerce & Trade Co., Ltd.	3.70	1.99
Tianjin Lejiayi Commerce & Trade Co., Ltd.	3.18	-
Jinan Lejiayi Commerce & Trade Co., Ltd.	2.09	2.05
Sichuan Hongrui Electrician Co., Ltd.	1.57	-
Sichuan COC Display Devices Co., Ltd.	1.46	-
Sichuan Changhong New Energy Technology Co., Ltd.	0.96	-
Guangdong Changhong Electron Co., Ltd.	0.78	-
Taiyuan Lejiayi Commerce & Trade Chains Co., Ltd.	0.77	21.97
TECO Electric and Machinery Co., Ltd.	0.36	-
Lejiayi Chains Management Co., Ltd.	-	356.88
Changhong Electric(Australia) Co., Ltd	276.23	157.02
Guiyang Lejiayi Commerce & Trade Co., Ltd.	-	3.19

Associated enterprises of controlling

shareholders and actual controller			
Sichuan Changxin Refrigeration Components Co., Ltd.	3.60	-	
Total	88,508.45	5,453.34	5,000.00

The expectation of daily related transaction amount of 2009 did not include the related transaction occurred between Zhongshan Changhong, Changhong Air-conditioner and Sichuan Changhong and its subsidiary companies. The expected related sale amount occurred with Sichuan Changhong and its Subsidiary Company was RMB 50 million. The actual occurred related sale amount was RMB 13,630,300, which did not exceed the expectation of daily related transaction amount in the year-beginning. At the end of Dec., 2009, after the equity of Zhongshan Changhong and Changhong Air-conditioner was transferred to the Company, their daily related transaction with Sichuan Changhong and its subsidiary Company was related transaction. The related sale amount occurred between Zhongshan Changhong, Changhong Air-conditioner and Sichuan Changhong and its Subsidiary Company in 2009 was RMB 871,454,200.

Explanation on the necessity and continuity of related transaction issued by the Company: Related transaction in purchase of materials of the Company guarantees the sufficient supply of raw materials in some degree, which makes sure that the producing operation of the Company is normal and cost for producing has been cut down.

The above related transactions were done to ensure the normal producing operation and decrease in purchase cost. These transactions belong to the normal lasting long-term trades taking market price as transaction price and the annual happening amount as transaction amount, so it doesn't hurt the profit of the Company.

(III) Related transaction of equity assets purchase of Sichuan Changhong
Details are in (I) Assets Purchase, Item IV in Section X of the report.

(IV) Other related transactions

Please see the annotations for details.

VI. Creditor's right, liability or guarantee existed between the Company and related parties in the report period

1. Creditor's right and liability existed between the Company and related parties

Unit: RMB'0000

Related parties	Funds providing for the related party		Funds the related party providing for the listed Company	
	Occurring amount	Balance	Occurring amount	Balance
Sichuan Changhong Electric Co., Ltd.			10,482.45	33,206.86
Guangdong Changhong Electric Co., Ltd.	101.67	0		
Guangdong Changhong Digital Technology Co., Ltd.	9.80			
Lejiayi Chains Mngement Co., Ltd.	0.26			
Sichuan Changhong Minsheng Logistic Co., Ltd.	0.84			

Kuaiyidian Electric Service Chains General Company	0.40			
Zhongshan Guanghong Model Plastics Technology Co., Ltd.	1.64			
Total	114.61	0	10,482.45	33,206.86

In the report period, strictly according to Notice on Regulating External guarantee of Listed Company (ZJD (2005) No. 120) and Notice on Regulating Several Problems about External Guarantee of Listed Company and Capital Intercourse Between Listed Company and Related Parties (ZJF (2003) No. 56) issued by CSRC, the Company regulated the external guarantee and capital intercourse between the Company and controlling shareholders and other related parties, control and prevented operation risk of the Company to maintain the interests of shareholders and the Company. In the report period, listed Company provided capital of RMB 1,146,100 to controlling shareholders and subsidiary Company, which was before the purchase of 90% equity of Zhongshan Changhong at the end of 2009. In Dec. 2009, when the equity of Zhongshan Changhong was transferred to the Company, the Company regulated the aforesaid business according to relevant regulations, and Zhongshan Changhong called back the capital provided to related party. Besides, there was neither capital occupation of controlling shareholders and other related parties, nor directly or indirectly providing capital for controlling shareholders and other related parties to use. Till the end of the report period, the balance of capital the Company and its subsidiary Company provided to related parties was RMB 0, and the balance of capital related parties provided to listed Company was RMB 332,068,600.

(II) Guarantee between the Company and the related parties in the report period

(1) Ended Dec. 31, 2009, Changhong Group Co., Ltd. provided guarantee for the bank credit of the Company amounting to RMB 1,210,000,000.00.

(2) External guarantee, guarantee for subsidiaries and guarantee of breaking regulations of the Company

Unit: RMB'0000

Particulars about the external guarantee of the Company (barring the guarantee for controlling subsidiaries)						
Name of the Company guaranteed	Date of happening (date of signing agreement)	Amount of guarantee	Guarantee type	Guarantee term	Complete Implementation or not	Guarantee for related party (yes or not)
Guangdong Changhong Electric Co., Ltd.	Apr. 10, 2009	8,876.66	Mortgage Guarantee	1 year	Yes	Yes
Total amount of guarantee during the report period						8,876.66
Total balance of guarantee at the end of the report period (A)						8,876.66
Guarantee of the Company for the controlling subsidiaries						
Total amount of guarantee for controlling subsidiaries during the report period						2,000.00
Total balance of guarantee for controlling subsidiaries at the end						4,300.00

of the report period (B)	
Total amount of guarantee of the Company (including guarantee for controlling subsidiaries)	
Total amount of guarantees (A+B)	13,176.66
Ratio of total guarantee to net assets of the Company	9.95%
Including:	
Amount of guarantee for shareholders, actual controller and its related parties (C)	0.00
The debts guarantee amount provided for the guarantee of which the assets-liability ratio exceeded 70% directly or indirectly (D)	0.00
Proportion of total amount of guarantee in net assets of the Company exceeded 50% (E)	0.00
Total amount of the aforesaid three guarantees (C+D+E)	0.00
Explanations on possibly bearing joint and several liquidating responsibilities for undue guarantees	Naught

Explanation: the guarantee object that the Company provided was the controlling subsidiary Company of the Company, whose operation was normal, not causing unfavorable influence to the financial status of the Company. In the report period, the subsidiary Company of the Company— Zhongshan Changhong provided bank finance credit guarantee of RMB 88,766,600 to the subsidiary Company of Sichuan Changhong - Guangdong Changhong, which was mutual guarantee business, and Guangdong Changhong provided bank finance credit guarantee of RMB 50 million to Zhongshan Changhong, with term of 1 year. The guarantee occurred before purchasing equity of Zhongshan Changhong, and after completed the purchase on Dec. 31, 2009, Zhongshan Changhong sent a letter to Zhongshan Branch of Construction Bank of China on Feb. 5, 2010, which terminated the guarantee of credit line for Guangdong Changhong with the name of Zhongshan Changhong. The bank have confirmed.

VII. Significant contracts and implementation

On Dec. 10, 2009, the Company signed Property Transaction Contract with Sichuan Changhong and Changhong Innovation Investment Co., Ltd., which agreed that: 1. Sichuan Changhong transferred 99% equity of Changhong Air-conditioner and 90% equity of Zhongshan Changhong to the Company with the price of RMB 390,650,000; Changhong Innovation Investment Co., Ltd. transferred 1% equity of Changhong Air-conditioner to the Company with the price of RMB 2,910,000. The initial payment of the aforesaid property was 30% of the total amount, which was totally RMB 118,068,000, and it should be paid within 5 working days since signing the Contract; the remaining amount should be paid within 1 year since the date of initial payment. 2. Each party of the transaction should complete the transfer as soon as possible after signing the contract. The relevant tax involved in the transfer should be paid according to relevant laws and rules of the state; the relevant expense involved in the transfer should be bore by the three parties after negotiation by them. 3. The benchmark date of the transfer was June 30, 2009. During the period from the benchmark date to the date the transfer was completed, the income, loss and risk were bore by the purchaser. 4. Sichuan Changhong and Changhong Innovation Investment promised

that the transferred property was true and integral, without any concealing of the following proceedings: enforce institution sealing up assets; equity and assets guarantee; assets concealing; lawsuit in process; other proceedings affecting the truth and integrity of the property. The Company promised to have full right ability and action ability to transfer the property, without any cheating; keep the basic stability of management level and employees of Changhong Air-container and Zhongshan Changhong, and continue to hire the employees of the aforesaid companies. 5. The contract was signed and sealed by the three parties and began to have effect after recorded by Sichuan State-owned Property Investment Transaction Center.

The aforementioned change procedure of industrial and commercial registration was respectively completed on Dec. 25, 2009 and Dec. 31, 2009, and after completing equity transfer registration, the Company held 100% equity of Changhong Air-conditioner and 90% equity of Zhongshan Changhong.

VIII. Commitment of the Company or shareholders holding over 5% shares

(I) Share merger reform commitment

1. Commitment

(1) Legal commitment of all shareholders and commitment of part shareholders with prolonged lock-up period

① Legal commitment

All non-circulation shareholders promised to strictly comply with relevant regulations on lock-up term and reduce holding proportion in Management Measures for Share merger reform of Listed Company issued by CSRC.

② Commitment on prolonging lock-up period of Sichuan Changhong, Changhong Group and Meiling Group

Sichuan Changhong, Changhong Group and Meiling Group respectively promised that: they would not make transaction in Shenzhen Stock Exchange or transfer holding shares of the part within 24 months since implementing the share merger reform.

③ Guarantee arrangement for commitment in lock-up period: non-circulation shareholders would entrust the board of directors to apply for the Stock Exchange to lock up the non-circulation shareholders held by them in the sale-limited period, and non-circulation shareholders could not sell shares of the part in Stock Exchange in the relevant period. The aforesaid measures provided guarantee for non-circulation shareholders implementing the aforesaid commitment in the way of technology.

(2) Commitment on Meiling Group paying consideration in advance

In order to successfully fulfill the share merger reform, Meiling Group promised that:

Till the day that Meiling Electric implementing share merger reform plan according to the arrangement of Shenzhen Stock Exchange, if part of non-circulation shareholders did not express agreement for the plan; or non-circulation shareholders could not implement consideration arrangement due to the holding shares existing disputation, mortgage or frozen; non-circulation shareholders could not implement consideration arrangement due to not completing equity transfer procedure, Meiling Group agreed to pay consideration in advance for part of shareholders.

After payment, if the shares holding by the aforesaid non-circulation shareholders circulated in the market, they should pay the amount that Meiling Group paid or gained the agreement of Meiling Group.

(3) Holding increase commitment of Sichuan Changhong

Sichuan Changhong promised that: during the 2 months after Meiling Electric implementing share merger reform, if the stock of Meiling Electric in the secondary market was lower than RMB 3, Sichuan Changhong would increase holding stock of Meiling Electric with capital

of no more than RMB 60 million at the price of RMB 3, except the stock of Meiling Electric in the secondary market was higher than RMB 3 or RMB 60 million was used up. The lock-up term of increasing holding was 6 months since completing increasing holding.

For the guarantee arrangement of increasing holding, Sichuan Chnaghong promised that: when implementing share merger reform, the Company would deposit the increasingly holding capital of RMB 60 million into the special account in Shenzhen Branch of China Securities Depository and Clearing Company Limited, which was only used to increase holding stock of Meiling Electric. The deposit term was 2 months after implementing share merger reform prospectus.

(4) Commitment of Meiling Group

When implementing share merger reform, if the shares transfer between Meiling Group and Sichuan Changhong, Changhong Group was not completed, Sichuan Changhong and Changhong Group should implement the payment of consideration and each commitment for share merger reform should be implemented by Meiling Group.

(5) Supplementary consideration arrangement of reform plan

Sichuan Changhong, Changhong Group and Meiling Group together promised that: Meiling Electric disclosed annual report 2006, 2007 and 2008, and the audit opinions on annual report were standard unqualified opinion. At the same time, the growth rate of the average net profit of Meiling Electric in 2006 compared with that in 2004 and 2005, the growth rate of the average net profit in 2007 compared with that in 2006 and the growth rate of the average net profit in 2008 compared with that in 2007 were positive and averagely not lower than 30% (taking the annual audit report of Meiling Electric in the period as base). If there was something which did not accord with the aforesaid conditions, Sichuan Changhong, Changhong Group and Meiling Group would make supplementary consideration arrangement. The supplementary consideration amount was according to the measures that supplemently increase 1 share of each 10 shares in the current circulation shares, and the shares amount was 15,153,034 shares. In which, Sichuan Changhong took 5,525,985 shares, Changhong Group took 4,648,297 shares and Meiling Group took 4,978,752 shares.

(6) Bearing the expenses of the share merger reform

According to relevant regulations, Sichuan Changhong, Changhong Group and Meiling Group promised that, the expenses of the share merger reform were born by themselves.

(7) Responsibility of violating the commitment and the statement of the promisees

The all items of the aforesaid commitment of non-circulation shareholders had legal effect.

The promisees stated that: “we will faithfully fulfill the commitment, take relevant legal responsibility. If the transferee agree and have ability to take the responsibility, we will not transfer the holding shares. If we do not implement or could not completely implement the commitment, we will compensate the other shareholders for their loss.”

2. Implementation of commitment

The detailed statement of sale limited shares provided by China Securities Depository and Clearing Company Limited Shenzhen Branch showed that: all circulation shareholders with sale limit qualification strictly complied to the commitment on lock-up period in share merger reform.

The commitments of Sichuan Changhong, Changhong Group and Meiling Group on prolonging lock-up period to over 24 months, on Paying Consideration Instead, on Increasing Holding Shares of Sichuan Changhong, on Bearing the Expenses of the Share Merger Reform had been implemented completely; due to there was no qualification of Supplementary Consideration Arrangement, the commitment had been invalidated; due to Sichuan Changhong and Changhong Group completed the equity transfer in Aug. 2007, the commitment on consideration arrangement and other commitment that Meiling Group

implemented instead had been invalidated.

(II) Commitment on transferring air-conditioners' property

On Dec. 10, 2009, the Company successfully purchased the equity of Zhongshan Chnaghong and Changhong Air-conditioner, signed Property Transaction Contract with Sichuan Changhong and Changhong Innovation Investment, and on the same day, the Company received the Commitment Letter offered by the large shareholder – Sichuan Changhong. In order to support the development of Meiling Electric, keep the independence of Meiling Electric and avoid the competition between Sichuan Changhong and Meiling Electric in the same industry, Sichuan Changhong promised that:

1. Whereas the property transfer did not included the present used real estate and land of Changhong Air-conditioner, after completed the transfer, Sichuan Changhong promised to continue to lease the real estate and land to Changhong Air-conditioner at the price of market price, and would negotiate the transfer matters of some real estate and land with Meiling Electric according to the operation demand of Changhong Air-conditioner.
2. After completed the property transfer, Sichuan Changhong promised to try to avoid new related transaction with Meiling Electric. If there was related transaction that could not avoid indeed, Sichuan Changhong promised to decide the price of the related transaction in the way of market to ensure the fairness and equitableness without any hurts of interests of Meiling Electric.
3. In order to support the development of Meiling Electric and Air-conditioner business, after completed the property transfer, Sichuan Changhong promised to continue to authorize Changhong Air-conditioner and Zhongshan Changhong to freely use the brand of Changhong in the next 3 years. After the authorization expired, Sichuan Changhong would negotiate the transfer matters of Changhong Brand with Meiling Electric according to the operation demand of the development of Air-conditioner business.
4. Sichuan Changhong promised that: after completed the property transfer, Sichuan Changhong would not deal with the business and activity that Meiling Electric was doing at present of or would do in the future or which they would have interest conflict including air-conditioner and refrigerator.

IX. Engagement of CPAs

On Sep. 18, 2009, the Company held the 23rd meeting of the 6th board of directors, which approved Proposal on Changing CPAs to Shinewing Certified Public Accountants Co., Ltd. Whereas Shinewing Certified Public Accountants Co., Ltd. had consolidated Sichuan Jun He Certified Public Accountants Co., Ltd., the board agreed to change CPAs to Shinewing Certified Public Accountants Co., Ltd. as audit institution for 2009. All the contracts the Company signed with Sichuan Jun He Certified Public Accountants Co., Ltd. would still have availability, and relevant rights and responsibilities would still have function. The independent directors expressed independent opinions that they thought the change accorded with relevant laws, regulations and discussion procedure, which would not affect normal audit quality of accounting statement and would not hurt the legal rights of all shareholders and investors. All agreed the change. On Dec. 1, 2009, the Company held the 2nd extraordinary shareholders' general meeting 2009, which discussed and approved Proposal on Changing CPAs to Shinewing Certified Public Accountants Co., Ltd. the aforesaid events were disclosed on Securities Times, China Securities Journal, Hong Kong Wen Wei Po and Juchao website dated Sep. 19, 2009 and Dec. 1, 2009 (No. 2009-033 and No. 2009-043).

X. In the report period, the Company, the directors, the supervisors, senior executives, shareholder of the Company, actual controller, and purchaser haven't received investigation

from the authorized department, forceful measure from justice and inspection department, sent to justice organization or criminal responsibility, inspection and administrative penalty from CSRC, or received no access to securities market, administrative penalty from other administration department if being recognized as inappropriate people or public criticize by Shenzhen Stock Exchange.

XI. Reception, research and investment

Reception date	Reception place	Reception way	Reception object	Discussed matter and provided materials
Mar. 11, 2009	Meeting room of the Company	Spot research	Ta Chong Securities Co. Ltd.	Operation of the Company
Mar. 20, 2009	Meeting room of the Company	Spot research	China Securities Journal	Operation of the Company
Jun. 1, 2009	Meeting room of the Company	Spot research	Shenyin & Wanguo Securities Co. Ltd.	Operation of the Company
Jun. 3, 2009	Meeting room of the Company	Spot research	YINHUA FUND MANAGEMENT CO.,LTD.	Operation of the Company
Jun. 30, 2009	Meeting room of the Company	Spot research	Citic Securities Co., Ltd., Heyin Investment Co., Ltd., CITIC-Prudential Fund Management Company Ltd., China Galaxy Securities Co., Ltd.	Operation of the Company
Aug. 12, 2009	Meeting room of the Company	Spot research	Boshi Fund Management Co., Ltd.	Operation of the Company
Aug. 19, 2009	Office of the Company	Telephone survey	Shenyin & Wanguo Securities Co. Ltd.	Operation of the Company
Oct. 14, 2009	Meeting room of the Company	Spot research	Northeast Securities Co., Ltd.	Operation of the Company
Oct. 23, 2009	Meeting room of the Company	Spot research	China Merchants Securities Co., Ltd., Great Wall Fund Management Co., Ltd., Boshi Fund Management Co., Ltd., AEGON-INDUSTRIAL Fund Management Company Ltd.	Operation of the Company
Nov. 11, 2009	Meeting room of the Company	Spot research	China Universal Asset Management Co., Ltd, CJIS SECURITIES Co., Ltd., Rongtong Fund Management Co., Ltd.	Operation of the Company
Dec. 17, 2009	Office of the Company	Telephone survey	Yale Univesrcity QFII	Operation of the Company

Dec. 24, 2009	Meeting room of the Company	Spot research	Bank of Communications Schroder Fund Management Co., Ltd.	Operation of the Company
Dec. 29, 2009	Meeting room of the Company	Spot research	GF FUND MANAGEMENT CO., LTD.	Operation of the Company

Section XI. Financial Report

XYZH/2009CDA6025

Auditors' Report

To the shareholders of Hefei Meiling Co., Ltd.,

We have audited the accompanying consolidated and parent Company's financial statements of Hefei Meiling Co., Ltd. ("the Company"), including balance sheet of 31 December 2009, and profit statement, and cash flow statement, and statement on changes of shareholders' equity for the year ended, and notes to the financial statements for the year ended.

I. Management's responsibility for the financial statements

The Company's management is responsible for the preparation and fair presentation of the financial statements in accordance with the Enterprises Accounting Standards and Enterprises Accounting System. The responsibility includes: (1) designing, performing and maintaining internal control related to the preparation and fair presentation of the financial statements, which are free from material misstatements whether due to frauds or errors; (2) choosing and applying right accounting policies; (3) making reasonable accounting estimates.

II. Auditor's responsibility

Our responsibility is to express an audit opinion on these financial statements based on our audit. We performed our audit in accordance with Chinese Certified Public Accountants' Auditing Standards. Those standards require us to comply with professional ethics, and to plan and perform our audit so as to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures of the financial statements. The selective audit procedures depend on auditor's judgment, including the evaluation of the risk of material misstatement of the consolidated financial statements due to frauds or errors. When evaluating risk, we consider internal control related to financial statements, in order to design auditing procedures, but not for the purpose of expressing an opinion on the internal control's effectiveness. An audit also includes assessing the appropriateness of the accounting policies adopted and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that we have obtained sufficient and appropriate audit evidences to provide a basis for our audit opinion.

III. Auditing opinion

In our opinion, the Company's financial statements have been prepared in accordance with the Enterprises Accounting Standards and Enterprises Accounting System, and they fairly present, in all material respects, the financial position of the Company as of December 31, 2009, and its operation results and cash flows for the year ended.

ShineWing Certified Public Accountants Co., Ltd.
Beijing, P.R.C

China Accountant: He Jun
China Accountant: Chen Fangfang

March 15, 2010

Consolidated Balance Sheet

Prepared by Hefei Meiling Co., Ltd.

December 31, 2009

Unit: RMB

Items	Notes	Balance at year-end	Balance at year-begin
Current assets:			
Monetary funds	VIII.1	747,572,445.88	409,853,966.49
Settlement provisions		-	-
Capital lent		-	-
Transaction finance asset		-	-
Notes receivable	VIII.2	892,748,372.08	182,491,232.52
Accounts receivable	VIII.3	317,114,097.62	308,027,072.54
Accounts paid in advance	VIII.4	109,721,377.94	135,699,384.66
Insurance receivable		-	-
Reinsurance receivables		-	-
Contract reserve of reinsurance receivable		-	-
Interest receivable		-	-
Dividend receivable		-	-
Other receivables	VIII.5	18,325,650.19	241,673,638.02
Purchase restituted finance asset		-	-
Inventories	VIII.6	1,052,702,140.26	584,350,700.91
Non-current asset due within one year		-	-
Other current assets		-	-
Total current assets		3,138,184,083.97	1,862,095,995.14
Non-current assets:			
Granted loans and advances		-	-
Finance asset available for sales	VIII.7	134,011,570.00	166,220,000.00
Held-to-maturity securities		-	-
Long-term account receivable		-	-
Long-term equity investment	VIII.8	37,028,371.63	32,058,769.12
Investment property	VIII.9	14,423,395.21	8,777,429.95
Fixed assets	VIII.10	802,671,721.93	787,996,511.06
Construction in progress	VIII.11	8,930,438.02	60,718,603.10
Engineering material		-	-
Disposal of fixed asset	VIII.12	-	358,013,123.80
Productive biological asset		-	-
Oil and gas asset		-	-
Intangible assets	VIII.13	603,705,411.46	606,926,037.85
Expense on Research and Development	VIII.14	15,413,612.97	-
Goodwill		-	-
Long-term expenses to be apportioned	VIII.15	600,000.00	-
Deferred income tax asset	VIII.16	31,965,504.19	13,715,955.21
Other non-current asset		-	-
Total non-current asset		1,648,750,025.41	2,034,426,430.09
Total assets		4,786,934,109.38	3,896,522,425.23

Legal Representative: Zhao Yong

Person in Charge of Accounting Works: Yu Wanchun

Person in Charge of Accounting Organ: Liu Bimin

Consolidated Balance Sheet (Con.)

Prepared by Hefei Meiling Co., Ltd.

December 31, 2009

Unit: RMB

Items	Notes	Amount in year-end	Amount in year-begin
Current liabilities:			
Short-term loans	VIII.18	184,000,000.00	336,427,193.11
Loan from central bank		-	-
Absorbing deposit and interbank deposit		-	-
Capital borrowed		-	-
Transaction financial liabilities		-	-
Notes payable	VIII.19	404,691,072.19	628,470,136.94
Accounts payable	VIII.20	1,157,326,858.96	695,846,531.11
Accounts received in advance	VIII.21	718,021,736.69	333,781,822.55
Selling financial asset of repurchase		-	-
Commission charge and commission payable		-	-
Wage payable	VIII.22	70,861,486.07	31,910,378.03
Taxes payable	VIII.23	65,662,600.35	12,226,399.29
Interest payable		-	-
Dividend payable	VIII.24	1,217,175.42	1,387,950.42
Other accounts payable	VIII.25	624,779,113.24	352,349,249.16
Reinsurance payables		-	-
Insurance contract reserve		-	-
Security trading of agency		-	-
Security sales of agency		-	-
Non-current liabilities due within 1 year	VIII.26	3,000,000.00	-
Other current liabilities	VIII.27	20,172,100.00	-
Total current liabilities		3,249,732,142.92	2,392,399,660.61
Non-current liabilities:			
Long-term loans	VIII.28	15,247,300.00	19,198,200.00
Bonds payable		-	-
Long-term account payable		-	-
Special accounts payable	VIII.29	34,223,417.47	-
Projected liabilities	VIII.30	90,868,730.51	1,650,759.86
Deferred income tax liabilities	VIII.16	19,037,964.60	22,002,000.00
Other non-current liabilities	VIII.31	28,257,754.52	-
Total non-current liabilities		187,635,167.10	42,850,959.86
Total liabilities		3,437,367,310.02	2,435,250,620.47
Shareholders' equity:			
Share capital	VIII.32	413,642,949.00	413,642,949.00
Capital public reserve	VIII.33	660,287,022.53	1,073,168,078.72
Less: Inventory shares		-	-
Reasonable reserve		-	-
Surplus public reserve	VIII.34	285,107,714.19	285,107,714.19
Provision of general risk		-	-
Retained profit	VIII.35	-34,609,778.15	-335,808,091.35
Balance difference of foreign currency translation		-	-
Total shareholder's equity attributable to parent Company		1,324,427,907.57	1,436,110,650.56
Minority interests	VIII.36	25,138,891.79	25,161,154.20

Total shareholder's equity		1,349,566,799.36	1,461,271,804.76
Total liabilities and shareholder's equity		4,786,934,109.38	3,896,522,425.23

Legal Representative: Zhao Yong

Person in Charge of Accounting Works: Yu Wanchun

Person in Charge of Accounting Organ: Liu Bimin

Balance Sheet of Parent Company

Prepared by Hefei Meiling Co., Ltd.

December 31, 2009

Unit: RMB

Items	Notes	Balance at year-end	Balance at year-begin
Current assets:			
Monetary funds		579,447,940.41	306,127,639.14
Transaction finance asset		-	-
Notes receivable		842,917,722.71	176,893,815.75
Accounts receivable	XV.1	201,332,264.42	283,645,063.75
Accounts paid in advance		134,789,646.12	87,116,862.99
Interest receivable		-	-
Dividend receivable		-	-
Other receivables	XV.2	13,900,993.24	39,517,439.05
Inventories		806,388,957.97	522,957,717.07
Non-current asset due within one year		-	-
Other current assets		-	-
Total current assets		2,578,777,524.87	1,416,258,537.75
Non-current assets:			
Finance asset available for sales		134,011,570.00	166,220,000.00
Held-to-maturity securities		-	-
Long-term account receivable		-	-
Long-term equity investment	XV.3	557,185,228.79	139,199,441.99
Investment property		10,136,925.05	4,082,185.28
Fixed assets		592,203,832.78	482,330,683.29
Construction in progress		19,652,067.31	60,139,261.97
Engineering material		-	-
Disposal of fixed asset		-	358,013,123.80
Productive biological asset		-	-
Oil and gas asset		-	-
Intangible assets		550,011,819.36	574,503,366.14
Expense on Research and Development		-	-
Goodwill		-	-
Long-term expenses to be apportioned		-	-
Deferred income tax asset		30,546,536.79	12,501,079.42

Other non-current asset		-	-
Total non-current asset		1,893,747,980.08	1,796,989,141.89
Total assets		4,472,525,504.95	3,213,247,679.64

Legal Representative: Zhao Yong

Person in Charge of Accounting Works: Yu Wanchun

Person in Charge of Accounting Organ: Liu Bimin

Balance Sheet of Parent Company (Con.)

Prepared by Hefei Meiling Co., Ltd.

December 31, 2009

Unit: RMB

Items	Notes	Balance at year-end	Balance at year-begin
Current liabilities:			
Short-term loans		184,000,000.00	306,427,193.11
Transaction financial liabilities		-	-
Notes payable		362,864,725.10	582,245,703.75
Accounts payable		963,182,987.91	657,248,796.03
Accounts received in advance		703,731,317.30	318,498,724.58
Wage payable		58,091,040.19	26,863,214.71
Taxes payable		60,760,397.19	15,213,301.43
Interest payable		-	-
Dividend payable		1,217,175.42	1,387,950.42
Other accounts payable		598,352,508.10	197,903,731.23
Non-current liabilities due within 1 year		-	-
Other current liabilities		20,172,100.00	-
Total current liabilities		2,952,372,251.21	2,105,788,615.26
Non-current liabilities:			
Long-term loans		15,247,300.00	16,198,200.00
Bonds payable		-	-
Long-term account payable		-	-
Special accounts payable		34,223,417.47	-
Projected liabilities		90,868,730.51	1,650,759.86
Deferred income tax liabilities		19,037,964.60	22,002,000.00
Other non-current liabilities		28,257,754.52	-
Total non-current liabilities		187,635,167.10	39,850,959.86
Total liabilities		3,140,007,418.31	2,145,639,575.12
Shareholders' equity:			
Share capital		413,642,949.00	413,642,949.00
Capital public reserve		672,197,136.09	701,168,751.59
Less: Inventory shares		-	-
Reasonable reserve		-	-

Surplus public reserve		284,889,548.51	284,889,548.51
Provision of general risk		-	-
Retained profit		-38,211,546.96	-332,093,144.58
Balance difference of foreign currency translation		1,332,518,086.64	1,067,608,104.52
Total shareholder's equity attributable to parent Company		4,472,525,504.95	3,213,247,679.64

Legal Representative: Zhao Yong

Person in Charge of Accounting Works: Yu Wanchun

Person in Charge of Accounting Organ: Liu Bimin

Consolidated Profit Statement

Prepared by Hefei Meiling Co., Ltd.

2009

Unit: RMB

Items	Notes	Amount in this year	Amount in last year
I. Total operating income		6,324,181,070.70	4,813,665,574.77
Including: Operating income	VIII.37	6,324,181,070.70	4,813,665,574.77
Interest income		-	-
Insurance gained		-	-
Commission charge and commission income		-	-
II. Total operating cost		6,235,210,555.41	4,792,471,688.79
Including: Operating cost	VIII.37	4,576,188,841.50	3,804,058,177.31
Interest expense		-	-
Commission charge and commission expense		-	-
Cash surrender value		-	-
Net amount of expense of compensation		-	-
Net amount of withdrawal of insurance contract reserve		-	-
Bonus expense of guarantee slip		-	-
Reinsurance expense		-	-
Operating tax and extras	VIII.38	30,437,451.89	18,598,169.94
Sales expenses	VIII.39	1,391,701,601.23	742,656,131.24
Administration expenses	VIII.40	184,576,986.43	156,064,002.16
Financial expenses	VIII.41	19,510,257.18	49,205,138.49
Losses of devaluation of asset	VIII.42	32,795,417.18	21,890,069.65
Add: Changing income of fair value(Loss is listed with "-")		-	-
Investment income (Loss is listed with "-")	VIII.43	214,208,073.52	2,583,543.00
Including: Investment income on affiliated Company and joint venture		1,369,602.51	675,807.92
Exchange income (Loss is listed with "-")		-	-
III. Operating profit (Loss is listed with "-")		303,178,588.81	23,777,428.98
Add: Non-operating income	VIII.44	57,025,199.59	11,193,908.88
Less: Non-operating expense	VIII.45	2,315,970.08	2,703,980.07
Including: Disposal loss of non-current asset		1,350,293.88	252,325.63
IV. Total Profit (Loss is listed with "-")		357,887,818.32	32,267,357.79
Less: Income tax	VIII.46	56,711,767.53	4,744,632.76

V. Net profit (Net loss is listed with “-”)		301,176,050.79	27,522,725.03
Net profit attributable to owner’s equity of parent Company		301,198,313.20	27,376,945.70
Minority shareholders’ gains and losses		-22,262.41	145,779.33
VI. Earnings per share			
i. Basic earnings per share	VIII.47	0.7282	0.0662
ii. Diluted earnings per share	VIII.47	0.7282	0.0662
VII. Other consolidated income		-16,796,200.66	124,678,000.00
VIII. Total consolidated income	VIII.48	284,379,850.13	152,200,725.03
Total consolidated income attributable to owners of parent Company		284,402,112.54	152,054,945.70
Total consolidated income attributable to minority shareholders		-22,262.41	145,779.33

Net profit realized before be merged by the merged party, enterprise merger under the common control in this year: 8,071,697.32 62,835.98

Legal Representative: Zhao Yong

Person in Charge of Accounting Works: Yu Wanchun

Person in Charge of Accounting Organ: Liu Bimin

Profit Statement of Parent Company

Prepared by Hefei Meiling Co., Ltd.

2009

Unit: RMB

Items	Notes	Amount in this year	Amount in last year
I. Sales Income	XV.4	5,198,805,871.00	4,517,673,404.69
Less: Business costs	XV.4	3,652,102,479.72	3,563,641,648.93
Business taxes and surtax		28,509,246.48	16,027,793.90
Sales expenses		1,206,453,966.89	721,466,853.70
Administration expenses		134,920,076.52	121,062,058.64
Financial expenses		22,584,633.54	48,051,731.87
Losses of devaluation of asset		28,076,255.77	21,028,275.95
Add: Changing income of fair value(Loss is listed with “-”)		-	-
Investment income (Loss is listed with “-”)	XV.5	207,433,280.80	2,225,670.35
Including: Investment income on affiliated Company and joint venture		1,369,602.51	675,807.92
II. Operating profit (Loss is listed with “-”)		333,592,492.88	28,620,712.05
Add: Non-operating income		13,982,841.30	7,688,979.03
Less: Non-operating expense		1,789,312.26	2,619,247.67
Including: Disposal loss of non-current asset		1,260,942.65	219,178.26

III. Total Profit (Loss is listed with "-")		345,786,021.92	33,690,443.41
Less: Income tax		51,904,424.30	3,886,368.62
IV. Net profit (Net loss is listed with "-")		293,881,597.62	29,804,074.79
V. Earnings per share			
i. Basic earnings per share		0.7105	0.0721
ii. Diluted earnings per share		0.7105	0.0721
VI. Other consolidated income		-16,796,200.66	124,678,000.00
VII. Total consolidated income		277,085,396.96	154,482,074.79

Legal Representative: Zhao Yong

Person in Charge of Accounting Works: Yu Wanchun

Person in Charge of Accounting Organ: Liu Bimin

Consolidated Cash Flow Statement

Prepared by Hefei Meiling Co., Ltd.

2009

Unit: RMB

Items	Notes	Amount in this year	Amount in last year
I. Cash flows arising from operating activities:			
Cash received from selling commodities and providing labor services		3,459,563,365.88	2,841,320,779.28
Net increase of customer deposit and interbank deposit		-	-
Net increase of loan from central bank		-	-
Net increase of capital borrowed from other financial institution		-	-
Cash received from original insurance contract fee		-	-
Net cash received from reinsurance business		-	-
Insured savings and net increase of investment		-	-
Net increase of disposal of transaction financial asset		-	-
Cash received from interest, commission charge and commission		-	-
Net increase of capital borrowed		-	-
Net increase of returned business capital		-	-
Write-back of tax received		24,094,259.07	60,020,992.82
Other cash received concerning operating activities	VIII.49(1)1	137,179,519.57	49,272,843.29
Subtotal of cash inflow arising from operating activities		3,620,837,144.52	2,950,614,615.39
Cash paid for purchasing commodities and receiving labor service		2,372,832,370.37	1,891,074,415.82
Net increase of customer loans and advances		-	-
Net increase of deposits in central bank and interbank		-	-
Cash paid for original insurance contract compensation		-	-
Cash paid for interest, commission charge and commission		-	-
Cash paid for bonus of guarantee slip		-	-
Cash paid to/for staff and workers		368,772,487.53	316,033,733.27
Taxes paid		312,767,302.67	110,381,860.37

Other cash paid concerning operating activities	VIII.49(1)2	573,854,783.16	397,318,579.29
Subtotal of cash outflow arising from operating activities		3,628,226,943.73	2,714,808,588.75
Net cash flows arising from operating activities		-7,389,799.21	235,806,026.64
II. Cash flows arising from investing activities:			
Cash received from recovering investment		12,448,193.94	-
Cash received from investment income		212,838,471.01	2,134,902.56
Net cash received from disposal of fixed, intangible and other long-term assets		418,531,374.81	36,431,136.70
Net cash received from disposal of subsidiaries and other units		-	-
Other cash received concerning investing activities	VIII.49(1)3	211,111,997.42	8,371,002.47
Subtotal of cash inflow from investing activities		854,930,037.18	46,937,041.73
Cash paid for purchasing fixed, intangible and other long-term assets		199,715,648.08	139,110,761.01
Cash paid for investment		122,140,272.00	20,367,400.00
Net increase of mortgaged loans		-	-
Net cash received from subsidiaries and other units		-	-
Other cash paid concerning investing activities	VIII.49(1)4	-	201,659,137.00
Subtotal of cash outflow from investing activities		321,855,920.08	361,137,298.01
Net cash flows arising from investing activities		533,074,117.10	-314,200,256.28
III. Cash flows arising from financing activities			
Cash received from absorbing investment		-	212,088,900.00
Including: Cash received from absorbing minority shareholders' investment by subsidiaries		-	-
Cash received from loans		314,613,741.28	381,298,583.65
Cash received from issuing bonds		-	-
Other cash received concerning financing activities	VIII.49(1)5	-	-
Subtotal of cash inflow from financing activities		314,613,741.28	593,387,483.65
Cash paid for settling debts		472,098,783.72	478,755,855.06
Cash paid for dividend and profit distributing or interest paying		28,429,372.28	30,570,565.50
Including: Dividend and profit of minority shareholder paid by subsidiaries		-	-
Other cash paid concerning financing activities	VIII.49(1)6	1,536,980.68	1,959,929.83
Subtotal of cash outflow from financing activities		502,065,136.68	511,286,350.39
Net cash flows arising from financing activities		-187,451,395.40	82,101,133.26
IV. Influence on cash due to fluctuation in exchange rate		-514,443.10	-9,903,080.80
V. Net increase of cash and cash equivalents	VIII.49(2)	337,718,479.39	-6,196,177.18
Add: Balance of cash and cash equivalents at the period -begin		409,853,966.49	416,050,143.67
VI. Balance of cash and cash equivalents at the period -end	VIII.49(4)	747,572,445.88	409,853,966.49

Legal Representative: Zhao Yong

Person in Charge of Accounting Works: Yu Wanchun

Person in Charge of Accounting Organ: Liu Bimin

Cash Flow Statement of Parent Company

Prepared by Hefei Meiling Co., Ltd.

2009

Unit: RMB

Items	Notes	Amount in this year	Amount in last year
I. Cash flows arising from operating activities:			
Cash received from selling commodities and providing labor services		2,688,754,534.45	2,635,493,487.82
Write-back of tax received		4,947,441.88	30,174,087.64

Other cash received concerning operating activities		55,915,056.26	35,569,192.59
Subtotal of cash inflow arising from operating activities		2,749,617,032.59	2,701,236,768.05
Cash paid for purchasing commodities and receiving labor service		1,661,649,580.69	1,800,364,298.12
Cash paid to/for staff and workers		266,665,260.24	274,726,532.67
Taxes paid		293,548,095.25	93,293,559.07
Other cash paid concerning operating activities		434,383,959.03	368,853,765.76
Subtotal of cash outflow arising from operating activities		2,656,246,895.21	2,537,238,155.62
Net cash flows arising from operating activities		93,370,137.38	163,998,612.43
II. Cash flows arising from investing activities:			
Cash received from recovering investment		12,448,193.94	17,642,127.35
Cash received from investment income		212,838,471.01	2,134,902.56
Net cash received from disposal of fixed, intangible and other long-term assets		468,581,527.64	36,431,136.70
Net cash received from disposal of subsidiaries and other units		2,018,786.45	-
Other cash received concerning investing activities		2,963,388.82	3,162,086.53
Subtotal of cash inflow from investing activities		698,850,367.86	59,370,253.14
Cash paid for purchasing fixed, intangible and other long-term assets		188,623,366.82	75,143,931.87
Cash paid for investment		173,440,272.00	47,367,400.00
Net cash received from subsidiaries and other units		-	-
Other cash paid concerning investing activities		-	-
Subtotal of cash outflow from investing activities		362,063,638.82	122,511,331.87
Net cash flows arising from investing activities		336,786,729.04	-63,141,078.73
III. Cash flows arising from financing activities			
Cash received from absorbing investment		-	-
Cash received from loans		-	306,748,583.65
Other cash received concerning financing activities		314,613,741.28	-
Subtotal of cash inflow from financing activities		314,613,741.28	306,748,583.65
Cash paid for settling debts		442,098,783.72	418,755,855.06
Cash paid for dividend and profit distributing or interest paying		27,326,224.78	28,576,230.50
Other cash paid concerning financing activities		1,536,980.68	-
Subtotal of cash outflow from financing activities		470,961,989.18	447,332,085.56
Net cash flows arising from financing activities		-156,348,247.90	-140,583,501.91
IV. Influence on cash due to fluctuation in exchange rate		-488,317.25	-9,085,458.77
V. Net increase of cash and cash equivalents		273,320,301.27	-48,811,426.98
Add: Balance of cash and cash equivalents at the period -begin		306,127,639.14	354,939,066.12
VI. Balance of cash and cash equivalents at the period -end		579,447,940.41	306,127,639.14

Legal Representative: Zhao Yong

Person in Charge of Accounting Works: Yu Wanchun

Person in Charge of Accounting Organ: Liu Bimin

Consolidated Statement on Changes of Owners' Equity

Prepared by Hefei Meiling Co., Ltd.

2009

Unit: RMB

Items	Amount in this year								Minority's equity	Total shareholders' equity
	Shareholders' equity attributable to the parent Company									
	Paid-up capital (Share capital)	Capital reserves	Less: Treasury Stock	Reasonable reserve	Surplus reserves	General risk provision	Retained profit	Others		
I. Balance at the end of the last year	413,642,949.00	1,073,168,078.72	-	-	285,107,714.19	-	-335,808,091.35	-	25,161,154.20	1,461,271,804.76
Add: Changes of accounting policy	-	-	-	-	-	-	-	-	-	-
Error correction of the last period	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of this year	413,642,949.00	1,073,168,078.72	-	-	285,107,714.19	-	-335,808,091.35	-	25,161,154.20	1,461,271,804.76
III. Increase/ Decrease in this year (Decrease is listed with "-")	-	-412,881,056.19	-	-	-	-	301,198,313.20	-	-22,262.41	-111,705,005.40
(I) Net profit	-	-	-	-	-	-	301,198,313.20	-	-22,262.41	301,176,050.79
(II) Other consolidated income	-	-16,796,200.66	-	-	-	-	-	-	-	-16,796,200.66
Subtotal of (I) and (II)	-	-16,796,200.66	-	-	-	-	301,198,313.20	-	-22,262.41	284,379,850.13
(III) Shareholders' devoted and decreased capital	-	-396,084,855.53	-	-	-	-	-	-	-	-396,084,855.53
1. Shareholders' devoted capital	-	-	-	-	-	-	-	-	-	-
2. Amount calculated into shareholders' equity paid in shares	-	-	-	-	-	-	-	-	-	-
3. Others	-	-396,084,855.53	-	-	-	-	-	-	-	-396,084,855.53
(IV) Profit distribution	-	-	-	-	-	-	-	-	-	-
1. Withdrawal of surplus reserves	-	-	-	-	-	-	-	-	-	-
2. Withdrawal of general risk provisions	-	-	-	-	-	-	-	-	-	-
3. Distribution for shareholders	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-
(V) Carrying forward internal shareholders' equity	-	-	-	-	-	-	-	-	-	-
1. Capital reserves conversed to capital (share capital)	-	-	-	-	-	-	-	-	-	-
2. Surplus reserves conversed to capital (share capital)	-	-	-	-	-	-	-	-	-	-
3. Remedying loss with surplus reserve	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-
(VI) Reasonable reserve	-	-	-	-	-	-	-	-	-	-
1. Withdrawal in the report period	-	-	-	-	-	-	-	-	-	-
2. Usage in the report period	-	-	-	-	-	-	-	-	-	-
IV. Balance at the end of the report year	413,642,949.00	660,287,022.53	-	-	285,107,714.19	-	-34,609,778.15	-	25,138,891.79	1,349,566,799.36

Legal Representative: Zhao Yong

Person in Charge of Accounting Works: Yu Wanchun

Person in Charge of Accounting Organ: Liu Bimin

Consolidated Statement on Changes of Owners' Equity (Con.)

Prepared by Hefei Meiling Co., Ltd.

2009

Unit: RMB

Items	Amount in last year									Total shareholders' equity
	Shareholders' equity attributable to the parent Company								Minority's equity	
	Paid-up capital (Share capital)	Capital reserves	Less: Treasury Stock	Reasonable reserve	Surplus reserves	General risk provision	Retained profit	Others		
I. Balance at the end of the last year	413,642,949.00	596,857,478.72	-	-	284,889,548.51	-	-365,148,528.22	-	18,732,898.38	948,974,346.39
Add: Changes of accounting policy	-	-	-	-	-	-	-	-	-	-
Error correction of the last period	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of this year	413,642,949.00	596,857,478.72	-	-	284,889,548.51	-	-365,148,528.22	-	18,732,898.38	948,974,346.39
III. Increase/ Decrease in this year (Decrease is listed with "-")	-	476,310,600.00	-	-	218,165.68	-	29,340,436.87	-	6,428,255.82	512,297,458.37
(I) Net profit	-	-	-	-	-	-	27,376,945.70	-	145,779.33	27,522,725.03
(II) Other consolidated income	-	124,678,000.00	-	-	-	-	-	-	-	124,678,000.00
Subtotal of (I) and (II)	-	124,678,000.00	-	-	-	-	27,376,945.70	-	145,779.33	152,200,725.03
(III) Shareholders' devoted and decreased capital	-	351,632,600.00	-	-	218,165.68	-	1,963,491.17	-	6,282,476.49	360,096,733.34
1. Shareholders' devoted capital	-	-	-	-	-	-	-	-	-	-
2. Amount calculated into shareholders' equity paid in shares	-	-	-	-	-	-	-	-	-	-
3. Others	-	351,632,600.00	-	-	218,165.68	-	1,963,491.17	-	6,282,476.49	360,096,733.34
(IV) Profit distribution	-	-	-	-	-	-	-	-	-	-
1. Withdrawal of surplus reserves	-	-	-	-	-	-	-	-	-	-
2. Withdrawal of general risk provisions	-	-	-	-	-	-	-	-	-	-
3. Distribution for shareholders	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-
(V) Carrying forward internal shareholders' equity	-	-	-	-	-	-	-	-	-	-
1. Capital reserves converted to capital (share capital)	-	-	-	-	-	-	-	-	-	-
2. Surplus reserves converted to capital (share capital)	-	-	-	-	-	-	-	-	-	-
3. Remedying loss with surplus reserve	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-
(VI) Reasonable reserve	-	-	-	-	-	-	-	-	-	-
1. Withdrawal in the report period	-	-	-	-	-	-	-	-	-	-
2. Usage in the report period	-	-	-	-	-	-	-	-	-	-
IV. Balance at the end of the report year	413,642,949.00	1,073,168,078.72	-	-	285,107,714.19	-	-335,808,091.35	-	25,161,154.20	1,461,271,804.76

Legal Representative: Zhao Yong

Person in Charge of Accounting Works: Yu Wanchun

Person in Charge of Accounting Organ: Liu Bimin

Statement on Changes of Owners' Equity of Parent Company

Prepared by Hefei Meiling Co., Ltd.

2009

Unit: RMB

Items	Amount in this year							
	Share capital	Capital reserves	Less: Treasury Stock	Reasonable reserve	Surplus reserves	General risk provision	Retained profit	Total shareholders' equity
I. Balance at the end of the last year	413,642,949.00	701,168,751.59	-	-	284,889,548.51	-	-332,093,144.59	1,067,608,104.52
Add: Changes of accounting policy	-	-	-	-	-	-	-	-
Error correction of the last period	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
II. Balance at the beginning of this year	413,642,949.00	701,168,751.59	-	-	284,889,548.51	-	-332,093,144.59	1,067,608,104.52
III. Increase/ Decrease in this year (Decrease is listed with "-")	-	-28,971,615.50	-	-	-	-	293,881,597.62	264,909,982.12
(I) Net profit	-	-	-	-	-	-	293,881,597.62	293,881,597.62
(II) Other consolidated income	-	-16,796,200.66	-	-	-	-	-	-16,796,200.66
Subtotal of (I) and (II)	-	-16,796,200.66	-	-	-	-	293,881,597.62	277,085,396.96
(III) Shareholders' devoted and decreased capital	-	-12,175,414.84	-	-	-	-	-	-12,175,414.84
1. Shareholders' devoted capital	-	-	-	-	-	-	-	-
2. Amount calculated into shareholders' equity paid in shares	-	-	-	-	-	-	-	-
3. Others	-	-12,175,414.84	-	-	-	-	-	-12,175,414.84
(IV) Profit distribution	-	-	-	-	-	-	-	-
1. Withdrawal of surplus reserves	-	-	-	-	-	-	-	-
2. Withdrawal of general risk provisions	-	-	-	-	-	-	-	-
3. Distribution for shareholders	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-
(V) Carrying forward internal shareholders' equity	-	-	-	-	-	-	-	-
1. Capital reserves conversed to capital (share capital)	-	-	-	-	-	-	-	-
2. Surplus reserves conversed to capital (share capital)	-	-	-	-	-	-	-	-
3. Remedying loss with surplus reserve	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-
(VI) Reasonable reserve	-	-	-	-	-	-	-	-
1. Withdrawal in the report period	-	-	-	-	-	-	-	-
2. Usage in the report period	-	-	-	-	-	-	-	-
IV. Balance at the end of the report year	413,642,949.00	672,197,136.09	-	-	284,889,548.51	-	-38,211,546.97	1,332,518,086.64

Legal Representative: Zhao Yong

Person in Charge of Accounting Works: Yu Wanchun

Person in Charge of Accounting Organ: Liu Bimin

Statement on Changes of Owners' Equity of Parent Company (Con.)

Prepared by Hefei Meiling Co., Ltd.

2009

Unit: RMB

Item	Amount in last year							
	Share capital	Capital reserves	Less: Treasury Stock	Reasonable reserve	Surplus reserves	General risk provision	Retained profit	Total shareholders' equity
I. Balance at the end of the last year	413,642,949.00	578,717,478.72	-	-	284,889,548.51	-	-361,897,219.37	915,352,756.86
Add: Changes of accounting policy	-	-	-	-	-	-	-	-
Error correction of the last period	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
II. Balance at the beginning of this year	413,642,949.00	578,717,478.72	-	-	284,889,548.51	-	-361,897,219.37	915,352,756.86
III. Increase/ Decrease in this year (Decrease is listed with "-")	-	122,451,272.87	-	-	-	-	29,804,074.79	152,255,347.66
(I) Net profit	-	-	-	-	-	-	29,804,074.79	29,804,074.79
(II) Other consolidated income	-	124,678,000.00	-	-	-	-	-	124,678,000.00
Subtotal of (I) and (II)	-	124,678,000.00	-	-	-	-	29,804,074.79	124,678,000.00
(III) Shareholders' devoted and decreased capital	-	-2,226,727.13	-	-	-	-	-	-2,226,727.13
1. Shareholders' devoted capital	-	-	-	-	-	-	-	-
2. Amount calculated into shareholders' equity paid in shares	-	-	-	-	-	-	-	-
3. Others	-	-2,226,727.13	-	-	-	-	-	-2,226,727.13
(IV) Profit distribution	-	-	-	-	-	-	-	-
1. Withdrawal of surplus reserves	-	-	-	-	-	-	-	-
2. Withdrawal of general risk provisions	-	-	-	-	-	-	-	-
3. Distribution for shareholders	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-
(V) Carrying forward internal shareholders' equity	-	-	-	-	-	-	-	-
1. Capital reserves converted to capital (share capital)	-	-	-	-	-	-	-	-
2. Surplus reserves converted to capital (share capital)	-	-	-	-	-	-	-	-
3. Remedying loss with surplus reserve	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-
(VI) Reasonable reserve	-	-	-	-	-	-	-	-
1. Withdrawal in the report period	-	-	-	-	-	-	-	-
2. Usage in the report period	-	-	-	-	-	-	-	-
IV. Balance at the end of the report year	413,642,949.00	701,168,751.59	-	-	284,889,548.51	-	-332,093,144.59	1,067,608,104.52

Legal Representative: Zhao Yong

Person in Charge of Accounting Works: Yu Wanchun

Person in Charge of Accounting Organ: Liu Bimin

Annotations of Financial Statements of Hefei Meiling Co., Ltd.

From Jan. 1 to Dec. 31, 2009

I. Basic information of the Company

1. Company profile

Hefei Meiling Co., Ltd (hereinafter referred to as “this Company”) is an incorporated Company established and reorganized by Hefei Meiling Refrigerator General Factory and approved on June 12th 1992 through [WanTiGaiHanZi (1992) No.039] issued by original Mechanism Reform Committee of Anhui Province. On August 30th 1993, through Anhui Provincial Government [Wanzhenmin (1993) No.166] and reexamination of China Securities Regulatory Commission, the Company made first public issue for 30 million A shares and the Company was listed on Oct. 18th, 1993 in Shenzhen Stock Exchange. On August 13th, 1996, the Company was approved to issue 100 million B shares to investors abroad through [ZhengWeiFa(1996) No.26] issued by China Securities Regulatory Commission. The Company went public in Shenzhen Stock Exchange on August 28th, 1996.

On May 18, 2006, Hefei Meiling Group Holdings Company Limited (hereinafter abbreviated as Meiling Group) signed “Ownership of Meiling Co., Ltd. (also called as Company) Transfer Agreement” respectively with Sichuan Changhong Electric Co. Ltd (hereinafter abbreviated as Sichuan Changhong) and Sichuan Changhong Electronic Group Co., Ltd (hereinafter abbreviated as Changhong Group), Meiling Group transferred its holding 37,852,683 shares in 82,852,683 state-owned shares of the Company to Changhong Group, other 45,000,000 shares to Sichuan Changhong. On March 27, 2007, State-owned Assets Supervision & Administration Commission of the State Council approved such transfers with Document Guozi Chanquan No.253 in 2007 Reply on Matters of Hefei Meiling Group Holdings Company Limited Transferring Partial State-owned Ownership. On Aug 15, 2007, the above ownerships were transferred in Shenzhen Branch of China Securities Journal Depository and Clearing Corporation Limited. After these ownerships transferred, Sichuan Changhong holds Meiling Group’s 45,000,000 shares (sponsor state shares), or 10.88% of total shares of the Company, is the Company’s first largest shareholder; Meiling Group holds Meiling Group’s 40,543,692 shares (sponsor state shares), or 9.80% of total shares of the Company, is the Company’s second largest shareholder; Changhong Group holds Meiling Group’s 37,852,683 shares (sponsor state corporate shares), or 9.15% of total shares of the Company, is the Company’s third largest shareholder. On May 18, 2006, Changhong Group issued Promise Letter, in which, whereas Ownership of Meiling Co., Ltd. Transfer Agreement signed with Meiling Group and 37,852,683 state-owned shares of and held by Meiling Group transferred to Changhong Group, Changhong Group promises that the Company’s these shares will be consigned to be managed by Sichuan Changhong, and Sichuan Changhong will begin to exercise voting right of these shares since such voting right obtained. The promise period is from the signature of Promise Letter to the date any document in written re-issued by Changhong Group on such matter.

On July 31, 2007, State-owned Assets Supervision & Administration Commission of Anhui Provincial Government replied with Document Wan Guozi Chanquan Han No.309 in 2007 Reply on Related Matters of Share Merger Reform of Meiling Co., Ltd., agreed the Company’s ownership split reform plan. After ownership split reform completed, the total shares are still 413,642,949, including: 34,359,384 state shares held by Meiling Group, or 8.31% of total shares; 32,078,846 state corporate shares held by Changhong Group, or 7.76% of total shares; agreed that Meiling Group made prepayment for other non-tradable share holders who fails to exercise stock reform consideration, and when any such non-tradable shares shareholder circulates its non-tradable shares, it must return the prepayment made by Meiling Group, or

approved by Meiling Group in advance. On Aug. 27, 2007, according to Share Merger Reform plan approved by Shareholders' Meeting related to Share Merger Reform held on Aug 6, 2007, the Company made consideration that non-tradable share holders deliver 1.5 share to A share holders per 10 shares, and Meiling Group made prepayment 3,360,329 shares for some non-tradable share holders as consideration, and as registered in Shenzhen Branch of China Securities Depository and Clearing Corporation Limited after Share Merger Reform plan implemented, the structure of Company's shareholders is following:

Before Share Merger Reform			After Share Merger Reform		
Share nature or holding enterprise	Shares	Proportion %	Shares	Proportion %	Note
1. Non-tradable shares	149,012,606	36.02	126,283,055	30.53	Conditional tradable shares
(1) Sichuan Changhong Electric Co., Ltd.	45,000,000	10.88	38,135,951	9.22	State shares
(2) Hefei Meiling (Group) Holding Co., Ltd.	40,543,692	9.80	30,999,055	7.49	State shares
(3) Sichuan Changhong Electric Group Co., Ltd.	37,852,683	9.15	32,078,846	7.76	State-owned corporate shares
(4) Other corporate	25,616,231	6.19	25,069,203	6.06	
2. Tradable shares	264,630,343	63.98	287,359,894	69.47	Unconditional tradable shares
(1) Domestically listed RMB common shares	151,530,343	36.63	174,259,894	42.13	A shares
(2) Domestically listed Foreign shares	113,100,000	27.34	113,100,000	27.34	B shares
Subtotal of shares	413,642,949	100.00	413,642,949	100.00	

After approved by State-owned Assets Supervision & Administration Commission of Anhui Provincial Government replied with Document WGZCQHan (2007) No.309 Meiling Group made prepayment 3,360,329 shares as consideration for some non-tradable shareholders, and after the situations of the Company's structure of conditional tradable shares after consideration not prepaid and actually prepaid in Share Merger Reform as followings:

Shareholders of conditional tradable shares	After consideration not prepaid in Share Merger Reform		After consideration actually prepaid in Share Merger Reform		Difference	
	Shares	Proportion	Shares	Proportion	Shares	Proportion
Sichuan Changhong Electric Co., Ltd.	38,135,951	9.22	38,135,951	9.22	--	--
Hefei Meiling (Group) Holding Co., Ltd.	34,359,384	8.31	30,999,055	7.49	-3,360,329.00	-0.81%
Sichuan Changhong Electric Group Co., Ltd.	32,078,846	7.76	32,078,846	7.76	--	--
Other corporate	21,708,874	5.25	25,069,203	6.06	3,360,329.00	0.81%
Total of restricted circulating shares	126,283,055	30.54	126,283,055	30.53	--	--

On May 29, 2008, Hefei State-owned Assets Supervision & Administration Commission [HGZCQuan(2008)No.59] issued Notice On Meiling Dianqi Equities Held by Meiling Group without Payment, in which 34,359,384 state-owned shares of Meiling Group held by the

Company (including 3,360,329 state-owned shares paid instead by Meiling Group for other non-tradable shareholders in the Share Merger Reform) were transferred to Hefei Xingtai Holding Group Co., Ltd (hereinafter refers to Xingtai Holding Company) without payment. On June 2, 2008, Meiling Group Company and Xingtai Holding Company signed Agreement on Equity Transfer Without Payment, in which Meiling Group Company agreed to transfer its holding 30,999,100 state-owned shares (accounting for 7.49% in total shares) to Xingtai Holding Company without payment; in the Share Merger Reform Scheme of the Company, the equities, which were formed from the share merger reform consideration paid by Meiling Group Company for other non-tradable shareholders, were also undertaken by Xingtai Holding Company. For the aforesaid event, State-owned Assets Supervision and Administration Commission of the State Council approved on August 7, 2008 with Reply to Related Matters on Transfer Shares Held by Part of State-owned Shareholders of Hefei Meiling Co., Ltd. Without Payment [GZCQuan (2007) No. 752]. The aforesaid equity transfer have been accomplished procedure of transferring the ownership in Shenzhen Branch of China Securities Depository and Clearing Corporation Limited.

On Oct. 28, 2008, 12,543,559.00 tradable shares, the first batch of the Company with conditional subscription, were released conditional subscription, the share structure after releasing the conditional conditions were as follows:

Before release			After release		
Types	Amount(share)	Proportion in total shares(%)	Types	Amount(share)	Proportion in total shares(%)
I. Tradable shares with conditional subscription	126,350,310	30.55	I. Tradable shares with conditional subscription	113,806,751	27.52
Shares held by state	32,078,846	7.76	Shares held by state	32,078,846	7.76
State-owned legal	69,135,006	16.71	State-owned legal person's	72,382,652	17.50
Public legal	25,069,203	6.06	Public legal person's	9,277,998	2.24
Senior executives'	67,255	0.02	Senior executives' shares	67,255	0.02
Foreign legal	-	-	Foreign legal person's	-	-
II. Tradable shares with unconditional subscription	287,292,639	69.45	II. Tradable shares with unconditional subscription	299,836,198	72.48
A Public shares	174,192,639	42.11	A Public shares	186,736,198	45.14
B shares	113,100,000	27.34	B shares	113,100,000	27.34
H shares and others	-	-	H shares and others	-	-
III. Total shares	413,642,949	100.00	III. Total shares	413,642,949	100.00

on Oct. 29, 2008, Changhong Group Company signed Agreement on Equity Transfer of Hefei Meiling Co., Ltd with Sichuan Changhong, in which 32,078,846 tradable A-shares with conditional subscription of the Company (accounting for 7.76% in total shares) held by Changhong Group Company. On Dec. 23, 2008, for the aforesaid event, State-owned Assets Supervision and Administration Commission of the State Council approved with Reply to Related Matters on Transfer Shares Held by State-owned Shareholders of Hefei Meiling Co., Ltd. [GZCQuan (2008) No. 1413]. Ended Dec. 31, 2008, the aforesaid equity transfer have not been accomplished the procedure of transferring the ownership in Shenzhen Branch of China Securities Depository and Clearing Corporation Limited.

In year 2008, Sichuan Changhong increased in holding A tradable shares of the Company amounting to 4,277,155 shares through the trading system of Shenzhen Stock Exchange. increased in holding B shares of the Company amounting to 5,888,405 shares through the wholly-funded subsidiary Changhong(Hong Kong) Trade Co., Ltd. In year 2009, increasing in holding B shares of the Company amounting to 6,287,486 shares through Hongkong

Changhong. Ended Dec. 31, 2009, Sichuan Changhong and its accordant actioner Changhong(Hong Kong) Trade Co., Ltd totally held 91,642,767 shares of the Company which accounts for 22.16% in total shares; in which Sichuan Changhong directly held 74,491,952 A shares of the Company accounting for 18.01% in total shares, and Changhong(Hong Kong) Trade Co., Ltd held 17,150,815 B shares of the Company accounting for 4.15% in total shares of the Company.

Ended as Dec. 31, 2009, the Company's total shares are 413,642,949.00 which are all ordinary shares, including 300,542,949 A-shares with accounting for 72.66% in total shares and 113,100,000 B-shares with accounting for 27.34% in total shares. Among total shares, including 113,806,751 conditional tradable A- shares, 186,736,198 unrestricted A-shares and 113,100,000 unrestrcited B-shares. Legal Person Business License Registration number is 340000400001278; the business address is No. 2163, Lianhua Road, Ecomonic and Technological Development Zone, Hefei City; legal representative: Zhao Yong; business scope: manufacturing refrigerating appliance, air conditioner, washing machine, NC injection machine, computer water heater, plastic products, packing material and ornament, engaging in self-manufactured product and technique export business and import business of raw materials, machinery equipments, apparatus & instruments and technique import business, sales of general merchandise, transportation.

2. Business nature and main operations of the Company

Business nature	main operations
Light manufacture industry	The Company and its subsidiary are mainly engaged in production and sales of refrigerators and freezers at present.

3. Name of the parent Company and final actual controller of the group

Parent Company of the Company is Sichuan Changhong Electric Co., Ltd., ended Dec. 31, 2009, Sichuan Changhong and its accord actionist totally held 22.16% shares of the Company and is the first largest shareholder; Changhong Group held 552,019,534 shares of Sichuan Changhong accounting for 29.08% and is the first largest shareholder of Sichuan Changhong; State-owned Assets Supervision & Administration Commission of Mianyang Municipality held 100% equities of Changhong Group and is the final actual controller of the Company. Xingtai Holding Company held 27,730,974 shares of the Company accounting for 6.704% and is the second largest shareholder of the Company.

4. Basi organization frame of the Company

Shareholders' general meeting is the authority organization of the Company which perform its resolution rights on significant matters legally such as operation goal, financing, investment, and profit distribution, etc. The board is responsible fro the shareholders' general meeting and perform its decision-making rights on operations of the Company. The management team is responsible for organizing and implementing the resolutions formed in shareholders' general meeting and board, and presides the managements on production and operation of the Company. The functional management departments of the Company includes Operation and Management Department, Sales Department, Market Department, Materials Purchase Department, Academe, Technology Center, HR Department and Financial Management Department, etc.

II. Basis for preparation of financial statement

The financial statements of the Company were prepared in accordance with the actual transactions and proceedings, and relevant regulation of Accounting Standards for Enterprise released by the Ministry of Finance, and was on the basis of sustainable operation, and the accounting policy and estimation stated in the IV-"Significant Accounting Policy, Accounting Estimation and Preparation Method for Consolidated Financial Statement".

III. Statement on Observation of Accounting Standard for Enterprise

The financial statement prepared by the Company applies with the requirements of Accounting Standard for Enterprise, and reflects the financial condition, operational achievements and cash flow of the Company effectively and completely.

IV. Significant Accounting Policy, Accounting Estimation and Preparation Method for Consolidated Financial Statement**1. Accounting period**

The accounting period of the Company is the calendar date from 1 January to 31 December.

2. Standard currency for accounting

The Company takes RMB as the standard currency for accounting.

3. Accounting basis and pricing principle

The Company adopts accrual basis accounting as the accounting basis for accounting calculation. Except for the tradable financial assets and financial assets available-for-sale are measured with fair value, historical cost is used as pricing principle.

4. Cash and cash equivalent

The cash reflected in the cash flow statement of the Company represents the inventory cash and the deposit available for payment at any time. And the cash equivalent in the cash flow statement refers to the kind of investment with holding term not exceeding 3 months and strong flow ability. At the same time, the cash equivalent is easy to convert into cash with already-known amount and risk of value change is very small.

5. Foreign currency business and foreign currency financial statement conversion**(1) Foreign currency business**

As for the foreign currency business, the Company converts the foreign currency amount into RMB amount pursuant to the spot exchange rate as of the business day. As at the balance sheet date, monetary items expressed by foreign currency are converted into RMB pursuant to the spot exchange rate as of the balance sheet date. The conversion difference occurred is recorded into prevailing gains and losses, other than the disclosure which is made according to capitalization rules for the exchange difference occurred from the special foreign currency borrowings borrowed for constructing and producing the assets satisfying condition of capitalization. As for the foreign currency non-monetary items measured by fair value, the amount is then converted into RMB according to the spot exchange rate as of the confirmation day for fair value. And the conversion difference occurred during the procedure is recorded into prevailing gains and losses directly as change of fair value. As for the foreign currency non-monetary items measured by historical cost, conversion is made with the spot exchange rate as of the business day, with no change in RMB amount.

(2) Conversion of foreign currency financial statement

Spot exchange rate as of the balance sheet date is adopted for conversion of assets and liabilities in foreign currency balance sheet; as for the items in statement of owners' equity except for "Undistributed profit", conversion is made pursuant to the spot exchange rate of business day; income and expense items in income statement then are also converted pursuant to the spot exchange rate of transaction day. Difference arising from the aforementioned conversions shall be listed separately in items of owners' equity. Spot exchange rate as of the occurrence date of cash flow is adopted for conversion of foreign currency cash flow. The amount of cash affected by exchange rate movement shall be listed separately in cash flow statement.

6. Financial assets and financial liabilities

(1) Financial assets

In consideration of investment targets and economic essence, the Company groups the financial assets owned by it as four categories, namely financial assets measured by fair value and whose movement is recorded into prevailing gains and losses, held-to-maturity investment, loans and accounts receivables, as well as financial assets available-for-sale.

1) Financial assets measured by fair value and whose movement is recorded into prevailing gains and losses represent the financial assets which are held mainly for disposal in a short time and listed as tradable financial assets in the balance sheet.

2) Held-to-maturity investment represents the non-derivative financial assets which has fixed maturity day, fixed or available-for-confirmation recovered amount and for which the management has definite intention and ability to hold till maturity.

3) Loans and accounts receivables represent the non-derivative financial assets which have no quotation in an active market and fixed or available-for-confirmation recovered amount.

4) Financial assets available-for-sale include the non-derivative financial assets available-for-sale and the financial assets which have not been grouped as others at the initial confirmation.

Financial assets are initially recognized by fair value. For the financial assets which are measured by fair value and whose fair value change is recorded into prevailing gains and losses, the relevant transaction expense arising from acquisition is recorded into prevailing gains and losses directly, while the relevant transaction expense of other financial assets is recorded into initial recognition amount. When the right endowed by contract for certain financial asset to collect cash flow has ceased or all the risks and remuneration relating to ownership of the financial asset have almost transferred to transferee, recognition for this financial asset shall then be terminated.

Financial assets which are measured by fair value and whose fair value change is recorded into prevailing gains and losses, together with financial assets available-for-sale, would have follow-up measurement according to fair value; effective interest method is adopted for loans and accounts receivables and held-to-maturity investment which are shown in amortized cost.

Fair value change of financial assets which are measured by fair value and whose fair value change is recorded into prevailing gains and losses is recorded into gains and losses of fair value change; interests or cash dividend acquired from holding assets are recognized as investment income; when disposing such assets, the difference between their fair value and initial accounting amount is recognized as investment gains and losses. Meanwhile, gains and losses of fair value shall be adjusted.

Fair value change of financial assets available-for-sale is recorded into shareholders' equity; the interests calculated by effective interest rate method during the holding period are written into investment income; cash dividend obtained from investment by equity instrument available-for-sale is written into investment income at the time when the invested company declares to grant dividend; the difference between the payment received when disposal of such assets and carrying value after deducting the accumulative fair value change which is originally and directly recorded into shareholders' equity, is written into investment gains and losses.

Except for the financial assets which are measured by fair value and whose fair value change is recorded into prevailing gains and losses, the Company will make check in the carrying value of other financial assets as at the balance sheet date. If there is objective evidence proving impairment of certain financial assets, the Company then makes provision for impairment. If a comparatively great or non-temporary decline appears in fair value of financial assets available-for-sale, and then the accumulative losses formed from decline of fair value which is originally recorded into shareholders' equity shall be written into impairment losses.

(2) Financial liabilities

When making the initial recognition for financial liabilities, the Company classifies the financial liabilities into ones which are measured by fair value and whose change is recorded into prevailing gains and losses, and other financial liabilities.

Financial liabilities which are measured by fair value and whose change is recorded into prevailing gains and losses include tradable financial liabilities and financial liabilities which are measured by fair value and whose change is recorded into prevailing gains and losses at the initial recognition day. Follow-up measurements are made by fair value. Recorded into prevailing gains and losses are the gains or losses formed through fair value change and dividend and interest expenditure regarding to the financial liabilities.

As for other financial liabilities, effective interest rate method is adopted and follow-up measurement is made according to amortized cost.

(3) Method for recognition of fair value of financial assets and liabilities

For those financial instruments existing in active markets, market quotation in the active market is used to confirm their fair values. In active market, the Company takes the present bid price of already-held financial assets or plan-to-undertake financial liabilities as the fair values of relevant assets and liabilities; the Company takes the present offer price of plan-to-buy financial assets and –already-undertaken liabilities as the fair values of relevant assets and liabilities. In the situation that there are no present bid and offer price for financial assets and liabilities, while there is no material change in economic environment after the latest business day, then fair value of the financial assets and liabilities is to confirm pursuant to the latest business market quotation.

Fair value of the financial instruments which have no active market is confirmed by adoption of estimation technology. Estimation technology includes reference to the price applied by parties which know well situation and are willing to make deals in the latest market business, reference to the current fair value of other financial assets which are the same in principle, reference to discounted cash flow method and option pricing model.

7. Bad debt provision for accounts receivable

The Company views the following situation as standards for confirmation of bad debt losses of accounts receivable: revoke, bankruptcy, insolvency, serious insufficiency of cash flow of its debit units, or the debit units have to stop production due to serious natural disaster and are not able to settle the debts or in predicted time, or other definite evidence showing that the debt is not available to call back or the possibility of calling back is tiny.

Allowance method is adopted for the bad debt losses which are likely to happen. And bad debt provision is withdrawn according to combination of ageing analysis method and specific identification method as at the end of the period, and which is then recorded into current gains and losses. As for the accounts receivable which are not able to call back through definite evidence, they shall be treated as bad debt losses after approval of the Company according to regulated procedures to offset withdrawn bad debt provision.

The Company deems the accounts receivable which have single item of over RMB 20 million and other receivables which have single item of over RMB 1 million as significant accounts receivables. When there is any objective evidence showing that the Company is not able to take back all accounts receivable pursuant to their original terms, the Company will make separate impairment test to withdraw bad debt provision, according to the difference between their present value of future cash flow and their carrying amounts.

As for the accounts receivable which have no significant single items, the Company will categorise them, together with the accounts receivable which have not been impaired after separate test, into certain portfolio in consideration of credit risk characteristics. Based on the effective loss ratio of the accounts receivable portfolio of previous years which has common or similarity or similar credit risk characteristics, the Company confirms the ratio of bad debt provision provided for various portfolio of this year with consideration of the actual condition, pursuant to which, bad debt provision provided for this year is calculated. The Company categorises the accounts of accounts receivable which is not available to call back or the possibility is tiny represented by definite evidence into specified assets portfolio, providing bad debt provision in full.

Provision ratio of bad debt provision of accounts receivable classified according to ageing is as follows:

Ageing	Provision ratio (%)
Within 1 year	5%
1-2 years	15%
2-3 years	35%
3-4 years	55%
4-5 years	85%
Above 5 years	100%

Accounts receivable due from related parties belong to settlement accounts receivable due from transaction exchange of related parties, with risks controlled and no provision of bad debt provision; as for the accounts receivable due from employees for accounts paid in advance instead of employees and temporary borrowings of long-term equity investment, due to that these accounts would be deducted month by month from salary of employees or carried forward to long-term equity investment, no bad debt is going to form, thus no bad debt provision is required.

8. Inventories

Inventories of the Company principally include raw materials, stock goods, work in process, self-made semi-finished product, materials consigned to proceed, low-value consumption goods as well as amortized mould expense, etc.

Perpetual inventory system is applicable to inventories. For daily calculation, standard price is adopted for raw materials, low-value consumption goods and stock goods. Cost of the current month is adjusted by distribution price difference at the end of the month; materials in transit is accounted by its effective cost, and low-value consumption goods is carried forward at once when being applied for use.

Inventories as of period-end are being priced according to the lower of cost and net realizable value. Inventories depreciation reserve is provided for the uncollectible cost of inventories resulting from damage of inventories, or that all or part inventories are out of time, or that sales price is lower than cost.

As for the inventories depreciation reserve of stock goods and batches of raw materials, it is

provided according to the difference between the cost of single inventory item and its net realizable value; as for other assistant raw materials with large quantity and low price, the reserve is provided according to categories.

As for the commodities inventories which are available for direct sale such as stock goods, work in process and materials used for sales, their net realizable value is confirmed by difference between the estimated sale price less the estimated sales expense and relevant taxation; as for the material inventories held for production, their net realizable value is confirmed by difference between the estimated sale price of the finished product produced with these materials less the cost estimated to occur till the completion of production, estimated sales expense and relevant taxation.

Calculation method for mould expense: when occurred, the expense is calculated as amortised expense at effective cost; when utilized, the expense is fully amortized within a year by units-of-production method. For those which are less of one year, calculation is made according to the UOP method of effective amortised expense; and for those which are over one year, the expense is transferred to current expense at expiration of one year.

9. Long-term equity investment

Long-term equity investment mainly includes the equity investment which entitles the Company to conduct control, common control or significant influence over the invested units, and the equity investment which couldn't entitle the Company to conduct control, common control or significant influence over the invested units and which have no quotation price in active market and whose fair value could not be able to measured surely.

Common control refers to the control jointly enjoyed upon certain economic activity according to regulations of contract. The reference to confirm a common control mainly refers to that any single party of a joint-venture entity has no possibility to individually control the production operation of the joint-venture; any decision relating to basic operation activity of joint-venture entity all requires unanimous agreement from each party.

Significant influence equals to that investor has right to participate in making decision for finance and operational strategy of invested unit, while it has no right to control or jointly control with other parties upon formation of these strategies. As long as the Company directly or indirectly holds through its subsidiaries over 20% but less than 50% voting shares of the invested unit, then it could be called a significant influence. However, if there is obvious evidence showing that the Company is not qualified in participating in making production and operation decisions of the invested one, then no significant influence could stand up.

In situation of a long-term equity investment acquired by the Company through business combination under common control, the carrying value of the owners' equity of the acquired company as at the combination date is deemed as initial investment cost for this long-term equity investment. In situation of a long-term equity investment acquired by the Company through business combination not under common control, the combination cost is recognized according to the fair value of assets, liabilities occurred or undertaken, and equity securities issued as at the combination (purchase) date for obtaining control right over the acquired (purchased) party.

Excluding the long-term equity investment acquired through business combination, there is also a kind of long-term equity investment acquired through cash payment, for which the actual payment for the purchase shall be initial investment cost; If Long-term equity investments are

acquired by issuing equity securities, fair value of issuing equity investment shall be initial investment cost; for Long-term equity investments which are invested by investors, the agreed price in investment contract or agreement shall be initial investment cost; and for long-term equity investment which is acquired through debt reorganization and non-monetary assets exchange, regulations of relevant accounting standards shall be referred to for confirming initial investment cost.

The Company adopts cost method for investment in subsidiaries and makes adjustment by equity method when preparing combined financial statement; makes calculation for investments in joint-ventures and associates by equity method; make calculation by cost method for long-term equity investment upon which the Company has no control, common control or significant influence and which have no quotation price in active market and whose fair value could not be able to measured surely; and for the long-term equity investment upon which the Company has no control, common control or significant influence while which do have quotation price in active market and whose fair value could be able to measured surely, the Company calculate it as financial asset available-for-sale.

When calculated by cost method, long-term equity investment is priced according to its initial investment cost, and cost of the investment is adjusted when making additional investment or writing off investment. When calculated by equity method, current investment gains and losses represent the proportion of the net gains and losses realized by the invested unit in current year attributable to or undertaken by the investor. When the Company is believed to enjoy proportion of net gains and losses of invested unit, gain and losses attributable to the Company according to its shareholding ratio is to computer out according to the accounting policy and accounting period of the Company, on the basis of the fair value of various recognizable assets of the invested unit as at the date of obtaining of the investment, after offset of gains and losses arising from internal transactions with associates and joint-ventures, and finally to make confirmation after adjustment of net profit of the invested unit. Confirmation on gains and losses from the long-term equity investment in associates and joint-ventures held by the Company prior to the first execution day, could only stand up with the precedent condition that debit balance of equity investment straightly amortized according to its original remaining term has already been deducted, if the aforementioned balance relating to the investment do exist.

The Company switches to cost method for calculating the long-term equity investments which do not entitle the Company to have common control or significant influence over the invested units and which have no quotation in active market and whose fair value could not be able to measured surely due to decrease of investments by the Company; and also switches to cost method for calculating the long-term equity investments which entitles the Company to have conduct control over the invested units due to its additional investments; and switches to equity method for calculating the long-term equity investments which entitles the Company to conduct common control or significant influence, while no control over the invested units due to its additional investments, or the long-term equity investments which entitles the Company with no control over the invested units any longer while with common control or significant influence.

When disposing long-term equity investment, the balance between its carrying value and effective price for obtaining shall be recorded into current investment income. When disposing long-term equity investment which are calculated by equity method, the proportion originally recorded in owners' equity shall be transferred to current investment income according to relevant ratio, except for that other movements of owners' equity excluding net gains and losses of the invested units shall be recorded into owners' equity.

10. Investment real estate

The investment real estate of the Company includes leased houses and buildings, and is accounted value by its cost. Cost of purchased-in investment real estate consists of payment for purchase, relevant taxes and other expenditure which is attributable to the assets directly; while cost of self-built investment real estate is formed with all necessary expenditures occurred before construction completion of the assets arriving at the estimated utilization state.

Consequent measurement of investment estate shall be measured by cost method. Depreciation or amortization is provided with average service life method pursuant to the predicted service life and net rate of salvage value. The predicted service life and net rate of salvage value and annual depreciation (amortization rate) are listed as follows:

Type	Depreciation term (year)	Predicted rate of salvage value (%)	Depreciation rate per annum (%)
Houses and buildings	30-40years	4%	3.20%-2.40%

When investment real estate turns to be used by holders, it shall switch to fixed assets or intangible assets commencing from the date of such turning. And when self-used real estate turns to be leased out for rental or additional capital, the fixed assets or intangible assets shall switch to investment real estate commencing from the date of such turning. In situation of switch, the carrying value before the switch shall be deemed as the credit value after the switch.

When investment is disposed, or out of utilization forever and no economic benefit would be predicted to obtain through the disposal, the Company shall terminate recognition of such investment real estate. The amount of income from disposal, transfer, discarding as scrap or damage of investment real estate after deducting the asset's carrying value and relevant taxation shall be written into current gains and losses.

11.Fixed assets

Fixed assets of the Company represent the tangible assets featuring with the following natures at the same time: held by the Company for purpose of producing commodities, providing labor service, leasing or operational management, service life exceeds one year, and unit price exceeds RMB 2,000.

Included in fixed assets are houses and buildings, machinery equipment, transportation equipments and other equipments. Their credit value are determined on the basis of the cost taken for obtaining them. Of which, cost of purchased-in fixed assets include bidding price and import duty and relevant taxes, and other expenditure which occurs before the fixed assets arrive at the state of predicted utilization and which could be directly attributable to the assets; while cost of self-built fixed asset is formed with all necessary expenditures occurred before construction completion of the assets arriving at the estimated utilization state; credit value of the fixed assets injected by investors is determined based on the agreed value of investment contracts or agreements, while as for the agreed value of investment contracts or agreements which is not fair, it shall take its fair value as credit value; and for fixed assets which are leased in through finance leasing, credit value is the lower of fair value of leased assets and present value of minimized leasing payment as at the commencing date of leasing.

Consequent expenditure related to fixed assets consists of expenditures for repair and update reform. For those meeting requirements for recognition of fixed assets, they would be accounted as fixed asset cost; and for the part which is replaced, recognition of its carrying value shall cease; for those not meeting requirements for recognition of fixed assets, they shall be accounted in current gains and losses as long as they occur.

The Company withdraws depreciation for all fixed assets except for those which have been fully depreciated while continuing to use and the land which is accounted with separate pricing. It adopts average service life method for withdrawing depreciation which is treated respectively as cost or current expense of relevant assets according to purpose of use. The depreciation term, predicted rate of salvage value and depreciation rate applied to fixed assets of the Company are as follows:

No.	Type	Depreciation term (year)	Predicted rate of salvage value (%)	Depreciation rate per annum (%)
1	Houses and buildings	30-40 years	4%	3.20%-2.40%
2	Machinery equipments	10-14 years	4%	9.60%-6.86%
3	Transportation equipments	5-12 years	4%	19.00%-8.00%
4	Other equipments	8-12 years	4%	12.00%-8.00%

The Company makes re-examination on predicted service life, predicted rate of salvage value and depreciation method at each year-end. Any change will be treated as accounting estimation change.

When fixed asset is disposed, or no economic benefit would be predicted to obtain through utilization or disposal of the asset, the Company shall terminate recognition of such fixed asset. The amount of income from disposal, transfer, discarding as scrap or damage of fixed asset after deducting the asset's carrying value and relevant taxation shall be written into current gains and losses.

12. Construction in process

Construction in process is measured with effective cost. Self-operated constructions projects are measured with direct materials, direct salaries and direct construction expense; construction projects undertaken by external are measured with the engineering payment payable; and engineering cost of equipment-installation projects is confirmed with consideration of value of the equipments, installation fee, and expenditure arising from trial operation of the projects. Borrowing expense and exchange gains and losses which should be capitalized are also included in cost of construction in process.

Commencing from the date when construction in process reaches condition for predicted purpose of use, the Company carries forward the estimated value of the construction to fixed assets, pursuant to engineering budget, engineering cost or effective cost, and starts depreciation withdraw from the next month. As long as procedure for completion settlement is transacted, the Company shall make adjustment to difference of original value of the fixed asset.

13. Borrowing expense

Borrowing expenses include interest expense, amortization of discount or premium, auxiliary expenses and exchange difference due to borrowing in foreign currency. The borrowing expense which could be directly attributable to purchase or production of assets satisfying capitalization condition, starts capitalization when capital expenditure and borrowing expense occur and when necessary purchase or production conducted for promoting assets to reach the predicted available-for-use or available-for-sale state; and capitalization shall cease when purchased or produced assets satisfying capitalization condition have reached the predicted available-for-use or available-for-sale state. Other borrowing expense is recognized as expense during the occurrence period.

Capitalization shall be exercised for interest expense actually occurred from special borrowings in current period after deduction of the interest income arising from unutilized borrowing capital which is saved in banks or deduction of investment income obtained from temporary investment; For recognition of capitalized amount of common borrowing, it equals to the weighted average of the assets whose accumulated expense or capital disburse is more than common borrowing times capitalization rate of occupied common borrowing. Capitalization rate is determined according to weighted average interest rate of common borrowing.

Assets satisfying capitalization principle generally refer to fixed assets, investment real estate and inventories which can only arrive at predicted available-for-use and available-for-sale state after quite a long time (generally over one year) in purchase or production activities.

If abnormal interruption happens during purchase or production of assets satisfying capitalization principle and the interruption lasts over 3 months, the capitalization for the borrowing expense shall pause until the purchase or production restarts.

14.Intangible assets

The Company holds intangible assets including land use right, patent technology and non-patent technology, all of which are measured according to the effective costs paid for obtaining the assets. For those intangible assets purchased in by the Company, their effective cost consist of actual payment and relevant other expenditure; for the intangible assets input by investors, effective cost is determined according to the value agreed in investment contracts and agreements, while if the agreed value is not fair, then effective value is confirmed according to fair value.

Land use right is averagely amortized according to its transfer term commencing from the sate of transfer; patent technology, non-patent technology and other intangible assets is averagely amortized according to the shortest of their predicted sevice life, beneficial term concluded by contract and effective term regulated by laws. Amortization amount is recorded in assets cost and current gains and losses relevant to beneficial objectives.

Re-examination on predicted service life and amortization method of the intangible assets which have limited service life shall be conducted at the end of each year. If changed, it would be treated as change of accounting estimation. During each accounting period, Re-examination on predicted service life of intangible assets which have uncertained service life shall be conducted. For any evidence proving that service life of intangible assets is limited, then the service life shall be estimated and the Company shall make amortization within the predicted service life period.

15. Research and development

As for expenditure for research and development, the Company classifies it into expenditure on research phase and development phase, based on nature of the expenditure and that whether the final intangible assets formed by research & development is of great uncertainty. Expenditure arising during research should be recorded in current gains and losses upon occurance; expenditure arising during development is confirmed as intangible assets when satisfying the following conditions:

- (1)Completion of the intangible assets make it available for application or sell in technology;
- (2)Equipped with plan to complete the intangible asset and apply or sell it;
- (3)There is market for products produced with this intangible assets or the intangible asset itself;
- (4)Have sufficient technology, financial resource and other resources to support development of the intangible assets, and have ability to apply or sell the assets;

(5) Expenditure attributable to development of the intangible assets could be reliably measured.

Expenditure arising during development not satisfying the above conditions shall be recorded in current gains and losses upon occurrence. Development expenditure which had been recorded in gains and losses in previous period would not be recognized as assets in later period. Expenditure arising during development phase which has been starting capitalization is listed in balance sheet as development expenditure, and transferred to intangible assets since the project reaches at predicted utilization state.

16. Impairment of non-financial long-term assets

As at each balance sheet date, the Company has inspection on long-term equity investment, fixed assets, construction in process and intangible assets with limited service life. When the following indications appear, assets may be impaired, and the Company would have impairment test. As for goodwill and intangible assets which have uncertain service life, no matter there is impairment or not, impairment test shall be conducted at the end of every year. If it is hard to make test on recoverable amount of single asset, test is expected to make on the basis of the assets group or assets group portfolio where such asset belongs to.

After impairment test, if the carrying value exceeds the recoverable amount of the asset, the balance is recognized as impairment loss. As long as impairment loss of the aforementioned assets is recognized, it couldn't be switched back in later accounting periods. Recoverable amount of assets refers to the higher of fair value of assets net disposal expense and present value of predicted cash flow of the asset.

Indications for impairment are as follows:

- (1) Market value of asset drops a lot in current period, the drop scope is obviously greater than the predicted drop due to move-on of times or normal utilization;
- (2) Economy, technology or law environment where enterprise operates or market where asset is located will have significant change in current or recent periods, which brings negative influence to enterprise;
- (3) Market interest rate or returning rate of other market investments have risen in current period, which brings influence in calculating discount rate of present value of predicted future cash flow of assets, which leads to a great drop in recoverable amount of such assets;
- (4) Evidence proving that asset is obsolete and out of time or its entity has been damaged;
- (5) Asset has been or will be keep aside, terminating utilization or disposed advancedly;
- (6) Internal report of enterprise shows that economic performance of asset has been or will be lower than prediction, such as that net cash flow created by asset or operation profit (or loss) realized by asset is greatly lower (or higher) than the predicted amount;
- (7) Other indications showing possible impairment of assets.

17. Goodwill

Goodwill represents balance between equity investment cost or business combination cost under no common control exceeding the attributable part or fair value of recognizable net assets of party invested or purchased (obtained through business combination) as of acquisition day or purchase day.

Goodwill relating to subsidiaries is separately listed in consolidated financial statement. And goodwill relating to associates and joint-ventures is included in carrying value of long-term equity investment.

18. Long-term deferred expenses

Long-term deferred expenses of the Company refers to the expense which has been paid out while should be amortized from the current period and periods thereafter, with amortization term over 1 year(excluding 1 year). Such expense is averagely amortized during the beneficial period. If such long-term deferred expense could not bring benefit to following accounting periods, the unamortized value of the item shall be fully transferred to current gains and losses.

19. Staff remuneration

The Company recognizes staff remuneration payable as liabilities during the accounting period when staff provide services, and records it to relevant assets cost and expense based on beneficial objectives of services provided by staff. Compensation for dismiss labor relationship with employee shall be recorded in current gains and losses.

Staff remuneration principally includes salary, bonus, allowance, subsidy, welfare, social insurance, housing public fund, labor union fee and special charge for education, etc, and expenditure relevant to obtaining services provided by employee.

If the Company determines to cancel labor relationship with employee before due of contracts, or offers compensation for encouraging employee who are willing to accept personnel reduction, if the Company has already set official plan of cancellation of labor relationship or presented willing reduction recommendation which are going to be executed, at the same time, the Company is not able to cancel dismiss of labor relationship or reduction recommendation, the projected liabilities arising from compensation for dismiss of labor relationship is recorded in current gains and losses.

20. Share-based payment

Share-based payment refers to a transaction in which an enterprise grants equity instruments or undertakes equity-instrument-based liabilities in return for services from employee or other parties. The share-based payments consist of equity-settled share-based payments and cash-settled share-based payments.

The equity-settled share-based payment in return for employee services is measured at the fair value of the equity instruments granted to the employees on the grant date. The amount of such fair value, if the right can not be exercised until the vesting period comes to an end or until the prescribed performance conditions are met, then within the vesting period, based on the best estimate of the number of vested equity instruments, is included in the relevant costs or expenses on a straight-line basis and the capital reserves is increased accordingly.

A cash-settled share-based payment is measured in accordance with the fair value of liability confirmed based on the shares or other equity instruments undertaken by the Group. If the right may be exercised immediately after the grant, the fair value of the liability undertaken, on the date of the grant, is included in the relevant costs or expenses, and the liabilities is increased accordingly; if the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, on each balance sheet date within the vesting period, the services obtained in the current period, based on the best estimate of the information about the exercisable right, is included in the relevant costs or expenses at the fair value of the liability undertaken by the Group and the liabilities are adjusted accordingly.

On each balance sheet date and on each account date prior to the settlement of the relevant liabilities, the fair values of the liabilities are re-measured and the changes are included in the current profits and losses.

21. Estimated liabilities

If the business in connection with such contingencies as a security involving a foreign party, commercial acceptance bill discount, pending litigation or arbitration, product quality assurance, etc. meets all of the following conditions, the Company will confirm the aforesaid as liabilities: the obligation is an existing obligation of the Company; performance of the obligation is likely to cause economic benefits to flow out of the enterprise; the amount of the obligation is reliably measurable.

An estimated liability shall be initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as risk, uncertainties, and time value of money shall be taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate shall be determined by discounting the related future cash outflows. The Company will review the carrying amount of an estimated liability at the balance sheet date. Where there is clear evidence that the carrying amount of an estimated liability does not reflect the current best estimate, the carrying amount shall be adjusted to the current best estimate.

22. Principle of recognition of revenue

The Company's sales revenue is mainly comprised of revenue from sale of goods, revenue from provision of labor and revenue from assignment of asset use rights. The principle of recognition of such revenue is as follows

- (1) Revenue from the sale of goods shall be recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow into the Company; and the associated costs incurred or to be incurred can be measured reliably.
- (2) The Company will recognize revenue from labor when labor has been provided, payment has been received or evidence for receipt has been obtained.
- (3) Revenue from use by others of enterprise assets shall be recognized only when the associate economic benefit is very likely to flow into the Company, and the amount of revenue can be measured reliably.

23. Subsidies of government

Government subsidy at the Company be able to meet its attached conditions, and can be confirmed when received. Government grants for monetary assets, in accordance with the measurement of the amount actually received, according to a fixed quota for the allocation of the grant criteria, in accordance with the amount of accounts receivable measurement; government subsidies for non-monetary assets, in accordance with the fair value, fair value should not reliably achieved, in accordance with the notional amount (1 Yuan) measurement.

Asset-related government grants recognized as deferred income, and average life of related assets included in the current profit and loss distribution. With the proceeds of the relevant government subsidies to compensate for the period after the relevant costs or losses recognized as deferred income and, while recognizing the associated costs included in current period profit and loss; for compensation related costs that have occurred or loss, directly gains and losses

24. Deferred Income Tax Assets and Deferred Income Tax Liabilities

A deferred tax asset and deferred tax liability shall be determined by a difference (temporary difference) between the carrying amount of an asset or liability and its tax base. The deferred tax asset shall be recognized for the carry forward of unused deductible losses and tax credits to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilized. At the balance sheet date, deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

The Company shall recognize the corresponding deferred tax asset for deductible temporary differences as no higher than the taxable profits that will be available in the future, against which the temporary difference can be utilized. The Company shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profits will be available in future periods to allow the benefit of the deferred tax asset to be utilized. Any such reduction in amount shall be reversed to the extent that it becomes probable that sufficient taxable profits will be available.

25. Lease

The Company categorizes the lease into the financial lease and the operating lease.

The financial lease is the lease in which all risks and returns related to the ownership of assets are transferred in substance. The Company as a lease holder, on the date of lease, the financial lease is recognized as the fixed asset at lower cost of fair value of the rental asset and the NPV of minimum payment of leasing. The minimum payment of leasing is recognized as long-term payable and the difference is accounted into unrecognized financing expense.

The operating lease is the lease apart from the financial lease. The Company, as a lease holder, accounts the rents into current period by straight line method during the term of the lease. The Company, as a leaser, accounts the rental income into current period by straight line method during the term of the lease.

26. Income tax accounting

The Company accounted the income tax in a method of debit in balance sheet. The income tax expenses include income tax in the current year and deferred income tax. The income tax associated with the events and transactions directly included in the owners' equity shall be included in the owners' equity; and the deferred income tax derived from business combination shall be included in the carrying amount of goodwill, except for that above, the income tax expense shall be included in the profit or loss in the current period.

The income tax expense in the current year refers to the tax payable, which is calculated according to the tax laws on the events and transactions incurred in the current period. The deferred income tax refers to the difference between the carrying amount and the deferred tax assets and deferred tax liabilities at the year-end recognized in the method of debit in the balance sheet.

27. Segment information

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Company reports follow mostly through business segments with supplementary information as geographical segments. Prices of transfer among segments are determined by reference to market prices, and the expenses relating to the assets jointly used by all segments are distributed between difference segments according to the proportion of income.

28. Discontinued operation

Discontinued operation refers to the component that has been disposed of or classified as held for sale by the Company and that can be separately identified during operations and preparation of financial statements. Such component is disposed of as a whole or partially according to the Company's plans.

The Company's component meeting the following conditions at the same time is classified as held for sale: the Company has made a resolution as to dispose of such component; the Company has signed a unrevocable transfer agreement with the transferee and such transfer will be completed within one year.

29. Transfer of financial assets and methods for accounting of securitization business of non-financial assets

Where a financial asset is transferred, judgment is made according to the transfer of nearly all of the risks and rewards related to the ownership of the financial asset: if such risks and rewards are all transferred, such financial asset is derecognized; if nearly all of the risks and rewards related to the ownership of the financial asset are not transferred and retained, derecognition is not made; if nearly all of the risks and rewards related to the ownership of the financial asset are neither transferred nor retained, then whether derecognition is conducted is determined according to the involvement of control over such financial asset: if control over such financial asset is waived, then such financial asset is derecognized; if control over such financial asset is not waived, then such financial asset is recognized according to the extent of continuous involvement into such financial asset and relevant liabilities are confirmed accordingly. If the financial asset is in compliance with the overall derecognition, the difference between the consideration received upon transfer and the corresponding book value is included into the current period's profits and losses and the accumulated change amount of the fair value of the relevant financial asset originally recorded into owner's equity is also transferred into the current period's profits and losses; if the transfer of partial financial asset satisfies the conditions to derecognize, the entire book value of the transferred asset is apportioned between the portion whose recognition has been stopped and the portion whose recognition has not been stopped according to their respective relative fair value and the portion involving in partial transfer is accounted as compared to the overall transfer based on the book value upon apportionment. With respect to those not satisfying the conditions to derecognize, the consideration received is recognized as a financial liability.

30. Business Combination

Business combination refers to the event or transaction that the Company combines two or more separate enterprises as one reporting entity. The Company shall recognize the assets and liabilities derived from business combination at the combination date or acquisition date. A combination date or acquisition date is the date on which the Company effectively obtains control of the company being absorbed.

The assets and liabilities acquired through a business combination involving an enterprise under common control shall be measured by the acquirer according to the carrying amount recorded by the acquirer's at the combination date. The difference between the consideration of combination and the carrying amount of the acquired net assets shall be included in capital surplus, or it shall be included in retained earnings continuously if the capital surplus is not

The cost of business combinations not involving an enterprise under common control is the aggregate of the fair value, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the Company, in exchange for control of the acquiree. When the costs of business combinations exceed the acquirer's identifiable net assets, the difference shall be recognized as goodwill, if not, the differences shall be included in the profit or loss in the current period.

31. Basis of Preparation of Consolidated Financial Statements

(1) Recognized principals of consolidated areas

The Company shall put subsidiaries which it controlling totally, main body with special purpose into consolidated financial statements.

(2) Accounting method for Consolidated Financial Statements:

Consolidated financial statements have been prepared in accordance with the ASBEs No. 33 - Consolidated Financial Statements and relevant supplementary regulations. All significant transactions and balances between the Company and its subsidiaries are eliminated for the purpose of consolidation. The equity of subsidiaries not held by the parent company shall be presented separately as minority shareholders' equity in consolidated shareholders' equity.

Any difference arising from the inconformity of accounting year or accounting policies between the subsidiaries and the Company shall be adjusted in the consolidated financial statements.

When preparing the consolidated financial statements, if the Company acquired the subsidiary through business combination not involving under common control, the separate financial statements shall be adjusted based on the fair value of identifiable net assets at the acquisition date. If the subsidiary is acquired through business combination involving common control, the consolidated financial statements shall include the carrying amount of assets, liabilities, operating result and cash flow of the subsidiary at the beginning of the current period.

V. Changes of accounting policies and accounting estimates and correction of previous errors

1. Changes of accounting policies and effects: Nil

2. Contents and reasons of changes of accounting estimates

In order to make the provision of maintenance fees of refrigerators and refrigerating cabinets from one to three years reflect the actual situation in a more objective manner, the Company re-estimated such provision according to the status of maintenance fees from one to three years and the actual circumstances in the recent two years and adjusted the proportion of provision accordingly. The 30th Session of the 6th Board of Directors of the Company passed the Proposal on Changing the Proportion of Provision for Three Guarantees Deposit and Making Estimates for the Year, starting to implement the new accounting estimate and to measure the estimated liabilities of the maintenance fees from one to three years from 2009 and changing to 1% from originally 0.6% of the revenue from domestic sales. The future application method is adopted for the accounting estimate, resulting in decrease in profit of the year of RMB 5,981,396.51.

3. Correction of previous errors and effect: Nil

VI. Taxations

1. Major taxes and tax rates

Tax	Tax base	Tax rate
VAT	Income from sales of goods and from processing	17%
Business tax	Rental income and off-price expense	5%
Urban maintenance and construction tax	Turnover tax	5% or 7%
Education surcharge	Turnover tax	3%
Local education surcharge	Turnover tax	1%
Corporate income tax	Taxable income	15% or 25%

2. Tax preferences and approval documents

1) Corporate income tax: according to the Notice regarding Announcing the List of the 2nd Batch of High-tech Enterprises (Ke Gao (2009) No. 13) jointly promulgated by Anhui Science & Technology Department, Anhui Finance Department, Anhui Provincial Office, SAT, and Local Bureau of Taxation of Anhui Province, the Company and its controlling subsidiary China-tech Meiling Freezer Technology Co., Ltd. were recognized as the 2nd batch of high-tech enterprises of Anhui Province in 2008, and were granted the Certificate of High-tech Enterprise respectively (the No. of the certificate is GR200834000169 and GR200834000177 respectively with a maturity of three years). Since Jan. 1, 2008, the Company and its controlling subsidiary China-tech Meiling Freezer Technology Co., Ltd. enjoyed the preferential policies including corporate income tax as the State's high-tech enterprises and enjoyed an income tax rate of 15% within three years. In addition, the Company's controlling subsidiary Zhongshan Changhong Electric Co., Ltd. was recognized as one the 1st batch of high-tech enterprises of Guangdong Province in 2008, and was granted the Certificate of High-tech Enterprise (the certificate No. is GR200844000760 with a maturity of three years) and was subject to corporate income tax at a rate of 15% in 2009.

													subsidiary
Subsidiaries established through direct investment													
China-tech Meiling Freezer Technology Co., Ltd. (1)	Limited liability company	Hefei	Manufacturing and sales	6,000.00	Research, development, production, sales and service of low temperature refrigeration equipment and products, self-operation and agency of import and export business of various commodities and technologies	4,200.00	-	70.00	70.00	Yes	16,829,423.24		-
Jiangxi Meiling	Limited	Jingde Town	Manufacturing and	4,000.00	R&D, manufacturi	4,500.00	-	97.00	97.00	Yes	-128,369.89		-

Refrigeration Co., Ltd. (2)	liability company		sales		ng and sales of refrigeration appliances, electronic products and fittings								
Mianyang Meiling Refrigeration Co., Ltd. (3)	Limited liability company	Mianyang	Manufacturing and sales	5,000.00	R&D, manufacturing and sales of refrigeration appliances, electronic products and fittings	4,500.00	-	97.00	97.00	Yes	-35,074.81		-
Hefei Meiling Electric Marketing Co., Ltd. (4)	Limited liability company	Hefei	Sales	1,000.00	Refrigeration appliances, air conditioners, washing machines, computer numerically controlled injection moulding machine, computer water heaters, plastic	990.00	-	99.97	99.97	Yes	-22.24		-

					products, packaging materials and accessories, electronic products and accessories, general merchandise sales								
Subsidiaries obtained through business combination under the same control													
Sichuan Changhong Air-conditioners Co., Ltd. (5)	Limited liability company	Mianyang	Manufacturing and sales	20,000.00	R&D, manufacturing, sales and after-sales services of air conditioners and parts, external processing services of spare parts, and sales of metal materials (excluding gold)	30,560.00	-	100.00	100.00	Yes	-		-
Zhongshan	Limited	Zhongshan	Manufacturing	8,000.00	Mainly	7,625.00	-	90.00	90.00	Yes	8,472,935.		-

Changhong Electric Co., Ltd. (6)	d liability compa ny	n	ring and sales	engaged in production, processing, sale of air conditioners , television sets, laser disc players, audio equipments, computers and spare parts of these products	49
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(1) China-tech Meiling Freezer Technology Co., Ltd. (hereinafter referred to as China-tech Meiling Company) was established on Oct. 29, 2002 by the company and CAS's Physical & Chemical technology Research, whose registered capital was RMB60,000,000 including material contribution of RMB 35,573,719.70 which accounted for 70% of registered capital and cash contribution of RMB 6,426,280.30. CAS's Physical & Chemical technology Research made contributions by New mixed throttle refrigeration technology and technical License of Application research in super low temperature storage box that was appraised RMB 18,000,000 accounting for 30% of registered capital.

(2) Jiangxi Meiling Refrigeration Co., Ltd. (hereinafter referred to as Jiangxi Meiling Company), a company jointly set up by the Company and China-tech Meiling Company, was founded on Nov. 6, 2007. Its registered capital was RMB 20 million upon establishment, of which, the Company invested RMB 18,000,000, accounting for 90% of the registered capital; while China-tech Meiling Company invested RMB 2,000,000, accounting for 10% of the registered capital. On Dec. 10, 2008, Jiangxi Meiling Company increased its capital and shares, after which, its registered capital and paid-in capital were changed to RMB 40 million, including the cash investment of RMB 45 million from the Company, among which RMB 36 million was input as registered capital, accounting for 90% of the registered capital, and RMB 9 million was recorded into capital reserve of Jiangxi Meiling Company; and China-tech Meiling Company invested cash RMB 5 million, among which RMB 4 million was input as registered capital, accounting for 10% of the registered capital and RMB 1 million was recorded into capital reserve of Jiangxi Meiling Company. The procedures for registration of its change in registered capital in the Industry and Commerce Administration Bureau were completed in 2008.

(3) Mianyang Meiling Refrigeration Co., Ltd. (hereinafter referred to as Mianyang Meiling Company), a limited liability company jointly set up by the Company and China-tech Meiling Company, was founded on Mar. 6, 2009. Its registered capital and paid-in capital was RMB 50 million upon establishment, of which, the Company invested RMB 45 million, accounting for 90% of the registered capital; China-tech Meiling Company invested RMB 5 million, accounting for 10% of the registered capital. The capital receipt was verified by the verification report [CXKY (2009) No. 008] of Sichuan Xingrui Certified Public Accountants.

(4) Hefei Meiling Electric Marketing Co., Ltd. (hereinafter referred to as Meiling Marketing Company), a limited liability company jointly set up by the Company and Mianyang Meiling Company, was founded on Oct. 21, 2009. Its registered capital and paid-in capital was RMB 10 million upon establishment, of which, the Company invested RMB 9.90 million, accounting for 99% of the registered capital, and Mianyang Meiling Company invested RMB 0.10 million, accounting for 1% of the registered capital. The registered capital receipt was verified by the verification report [WALXDYZ (2009) No. 074] of Anhui Anlian Xinda Certified Public Accountants Co., Ltd.

(5) Sichuan Changhong Air-conditioners Co., Ltd. (hereinafter referred to as Changhong Air-conditioners), details of which please refer to Notes VII (IV) 1. Explanations on the subsidiaries obtained through business combination under the same control.

(6) Zhongshan Changhong Electric Co., Ltd. (hereinafter referred to as Zhongshan Changhong), details of which please refer to Notes VII (IV) 1. Explanations on the subsidiaries obtained through business combination under the same control.

(II) Special purpose entities or the operating entities with controlling rights formed through entrusted operations or leases: Nil

(III) Changes in the consolidation scope of the consolidated financial statements of the year

1. The companies newly consolidated during the year

Name	Reason	Holding proportion (%)	Net assets at year-end	Net profit of the year
Mianyang Meiling Refrigeration Co., Ltd.①	New subsidiary set up in the period	97.00%	45,721,003.53	-4,278,996.47
Hefei Meiling Electric Marketing Co., Ltd.②	New subsidiary set up in the period	99.97%	9,925,856.68	-74,143.32
Sichuan Changhong Air-conditioners Co., Ltd.	Combination under the same control	100.00%	305,600,437.79	7,653,021.32
Zhongshan Changhong Electric Co., Ltd.	Combination under the same control	90.00%	84,729,354.86	418,676.00

① The Company directly held 90% equity interests in Mianyang Meiling Company and indirectly held 10% equity interests in it through China-tech Meiling Company where the Company held 70% equity interests, taking the aggregate holding to 97%; ② The Company directly held 99% equity interests in Meiling Marketing Company and indirectly held 1% equity interest in it through Mianyang Meiling where the Company held 97% equity interests, taking the aggregate holding to 99.97%.

2. The companies deconsolidated in the year

Name	Type	Registration place	Business nature	Registered capital (RMB'000)	Business scope
Hefei Changhong Meiling Refrigeration Co., Ltd. (5)	Limited liability company	Hefei	Manufacturing and sales	2,000.00	Manufacturing, sales and R&D of electric appliances, electronic products, mechanical products and related accessories; technical advisory services of household appliances and electronic products, and import and export business (The items relating to administrative licensing are operated with permits)

Hefei Changhong Meiling Refrigeration Co., Ltd. (hereinafter referred to as Changhong Meiling Refrigeration) was a limited liability company jointly funded by Sichuan Changhong and the Company and officially founded through the registration of Hefei Administration for Industry and Commerce and obtained the enterprise corporate business license with the registration number of 3401001007201 checked and issued by Hefei Administration for Industry and Commerce; the reiterated capital was RMB 20 million, of which Sichuan Changhong invested RMB 1.8 million accounting for 90% of registered capital and the

Company invested RMB 2 million accounting for 10% of registered capital. The actual receiving of registered capital was authenticated to be received the capital in account by Anhui Zhongjian Certified Public Accountants [WZJZi (2006) No.1003]. The registered address of Changhong Meiling Refrigeration is No.111, Shimen Road, Economic and Technological Development Zone, Hefei, the legal representative is Li Jin. On Jan. 28, 2008, the 29th Session of the 5th Board of Directors of the Company considered and passed the Proposal on Acquiring 90% equity in Hefei Changhong Meiling Refrigeration Co., Ltd. In order to settle the connected transactions and industry competitions between Changhong Meiling Refrigeration and the Company in terms of production and sales of refrigerators and further improve the Company's legal person corporate governance structure, it agreed the Company to acquire the 90% equity in Changhong Meiling Refrigeration held by Sichuan Changhong. According to the Chuan Huaheng Pingbao (2008) No. 17 Asset Estimation Report of the Transferred Equity Project of Hefei Changhong Meiling Refrigeration Co., Ltd. issued by Sichuan Huaheng Asset Estimation Co., Ltd dated on Jan. 25, 2008, the estimation base day is Dec.31 of 2007; the estimated value for the equity of Changhong Meiling Refrigeration is RMB 22,630,400 and the price for transfer of the 90% equity in Changhong Meiling is confirmed at RMB 20.3674 million based on the appraisal value after negotiations with Sichuan Changhong. On Jan.30, 2008, the Company signed Equity Transfer Agreement of Hefei Changhong Meiling Refrigeration Co., Ltd. with Sichuan Changhong to acquire all equity in Changhong Meiling Refrigeration held by Sichuan Changhong. After completion of the equity transfer, Changhong Meiling Refrigeration became a wholly-owned subsidiary of the Company. The procedures for registration changes of the above equity transfer were completed in Mar. 2008.

On Apr. 10, 2009, as considered and passed by the 13 Session of the 6th Board of Directors of the Company, Changhong Meiling Refrigeration Company was cancelled through merger and combination. On Aug. 31, 2009, the net assets of Changhong Meiling Refrigeration Company was transferred into the Company through merger and combination. During the reporting period, the balance sheet of Changhong Meiling Refrigeration Company ceased to be consolidated into that of the Company, while its income statement and statement of cash flows from the beginning of the year to the date of disposal (the date of merger and combination) were consolidated into the Company. The procedures for cancellation of Changhong Meiling Refrigeration Company in the bureau for industry and commerce were completed on Jan. 29, 2010.

(IV) Business combination during the year

1. The subsidiaries obtained through business combination under the same control

Name	Registration place	Registered capital (RMB'0000)	Investment amount	Holding proportion	Business scope
Sichuan Changhong Air-conditioners Co., Ltd.	Mianyang	30,000.00	305,600,437.79	100.00%	R&D, manufacturing, sales and after-sales services of air conditioners and parts, external processing services of spare parts, and sales of metal materials (excluding gold)
Zhongshan Changhong Electric Co., Ltd.	Zhongshan	8,000.00	76,256,419.37	90.00%	Mainly engaged in production, processing, sale of air conditioners, television sets, laser disc players, audio equipments, computers and

Name	Registration place	Registered capital (RMB'0000)	Investment amount	Holding proportion	Business scope
					spare parts of these products

(1) Business combination under the same control

In order to avoid the potential completion with the Company in the white goods industry, Sichuan Changhong undertook in the Report of Acquisition of Hefei Meiling Co., Ltd. signed on Jun. 12, 2007 that “under the circumstance of in line with the interests of all shareholders of Sichuan Changhong and Meiling Electric, Sichuan Changhong will consolidate relevant businesses of itself and Meiling Electric according to market principles within three years after completion of the acquisition, namely to consolidate air-conditioning and other businesses into Meiling Electric”. Sichuan Changhong completed the acquisition over the Company in Aug. 2007. In order to implement its undertaking, as agreed by the Reply on Agreeing the Affiliated Company of Sichuan Changhong Electronic Group Co., Ltd. to Transfer the Equity of the Air-conditioner-business-related Company (MGZC [2009] No. 52) issued by State-owned Assets Supervision and Administration Commission of Mianyang City, Sichuan Changhong auctioned 100% equity interests in Changhong Air-conditioners (including the 99% equity interests directly held by Sichuan Changhong and the 1% equity interest held by its controlling subsidiary Sichuan Changhong Venture Capital Co., Ltd. (hereinafter referred to as Changhong Venture Capital)) and 90% equity interests in Zhongshan Changhong through Sichuan State-owned Equity Exchange Center and issued announcements relating to the public transfer of the assets on Nov. 10, 2009.

On Dec. 9, 2009, the Company finally managed to bid the 100% equity interests in Changhong Air-conditioners and the 90% equity interests in Zhongshan Changhong held by Sichuan Changhong for RMB 393.56 million through the public bidding. Upon the dealing, the Company and the transferor (namely Sichuan Changhong and Changhong Venture Capital) signed the Contract on Equity Trading in respect of the transfer of 100% equity interests in Changhong Air-conditioners and 90% equity interests in Zhongshan Changhong on Dec. 10, 2009, which mainly stipulated the following items: (1) Trading object and transfer price: Sichuan Changhong transfers the 99% equity interests in Changhong Air-conditioners and the 90% equity interests in Zhongshan Changhong to the Company for RMB 390.65 million; Changhong Venture Capital transfers the 1% equity interest in Changhong Air-conditioners to the Company for RMB 2.91 million. (2) payment: the initial payment of RMB 118.068 million (being 30% of the total payment) is settled within five workdays from the date of signing of the contract; the remaining is paid within one year after the date of the initial payment. (3) the base date of the trading is Jun. 30, 2009. The profits or losses and risks incurred during the period from the base date of the trading to the date of completion of the equity or assets transfer are assumed by the transferee.

(2) Profile of the subsidiaries obtained through business combination under the same control

1) Sichuan Changhong Air-conditioners Co., Ltd. (hereinafter referred to as Changhong Air-conditioners), is a limited liability company jointly set up by Sichuan Changhong and Changhong Venture Capital on Nov. 28, 2008. Its registered capital was RMB 200 million, of which, Sichuan Changhong invested RMB 298 million (RMB 210.0889 million of monetary capital investment and RMB 87.9111 million of physical assets investment), equivalent to RMB 198 million of shares, accounting for 99% of the registered capital; Changhong Venture

Capital invested RMB 3 million of monetary capital, equivalent to RMB 2 million of shares, accounting for 1% of the registered capital. In Mar. 2009, Changhong Air-conditioners signed a tripartite agreement with Sichuan Changhong and Changhong Group to acquire the 100% equity interests in Hunan Changhong Air-conditioners Sales Co., Ltd. (hereinafter referred to as Hunan Air-conditioners) for RMB 2 (RMB 1 for each of Sichuan Changhong and Changhong Group) and the procedures for industrial and commercial change were completed on Apr. 16, 2009. On Jun. 25, 2009, Changhong Air-conditioners combined Hunan Air-conditioners. In Dec. 2009, the Company obtained the 100% equity interests in Changhong Air-conditioners through business combination under the same control. Before and after the combination, the principal business of Changhong Air-conditioners did not change, with its business scope mainly as: R&D, manufacturing, sales and after-sales services of air conditioners and parts, external processing services of spare parts, and sales of metal materials (excluding gold).

The shareholding structure and name of shareholders before and after the combination under the same control in 2009 are as follows:

Name of shareholders	Before combination		After combination	
	Investment	Equity ratio (%)	Investment	Equity ratio (%)
Sichuan Changhong	198,000,000.00	99.00	-	-
Changhong Venture Capital	2,000,000.00	1.00	-	-
The Company	-	-	200,000,000.00	100.00
Sub-total	200,000,000.00	100.00	200,000,000.00	100.00

2) Zhongshan Changhong Electric Co., Ltd. (hereinafter referred to as Zhongshan Changhong), formerly known as Guangdong Changhong Electric Co., Ltd., is a limited liability company jointly set up by Sichuan Changhong and China Minmetals Corporation on May 22, 2001. Its registered capital was RMB 80 million, of which, Sichuan Changhong invested RMB 72 million in total with the properties and real estates of the originally Zhongshan Sanrong Air-conditioners Co., Ltd. obtained through auction for RMB 69.30 million and its own patent use right worth RMB 2.70 million, accounting for 90% of the registered capital; China Minmetals Corporation invested RMB 8 million of monetary capital, accounting 10% of the registered capital. In Jul. 2003, the company's name was changed from Guangdong Changhong Electric Co., Ltd. into the current name. In Dec. 2009, the Company obtained the 90% equity interests in Zhongshan Changhong through combination under the same control. Before and after the combination, the principal business of Zhongshan Changhong did not change, with its business scope mainly as production, processing, sale of air conditioners, television sets, laser disc players, audio equipments, computers and spare parts of these products.

The shareholding structure and name of shareholders before and after the combination under the same control in 2009 are as follows:

Name of shareholders	Before combination		After combination	
	Investment	Equity ratio (%)	Investment	Equity ratio (%)
Sichuan Changhong	72,000,000.00	90.00	-	-
The Company	-	-	72,000,000.00	90.00
China Minmetals	8,000,000.00	10.00	8,000,000.00	10.00

Name of shareholders	Before combination		After combination	
	Investment	Equity ratio (%)		Investment
Corporation				
Sub-total	80,000,000.00	100.00	80,000,000.00	100.00

(3) Judgment of the business combination under the same control: the Company and Changhong Air-conditioners and Zhongshan Changhong are under the same control by Sichuan Changhong, therefore, the combination is a business combination under the same control.

(4) Confirmation of the date of combination under the same control

The Company confirmed the date of combination as Dec. 31, 2009, according to: 1) the contract or agreement of business combination was passed by the resolution of the 2nd extraordinary shareholders' meeting of the Company on Dec. 1, 2009; 2) on Nov. 10, 2009, Sichuan Changhong received the Reply on Agreeing the Affiliated Company of Sichuan Changhong Electronic Group Co., Ltd. to Transfer the Equity of the Air-conditioner-business-related Company (MGZC [2009] No. 52) issued by State-owned Assets Supervision and Administration Commission of Mianyang Municipal Government; 3) The parties involving in the combination transacted the procedures for transfer of relevant property ownership; 4) as of the end of 2009, the Company had paid the equity transfer payment RMB 118,540,272.00 (including RMB 468,780.00 of trading service fees paid to Sichuan State-owned Equity Exchange Center calculated at 1.2‰ of the dealing amount) as stipulated in the equity trading contract, accounting for 30% of the total payment, and intends to and is able to pay the remaining payment; 5) the Company completed the procedures for registration changes of the equity interests of Changhong Air-conditioners and Zhongshan Changhong on Dec. 25, 2009 and Dec. 31, 2009 respectively. Although the base date of trading as agreed by the three parties in the Contract of Equity Trading is Jun. 30, 2009, the profits or losses and risks incurred during the period from the base date of trading to the date of completion of the equity or assets transfer are assumed by the Company, however, as at Jun. 30, 2009, such trading did not occur, the Company did not actually obtain the controlling right. Up to Dec. 31, 2009, the Company (the combining party) had actually controlled the financial and operating policies of Changhong Air-conditioners and Zhongshan Changhong (the combined party) and took the corresponding earnings and risks.

2. Basic finance of the combined party (unit: RMB'0000)

(1) Changhong Air-conditioners

Item	Dec. 31, 2009 (Jan. – Dec. 2009)	Jun. 30, 2009 (Jan. – Jun. 2009)	Dec. 31, 2009 (Jan. – Dec. 2008)
Total assts	54,272.93	59,097.10	31,418.38
Total liabilities	23,712.89	28,942.05	1,418.38
Owners' equity	30,560.04	30,155.05	30,000.00
Operating income	116,552.05	69,934.87	-
Net profit	765.30	360.31	-
Net cash flow from operating activities	-12,674.16	-15,251.43	-
Net cash flow	7,500.34	4,716.77	1,308.89

(2) Zhongshan Changhong

Item	Dec. 31, 2009 (Jan. – Dec. 2009)	Jun. 30, 2009 (Jan. – Jun. 2009)	Dec. 31, 2009 (Jan. – Dec. 2008)
Total assts	17,215.68	33,211.81	19,202.42
Total liabilities	8,742.74	24,528.41	10,771.35
Owners' equity	8,472.94	8,683.40	8,431.07
Operating income	23,839.17	14,553.92	47,772.93
Net profit	41.87	252.33	188.66
Net cash flow from operating activities	-1,456.48	12,476.48	4,588.54
Net cash flow	-1,509.11	7,245.35	4,661.59

3. According to the relevant provisions in respect of the business combination under the same control in Accounting Standards for Enterprises No. 20 – Business Combinations issued by the Ministry of Finance on Feb. 15, 2006, the Company adjusted the amounts of the beginning of the year in the consolidated financial statements and at the same time adjusted the relevant items in the comparative financial statements. For details, please refer to Notes XV. (3).

(V) Translation of foreign currency statements: Nil

VIII. Notes to the major items in the consolidated financial statements

With respect to the financial statements figures disclosed below, unless otherwise specified, “year-beginning” refers to Jan. 1, 2009; “year-end” refers to Dec. 31, 2009; “the year” refers to Jan. 1 to Dec. 31, 2009; “the last year” refers to Jan. 1 to Dec. 31, 2008; the currency is RMB.

Annotation 1. Monetary fund

Item	Amount at year-end			Amount at year-beginning		
	Original currency	Exchange rate	RMB converted	Original currency	Exchange rate	RMB converted
Cash	109,910.06	-	109,910.06	94,894.30		94,894.30
RMB	109,910.06	1.00	109,910.06	94,894.30	1.00	94,894.30
Bank deposits	-	-	590,487,924.37	-		155,684,865.33
RMB	578,401,640.58	1.00	578,401,640.58	134,796,637.64	1.00	134,796,637.64
USD	1,743,498.87	6.8282	11,904,958.98	2,717,329.06	6.8346	18,571,857.19
EUR	16,807.28	9.7971	164,662.60	238,037.52	9.659	2,299,204.41
GBP	21.63	10.9780	237.45	35.39	9.8796	349.65
JPY	211,215.00	0.0738	15,587.67	211,212.00	0.0757	15,979.99
AUD	-	-	-	-	-	-
HKD	950.71	0.8805	837.08	950.52	0.88	836.46
Other monetary fund	-	-	156,974,611.45	-	-	254,074,206.86
RMB	125,248,411.0	1.0000	125,248,411.0	233,933,396.0	1.00	233,933,396.0

Item	Amount at year-end			Amount at year-beginning		
	Original currency	Exchange rate	RMB converted	Original currency	Exchange rate	RMB converted
	2		02	84		84
USD	3,669,437.82	6.8282	25,055,651.65	2,238,895.94	6.8346	15,301,958.19
EUR	680,559.01	9.7971	6,667,504.63	317,041.45	9.659	3,062,303.37
GBP				95,332.52	9.8798	941,866.23
AUD	496.65	6.1294	3,044.15	177,083.32	4.7135	834,682.23
Total	-	-	747,572,445.88	-	-	409,853,966.49

Monetary fund increased 82.40% to RMB 337,718,479.39 at year-end as compared with that of year-beginning, primarily due to receiving funds from disposal of available-for-sale financial assets and receiving compensation for relocation during the year.

Other monetary fund mainly included acceptance draft deposit and foreign exchange bank deposit which still needed verification (under the new state foreign exchange administration policy for 2008, the foreign payment received by the Company should all be kept into the account waiting for verification. And it could not be used before it get released through the verification).

Except deposit, no such following funds were included in the aforementioned monetary fund: fund whose cashing procedure could be restricted by mortgage or frozen, fund which was kept abroad and fund which could not be callback potentially as well.

Annotation 2. Notes receivable

(1) Category of notes receivable

Category	Amount at year-end	Amount at year-beginning
Bank acceptance notes	891,395,483.60	182,491,232.52
Commercial acceptance notes	1,352,888.48	-
Total	892,748,372.08	182,491,232.52

Notes receivable increased 389.20% to RMB 710,257,139.56 at year-end as compared to year-beginning, primarily due to decrease in notes discount caused from expanded sales, increase in collection of sales amounts and sufficiency of cash flows during the period.

(2) There were no notes receivable used in discount or pledge at the end of the year.

(3) Notes endorsed to others but not yet due at the end of the year (top five)

Category	Issuing company	Issuing date	Maturity	Amount	Remark
Bank acceptance notes	Shandong Laiwu Taiyi Electric Commercial Co., Ltd.	Oct. 29, 2009	Apr. 28, 2010	2,000,000.00	GB0102937262
Bank	Sichuan Leshan Fuhua Tongda	Aug. 12,	Feb. 9,	1,600,000.00	GB0100467040

Category	Issuing company	Issuing date	Maturity	Amount	Remark
acceptance notes	Pesticide Technology Co., Ltd.	2009	2010		
Bank acceptance notes	Tianjin Gome Electric Co., Ltd.	Aug. 21, 2009	Feb. 9, 2010	1,574,938.87	04550335
Bank acceptance notes	Jianyang Desheng Commercial Co., Ltd.	Aug. 7, 2009	Feb. 7, 2010	1,500,000.00	GA0100540886
Bank acceptance notes	Bengbu Zhonghai Valve Pipe Co., Ltd.	Dec. 18, 2009	Jun. 18, 2010	1,500,000.00	GA0102133148
Bank acceptance notes	Bengbu Zhonghai Valve Pipe Co., Ltd.	Dec. 18, 2009	Jun. 18, 2010	1,500,000.00	GA0102133147
Total	-			9,674,938.87	

Annotation 3. Accounts receivable

(1) Disclosure of accounts receivable by category

Item	Amount at year-end				Amount at year-beginning			
	Book balance		Reserve for bad debts		Book balance		Reserve for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Category 1	148,225,080.34	42.99	3,838,838.77	13.87	44,909,007.02	13.53	2,245,450.35	9.36
Category 2	-	-	-	-	-	-	-	-
Category 3	196,561,315.25	57.01	23,833,459.20	86.13	287,112,671.45	86.47	21,749,155.58	90.64
Total	344,786,395.59	100.00	27,672,297.97	100.00	332,021,678.47	100.00	23,994,605.93	100.00
Net value			317,114,097.62				308,027,072.54	

Category 1 is significant account receivable as single amount, representing balance of period-end of over RMB 20,000,000.

Category 2 single amount is not significant but account receivable with bigger risks after the combination of credit risk characteristics.

Category 3 is other insignificant account receivable.

(2) Accounts receivable with significant single amount or with insignificant amount but with separate impairment test at the end of the year

Company	Book balance	Bad debt	Provision proportion	Provision reason
Sichuan Changhong Electric Co., Ltd.	71,448,305.06	-	-	No provision by

Company	Book balance	Bad debt	Provision proportion	Provision reason
				the connected party
Electrolux (China) Electric Co., Ltd.	38,397,955.50	1,919,897.78	5%	Provision by aging
Nanjing Purchase Center of Suning Appliance Co., Ltd.	38,378,819.78	1,918,940.99	5%	Provision by aging
Total	148,225,080.34	3,838,838.77		

(3) Accounts receivable actually cancelled during the reporting period

Company	Nature of accounts receivable	Amount cancelled	Reason	Arising from connected transactions or not
14 companies in the list of accounts receivable	Receivables	5,041,089.96	Debtors' insolvency	No

(4) Receiving the accounts receivable cancelled in previous years during the year: Nil

(5) Arrears of the shareholders holding more than 5% (including 5%) shares with voting rights of the Company

Company	Amount at year-end		Amount at year-beginning	
	Amount in arrears	Provision amount for bad debts	Amount in arrears	Provision amount for bad debts
Sichuan Changhong Electric Co., Ltd.	71,448,305.06	-	-	-

(6) Top five largest accounts receivable

Company	Relationship with the Company	Amount	Aging	Percentage in total accounts receivable
Sichuan Changhong Electric Co., Ltd.	Parent company	71,448,305.06	Within one year	20.72%
Electrolux (China) Electric Co., Ltd.	Non-related party	38,397,955.50	Within one year	11.14%
Nanjing Purchase Center of Suning Appliance Co., Ltd.	Non-related party	38,378,819.78	Within one year	11.13%
Electrolux Major Appliances, Latin America	Non-related party	12,962,131.43	Within one year	3.76%
Jilin Huayi Digital Technology Co., Ltd.	Non-related party	6,616,224.00	Within one year	1.92%
Total		167,803,435.77		48.67%

(7) Accounts of related parties receivable

Company	Relationship with the Company	Amount	Percentage in total accounts receivable
Sichuan Changhong Electric Co., Ltd.	Parent company	71,448,305.06	20.72%
Sichuan CCO Display Technology Co., Ltd.	under the same parent company	3,078,687.20	0.89%
Sichuan Changhong Molding Technology Co., Ltd.	under the same parent company	1,509,399.13	0.44%
CHANGHONG ELECTRIC	under the same parent company	1,089,035.55	0.32%
Jiangxi Changhong Electronic Technology Development Co., Ltd.	under the same parent company	1,038,560.00	0.30%
Sichuan Changhong Xinrui Technology Co., Ltd.	Under the same ultimate controller	748,345.00	0.22%
Changhong (Hong Kong) Trade Co., Ltd.	under the same parent company	727,782.00	0.21%
PT.CHANGHONG ELECTRIC IND	under the same parent company	499,524.13	0.14%
Mianyang Lejiayi Commercial Chain Co., Ltd.	under the same parent company	224,364.82	0.07%
Chengdu Lejiayi Commercial Co., Ltd.	under the same parent company	139,628.95	0.04%
Hefei Changhong Industrial Co., Ltd.	under the same parent company	68,500.00	0.02%
Hefei Meiling Packing Products Co., Ltd.	Associated enterprise	61,654.64	0.02%
Huayi Compressor Co., Ltd.	under the same parent company	59,853.50	0.02%
Guangdong Changhong Digital Techynology Co., Ltd.	under the same parent company	52,462.49	0.02%
Sichuan Changhong International Hotel Company Limited	Under the same ultimate controller	41,580.00	0.01%
BVCH Optronics (Sichuan) Corp	Parent company's associated enterprise	34,278.93	0.01%
Tianjin Lejiayi Commercial Co., Ltd.	under the same parent company	26,333.32	0.01%
Jinan Lejiayi Commercial Co., Ltd.	under the same parent company	24,007.60	0.01%
Fuzhou Lejiayi Commercial Co., Ltd.	under the same parent company	23,267.70	0.01%
Sichuan Hongrui Electric Company Limited	Under the same ultimate controller	18,400.00	0.01%
Kunming Yijiahong Commercial Co., Ltd.	under the same parent company	14,729.77	0.00%
Guangdong Changhong Electronic Co., Ltd.	under the same parent company	9,172.80	0.00%
Taiyuan Lejiayi Commercial Chain Co., Ltd.	under the same parent company	4,402.05	0.00%

Company	Relationship with the Company	Amount	Percentage in total accounts receivable
Chongqing Hong Life Commercial Co., Ltd.	under the same parent company or the ultimate controller	1,386.00	0.00%
Total		80,943,660.64	23.49%

(8) Balance of accounts receivable in foreign currencies

Foreign currency	Amount at year-end			Amount at year-beginning		
	Original currency	Exchange rate	RMB converted	Original currency	Exchange rate	RMB converted
USD	4,205,809.36	6.8282	28,718,107.47	11,242,173.60	6.8346	76,835,759.69
EUR	328,721.23	9.7971	3,220,514.76	1,258,176.98	9.659	12,152,731.45
GBP	-	-	-	64,145.64	9.8798	633,746.09
Total	-		31,938,622.23			89,622,237.23

Annotation 4.Accounts paid in advance

(1) Aging of accounts paid in advance

Item	Amount at year-end		Amount at year-beginning	
	Amount	Percentage (%)	Amount	Percentage (%)
Within one year	101,230,842.68	92.26	132,509,893.44	97.65
1 to 2 years	5,311,572.76	4.84	10,528.72	0.01
2 to 3 years	-	-	474,141.41	0.35
Over 3 years	3,178,962.50	2.90	2,704,821.09	1.99
Total	109,721,377.94	100.00	135,699,384.66	100.00

(2) Top five largest accounts paid in advance

Company	Relationship with the Company	Amount	Aging	Reason for unsettlement
Huntsman Chemicals Trade (Shanghai) Co., Ltd.	Supplier	23,466,906.50	Within one year	Goods not received
Shanghai BASF Polyurethane Co., Ltd.	Supplier	12,080,822.86	Within one year	Goods not received
BASF China Limited	Supplier	11,611,126.99	Within one year	Goods not received
Sichuan Provincial 1 st Construction Engineering Company	Supplier	7,103,000.00	Within one year	Pending for settlement
VULKANLOKRINGRohrverbindungen GmbH & Co.KG	Supplier	5,533,535.74	Within one year	Pending for settlement
Total		59,795,392.09		

(3) The accounts paid in advance at the end of the year did not include any arrears of the shareholders holding more than 5% (including 5%) shares with voting rights of the Company.

(4) Balance of the accounts paid in advance in foreign currencies

Foreign currency	Amount at year-end			Amount at year-beginning		
	Original currency	Exchange rate		Original currency	Exchange rate	
USD	545,863.65	6.8282	3,727,266.18	5,987,909.81	6.8346	40,924,968.39
EUR	31,165.69	9.7971	305,333.37	595,252.21	9.659	5,749,541.10
Total			4,032,599.55	-	-	46,674,509.49

Annotation 5. Other accounts receivable

(1) Disclosure of other accounts receivable by category

Item	Amount at year-end				Amount at year-beginning			
	Book balance		Reserve for bad debts				Book balance	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Category 1	2,073,076.93	8.64	2,073,076.93	36.57	223,105,124.58	89.71	2,641,396.48	37.63
Category 2	2,632,579.45	10.97	2,348,984.23	41.44	2,405,856.33	0.97	2,254,457.87	32.12
Category 3	19,288,877.31	80.39	1,246,822.34	21.99	23,181,196.87	9.32	2,122,685.41	30.25
Total	23,994,533.69	100.00	5,668,883.50	100.00	248,692,177.78	100.00	7,018,539.76	100.00
Net value			18,325,650.19				241,673,638.02	

Other accounts receivable decreased 90.35% to RMB 224,697,644.09 at the end of the year as compared to the beginning of the year, primarily due to collection of the deposits of Changhong Air-conditioners and Zhongshan Changhong, the subsidiaries obtained under the same control, originally in Changhong Settlement Center through monetary funds during the period.

Category 1 Accounts with significant single amount (over RMB 1 million) or the accounts receivable with insignificant amount but with separate impairment test.

Category 2 single amount is not significant but account receivable with bigger risks after the combination of credit risk characteristics.

Category 3 is other insignificant account receivable.

1) Other accounts receivable with significant single amount or with insignificant amount but with separate impairment test at the end of the year

Company	Book balance	Bad debt amount	Provision proportion	Reason for provision
Jiangxi Kesheng Commercial Co., Ltd.	2,073,076.93	2,073,076.93	100.00%	Full provision for reserve of bad debts

Company	Book balance	Bad debt amount	Provision proportion	Reason for provision
				due to difficulty in collectio of accounts

2) Other receivables with insignificant single amount but with bigger risks after the combination of credit risk characteristics.

Item	Amount at year-end			Amount at year-beginning		
	Amount	Proportion (%)	Reserve for bad debts	Amount	Proportion (%)	Reserve for bad debts
Within one year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 3 years	-	-	-	-	-	-
3 to 4 years	285,990.00	10.86	36,294.50	227,998.12	9.48	125,398.97
4 to 5 years	225,998.12	8.59	192,098.40	325,328.72	13.52	276,529.41
Over 5 years	2,120,591.33	80.55	2,120,591.33	1,852,529.49	77.00	1,852,529.49
Total	2,632,579.45	100.00	2,348,984.23	2,405,856.33	100.00	2,254,457.87

(2) Reversal of reserve for bad debts: Nil.

(3) Other accounts receivable actually cancelled during the year: Nil.

(4) Other receivables at the end of the year did not include the arrears of the shareholders holding more than 5% (including 5%) of shares with voting rights of the Company.

(5) Top five largest other receivables

Company	Amount	Aging	Proportion in total other receivables	Nature or content
Jiangxi Kesheng Commercial Co., Ltd.	2,073,076.93	4 to 5 years	8.64%	Payment for goods
Export tax refund	997,144.65	Within one year	4.16%	Export tax refund of Zhongshan Changhong
Reserve for promotion activities during the two holidays in the sales department	906,600.00	Within one year	3.78%	Reserve for promotion activities during the two holidays in the sales department
Reserve for sales of Nanjing Division	753,383.97	Within one year	3.14%	Reserve for sales of Nanjing Division
Reserve for sales of Taiyuan Division	642,509.98	Within one year	2.68%	Reserve for sales of Taiyuan Division
Total	5,372,715.53		22.40%	

Annotation 6. Inventories

(1) Classification of inventories

Item	Amount at year-end			Amount at year-beginning		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Raw materials	121,717,700.47	1,059,300.55	120,658,399.92	68,009,965.84	1,059,300.55	66,950,665.29
Stock commodities	728,277,821.44	62,122,441.19	666,155,380.25	414,974,725.08	43,709,970.21	371,264,754.87
Low value consumable articles	2,944,921.07	-	2,944,921.07	4,181,435.08	-	4,181,435.08
Goods in transit	189,767,136.17	-	189,767,136.17	95,396,079.10	-	95,396,079.10
Goods-in-process	59,535,475.82	376,628.57	59,158,847.25	24,967,338.09	-	24,967,338.09
Deferred expense for molds	14,017,455.60	-	14,017,455.60	21,590,428.48	-	21,590,428.48
Total	1,116,260,510.57	63,558,370.31	1,052,702,140.26	629,119,971.67	44,769,270.76	584,350,700.91

The book balance of inventories increased 77.43% to RMB 487,140,538.60 at the end of the year as compared to the beginning of the year, primarily due to increase of approximately RMB 300 million in inventories caused from production expansion for the program of household appliances to the countryside by the Company in 2010 during the period and increase of approximately RMB 200 million in inventories arising from commencement of operation in 2009 of Changhong Air-conditioners obtained through the combination under the same control.

(2) Provision for impairment of inventories

Item	Amount at the year-beginning	Increase during the year	Decrease during the year		Amount at the year-end
			reversal	Other transfer-out	
Raw materials	1,059,300.55	-	-	-	1,059,300.55
Goods-in-process	-	376,628.57	-	-	376,628.57
Stock commodities	43,709,970.21	18,412,470.98	-	-	62,122,441.19
Total	44,769,270.76	18,789,099.55	-	-	63,558,370.31

(3) Provision for impairment of inventories provided

Item	Provision basis	Reason for reversal during the year	Proportion of the reversal amount during the year in the period-end balance of the inventory
Raw materials	Compare the book cost and	-	-
Goods-in-process	realizable net value of the inventory by category provided at	-	-

Stock commodities		-	-
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Annotation 7. Available-for-sale financial assets

(1) Classification of available-for-sale financial assets

Item	Fair value at year-end	Fair value at year-beginning
Available-for-sale bonds	-	-
Available-for-sale equity instruments	134,011,570.00	166,220,000.00
Others	-	-
Total	134,011,570.00	166,220,000.00

The Company held 6.60 million legal person shares of Anhui USTC Iflytek Co., Ltd. (abbreviated name: USTC Iflytek; stock code: 002230) at the beginning of the year, accounting for 6.16% of its registered capital, at a cost of RMB 18,960,000.00. On May 22, 2009, USTC Iflytek carried out its profit distribution for 2008, converting 5 shares and paying RMB 2.5 for every 10 shares held to all of its shareholders based on the 107,166,000 shares as at Dec. 31, 2008, through which, the total number of its shares held by the Company increased to 9,582,750 shares. In 2009, the Company sold a total of 6,091,250 shares, including: (1) 211,500 shares sold through the auction system of Shenzhen Stock Exchange from May 12 to 21, 2009 for a price of RMB 35.58 per share on average; (2) 5,879,750 shares sold in succession during May 22 to Dec. 31, 2009 for a price of RMB 34.67 per share on average. As of Dec. 31, 2009, the Company still held 3,703,000 shares of USTC Iflytek. The close price of these tradable shares was RMB 36.19 per share at a fair value of RMB 134,011,570.00, RMB 126,919,763.94 of which was credited to capital reserves.

The Company held 1 million legal person shares of China Pacific Insurance (Group) Co., Ltd. (stock code: 601601) at the beginning of the year, accounting for 0.01299% of its registered capital, for a cost of RMB 580,000.00. On Jul. 1 – 3, 2009, the Company sold all the shares in succession for a price of RMB 24.15 per share on average. The Company no longer held any shares of China Pacific Insurance (Group) Co., Ltd.

Annotation 8. Long-term equity investment

(1) Classification of long-term equity investment

Item	Amount at year-end	Amount at year-beginning
Long-term equity investment accounted in the cost method	10,260,000.00	6,660,000.00
Long-term equity investment accounted in the equity method	28,428,371.63	27,058,769.12
Total long-term equity investment	38,688,371.63	33,718,769.12
Less: Provision for impairment of long-term equity investment	1,660,000.00	1,660,000.00
Value of long-term equity investment	37,028,371.63	32,058,769.12

(2) Long-term equity investment accounted in the cost method and the equity method

Invested company	Holding proportion (%)	Voting right proportion (%)	Initial amount	Amount at year-beginning	Increase during the year	Decrease during the year	Amount at year-end	Cash dividend for the year
Accounting in the cost method								
1. Huishang Bank Co., Ltd.	1.15	1.15	5,000,000.00	5,000,000.00	-	-	5,000,000.00	-
2. Hefei Meiling Sigma Appliance Co., Ltd.*	20.00	20.00	1,660,000.00	1,660,000.00	-	-	1,660,000.00	-
3. Jiujiang Meiling Electric Marketing Co., Ltd.	20.00	20.00	900,000.00	-	900,000.00	-	900,000.00	-
4. Chaohu Meiling Electric Marketing Co., Ltd.	20.00	20.00	900,000.00	-	900,000.00	-	900,000.00	-
5. Bozhou Meiling Electric Marketing Co., Ltd.	20.00	20.00	900,000.00	-	900,000.00	-	900,000.00	-
6. Guangyuan Meiling Electric Marketing Co., Ltd.	20.00	20.00	900,000.00	-	900,000.00	-	900,000.00	-
Sub-total	-	-	10,260,000.00	6,660,000.00	3,600,000.00	-	10,260,000.00	-
Accounting in the equity method								
1. Hefei Meiling Packing Products Co., Ltd.	48.28	48.28	25,055,600.00	24,765,837.59	1,073,750.08	-	25,839,587.67	-
2. Anhui United Technology Property Exchange Co., Ltd.	28.57	28.57	1,000,000.00	2,292,931.53	295,852.43	-	2,588,783.96	-
Sub-total	-	-	26,055,600.00	27,058,769.12	1,369,602.51	-	28,428,371.63	-
Total			36,315,600.00	33,718,769.12	4,969,602.51	-	38,688,371.63	-

(2) Investment in associated companies

Invested company	Business type	Registration place	Legal representative	Business quality	Registered capital	Holding proportion (%)	Voting right proportion (%)
1. Hefei Meiling Packing Products Co., Ltd.	Limited company	Hefei	Sun Qingfeng	Production and sales	RMB 18.40 million	48.28	48.28
2. Anhui United Technology Property Exchange Co., Ltd.	Limited company	Hefei	Chen Hua	Property trading	RMB 5 million	28.57	28.57

(continued)

Invested company	Total assets at year-end	Total liabilities at year-end	Total net assets at year-end	Total operating income of the year	Net profit of the year
1. Hefei Meiling Packing Products Co., Ltd.	153,535,925.29	100,015,652.77	53,520,272.52	99,250,334.57	2,224,005.96
2. Anhui United Technology Property Exchange Co., Ltd.	10,274,872.85	3,118,008.95	7,156,863.90	2,043,331.00	1,035,535.29

(3) Provision for impairment of long-term equity investment

Invested company	Amount at year-beginning	Increase during the year	Decrease during the year	Amount at year-end	Reason for decrease
Hefei Meiling Sigma Appliance Co., Ltd.	1,660,000.00	-	-	1,660,000.00	Operation ceased; proposed to be liquidated

Annotation 9. Investment properties

(1) Investment properties measured at costs

Item	Amount at year-beginning	Increase during the year	Decrease during the year	Amount at year-end
Cost	12,094,130.49	12,264,517.72	5,500,000.00	18,858,648.21
Houses and buildings	11,177,439.11	12,264,517.72	5,500,000.00	17,941,956.83
Land use rights	916,691.38	-	-	916,691.38
Accumulated depreciation and accumulated amortization	3,316,700.54	1,188,271.79	69,719.33	4,435,253.00
Houses and buildings	3,168,850.93	1,149,903.27	69,719.33	4,249,034.87
Land use rights	147,849.61	38,368.52	-	186,218.13
Provision for impairment	-	-	-	-
Houses and buildings	-	-	-	-
Land use rights	-	-	-	-
Book value	8,777,429.95	-	-	14,423,395.21
Houses and buildings	8,008,588.18	-	-	13,692,921.96
Land use rights	768,841.77	-	-	730,473.25

(2) Investment properties with property certificates in process

Item	Reason	Expected time for
Sheet metal plant housing	Fire inspection procedures are currently being	2010
Injection-molding plant	Fire inspection procedures are currently being	2010

Annotation 10. Fixed assets

(1) Classification of fixed assets by item

Item	Amount at year-beginning	Increase during the year	Decrease during the year	Amount at year-end
Cost	1,149,424,385.02	176,694,396.05	58,370,904.95	1,267,747,876.12
Houses and buildings	317,197,641.61	89,417,738.45	29,884,392.56	376,730,987.50
Mechanical equipment	780,631,765.67	48,043,961.53	26,241,725.16	802,434,002.04
Transport equipment	24,482,932.89	2,191,240.36	1,162,293.96	25,511,879.29
Others	27,112,044.85	37,041,455.71	1,082,493.27	63,071,007.29
Accumulated depreciation	348,419,828.22	101,671,777.25	4,162,064.11	445,929,541.36
Houses and buildings	39,934,629.38	5,326,551.73	679,268.61	44,581,912.50
Mechanical equipment	286,575,246.42	87,914,288.29	1,502,318.00	372,987,216.71
Transport equipment	11,342,176.75	2,789,941.27	578,582.77	13,553,535.25
Others	10,567,775.67	5,640,995.96	1,401,894.73	14,806,876.90
Provision for impairment	13,008,045.74	6,547,384.08	408,816.99	19,146,612.83
Houses and buildings	950,000.00	-	-	950,000.00
Mechanical equipment	9,678,678.15	6,547,384.08	408,816.99	15,817,245.24
Transport equipment	596,067.96	-	-	596,067.96
Others	1,783,299.63	-	-	1,783,299.63
Book value	787,996,511.06	-	-	802,671,721.93
Houses and buildings	276,313,012.23	-	-	331,199,075.00
Mechanical equipment	484,377,841.10	-	-	413,629,540.09
Transport equipment	12,544,688.18	-	-	11,362,276.08
Others	14,760,969.55	-	-	46,480,830.76

In the fixed assets increased in the year, the amount transferred from construction in progress was RMB 116,025,416.69; all the accumulated depreciation increased in the year was provided in the year.

In the fixed assets decreased in the year, costs decreased by RMB 58,370,904.95 in the year, including: ① rejection of fixed assets decreased costs of RMB 4,870,206.22 and accumulated depreciation of RMB 3,250,883.21; ② RMB 12,264,517.72 was transferred to investment properties; ③ the breakdown of fixed assets was adjusted by RMB 15,137,554.03; ④ other decrease was mainly adjustment of previously estimated amount of RMB 26,098,626.98.

The fixed assets provided impairment provision in the year were the equipments that could not be used normally and were planned to be rejected.

(2) Fixed assets idle temporarily: Nil.

(3) Fixed assets leased through operating lease: Nil.

(4) Fixed assets used for mortgage

Name	No.	Original value	Net value	Bank for mortgage
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Name	No.	Original value	Net value	Bank for mortgage
Substation	Property Ownership Right (FD) No. 028273	12,055.47	7,760.26	Hefei Municipal Bureau of Finance
Plant workshop	Property Ownership Right (FD) No. 028283	2,796,137.00	2,403,607.67	Hefei Municipal Bureau of Finance
Air compressor House	Property Ownership Right (FD) No. 028282	231,928.00	9,277.12	Hefei Municipal Bureau of Finance
Power distribution room	Property Ownership Right (FD) No. 028278	88,970.00	83,434.08	Hefei Municipal Bureau of Finance
Crusher room	Property Ownership Right (FD) No. 028284	242,232.00	215,238.92	Hefei Municipal Bureau of Finance
Plant of the plastic industry branch	Property Ownership Right (FD) No. 007761	5,200,216.00	4,471,788.76	Bank of Communications
Center warehouse	Property Ownership Right (FD) No. 028285	22,228,826.09	14,366,119.59	Huishang Bank Dadongmen Sub-branch
Industrial house	Property Ownership Right Zi No. 026781	28,622,393.82	24,379,797.42	China Construction Bank Hefei Luyang Sub-branch
Office building	Property Ownership Right Zi No.026782			
Plant workshop	Property Ownership Right Zi No.026780			
Export base	He Guo Yong Zi No. 0121			
Office building	YFDZZ No. C1628036k ZFGY (2003) No. 020642	11,168,842.00	7,301,713.58	Industrial Bank Zhongshan Sub-branch
The 3rd plant	YFDZZ No. C1628037k ZFGY (2003) No. 020641	11,472,517.36	6,903,755.99	Industrial Bank Zhongshan Sub-branch
Total		82,064,117.74	60,142,493.39	

(5) Fixed assets with property certificates in process

Item	Reason	Expected time for completion
Canteen	Fire inspection procedures are currently being	2010
1# dormitory building	Fire inspection procedures are currently being	2010
2# dormitory building	Fire inspection procedures are currently being	2010
Power Distribution House Air Compressure station	Fire inspection procedures are currently being processed	2010
Chemistry warehouse	Fire inspection procedures are currently being	2010
No.2 main workshop	Fire inspection procedures are currently being	2010
No.2 finished products warehouse	Fire inspection procedures are currently being	2010
Plate-squeeze and plastic-sucking	Fire inspection procedures are currently being	2010

Raw material storehouse	Fire inspection procedures are currently being	2010
Waster station	Fire inspection procedures are currently being	2010
R&D center	Fire inspection procedures are currently being	2010
Administration center	Fire inspection procedures are currently being	2010
Marketing center	Fire inspection procedures are currently being	2010
Multi-function center	Fire inspection procedures are currently being	2010
No.6 workshop	Fire inspection procedures are currently being	2010
1# dormitory building for cadresmen	Fire inspection procedures are currently being	2010
2# dormitory building for cadresmen	Fire inspection procedures are currently being	2010

Annotation 11. Construction in progress

(1) Breakdown of construction in progress

Item	Amount at year-end			Amount at year-beginning		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Phase II of Changhong Meiling industry park	1,976,901.20	-	1,976,901.20	2,439,457.22	-	2,439,457.22
Expense item for the phase I project of Meiling bar code system	-	-	-	4,103,711.89	-	4,103,711.89
Equipments pending for installation and etc.	5,939,138.73	124,500.00	5,814,638.73	42,548,074.80	-	42,548,074.80
Other minor projects etc.	1,138,898.09	-	1,138,898.09	-	-	-
Total	9,054,938.02	124,500.00	8,930,438.02	60,718,603.10	-	60,718,603.10

(2) Changes in significant construction in progress

Name	Amount at year-beginning	Increase during the year	Decrease during the year		Amount at year-end
			Transfer to fixed assets	Other decrease	
Phase II of Changhong Meiling industry park	2,439,457.22	62,378,433.65	62,840,989.67		1,976,901.20
Equipments pending for installation (relocation and reconstruction project)	35,789,092.81	774,444.42	36,563,537.23		-

(continued)

Name	Budget	Proportion of project investment in budget (%)	Progress	Accumulated amount of interest capitalization	Including : interest capitalized amount of the year	Interest capitalization rate of the year (%)	Capital source
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Name	Budget	Proportion of project investment in budget (%)	Progress	Accumulated amount of interest capitalization	Including : interest capitalized amount of the year	Interest capitalization rate of the year (%)	Capital source
Phase II of Changhong Meiling industry park	280,000,000.00	72.44	99%	723,142.19	240,819.79	5.31	Loan
Equipments pending for installation (relocation and reconstruction project)	35,000,000.00	95.57	100%				Self-financing

(3) Provision for impairment of construction in progress

Item	Amount at year-beginning	Increase during the year	Decrease during the year	Amount at year-end	Reason for provision
Equipment pending for installation (bender)	-	124,500.00	-	124,500.00	The equipment technology relatively backward

Annotation 12. Clearing of fixed assets

Item	Amount at year-end	Amount at year-beginning	Reason for transfer to clearing
Net value of houses and buildings relocated	-	157,908,608.46	Demolition disposal
Expenses and losses from relocation of equipments	-	108,163,629.91	Demolition disposal
Remaining net value of land use rights	-	78,044,738.24	Government collection
Value of construction in progress removed	-	13,699,198.73	Demolition
Others	-	196,948.46	Disposal or damage
Total	-	358,013,123.80	

In line with the relevant regulations of No.89 file of Hefei government and the spirit of relevant governmental meetings, the Company reaches Agreement on Taking Back of the Right of the Use of State-owned Land with Hefei Land Reserve Center in 2006. Hefei Land Reserve Center agreed to take back the lands with total areas of 119,400 square meters respectively lies in No. 33 and No. 48 of Wuhu Road. The Ministry of Finance of Hefei should pay the relevant subsidy (including expenses in movement, relocation and settlement.) for the lands to the Company within 6 months after the lands business is done in list market. Detailed subsidy is decided according to 65% of the total transaction amount of the lands (tax paid) which is already deducted the bank interest (estimation fee included) arising from land pledged for loan made by Hefei Land Reserve Center.

Clearing of fixed assets amounted to RMB 358,013,123.80 at the beginning of the year,

primarily due to losses of scrapping of houses and equipments, product losses, labor expenses and fees for installation and debugging of equipments caused from relocation as of the end of 2008. As of the end of 2009, the year-end balance of clearing of fixed assets was zero, due to the clearing of fixed assets carried forward on obtaining of government compensation in the year. For details, please refer to Notes VIII. 28 Special accounts payable.

Annotation 13. Intangible assets

(1) Items of intangible assets are set out as follows:

Item	Amount at year-beginning	Increase during the year	Decrease during the year	Amount at year-end
Cost of intangible assets	749,049,189.41	31,236,006.52	-	780,285,195.93
Land use right	583,863,524.04	31,084,385.00	-	614,947,909.04
Trademark special right	130,078,300.00	-	-	130,078,300.00
New hybrid ultra-low temperature refrigerant throttling cooling technology	18,000,000.00	-	-	18,000,000.00
Non-patent technology	17,107,365.37	151,621.52	-	17,258,986.89
Accumulated amortization	142,123,151.56	34,456,632.91	-	176,579,784.47
Land use right	46,240,228.34	12,652,864.46	-	58,893,092.80
Trademark special right	82,382,923.22	13,007,830.00	-	95,390,753.22
New hybrid ultra-low temperature refrigerant throttling cooling technology	13,500,000.00	2,250,000.00	-	15,750,000.00
Non-patent technology	-	6,545,938.45	-	6,545,938.45
Provision for impairment	-	-	-	-
Land use right	-	-	-	-
Trademark special right	-	-	-	-
New hybrid ultra-low temperature refrigerant throttling cooling technology	-	-	-	-
Non-patent technology	-	-	-	-
Book value	606,926,037.85	-	-	603,705,411.46
Land use right	537,623,295.70			556,054,816.24
Trademark special right	47,695,376.78			34,687,546.78
New hybrid ultra-low temperature refrigerant throttling cooling technology	4,500,000.00			2,250,000.00
Non-patent technology	17,107,365.37			10,713,048.44

(2) In the formation of land use right, including: ① Land use right at the beginning of the year comes from that: In 2004, the Company took account receivable for change of the land in Meiling Group Company Development Zone; on Dec. 31st of 2005, Meiling Group Company and Meiling Washer Company used the land use right of their development zone to commute

the debts they owed to the Company. The relevant transfer procedure for the certificates for the right of use of the land has been finished. And the certificate numbers for the two certificates for right of use of the state-owned land are respectively HGY (2007) No. 061 and HGY (2007) No. 076; ② The new land use right increased during the year is the land obtained from the subsidiary Jiangxi Meiling's bidding part of bankruptcy assets of Jingdezhen Huayi Electric Corporation. The land is located in No. 206, Cidu Avenue, Jingdezhen City, the procedures for transfer of which are still pending.

(3) The trademark special right is obtained through the transfer from Meiling Group Company in 2002, amortized in 10 years.

(4) The new mixed-refrigerant technology in throttling and refrigerating and its application research in cryogenic reserve box is an intangible asset devoted to the subsidiary – China-tech Meiling in 2002 by Technical Institute of Physics and Chemistry in Chinese Academy of Science. With appraisal, its value is RMB 18million which takes 30% equity of Zhongke Meiling Company. The agreement regulates that the amortization term is 8 years.

(5) As of the end of 2009, security of intangible assets is as follows:

Name	Land no.	Area	Net book value	Remark
Meiling Industry Park in Section A of Longgang Industry Zone	DGY (2002) No. 0257	10,560M ²	4,023,976.83	Bank of Communications Hefei Branch
Meiling Industry Park in Section A of Longgang Industry Zone	DGY (2002) No. 0259	5,015M ²		Bank of Communications Hefei Branch
Total			4,023,976.83	

Annotation 14. Development expense

Item	Amount at year-beginning	Increase during the year	Decrease during the year		Amount at year-end
			Record into current gains and losses	Confirm as intangible assets	
Technology development for Changhong Air Conditioner	-	18,631,111.74	3,355,164.75	-	15,275,946.99
Patent design for the new appearance of Zhongshan Changhong	-	137,665.98	-	-	137,665.98
Total	-	18,768,777.72	3,355,164.75	-	15,413,612.97

Annotation 15. Long-term amortized expense

Item	Amount at year-beginning	Increase during the year	Amortization during the year	Other decrease during the year	Amount at year-end	Reason for other decrease
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Item	Amount at year-beginning	Increase during the year	Amortization during the year	Other decrease during the year	Amount at year-end	Reason for other decrease
R3 informant system	-	1,200,000.00	600,000.00	-	600,000.00	

Annotation 16. Deferred income tax assets and deferred income tax liabilities

(1) Recognized deferred income tax assets and deferred income tax liabilities

Item	Amount at year-end	Amount at year-beginning
Deferred income tax assets		
Provision for impairment of assets	18,128,370.33	13,715,955.21
Projected liability	13,630,309.58	-
Difference of depreciation terms	206,824.28	-
Total	31,965,504.19	13,715,955.21
Deferred income tax liabilities		
Valuation of tradable financial instrument and derivative financial instrument	-	-
Change of fair value of financial assets available-for-sale, written into capital reserve	19,037,964.60	22,002,000.00
Total	19,037,964.60	22,002,000.00

(2) Unrecognized deferred income tax assets

Item	Amount at year-end	Amount at year-beginning
Deductable temporary difference	1,383,379.73	2,270,759.86
Deductable loss	5,522,300.23	810,590.47
Total	6,905,679.96	3,081,350.33

Due to that whether the future income obtained by Jiangxi Meiling and Mianyang Meiling, the subsidiaries of the Company, could be sufficient for being subject to taxation, such uncertainty led to no recognition for deferred income tax assets.

(3) Temporary difference corresponding to asset and liability items leading to temporary difference

Item	Amount of temporary difference
Deferred income tax assets	
Bad debt reserve for accounts receivable	31,088,390.83
Bad debt reserve for other receivables	5,548,659.46
Depreciation reserve for inventory	63,181,741.74
Impairment provision for long-term equity investment	1,660,000.00
Impairment provision for construction in progress	124,500.00
Impairment provision for fixed assets	18,219,192.79

Item	Amount of temporary difference
Difference of depreciation terms	1,378,828.55
Projected liability	90,868,730.51
Total	212,070,043.88
Deferred income tax liabilities	
Change of fair value of financial assets available-for-sale	126,919,763.94
Total	126,919,763.94

Annotation 17. Impairment provision for assets

Item	Amount at year-beginning	Increase during the year	Decrease during the year		Amount at year-end
			Reversing	Other transfer-out	
Bad debt reserve	31,011,607.56	7,370,663.87	-	5,041,089.96	33,341,181.47
Inventory falling price reserves	44,769,270.76	18,789,099.55	-	-	63,558,370.31
Depreciation reserve for financial asset available-for-sale	-	-	-	-	-
Depreciation reserve for held-to-maturity investment	-	-	-	-	-
Depreciation reserve for long-term equity investment	1,660,000.00	-	-	-	1,660,000.00-
Depreciation reserve for investment of real estate	-	-	-	-	-
Depreciation reserve for fixed asset	13,008,045.74	6,547,384.08	-	408,816.99	19,146,612.83
Depreciation reserve for project material	-	-	-	-	-
Depreciation reserve for construction in process	-	124,500.00	-	-	124,500.00
Depreciation reserve for capitalized biological asset	-	-	-	-	-
Including: depreciation reserve for matured capitalized biological asset	-	-	-	-	-
Depreciation reserve for oil and gas asset	-	-	-	-	-
Depreciation reserve for intangible asset	-	-	-	-	-
Depreciation reserve for goodwill	-	-	-	-	-
Others	-	-	-	-	-
Total	90,448,924.06	32,831,647.50	-	5,449,906.95	117,830,664.61

Annotation 18. Short-term loans

Kinds of loans	Amount at year-end	Amount at year-beginning
Loan in pledge	-	-

Kinds of loans	Amount at year-end	Amount at year-beginning
Loan in mortgage	9,000,000.00	162,000,000.00
Loan in assurance	175,000,000.00	174,427,193.11
Loan in credit	-	-
Total	184,000,000.00	336,427,193.11

Annotation 19. Notes payable

(1) Listed according to types of notes

Type	Amount at year-end	Amount at year-beginning
Bank acceptance bill	404,691,072.19	515,224,433.19
Commercial acceptance bill	-	113,245,703.75
Total	404,691,072.19	628,470,136.94

Balance of notes payable as of the end of this year would all be due within the next accounting period.

(2) Particulars about the material bank acceptance bills (top 5)

Issuing bank	Name of receiver	Date of release of bills	Expiring day	Amount
Dongchengang Branch of Hefei Science & Technology Rural Commercial Bank	Guangzhou Wanbao Group Compressor Co., Ltd.	2009-08-18	2010-02-18	10,000,000.00
Shouchun Luqiao Branch of Bank of Communications	Hangzhou Qianjiang Compressor Co., Ltd.	2009-08-20	2010-02-20	10,000,000.00
Dadongmen Branch of Huishang Bank	Hangzhou Qianjiang Compressor Co., Ltd.	2009-07-27	2010-01-24	7,630,000.00
Business department of Hefei Branch of China Merchants Bank	Hangzhou Qianjiang Compressor Co., Ltd.	2009-10-20	2010-04-20	7,480,000.00
Hefei Shengli Road Branch of Citic Bank of Shengli Road Branch	Guangzhou Wanbao Group Compressor Co., Ltd.	2009-10-20	2010-04-20	7,310,000.00
Total			-	42,420,000.00

Annotation 20. Account payable

(1) Account payable

Item	Amount at year-end	Amount at year-beginning
Total	1,157,326,858.96	695,846,531.11
Including: over 1 year	4,856,442.30	19,743,015.28

Balance of account payable as at year-end has increased by 66.31% with RMB 461,480,327.85 in comparison of the balance as at year-begin, which was mainly due to that the Company increased materials purchase from suppliers for its expanding production scale, which led an increase of balance of goods payments payable in normal accounting period.

(2) Accounts payable to shareholders holding 5% or above voting shares of the Company

Name of unit			Amount at year-end	Amount at year-beginning
Sichuan Changhong Electrical Appliance Co., Ltd.			5,769,505.99	5,053,199.18
Sichuan Changhong Electrics Group Co., Ltd.			-	22,380.00

(3) Account payable denominated in foreign currency

Foreign currency	Amount at year-end			Amount at year-beginning		
	Original currency	Conversion exchange rate	RMB equivalent	Original currency	Conversion exchange rate	RMB equivalent
USD	101,933.53	6.8282	696,022.54	-	-	-
JPY	40,324,770.27	0.0738	2,975,242.20	4,435,872.84	0.0757	335,573.78
Total	-	-	3,671,264.74	-	-	335,573.78

(4) Accounts ageing over one year in the balance of account payable as at year-end amounted to RMB 4,856,442.30, which were unsettled accounts.

Annotation 21. Account received in advance

(1) Account received in advance

Item	Amount at year-end	Amount at year-beginning
Total	718,021,736.69	333,781,822.55
Of which: over 1 year	40,337,297.60	37,469,391.14

Balance of account received in advance as at year-end has increased by 115.12% with RMB 384,239,914.14 in comparison of the balance as at year-begin, which was mainly due to that products sold through activity of "Home Appliance Going to Countryside" received warm welcome, thus distributors increased accounts paid in advance to the Company.

(2) Accounts received in advance from shareholders holding 5% or above voting shares of the Company

Name of unit			Amount at year-end	Amount at year-beginning
Sichuan Changhong Electrical Appliance Co., Ltd.			4,681,218.92	4,645,445.98

(3) Account received in advance denominated in foreign currency

Foreign currency	Amount at year-end			Amount at year-beginning		
	Original currency	Conversion exchange rate	RMB equivalent	Original currency	Conversion exchange rate	RMB equivalent
GBP	-	-	-	21,764.28	9.6590	210,221.18
EURO	18,884.62	9.7971	185,014.51	724,779.94	9.8798	7,160,680.85
USD	4,320,142.04	6.8282	29,498,793.88	11,777,674.64	6.8346	80,495,695.09
Total	-	-	30,364,096.87	-	-	87,866,597.12

(4) Accounts ageing over one year in the balance of account received in advance as at year-end were principally resulted from delay of pick-ups of distributors since accounts were paid in advance.

Annotation 22. Wages payable

(1) Listed according to items

Item	Amount at year-beginning	Increase in this year	Decrease in this year	Amount at year-end
Salary, bonus, allowance and subsidy	5,206,370.11	233,037,047.49	215,927,337.88	22,316,079.72
Welfare for workers and staff	-	6,548,800.34	6,527,800.34	21,000.00
Social insurance	2,641,110.39	39,524,088.88	36,120,841.89	6,044,357.38
Including: Medical insurance	61,602.75	9,980,454.15	9,868,833.24	173,223.66
Basic endowment insurance	2,579,321.68	26,077,855.96	22,959,942.04	5,697,235.60
Unemployment insurance	84.53	2,037,162.15	1,889,621.89	147,624.79
Work injury insurance	59.17	743,474.20	728,207.75	15,325.62
Maternity insurance	42.26	685,142.42	674,236.97	10,947.71
Housing accumulation fund	5,425,950.13	21,892,621.38	22,685,512.66	4,633,058.85
Labor union expenditure and personnel education expense	969,192.61	79,462.11	577,108.09	471,546.63
Non-monetary welfare	-	-	-	-
Dismiss welfare*	16,683,041.51	25,950,028.58	6,279,582.15	36,353,487.94
Others	984,713.28	230,779.97	193,537.70	1,021,955.55
Including: shares payment settled with cash	-	-	-	-
Total	31,910,378.03	327,262,828.75	288,311,720.71	70,861,486.07

Referring to the employee inner advance retire policy made by the Company and the resolution made in the 29th meeting of the 5th session Board of Directors on Jan 28th of 2008, the female employee above 45 years old and male employee above 48 can retire in advance if the Company and themselves all agree. The dismiss welfare of wages and social insurances which should be enjoyed to the retire time by the employees who have already made inner retire, amounting to RMB 25,950,028.58 for this year. Since the Company has committed that it would make corresponding improvement for treatment of the inner retired employees as the lowest life security climbs. When calculating expense of wages and social insurances received by the inner retired employees, the Company was subject to present standard, without consideration of discount.

(2) Balance of wages payable as at year-end, mainly refers to the annual bonus provided for 2009. There is no default accounts in the balance.

Annotation 23. Tax payable

Item	Amount at year-end	Amount at year-beginning
Value-added tax	7,659,079.78	6,961,061.25
Business tax	108,452.68	112,727.80
Enterprise income tax	50,364,171.13	-3,358,311.12

Item	Amount at year-end	Amount at year-beginning
Individual income tax	1,948,106.37	1,152,664.21
Urban maintenance and construction tax	1,767,330.82	2,352,413.01
House property tax	854,921.87	645,104.06
Land-use right tax	531,328.86	2,028,933.09
Educational surtax	1,006,341.02	1,352,879.41
Stamp tax	329,088.92	165,280.70
Construction fund of Water Conservancy Projects	682,917.39	521,355.83
Fund for coarse adjustment	156,037.62	98,068.30
Fund for flood prevention	238,436.77	176,481.97
Staudamm fee	16,387.12	17,740.78
Total	65,662,600.35	12,226,399.29

Amount of tax payable as at year-end has increased by 437.06% with RMB 53,436,201.06 in comparison of the amount as at year-begin, which was mainly due to increase of enterprise income tax.

Annotation 24. Dividends payable

Name of unit	Amount at year-end	Amount at year-beginning	Reason for unsettlement over one year
Industry and Commercial Bank of China of Hefei Branch	-	170,775.00	
Hefei Meiling Group (Holdings) Co., Ltd	167,506.42	167,506.42	Not required for payment by the counterparty
International Business Department of Industry and Commercial Bank of China of Anhui Branch	153,697.50	153,697.50	Not required for payment by the counterparty
Provincial Technic Import and Export Company	153,697.50	153,697.50	Not required for payment by the counterparty
Communication Bank of Hefei Branch	153,697.50	153,697.50	Not required for payment by the counterparty
Other 26 piecemeal units	588,576.50	588,576.50	Not required for payment by the counterparty
Total	1,217,175.42	1,387,950.42	

Annotation 25. Other payable

(1) Other payable

Item	Amount at year-end	Amount at year-beginning
Total	624,779,113.24	352,349,249.16
Of which: over 1 year	42,859,491.14	143,236,700.96

Balance of other payable as at year-end has increased by 77.32% with RMB 272,429,864.08 in comparison of the amount of last year, which was mainly due to unsettlement of RMB

275,492,000.00 as payment for equity purchase from Sichuan Changhong in Changhong Air Conditioner and Zhongshan Changhong during the report period and the sales expense of RMB 263,208,182.46 which has already occurred and been withdrawn while not reimbursed yet as at period-end.

Other payable ageing over one year mainly included the deposits payable to suppliers.

(2) Other payable to shareholders holding 5% or above voting shares of the Company

Name of unit	Amount at year-end	Amount at year-beginning
Sichuan Changhong Electrical Appliance Co., Ltd.	286,242,599.05	166,819,165.92
Total	286,242,599.05	166,819,165.92

(3) Other payable with great amount as at year-end

Item	Amount	Ageing	Nature or content
Sichuan Changhong Electrical Appliance Co., Ltd.	286,242,599.05	Within 1 year, 1-2 years	Equity transfer payment payable
Withholding sales expense	263,208,182.46	Within 1 year	Withholding sales expense which has occurred while not reimbursed yet
Total	549,450,781.51		

Annotation 26. Non-current liability due within one year

(1) Listed according to items

Item	Amount at year-end	Amount at year-beginning
Long-term loans due within one year	3,000,000.00	-
Bonds payable due within one year	-	-
Long-term accounts payable due within one year	-	-
Total	3,000,000.00	-

(2) Long-term loans due within one year

Type	Amount at year-end	Amount at year-beginning
Loan in pledge	-	-
Loan in mortgage	-	-
Loan in assurance	3,000,000.00	-
Loan in credit	-	-
Total	3,000,000.00	-

(3) Top 5 long-term loans due within one year as at year-end

Loan unit	Amount	Term	Interest rate per annum %
Hefei Chenghuangmiao Branch of Huishang Bank	3,000,000.00	2008.08.18-2010.08.18	6.30
Total	3,000,000.00		

Annotation 27. Other current liabilities

Item	Amount at year-end	Amount at year-beginning
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Item	Amount at year-end	Amount at year-beginning
Incentive capital received from government in advance	20,172,100.00	-

Pursuant to HJYX(2009)No. 43 Notice jointly promulgated by Economy Committee of Hefei and Hefei Finance Bureau-“Notice on Publishing “Encourage Policy for Promotion of Industrial Economy with Stable and Rapid Growth””, in order to encourage more production and sales, the exceeding part of the gross output value of industry and main business income made in 2009 over that of 2008 would be entitled with encouragement from government, after deducting the increase of basic increase. With the purpose for fully exercising policy incentive and alleviating capital turnover pressure of enterprises, the government appropriates capital in advance to cash such encouragement. The Economy Committee and the Finance Bureau would make annual examination on enterprises, determining how much encouragement could be attributed to enterprises for the whole year. With approval from city government, such encouragement capital would be transacted, in principle of refund for any overpayment or a supplemental payment for any deficiency. The Company received the appropriated incentive of RMB 20,172,100.00 in April 2009. as the annual examination for 2009 is still being made, particulars about the incentive is still uncertain. Therefore, subject to principle of prudence, the Company treated this account as liability recognition temporarily.

Annotation 28. Long-term loans

(1) Classification of long-term loans

Type	Amount at year-end	Amount at year-beginning
Loan in pledge	-	-
Loan in mortgage	7,040,000.00	7,040,000.00
Loan in assurance	-	3,000,000.00
Loan in credit	8,207,300.00	9,158,200.00
Total	15,247,300.00	19,198,200.00

(2) Top 5 long-term loans as at year-end

Loan unit	Borrowing day	Returning day	Currency	Interest rate (%)	Amount at year-end		Amount at year-beginning	
					Amount in foreign currency	Amount in standard currency	Amount in foreign currency	Amount in standard currency
Ministry of Finance Hefei *	2006-11-09	2021-11-08	RMB	4.44	-	7,040,000.00	-	7,040,000.00
Ministry of Finance Hefei **	2002-11-21	2017-11-20	RMB	2.82	-	5,207,300.00	-	5,858,200.00
Ministry of Finance Hefei ***	2002-12-10	2017-12-10	RMB	2.82	-	3,000,000.00	-	3,300,000.00
Hefei Chenghuangmiao Branch of Huishang Bank	2008-08-18	2010-08-18	RMB	6.30	-	-	-	3,000,000.00
Total	-	-	-	-	-	15,247,300.00	-	19,198,200.00

* In August of 2006, the Company signed Asset Mortgage Agreement with Ministry of Finance

of Hefei. It takes five industry crusher chambers which cover an area of 2,322.98 square meters (Details could be found in Fixed assets for mortgage in the Appendix VIII and X) as mortgage for the Company to get the lending of treasury bond fund which has 15-year term and worthy of RMB 7,040,000 from the Ministry of Finance of Hefei. The capital on-lending began to bear interest from the appropriate date (Nov. 9th, 2006), which would be paid by stages in the loan period to Ministry of Finance of Hefei by the Company. The first four years were grace period, during which the annual interest rate was subject to floating interest rate (the annual interest rate was the annual interest rate of one year fixed deposit plus 0.3%). The interest payable in this year was RMB 312,600.00.

** On Nov. 1st, 2002, the Company signed Agreement on Lending of Treasury Bond for Building Project fund with Ministry of Finance of Hefei, which promised that Ministry of Finance of Hefei lending treasury bond RMB 7,160,000 of the technology reform project of nanometer preservation material to the Company with the return time limit of 15 years. The capital on-lending began to calculate the interest from the appropriate date (Nov. 21, 2002), which would be paid by stages in the loan period to Ministry of Finance of Hefei by the Company. The first four years were grace period, in which the annual interest rate was subject to floating interest rate after year 1999 (the annual interest rate was the annual interest rate of one year fixed deposit plus 0.3%). The principal repaid in this year was RMB 650,900.00, and interest was RMB 165,200.00.

*** It was the special treasury bond capital appropriated by Ministry of Finance of Hefei for enterprises' information reform, received on Dec. 10th, 2004. The principal repaid in this year was RMB 300,000.00, and interest was RMB 93,100.00.

Annotation 29. Special payable

Item	Amount at year-begin	Increase during the year	Decrease during the year	Amount at year-end
Governmental subsidy for relocation	-	422,511,200.00	388,287,782.53	34,223,417.47

Special payable has increased with RMB 422,511,200.00 this year. In September 2006, the Company entered into Agreement on Recovery of State-owned Land Use Right with Hefei Land Reserve Center (hereinafter referred to as Reserve Center). Reserve center paid to the Company for recovering state-owned land use right over two pieces of land held by the Company (No. 33 and No. 48 land located in Wuhu road, Hefei) with aggregate area of 119,400 square meters. Pursuant to the Agreement, Ministry of Finance of Hefei would pay the Company as compensation for land recovery (including dismantling, relocation and setting) within 6 months since the land is listed for trade. The detailed compensation is computered according to 65% of total transaction amount of the land less taxation and bank interest (including valuation fee) arising from bank pledge with the land of Reserve Center. In June 2009, the forementioned two pieces of land have been listed and traded. Pursuant to Supplementary Agreement on Recovery of State-owned Land Use Right signed by the Company, Ministry of Finance of Hefei, Hefei State-owned Assets Supervision and Management Committee, Hefei Economy Committee and Hefei Land Reserve Center dated 10 December 2009, after common negotiation, it was agreed for Ministry of Finance of Hefei to pay RMB 422,511,200 as land compensation (including dismantling, relocation and setting) to the Company which has already received the amount on 15 December 2009.

Special payable has decreased with RMB 388,287,782.53, including: (1)RMB 359,450,525.52

which was transferred to expenses for dismantling, relocation and setting from disposal of fixed assets wrote off the aforesaid land compensation; (2)RMB 28,837,257.01 cost for the finished dormitory buildings and affiliated facilities used for arranging employees has been transferred to fixed assets and put into utilization, since transferring to deferred income from special payable.

For the year ended 2009, the balance of special payable was RMB 34,223,417.47.

Annotation 30. Projected liability

Item	Amount at year-begin	Increase during the year	Carry-forward during the year	Amount at year-end
External guarantee	-	-	-	-
Outstanding lawsuit	-	-	-	-
Product quality guarantee	1,650,759.86	89,217,970.65	-	90,868,730.51
Reorganization duty	-	-	-	-
Loss contract waiting for execution	-	-	-	-
Other	-	-	-	-
Total	1,650,759.86	89,217,970.65	-	90,868,730.51

Product quality guarantee projected for this year was RMB 90,868,730.51 which mainly fell at the RMB 84,887,300, the predicted expense for big and middle repairs for products sent to countryside which committed for a 10-years free repair plan for main spare parts.

Annotation 31. Other non-current liabilities

Item	Amount at year-end	Amount at year-begin
Deferred income	28,257,754.52	-

The Company received land compensation from government for its relocation. Original value of the dormitory buildings and affiliated facilities used for arranging employees was recognized as deferred income, with amount of RMB 28,837,257.01. Pursuant to the depreciation term of such dormitory buildings and affiliated facilities, the Company started amortization commencing from the depreciation month since they were transferred to fixed assets. Amortization of RMB 579,502.49 as of this report period was carried forward to non-operating income from deferred income.

Annotation 32. Share capital

Shareholders / type	Amount at year-begin		Change during the year					Amount at year-end	
	Amount	Proportion %	New shares issued	Bonus share	Shares transferred from capital reserve	Others (transfer)	Subtotal	Amount	Proportion %
Shares with conditional subscription	113,816,066	27.52	-	-	-	-	-	113,816,066	27.52
State-owned shares	70,845,677	17.14	-	-	-	32,078,846	32,078,846	102,924,523	24.89 %

Shareholders / type	Amount at year-begin		Change during the year					Amount at year-end	
	Amount	Proportion%	New shares issued	Bonus share	Shares transferred from capital reserve	Others (transfer)	Subtotal	Amount	Proportion%
State-owned legal person shares	32,078,846	7.77	-	-	-	-32,078,846	-32,078,846	-	-
Other domestic shares	10,891,543	2.61	-	-	-	-	-	10,891,543	2.61
Including: Domestic legal person shares	10,814,973	2.59	-	-	-	-	-	10,814,973	2.59
Domestic natural person shares	76,570	0.02	-	-	-	-	-	76,570	0.02
Foreign shares	-	-	-	-	-	-	-	-	-
Including: Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Shares with no restricted condition	299,826,883	72.48	-	-	-	-	-	299,826,883	72.48
RMB common shares	186,726,883	45.14	-	-	-	-	-	186,726,883	45.14
Domestically listed foreign shares	113,100,000	27.34	-	-	-	-	-	113,100,000	27.34
Overseas listed foreign shares	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
Total shares	413,642,949	100.00	-	-	-	-	-	413,642,949	100.00

Annotation 33. Capital reserve

Item	Amount at year-begin	Increase during the year	Decrease during the year	Amount at year-end
Share premium	900,409,519.89	-	396,084,855.53	504,324,664.36
Other capital reserve	172,758,558.83	150,494,961.77	167,291,162.43	155,962,358.17
Total	1,073,168,078.72	150,494,961.77	563,376,017.96	660,287,022.53

(1) Share premium: amount at year-begin increased with RMB 372,000,000.00 compared with that of last year RMB 528,409,519.89, which was due to that according to relevant regulations of Accounting Standards for Enterprises No. 20 – Enterprise Merger and its application instruments, the business combination of the Company in Changhong Air Conditioner and Zhongshan Changhong happened in this year, so there was no long-term equity investment of the Company last year. When compiling comparative financial report, after combining the related assets and debts of the combined party, the Company adjusted capital reserve – share premium as at year-begin according to the increased net assets after the combination– RMB 372,000,000.00. share premium has fallen with RMB 396,084,855.53 this year, among which: ① when combining Changhong Air Conditioner and Zhongshan Changhong in 2009, the Company should actually pay RMB 394,032,272.00 for this equity purchase(including RMB 393,560,000.00 for equity transfer and RMB 472,272.00 as fee charged for this transaction), which correspondingly offset capital reserve-share premium of the Company; ② since the subsidiary Changhong Air Conditioner acquired Hunan Air Conditioner during the report period, a balance of RMB 2,052,583.53 existed in the actual

payment RMB 2.00 and RMB -2,052,581.53 (being the recognized net assets of Hunan Air Conditioner as at 31 December 2008), thus the Company correspondingly decreased capital reserve (share premium).

(2) Other capital reserve decreased by RMB 18,848,784.19 : according to Opinions of Experts Group on Impliment of Accounting Standards for Business Enterprises issued on Jan. 21, 2008, in respect of the restricted equity of listed company held by enterprise which also had no control, common control or significant influence on the listed company, the restricted shares should be divided as financial assets available for sale , in accordance with the regulations of Accounting Standards for Enterprises No.22–Recognition and Measurement of Financial Instruments. According to the closing price in Stock Exchange on Jun. 30, 2008, the Company respectively confirmed the fair value of the restricted equity of Anhui Ustc Iflytek Co. Ltd. and China Pacific Insurance (group) Co., Ltd. as financial assets available for sale. The profits on the changes of fair value which was the margin of fair value and original cost of book value were directly calculated into other capital reserve. Capital reserve increased by RMB 150,494,961.77, referring to fair value change of financial assets available for sale less affect of deferred income tax liabilities this year. Due to disposal of financial assets, capital reserve was carried out with RMB 167,291,162.43, which led to a net decrease of RMB 16,796,200.66 in capital reserve.

Annotation 34. Surplus reserves

Item	Amount at year-begin	Increase during the year	Decrease during the year	Amount at year-end
Statutory surplus reserve	131,288,465.07	-	-	131,288,465.07
Discretionary surplus reserve	153,819,249.12	-	-	153,819,249.12
Total	285,107,714.19	-	-	285,107,714.19

Annotation 35. Undistributed profit

Item	Amount	Withdraw or distribution ratio
Amount at the end of last year	-335,808,091.35	
Add: adjustment from undistributed profit at year-begin	-	
Including: change of accounting policy	-	
Correction of former material error	-	
Change of combination scope under common control	-	
Other adjustment factors	-	
Amount at the beginning of this year	-335,808,091.35	
Add: net profit attributable to shareholders of parent company for this year	301,198,313.20	
Less: withdraw of statutory surplus reserve	-	
withdraw of discretionary surplus reserve	-	
Withdraw of general risk provision	-	
Dividend payable for ordinary shares	-	
Dividend of ordinary shares transferred to sharecapital	-	

Item	Amount	Withdraw or distribution ratio
Amount at the end of this year	-34,609,778.15	

Annotation 36. Minority shareholder's equity

Subsidiaries	Minority shareholding ratio	Amount at year-end	Amount at year-begin
Zhongke Meiling Low-Temperature Technology Co., Ltd.	30%	16,829,423.24	16,754,404.02
Mianyang Meiling Refrigerating Co., Ltd	3%	-128,369.89	-
Jiangxi Meiling Refrigerating Co., Ltd	3%	-35,074.81	-24,317.71
Hefei Meiling Appliance Marketing Co., Ltd.	0.03%	-22.24	-
Zhongshan Changhong Electrical Appliance Co., Ltd.	10%	8,472,935.49	8,431,067.89
Total		25,138,891.79	25,161,154.20

Annotation 37. Operating income and operating cost**(1) Operating income and operating cost**

Item	Amount for this year	Amount for last year
Main business income	6,047,062,338.60	4,393,243,910.89
Other business income	277,118,732.10	420,421,663.88
Total	6,324,181,070.70	4,813,665,574.77
Main business cost	4,321,115,445.20	3,415,230,606.24
Other business cost	255,073,396.30	388,827,571.07
Total	4,576,188,841.50	3,804,058,177.31

(2) Main business-classified according to industry

Industry	Amount for this year		Amount for last year	
	Operating income	Operating cost	Operating income	Operating cost
Home appliance industry	6,047,062,338.60	4,321,115,445.20	4,393,243,910.89	3,415,230,606.24
Total	6,047,062,338.60	4,321,115,445.20	4,393,243,910.89	3,415,230,606.24

(3) Main business-classified according to product

Product	Amount for this year		Amount for last year	
	Operating income	Operating cost	Operating income	Operating cost
Refrigerator, freezer	4,660,314,135.66	3,110,164,101.55	3,948,387,477.14	2,996,062,857.26
Air conditioner	1,386,748,202.94	1,210,951,343.65	444,856,433.75	419,167,748.98
Total	6,047,062,338.60	4,321,115,445.20	4,393,243,910.89	3,415,230,606.24

(4) Main business-classified according to sales region

Region	Amount for this year	Amount for last year
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	Operating income	Operating cost	Operating income	Operating cost
Domestic	5,486,682,955.52	3,819,892,934.91	3,473,634,391.16	2,572,758,520.00
Overseas	560,379,383.08	501,222,510.29	919,609,519.73	842,472,086.24
Total	6,047,062,338.60	4,321,115,445.2	4,393,243,910.89	3,415,230,606.24

(5) Sales income received from the top 5 customers this year

Customer	Operating income	Proportion taking in total operating income of the Company (%)
Nanjing Procurement center of Suning Appliance Co., Ltd	391,472,120.61	6.19
Anhui Baida Appliance Chain Co., Ltd.	92,949,152.98	1.47
Five Star Appliance Co., Ltd.	54,461,752.17	0.86
Electrolux (China) Appliance Co., Ltd.	52,189,392.00	0.83
Mianyang Jiafulai Commerce Trade Co., Ltd.	50,166,958.39	0.79
Total	641,239,376.15	10.14

Annotation 38. Business tax and extra charges

Item	Amount for this year	Amount for last year
Business tax	242,178.97	265,762.39
City construction tax	19,203,168.85	11,504,995.53
Extra charge for education	10,992,104.07	6,827,412.02
Total	30,437,451.89	18,598,169.94

Annotation 39. Operation expense

Item	Amount for this year	Amount for last year
Market support	535,868,145.15	291,810,042.85
Salary and extra charges	204,062,633.89	120,100,646.03
Transport expenses	192,717,153.43	120,433,528.36
Three guarantees expenses(10-years free repair expense included)	162,043,438.17	36,179,036.90
Advertisement expenses	67,179,101.81	33,321,008.49
Exhibition expenses	60,557,986.47	32,513,512.84
Storage lease expenses	30,606,518.81	29,410,025.52
Air conditioner installation fee	29,373,002.01	-
Traveling expenses	26,662,225.06	17,214,622.59
Operation activities expenses	20,436,911.54	19,029,740.45
Meeting organization	11,217,628.68	6,307,215.60

Item	Amount for this year	Amount for last year
Communication expenses	9,043,947.35	6,295,844.00
House-lease expenses	8,808,838.00	5,321,972.90
Social insurance	7,562,916.94	1,757,136.52
Vehicle consumption	6,568,316.60	5,202,275.99
Office expenses	3,812,488.95	3,659,320.59
Public Housing Reserve Fund	3,033,194.85	1,012,186.75
Depreciation expenses	2,731,298.92	1,965,132.97
Consumption of machinery materials	1,741,454.03	1,368,131.84
Maintenance expense	1,267,627.60	175,323.50
Other expenses	6,406,772.97	9,579,426.55
Total	1,391,701,601.23	742,656,131.24

Operation expense occurred this year has increased by RMB 649,045,469.99 compared to that of last year, with 87.40% up, which was mainly resulted from that: to respond to economic crisis and arrange “Appliance Going to Countryside”, the Company further divided market, expanded sales channels and network, intensified marketing, which brought increase in market support expense, advertisement expense, labor expense, vehicle oil consumption and logistic storage expense; and resulted from the predicted expense for “10-years free repair” for refrigerators sold through activity of Appliance Going to Countryside; and due to the operation expense arising from Changhong Air Conditioner, a subsidiary established at the end of 2008.

Annotation 40. Administration expense

Administration expense of RMB 184,576,986.43 occurred this year has increased by RMB 28,512,984.27 compared to RMB 156,064,002.16 occurred last year, with 18.27% climbing up.

Annotation 41. Financial expense

Item	Amount for this year	Amount for last year
Interest expenditure	29,588,300.49	27,520,113.58
Less: Interest income	7,885,314.96	8,149,589.53
Add: exchange loss	2,911,124.24	9,263,242.10
Add: procedure charge expenditure	2,307,722.94	4,553,755.70
Add: discount expenditure	-8,064,741.81	14,530,497.42
Add: other expenditure	653,166.28	1,487,119.22
Total	19,510,257.18	49,205,138.49

Financial expense occurred in 2009 has decreased by RMB 29,694,881.31 compared to that occurred last year, with the main reason that capital for this year was sufficient, thus interest expenditure for notes discount decreased and exchange loss decreased.

Annotation 42. Assets depreciation reserves

Item	Amount for this year	Amount for last year
Bad debt losses	7,334,433.55	486,352.34
Provision for falling price of inventory	18,789,099.55	21,403,717.31

Item	Amount for this year	Amount for last year
Provision for devaluation of financial asset available for sales	-	-
Provision for devaluation of held-to-maturity investment	-	-
Provision for devaluation of long-term equity investment	-	-
Provision for devaluation of investing property	-	-
Provision for devaluation of fixed assets	6,547,384.08	-
Provision for devaluation of engineering materials	-	-
Provision for devaluation of construction in progress	124,500.00	-
Provision for devaluation of productive biological asset	-	-
Provision for devaluation of oil asset	-	-
Provision for devaluation of intangible asset	-	-
Provision for devaluation of goodwill	-	-
Total	32,795,417.18	21,890,069.65

Annotation 43. Investment income

(1) Sources of investment income

Item	Amount for this year	Amount for last year
Long-term equity investment income by cost method	-	-
Long-term equity investment income by equity method	1,369,602.51	633,543.00
Investment income from disposal of long-term equity investment	-	-
Investment income from period of holding tradable financial assets	-	-
Investment income from period of holding hold-to-maturity investment	-	-
Investment income from period of holding financial assets available for sale	1,897,125.00	1,950,000.00
Investment income from disposal of tradable financial assets	-	-
Investment income from disposal of hold-to-maturity investment	-	-
Investment income from disposal of financial assets available for sale	210,941,346.01	-
Total	214,208,073.52	2,583,543.00

(2) Long-term equity investment income by equity method

Item	Amount for this year	Amount for last year	Remark
Total	1,369,602.51	633,543.00	-
Including:			-
Anhui United Technological Property Exchange Co., Ltd.	295,852.43	588,830.17	-
Hefei Meiling Packing Co. Ltd.	1,073,750.08	44,712.83	-

(3)Investment income from disposal of financial assets available for sale
Profit earned by the Company through disposing equity instruments was in details in VIII-7-Relevant explanation about financial assets available for sale.

Annotation 44. Non-operation revenue

(1)Details about non-operation revenue

Item	Amount for this year	Amount for last year
Gains from disposal of non-current assets	398,559.00	416,432.96
Incl.: gains from disposal of fixed assets	398,559.00	416,432.96
gains from disposal of Intangible assets	-	-
Gains from debt restructuring	-	-
Gains from exchange of non-monetary capital	-	-
Gains from donation	-	-
Government subsidy	55,557,759.89	10,079,210.00
Amortization of deferred income	579,502.49	-
Income of penalty	208,511.45	380,078.81
Others	280,866.76	318,187.11
Total	57,025,199.59	11,193,908.88

(2)Details about government subsidy

Item	Amount for this year	Amount for last year	Sources and accordance
Tax return for new product	2,182,000.00	-	HF[2000]No.3 document-Decision of People's Government of Hefei on Strengthening Technical Innovation and Accelerating High-tech Industry Development
Post subsidy for hard enterprise	3,718,200.00	-	(LSMD[2009]No.2 document-Notice on Alleviating Enterprises' Burden and Stablizing Occupation Situation
Subsidy in favor of energy-saving air conditioner	39,680,000.00	-	CJ(2009)No.213 Document, [2009]No.5 and [2009]No.6 Documents released by the Ministry of Finance and State Development & Reform Commission
Return of deed tax	1,950,000.00	-	According to Office Notification of People's Government of Jingdezhen(JFBCZ(2008)No.28), the 47 th Standing Meeting of the Municipal Government, the Finance Bureau of Jingdezhen made return of deed tax to Jiangxi Meiling Subsidiary
Interest subsidy for loans	2,424,200.00	-	HJZX[2008]No.33 document-Notice of Capital Cash Declaration Works regarding to "Certain Policies on Promoting Revitalization Plan for SME and Solving Current Capital Problem for Enterprises ", HJZ[2009] No.206 document-Certain Conditions Regarding to Cashing of Promoting Revitalization Plan for SME
Tax refund	-	3,114,600.00	HZ[2007]No.18 document-Certain Policies on Adjusting & Improving & Speeding up New-typed Industrial Development and policies regulated by relevant affiliated documents released by Municipal Government of Hefei

Item	Amount for this year	Amount for last year	Sources and accordance
Subsidy for fixed assets	654,700.00	1,800,000.00	HJM(2007)No.5 document-Notice on Approval of the 2 nd Phase Project of Meiling High-tech Industry Park of Hefei Meiling Co., Ltd., and (2007)No.18document of People's Government of Hefei
Subsidy for ROHS project	-	2,000,000.00	HSGPH[2008]No.22 document-Notice on Practising 2007 Trade Friction Responding Public Service Capital presented by Anhui Provincial Department of Commerce
Cash of financial tax policy for new product	-	1,085,600.00	According to the 2007 Financial Tax Policy for New Product
Other spare government subsidies	4,948,659.89	2,079,010.00	Brand encouragement, environment-protection special subsidy, scientific progress award and access award for enterprises
Total	55,557,759.89	10,079,210.00	

Annotation 45. Non-operating expenditure

Item	Amount for this year	Amount for last year
Loss from disposal of non-current assets	1,350,293.88	252,325.63
Incl.: loss from disposal of fixed assets	1,350,293.88	252,325.63
loss from disposal of Intangible assets	-	-
Loss from debt restructuring	-	-
Loss from exchange of non-monetary asset capital	-	-
External donation	418,657.78	1,273,269.50
Penalty and late fee	82,605.62	7,139.03
Others	464,412.80	1,171,245.91
Total	2,315,970.08	2,703,980.07

Annotation 46. Income tax expenses

Item	Amount for this year	Amount for last year
current income tax	74,961,316.51	497,228.91
Deferred Income Tax	-18,249,548.98	4,247,403.85
Total	56,711,767.53	4,744,632.76

Annotation 47. Calculation for basic earnings per share and diluted earnings per share

Item	No.	Amount for this year	Amount for last year
Net profit attributable to shareholders of parent company	1	301,198,313.20	27,376,945.70
Non-current gains and losses attributable to parent company	2	232,298,713.60	4,183,142.52
Net profit attributable to shareholders of parent	3=1-2	68,899,599.60	23,193,803.18

Item	No.	Amount for this year	Amount for last year
company after deduction of non-current gains and losses			
Total shares at the beginning of the year	4	413,642,949.00	413,642,949.00
Additional share capital transferred from public reserve or additional shares from shares dividend distribution (I)	5	-	-
Additional shares from issuing new shares or debt-converted shares(II)	6	-	-
Accumulative months of the additional shares(II) commencing from the next month till the end of the year	7	-	-
Decreased shares due to repurchase	8	-	-
Accumulative months of the decreased shares commencing from the next month till the end of the year	9	-	-
Decreased shares due to share shrink	10	-	-
Mouths during the report period	11	12	12
Weighted average of ordinary shares issued	$12=4+5+6\times7\div11-8\times9\div11-10$	413,642,949.00	413,642,949.00
Basic earnings per share(I)	$13=1\div12$	0.7282	0.0662
Basic earnings per share(II)	$14=3\div12$	0.1666	0.0561
Diluted potential ordinary shares dividend recognized as expense	15	-	-
Conversion expense	16	-	-
Income tax rate	17	15%	15%
weighted average of ordinary shares added through warrant, exercise of option and convertible bonds	18	-	-
Diluted earnings per share(I)	$19=[1+(15-16)\times(1-17)]\div(12+18)$	0.7282	0.0662
Diluted earnings per share(II)	$20=[3+(15-16)\times(1-17)]\div(12+18)$	0.1666	0.0561

Annotation 48. Other comprehensive income

Item	Amount for this year	Amount for last year
1. gains (losses) arising from financial assets available for sale	75,997,903.33	146,680,000.00
Less: affect of income tax arising from financial assets available for sale	11,399,685.50	-22,002,000.00
Net, written in other comprehensive income in previous period and carried forward to gains and losses in current period	81,394,418.48	-
Subtotal	-16,796,200.65	124,678,000.00

Item	Amount for this year	Amount for last year
2. Share in other comprehensive income of invested units by equity method	-	-
Less: affect of income tax arising from Share in other comprehensive income of invested units by equity method	-	-
Net, written in other comprehensive income in previous period and carried forward to gains and losses in current period	-	-
Subtotal	-	-
3. gains (losses) arising from cash flow hedge instruments	-	-
Less: affect of income tax arising from cash flow hedge instruments	-	-
Net, written in other comprehensive income in previous period and carried forward to gains and losses in current period	-	-
Adjustment, converted to initial recognition amount of projects in hedge	-	-
Subtotal	-	-
4. Conversion difference arising from foreign currency financial statement	-	-
Less: net, carried forward to gains and losses in current period after disposing overseas operation	-	-
Subtotal	-	-
5. Others	-	-
Less: affect of income tax arising from others which are written in other comprehensive income	-	-
Net, others written in other comprehensive income in previous period and carried forward to gains and losses in current period	-	-
Subtotal	-	-
Total	-16,796,200.65	124,678,000.00

Annotation 49. Items to cash flow statement

(1) Cash received (paid) from (for) other activities relating to operation/investment/financing

1) Cash received from other activities relating to operation

Item	Amount for this year
Government subsidy received	54,567,880.45
Recovery of accounts which should have been undertaken by Sichuan Changhong (installation fee, storage lease fee and transport fee)	31,488,000.00
Receive of the incentive account appropriated by Hefei Finance Bureau	20,172,100.00
Guarantee money, deposit	13,598,668.79
Rental income	4,338,347.09
Recovery of provision borrowings from employees as provision	1,478,597.96
Others (including agent collection or payment and other accounts)	11,535,925.28
Total	137,179,519.57

2) Cash paid for other activities relating to operation

Item	Amount for this year
Promotion expense	209,370,316.17
Installation fee	47,116,099.05
Transport fee	45,073,794.63
Provision money	36,800,926.37
Utilities	27,343,193.02
Repair fee	25,647,583.29
Three guarantee expense	22,472,654.50
Advertisement	21,125,529.51
Market support fee	16,063,500.91
Storage lease expense	12,490,358.92
Travel expense	11,998,594.30
Refund of guarantee money and deposit	9,674,721.57
Vehicle expense	6,890,239.46
Network communication expense	4,876,068.59
Exhibit fee	4,273,455.92
Lease expense	3,734,032.24
Business activity expense	3,424,249.93
Insurance expense	3,396,673.19
Accommodation fee	2,892,606.20
Traffic expense	2,687,822.32
Cater for employee	2,324,712.04
Inspection and recognition expense	1,890,539.59
Others	52,287,111.40
Total	573,854,783.12

3) Cash received from other activities relating to investment

Item	Amount for this year
Interest income arising from bank savings	7,885,314.96
Changhong Air Conditioner and Zhongshan Changhong took back the deposit of the internal settlement center of Sichuan Changhong	200,722,526.33
Changhong Air Conditioner absorbed and combined the monetary capital of Hunan Air Conditioner as at year-begin	2,504,156.13
Total	211,111,997.42

4) Cash paid for other activities relating to investment: nil.

5) Cash received from other activities relating to financing: nil.

6) Cash paid for other activities relating to financing

Item	Amount for this year
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Item	Amount for this year
Guarantee fee	1,536,980.68

(2)Supplementary information about consolidated cash flow statement

Item	Amount for this year	Amount for last year
1. Net profit is adjusted to cash flow of operation activities:		
Net profit	301,176,050.79	27,522,725.03
Add: provision for depreciation of assets	32,795,417.18	21,890,069.65
Depreciation of fixed assets, consumption of oil gas assets and depreciation of productive biological assets	102,860,049.04	54,021,291.71
Amortization of intangible assets	34,456,632.91	27,803,658.12
Amortization of long-term retained expense	600,000.00	-
Loss from disposal of fixed assets, intangible assets and other long term assets (gain is listed with “-”)	1,296,527.45	219,178.26
Loss from discarding fixed assets as useless (gain is listed with “-”)	53,766.43	-
Loss from change of fair value(gain is listed with “-”)	-	-
Financial expense (gain is listed with “-”)	20,599,838.03	31,800,460.48
Investment loss (gain is listed with “-”)	-214,208,073.52	-2,585,803.20
Decrease of deferred income tax assets (increase is listed with “-”)	-18,249,548.98	4,328,262.45
Increase of deferred income tax liabilities (decrease is listed with “-”)	-2,964,035.40	-
Decrease of inventories (increase is listed with “-”)	-487,140,538.90	10,852,770.97
Decrease of operational accounts receivable (increase is listed with “-”)	-534,813,002.52	288,246,450.77
Increase of operational accounts payable (decrease is listed with “-”)	756,147,118.28	-228,293,037.60
Others	-	-
Net cash flow arising from operation activities	-7,389,799.21	235,806,026.64
2. Significant investment and financing activities with no reference to cash collection and payment:		
Debt convert to capital	-	-
Convertible bond due within one year	-	-
Fixed assets leased in by financing	-	-
3. Net change in cash and cash equivalent:		
Balance of cash at period-end	747,572,445.88	409,853,966.49
Less: Balance of cash at period-begin	409,853,966.49	416,050,143.67
Add: Balance of cash equivalent at period-end	-	-
Less: Balance of cash equivalent at period-begin	-	-
Net increase in cash and cash equivalent	337,718,479.39	-6,196,177.18

(3)Relevant information about acquiring or disposing subsidiaries or other operation units in previous years

Item	Amount for this year	Amount for last year
Relevant information about acquiring subsidiaries or other operation units		
1. Price for acquiring subsidiaries or other operation units	394,032,272.00	20,367,400.00
2. Cash and cash equivalent paid for acquiring subsidiaries or other operation units	118,540,272.00	20,367,400.00
Less: Cash and cash equivalent held by subsidiaries or other operation units	131,535,287.63	13,494,716.11
3. Net cash paid for acquiring subsidiaries or other operation units	-12,995,015.63	6,872,683.89
4. Acquiring net assets of subsidiaries	390,329,792.65	20,140,672.87
Current assets	561,533,073.10	295,285,043.97
Non-current assets	153,353,055.65	189,752,066.11
Current liabilities	324,556,336.10	464,896,437.21
Non-current liabilities	-	-
Relevant information about disposing subsidiaries or other operation units		
1. Price for disposing subsidiaries or other operation units	-	-
2. Cash and cash equivalent received from disposing subsidiaries or other operation units	2,018,786.45	17,642,127.35
Less: Cash and cash equivalent held by subsidiaries or other operation units	2,018,786.45	17,642,127.35
3. Net cash received from disposing subsidiaries or other operation units	-	-
4. Disposing net assets of subsidiaries	13,365,880.15	19,599,298.35
Current assets	1,267,910.06	19,611,651.68
Non-current assets	167,429,519.53	-
Current liabilities	155,331,549.44	12,353.33
Non-current liabilities	-	-

(4)Cash and cash equivalent

Item	Amount for this year	Amount for last year
Cash	747,572,445.88	409,853,966.49
Including: stock cash	109,910.06	94,894.30
Bank deposit available for payment at any time	590,487,924.37	155,684,865.33
Other monetary capital available for payment at any time	156,974,611.45	254,074,206.86
Deposit in central bank available for payment	-	-
Deposit from other banks	-	-
Call loans to banks	-	-
Cash equivalent	-	-
Including: bond investment due within 3 months	-	-
Balance of cash and cash equivalent at period-end	747,572,445.88	409,853,966.49
Including: restricted cash and cash equivalent used by parent	-	-

Item	Amount for this year	Amount for last year
company or subsidiaries		

Annotation 50. Items to statement of change of shareholders' equity

(1)As stated in rule No.1 (IV)-Business Combination and Consolidated Financial Statement of Note VI, the Company successfully bid the 100% and 90% equities of Changhong Air Conditioner and Zhongshan Changhong held by Sichuan Changhong, the parent company of the Company. According to relevant regulation of Accounting Standard for Enterprise-No.20 Business Combination for business combination under common control, the Company restated amounts of year-begin and amount of last year in financial statements. For details about the financial statement before or after restatement, please refer to (3)Adjustment to Comparative Financial Statement of Note XV.

(2) Statement of change of shareholders' equity (RMB'0000)

Item	Owners' equity attributable to parent company							Minority equity	Total of owners' equity
	Share capital	Capital reserve	Less: stock shares	Surplus reserve	Provision for general risk	Undistributed profit	Others		
Before restatement	41,364.29	70,116.81	-	28,488.95	-	-33,946.95	-	1,673.01	107,696.11
After restatement	41,364.29	107,316.81	-	28,510.77	-	-33,580.81	-	2,516.12	146,127.18
Difference	-	37,200.00	-	21.82	-	366.14	-	843.11	38,431.07

(3)Due to that there was no long-term equity investment in combined party as stated in accounting of the Company last year, when preparing restated financial statement, the Company transferred RMB 372,000,000 being the increased net assets arising from combination to increase capital reserve (share premium) as of year-begin; movement of surplus reserve, undistributed profit and minority equity came from combination of Zhongshan Changhong.

IX. Related parties and related transaction

(I)Relationship of related parties

1. Parent company and terminal controller

(1) Parent company and terminal controller

Parent company and terminal controller	Type of entity	Place of registration	Nature of business	Legal representative	Organization code
Sichuan Changhong Electrical Appliance Co., Ltd.	Limited company	Mianyang	Manufacture and sales	Zhao Yong	20541230-8
Sichuan Changhong Electrical Group Co., Ltd.	Limited company	Mianyang	Manufacture and sales	Zhao Yong	72081866-0

(2) Register capital and change thereof of parent company

Parent company	Amount at year-begin	Increase during the year	Decrease during the year	Amount at year-end
Sichuan Changhong Electrical Appliance Co., Ltd.	1,898,211,418	-	-	1,898,211,418

(3) shares or equities and change thereof held by parent company

Parent company	Amount of shares held		Shareholding ratio (%)	
	Amount at year-end	Amount at year-begin	Ratio at year-end	Ratio at year-begin
Sichuan Changhong Electrical Appliance Co., Ltd.	91,663,277.50	53,276,435.00	22.16	12.88

Equities ratio held by parent company in the Company at year-begin was 12.88% and voting right ratio was 20.64%, while they were both 22.16% for year-end.

2. Subsidiaries

(1) Subsidiaries

Subsidiaries	Type of entity	Place of registration	Nature of business	Legal representative	Organization code
Zhongke Meiling Low Temperature Technology Limited	Limited company	Hefei	Manufacture of home appliancee	Wang Yong	74309835-2
Jiangxi Meiling Refrigeration Co., Ltd.	Limited company	Jingdezhen	Manufacture of home appliancee	Wang Yong	66748284-5
Mianyang Meiling Refrigeration Co., Ltd.	Limited company	Mianyang	Manufacture of home appliancee	Li Daijiang	68610561-5
Hefei Meiling Appliance Marketing Co., Ltd.	Limited company	Hefei	Sales of home appliancee	Wang Yong	69573778-8

Subsidiaries	Type of entity	Place of registration	Nature of business	Legal representative	Organization code
Sichuan Changhong Air Conditioner Co., Ltd.	Limited company	Mianyang	Manufacture of home appliancee	Li Jin	68236997-1
Zhongshan Changhong Appliance Co., Ltd.	Limited company	Zhongshan	Manufacture of home appliancee	Li Jin	728773292

(2) Register capital and change thereof of subsidiaries

Subsidiaries	Amount at year-begin	Increase during the year	Decrease during the year	Amount at year-end
Zhongke Meiling Low Temperature Technology Limited	60,000,000.00	-	-	60,000,000.00
Jiangxi Meiling Refrigeration Co., Ltd.	40,000,000.00	-	-	40,000,000.00
Mianyang Meiling Refrigeration Co., Ltd.	-	50,000,000.00	-	50,000,000.00
Hefei Meiling Appliance Marketing Co., Ltd.	-	10,000,000.00	-	10,000,000.00
Sichuan Changhong Air Conditioner Co., Ltd.	200,000,000.00	-	-	200,000,000.00
Zhongshan Changhong Appliance Co., Ltd.	80,000,000.00	-	-	80,000,000.00

(3) shares or equities and change thereof held in subsidiaries

Subsidiaries	Amount of shares held		Shareholding ratio (%)	
	Amount at year-end	Amount at year-begin	Ratio at year-end	Ratio at year-begin
Zhongke Meiling Low Temperature Technology Limited	42,000,000.00	42,000,000.00	70.00%	70.00%
Jiangxi Meiling Refrigeration Co., Ltd.	38,800,000.00	38,800,000.00	97.00%	97.00%
Mianyang Meiling Refrigeration Co., Ltd.	48,500,000.00	-	97.00%	-
Hefei Meiling Appliance Marketing Co., Ltd.	9,970,000.00	-	99.97%	-

Subsidiaries	Amount of shares held		Shareholding ratio (%)	
	Amount at year-end	Amount at year-begin	Ratio at year-end	Ratio at year-begin
Sichuan Changhong Air Conditioner Co., Ltd.	200,000,000.00	200,000,000.00	100.00%	100.00%
Zhongshan Changhong Appliance Co., Ltd.	72,000,000.00	72,000,000.00	90.00%	90.00%

3. Joint-ventures and associates

(1) Joint-ventures and associates

Invested units	Type of entity	Place of registration	Nature of business	Legal representative	Registered capital	Shareholding ratio	Organization code
Joint-ventures(nil)							
Associates							
Anhui United Technology Property Exchange Co., Ltd.	Limited company	Hefei	Property exchange	Chen Hua	5 million	28.57%	73003846-5
Hefei Meiling Packing Product Co., Ltd.	Limited company	Hefei	Production and sales	Sun Qingfeng	18.40million	48.28%	61030893-4

(2) Financial information

Invested units	Amount at year-end(RMB'0000)			Amount for this year(RMB'0000)	
	Assets	Liabilities	Net assets	Operating income	Net profit
Joint-ventures(nil)					
Associates					
Anhui United Technology Property Exchange Co., Ltd.	1,027.49	311.80	715.69	204.33	103.55
Hefei Meiling Packing Product Co., Ltd.	15,353.59	10,001.57	5,352.03	9,925.03	222.40

4. Other related parties

Type of relation	Related parties	Main business	Organization code
Other enterprises under control from the same parent company or terminal controller			
	PT.CHANGHONG ELECTRIC INDONESIA	Sales	--
	Chengdu Lejiayi Trade Co., Ltd.	Sales	79782546-3
	Fuzhou Lejiayi Trade Co., Ltd.	Sales	67652028-4
	Guangdong Changhong Electron Co., Ltd.	Sales	78940429-8
	Guangdong Changhong Digital Technology Co., Ltd.	Water & power supply	78940429-8
	Guiyang Lejiayi Trade Co., Ltd.	Sales	67071455-5
	Hefei Changhong Industrial Co., Ltd.	Sales	66621592-1
	Huayi Compressor Co., Ltd.	Purchase	70562223-x
	Jinan Lejiayi Trade Co., Ltd.	Sales	67227469-6
	Jiangxi Changhong Electrical Technology Development Co., Ltd.	Sales	667483178
	Kunming Yijiahong Trade Co., Ltd.	Sales	67656328-4
	Lejiayi Chain Management Co., Ltd.	Sales	66535156-9
	Mianyang Hongfa Mould Design Manufacture Co., Ltd.	Purchase	79582077-3
	Mianyang Lejiayi Trade Chain Co.,Ltd.	Sales	665391552
	Sichuan Hong'ou Display Co., Ltd.	Sales	66275681-9
	Sichuan Hongyue Power Co., Ltd.	Purchase	68237616-X

Sichuan Hongshi Display Technology Limited	Sales	66968647-0
Sichuan Hongxin Software Co., Ltd.	Purchase	671440445
Sichuan Changhong Packing Business Limited	Purchase	79399834-0
Sichuan Changhong Power Supply Limited	Purchase	
Sichuan Changhong Electrical System Limited	Purchase	779839036
Sichuan Changhong Dongyuan Precise Equipment Co., Ltd.	Purchase	
Sichuan Changhong International Hotel Co., Ltd.	Sales	720818652
Sichuan Changhong Jijia Precise Co., Ltd.	Purchase	793998375
Sichuan Changhong Precise Electrical Technology Limited Company	Purchase	79399836-7
Sichuan Changhong Minsheng Logistics Limited Company	Purchase, transport	79785892-7
Sichuan Changhong Mould Science & Technology Co., Ltd.	Purchase	782291526
Sichuan Changhong Equipment Science & Technology Co., Ltd.	Purchase	793998359
Sichuan Changhong Xinyue Science & Technology Co., Ltd.	Purchase	66276762-2
Sichuan Changhong New Energy Science & Technology Co., Ltd.	Purchase	79399394-5
Taiyuan Lejiayi Trade Chain Co., Ltd.	Sales	779841582
Tianjin Lejiayi Trade Co., Ltd.	Sales	67371694-3

	Changhong (Hong Kong)Trade Co.,Ltd.	Sales	-
	Changhong Appliance (Australia)Co., Ltd.	Sales	-
	Zhongshan Guanghong Mould Technology Co., Ltd.	Purchase	69226840
	Chongqing Hong Life Trade Co., Ltd.	Sales	69226840
Associates of controlling shareholders and actual controllers			
	BVCH Optronics (Sichuan) Corp	Purchase	69226840-2
	Sichuan Jinghong Packing Product Co.,Ltd.	Purchase	
	Sichuan Changhe Science & Technology Co., Ltd.	Purchase	777909555
	Sichuan Changxin Refrigeration Parts Co., Ltd.	Purchase	779841582

(II)Related transaction

All business between the Company and its related-party enterprise are dealt with common market rules, and treated equal to other enterprise with business relationship. Any price of purchase & sales or other service between the Company and its related-party enterprise shall be state stipulated price if state stipulated price exists; if where state stipulated price does exist, it shall be market price; if where no market price exists, it shall be priced by both parties based on the practical cost plus reasonable expenses; to any special service, of which price can not be decided in accordance with the principle of Cost Plus Expenses, shall be priced by both parties through negotiation.

1.Purchase commodities

Type of related parties and names of related parties	This year		Last year	
	Amount(RMB'0000)	Ratio	Amount(RMB'0000)	Ratio
parent company and terminal controller				
Including: Sichuan Changhong Electrical Appliance Co., Ltd.	48,655.20	12.78%	9,528.09	2.96%

Joint-ventures and associates				
Including: Hefei Meiling Packing Product Co., Ltd.	5,622.35	1.48%	6,260.09	1.94%
Other enterprises under control from the same parent company or terminal controller				
Including: Sichuan Changhong Minsheng Logistics Limited Company	4,220.42	1.11%	878.68	0.27%
Huayi Compressor Co., Ltd.	43,933.06	11.54%	24,403.94	7.58%
Sichuan Changhong Mould Science & Technology Co., Ltd.	12,565.14	3.30%	6,430.22	2.00%
Sichuan Changhong Jijia Precise Co., Ltd.	9,469.18	2.49%	56.98	0.02%
Sichuan Hongxin Software Co., Ltd.	32.24	0.01%	0	0.00%
Mianyang Hongfa Mould Design Manufacture Co., Ltd.	13.81	0.00%	0	0.00%
Sichuan Changhong Packing Business Limited	1,586.53	0.42%	3.09	0.00%
Sichuan Changhong Power Supply Limited	1.4	0.00%	0	0.00%
Sichuan Changhong Dongyuan Precise Equipment Co., Ltd.	275.6	0.07%	0	0.00%
Sichuan Changhong Precise Electrical Technology Limited Company	83.07	0.02%	0	0.00%

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Hefei Meiling Co., Ltd.

Sichuan Changhong Equipment Science & Technology Co., Ltd.	1,224.14	0.32%	236.76	0.07%
Sichuan Changhong New Energy Science & Technology Co., Ltd.	29.63	0.01%	7.01	0.00%
Sichuan Liyuan Electricals Co., Ltd.	292.47	0.08%	0	0.00%
Mianyang Hongrun Electricals Co., Ltd.	512.15	0.13%	0	0.00%
Guangdong Changhong Electricals Co., Ltd.	7.4	0.00%	207.94	0.06%
Zhongshan Guanghong Mould&Plastic Science & Technology Co., Ltd.	4.58	0.00%	0	0.00%
Associates of controlling shareholders and actual controllers:				
Sichuan Changhe Science & Technology Co., Ltd.	40.94	0.01%	0	0.00%
Sichuan Changxin Refrigeration Parts Co., Ltd.	4,181.82	1.10%	0	0.00%
Sichuan Jinghong Packing Product Co.,Ltd.	649.37	0.17%	0	0.00%
Total	133,400.50	35.03%	48,012.80	14.91%

2. Sales of commodities

Type of related parties and names of related parties	This year		Last year	
	Amount(RMB'0000)	Ratio	Amount(RMB'0000)	Ratio
parent company and terminal controller				
Including: Sichuan Changhong Electrical Appliance Co., Ltd.	80,560.09	12.74%	11,552.93	2.40%
Other enterprises under control from the same parent company or terminal controller				-
Including: PT.CHANGHONG ELECTRIC INDONESIA	5,021.22	0.79%	-	-

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Hefei Meiling Co., Ltd.

Sichuan Changhong Jijia Precise Co., Ltd.	753.09	0.12%	67.86	0.01%
Sichuan Changhong Mould Science & Technology Co., Ltd.	584.14	0.09%	4,107.04	0.85%
Sichuan Hongshi Display Technology Limited	328.92	0.05%	-	-
Mianyang Lejiayi Trade Chain Co., Ltd.	287.53	0.05%	141.96	0.03%
Jiangxi Changhong Electrical Technology Development Co., Ltd.	221.91	0.04%	-	-
Hong Kong (Changhong) Trade Co., Ltd.	158.42	0.03%	322.15	0.07%
Sichuan Changhong Xinyue Science & Technology Co., Ltd.	102.3	0.02%	-	-
Chengdu Lejiayi Trade Co., Ltd.	58.34	0.01%	271.54	0.06%
Sichuan Changhong International Hotel Co., Ltd.	45.45	0.01%	-	-
Chongqing Hong Life Trade Co., Ltd.	36.24	0.01%	-	-
Tianjin Lejiayi Trade Co., Ltd.	18.59	0.00%	4.22	0.00%
Huayi Compressor Co., Ltd.	14.77	0.00%	-	-
Sichuan Changhong Equipment Science & Technology Co., Ltd.	9.77	0.00%	-	-
Kunming Yijiahong Trade Co., Ltd.	6.7	0.00%	-	-
Sichuan Changhong Electrical System Limited	6.27	0.00%	82.17	0.02%
Fuzhou Lejiayi Trade Co., Ltd.	3.7	0.00%	1.99	0.00%
Tianjin Lejiayi Trade Co., Ltd.	3.18	0.00%	-	-
Jinan Lejiayi Trade Co., Ltd.	2.09	0.00%	2.05	0.00%
Sichuan Hongyue Power Co., Ltd.	1.57	0.00%	-	-
Sichuan Hong'ou Display Co., Ltd.	1.46	0.00%	-	-
Sichuan Changhong New Energy Science & Technology Co., Ltd.	0.96	0.00%	-	-
Guangdong Changhong Electricals Co., Ltd.	0.78	0.00%	65.9	0.01%
Taiyuan Lejiayi Trade Chain Co., Ltd.	0.77	0.00%	21.97	0.00%
Sichuan Changhong Dongyuan Precise Equipment Co., Ltd.	0.36	0.00%	-	-
Lejiayi Chain Management Co., Ltd.	-	-	356.88	0.07%

Changhong Appliance (Australia)Co., Ltd.	276.23	0.04%	157.02	0.03%
Guiyang Lejiayi Trade Co., Ltd.	-	-	3.19	0.00%
Associates of controlling shareholders and actual controllers:				
Sichuan Changxin Refrigeration Parts Co., Ltd.	3.6	-	-	-
Total	88,508.45	14.00%	17,158.87	3.56%

3. Related leasing

Lessor	Lessee	Assets for leasing	Amount involved by leased assets	
			Original value	Net value
Sichuan Changhong Minsheng Logistics Limited Company	Mianyang Meiling Refrigeration Co., Ltd.	Workshop with 51,615 square meters	26,668,025.28	24,065,677.19
Sichuan Changhong Minsheng Logistics Limited Company	Mianyang Branch	Workshop with 51,615 square meters	26,668,025.28	24,065,677.19
Hefei Meiling Co., Ltd.	Sichuan Mould & Plastic Company	Workshop of the Mould&Plastic Factory with an area of 6,885 square meters, and its steel-built shed with an area of 4,590 square meters	3,146,929.72	3,043,162.36
Hefei Meiling Co., Ltd.	Sichuan Changhong Jijia Precise Co., Ltd.	Workshop of the Sheet Metal Factory with an area of 3,240 square meters	2,648,088.00	2,585,195.91

Lessor	Lessee	Assets for leasing	Amount involved by leased assets	
			Original value	Net value
Zhongshan Changhong Appliance Ltd. Co.,	Guangdong Changhong Electrical Co., Ltd.	6 floors in framework with a total construction area of 10,704.52 square meters, and leased an area of 4,096.37 square meters	11,168,842.00	7,009,652.89
Zhongshan Changhong Appliance Ltd. Co.,	Guangdong Changhong Digital Technology Co., Ltd.	6 floors in framework with a total construction area of 10,704.52 square meters, and leased an area of 939.51 square meters	11,168,842.00	7,009,652.89
Zhongshan Changhong Appliance Ltd. Co.,	Zhongshan Branch of Sichuan Changhong Minsheng Logistics Limited Company	6 floors in framework with a total construction area of 10,704.52 square meters, and leased an area of 117.44 square meters	11,168,842.00	7,009,652.89

(Continued)

Date start for leasing	Date for termination of leasing	Rental income (expense)	Accordance for recognition of rental income	Influence on the Company by rental income
2009-4-1	2009-12-31	-3,182,064.75	Price for 2009 was not determined, temporarily subject to the price of last year-RMB 6.85 / square meter per month	Amount was small such that no material influence arised

Date start for leasing	Date for termination of leasing	Rental income (expense)	Accordance for recognition of rental income	Influence on the Company by rental income
2009-1-1	2009-3-31	-1,060,688.25	Price for 2009 was not determined, temporarily subject to the price of last year-RMB 6.86 / square meter per month	Amount was small such that no material influence arised
2009-1-1	2009-12-31	1,046,520.00	Workshop Leasing Contract	Amount was small such that no material influence arised
2009-1-1	2009-12-31	349,920.00	Workshop Leasing Contract	Amount was small such that no material influence arised
2009-1-1	2009-12-31	538,755.00	RMB 10.96 / spquare meter	Amount was small such that no material influence arised
2009-1-1	2009-12-31	123,564.00	RMB 10.96 / spquare meter	Amount was small such that no material influence arised
2009-1-1	2009-12-31	15,446.00	RMB 10.96 / spquare meter	Amount was small such that no material influence arised

4. Trust by related parties

Consignor	Consignee	Assets in trust	Amount involved by assets in trust
Zhongshan Changhong	Settlement Center of Sichuan Changhong	Monetary capital	1,722,526.33
Changhong Conditioner	Air Settlement Center of Sichuan Changhong	Monetary capital	199,000,000.00

(Continued)

Date start for trust	Date for termination of trust	Trust income	Accordance for recognition of trust income	Influence on the Company by trust income
2009-1-1	2009-12-28	498,307.39	Prevailing bank deposit interest rate	Amount was small such that no material influence arised
2009-1-1	2009-12-25	1,581,203.00	Prevailing bank deposit interest rate	Amount was small such that no material influence arised

5. Related guarantee

Party providing guarantee	Party receiving guarantee	Maximized guarantee amount	Date start for guarantee	Due date for guarantee	Whether implemented or not
Hefei Meiling Co., Ltd.	Zhongke Low-temperature Meiling Technology Co.,Ltd.	RMB 3 million	2008-08-18	2010-08-18	No

Party providing guarantee	Party receiving guarantee	Maximized guarantee amount	Date start for guarantee	Due date for guarantee	Whether implemented or not
Hefei Meiling Co., Ltd.	Zhongke Meiling Low-temperature Technology Co.,Ltd.	RMB 8 million	2009-05-15	2010-05-15	No
Hefei Meiling Co., Ltd.	Zhongke Meiling Low-temperature Technology Co.,Ltd.	RMB 20 million	2008-03-03	2010-03-03	No
Hefei Meiling Co., Ltd.	Zhongke Meiling Low-temperature Technology Co.,Ltd.	RMB 12 million	2009-04-18	2012-04-18	No
Sichuan Changhong Electrical Group Ltd.	Hefei Meiling Co., Ltd.	RMB 150 million	2009-06-01	2010-06-01	No
Sichuan Changhong Electrical Group Ltd.	Hefei Meiling Co., Ltd.	RMB 250 million	2009-05-01	2012-05-01	No
Sichuan Changhong Electrical Group Ltd.	Hefei Meiling Co., Ltd.	RMB 110 million	2009-04-01	2010-04-01	No
Sichuan Changhong Electrical Group Ltd.	Hefei Meiling Co., Ltd.	RMB 210 million	2009-01-01	2011-01-01	No
Sichuan Changhong Electrical Group Ltd.	Hefei Meiling Co., Ltd.	RMB 120 million	2009-06-30	2010-06-30	No
Sichuan Changhong Electrical Group Ltd.	Hefei Meiling Co., Ltd.	RMB 150 million	2009-01-01	2010-01-01	No
Sichuan Changhong Electrical Group Ltd.	Hefei Meiling Co., Ltd.	RMB 120 million	2009-03-01	2010-03-01	No
Sichuan Changhong Electrical Group Ltd.	Hefei Meiling Co., Ltd.	RMB 50 million	2009-04-01	2010-04-01	No
Sichuan Changhong Electrical Group Ltd.	Hefei Meiling Co., Ltd.	RMB 50 million	2009-05-01	2010-05-01	No
Sichuan Changhong Electrical Group Ltd. and Sichuan Changhong Co., Ltd.	Zhongshan Changhong Appliance Co., Ltd.	RMB 40 million	2008-10-22	2009-10-21	Complete implementation
Guangdong Changhong Electrical Co., Ltd.	Zhongshan Changhong Appliance Co., Ltd.	RMB 55 million	2009-08-24	2010-08-24	No
Zhongshan Changhong Appliance Co., Ltd.*	Guangdong Changhong Electrical Co., Ltd.	RMB 100 million	2009-04-10	2010-04-10	No

*As at 5 February 2010, with consideration that capital relationship of Zhongshan Changhong has already changed, from a subsidiary controlled by Sichuan Changhong to a subsidiary controlled by Hefei Meiling, which made Zhongshan Changhong separated with Guangdong Changhong belonging to different listed company, such that Zhongshan Changhong issued a Letter to Zhongshan Branch of China Construction Bank-Letter Informing Zhongshan Branch of China Construction Bank to Cease Guarantee Provided for Credit Limit of Guangdong Changhong on Behalf of Zhongshan Changhong, pursuant to which, the original guarantee contract regarding credit limit of RMB 100 million of Guangdong Changhong guaranteed by Zhongshan Changhong could only be used upon implementation of new decision-making

procedure of listed company. All notes issued by Guangdong Changhong prior to effect of this Letter deemed to be valid. Zhongshan Changhong would continue to undertake relevant guarantee responsibilities, until the effective term for such notes ends. Upon official effect of the Letter, Guangdong Changhong is not allowed to use the credit limit guaranteed by Zhongshan Changhong. If use, Zhongshan Changhong shall not undertake the joint duties for relevant guarantee.

6. Purchase of fixed assets

Parties offering sales of assets	2009	2008
Sichuan Changhong Electrical Appliance Co.,Ltd.	15,472,695.36	153,893.62
Guangdong Changhong Electrical Co.,Ltd.	5,769.23	6,500.00

7. Receive labor services

Labor services providers	2009	2008
Sichuan Changhong Electrical Appliance Co.,Ltd.	-	236,049.41
Sichuan Hongxin Software Co., Ltd.	1,200,000.00	
Sichuan Changhong Minsheng Logistics Limited Company	9,799,460.53	3,162,012.43
Sichuan Kuaiyidian Appliance Service Chain Co., Ltd.	882,965.38	
Sichuan Jiahong Industrial Co., Ltd.	392,242.63	

8. Water & power supply and agent collection and payment

Related parties(receivers)	2009	2008
Guangdong Changhong Electrical Co.,Ltd.	1,016,689.29	1,469,743.86
Guangdong Changhong Digital Technology Co., Ltd.	97,945.68	92,668.56
Lejiayi Chain Management Co., Ltd.	2,646.13	15,304.51
Sichuan Changhong Minsheng Logistics Limited Company	8,424.42	12,298.06
Kuaiyidian Appliance Service Chain Corp	4,003.54	-
Zhongshan Guanghong Mould & Plastic Technology Co., Ltd.	16,349.73	-
Total	1,146,058.79	1,627,969.05

Represent the 2009 related businesses of Zhongshan Changhong which was transferred to the Company in December 2009. when transferring Zhongshan Changhong in December 2009, the Company has already standardized such businesses in accordance with relevant supervisory regulations.

(III)Exchange balance of related parties

1. Accounts receivable of related parties

Related parties(items)	Amount at year-end	Amount at year-begin
Parent company and terminal controller		
Including: Sichuan Changhong Electrical Appliance Co.,Ltd.	71,448,305.06	6,282,163.72
Joint-venture and associates		

Related parties(items)	Amount at year-end	Amount at year-begin
Including: Hefei Meiling Packing Product Co., Ltd.	61,654.64	-
Other enterprises under control from the same parent company or terminal controller		
Including: Sichuan Hongshi Display Technology Limited	3,078,687.20	-
Sichuan Changhong Mould Science & Technology Co., Ltd.	1,509,399.13	0.36
Changhong Appliance (Australia) Co., Ltd.	1,089,035.55	-
Jiangxi Changhong Electrical Science & Technology Development Co., Ltd.	1,038,560.00	-
Sichuan Changhong Xinyue Science & Technology Co., Ltd.	748,345.00	-
Changhong (Hong Kong) Trade Co.,Ltd.	727,782.00	-
PT.CHANGHONG ELECTRIC IND	499,524.13	-
Mianyang Lejiayi Trade Chain Co.,Ltd.	224,364.82	139,911.87
Chengdu Lejiayi Trade Co., Ltd.	139,628.95	357,129.22
Hefei Changhong Industrial Co., Ltd.	68,500.00	-
Huayi Compressor Co., Ltd.	59,853.50	-
Guangdong Changhong Digital Technology Co., Ltd.	52,462.49	63,347.26
Sichuan Changhong International Hotel Co., Ltd.	41,580.00	-
Tianjin Lejiayi Trade Co., Ltd.	26,333.32	49,421.92
Jinan Lejiayi Trade Co., Ltd.	24,007.60	24,007.60
Fuzhou Lejiayi Trade Co., Ltd.	23,267.70	23,267.70
Sichuan Hongyue Power Co., Ltd.	18,400.00	-
Kunming Yijiahong Trade Co., Ltd.	14,729.77	-
Guangdong Changhong Electrical Co.,Ltd.	9,172.80	7,384.60
Taiyuan Lejiayi Trade Chain Co., Ltd.	4,402.05	39,404.05
Chongqing Hong Life Trade Co., Ltd.	1,386.00	-
Guiyang Lejiayi Trade Co., Ltd.	-	37,368.00
Sichuan Changhong Precise Electrical Technology Limited Company	-	2,760.79
Associates of controlling shareholders and actual controllers		
BVCH Optronics (Sichuan) Corp	34,278.93	-
Total	80,943,660.64	7,026,167.09

2. Accounts received by related parties in advance

Related parties (item)	Amount at year-end	Amount at year-begin
Parent company and terminal controller		
Including: Sichuan Changhong Electrical Appliance Co.,Ltd.	4,681,218.92	4,645,445.98

Related parties (item)	Amount at year-end	Amount at year-begin
Other enterprises under control from the same parent company or terminal controller		
Including: Chengdu Lejiayi Trade Co., Ltd.	77,938.07	-
Changhong (Hong Kong)Trade Co.,Ltd.	2,628.21	223.69
Sichuan Changhong Electrical System Co.,Ltd.	1.99	-
Lejiayi Chain Management Co., Ltd.	-	0.02
Changhong Appliance (Australia) Co., Ltd.	-	3,280.76
Total	4,761,787.19	4,648,950.45

3. Accounts Payable by related parties

Related parties (item)	Amount at year-end	Amount at year-begin
Parent company and terminal controller		
Including: Sichuan Changhong Electrical Appliance Co.,Ltd.	5,769,505.99	5,048,559.18
Parent company and terminal controller		
Including: Hefei Meiling Packing Product Co., Ltd.	8,862,117.70	10,222,623.22
Other enterprises under control from the same parent company or terminal controller		
Including: Sichuan Changhong Mould Science & Technology Co., Ltd.	20,958,816.80	3,690,763.28
Huayi Compressor Co., Ltd.	20,108,781.52	26,323,603.13
Sichuan Changhong Jijia Precise Co., Ltd.	14,210,937.69	1,142,290.85
Sichuan Changhong Minsheng Logistics Limited Company	9,408,488.07	2,278,098.60
Sichuan Changhong Packing Business Limited	5,240,438.83	140,983.24
Sichuan Changhong Equipment Science & Technology Co., Ltd.	3,821,685.56	-
Mianyang Hongrun Electrical Co., Ltd.	946,241.24	-
Sichuan Changhong Dongyuan Precise Equipment Co., Ltd.	530,482.70	-
Sichuan Changhong Precise Electrical Technology Limited Company	306,904.21	-
Sichuan Liyuan Electrical Co., Ltd.	255,573.34	-
Mianyang Hongfa Mould Design Manufacture Co., Ltd.	138,078.40	-
Sichuan Changhong New Energy Science & Technology Co., Ltd.	85,205.84	-
Guangdong Changhong Electrical Co.,Ltd.	26,819.44	-20,550.00
Sichuan Hongxin Software Co., Ltd.	17,250.00	-
Sichuan Changhong Power Supply Limited	13,818.02	-
Associates of controlling shareholders and actual controllers		
Sichuan Changxin Refrigeration Parts Co., Ltd.	9,491,061.15	-
Sichuan Jinghong Packing Product Co.,Ltd.	2,590,038.30	-
Sichuan Changhe Science & Technology Co., Ltd.	216,173.53	-
Total	102,998,418.33	48,826,371.50

4. Accounts paid by related parties in advance

Related parties (item)	Amount at year-end	Amount at year-begin
Parent company and terminal controller		
Including: Sichuan Changhong Electrical Appliance Co., Ltd.	-	4,640.00
Other enterprises under control from the same parent company or terminal controller		
Including: Guangdong Changhong Electrical Co., Ltd.	-	20,550.00
Total	-	25,190.00

5. Other payable by related parties

Related parties (item)	Amount at year-end	Amount at year-begin
Parent company and terminal controller		
Including: Sichuan Changhong Electrical Appliance Co.,Ltd.	286,242,599.05	166,495,146.21
Parent company and terminal controller		
Including: Hefei Meiling Packing Product Co., Ltd.	340,000.00	223,811.50
Other enterprises under control from the same parent company or terminal controller		
Including: Sichuan Changhong Minsheng Logistics Limited Company	5,513,085.98	5,070,644.60
Sichuan Changhong Mould Science & Technology Co., Ltd.	100,000.00	41,691.13
Sichuan Changhong Jijia Precise Co., Ltd.	150,000.00	-
Other related parties		
Total	292,345,685.03	171,831,293.44

X. Contingent proceedings

1. Contingent liabilities formed by outstanding lawsuit or arbitration

The general case is as follows: (1) as at 11 May 2009, the Company (as the accuser) signed "Engineering Machine Sales Contract" with Qinghe Moni Beer Branch of North Green Food Co., Ltd. (as the defendant), pursuant to No.5 clause of which: "Party B (also referred to as the defendant) shall pay party A (also referred to as the accuser) with RMB 479,500 within 20 days commencing from the arrival of goods delivered by party A, also being the remaining payment for goods after deducting the deposit of RMB 205,500 paid by party B from the aggregate payment of RMB 685,000. for each day delayed, party B shall pay party A default fine equaling to 0.1% of the aforesaid aggregate payment each day."; (2) the Company has already delivered the agreed goods to the defendant dated 18 June 2009. according to agreement of the Contract, the defendant should pay the Company the remaining payment of RMB 479,500 before 8 July 2009. However, though the Company has made lots of efforts for collection of the payment, the defendant still refused to exercise its duty; (3) since North Green Food Co., Ltd. and the defendant was in relationship of being head and branch, in order to maintain legal interest of the Company, the Company presented a civil lawsuit to the People's Court of Hefei High-tech

Technology Industry Development Zone as at 16 December 2009, taking North Green Food Co., Ltd. and Qinghe Moni Beer Branch of North Green Food Co., Ltd. as common defendant. Through this lawsuit, the Company required the two defendants to make immediate payment of RMB 479,500 for its goods-freezers and undertake the overdue default fine, and the lawsuit fee for this case was born by the two defendants.

Ended 31 December 2009, the case has been appealed, waiting for opening a court.

2. Contingent liabilities formed by external guarantee

Details about the following two guarantees are carried in (II) Related guarantee of Note IX: guarantee provided by the Company for RMB 43 million of its holding subsidiary-Zhongke Meiling Company, and guarantee provided by Zhongshan Changhong (a subsidiary of the Company obtained from combination under common control) for RMB 100 million of Guangdong Changhong Electrical Co., Ltd.(this guarantee happened before the Company acquired the equities of Zhongshan Changhong).

Other than these, the Company has no external guarantee.

3. Other contingent liabilities: nil.

XI. Commitments

1. Material commitments

(1) Commitment of property transfer

On 10 December 2009, the Company made the following commitment regarding to its successful bid of equities of Zhongshan Changhong and Changhong Air Conditioner, with Property Transaction Contract signed between the Company, Sichuan Changhong and Changhong Chuangtou in Mianyang: (1)the initial payment for property transfer takes 30% of the total bid price, amounting to RMB 118,068,000, which is expected to settle within 5 working days commencing from the date of contract signing; the remaining payment shall be paid within 1 year commencing from the date of initial payment; (2)as for arrangement for employees involved in property transfer, keep basic stability of management and employees of Changhong Air Conditioner and Zhongshan Changhong, continue to engage employees of the transacted object based on relevant regulations. At the same day, the Company received Commitment Letter from the big shareholder-Sichuan Changhong. in order to support development of Meiling Appliance and keep independence of Meiling Appliance, Sichuan Changhong made the following commitments to avoid inter-industry competition between Sichuan Changhong and Meiling Appliance:

A. In consideration that the houses and land presently used by Changhong Air Conditioner are not included in this property transfer, Sichuan Changhong commits to continue to lease these properties to Changhong Air Conditioner at market price upon completion of this equity transfer, and negotiate with Meiling Appliance on transfer of such houses and land according to operation requirements of Changhong Air Conditioner.

B. After completion of this property transfer, Sichuan Changhong commits it will manage its best to avoid new related transaction with Meiling Appliance. As for those related transactions which could not be avoided, Sichuan Changhong commits to confirm price of related transaction by market method, to ensure equality and fairness of related transaction and no harm to interests of Meiling Appliance.

C. To support development of appliance and air conditioner business of Meiling, Sichuan Changhong commit to continue to authorize Zhongshan Changhong and Changhong Air Conditioner with right to freely use Changhong brand in future 3 years after completion of this transfer. When the authorization expires, Sichuan Changhong will have an additional negotiation with Meiling Appliance regarding to authorization of Changhong brand, based on demand of Meiling Appliance for development in its appliance and air conditioner business.

D. Sichuan Changhong commits that it will not engage in any air conditioner or freezer business or activity which forms competition or interest conflict with Meiling Appliance present or future, after the completion of this transfer.

(2)Implementation of the former commitment for share merger reform

According to detailed statement for restricted shares provided by Shenzhen Branch of China Securities Depository & Clearing Corporation Limited, shareholders holding restricted shares of the Company all strictly observed the commitment of no sale for the share merger reform. Lock-up time expanded for Sichuan Changhong, Changhong Group and Meiling Group has already exceeded 24 months; other commitments regarding to “satisfy shares consideration on behalf of”, “additional holding of shares” by Sichuan Changhong and commitment of “shareholders undertake expense for this share merger reform” have been implemented completely. Due to that there was no condition for “additional consideration arrangement”, this commitment lost validation.; due to that Sichuan Changhong and Changhong Group have finished equity registration transfer in August 2007, consideration arrangement practiced by Meiling Group and other commitments also lost validation.

2. Except for the above commitments, there is no other material commitments for the Company.

XII. Events occurring after the balance sheet date

1. From 3 February to 4 February 2010, the Company made payment to Sichuan Changhong for purchasing 100% equities of Changhong Air Conditioner and equities of Zhongshan Changhong, with RMB 10,000.00.

2. As at 15 March 2010, the Company held the 30th Meeting of the 6th board of directors, in which, the 2009 Financial Report and Summary thereof was discussed and approved, and the 2009 Equity Distribution Preplan was made: Audited by ShineWing Certified Public Accountants Co., Ltd., the net profit attributable to owners of parent company in 2009 was RMB 301,198,313.20, plus the undistributed profit in year-begin RMB -335,808,091.35, then the profit available for distribution attributable to parent company realized in consolidated statement in 2009 was RMB -34,609,778.15; losses have not been offset already. Thus, the Company did not distribute profit for year 2009, nor convert the capital reserve into share capital. In order to create condition for profit distribution of shareholders, the Company plans to offset the accumulative losses in previous year with surplus reserves. The events needed to be handed into the shareholders' general meeting of 2009 for discussion.

XIII. Segment information (Unit: RMB'0000)

The proceeding is still waiting for discussion from the 2009 Shareholders' General Meeting.

Item	Sement of refrigerator and freezer	Segment of air conditioner	Write-off	Total
Operation income	492,229.59	140,391.22	202.70	632,418.11
Including: income from external transaction	492,229.59	140,188.52	-	632,418.11
Income from transaction between segments	-	202.70	202.70	-
Operation expense	480,381.64	143,110.52	202.70	623,289.46
Operation profit(loss)	33,268.75	-2,719.30	-	30,549.45
Total assets	473,085.73	71,488.61	65,880.93	478,693.41
Total liabilities	323,776.34	32,455.63	12,495.24	343,736.73
Supplementary information	-	-	-	-
Depreciation and amortization expense	12,083.63	2,183.57	-	14,267.20
Capital expenditure	35,914.54	2,039.93	-	37,954.46
Non-cash expense except for depreciation and amortization	81,142.12	5,385.30	-	86,527.42

XIV. Other significant matters

1. Leasing

Operation of leased-out assets

Type of assets leased out	Amount at year-end	Amount at year-begin
Houses and buildings	13,692,921.96	8,008,588.18
Land use right	730,473.25	768,841.77
Total	14,423,395.21	8,777,429.95

Assets and liabilities measured by fair value

Item	Amount at year-begin	Sold during this year	Gains and losses of fair value change of this year	accumulative fair value change recorded in equity	Impairment withdrew this year	Amount at year-end
Financial assets						
Financial assets measured by fair value and whose change is recorded in current gains and losses (excluding derivative financial assets)	-	-	-	-	-	-

Derivative financial assets	-	-	-	-	-	-
Financial assets available for sale	166,220,000.00	209,261,326.20	-	177,052,896.20	-	134,011,570.00
Including: stock cost	19,540,000.00	12,448,193.94	-	-	-	7,091,806.06
Fair value	146,680,000.00	196,813,132.26	-	177,052,896.20	-	126,919,763.94
Subtotal of financial assets	166,220,000.00	209,261,326.20	-	177,052,896.20	-	134,011,570.00
Investment real estate	-	-	-	-	-	-
Productive biology assets	-	-	-	-	-	-
Total	166,220,000.00	209,261,326.20	-	177,052,896.20	-	134,011,570.00
Financial liabilities	-	-	-	-	-	-

2. Foreign currency financial assets and liabilities

Item	Amount at year-begin	Gains and losses of fair value change of this year	accumulative fair value change recorded in equity	Impairment withdrew this year	Amount at year-end
Financial assets					
Financial assets measured by fair value and whose change is recorded in current gains and losses (excluding derivative financial assets)	-	-	-	-	-
Derivative financial assets	-	-	-	-	-
Loans and account receivable	136,296,746.72	-	-	1,941,442.19	35,971,221.78
Financial assets available for sale	-	-	-	-	-
Hold-to-maturity investment	-	-	-	-	-
Subtotal of financial assets	136,296,746.72	-	-	1,941,442.19	35,971,221.78
Financial liabilities	-	-	-	-	-
Short-term loans	9,427,193.11	-	-	-	-
Subtotal of financial liabilities	9,427,193.11	-	-	-	-

XV. Notes to main items of financial statement of parent company

1. Account receivable

(1) Risk classification for account receivable

Item	Amount at year-end				Amount at year-begin			
	Book balance		Bad debt reserve		Book balance		Bad debt reserve	
	Amount	Ratio(%)	Amount	Ratio(%)	Amount	Ratio(%)	Amount	Ratio(%)
Goup I	65,020,591.37	28.74	3,251,029.57	13.04	44,909,007.02	14.66	2,245,450.35	9.93
Goup II	-	-	-	-	-	-	-	-
Goup III	161,238,499.30	71.26	21,675,796.68	86.96	261,359,089.96	85.34	20,377,582.88	90.07
Total	226,259,090.67	100.00	24,926,826.25	100.00	306,268,096.98	100.00	22,623,033.23	100.00
Net amount	201,332,264.42				283,645,063.75			

Group I: account receivable whose single item is of significant amount(over RMB 20 million) or those which are treated with separate depreciation test though lack of significant single item. Detailed are listed as follows:

Unit	Book balance	Amount of bad debt	Withdrawal ratio(%)	Reason for withdrawal
Electrolux (China) Appliance Co., Ltd.	38,397,955.50	1,919,897.78	5%	Withdrew according to account ageing
Nanjing Procurement center of Suning Appliance Co., Ltd	26,622,635.87	1,331,131.79	5%	Withdrew according to account ageing
Total	65,020,591.37	3,251,029.57		

Goup II: represent the account receivable which has no significant single item and whose risk of portfolio organized according to credit risk characters is comparatively big.

Goup III: represent other insignificant account receivable.

(2)Account receivable actually written off this year

Unit	Nature of account	Amount written-off	Reson for written-off	Whether arise from related transaction
accounts receivable due from 11 units	Payment for goods	3,375,199.94	Debtors were not able to repay debt	No

(3)Accounts receivable due from shareholders holding 5% or above voting right shares of the Company appearing in the balance of this item for this year

Unit	Amount at year-end		Amount at year-begin	
	Arrearage	Withdrawal of bad debt	Arrearage	Withdrawal of bad debt
Sichuan Changhong Electrical Appliance Co.,Ltd.	261,249.75	-	-	-

(4)Top 5 accounts receivable

Unit	Relationship with the Company	Amount	Account ageing	Proportion taking in total account receivable
Electrolux (China) Appliance Co., Ltd.	Non-related party	38,397,955.50	Within year	16.97%
Nanjing Procurement center of Suning Appliance Co., Ltd	Non-related party	22,191,611.68	Within year	9.81%
Electrolux Major Appliances, Latin America	Non-related party	12,962,131.43	Within year	5.73%
Jilin Huayi Digital Science & Technology Co., Ltd.	Non-related party	6,616,224.00	Within year	2.92%
Tianjin Gome Electrical Appliances Co., Ltd.	Non-related party	5,195,381.93	Within year	2.30%
Total		85,363,304.54		37.73%

(5) Account receivable due from related parties

Unit	Relationship with the Company	Amount	Proportion taking in total account receivable
Sichuan Changhong Electrical Appliance Co.,Ltd.	Parent company	261,249.75	0.12%
CHANGHONG ELECTRIC	Under the same parent company	1,089,035.55	0.48%
Mianyang Lejiayi Trade Chain Co.,Ltd.	Under the same parent company	224,364.82	0.10%
Chengdu Lejiayi Trade Co., Ltd.	Under the same parent company	136,857.35	0.06%
Tianjin Lejiayi Trade Co., Ltd.	Under the same parent company	26,333.32	0.01%
Jinan Lejiayi Trade Co., Ltd.	Under the same parent company	24,007.60	0.01%
Fuzhou Lejiayi Trade Co., Ltd.	Under the same parent company	23,267.70	0.01%
Kunming Yijiahong Trade Co., Ltd.	Under the same parent company	14,729.77	0.01%
Taiyuan Lejiayi Trade Chain Co., Ltd.	Under the same parent company	4,402.05	0.00%
Tianjin Lejiayi Trade Co., Ltd.	Under the same parent company	2,771.60	0.00%
Total		1,807,019.51	0.80%

(6) Account receivable denominated in foreign currency

Foreign currency	Amount at year-end			Amount at year-begin		
	Original currency	Conversion exchange rate	RMB equivalent	Original currency	Conversion exchange rate	RMB equivalent
USD	3,555,234.77	6.8282	24,275,854.06	8,922,389.08	6.8346	60,980,960.41
Euro	328,721.23	9.7971	3,220,514.76	1,258,176.98	9.659	12,152,731.45
GBP	-	-	-	64,145.64	9.8798	633,746.09
Total	-	-	27,496,368.82	-	-	73,767,437.95

2. Other receivable

(1) Risk classification for other receivable

Item	Amount at year-end				Amount at year-begin			
	Book balance		Bad debt reserve		Book balance		Bad debt reserve	
	Amount	Ratio(%)	Amount	Ratio(%)	Amount	Ratio(%)	Amount	Ratio(%)
Goup I	2,073,076.93	10.67	2,073,076.93	37.47	21,902,529.86	47.07	2,639,858.35	37.62
Goup II	2,412,579.45	12.41	2,348,984.23	42.45	2,405,856.33	5.17	2,254,457.87	32.13
Goup III	14,948,296.78	76.92	1,110,898.76	20.08	22,226,054.49	47.76	2,122,685.41	30.25
Total	19,433,953.16	100.00	5,532,959.92	100.00	46,534,440.68	100.00	7,017,001.63	100.00
Net amount	13,900,993.24				39,517,439.05			

Group I: account receivable whose single item is of significant amount(over RMB 1 million) or those which are treated with separate depreciation test though lack of significant single item. Detailed are listed as follows:

Unit	Book balance	Amount of bad debt	Withdrawal ratio(%)	Reason for withdrawal
Jiangxi Kesheng Industry & Trade Co., Ltd.	2,073,076.93	2,073,076.93	100%	For the accounting ageing is too long, it is hard to recover the account, and the Company made withdrawal in full.

Goup II: represent the account receivable which has no significant single item and whose risk of portfolio organized according to credit risk characters is comparatively big:

Item	Amount at year-end			Amount at year-begin		
	Amount	Ratio	Bad debt reserve	Amount	Ratio	Bad debt reserve
Ageing over 3 years	2,412,579.45	100.00%	2,348,984.23	2,405,856.33	100.00%	2,254,457.87

Goup III: represent other insignificant account receivable.

(2)In the balance of other receivable at the end of this year, there is no arrearage due from shareholders holding 5% or above voting right shares of the Company

(3)Particulars about the top 5 others receivable

Unit	Relationship with the Company	Amount	Ageing	Proportion taking in total accounts receivable(%)	Nature or content
Jiangxi Kesheng Industry & Trade Co., Ltd.	Non-related party	2,073,076.93	4-5 years	10.67	Payment for goods
Provision for promotion activities of sales department	-	906,600.00	Within 1 year	4.67	Provision for promotion activities of sales department
Sales provision for Nanjing Branch	-	753,383.97	Within 1 year	3.88	Sales provision for Nanjing Branch
Sales provision for Taiyuan Branch	-	642,509.98	Within 1 year	3.31	Sales provision for Taiyuan Branch
Provision for Exhibit of Ellectrical Appliance	-	506,600.00	Within 1 year	2.61	Provision for Exhibit of Ellectrical Appliance
Total		4,882,170.88		25.14	

3. Long-term equity investments

(1)Classification of long-term equity investments

Item	Amount at year-end	Amount at year-begin
Long-term equity investment calculated by cost method	530,416,857.16	113,800,672.87
Long-term equity investment calculated by equity method	28,428,371.63	27,058,769.12

Item	Amount at year-end	Amount at year-begin
Total of long-term equity investment	558,845,228.79	140,859,441.99
Less: provision for impairment of long-term equity investment	1,660,000.00	1,660,000.00
Value of long-term equity investment	557,185,228.79	139,199,441.99

(2) Long-term equity investments calculated by cost method and equity method

Invested unit	Shareholding ratio(%)	Voting right ratio(%)	Initial amount	Amount at year-begin	Increase during the year	Decrease during the year	Amount at year-end	Cash dividend for this year
Calculation by cost method								
Zhongke Meiling Low-temperature Technology Co., Ltd.	70.00	70.00	42,000,000.00	42,000,000.00	-	-	42,000,000.00	-
Jiangxi Meiling Refrigeration Co., Ltd.	90.00	97.00	45,000,000.00	45,000,000.00	-	-	45,000,000.00	-
Hefei Changhong Meiling Refrigeration Co., Ltd.	100.00	100.00	20,140,672.87	20,140,672.87	-	20,140,672.87	-	-
Mianyang Meiling Refrigeration Co., Ltd.	90.00	97.00	45,000,000.00	-	45,000,000.00	-	45,000,000.00	-
Hefei Meiling Appliance Marketing Co., Ltd.	99.00	99.97	9,900,000.00	-	9,900,000.00	-	9,900,000.00	-
Sichuan Changhong Air Conditioner Co., Ltd.	100.00	100.00	305,600,437.79	-	305,600,437.79	-	305,600,437.79	-
Zhongshan Changhong Appliance Co., Ltd.	90.00	90.00	76,256,419.37	-	76,256,419.37	-	76,256,419.37	-
Huishang Bank Co., Ltd.	1.15	1.15	5,000,000.00	5,000,000.00	-	-	5,000,000.00	-
Meiling Sigma Electrics Company Ltd.	20.00	20.00	1,660,000.00	1,660,000.00	-	-	1,660,000.00	-
Subtotal			550,557,530.03	113,800,672.87	436,756,857.16	20,140,672.87	530,416,857.16	
Calculation by equity method								
Anhui United Technological Property Exchange Co., Ltd.	28.57%	28.57%	25,055,600.00	2,292,931.53	295,852.43	-	2,588,783.96	
Hefei Meiling Packing Co., Ltd.	48.28%	48.28%	1,000,000.00	24,765,837.59	1,073,750.08	-	25,839,587.67	
Subtotal			26,055,600.00	27,058,769.12	1,369,602.51	-	28,428,371.63	
Total			576,613,130.03	140,859,441.99	438,126,459.67	20,140,672.87	558,845,228.79	

(3) Investment in associates

Invested unit	Type of entity	Place of registration	Legal representative	Nature of business	Registered capital	Shareholding ratio	Voting right ratio
Hefei Meiling Packing Product Co., Ltd.	Limited company	Hefei	Sun Qingfeng	Production and sales	RMB 18.40 million	48.28%	48.28%
Anhui United Technological Property Exchange Co. Ltd.	Limited company	Hefei	Property exchange	Property exchange	RMB 5 million	28.57%	28.57

(Continued)

Invested unit	Total assets at year-end	Total liabilities at year-end	Total net assets at year-end	Total operation income for this year	Net profit for this year
Hefei Meiling Packing Product Co., Ltd.	153,535,925.29	100,015,652.77	53,520,272.52	99,250,334.57	2,224,005.96
Anhui United Technological Property Exchange Co., Ltd.	10,274,872.85	3,118,008.95	7,156,863.90	2,043,331.00	1,035,535.29

(4) Provision for impairment of long-term equity investment

Invested unit	Amount at year-begin	Increase during the year	Decrease during the year	Amount at year-end
Meiling Sigma Electrics Company Ltd.	1,660,000.00	-	-	1,660,000.00

4. Operation income and operation cost

(1) Operation income and operation cost

Item	Amount for this year	Amount for last year
Main business income	4,630,052,389.39	3,966,896,876.55
Other business income	568,753,481.61	550,776,528.14
Total	5,198,805,871.00	4,517,673,404.69
Main business cost	3,102,935,821.11	3,037,873,169.38
Other business cost	549,166,658.61	525,768,479.55
Total	3,652,102,479.72	3,563,641,648.93

(2) Classified according to product

Industry	Amount for this year		Amount for last year	
	Operaion income	Operation cost	Operaion income	Operation cost
Main business income	4,630,052,389.39	3,102,935,821.11	3,966,896,876.55	3,037,873,169.38
(1) Refrigerator and freezer	4,623,091,187.72	3,095,536,099.82	3,942,842,494.95	3,013,537,951.50
(2) Income from air conditioner	6,961,201.67	7,399,721.29	24,054,381.60	24,335,217.88

Industry	Amount for this year		Amount for last year	
	Operation income	Operation cost	Operation income	Operation cost
Other business income	568,753,481.61	549,166,658.61	550,776,528.14	525,768,479.55
(1)Sales of raw materials	566,140,301.95	548,591,440.75	548,603,238.43	525,523,129.62
(2)Rental income	2,522,440.00	575,217.86	1,958,028.00	245,349.93
(3)Other income	90,739.66	-	215,261.71	-
Total of operation income	5,198,805,871.00	3,652,102,479.72	4,517,673,404.69	3,563,641,648.93

(3)Classified according to region

Region	Amount for this year		Amount for last year	
	Operation income	Operation cost	Operation income	Operation cost
Domestic sales income	4,779,858,800.21	3,286,403,974.45	3,854,174,430.40	2,921,099,496.87
Overseas sales income	418,947,070.79	365,698,505.27	663,498,974.29	642,542,152.06
Total	5,198,805,871.00	3,652,102,479.72	4,517,673,404.69	3,563,641,648.93

(4)Sales income from the top 5 customers for this year

Customer	Operating income	Proportion taking in total operating income of the Company (%)
Nanjing Procurement center of Suning Appliance Co., Ltd	341,917,119.87	6.58%
Anhui Baida Appliance Chain Co., Ltd.	67,900,615.94	1.31%
Five Star Appliance Co., Ltd.	43,513,483.30	0.84%
Electrolux (China) Appliance Co., Ltd.	38,023,808.97	0.73%
Mianyang Jiafulai Commerce Trade Co.,	36,647,642.80	0.70%
Total	528,002,670.88	10.16%

5. Investment income

Item	Amount for this year	Amount for last year
Long-term equity investment income by cost method	-	-
Long-term equity investment income by equity method	1,369,602.51	633,543.00
Investment income from disposal of long-term equity investment	-	-
Investment income from period of holding tradable financial assets	-	-
Investment income from period of holding hold-to-maturity	-	-

investment		
Investment income from period of holding financial assets available for sale	1,897,125.00	1,950,000.00
Investment income from disposal of tradable financial assets	-	-
Investment income from disposal of hold-to-maturity investment	-	-
Investment income from disposal of financial assets available for sale	210,941,346.01	-
Accrued income from disposal of subsidiaries from cost method to equity method	-6,774,792.72	-357,872.65
Total	207,433,280.80	2,225,670.35

XVI. Supplementary information for cash flow statement of parent company

Item	Amount for this year	Amount for last year
1. Adjust net profit to cash flow for operational activities:		
Net profit	293,881,597.62	29,804,074.79
Add: provision for depreciation of assets	28,074,717.64	21,028,275.95
Depreciation of fixed assets, consumption of oil gas assets and depreciation of productive biological assets	72,943,118.01	36,792,425.76
Amortization of intangible assets	24,491,546.78	24,491,546.78
Amortization of long-term retained expense	-	-
Loss from disposal of fixed assets, intangible assets and other long term assets (gain is listed with "-")	1,260,942.65	219,178.26
Loss from discarding fixed assets as useless (gain is listed with "-")	-	-
Loss from change of fair value(gain is listed with "-")	-	-
Financial expense (gain is listed with "-")	25,521,764.17	31,979,960.37
Investment loss (gain is listed with "-")	-207,433,280.80	-2,227,930.55
Decrease of deferred income tax assets (increase is listed with "-")	-18,045,457.37	3,886,368.62
Increase of deferred income tax liabilities (decrease is listed with "-")	-2,964,035.40	-
Decrease of inventories (increase is listed with "-")	-301,692,581.38	-24,928,958.21
Decrease of operational accounts receivable (increase is listed with "-")	-357,572,715.29	-60,494,675.48
Increase of operational accounts payable (decrease is listed with "-")	534,904,520.75	103,448,346.14
Others	-	-
Net cash flow arising from operation activities	93,370,137.38	163,998,612.43
2. Significant investment and financing activities with no reference to cash collection and payment:		
Debt convert to capital	-	-
Convertible bond due within one year	-	-
Fixed assets leased in by financing	-	-
3. Net change in cash and cash equivalent:		

Balance of cash at period-end	579,447,940.41	306,127,639.14
Less: Balance of cash at period-begin	306,127,639.14	354,939,066.12
Add: Balance of cash equivalent at period-end	-	-
Less: Balance of cash equivalent at period-begin	-	-
Net increase in cash and cash equivalent	273,320,301.27	-48,811,426.98

XVII. Supplementary information

1. Non-operational gains and losses for this year

Item	Amount for this year	Explanation
Gains and losses from disposal of non-current assets	-951,734.88	Refer to Non-operating Expenditure for details
Tax refund or mitigate due to examination-and-approval beyond power or without official approval document or accident	-	
Government subsidy recorded in current gains and losses	55,557,759.89	Refer to Non-operating Income for details
Capital occupancy expense, collected from non-financial enterprises and recorded in current gains and losses	-	
Income from the exceeding part between investment cost of the Company paid for obtaining subsidiaries, associates and joint-ventures and recognizable net assets fair value attributable to the Company when acquiring the investment	-	
Gains and losses from exchange of non-monetary assets	-	
Gains and losses from assets under trusted investment or management	-	
Various provision for impairment of assets withdrew due to act of God, such as natural disaster	-	
Gains and losses from debt restructuring	-	
Enterprise reorganization expense	-	
Gains and losses of the part arising from transaction in which price is not fair and exceeding fair value	-	
Current net gains and losses occurred from period-begin to combination day by subsidiaries resulting from business combination under common control	8,071,697.32	Refer to Combination under Common Control for details
Gains and losses arising from contingent proceedings irrelevant to normal operation of the Company	-	
Except for effective hedge business relevant to normal operation of the Company, gains and losses arising from fair value change of tradable financial assets and tradable financial liabilities, and investment income from disposal of tradable financial assets, tradable financial liabilities and financial assets available for sale	212,838,471.01	Refer to Investment Income for details
Switch-back of provision of impairment of account receivable which are treated with separate depreciation test	-	
Gains and losses obtained from external trusted loans	-	
Gains and losses arising from change of fair value of investment real estate whose follow-up measurement are conducted according to fair value pattern	-	
Affect on current gains and losses after an one-time adjustment according to requirements of laws and regulations regarding to taxation and accounting	-	
Trust fee obtained from trust operation	-	
Other non-operating income and expenditure except for the aforementioned ones	682,706.99	Refer to Non-operating Income and Expenditure for details
Other gains and losses items complying with definition for non-current gains and losses	-	

Item	Amount for this year	Explanation
Subtotal	276,198,900.33	
Affect on income tax	43,780,127.87	
Affect on minority equity(after taxation)	120,058.86	
Total	232,298,713.60	

2. Return on equity and earnings per share

Profit during the report period	Weighted average return on equity(%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholders of parent company	18.46	0.7282	0.7282
Net profit attributable to shareholders of parent company after deduction of non-current gains and losses	5.51	0.1666	0.1666

3. Adjustment to financial statement during the comparison period

As stated in rule No.1 (IV)-Business Combination and Consolidated Financial Statement of Note VI, the Company successfully bid the 100% and 90% equities of Changhong Air Conditioner and Zhongshan Changhong held by Sichuan Changhong, the parent company of the Company. According to relevant regulation of Accounting Standard for Enterprise-No.20 Business Combination for business combination under common control, the Company restated amounts of year-begin and amount of last year in financial statements. Details about comparison of the financial statement between before or after restatement are as follows:

(1) Balance sheet-statement I (Assets)

Asset	Dec. 31, 2008 (before restated) ①	Dec. 31, 2008 (after restated) ②	Balance ③=② -①	Remarks
Current assets:				
Monetary funds	338,230,921.44	409,853,966.49	71,623,045.05	
Settlement provisions	-	-	-	
Capital lent	-	-	-	
Transaction finance asset	-	-	-	
Notes receivable	176,893,815.75	182,491,232.52	5,597,416.77	
Accounts receivable	282,278,322.28	308,027,072.54	25,748,750.26	
Accounts paid in advance	134,938,234.66	135,699,384.66	761,150.00	
Insurance receivable	-	-	-	
Reinsurance receivables	-	-	-	
Contract reserve o reinsurance receivable	-	-	-	
Interest receivable	-	-	-	
Dividend receivable	-	-	-	
Other receivables	40,200,759.80	241,673,638.02	201,472,878.22	
Purchase restituted finance asset	-	-	-	

Inventories	538,043,077.21	584,350,700.91	46,307,623.70
Non-current asset due within one year	-	-	-
Other current assets	-	-	-
Total current assets	1,510,585,131.14	1,862,095,995.14	351,510,864.00
Non-current assets:			
Granted loans and advances	-	-	-
Finance asset available for sales	166,220,000.00	166,220,000.00	-
Held-to-maturity securities	-	-	-
Long-term account receivable	-	-	-
Long-term equity investment	32,058,769.12	32,058,769.12	-
Investment property	4,082,185.28	8,777,429.55	4,695,244.67
Fixed assets:	667,231,824.31	787,996,511.06	120,764,686.75
Construction in progress	60,139,261.97	60,718,603.10	579,341.13
Engineering material	-	-	-
Disposal of fixed asset	358,013,123.80	358,013,123.80	-
Productive biological asset	-	-	-
Oil and gas asset	-	-	-
Intangible assets	579,003,366.14	606,926,037.85	27,922,671.71
Expense on Research and Development	-	-	-
Goodwill	-	-	-
Long-term expenses to be apportioned	-	-	-
Deferred income tax asset	12,980,747.10	13,715,955.21	735,208.11
Other non-current asset	-	-	-
Total non-current asset	1,879,729,277.72	2,034,426,430.09	154,697,152.37
Total assets	3,390,314,408.86	3,896,522,425.23	506,208,016.37

(2) Balance sheet-statement II (Liabilities and shareholders' equity statement)

Liabilities and shareholders' equity	Dec. 31, 2008 (before restated) ①	Dec. 31, 2008 (after restated) ②	Balance ③= ②-①	Remarks
Current liabilities:				
Short-term loans	336,427,193.11	336,427,193.11		
Loan from central bank	-	-	-	
Absorbing deposit and interbank deposit	-	-	-	
Capital borrowed	-	-	-	
Transaction financial liabilities	-	-	-	
Notes payable	584,560,526.09	628,470,136.94	43,909,610.85	
Accounts payable	636,288,350.79	695,846,531.11	59,558,180.32	
Accounts received in advance	319,411,065.64	333,781,822.55	14,370,756.91	
Selling financial asset or repurchase	-	-	-	
Commission charge and commission payable	-	-	-	

Wage payable	27,873,906.64	31,910,378.03	4,036,471.39
Taxes payable	13,616,162.10	12,226,399.29	-1,389,762.81
Interest payable	-	-	-
Dividend payable	1,387,950.42	1,387,950.42	-
Other accounts payable	350,937,168.31	352,349,249.16	1,412,080.85
Reinsurance payables	-	-	-
Insurance contract reserve	-	-	-
Security trading of agency	-	-	-
Security sales of agency	-	-	-
Non-current liabilities due within 1 year	-	-	-
Other current liabilities	-	-	-
Total current liabilities	2,270,502,323.10	2,392,399,660.61	121,897,337.51
Non-current liabilities:			
Long-term loans	19,198,200.00	19,198,200.00	-
Bonds payable	-	-	-
Long-term account payable	-	-	-
Special accounts payable	-	-	-
Projected liabilities	1,650,759.86	1,650,759.86	-
Deferred income tax liabilities	22,002,000.00	22,002,000.00	-
Other non-current liabilities	-	-	-
Total non-current liabilities	42,850,959.86	42,850,959.86	-
Total liabilities			
Owner's equity (or shareholders' equity)			
Paid-in capital	413,642,949.00	413,642,949.60	-
Capital public reserve	701,168,078.72	1,073,168,078.72	372,000,000.00
Less: Inventory shares	-	-	-
Surplus public reserve	284,889,548.51	285,277,509.61	387,961.10
Provision of general risk	-	-	-
Retained profit	-339,469,536.64	-335,977,886.77	3,491,649.87
Balance difference of foreign currency translation	-	-	-
Total owner's equity attributable parent company	1,060,231,039.58	1,436,110,650.56	375,879,610.97
Minority interests	16,730,086.31	25,161,154.20	8,431,067.89
Total owner's equity	1,076,961,125.90	1,461,271,804.76	384,310,678.86
Total liabilities and owner's equity	3,390,314,408.85	3,896,522,425.23	506,208,016.37

(3) Profit statement-statement III

Items	Dec. 31, 2008 (before restated) ①	Dec. 31, 2008 (after restated) ②	Balance ③=② -①	Remarks
I. Total operating income	4,335,936,296.54	4,813,665,574.77	477,729,278.23	
Including: Operating income	4,335,936,296.54	4,813,665,574.77	477,729,278.23	
Interest income	-	-	-	

Insurance gained	-	-	-
Commission charge and commission income	-	-	-
II. Total operating cost	4,317,005,174.22	4,792,471,688.79	475,466,514.57
Including: Operating cost	3,358,495,332.69	3,804,058,177.31	445,562,844.62
Interest expense	-	-	-
Commission charge and commission expense	-	-	-
Cash surrender value	-	-	-
Net amount of expense of compensation	-	-	-
Net amount of withdrawal of insurance contract reserve	-	-	-
Bonus expense of guarantee slip	-	-	-
Reinsurance expense	-	-	-
Operating tax and extras	16,871,330.40	18,598,169.94	1,726,839.54
Sales expenses	727,276,441.32	742,656,131.24	15,379,689.92
Administration expenses	143,153,165.08	156,064,002.16	12,910,837.08
Financial expenses	50,277,777.99	49,205,138.49	-1,072,639.50
Losses of devaluation of asset	20,931,126.74	21,890,069.65	958,942.91
Add: Changing income of fair value (Loss is listed with "-")	-	-	-
Investment income (Loss is listed with "-")	2,583,543.00	2,583,543.00	-
Including: Investment income on affiliated company and joint venture	-	-	-
Exchange income (Loss is listed with "-")	-	-	-
III. Operating profit (Loss is listed with "-")	21,514,665.32	23,777,428.98	2,262,763.66
Add: Non-operating income	11,030,114.87	11,193,908.88	163,794.01
Less: Non-operating expense	2,620,837.70	2,703,980.07	83,142.37
Including: Disposal loss of non-current asset	219,178.26	252,325.63	33,147.37
IV. Total Profit (Loss is listed with "-")	29,923,942.49	32,267,357.79	2,343,415.30
Less: Income tax expense	4,287,833.15	4,744,632.76	456,799.61
V. Net profit (Net loss is listed with "-")	25,636,109.34	27,522,725.03	1,886,615.69
Net profit attributable to owners of parent company	25,678,991.58	27,376,945.70	1,697,954.12
Minority shareholders' gains and losses	-42,882.24	145,779.33	188,661.57

(4) Cash flow statement-statement IV

Items	2008 (before restated)	2008 (after restated)
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Net cash flow arising from operating activities	189,920,582.22	235,806,026.64
Net cash flow arising from investment activities	-116,748,347.10	-314,200,256.28
Net cash flow arising from financing activities	-129,987,766.74	82,101,133.26
Affect upon cash by change of exchange rate	-9,085,458.77	-9,903,080.80
Net increase of cash and cash equivalents	-65,900,990.39	-6,196,177.18

XVIII. Approval of financial statement

The financial statement has already been approved from the board of directors of the Company for reporting dated 15 March 2010.

Section XI. Documents for Reference

I. Accounting statements with the signature and seal of Chairman of the Board, Vice President, and principal of accounting institutions;

II. Original of the Auditor's Report with the seals of domestic and international certified public accountants, and the signature of the certified public accountants;

III. Original of the documents of the Company and public notices publicly disclosed on the newspapers designated by China Securities Regulatory Commission in the report period.

The aforesaid documents are all available and complete at headquarter of the Company. The Company would provide them timely when CSRC and Shenzhen Stock Exchange required or the shareholders need consultation according to the regulations and Articles of Association.

Chairman of the Board: Zhao Yong
Board of the Directors of
Hefei Meiling Co., Ltd.
March 16, 2010